

**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, 2014 AND 2013

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

Years Ended September 30, 2014 and 2013
Table of Contents

	<u>Page No.</u>
I. Independent Auditors' Report	1
II. Management's Discussion and Analysis	3
III. Basic Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
IV. Other Supplementary Information:	
Combining Schedule of Operating Income (Loss) by Station	18
V. Independent Auditors' Report on Compliance with Laws and Regulations:	
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 <i>Government Auditing Standards</i>	19
Unresolved Prior Year Findings	21

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, 2014 and 2013, 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 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 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, 2014 and 2013, 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.

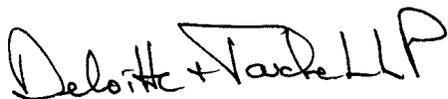
Other Information

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 December 23, 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.



December 23, 2014

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2014 and 2013

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, 2014. We encourage the readers to consider the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

The Authority was created by the Postal Service Act of 1983 for the purpose of establishing an effective and efficient postal service for the Republic. The operation of the Authority were accounted for as a separate fund within the Government of the Republic of the Marshall Islands (RepMar) Ministry of Finance. Effective October 1, 2008, the Authority established a separate bank account outside of RepMar's Treasury for the purpose of receiving and disbursing funds in accordance with the Postal Service Fund (Amendment) Act of 2007. Accordingly, the accompanying Management's Discussion and Analysis only pertains to the operations of the Authority once the operation 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 \$147,991 (Net Position) increasing by \$59,106 from \$88,885 in the prior year.
- As of the close of business on September 30, 2014, the Authority earned \$527,313 in revenues. Most of these were derived from revenues generated from stamp sales and postal box rentals, which account for 70% and 16% (or 86% combined) 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, that totaled \$468,207. 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 different 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.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

The Statements 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.

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 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 Statement of Net Position below was prepared to give insight on the Authority's resources, liabilities, and net position. At the close of business on September 30, 2014, the Authority's assets exceeded its liabilities by \$147,991, which comprised of net investment in capital assets of \$45,410, with the remainder of \$102,581 available for future operations. Accordingly, this means that there are unrestricted assets available to be used to finance the day-to-day operation of the Authority.

Summary Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 315,903	\$ 244,693	\$ 191,070
Capital and other assets	<u>45,410</u>	<u>33,305</u>	<u>55,228</u>
Total assets	\$ <u>361,313</u>	\$ <u>277,998</u>	\$ <u>246,298</u>
Liabilities:			
Current liabilities	\$ 201,105	\$ 178,507	\$ 156,896
Noncurrent liabilities	<u>12,217</u>	<u>10,606</u>	<u>9,070</u>
	<u>213,322</u>	<u>189,113</u>	<u>165,966</u>
Net Position:			
Net investment in capital assets	45,410	33,305	55,228
Unrestricted	<u>102,581</u>	<u>55,580</u>	<u>25,104</u>
Total net position	<u>147,991</u>	<u>88,885</u>	<u>80,332</u>
	\$ <u>361,313</u>	\$ <u>277,998</u>	\$ <u>246,298</u>

