

**MARSHALL ISLANDS POSTAL  
SERVICE AUTHORITY**

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

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

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**YEARS ENDED SEPTEMBER 30, 2017 AND 2016  
(AS RESTATED)**

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

Years Ended September 30, 2017 and 2016  
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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, 2017 and 2016, 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, 2017 and 2016, 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.

## **Emphasis-of-Matters**

### *Royalties Receivable*

As discussed in Note 3 to the financial statements, the Authority is currently negotiating with a contractor to determine the ultimate collectibility of royalties receivable. Our opinion is not modified with respect to this matter.

### *Restatement*

As discussed in Note 10 to the financial statements, the 2016 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

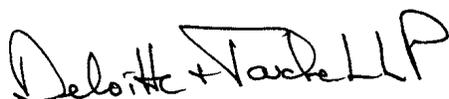
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting 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 11, 2017 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 11, 2017

## MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

### Management's Discussion and Analysis Years Ended September 30, 2017 and 2016

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, 2017. 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.

#### FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at the close of business for the year by \$666,133 (net position) increasing by \$284,928 from \$381,205, as restated, in the prior year.
- Management determined that prior year postal box rental receivables, net were understated by \$47,735. Accordingly, beginning net position has been restated for this error. Refer to Note 10 for additional information on the restatement.
- As of the close of business on September 30, 2017, the Authority recorded \$632,125 in revenues. Most of these derived from revenues generated from stamp sales and postal box rentals, which account for 75% and 15%, respectively, (or 90%) of total revenue recorded 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 \$636,090. 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.

## MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis  
Years Ended September 30, 2017 and 2016

**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.

**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 page 10.

**The Notes to the Financial Statements** provide additional information that are essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found commencing on page 11.

### Financial Analysis

#### **Net Position**

Net position may serve over time as a useful indicator of a governmental entity's financial position. The summary Statements of Net Position below were prepared to give insight on the Authority's resources, liabilities, and net position. At the close of business on September 30, 2017, the Authority's assets exceeded its liabilities by \$666,133, which is comprised of unrestricted net position of \$590,119 and net investment in capital assets of \$76,014. Accordingly, this means that there are unrestricted assets available to be used to finance the day-to-day operation of the Authority.

#### Summary Statements of Net Position

	<u>2017</u>	<u>2016</u> <u>(As Restated)</u>	<u>2015</u> <u>(As Restated)</u>
Assets:			
Current and other assets	\$ 823,261	\$ 551,012	\$ 502,510
Capital assets	<u>76,014</u>	<u>65,332</u>	<u>49,763</u>
Total assets	\$ <u>899,275</u>	\$ <u>616,344</u>	\$ <u>552,273</u>
Liabilities:			
Current and other liabilities	\$ <u>233,142</u>	\$ <u>235,139</u>	\$ <u>233,938</u>
Net Position:			
Net investment in capital assets	76,014	65,332	49,763
Unrestricted	<u>590,119</u>	<u>315,873</u>	<u>268,572</u>
Total net position	<u>666,133</u>	<u>381,205</u>	<u>318,335</u>
	\$ <u>899,275</u>	\$ <u>616,344</u>	\$ <u>552,273</u>

