

**MARSHALL ISLANDS POSTAL
SERVICE AUTHORITY**

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

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY
(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

Years Ended September 30, 2013 and 2012
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Postal Service Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Postal Service Authority (the Authority), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

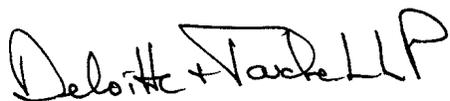
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of the Authority's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2014 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* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

April 8, 2014

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2013 and 2012

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, 2013. 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 current year ended September 30, 2013 by \$88,885 (Net Position) increasing by \$8,553 from \$80,332 in the prior year.
- As of the close of business on September 30, 2013, the Authority earned \$493,341 in revenues. Most of these were derived from revenues generated from stamp sales and postal box rentals, which account for 70% and 14% (or 84%) of the total revenue earned during the current 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 \$484,165. 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 financial statements are comprised of four (4) components: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, 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 Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of net position can be found on page 8.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the fiscal year. All changes in net position 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 position can be found on page 9.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2013 and 2012

The Statement of Cash Flows presents information showing how the Authority's cash increased or decreased during the fiscal 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 17.

Financial Analysis

Net Position

Net position may serve over time as a useful indicator of a governmental entity's financial position. The Summary Statements of Net Position below were prepared to give insight on the Authority's resources, liabilities, and net assets. At the close of business on September 30, 2013, the Authority's assets exceeded its liabilities by \$88,885, which is comprised of net investment in capital assets of \$33,305 with the remainder of \$55,580 available for future operations. Accordingly, this means that there are unrestricted assets available to be used to finance the day-to-day operations of the Authority.

Summary Statements of Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 244,693	\$ 191,070	\$ 185,320
Capital and other assets	<u>33,305</u>	<u>55,228</u>	<u>76,861</u>
Total assets	<u>\$ 277,998</u>	<u>\$ 246,298</u>	<u>\$ 262,181</u>
Liabilities:			
Current liabilities	\$ 178,507	\$ 156,896	\$ 173,751
Noncurrent liabilities	<u>10,606</u>	<u>9,070</u>	<u>10,860</u>
	<u>189,113</u>	<u>165,966</u>	<u>184,611</u>
Net Position:			
Net investment in capital assets	33,305	55,228	76,861
Unrestricted	<u>55,580</u>	<u>25,104</u>	<u>709</u>
Total net position	<u>88,885</u>	<u>80,332</u>	<u>77,570</u>
	<u>\$ 277,998</u>	<u>\$ 246,298</u>	<u>\$ 262,181</u>

Changes in Net Position

Current year activities resulted in a positive net position of the Authority of \$8,553. The Summary Statements of Revenues, Expenses, and Changes in Net Position below were prepared to show the net position calculation for the year.

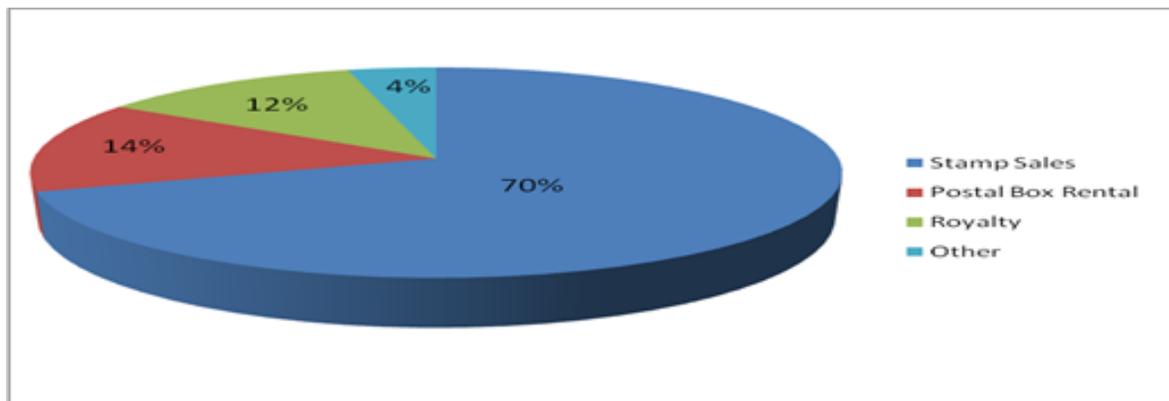
MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

