

**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, 2016 AND 2015

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

Years Ended September 30, 2016 and 2015
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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, 2016 and 2015, 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, 2016 and 2015, 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

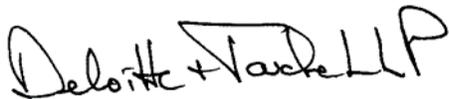
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 as a whole. 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 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 other supplementary information is fairly stated, in all material respects, in relation to the 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 14, 2016 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 14, 2016

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis Years Ended September 30, 2016 and 2015

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, 2016. 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 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 \$333,470 (Net Position) increasing by \$62,870 from \$270,600 in the prior year.
- As of the close of business on September 30, 2016, the Authority earned \$571,416 in revenues. Most of these were derived from revenues generated from stamp sales and postal box rentals, which account for 73% and 16%, respectively, (or 89%) of the total revenue earned during the year. On the other hand, the Authority incurred various expenses, which are directly and indirectly related to the provision of domestic and international mail services, and which totaled \$585,824. 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 Statements of Net Position present 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 statements of net position can be found on page 8.

The Statements of Revenues, Expenses, and Changes in Net Position present 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 statements 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, 2016 and 2015

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

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, 2016, the Authority's assets exceeded its liabilities by \$333,470, which is comprised of restricted net position of \$65,332, that are invested in capital assets, with the remainder of \$268,138 being unrestricted. 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 Position

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|----------------------------------|-------------------|-------------------|-------------------|
| Assets: | | | |
| Current and other assets | \$ 503,277 | \$ 434,775 | \$ 315,903 |
| Capital and other assets | <u>65,332</u> | <u>69,763</u> | <u>45,410</u> |
| Total assets | \$ <u>568,609</u> | \$ <u>504,538</u> | \$ <u>361,313</u> |
| Liabilities: | | | |
| Current and other liabilities | \$ <u>235,139</u> | \$ <u>233,938</u> | \$ <u>213,322</u> |
| Net Position: | | | |
| Net investment in capital assets | 65,332 | 49,763 | 45,410 |
| Unrestricted | <u>268,138</u> | <u>220,837</u> | <u>102,581</u> |
| Total net position | <u>333,470</u> | <u>270,600</u> | <u>147,991</u> |
| | \$ <u>568,609</u> | \$ <u>504,538</u> | \$ <u>361,313</u> |

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

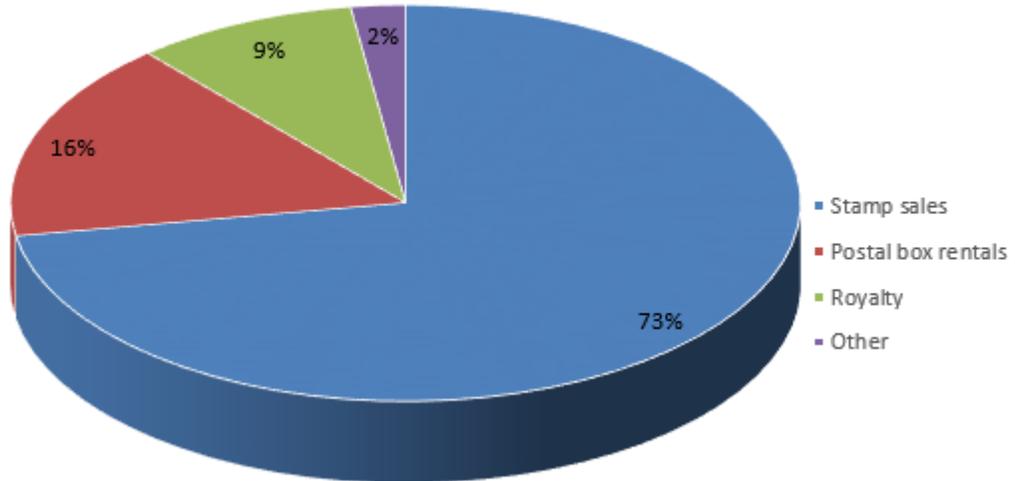
Changes in Net Position

Current year activities resulted in a positive net position of the Authority of \$62,870. 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>2016</u> | <u>2015</u> | <u>2014</u> |
|-------------------------|------------------|-------------------|------------------|
| Operating revenues | \$ 543,433 | \$ 546,795 | \$ 527,313 |
| Operating expenses | <u>585,824</u> | <u>532,027</u> | <u>468,207</u> |
| Operating Income (loss) | (42,391) | 14,768 | 59,106 |
| Non-operating revenues | <u>105,261</u> | <u>107,841</u> | <u>-</u> |
| Changes in net position | \$ <u>62,870</u> | \$ <u>122,609</u> | \$ <u>59,106</u> |