**MARSHALL ISLANDS POSTAL SERVICE AUTHORITY**

Management’s Discussion and Analysis  
Years Ended September 30, 2017 and 2016

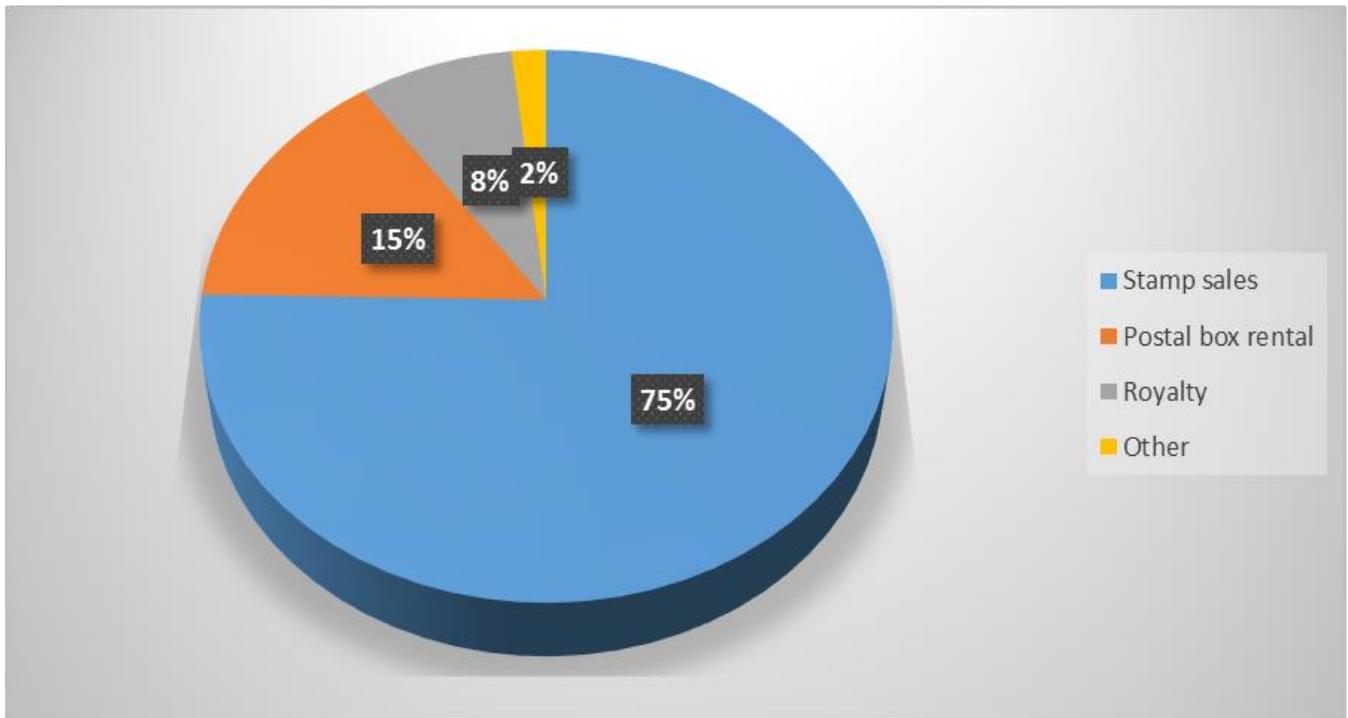
**Changes in Net Position**

Current year activities resulted in a positive net position of the Authority of \$284,928. The summary Statement of Revenues, Expenses, and Changes in Net Position below were prepared to show the net position calculation for the year.

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

	<u>2017</u>	2016 (As Restated)	2015 (As Restated)
Operating revenues	\$ 606,653	\$ 543,433	\$ 546,795
Operating expenses	<u>636,090</u>	<u>585,824</u>	<u>532,027</u>
Operating income (loss)	(29,437)	(42,391)	14,768
Non-operating revenues	<u>314,365</u>	<u>105,261</u>	<u>107,841</u>
Changes in net position	284,928	62,870	122,609
Net position – beginning	<u>381,205</u>	<u>318,335</u>	<u>195,726</u>
Net position – ending	\$ <u>666,133</u>	\$ <u>381,205</u>	\$ <u>318,335</u>

The Authority's revenues reported at the end of the year amounted to \$606,653. Approximately 90% or \$570,969 of the Authority's revenue generated during the year comes from stamp sales and postal box rental fees, which accounts for 75% and 15%, respectively, of the total of \$632,125 earned during the year. The chart below was prepared to describe the composition of the Authority's revenue sources for 2017.



## MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis  
Years Ended September 30, 2017 and 2016

### Revenue Sources

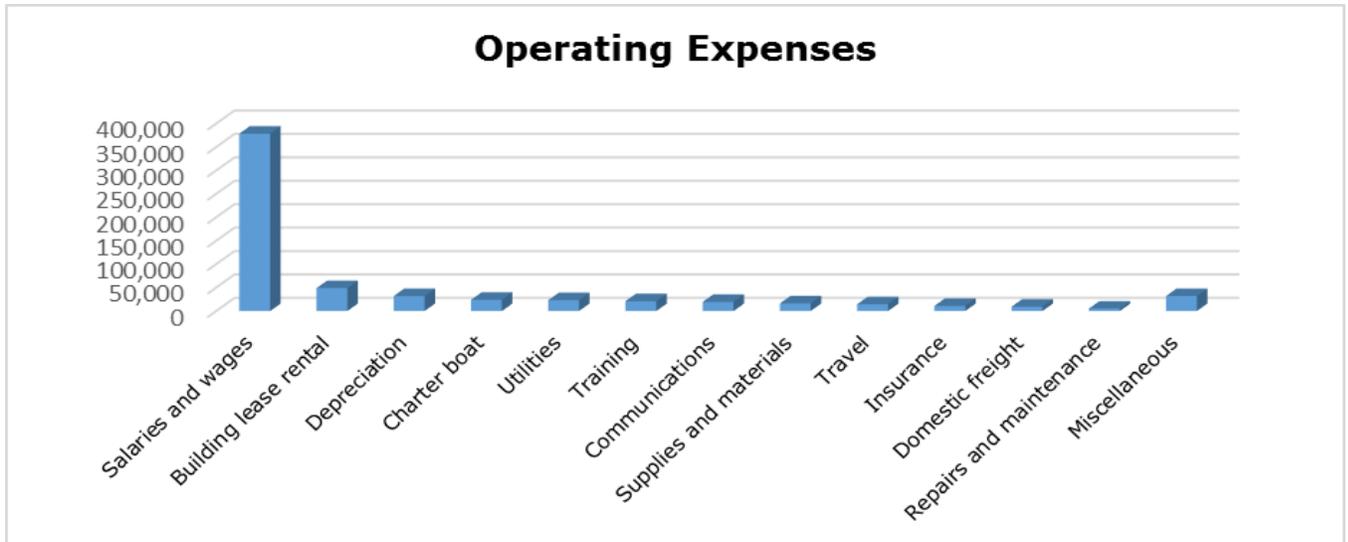
The major source of revenue of the Authority is the sale of stamps for domestic and international mail. As indicated below, stamp sales have increased by 1% from FY2015 to FY2016 and 13% from FY2016 to FY2017. The primary reason for this increase is the return of the domestic status in November 2007 by the United States Postal Service, the addition of 770 new PO boxes for both Uliga and Airport Stations, 100 new PO boxes at Jabor Jaluit Post Office, and the excellent services provided.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Stamp sales	\$ 476,151	\$ 419,563	\$ 418,020
Postal box rental	94,818	89,617	88,863
Royalty	50,000	50,000	50,005
Others	<u>11,156</u>	<u>12,236</u>	<u>7,855</u>
	<u>\$ 632,125</u>	<u>\$ 571,416</u>	<u>\$ 564,743</u>

### Expense Distribution

Total costs incurred as of the close of business on September 30, 2017 were \$636,090. Of this amount, the Authority incurred \$378,626 and \$49,034, respectively, for salaries for employees and building rental. These expense line items account for 67% of the total expenses of \$636,090 incurred during the year.

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



### **Capital Assets and Debt**

During the year, the Authority purchased various equipment and other capital assets at a cost of approximately \$42,563. 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 or have any outstanding debt at the end of the fiscal year.

## MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Management's Discussion and Analysis  
Years Ended September 30, 2017 and 2016