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

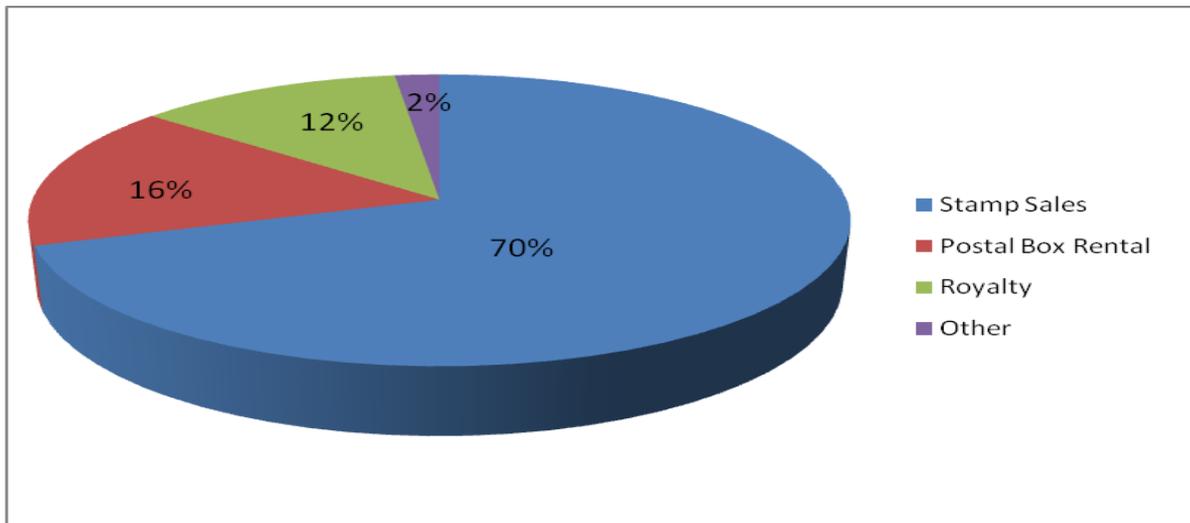
Changes in Net Position

Current year activities resulted in a positive net position of the Authority of \$59,106. The summary statement of Revenues, Expenses, and Changes in Net Position below was prepared to show the net position calculation for the year.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 527,313	\$ 493,341	\$ 471,590
Operating expenses	<u>468,207</u>	<u>484,165</u>	<u>468,828</u>
Operating income	59,106	9,176	2,762
Non-operating revenues (expenses)	<u>-</u>	<u>(623)</u>	<u>-</u>
Changes in net position	\$ <u>59,106</u>	\$ <u>8,553</u>	\$ <u>2,762</u>

The Authority's revenues earned and reported at the end of the year amounted to \$527,313 as compared to \$493,341 reported at the end of the prior year. Approximately 86% or \$454,990 of the Authority's revenue generated during the year derives from stamp sales and postal box rental fees, which accounts for 70% and 16%, respectively, of the total of \$527,313 earned during the year. This compares with 84% or \$493,341 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 2014.



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 13% from FY 2010 to FY 2011, 3% from FY2011 to FY2012, 5% from FY2012 to FY2013, and a further 7% from FY2013 to FY2014. The primary reason for this increase was the return of the domestic mail status in November 2007 by the United States Postal Service, and confidence of the people given greater transparency and accountability of the Authority. In addition, the Authority later installed 770 new postal boxes for both Uliga and Airport sub-stations to cope with the waiting list of people waiting to have postal boxes.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2014 and 2013