The Authority's revenues earned and reported at the end of the year amounted to \$543,433. Approximately 89% or \$509,180 of the Authority's revenue generated during the year comes from stamp sales and postal box rental fees, which accounts for 73% and 16%, respectively, of the total of \$543,433 earned during the year. The chart below was prepared to describe the composition of the Authority's revenue sources for 2016.



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 3% from FY 2011 to FY 2012, 5% from FY 2012 to FY 2013, 7% from FY2013 to FY2014, 5% from FY2014 to FY2015, and a further 1% from FY2015 to FY2016. 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 Uliga and Airport Stations, and the excellent services provided.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

Revenue Sources Continued

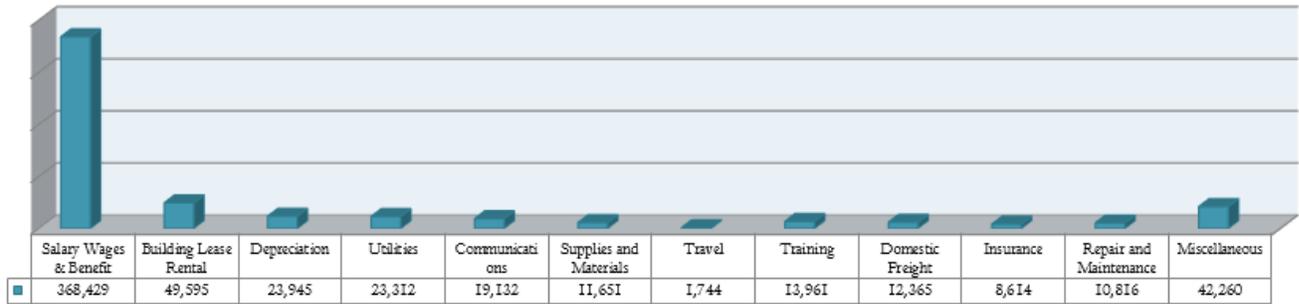
| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Stamp sales | \$ 419,563 | \$ 418,020 | \$ 368,786 | \$ 345,928 | \$ 294,575 |
| Postal box rental | 89,617 | 88,863 | 86,204 | 67,224 | 81,442 |
| Postage meters | - | - | - | - | 25,660 |
| Royalty | 50,000 | 50,005 | 61,222 | 60,872 | 59,895 |
| Others | <u>12,236</u> | <u>7,855</u> | <u>11,101</u> | <u>19,317</u> | <u>10,018</u> |
| | \$ <u>571,416</u> | \$ <u>564,743</u> | \$ <u>527,313</u> | \$ <u>493,341</u> | \$ <u>471,590</u> |

Expense Distribution

Total costs incurred as of the close of business on September 30, 2016 were \$585,824. Of this amount, the Authority incurred \$368,429 and \$49,595, respectively, for salaries for employees and building rental. These expense line items account for 71% of the total expense of \$585,824 incurred during the year.

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

Operating Expenses



Capital Asset and Debt

During the year, the Authority purchased various equipments, and other fixed assets at a cost of approximately \$39,514. 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 year.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2016 and 2015

ECONOMIC OUTLOOK

Marshall Islands Postal Service Authority plays an important role to provide the excellence services to the people who are neither sending, nor receiving their mail.

With commitment and strive for excellence, MIPSAs continues to improve its customer services with added new post office substation at the Amata International Airport amongst other initiatives. Two (2) upcoming substation at Kwajalein, and Jabor Jaluit Atoll.

Compared to previous years, both inbound and outbound mail volume and revenue collection have been increased significantly.

