

**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, 2019 AND 2018

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

Years Ended September 30, 2019 and 2018
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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, 2019 and 2018, 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, 2019 and 2018, 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

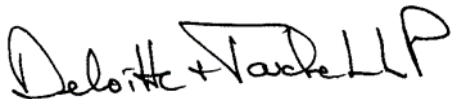
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting 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 April 23, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's 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.



April 23, 2020

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

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, 2019. 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 was 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 \$811,068 (net position) increasing by \$49,203 from \$761,865 prior year.

As of the close of business on September 30, 2019, the Authority earned \$554,808 in revenues. Most of these were derived from revenues generated from stamp sales and postal box rentals, which account for 75% and 17% (or 92%) 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 \$709,051. These expenses were funded, in part, by the operating revenues generated by the Authority with the remainder funded by an operating subsidy received from RepMar.

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) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements 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 Statement 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, 2019 and 2018

The Statements 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 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 to 18.

The Authority has also presented as additional information to the basic financial statements, on page 19, a Combining Schedule of Operating Income (Loss) by Station for the year ended September 30, 2019.

Financial Analysis

Net Position

Net position may serve over time as a useful indicator of a governmental entity's financial position. The summary Statements of Net Position below was prepared to give insight on the Authority's resources, liabilities, and net position. At the close of business on September 30, 2019, the Authority's assets exceeded its liabilities by \$811,068, which is comprised of unrestricted net position of \$718,355 and net investment in capital assets of \$92,713. Accordingly, this means that there are unrestricted assets available to be used to finance the day-to-day operations of the Authority.

Summary Statements of Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Current and other assets	\$ 817,495	\$ 771,627	\$ 823,261
Capital and other assets	<u>92,713</u>	<u>87,122</u>	<u>76,014</u>
Total assets	\$ <u>910,208</u>	\$ <u>858,749</u>	\$ <u>899,275</u>
Liabilities:			
Current liabilities and other liabilities	\$ <u>99,140</u>	\$ <u>96,884</u>	\$ <u>233,142</u>
Net Position:			
Net investment in capital assets	92,713	87,122	76,014
Unrestricted	<u>718,355</u>	<u>674,743</u>	<u>590,119</u>
Total net position	<u>811,068</u>	<u>761,865</u>	<u>666,133</u>
	\$ <u>910,208</u>	\$ <u>858,749</u>	\$ <u>899,275</u>

Changes in Net Position

Current year activities resulted in a positive net position of the Authority of \$49,203. The summary Statements of Revenues, Expenses, and Changes in Net Position below was prepared to show the net position calculation for the year.

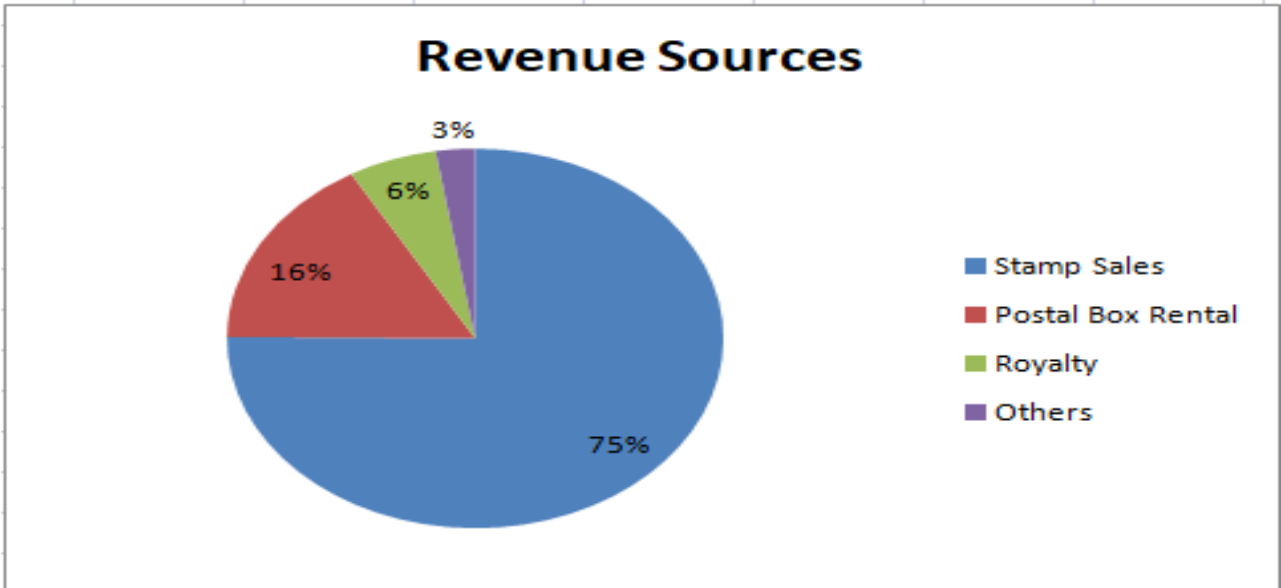
MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis
 Years Ended September 30, 2019 and 2018

