

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

**(A GOVERNMENTAL FUND OF THE
REPUBLIC OF THE MARSHALL ISLANDS)**

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

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Years Ended September 30, 2013 and 2012
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INDEPENDENT AUDITORS' REPORT

Chairman
Marshall Islands Scholarship Grant and Loan Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Scholarship Grant and Loan Board (MISGLB), a governmental fund of the Republic of the Marshall Islands, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues, expenditures, and changes in fund balance 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 Marshall Islands Scholarship Grant and Loan Board as of September 30, 2013 and 2012, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Marshall Islands Scholarship Grant and Loan Board and are not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in conformity with accounting principles generally accepted in the United States of America.

Other Matters

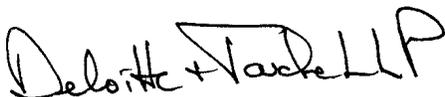
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Marshall Islands Scholarship Grant and Loan Board's basic financial statements. The combining financial statement information on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining financial statement information is the responsibility of the Marshall Islands Scholarship Grant and Loan Board's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the combining financial statement information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2014, on our consideration of the Marshall Islands Scholarship Grant and Loan Board'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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marshall Islands Scholarship Grant and Loan Board's internal control over financial reporting and compliance.



June 12, 2014

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Balance Sheets
September 30, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
Cash	\$ 349,416	\$ 522,075
Time certificate of deposit	438,777	365,562
	\$ 788,193	\$ 887,637
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 1,215	\$ 1,215
Contingency		
Fund balance:		
Restricted:		
Scholarships-Compact	430,129	614,201
Scholarships-Byrd Grant	1,500	1,500
Scholarships-Nitijela	355,349	270,721
Total fund balance	786,978	886,422
	\$ 788,193	\$ 887,637

See accompanying notes to financial statements.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Statements of Revenues, Expenditures, and Changes in Fund Balance
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Compact of Free Association	\$ 1,071,925	\$ 1,278,977
Nitijela appropriation	421,162	117,359
Interest	35,388	6,351
Other	-	10,091
Total revenues	<u>1,528,475</u>	<u>1,412,778</u>
Expenditures:		
Scholarship assistance	1,461,631	1,550,141
Salaries and wages	76,309	72,865
Training and travel	22,382	21,762
Communications	20,907	21,967
Office rental	12,000	12,000
Repairs and maintenance	329	1,061
Miscellaneous	34,361	15,049
Total expenditures	<u>1,627,919</u>	<u>1,694,845</u>
Net change in fund balance	(99,444)	(282,067)
Fund balance at the beginning of the year	<u>886,422</u>	<u>1,168,489</u>
Fund balance at the end of the year	<u><u>\$ 786,978</u></u>	<u><u>\$ 886,422</u></u>

See accompanying notes to financial statements.

MARSHALL ISLANDS SCHOLARSHIP GRANT AND LOAN BOARD

Notes to Financial Statements
September 30, 2013 and 2012

(1) Organization

The Marshall Islands Scholarship Grant and Loan Board (MISGLB), a governmental fund of the Republic of the Marshall Islands (RepMar), was established pursuant to the Scholarship Assistance Act of 1997 (the Act), as amended. MISGLB was established to develop and administer a financial assistance program for those qualified applicants who cannot pursue educational and training opportunities because of financial inability. In accordance with the Act, RepMar established the Scholarship Fund Account, a governmental fund accounted for within RepMar's Treasury. This Fund accounts for funds appropriated by the Nitijela (the RepMar Legislature) for scholarship assistance, including funding under the Compact of Free Association, As Amended (the Compact).

The accompanying financial statements relate solely to those accounting records maintained by MISGLB, and do not incorporate any accounts related to RepMar's Scholarship Fund Account or any other departments or agencies of RepMar that may be accounted for by RepMar's Treasury. MISGLB is considered to be a blended component unit (a governmental fund) of RepMar and is governed by a nine-member Board appointed by the Cabinet of RepMar.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of MISGLB's accounting policies are described below.