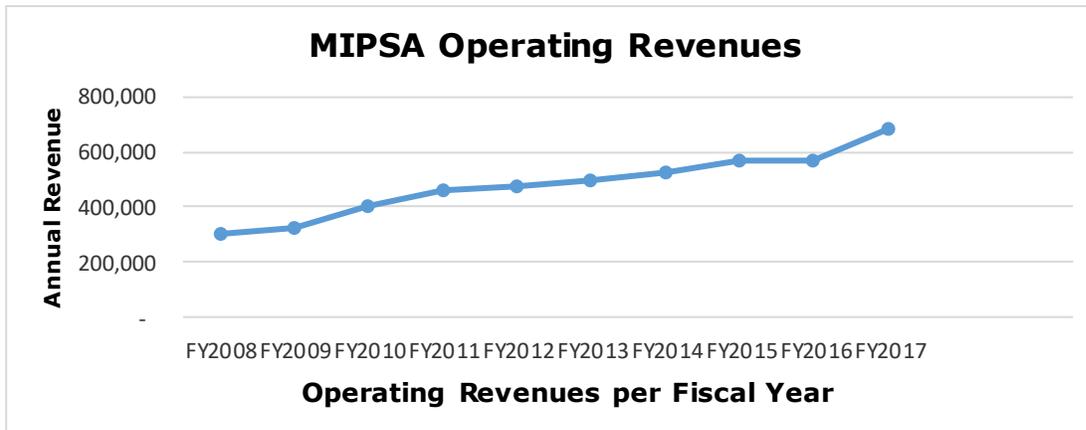
### ECONOMIC OUTLOOK

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

With commitment and striving for excellence, MIPSAs continues to improve its customer services with added new post office substations at the Amata International Airport and Jabor Jaluit Atoll amongst other initiatives.

Compared to previous years, revenue collections have increased significantly.

Operating Revenues	Unaudited FY2008	Audited FY2009	Audited FY2010	Audited FY2011	Audited FY2012	Audited FY2013	Audited FY2014	Audited FY2015	Audited FY2016	Audited FY2017
Stamp Sales	\$ 180,245	\$ 211,869	\$ 242,442	\$ 282,936	\$ 294,575	\$ 345,928	\$ 368,786	\$ 418,020	\$ 419,563	\$ 476,151
Postal Box Rentals	73,748	56,602	75,234	65,820	81,442	67,224	86,204	88,863	89,617	94,818
Postage Meters	33,539	46,750	47,015	39,420	25,660	-	-	-	-	-
Royalty	-	-	26,888	53,246	59,895	60,872	61,222	50,005	50,000	50,000
Others	15,556	10,743	14,899	16,882	10,018	19,317	11,101	7,855	12,236	11,156
	\$ 303,088	\$ 325,964	\$ 406,428	\$ 458,304	\$ 471,590	\$ 493,341	\$ 527,313	\$ 564,743	\$ 571,416	\$ 632,125



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.

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in MIPSAs report on the audit of financial statements, which is dated December 14, 2016. That Management's Discussion and Analysis explains the major factors impacting 2016 financial statements and can be obtained from MIPSAs Administrator via the contact information below.

### 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, 2017 and 2016

ASSETS	2017	2016 (As Restated)
Current assets:		
Cash	\$ 740,223	\$ 398,512
Receivables:		
Postal box rental	97,620	128,751
Royalties	56,359	22,209
Due from RepMar	-	26,313
Other	-	13,379
	153,979	190,652
Less allowance for doubtful accounts	(99,867)	(63,905)
	54,112	126,747
Inventory	18,540	15,099
Prepaid expenses	10,386	10,654
Total current assets	823,261	551,012
Capital assets, net	76,014	65,332
	\$ 899,275	\$ 616,344
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Accounts payable	\$ 5,082	\$ 2,323
Lease rental payable	143,431	143,431
Payable to affiliates	22,579	19,864
Accrued payroll and bonuses	24,338	26,768
Accrued annual leave payable	5,895	7,547
Unearned income	22,199	22,892
Total current liabilities	223,524	222,825
Accrued annual leave payable, net of current portion	9,618	12,314
Total liabilities	233,142	235,139
Commitments and contingency		
Net position:		
Net investment in capital assets	76,014	65,332
Unrestricted	590,119	315,873
Total net position	666,133	381,205
	\$ 899,275	\$ 616,344

See accompanying notes to financial statements.