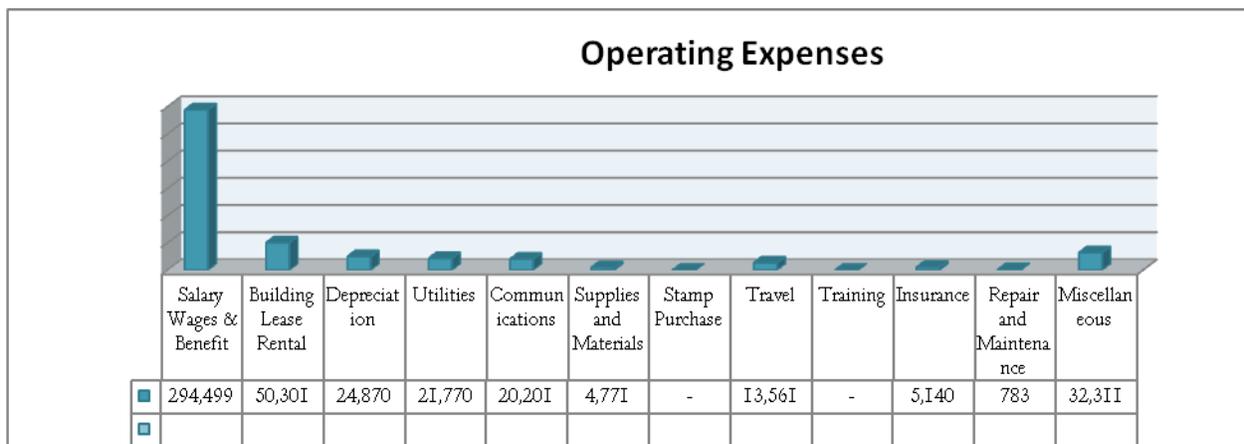
Revenue Sources Continued

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Stamp sales	\$ 368,786	\$ 345,928	\$ 294,575	\$ 282,936	\$ 242,442
Postal box rental	86,204	67,224	81,442	65,820	75,234
Postage meters	-	-	25,660	39,420	47,015
Royalty	61,222	60,872	59,895	53,246	26,838
Others	<u>11,101</u>	<u>19,317</u>	<u>10,018</u>	<u>16,882</u>	<u>14,899</u>
	\$ <u>527,313</u>	\$ <u>493,341</u>	\$ <u>471,590</u>	\$ <u>458,304</u>	\$ <u>406,428</u>

Expense Distribution

Total costs incurred as of the close of business on September 30, 2014 was \$468,207 as compared to \$484,165 incurred in the prior year. Of the amount for 2014, the Authority incurred \$294,499 and \$50,301, respectively, for employees' salaries, benefits and building rental as compared with \$299,709 and \$47,708, respectively, for 2013. These expenses account for 74% of the total expense of \$468,207 incurred during the year.

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



Capital Assets and Debt

During the current year, the Authority purchased various equipment, and other fixed assets at a cost of approximately \$36,975. 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 nor have any outstanding debt at the end of the current year.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

ECONOMIC OUTLOOK

The Authority plays an important and vital role in providing traditional form of communication through delivery of mail and parcel packages for people who are sending and/or receiving. With steady number of the population migrating abroad (particularly the United States) each year, demand for postal service is expected to gradually increase over the medium term despite stagnant growth in the local economy. This is evident by recent years which had resulted in limited economic growth in the Marshall Islands yet both inbound and outbound mail/parcels (in volume) experienced significant rise, driving stamp sales to a record level every year.

Since 2008, the stamp sales have increased by an average of 12% annually. During the period 2008 to 2011, annual stamp sales was averaging 19% in growth but, since 2012, annual sales have slightly dropped to average 5% in growth. In parallel to stamp sales, the inbound and outbound of mail/parcel volumes have coincidentally increased as well. For inbound parcels, for instance, 2009 total weight was 72,000 lbs and 2012 total weight reached 81,000 lbs, a 12% increase. During the same period total weight on outbound mail parcels increased to from 57,000 lbs in 2009 to 67,000 in 2012, a 17% increase.

In term of overall revenues and expenditures comparison, the Authority generated \$329,964 in total revenues while expenditures accounted for \$429,937 in 2009 given the rise of fuel, electricity and other operational costs. Upon executing number of initiatives with improved postal services, the year 2010 and all subsequent years thereafter to present have ended with surplus. In 2014, the Authority recently generated \$527,313 in total revenues while total expenditures accounted \$468,207, representing 60% increase in revenues while maintaining modest 9% increase in operational expenditures in comparing to 2009 outcomes.

The Board of Directors and the Management of the Authority shall continue to contribute and assist the economic advancement and development of the Marshall Islands. As part of this commitment and strive for excellence service in customer services, the Authority continuously explore initiatives to better service the people. One of these initiatives was recent launching of a new post office substation at the Amata Kabua International Airport. The performance of this Majuro airport substation, post office has far exceeded expectation and eventually an effort to open a Kwajalein airport post office substation is already in process. The future projection for the Authority is strong and upholds high level of confidence.