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 520,174	\$ 598,694	\$ 606,653
Operating expenses	<u>709,051</u>	<u>680,530</u>	<u>636,090</u>
Operating loss	(188,877)	(81,836)	(29,437)
Non-operating revenue	<u>238,080</u>	<u>177,568</u>	<u>314,365</u>
Changes in net position	49,203	95,732	284,928
Net position - beginning	<u>761,865</u>	<u>666,133</u>	<u>381,205</u>
Net position - ending	\$ <u>811,068</u>	\$ <u>761,865</u>	\$ <u>666,133</u>

The Authority's revenues reported at the end of the year amounted to \$554,808. Approximately 92% or \$508,597 of the Authority's revenue generated during the year comes from stamp sales and postal box rental fees, which accounts for 75% and 17%, respectively, of the total of \$554,808 earned during the year. The chart below was prepared to describe the composition of the Authority's revenue sources for 2019.



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 decreased by 6% FY2017 to FY2018 and decreased by 7% from FY2018 to FY2019. Compared to FY2018, the total operating revenue for FY2019 decreased by 8% due to the termination of the mail services provided between Majuro and Ebeye. However, the Authority received funding from the National Government, classified as "non-operating revenue", amounted to \$238,080 that increased the net position to \$811,068 from \$761,865 in the previous year.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

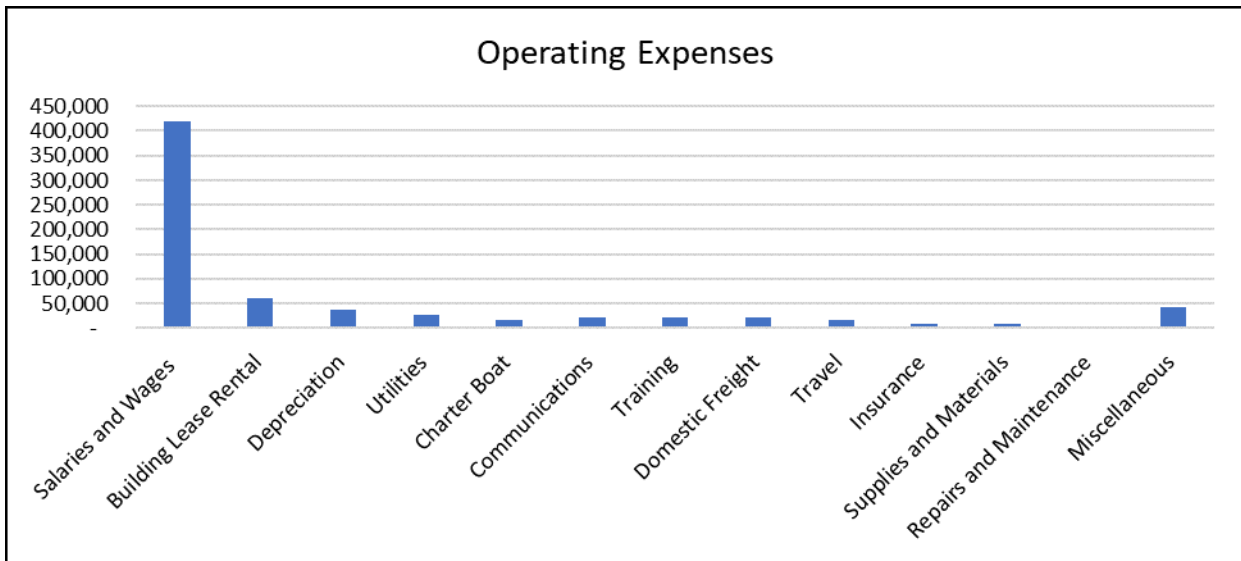
Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Stamp Sales	\$ 416,787	\$ 447,662	\$ 476,151
Postal Box Rental	91,810	101,490	94,818
Royalty	32,000	41,006	50,000
Other	<u>14,211</u>	<u>15,140</u>	<u>11,156</u>
	\$ <u>554,808</u>	\$ <u>605,298</u>	\$ <u>632,125</u>