**MARSHALL ISLANDS POSTAL SERVICE AUTHORITY**

Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Stamp sales	\$ 476,151	\$ 419,563
Postal box rentals	94,818	89,617
Royalty	50,000	50,000
Other	<u>11,156</u>	<u>12,236</u>
Total operating revenues	632,125	571,416
Less provision for uncollectible accounts	<u>(25,472)</u>	<u>(27,983)</u>
	<u>606,653</u>	<u>543,433</u>
Operating expenses:		
Salaries, wages and employee benefits	378,626	368,429
Building lease rental	49,034	49,595
Depreciation	31,881	23,945
Charter boat	23,986	-
Utilities	23,180	23,312
Training	21,123	13,961
Communications	19,581	19,132
Supplies and materials	16,359	11,651
Travel	14,616	1,744
Insurance	11,010	8,614
Domestic freight	9,377	12,365
Repairs and maintenance	5,310	10,816
Miscellaneous	<u>32,007</u>	<u>42,260</u>
Total operating expenses	<u>636,090</u>	<u>585,824</u>
Operating loss	<u>(29,437)</u>	<u>(42,391)</u>
Nonoperating income:		
Contributions from RepMar	<u>314,365</u>	<u>105,261</u>
Change in net position	<u>284,928</u>	<u>62,870</u>
Net position at beginning of year, as previously reported	381,205	270,600
Prior period adjustment (Note 10)	<u>-</u>	<u>47,735</u>
Net position at beginning of year, as restated	<u>381,205</u>	<u>318,335</u>
Net position at end of year	<u>\$ 666,133</u>	<u>\$ 381,205</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS POSTAL SERVICE AUTHORITY**

Statements of Cash Flows  
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from customers	\$ 652,282	\$ 545,229
Cash payments to suppliers for goods and services	(225,997)	(190,511)
Cash payments to employees for services	(382,689)	(361,047)
Net cash provided by (used for) operating activities	<u>43,596</u>	<u>(6,329)</u>
Cash flows from noncapital financing activity:		
Contributions from RepMar	<u>340,678</u>	<u>105,261</u>
Cash flows from capital and related financing activity:		
Acquisition of capital assets	<u>(42,563)</u>	<u>(19,514)</u>
Net change in cash	341,711	79,418
Cash at beginning of year	<u>398,512</u>	<u>319,094</u>
Cash at end of year	\$ <u>740,223</u>	\$ <u>398,512</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (29,437)	\$ (42,391)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation	31,881	23,945
Provision for uncollectible accounts	25,472	27,983
(Increase) decrease in assets:		
Receivables	20,850	(26,525)
Inventory	(3,441)	5,029
Prepaid expenses	268	4,429
Increase (decrease) in liabilities:		
Accounts payable	2,759	(6,519)
Payable to affiliates	2,715	6,573
Accrued payroll	(4,348)	5,510
Accrued annual leave payable	(2,430)	(4,701)
Unearned income	(693)	338
Net cash provided by (used for) operating activities	\$ <u>43,596</u>	\$ <u>(6,329)</u>
Summary disclosure of noncash activity:		
Capital assets	\$ -	\$ 20,000
Deposit on vehicle	-	(20,000)
	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to financial statements.

## MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements  
September 30, 2017 and 2016

### (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 five service outlets - the Uliga, Delap and Airport postal stations located on Majuro Atoll, the Ebeye postal station located on Kwajalein Atoll, and the Jabor postal station located on Jaluit 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, 2017 and 2016.
- 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, 2017 and 2016

## (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, 2017 and 2016, the carrying amount of cash was \$740,223 and \$398,512, respectively, and the corresponding bank balances were \$756,288 and \$410,772, respectively. Of the bank balance amounts, \$188,064 and \$108,559, respectively, were maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining bank deposits of \$568,224 and \$302,213, 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, 2017 and 2016

### (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 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, 2017 and 2016, the accumulated vacation leave liability totals \$15,513 and \$19,861, 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.

#### 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 2016 presentation have been reclassified to conform to the 2017 presentation.

## MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements  
September 30, 2017 and 2016

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards

During the year ended September 30, 2017, the Authority implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB 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).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB 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*.
- GASB 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.
- GASB 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 implementation of these statements did not have a material effect on the accompanying 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, 2017 and 2016

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

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 November 2016, GASB issued 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. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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 March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits. The provisions in Statement No. 85 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.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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.

