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, 2012 AND 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Combining Schedule of Operating Income (Loss) by Station for the year ended September 30, 2012 on page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Operating Income (Loss) by Station is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLP

January 17, 2013

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2012 and 2011

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, 2012. 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, 2012 by $80,332 (Net Assets) increasing by $2,762 from $77,570 in the prior year.

- As of the close of business on September 30, 2012, the Authority earned $471,590 in revenues. Most of these were derived from revenues generated from stamp sales and postal box rentals, which account for 62% and 17% (or 79%) 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 $468,828. 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 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 Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the different 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 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 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 18.

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, 2012, the Authority's assets exceeded its liabilities by $80,332, which is comprised of restricted net assets of $55,228, that are invested in capital assets with the remainder of $25,104. 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

	2012	2011	2010
Assets:			
Current assets	$ 191,070	$ 185,320	$ 152,806
Capital and other assets	55,228	76,861	36,158
Total assets	$ 246,298	$ 262,181	$ 188,964
Liabilities:			
Current liabilities	$ 156,896	$ 173,751	$ 128,271
Noncurrent liabilities	9,070	10,860	10,904
	165,966	184,611	139,175
Net Assets:			
Invested in capital assets	55,228	76,861	36,158
Unrestricted	25,104	709	13,631
Total net assets	80,332	77,570	49,789
	$ 246,298	$ 262,181	$ 188,964

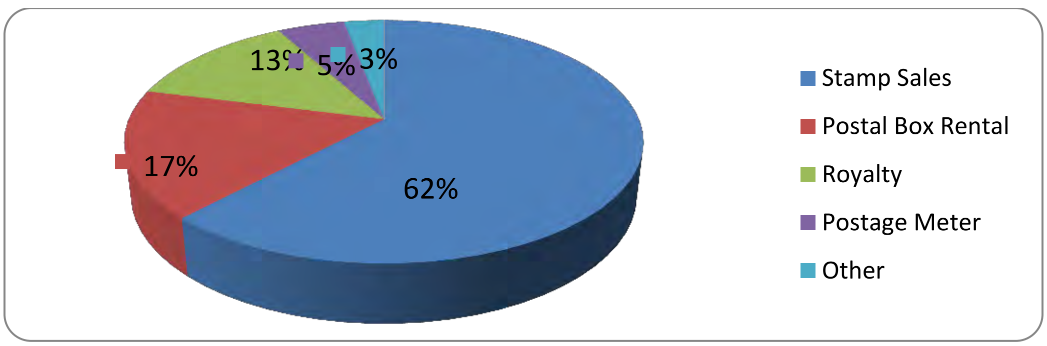
Changes in Net Assets

Current year activities resulted in a positive net assets of the Authority of $2,762. 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

	2012	2011	2010
Operating revenues	$ 471,590	$ 458,304	$ 406,428
Operating expenses	468,828	431,402	382,780
Operating income	2,762	26,902	23,648
Non-operating revenues	-	879	3,323
Changes in net assets	$ 2,762	$ 27,781	$ 26,971

The Authority's revenues earned and reported at the end of the current year amounted to $471,590 as compared to $458,304 reported at the end of the prior year. Approximately 79% or $376,017 of the Authority's revenue generated during the current year comes from stamp sales and postal box rental fees, which accounts for 62% and 17%, respectively, of the total of $471,590 earned during the current year. This compares with 76% or $348,756 of the Authority's revenue generated during the prior year. The chart below was prepared to described the composition of the Authority's revenue sources for 2012.