Summary Statements of Revenues, Expenses, and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 493,341	\$ 471,590	\$ 458,304
Operating expenses	<u>484,165</u>	<u>468,828</u>	<u>431,402</u>
Operating income	9,176	2,762	26,902
Non-operating revenues (expenses)	<u>(623)</u>	<u>-</u>	<u>879</u>
Changes in net position	<u>\$ 8,553</u>	<u>\$ 2,762</u>	<u>\$ 27,781</u>

The Authority's revenues earned and reported at the end of the current year amounted to \$493,341 as compared to \$471,590 reported at the end of the prior year. Approximately 84% or \$413,152 of the Authority's revenue generated during the current year comes from stamp sales and postal box rental fees, which accounts for 70% and 14%, respectively, of the total of \$493,341 earned during the current year. This compares with 79% or \$471,590 of the Authority's revenue generated during the prior year. The chart below was prepared to describe the composition of the Authority's revenue sources for 2013.



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 14% from FY 2009 to FY 2010, 17% from FY 2010 to FY 2011, 4% from FY 2011 to FY 2012, and a further 17% from FY 2012 to FY 2013. 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 770 new PO BOXES for both the Uliga and Airport stations, and the excellent services provided.

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Stamp sales	\$ 345,928	\$ 294,575	\$ 282,936	\$ 242,442	\$ 211,869
Postal box rental	67,224	81,442	65,820	75,234	56,602
Postage meters	-	25,660	39,420	47,015	46,750
Royalty	60,872	59,895	53,246	26,838	-
Others	<u>19,317</u>	<u>10,018</u>	<u>16,882</u>	<u>14,899</u>	<u>10,743</u>
	<u>\$ 493,341</u>	<u>\$ 471,590</u>	<u>\$ 458,304</u>	<u>\$ 406,428</u>	<u>\$ 325,964</u>

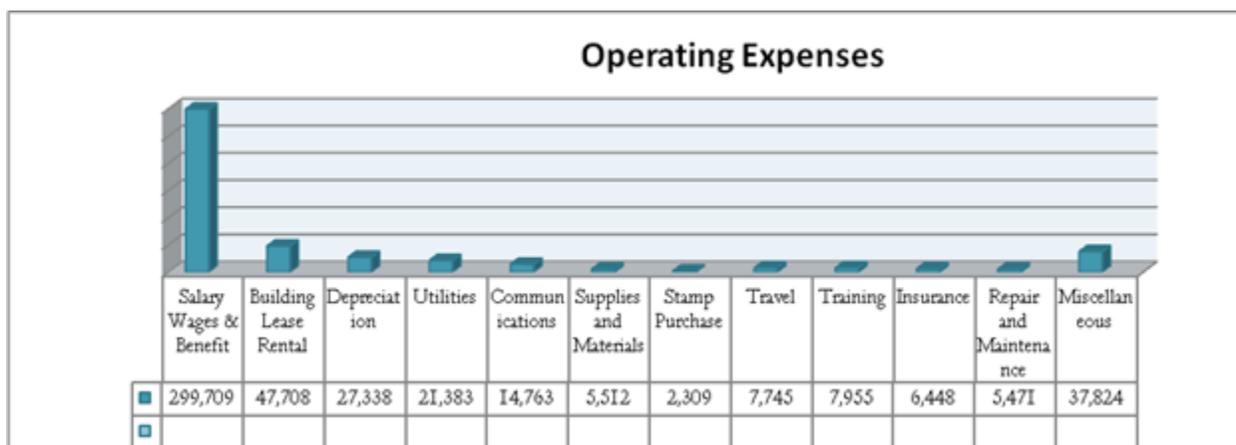
MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2013 and 2012

Expense Distribution

Total costs incurred as of the close of business on September 30, 2013 were \$484,165 as compared to \$468,828 incurred in the prior year. Of the amount for 2013, the Authority incurred \$299,709 and \$47,708, respectively, for salaries for employees and building rental as compared with \$291,695 and \$42,777, respectively, for 2012. These expenses account for 72% of the total expense of \$484,165 for FY 2013 compared with 71% of the total expense of \$468,828 for FY 2012.