With the philosophy for commitment and strive for excellence, public trust, and high standard of accountability by the board of directors and the management, MIPSAs 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, 2016 and 2015

| ASSETS | 2016 | 2015 |
|--|-------------------|-------------------|
| Current assets: | | |
| Cash | \$ 398,512 | \$ 319,094 |
| Receivables: | | |
| Postal box rental | 81,016 | 84,888 |
| Due from RepMar | 26,313 | 26,313 |
| Other | 35,588 | 34,000 |
| | <u>142,917</u> | <u>145,201</u> |
| Less allowance for doubtful accounts | (63,905) | (64,731) |
| | <u>79,012</u> | <u>80,470</u> |
| Inventory | 15,099 | 20,128 |
| Prepaid expenses | 10,654 | 15,083 |
| Total current assets | <u>503,277</u> | <u>434,775</u> |
| Deposit on vehicle | - | 20,000 |
| Capital assets, net | 65,332 | 49,763 |
| | <u>\$ 568,609</u> | <u>\$ 504,538</u> |
| LIABILITIES AND NET POSITION | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,323 | \$ 8,842 |
| Lease rental payable | 143,431 | 143,431 |
| Payable to affiliates | 19,864 | 13,291 |
| Accrued payroll and bonuses | 26,768 | 21,258 |
| Accrued annual leave payable | 7,547 | 9,334 |
| Unearned income | 22,892 | 22,554 |
| Total current liabilities | <u>222,825</u> | <u>218,710</u> |
| Accrued annual leave payable, net of current portion | 12,314 | 15,228 |
| Total liabilities | <u>235,139</u> | <u>233,938</u> |
| Commitments and contingency | | |
| Net position: | | |
| Net investment in capital assets | 65,332 | 49,763 |
| Unrestricted | 268,138 | 220,837 |
| Total net position | <u>333,470</u> | <u>270,600</u> |
| | <u>\$ 568,609</u> | <u>\$ 504,538</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, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Operating revenues: | | |
| Stamp sales | \$ 419,563 | \$ 418,020 |
| Postal box rentals | 89,617 | 88,863 |
| Royalty | 50,000 | 50,005 |
| Other | 12,236 | 7,855 |
| | <u>571,416</u> | <u>564,743</u> |
| Total operating revenues | 571,416 | 564,743 |
| Less provision for uncollectible accounts | <u>(27,983)</u> | <u>(17,948)</u> |
| | <u>543,433</u> | <u>546,795</u> |
| Operating expenses: | | |
| Salaries, wages and employee benefits | 368,429 | 325,165 |
| Building lease rental | 49,595 | 47,720 |
| Depreciation | 23,945 | 24,672 |
| Utilities | 23,312 | 14,947 |
| Communications | 19,132 | 21,625 |
| Training | 13,961 | 18,817 |
| Domestic freight | 12,365 | 4,822 |
| Supplies and materials | 11,651 | 9,196 |
| Repairs and maintenance | 10,816 | 5,116 |
| Insurance | 8,614 | 6,719 |
| Travel | 1,744 | 9,579 |
| Miscellaneous | 42,260 | 43,649 |
| | <u>585,824</u> | <u>532,027</u> |
| Total operating expenses | 585,824 | 532,027 |
| Operating income (loss) | <u>(42,391)</u> | <u>14,768</u> |
| Nonoperating income: | | |
| Contributions from RepMar | 105,261 | 105,278 |
| Gain on disposal of capital assets | - | 2,563 |
| | <u>105,261</u> | <u>107,841</u> |
| Change in net position | 62,870 | 122,609 |
| Net position at beginning of year | <u>270,600</u> | <u>147,991</u> |
| Net position at end of year | <u>\$ 333,470</u> | <u>\$ 270,600</u> |