Revenue Sources

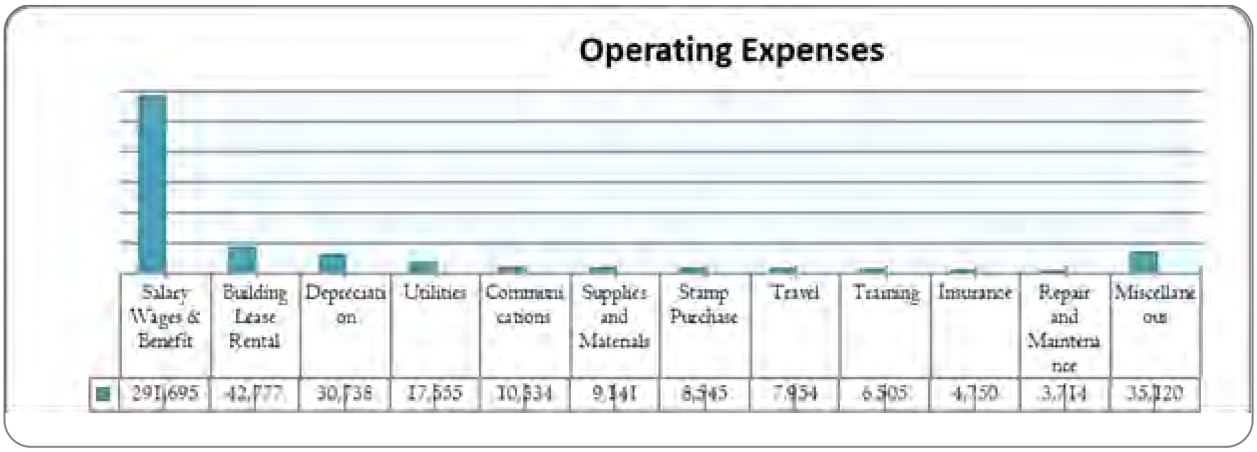
The major source of revenue of the Authority is the sale of stamps for domestic and international mail. As indicated below, stamp sales have increased by 17.5% from FY 2008 to FY 2009, 14% from FY 2009 to FY 2010, 17% from FY 2010 to FY 2011, and a further 4% from FY2011 to FY2012. The primary reason 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 represent collections by the Ministry of Finance when the Authority was operated under the direct control of RepMar.

	2012	2011	2010	2009	(Unaudited) 2008
Stamp sales	$ 294,575	$ 282,936	$ 242,442	$ 211,869	$ 180,245
Postal box rental	81,442	65,820	75,234	56,602	73,748
Postage meters	25,660	39,420	47,015	46,750	33,539
Royalty	59,895	53,246	26,838	-	-
Others	10,018	16,882	14,899	10,743	15,556
	$ 471,590	$ 458,304	$ 406,428	$ 325,964	$ 303,088

Expense Distribution

Total costs incurred as of the close of business on September 30, 2012 were $468,828 as compared to $431,402 incurred in the prior year. Of the amount for 2012, the Authority incurred $291,695 and $42,777, respectively, for salaries for employees and building rental as compared with $272,877 and $39,248, respectively, for 2011. These expense line items account for 71% of the total expense of $468,828 and $431,402 incurred during the years 2012 and 2011.

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, 2011, is set forth in the Authority's report on the audit of financial statements, which is dated January 25, 2012. Such discussion and analysis explains the major factors impacting the 2011 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 equipments, and other fixed assets at a cost of approximately $9,105. 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 nor have any outstanding debt at the end of the current 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, MIPSA continues to improve its customer services with soon to be added new features by opening a new Non-Philatelic Center at Kwajalein, offering Postal Data Base Services, and new Delivery Package for bulky and commercial parcels 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 three 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 Assets
September 30, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash	$ 144,893	$ 132,279
Receivables:		
Postal box rental	50,178	75,406
Other	34,543	30,313
	84,721	105,719
Less allowance for doubtful accounts	(50,178)	(75,406)
	34,543	30,313
Inventory	10,704	18,259
Prepaid expenses	930	4,469
Total current assets	191,070	185,320
Capital assets, net	55,228	76,861
	$ 246,298	$ 262,181
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 6,104	$ 3,499
Lease rental payable	98,649	83,919
Payable to affiliates	14,392	13,403
Accrued payroll	10,315	14,402
Accrued annual leave payable	5,559	7,508
Deferred revenue	21,877	51,020
Total current liabilities	156,896	173,751
Accrued annual leave payable, net of current portion	9,070	10,860
Total liabilities	165,966	184,611
Commitments and contingency		
Net assets:		
Invested in capital assets	55,228	76,861
Unrestricted	25,104	709
Total net assets	80,332	77,570
	$ 246,298	$ 262,181

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Stamp sales	$ 294,575	$ 282,936
Postal box rentals	81,442	65,820
Royalty	59,895	53,246
Postage meters	25,660	39,420
Other	10,018	16,882
Total operating revenues	471,590	458,304
Operating expenses:		
Salaries, wages and employee benefits	291,695	272,877
Building lease rental	42,777	39,248
Depreciation	30,738	22,112
Utilities	17,555	17,231
Communications	10,334	6,853
Supplies and materials	9,141	8,235
Stamp purchases	8,545	8,452
Travel	7,954	8,680
Training	6,505	11,244
Insurance	4,750	9,438
Repairs and maintenance	3,714	5,717
Miscellaneous	35,120	21,315
Total operating expenses	468,828	431,402
Operating income	2,762	26,902
Nonoperating revenues:		
Contributions from RepMar	-	879
Change in net assets	2,762	27,781
Net assets at beginning of year	77,570	49,789
Net assets at end of year	$ 80,332	$ 77,570