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



Management's Discussion and Analysis for the year ended September 30, 2012, is set forth in the Authority's report on the audit of financial statements, which is dated January 17, 2013. Such discussion and analysis explains the major factors impacting the 2012 financial statements and can be obtained from the Postmaster General via the contact information on page 7.

Capital Asset and Debt

During the current year, the Authority purchased various equipment, and other fixed assets at a cost of approximately \$6,038. For additional information concerning capital assets, please refer to Note 3 of the accompanying financial statements.

The Authority did not incur any long-term debt and did not have any outstanding debt at the end of the current year.

ECONOMIC OUTLOOK

The 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 post office substation at the Amata Kabua International Airport amongst other initiatives.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2013 and 2012

Compared to previous years, both inbound and outbound mail volume and revenue collection have been increased significantly. By the same token, the Authority was able to make a surplus four consecutive years despite rises in electricity, fuel costs, and personnel expenses.

With the philosophy for commitment and strive for excellence, public trust, and high standard of accountability by the board of directors and the management, the Authority continues 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 Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash	\$ 187,539	\$ 144,893
Receivables:		
Postal box rental	59,358	50,178
Other	33,124	34,543
	<u>92,482</u>	<u>84,721</u>
Less allowance for doubtful accounts	(59,358)	(50,178)
	<u>33,124</u>	<u>34,543</u>
Inventory	20,316	10,704
Prepaid expenses	3,714	930
Total current assets	<u>244,693</u>	<u>191,070</u>
Capital assets, net	33,305	55,228
	<u>\$ 277,998</u>	<u>\$ 246,298</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 3,236	\$ 6,104
Lease rental payable	113,380	98,649
Payable to affiliates	13,917	14,392
Accrued payroll	16,933	10,315
Accrued annual leave payable	9,070	5,559
Unearned income	21,971	21,877
Total current liabilities	<u>178,507</u>	<u>156,896</u>
Accrued annual leave payable, net of current portion	10,606	9,070
Total liabilities	<u>189,113</u>	<u>165,966</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	33,305	55,228
Unrestricted	55,580	25,104
Total net position	<u>88,885</u>	<u>80,332</u>
	<u>\$ 277,998</u>	<u>\$ 246,298</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
	<u> </u>	<u> </u>
Operating revenues:		
Stamp sales	\$ 345,928	\$ 294,575
Postal box rentals	67,224	81,442
Royalty	60,872	59,895
Postage meters	-	25,660
Other	19,317	10,018
	<u> </u>	<u> </u>
Total operating revenues	493,341	471,590
	<u> </u>	<u> </u>
Operating expenses:		
Salaries, wages and employee benefits	299,709	291,695
Building lease rental	47,708	42,777
Depreciation	27,338	30,738
Utilities	21,383	17,555
Communications	14,763	10,334
Training	7,955	6,505
Travel	7,745	7,954
Insurance	6,448	4,750
Supplies and materials	5,512	9,141
Repairs and maintenance	5,471	3,714
Stamp purchases	2,309	8,545
Miscellaneous	37,824	35,120
	<u> </u>	<u> </u>
Total operating expenses	484,165	468,828
	<u> </u>	<u> </u>
Operating income	9,176	2,762
	<u> </u>	<u> </u>
Nonoperating expenses:		
Loss on disposal of capital assets	(623)	-
	<u> </u>	<u> </u>
Change in net position	8,553	2,762
Net position at beginning of year	80,332	77,570
	<u> </u>	<u> </u>
Net position at end of year	\$ 88,885	\$ 80,332
	<u> </u>	<u> </u>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 494,854	\$ 438,217
Cash payments to suppliers for goods and services	(157,651)	(117,966)
Cash payments to employees for services	(288,519)	(298,532)
Net cash provided by operating activities	<u>48,684</u>	<u>21,719</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(6,038)	(9,105)
Net change in cash	42,646	12,614
Cash at beginning of year	144,893	132,279
Cash at end of year	<u>\$ 187,539</u>	<u>\$ 144,893</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 9,176	\$ 2,762
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	27,338	30,738
(Increase) decrease in assets:		
Other receivables	1,419	(4,230)
Inventory	(9,612)	7,555
Prepaid expenses	(2,784)	3,539
Increase (decrease) in liabilities:		
Accounts payable	(2,868)	2,605
Lease rental payable	14,731	14,730
Payable to affiliates	(475)	989
Accrued payroll	6,618	(4,087)
Accrued annual leave payable	5,047	(3,739)
Unearned income	94	(29,143)
Net cash provided by operating activities	<u>\$ 48,684</u>	<u>\$ 21,719</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(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

GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - Management’s Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, establish 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 position categories:

- Net investment in capital assets - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted - net position 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.
- Unrestricted - net position that is 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.