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, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current assets:		
Cash	\$ 242,292	\$ 187,539
Receivables:		
Postal box rental	75,529	59,358
Other	27,636	33,124
	<u>103,165</u>	<u>92,482</u>
Less allowance for doubtful accounts	(57,285)	(59,358)
	<u>45,880</u>	<u>33,124</u>
Inventory	22,040	20,316
Prepaid expenses	5,691	3,714
Total current assets	<u>315,903</u>	<u>244,693</u>
Capital assets, net	<u>45,410</u>	<u>33,305</u>
	<u>\$ 361,313</u>	<u>\$ 277,998</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 6,047	\$ 3,236
Lease rental payable	131,855	113,380
Payable to affiliates	15,997	13,917
Accrued payroll	17,825	16,933
Accrued annual leave payable	7,488	9,070
Unearned income	21,893	21,971
Total current liabilities	<u>201,105</u>	<u>178,507</u>
Accrued annual leave payable, net of current portion	<u>12,217</u>	<u>10,606</u>
Total liabilities	<u>213,322</u>	<u>189,113</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	45,410	33,305
Unrestricted	102,581	55,580
Total net position	<u>147,991</u>	<u>88,885</u>
	<u>\$ 361,313</u>	<u>\$ 277,998</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Stamp sales	\$ 368,786	\$ 345,928
Postal box rentals	86,204	67,224
Royalty	61,222	60,872
Other	11,101	19,317
Total operating revenues	<u>527,313</u>	<u>493,341</u>
Operating expenses:		
Salaries, wages and employee benefits	294,499	299,709
Building lease rental	50,301	47,708
Depreciation	24,870	27,338
Utilities	21,770	21,383
Communications	20,201	14,763
Travel	13,561	7,745
Insurance	5,140	6,448
Supplies and materials	4,771	5,512
Repairs and maintenance	783	5,471
Training	-	7,955
Stamp purchases	-	2,309
Miscellaneous	32,311	37,824
Total operating expenses	<u>468,207</u>	<u>484,165</u>
Operating income	<u>59,106</u>	<u>9,176</u>
Nonoperating expenses:		
Loss on disposal of capital assets	-	(623)
Change in net position	59,106	8,553
Net position at beginning of year	<u>88,885</u>	<u>80,332</u>
Net position at end of year	<u>\$ 147,991</u>	<u>\$ 88,885</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 514,479	\$ 494,854
Cash payments to suppliers for goods and services	(131,253)	(157,651)
Cash payments to employees for services	<u>(291,498)</u>	<u>(288,519)</u>
Net cash provided by operating activities	<u>91,728</u>	<u>48,684</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(36,975)</u>	<u>(6,038)</u>
Net change in cash	54,753	42,646
Cash at beginning of year	<u>187,539</u>	<u>144,893</u>
Cash at end of year	<u><u>\$ 242,292</u></u>	<u><u>\$ 187,539</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 59,106	\$ 9,176
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	24,870	27,338
(Increase) decrease in assets:		
Receivables	(12,756)	1,419
Inventory	(1,724)	(9,612)
Prepaid expenses	(1,977)	(2,784)
Increase (decrease) in liabilities:		
Accounts payable	2,811	(2,868)
Lease rental payable	18,475	14,731
Payable to affiliates	2,080	(475)
Accrued payroll	892	6,618
Accrued annual leave payable	29	5,047
Unearned income	<u>(78)</u>	<u>94</u>
Net cash provided by operating activities	<u><u>\$ 91,728</u></u>	<u><u>\$ 48,684</u></u>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2014 and 2013

(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. The Authority has no restricted net position at September 30, 2014 and 2013.
- 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, 2014 and 2013

(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 position. Proprietary fund operating statements present increases and decreases in net position. 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, 2014 and 2013, the carrying amount of cash was \$242,292 and \$187,539, respectively, and the corresponding bank balances were \$254,026 and \$188,983, respectively. Of the bank balance amounts, \$15,667 and \$15,377, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$238,359 and \$173,606, 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. The allowance is established through a provision for bad debts charged to current operations. Accounts are written off using the specific identification method.

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.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2014 and 2013

(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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Authority has no items that qualify for reporting in this category.

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, 2014 and 2013, the accumulated vacation leave liability totals \$19,705 and \$19,676, 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.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Authority has no items that qualify for reporting in this category.

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.

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, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2014, the Authority implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Authority.

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 November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. 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, 2014 and 2013

(3) Fixed Assets

Capital asset activity for the years ended September 30, 2014 and 2013 is as follows:

	October 1, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2014</u>
Motor vehicles	\$ 78,245	\$ 35,975	\$ -	\$ 114,220
Office furniture and equipment	<u>51,482</u>	<u>1,000</u>	<u>-</u>	<u>52,482</u>
	129,727	36,975	-	166,702
Less accumulated depreciation	<u>(96,422)</u>	<u>(24,870)</u>	<u>-</u>	<u>(121,292)</u>
	\$ <u>33,305</u>	\$ <u>12,105</u>	<u>-</u>	\$ <u>45,410</u>
	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>