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.

### (3) Royalties Receivable

On December 1, 2010, the Authority entered into a two-year stamp and philatelic center agreement with Uncover World Trade Corporation (Uncover) 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 six months prior to the expiration date. On November 6, 2014, certain modifications were made to the agreement, including the financial aspects of the agreement, whereby Uncover guaranteed a minimum annual royalty payment of \$50,000. For the years ended September 30, 2017 and 2016, the Authority recognized \$50,000 in royalty revenues in accordance with the agreement.

**MARSHALL ISLANDS POSTAL SERVICE AUTHORITY**

Notes to Financial Statements  
September 30, 2017 and 2016

(3) Royalties Receivable, Continued

As of September 30, 2017 and 2016, royalties receivable of \$56,359 and \$22,209, respectively, were due from Unicover. On July 25, 2017, Unicover terminated the stamp and philatelic center agreement with the Authority, effective December 31, 2017. The Authority is currently seeking a new contractor for stamp and philatelic services. The Authority is currently negotiating with Unicover for a final determination insofar as collection of the receivables. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

(4) Fixed Assets

Capital asset activity for the years ended September 30, 2017 and 2016 is as follows:

	October 1, 2016	Additions	Disposals	September 30, 2017
Motor vehicles	\$ 143,970	\$ 28,000	\$ -	\$ 171,970
Office furniture and equipment	<u>67,713</u>	<u>14,563</u>	<u>-</u>	<u>82,276</u>
	211,683	42,563	-	254,246
Less accumulated depreciation	<u>(146,351)</u>	<u>(31,881)</u>	<u>-</u>	<u>(178,232)</u>
	\$ <u>65,332</u>	\$ <u>10,682</u>	\$ <u>-</u>	\$ <u>76,014</u>
	October 1, 2015	Additions	Disposals	September 30, 2016
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>

(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, 2017 and 2016, 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, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Compensated absences	\$ <u>19,861</u>	\$ <u>21,048</u>	\$ <u>(25,396)</u>	\$ <u>15,513</u>	\$ <u>5,895</u>
	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>

**MARSHALL ISLANDS POSTAL SERVICE AUTHORITY**

Notes to Financial Statements  
September 30, 2017 and 2016

(6) Related Party Transactions

During the years ended September 30, 2017 and 2016, the Authority procured goods and services from a related party of \$0 and \$9,348, 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, 2017 and 2016, the operations of the Authority were funded by appropriations of \$314,365 and \$105,261, respectively, from the Nitijela of RepMar, of which \$0 and \$26,313, respectively, represent amounts due and receivable from RepMar.

A summary of related party transactions as of and for the years ended September 30, 2017 and 2016 is as follows:

	<u>2017</u>	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 36,684	\$ 18,845
Marshall Islands National Telecommunications Authority	19,581	-
Air Marshall Islands, Inc.	9,377	1,554
RMI Ports Authority	3,000	-
Marshalls Energy Company, Inc.	1,200	-
RepMar	<u>-</u>	<u>2,180</u>
	\$ <u>69,842</u>	\$ <u>22,579</u>
	<u>2016</u>	
	<u>Expenses</u>	<u>Payables</u>
Marshall Islands Social Security Administration	\$ 34,659	\$ 13,477
Marshall Islands National Telecommunications Authority	19,132	-
Air Marshall Islands, Inc.	12,365	2,988
RMI Ports Authority	4,428	-
RepMar	<u>-</u>	<u>3,399</u>
	\$ <u>70,584</u>	\$ <u>19,864</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.

## MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements  
September 30, 2017 and 2016

### (8) 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, 2017 and 2016, related rent expense was \$12,000 and \$12,333, 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, 2017 and 2016, related rent expense was \$9,600 for both years.

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, 2017 and 2016, related rent expense was \$23,234 for both years.

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, 2017 and 2016, related rent expense was \$3,000 and \$4,428, respectively.

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 terms of the lease require rental payments of \$200 per month. During the year ended September 30, 2017, related rent expense was \$1,200.