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.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

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 position and cash flows, cash is defined as cash on hand and cash held in demand accounts. As of September 30, 2013 and 2012, the carrying amount of cash was \$187,539 and \$144,893, respectively, and the corresponding bank balances were \$188,983 and \$150,202, respectively. Of the bank balance amounts, \$15,377 and \$8,461, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$173,606 and \$141,741, respectively, were maintained in a financial institution not subject to depository insurance. The Authority does not require collateralization of its cash deposits; therefore, bank deposits in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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.

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.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

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, 2013 and 2012, the accumulated vacation leave liability totals \$19,676 and \$14,629, respectively.

Unearned Income

Unearned income includes 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 2013, the Authority implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Authority.

(3) Fixed Assets

Capital asset activity for the years ended September 30, 2013 and 2012 is as follows:

	October 1, <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2013</u>
Motor vehicles	\$ 79,895	\$ -	\$ (1,650)	\$ 78,245
Office furniture and equipment	<u>46,229</u>	<u>6,038</u>	<u>(785)</u>	<u>51,482</u>
	126,124	6,038	(2,435)	129,727
Less accumulated depreciation	<u>(70,896)</u>	<u>(27,338)</u>	<u>1,812</u>	<u>(96,422)</u>
	<u>\$ 55,228</u>	<u>\$ (21,300)</u>	<u>\$ (623)</u>	<u>\$ 33,305</u>
	October 1, <u>2011</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2012</u>
Motor vehicles	\$ 79,895	\$ -	\$ -	\$ 79,895
Office furniture and equipment	<u>37,124</u>	<u>9,105</u>	<u>-</u>	<u>46,229</u>
	117,019	9,105	-	126,124
Less accumulated depreciation	<u>(40,158)</u>	<u>(30,738)</u>	<u>-</u>	<u>(70,896)</u>
	<u>\$ 76,861</u>	<u>\$ (21,633)</u>	<u>\$ -</u>	<u>\$ 55,228</u>

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(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, 2013 and 2012, 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, 2012	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2013	Due Within One Year
Other liabilities:	\$ 14,629	\$ 20,992	\$ (15,945)	\$ 19,676	\$ 9,070
Compensated absences					

	Balance October 1, 2011	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2012	Due Within One Year
Other liabilities:	\$ 18,368	\$ 20,030	\$ (23,769)	\$ 14,629	\$ 5,559
Compensated absences					

(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 as of and for the years ended September 30, 2013 and 2012 is as follows:

	2013	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 28,534	\$ 12,045
Marshall Islands National Telecommunications Authority	14,763	-
Marshall's Energy Company, Inc.	21,383	-
RepMar	<u>-</u>	<u>1,872</u>
	<u>\$ 64,680</u>	<u>\$ 13,917</u>
	2012	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 28,561	\$ 12,567
Marshall Islands National Telecommunications Authority	10,334	-
Marshall's Energy Company, Inc.	17,555	-
RepMar	<u>-</u>	<u>1,825</u>
	<u>\$ 56,450</u>	<u>\$ 14,392</u>

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2013 and 2012

(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 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, 2013 and 2012, related rent expense was \$14,730.

On January 1, 2008, the Authority entered into a five-year lease 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, 2013 and 2012, related rent expense was \$9,600.

On May 1, 2012, the Authority entered into a two-year lease 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 \$1,843 per month. During the years ended September 30, 2013 and 2012, related rent expense was \$22,328 and \$18,447, respectively.

On February 1, 2013, the Authority entered into a two-year lease agreement for the Airport Post Office, with an option to extend for an additional term of five years subject to renegotiation of the payment provisions. The terms of the lease requires lease rental payments of \$150 per month. During the year ended September 30, 2013, related rent expense was \$1,050.