(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, 2014 and 2013, the following changes occurred in liabilities reported as part of the Authority's long-term liabilities in the statements of net position:

	Balance October 1, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2014</u>	Due Within <u>One Year</u>
Other liabilities:	\$ <u>19,676</u>	\$ <u>20,496</u>	\$ <u>(20,467)</u>	\$ <u>19,705</u>	\$ <u>7,488</u>
Compensated absences					
	Balance October 1, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2013</u>	Due Within <u>One Year</u>
Other liabilities:	\$ <u>14,629</u>	\$ <u>20,992</u>	\$ <u>(15,945)</u>	\$ <u>19,676</u>	\$ <u>9,070</u>
Compensated absences					

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013 is as follows:

	2014	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 29,613	\$ 11,939
Marshall Islands National Telecommunications Authority	20,201	-
Marshalls Energy Company, Inc.	21,770	-
RepMar	-	4,058
	\$ <u>71,584</u>	\$ <u>15,997</u>
	2013	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 28,534	\$ 12,045
Marshall Islands National Telecommunications Authority	14,763	-
Marshalls Energy Company, Inc.	21,383	-
RepMar	-	1,872
	\$ <u>64,680</u>	\$ <u>13,917</u>

(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, which expired on September 11, 2011. The terms of the lease requires lease rental payments of \$1,227 per month. During the years ended September 30, 2014 and 2013, related rent expense was \$14,730.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2014 and 2013

(7) Commitments, Continued

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, 2014 and 2013, 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, 2014 and 2013, related rent expense was \$22,328 and \$22,328, 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 years ended September 30, 2014 and 2013, related rent expense was \$1,800 and 1,200, respectively.

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

<u>Year ending</u> <u>September 30,</u>	
2015	\$ 33,518
2016	33,518
2017	33,518
2018	33,518
2019	33,518
2020 - 2024	69,902
2025 - 2029	57,000
2030 - 2034	40,200
2035	<u>600</u>
	<u>\$ 335,292</u>

(8) Contingency

The Authority is currently delinquent on \$128,110 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 \$115,998. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

(9) Subsequent Event

On December 11, 2014, the Authority entered into a one-year lease agreement with a new landlord for the Ebeye Post Office.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Combining Schedule of Operating Income (Loss) By Station
Year Ended September 30, 2014

	<u>Uluga</u>	<u>Delap</u>	<u>Airport</u>	<u>Ebeye</u>	<u>Total</u>
Operating revenues:					
Stamp sales	\$ 218,490	\$ 57,477	\$ 50,667	\$ 42,152	\$ 368,786
Postal box rentals	57,079	6,863	(420)	22,682	86,204
Royalty	61,222	-	-	-	61,222
Other	8,542	1,087	180	1,292	11,101
Total operating revenues	<u>345,333</u>	<u>65,427</u>	<u>50,427</u>	<u>66,126</u>	<u>527,313</u>
Operating expenses:					
Salaries, wages and employee benefits	228,998	12,814	-	52,687	294,499
Building lease rental	24,941	8,800	1,830	14,730	50,301
Depreciation	23,382	-	-	1,488	24,870
Utilities	19,120	-	150	2,500	21,770
Communications	12,962	1,244	219	5,776	20,201
Training	-	-	-	-	-
Travel	13,186	-	-	375	13,561
Insurance	5,140	-	-	-	5,140
Supplies and materials	4,756	-	-	15	4,771
Repairs and maintenance	433	-	-	350	783
Stamp purchases	-	-	-	-	-
Miscellaneous	30,896	-	-	1,415	32,311
Total operating expenses	<u>363,814</u>	<u>22,858</u>	<u>2,199</u>	<u>79,336</u>	<u>468,207</u>
Operating income (loss)	<u>\$ (18,481)</u>	<u>\$ 42,569</u>	<u>\$ 48,228</u>	<u>\$ (13,210)</u>	<u>\$ 59,106</u>

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, 2014, 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 December 23, 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

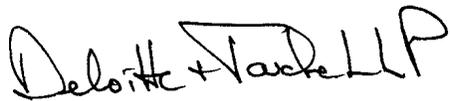
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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.

December 23, 2014

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2014

There were no unresolved audit findings from prior year audits of the Authority.