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

| | 2016 | 2015 |
|--|--------------------------|--------------------------|
| | <u> </u> | <u> </u> |
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 545,229 | \$ 539,179 |
| Cash payments to suppliers for goods and services | (190,511) | (175,299) |
| Cash payments to employees for services | (361,047) | (319,581) |
| Net cash provided by (used for) operating activities | <u>(6,329)</u> | <u>44,299</u> |
| Cash flows from noncapital financing activities: | | |
| Contributions from RepMar | <u>105,261</u> | <u>78,965</u> |
| Cash flows from capital and related financing activities: | | |
| Proceeds from disposal of capital assets | - | 5,000 |
| Acquisition of capital assets | (19,514) | (51,462) |
| Net cash used for capital and related financing activities | <u>(19,514)</u> | <u>(46,462)</u> |
| Net change in cash | 79,418 | 76,802 |
| Cash at beginning of year | <u>319,094</u> | <u>242,292</u> |
| Cash at end of year | <u><u>\$ 398,512</u></u> | <u><u>\$ 319,094</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | |
| Operating income (loss) | \$ (42,391) | \$ 14,768 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | 23,945 | 24,672 |
| Provision for uncollectible accounts | 27,983 | 17,948 |
| (Increase) decrease in assets: | | |
| Receivables | (26,525) | (26,225) |
| Inventory | 5,029 | 1,912 |
| Prepaid expenses | 4,429 | (9,392) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (6,519) | 2,795 |
| Lease rental payable | - | 11,576 |
| Payable to affiliates | 6,573 | (2,706) |
| Accrued payroll | 5,510 | 3,433 |
| Accrued annual leave payable | (4,701) | 4,857 |
| Unearned income | 338 | 661 |
| Net cash provided by (used for) operating activities | <u><u>\$ (6,329)</u></u> | <u><u>\$ 44,299</u></u> |
| Summary disclosure of noncash activity: | | |
| Capital assets | \$ 20,000 | \$ - |
| Deposit on vehicle | (20,000) | - |
| | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2016 and 2015

(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, 2016 and 2015.
- Unrestricted - net position that is not subject to externally imposed stipulations. Unrestricted net position 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 deferred outflows of resources, liabilities and deferred inflows of resources, 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, 2016 and 2015

(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, 2016 and 2015, the carrying amount of cash was \$398,512 and \$319,094, respectively, and the corresponding bank balances were \$410,772 and \$324,319, respectively. Of the bank balance amounts, \$108,559 and \$49,174, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$302,213 and \$275,145, 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.

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 |

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

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 non-vesting accumulating rights to receive sick pay benefits. As of September 30, 2016 and 2015, the accumulated vacation leave liability totals \$19,861 and \$24,562, 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.

Reclassifications

Certain balances in the 2015 presentation have been reclassified to conform to the 2016 presentation.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2016, the Authority implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014.

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

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Fixed Assets

Capital asset activity for the years ended September 30, 2016 and 2015 is as follows:

| | October 1, <u>2015</u> | <u>Additions</u> | <u>Disposals</u> | September 30, <u>2016</u> |
|--------------------------------|---------------------------|------------------|------------------|------------------------------|
| Motor vehicles | \$ 114,470 | \$ 29,500 | \$ - | \$ 143,970 |
| Office furniture and equipment | <u>57,699</u> | <u>10,014</u> | <u>-</u> | <u>67,713</u> |
| | 172,169 | 39,514 | - | 211,683 |
| Less accumulated depreciation | <u>(122,406)</u> | <u>(23,945)</u> | <u>-</u> | <u>(146,351)</u> |
| | \$ <u>49,763</u> | \$ <u>15,569</u> | \$ <u>-</u> | \$ <u>65,332</u> |

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2016 and 2015

(3) Fixed Assets, Continued

| | October 1, 2014 | Additions | Disposals | September 30, 2015 |
|--------------------------------|--------------------|-----------------|-----------------|-----------------------|
| Motor vehicles | \$ 114,220 | \$ 26,245 | \$ 25,995 | \$ 114,470 |
| Office furniture and equipment | <u>52,482</u> | <u>5,217</u> | <u>-</u> | <u>57,699</u> |
| | 166,702 | 31,462 | 25,995 | 172,169 |
| Less accumulated depreciation | <u>(121,292)</u> | <u>(24,672)</u> | <u>(23,558)</u> | <u>(122,406)</u> |
| | \$ <u>45,410</u> | \$ <u>6,790</u> | \$ <u>2,437</u> | \$ <u>49,763</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, 2016 and 2015, 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, 2015 | Additions | Reductions | Balance September 30, 2016 | Due Within One Year |
|----------------------|-------------------------------|------------------|--------------------|----------------------------------|------------------------|
| Compensated absences | <u>\$ 24,562</u> | <u>\$ 19,141</u> | <u>\$ (23,842)</u> | <u>\$ 19,861</u> | <u>\$ 7,547</u> |
| | Balance October 1, 2014 | Additions | Reductions | Balance September 30, 2015 | Due Within One Year |
| Compensated absences | <u>\$ 19,705</u> | <u>\$ 22,334</u> | <u>\$ (17,477)</u> | <u>\$ 24,562</u> | <u>\$ 9,334</u> |