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

Year ending <u>September 30,</u>	
2014	\$ 32,918
2015	<u>32,318</u>
	\$ <u>65,326</u>

(8) Contingency

The Authority is currently delinquent on \$113,380 of payments for the Ebeye Post Office lease dating back to April 2000. The delinquent amount is based on a monthly rental payment of \$1,227; however, the lease entered into stipulated incremental lease payments ranging from \$1,665 to \$1,980 per month. The Authority is in the process of formalizing the lease with a monthly 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 rental payments of \$106,968. 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, 2013

	<u>Uliga</u>	<u>Delap</u>	<u>Airport</u>	<u>Ebeye</u>	<u>Total</u>
Operating revenues:					
Stamp sales	\$ 236,002	\$ 54,134	\$ 19,943	\$ 35,849	\$ 345,928
Postal box rentals	48,484	4,865	12,711	1,164	67,224
Royalty	60,872	-	-	-	60,872
Other	15,430	450	3,138	299	19,317
Total operating revenues	360,788	59,449	35,792	37,312	493,341
Operating expenses:					
Salaries, wages and employee benefits	233,727	11,500	-	54,482	299,709
Building lease rental	22,328	9,600	1,050	14,730	47,708
Depreciation	26,314	-	-	1,024	27,338
Utilities	17,941	-	150	3,292	21,383
Communications	12,137	607	-	2,019	14,763
Training	7,955	-	-	-	7,955
Travel	6,873	-	-	872	7,745
Insurance	6,448	-	-	-	6,448
Supplies and materials	5,512	-	-	-	5,512
Repairs and maintenance	5,471	-	-	-	5,471
Stamp purchases	960	244	-	1,105	2,309
Miscellaneous	36,939	-	400	485	37,824
Total operating expenses	382,605	21,951	1,600	78,009	484,165
Operating income (loss)	\$ (21,817)	\$ 37,498	34,192	\$ (40,697)	\$ 9,176

See accompanying independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Marshall Islands Postal Service Authority:

We have audited, in accordance with the 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, the financial statements of the Marshall Islands Postal Service Authority (the Authority), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated April 8, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2013-001 to be material weaknesses.

Compliance and Other Matters

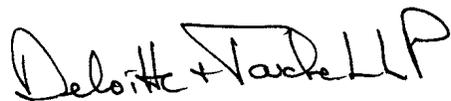
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

April 8, 2014

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Schedule of Findings and Responses Year Ended September 30, 2013

Finding No. 2013-001

Building Lease Agreement

Criteria: Lease commitments should be supported by valid underlying lease agreements between the Authority and the landlord.

Condition: At September 30, 2013, no updated lease agreement for the Ebeye Post Office appears to be in existence other than that which expired on July 31, 2011 and stipulated monthly lease payments of \$1,980 per month or \$23,760 per year. Separate correspondence from the landlord, dated March 26, 2007, appears to indicate that the monthly lease rental payment is \$1,227 per month. As of September 30, 2013, the Authority has determined that they are delinquent in the payment of monthly lease payments of \$113,380, which is summarized as follows:

Lease Rental Period

April 2000 – July 2001	\$ 19,640
August 2001 – July 2006	73,649
August 2006 – September 2008	<u>31,914</u>
	125,203
Less payment made during FY2010 by RepMar	<u>(85,473)</u>
	39,730
FY2009	14,730
FY2010	14,730
FY2011	14,730
FY2012	14,730
FY2013	<u>14,730</u>
	\$ <u>113,380</u>

Accordingly, the Authority has recorded a liability of \$113,380. In the event that the stipulated monthly lease payments per the valid lease agreement are adhered to, the Authority may be liable for an additional \$98,691 in lease payments.

Cause: The cause of the above condition is the lack of clarity between the Authority and the landlord as to the agreed monthly lease payment.

Effect: The effect of the above condition is the possibility of understatement of liabilities pertaining to lease expense.

Prior Year Status: This is a repeat finding from the prior year.

Recommendation: We recommend that the Authority validate the lease agreement for the Ebeye Post Office through the execution of an amended lease agreement.

Auditee Response and Corrective Action Plan: There is now a proposed Ebeye Building lease agreement with the Office of the Attorney General.

**MARSHALL ISLANDS POSTAL
SERVICE AUTHORITY**

Unresolved Prior Year Findings
Year Ended September 30, 2013

The status of unresolved prior year findings is discussed in the accompanying Schedule of Findings and Responses section of this report.