Expense Distribution

Total costs incurred as of the close of business on September 30, 2019 were \$709,051. Of this amount, the Authority incurred \$418,581 and \$59,900, respectively, for salaries for employees and building rental. These expense line items account for 67% of the total expense of \$709,051 incurred during the year.

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



Capital Assets and Debt

During the year, the Authority purchased various equipment and other fixed assets at a cost of approximately \$43,721. For additional information concerning capital assets, please refer to Note 4 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

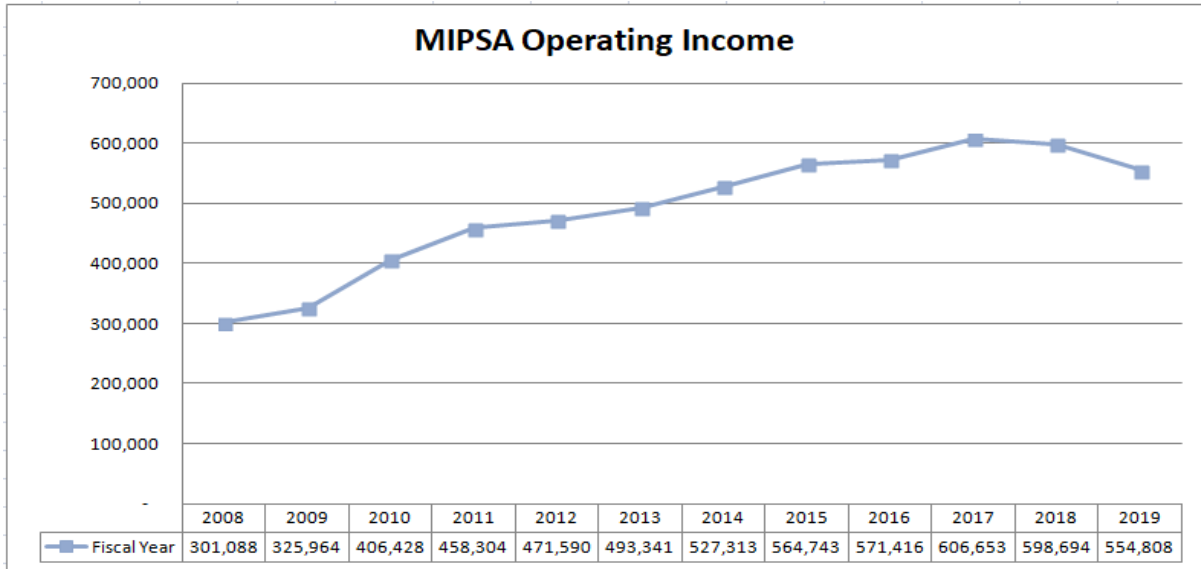
Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

ECONOMIC OUTLOOK

The Authority plays an important role to provide the excellent services to the people who are either sending or receiving their mail.