(5) Related Party Transactions

During the years ended September 30, 2016 and 2015, the Authority procured goods and services from a related party of \$9,348 and \$1,856, respectively, whose owner is a member of the Authority's Board of Directors.

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.

During the years ended September 30, 2016 and 2015, the operations of the Authority were funded by appropriations of \$105,261 and \$105,278, respectively, from the Nitijela of RepMar, of which \$26,313 for both years, represent amounts due and receivable from RepMar as of the respective year ends.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2016 and 2015

(5) Related Party Transactions, Continued

A summary of related party transactions as of and for the years ended September 30, 2016 and 2015 is as follows:

| | 2016 | |
|--|------------------|------------------|
| | <u>Expenses</u> | <u>Payables</u> |
| Marshall Islands Social Security Administration | \$ 34,659 | \$ 13,477 |
| Marshalls Energy Company, Inc. | 23,312 | - |
| Marshall Islands National Telecommunications Authority | 19,132 | - |
| Air Marshall Islands, Inc. | 12,365 | 2,988 |
| RepMar | - | <u>3,399</u> |
| | <u>\$ 89,468</u> | <u>\$ 19,864</u> |
| | 2015 | |
| | <u>Expenses</u> | <u>Payables</u> |
| Marshall Islands Social Security Administration | \$ 28,533 | \$ 11,430 |
| Marshalls Energy Company, Inc. | 14,947 | - |
| Marshall Islands National Telecommunications Authority | 21,625 | - |
| Air Marshall Islands, Inc. | 4,822 | - |
| RepMar | - | <u>1,861</u> |
| | <u>\$ 69,927</u> | <u>\$ 13,291</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. The Authority entered into a new lease agreement, which commenced on December 20, 2014 and expired on December 20, 2015. On September 30, 2015, the Authority exercised the option to renew the lease agreement for 3 years, which expires on December 20, 2018. During the years ended September 30, 2016 and 2015, related rent expense was \$12,333 and \$14,730, respectively.

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 Authority exercised the option to renew for an additional five-year period to expire on December 31, 2017. The lease terms require rental payments of \$800 per month. During the years ended September 30, 2016 and 2015, related rent expense was \$9,600.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2016 and 2015

(7) Commitments, Continued

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. On September 30, 2016, the Authority exercised the option to renew the lease agreement for 2 years, which commenced on October 1, 2016 and expires on September 30, 2018. The terms of the lease require rental payments of \$1,936 per month. During the years ended September 30, 2016 and 2015, related rent expense was \$23,234 and \$22,118, 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 Authority exercised the option to renew the lease for 2 years, which commenced on February 1, 2015 and expires on January 21, 2017. The terms of the lease require rental payments of \$150 per month and \$250 per month starting June 2015. During the years ended September 30, 2016 and 2015, related rent expense was \$3,000 and \$2,220, respectively.

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

| <u>Year ending</u> <u>September 30,</u> | |
|--|-------------------|
| 2017 | \$ 47,834 |
| 2018 | 47,834 |
| 2019 | 35,834 |
| 2020 | 35,834 |
| 2021 | 12,600 |
| 2022 - 2026 | 63,000 |
| 2027 - 2031 | 63,000 |
| 2032 - 2035 | <u>24,000</u> |
| | <u>\$ 369,936</u> |

(8) Contingencies

The Authority is currently delinquent on \$143,431 of payments for the Ebeye Post Office lease dating back to April 2000. The delinquent balance is based on a monthly rental payment of \$1,227; however, the lease stipulated incremental lease payments ranging from \$1,665 to \$1,980 per month.