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 438,217	$ 470,095
Cash payments to suppliers for goods and services	(117,966)	(117,100)
Cash payments to employees for services	(298,532)	(271,263)
Net cash provided by operating activities	21,719	81,732
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(9,105)	(62,815)
Net change in cash	12,614	18,917
Cash at beginning of year	132,279	113,362
Cash at end of year	$ 144,893	$ 132,279
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 2,762	$ 26,902
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,738	22,112
(Increase) decrease in assets:		
Other receivables	(4,230)	(20,156)
Inventory	7,555	7,866
Prepaid expenses	3,539	(428)
Increase (decrease) in liabilities:		
Accounts payable	2,605	(2,855)
Lease rental payable	14,730	14,730
Payable to affiliates	989	(28)
Accrued payroll	(4,087)	937
Accrued annual leave payable	(3,739)	705
Deferred revenues	(29,143)	31,947
Net cash provided by operating activities	$ 21,719	$ 81,732
Summary of noncash financing activities:		
Increase in stamp inventory	$ -	$ (879)
Contributions from RepMar	-	879
	$ -	$ -

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, 2012 and 2011, the carrying amount of cash was $144,893 and $132,279, respectively, and the corresponding bank balances were $150,202 and $121,045, 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, 2012 and 2011, the accumulated vacation leave liability totals $14,629 and $18,368, 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 2012, the Authority implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB 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 implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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.

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 has not yet determined the effect of implementation of this statement on the financial statements of the Authority.

In April 2012, GASB issued 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. 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

Reclassification

Certain reclassifications have been made to the 2011 financial statements to conform with the 2012 presentation.

(3) Fixed Assets

Capital asset activity for the years ended September 30, 2012 and 2011 is as follows:

	October 1, 2011	Additions	Retirements	September 30, 2012
Motor vehicles	$ 79,895	$ -	$ -	$ 79,895
Office furniture and equipment	37,124	9,105	-	46,229
	117,019	9,105	-	126,124
Less accumulated depreciation	(40,158)	(30,738)	-	(70,896)
	$ 76,861	$ (21,633)	$ -	$ 55,228

	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

(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, 2012 and 2011, 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, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
Other liabilities: Compensated absences	$ 18,368	$ 20,030	$ 23,769	$ 14,629	$ 5,559

	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

(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, 2012 and 2011 is as follows:

	2012	
	Expenses	Payables
Marshall Islands Social Security Administration	$ 28,561	$ 12,567
Marshall Islands National Telecommunications Authority	10,334	-
Marshalls Energy Company, Inc.	17,555	-
RepMar	-	1,825
	$ 56,450	$ 14,392

	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

(5) Related Party Transactions, Continued

During the years ended September 30, 2012 and 2011, RepMar purchased stamps at a cost of $0 and $879, 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, 2012 and 2011, rent expense under this lease amounted to $14,730.

On May 1, 2012, the Authority entered into a two-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 leases require lease rental payments of $1,243 per month. During the years ended September 30, 2012 and 2011, rent expense under this lease amounted to $17,918.

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, 2012 and 2011, 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,	
2013	$ 24,518
2014	12,902
	$ 37,420

(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 $98,650. 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 $97,938. 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, 2012

	Uliga	Delap	Ebeye	Total
Operating revenues:				
Stamp sales	$ 208,110	$ 54,047	$ 32,418	$ 294,575
Postal box rentals	59,998	4,738	16,706	81,442
Royalty	59,895	-	-	59,895
Postage meters	25,660	-	-	25,660
Other	8,142	162	1,714	10,018
Total operating revenues	361,805	58,947	50,838	471,590
Operating expenses:				
Salaries, wages and employee benefits	215,834	8,651	67,210	291,695
Building lease rental	18,447	9,600	14,730	42,777
Depreciation	30,046	-	692	30,738
Utilities	11,166	-	6,389	17,555
Communications	8,002	326	2,006	10,334
Supplies and materials	9,000	-	141	9,141
Stamp purchases	5,364	1,274	1,907	8,545
Travel	7,097	-	857	7,954
Training	3,025	-	3,480	6,505
Insurance	4,750	-	-	4,750
Repairs and maintenance	3,714	-	-	3,714
Miscellaneous	30,265	161	4,694	35,120
Total operating expenses	346,710	20,012	102,106	468,828
Operating income (loss)	$ 15,095	$ 38,935	$ (51,268)	$ 2,762

See accompanying independent auditors' report.