With commitment and strive for excellence, the Authority continues to improve its customer service with added new post office substations at the rural areas such as Wotje, and Jaluit amongst other initiatives.

Compared to previous years, revenue collections have 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, the Authority continues to contribute and assist the economic development of the Marshall Islands.

Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in the Authority's report on the audit of financial statements, which is dated December 6, 2018. That Management's Discussion and Analysis explain the major factors impacting 2018 financial statements and can be obtained from the Authority's Postmaster General via the contact information below or by visiting the website of the RMI Office of the Auditor General at www.rmioag.com.

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, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash	\$ 758,135	\$ 734,892
Receivables:		
Postal box rental	95,605	81,619
Royalties	36,821	16,083
	<u>132,426</u>	<u>97,702</u>
Less allowance for doubtful accounts	(95,605)	(81,619)
	<u>36,821</u>	<u>16,083</u>
Inventory	19,288	15,226
Prepaid expenses	3,251	5,426
Total current assets	<u>817,495</u>	<u>771,627</u>
Capital assets, net	<u>92,713</u>	<u>87,122</u>
	<u>\$ 910,208</u>	<u>\$ 858,749</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	\$ 6,360	\$ 10,039
Payable to affiliates	31,448	27,655
Accrued payroll	16,914	17,321
Accrued annual leave payable	7,736	8,471
Unearned income	24,061	19,578
Total current liabilities	<u>86,519</u>	<u>83,064</u>
Accrued annual leave payable, net of current portion	<u>12,621</u>	<u>13,820</u>
Total liabilities	<u>99,140</u>	<u>96,884</u>
Commitments and contingency		
Net position:		
Net investment in capital assets	92,713	87,122
Unrestricted	718,355	674,743
Total net position	<u>811,068</u>	<u>761,865</u>
	<u>\$ 910,208</u>	<u>\$ 858,749</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Stamp sales	\$ 416,787	\$ 447,662
Postal box rentals	91,810	101,490
Royalty	32,000	41,006
Other	14,211	15,140
	<u>554,808</u>	<u>605,298</u>
Total operating revenues		
Less provision for uncollectible accounts	<u>(34,634)</u>	<u>(6,604)</u>
	<u>520,174</u>	<u>598,694</u>
Operating expenses:		
Salaries, wages and employee benefits	418,581	394,684
Building lease rental	59,900	52,484
Depreciation	38,130	40,640
Utilities	28,109	28,288
Domestic freight	22,625	18,977
Communications	22,387	21,416
Training	21,241	20,810
Travel	17,283	13,763
Charter boat	16,666	21,458
Contractual services	12,875	7,619
Supplies and materials	9,562	12,050
Insurance	8,698	12,468
Petroleum, oil and lubricants	5,482	6,009
Board sitting fees	5,419	5,250
Repairs and maintenance	3,451	1,492
Miscellaneous	18,642	23,122
	<u>709,051</u>	<u>680,530</u>
Total operating expenses		
Operating loss	<u>(188,877)</u>	<u>(81,836)</u>
Nonoperating income:		
Contributions from RepMar	<u>238,080</u>	<u>177,568</u>
Change in net position	49,203	95,732
Net position at beginning of year	<u>761,865</u>	<u>666,133</u>
Net position at end of year	<u>\$ 811,068</u>	<u>\$ 761,865</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Cash received from customers	\$ 503,919	\$ 634,102
Cash payments to suppliers for goods and services	(257,906)	(369,848)
Cash payments to employees for services	<u>(417,129)</u>	<u>(395,405)</u>
Net cash used for operating activities	<u>(171,116)</u>	<u>(131,151)</u>
Cash flows from noncapital financing activities:		
Contributions from RepMar	<u>238,080</u>	<u>177,568</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(43,721)</u>	<u>(51,748)</u>
Net change in cash	23,243	(5,331)
Cash at beginning of year	<u>734,892</u>	<u>740,223</u>
Cash at end of year	<u>\$ 758,135</u>	<u>\$ 734,892</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (188,877)	\$ (81,836)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	38,130	40,640
Provision for uncollectible accounts	34,634	6,604
(Increase) decrease in assets:		
Receivables	(55,372)	31,425
Inventory	(4,062)	3,314
Prepaid expenses	2,175	4,960
Increase (decrease) in liabilities:		
Accounts payable	(3,679)	4,957
Lease rental payable	-	(143,431)
Payable to affiliates	3,793	5,076
Accrued payroll	(407)	(7,017)
Accrued annual leave payable	(1,934)	6,778
Unearned income	<u>4,483</u>	<u>(2,621)</u>
Net cash used for operating activities	<u>\$ (171,116)</u>	<u>\$ (131,151)</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(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 six service outlets - the Uliga, Delap and Airport postal stations located on Majuro Atoll, the Ebeye postal station located on Kwajalein Atoll, the Jabor postal station located on Jaluit Atoll and the Wotje postal station located on Wotje 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*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, 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, 2019 and 2018.
- 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 accordance 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, 2019 and 2018