As of September 30, 2016, various parties are claiming past rental for a previous Post office site on Ebeye. The claim is for \$212,356, and is pending conclusion of lease negotiations between the Authority and the landowners. In the event that the Authority is unable to reach an agreement with the landowners, either the Authority or RepMar may be liable for additional rental payments.

No provision for any liability that may result upon resolution of these matters 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, 2016

| | <u>Uluga</u> | <u>Delap</u> | <u>Airport</u> | <u>Ebeye</u> | <u>Total</u> |
|---|--------------------|------------------|------------------|--------------------|--------------------|
| Operating revenues: | | | | | |
| Stamp sales | \$ 264,103 | 55,193 | \$ 55,878 | \$ 44,389 | \$ 419,563 |
| Postal box rentals | 61,774 | 5,412 | 3,036 | 19,395 | 89,617 |
| Royalty | 50,000 | - | - | - | 50,000 |
| Other | 9,643 | 94 | 1,401 | 1,098 | 12,236 |
| Total operating revenues | <u>385,520</u> | <u>60,699</u> | <u>60,315</u> | <u>64,882</u> | <u>571,416</u> |
| Less provision for uncollectible accounts | <u>(27,983)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(27,983)</u> |
| | <u>357,537</u> | <u>60,699</u> | <u>60,315</u> | <u>64,882</u> | <u>543,433</u> |
| Operating expenses: | | | | | |
| Salaries, wages and employee benefits | 286,718 | 16,556 | - | 65,155 | 368,429 |
| Building lease rental | 23,234 | 9,600 | 4,428 | 12,333 | 49,595 |
| Depreciation | 22,349 | - | - | 1,596 | 23,945 |
| Utilities | 17,092 | - | - | 6,220 | 23,312 |
| Communications | 13,294 | - | - | 5,838 | 19,132 |
| Training | 9,786 | - | - | 4,175 | 13,961 |
| Domestic freight | 12,152 | - | - | 213 | 12,365 |
| Supplies and materials | 8,432 | - | - | 3,219 | 11,651 |
| Repairs and maintenance | 10,105 | - | - | 711 | 10,816 |
| Insurance | 8,614 | - | - | - | 8,614 |
| Travel | 1,744 | - | - | - | 1,744 |
| Miscellaneous | 35,245 | 267 | 400 | 6,348 | 42,260 |
| Total operating expenses | <u>448,765</u> | <u>26,423</u> | <u>4,828</u> | <u>105,808</u> | <u>585,824</u> |
| Operating income (loss) | \$ <u>(91,228)</u> | \$ <u>34,276</u> | \$ <u>55,487</u> | \$ <u>(40,926)</u> | \$ <u>(42,391)</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, 2016, 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 14, 2016.

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

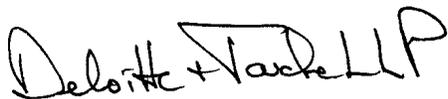
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2016-001.

The Authority's Response to Findings

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

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 + Tatchell LLP". The signature is written in a cursive, stylized font.

December 14, 2016

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Schedule of Findings and Responses
Year Ended September 30, 2016

Finding No. 2016-001

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 – a contract may be awarded for supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$100,257 in non-payroll expenditures, fifteen items totaling \$37,126 were tested. For the following items, supporting documentation was inadequate to evidence the procurement process:

| <u>Check #</u> | <u>Date</u> | <u>Description</u> | <u>Amount</u> |
|----------------|-------------|------------------------|---------------|
| 2591 | 11/26/15 | Contractual services | \$ 5,600 |
| 2637 | 01/02/16 | Others | \$ 1,000 |
| 2646 | 01/12/16 | Materials and supplies | \$ 951 |
| 2677 | 01/29/16 | Repairs | \$ 1,703 |
| 2709 | 03/22/16 | Repairs | \$ 2,000 |
| 2788 | 08/08/16 | Materials and supplies | \$ 797 |
| 2824 | 09/16/16 | Others | \$ 3,748 |

Check #s 2591 and 2824 related to goods and services procured by the Authority from a related party whose owner is a member of the Authority's Board of Directors.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to support compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures to comply with RepMar's Procurement Code.

Auditee Response and Corrective Action Plan: MIPSAs management will comply with section 124, 127 and 128 of the RepMar's Procurement Code.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2016

There were no unresolved prior year audit findings.