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

<u>Year ending</u> <u>September 30,</u>	
2018	\$ 50,234
2019	38,234
2020	38,234
2021	15,000
2022	15,000
2023 - 2027	75,000
2028 - 2032	63,000
2033 - 2035	<u>11,400</u>
	\$ <u>306,102</u>

## MARSHALL ISLANDS POSTAL SERVICE AUTHORITY

Notes to Financial Statements  
September 30, 2017 and 2016

### (9) 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, 2017, 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.

### (10) Restatement

Subsequent to the issuance of the Authority's 2016 financial statements, the Authority's management determined that prior year postal box rental receivables were understated by \$47,735. As a result of this determination, accounts receivables and beginning net position have been restated from the amounts previously reported as follows:

	As Previously Reported	As Restated
At September 30:		
Current assets:		
Receivables:		
Postal box rental	\$ <u>81,016</u>	\$ <u>128,751</u>
Net Position:		
Unrestricted	\$ <u>268,138</u>	\$ <u>315,873</u>
Total net position	\$ <u>333,470</u>	\$ <u>381,205</u>
For the year ended September 30:		
Net position at beginning of year	\$ <u>270,600</u>	\$ <u>318,335</u>

**MARSHALL ISLANDS POSTAL SERVICE AUTHORITY**

Combining Schedule of Operating Income (Loss) By Station  
Year Ended September 30, 2017

	<u>Uluga</u>	<u>Delap</u>	<u>Airport</u>	<u>Ebeye</u>	<u>Jabor</u>	<u>Total</u>
Operating revenues:						
Stamp sales	\$ 294,338	\$ 74,519	\$ 59,068	\$ 47,564	\$ 662	\$ 476,151
Postal box rentals	71,609	4,440	1,338	16,083	1,348	94,818
Royalty	50,000	-	-	-	-	50,000
Other	<u>8,419</u>	<u>239</u>	<u>78</u>	<u>1,634</u>	<u>786</u>	<u>11,156</u>
Total operating revenues	424,366	79,198	60,484	65,281	2,796	632,125
Less provision for uncollectible accounts	<u>(25,472)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,472)</u>
	<u>398,894</u>	<u>79,198</u>	<u>60,484</u>	<u>65,281</u>	<u>2,796</u>	<u>606,653</u>
Operating expenses:						
Salaries, wages and employee benefits	289,073	14,931	-	69,326	5,296	378,626
Building lease rental	23,234	9,600	3,000	12,000	1,200	49,034
Depreciation	29,400	-	-	1,498	983	31,881
Charter boat	-	-	-	23,986	-	23,986
Utilities	17,820	-	360	5,000	-	23,180
Training	17,684	-	-	2,764	675	21,123
Communications	13,177	-	-	6,209	195	19,581
Supplies and materials	15,036	-	-	1,018	305	16,359
Travel	14,616	-	-	-	-	14,616
Insurance	11,010	-	-	-	-	11,010
Domestic freight	7,643	-	-	1,144	590	9,377
Repairs and maintenance	5,260	-	-	-	50	5,310
Miscellaneous	<u>30,242</u>	<u>146</u>	<u>85</u>	<u>1,499</u>	<u>35</u>	<u>32,007</u>
Total operating expenses	<u>474,195</u>	<u>24,677</u>	<u>3,445</u>	<u>124,444</u>	<u>9,329</u>	<u>636,090</u>
Operating income (loss)	<u>\$ (75,301)</u>	<u>\$ 54,521</u>	<u>\$ 57,039</u>	<u>\$ (59,163)</u>	<u>\$ (6,533)</u>	<u>\$ (29,437)</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, 2017, 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 11, 2017. Our report included an emphasis-of-matters paragraph regarding a restatement for correction of an error and uncertainty over collection of royalties receivable.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

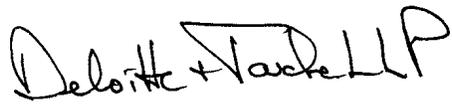
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

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

December 11, 2017

**MARSHALL ISLANDS POSTAL SERVICE AUTHORITY**

Unresolved Prior Year Findings  
Year Ended September 30, 2017

There were no unresolved prior year audit findings.