(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, 2019 and 2018, the carrying amount of cash was \$758,135 and \$734,892, respectively, and the corresponding bank balances were \$787,771 and \$745,073, respectively. Of the bank balance amounts, \$197,412 and \$126,437, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$590,359 and \$618,636, 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 \$500 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	4 years
Other furniture and equipment	3 years

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

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.

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 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, 2019 and 2018, the accumulated vacation leave liability totals \$20,357 and \$22,291, 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 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.

New Accounting Standards

During the year ended September 30, 2019, the Authority implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on the Authority's financial statements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Royalties Receivable

On January 1, 2018, the Authority entered into a two-year stamp and philatelic center agreement with Inter-Governmental Philatelic Corporation (IGPC) to assist the Authority in the design, production, sale and distribution of new postage stamps throughout the world. In return, the Authority would be the recipient of royalties as calculated in accordance with the agreement. The agreement is automatically renewable unless otherwise notified in writing by either party three months prior to the expiration date. It guaranteed a minimum annual royalty payment of \$32,000. As of September 30, 2019 and 2018, royalty's receivable of \$36,821 and \$16,083, respectively, were due from IGPC.

For the years ended September 30, 2019 and 2018, the Authority recognized \$32,000 and \$41,006, respectively, in royalty revenues in accordance with royalty agreements.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(4) Fixed Assets

Capital asset activity for the years ended September 30, 2019 and 2018 is as follows:

	October 1, <u>2018</u>	<u>Additions</u>	<u>Disposals</u>	September 30, <u>2019</u>
Motor vehicles	\$ 210,470	\$ 24,300	\$ -	\$ 234,770
Office furniture and equipment	<u>95,524</u>	<u>19,421</u>	<u>-</u>	<u>114,945</u>
	305,994	43,721	-	349,715
Less accumulated depreciation	<u>(218,872)</u>	<u>(38,130)</u>	<u>-</u>	<u>(257,002)</u>
	\$ <u>87,122</u>	\$ <u>5,591</u>	\$ <u>-</u>	\$ <u>92,713</u>
	October 1, <u>2017</u>	<u>Additions</u>	<u>Disposals</u>	September 30, <u>2018</u>
Motor vehicles	\$ 171,970	\$ 38,500	\$ -	\$ 210,470
Office furniture and equipment	<u>82,276</u>	<u>13,248</u>	<u>-</u>	<u>95,524</u>
	254,246	51,748	-	305,994
Less accumulated depreciation	<u>(178,232)</u>	<u>(40,640)</u>	<u>-</u>	<u>(218,872)</u>
	\$ <u>76,014</u>	\$ <u>11,108</u>	\$ <u>-</u>	\$ <u>87,122</u>

(5) 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, 2019 and 2018, 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>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2019	Due Within <u>One Year</u>
Compensated absences	\$ <u>22,291</u>	\$ <u>28,769</u>	\$ <u>(30,703)</u>	\$ <u>20,357</u>	\$ <u>7,736</u>
	Balance October 1, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2018	Due Within <u>One Year</u>
Compensated absences	\$ <u>15,513</u>	\$ <u>25,799</u>	\$ <u>(19,021)</u>	\$ <u>22,291</u>	\$ <u>8,471</u>

(6) 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.

During the years ended September 30, 2019 and 2018, the operations of the Authority were funded by appropriations of \$238,080 and \$177,568, respectively, from the Nitijela of RepMar.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(6) Related Party Transactions, Continued

A summary of related party transactions as of and for the years ended September 30, 2019 and 2018 is as follows:

	2019	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 42,049	\$ 22,336
Marshall Islands National Telecommunications Authority	22,387	3,321
Air Marshall Islands, Inc.	22,625	3,076
RMI Ports Authority	3,000	-
Marshall Islands Development Bank	9,000	-
Marshalls Energy Company, Inc.	2,400	-
RepMar	-	2,715
	<u>\$ 101,461</u>	<u>\$ 31,448</u>
	2018	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 39,526	\$ 20,018
Marshall Islands National Telecommunications Authority	21,416	-
Air Marshall Islands, Inc.	18,977	3,309
RMI Ports Authority	3,000	-
Marshall Islands Development Bank	2,250	2,250
Marshalls Energy Company, Inc.	2,400	-
RepMar	-	2,078
	<u>\$ 87,569</u>	<u>\$ 27,655</u>

(7) 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.

(8) Commitments and Contingencies

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, and which expired on September 11, 2011. The lease terms required rental payments of \$1,000 per month. The Authority entered into a new lease agreement, which commenced on December 20, 2014 and expired on December 20, 2015. As of September 2019, no lease agreement renewal has occurred. On March 19, 2020, the Authority entered into a five-year lease for the Ebeye Post Office, commencing March 1, 2020. During the years ended September 30, 2019 and 2018, related rent expense was \$12,000 per year.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(8) Commitments and Contingencies, Continued

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 Authority exercised the option to renew for an additional five-year period, which expired on December 31, 2018. The lease terms required rental payments of \$800 per month. On January 1, 2019, the Authority entered into a new five-year lease, which commenced on January 1, 2019 and expires on December 31, 2023. During the years ended September 30, 2019 and 2018, related rent expense was \$9,600 per year.

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 Authority exercised the option to renew the lease agreement for 2 years, which commenced on October 1, 2018 and expires on September 30, 2020. The lease terms require rental payments of \$1,936 per month. During the years ended September 30, 2019 and 2018, related rent expense was \$23,234 per year.

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, 2017 and expired on January 21, 2019. The lease terms require rental payments of \$250 per month. On March 7, 2019, the Authority entered into a new lease agreement, which commenced on February 1, 2019 and expires on January 31, 2021. During the years ended September 30, 2019 and 2018, related rent expense was \$3,000 per year.

On April 1, 2017, the Authority entered into a ten-year lease agreement for the Jaluit Post Office, with an option to extend for an additional term of five years subject to renegotiation of the payment provisions. The lease commenced on April 1, 2017 and expires on March 31, 2027. The lease terms require rental payments of \$200 per month. During the years ended September 30, 2019 and 2018, related rent expense was \$2,400 per year.

On June 6, 2018, the Authority entered into a five-year lease agreement for the Wotje Post Office, with an option to extend for an additional term of five years subject to renegotiation of the payment provisions. The lease commenced on June 8, 2018 and expires on June 7, 2023. The lease terms require rental payments of \$750 per month. During the years ended September 30, 2019 and 2018, related rent expense was \$9,000 and \$2,250, respectively.

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

<u>Year ending</u> <u>September 30,</u>	
2020	\$ 54,234
2021	34,000
2022	33,000
2023	30,000
2024	16,800
2025 - 2028	<u>11,000</u>
	\$ <u>179,034</u>

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements
September 30, 2019 and 2018

(8) Commitments and Contingencies, Continued

Contingencies

During the years ended September 30, 2019 and 2018, the Authority incurred losses from operations of \$188,877 and \$81,836, respectively. For the years ended September 30, 2019 and 2018, the Authority received operational subsidies of \$238,080 and \$177,568, respectively, from the Nitijela of RepMar. Although RepMar has provided funding in the past, the Authority does not have a formal agreement with RepMar to provide future funding. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on the Authority's programs and activities. For the year ended September 30, 2020, RepMar appropriated \$240,000 to fund the Authority's operations.

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Combining Schedule of Operating Income (Loss) By Station
Year Ended September 30, 2019

	<u>Uliga</u>	<u>Delap</u>	<u>Ebeye</u>	<u>Airport</u>	<u>Jabor</u>	<u>Wotje</u>	<u>Total</u>
Operating revenues:							
Stamp sales	\$ 277,003	\$ 66,308	\$ 30,612	\$ 37,509	\$ 2,688	\$ 2,667	\$ 416,787
Postal box rentals	58,503	5,772	21,102	2,864	2,481	1,088	91,810
Royalty	32,000	-	-	-	-	-	32,000
Other	<u>11,727</u>	<u>108</u>	<u>1,890</u>	<u>96</u>	<u>160</u>	<u>230</u>	<u>14,211</u>
Total operating revenues	379,233	72,188	53,604	40,469	5,329	3,985	554,808
Less provision for uncollectible accounts	<u>(34,634)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,634)</u>
	<u>344,599</u>	<u>72,188</u>	<u>53,604</u>	<u>40,469</u>	<u>5,329</u>	<u>3,985</u>	<u>520,174</u>
Operating expenses:							
Salaries, wages and employee benefits	340,371	1,158	53,923	-	12,356	10,773	418,581
Building lease rental	23,234	9,600	12,000	3,000	2,166	9,900	59,900
Depreciation	32,441	-	1,105	-	2,254	2,330	38,130
Utilities	22,729	-	5,020	360	-	-	28,109
Domestic freight	19,262	-	595	-	1,522	1,246	22,625
Communications	16,851	-	5,536	-	-	-	22,387
Training	18,235	-	3,006	-	-	-	21,241
Travel	14,793	-	2,490	-	-	-	17,283
Charter boat	-	-	16,666	-	-	-	16,666
Contractual services	12,875	-	-	-	-	-	12,875
Supplies and materials	8,181	-	1,381	-	-	-	9,562
Insurance	8,698	-	-	-	-	-	8,698
Petroleum, oil and lubricants	5,482	-	-	-	-	-	5,482
Board sitting fees	5,419	-	-	-	-	-	5,419
Repairs and maintenance	3,451	-	-	-	-	-	3,451
Miscellaneous	<u>14,190</u>	<u>323</u>	<u>3,544</u>	<u>185</u>	<u>200</u>	<u>200</u>	<u>18,642</u>
Total operating expenses	<u>546,212</u>	<u>11,081</u>	<u>105,266</u>	<u>3,545</u>	<u>18,498</u>	<u>24,449</u>	<u>709,051</u>
Operating income (loss)	<u>\$ (201,613)</u>	<u>\$ 61,107</u>	<u>\$ (51,662)</u>	<u>\$ 36,924</u>	<u>\$ (13,169)</u>	<u>\$ (20,464)</u>	<u>\$ (188,877)</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, 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2020.

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.

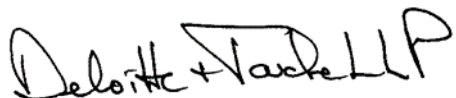
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in 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 + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

April 23, 2020

MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2019

There were no unresolved prior year audit findings.