Measurement Focus and Basis of Accounting

MISGLB reports its financial position and the results of its operations in one special revenue fund. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain MISGLB functions or activities.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

MISGLB's special revenue fund consists of the following:

- i. Compact Scholarship Fund - This fund was established to account for monies received by MISGLB that were appropriated by RepMar under the Compact.
- ii. Byrd Grant Scholarship Fund - This fund was established to account for monies received by MISGLB under the Robert C. Byrd Honors Scholarship Program sector grant.
- iii. Nitijela Fund - This Fund was established to account for monies received by MISGLB that were appropriated by the Nitijela as well as other grants, gifts and donations received for scholarship assistance.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include federal grants and Nitijela appropriations. Miscellaneous revenues from gifts and donations are recognized when received in cash because they are generally not measurable until actually received. Expenditures are recorded when the related fund liability is incurred.

Budgetary Information

An annual appropriated budget has not been formally adopted on a legal basis or a basis consistent with GAAP. Accordingly, a budget to actual presentation is not required or presented.

Cash and Time Certificate of Deposit

The deposit and investment policies of MISGLB are governed by 3 MIRC 7, *Investments of Public Funds*, and 11 MIRC 1, *Financial Management*. Custodial credit risk is the risk that in the event of a bank failure, MISGLB'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. MISGLB does not have a deposit policy for custodial credit risk.

For the purpose of the balance sheets, cash is defined as cash in demand accounts. Deposits maintained in time certificates of deposit with an original maturity date greater than ninety days are separately classified. As of September 30, 2013 and 2012, the carrying amounts of MISGLB's total cash and time certificate of deposit were \$788,193 and \$887,637, respectively, and the corresponding bank balances were \$817,907 and \$952,244, respectively. Of the bank balances, \$387,627 and \$622,690, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, bank deposits in the amount of \$277,950 and \$386,892, respectively, were FDIC insured. The remaining bank deposits of \$430,280 and \$329,554, respectively, were maintained in financial institutions not subject to depository insurance. MISGLB does not require collateralization of its cash deposits; therefore, deposits levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Receivables

MISGLB lends money to students, who are citizens of the Republic of the Marshall Islands, based on meeting certain criteria. These loans are interest free, uncollateralized and have no set repayment terms. These loans may be converted to grants at a later date if the recipients meet a further set of criteria. Loans receivable are stated net of an estimated allowance for uncollectible accounts.

Fund Balance

Fund balance classifications are based on the extent to which MISGLB is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

Taxes

The Government of RepMar imposes a gross receipts tax of 3% on revenues. MISGLB is specifically exempt from this tax.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

During fiscal year 2013, MISGLB implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

MARSHALL ISLANDS SCHOLARSHIP GRANT AND LOAN BOARD

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The implementation of this statement did not have a material effect on the accompanying financial statements.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MISGLB.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of MISGLB.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of MISGLB.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of MISGLB.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2013 and 2012

(3) Risk Management

MISGLB 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. MISGLB has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. For other risks of loss to which it is exposed, MISGLB has elected not to purchase commercial insurance. Instead, MISGLB believes it is more economical to manage its risks internally. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No material losses have resulted from MISGLB's risk management activities for the past three years.

(4) Receivables

Receivables as of September 30, 2013 and 2012, including the applicable allowance for uncollectible accounts, are as follows:

	<u>2013</u>	<u>2012</u>
Loans receivable	\$ 18,633,110	\$ 17,615,409
Other	<u>36,416</u>	<u>15,000</u>
	18,669,526	17,630,409
Less allowance for uncollectible accounts	<u>(18,669,526)</u>	<u>(17,630,409)</u>
	\$ <u> -</u>	\$ <u> -</u>

During the years ended September 30, 2013 and 2012, MISGLB converted \$422,514 and \$685,435, respectively, in loans receivable to grants as the recipients met the criteria for conversion. The effect of the conversion of these loans to grants has been reflected in loans receivable balances as of September 30, 2013 and 2012.

(5) Related Party Transactions

MISGLB is a governmental fund of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including all governmental funds of RepMar and the Marshall Islands Development Bank (MIDB). During the years ended September 30, 2013 and 2012, MISGLB recognized certain on-behalf payments as contributions from RepMar, totaling \$76,309 and \$72,865, respectively, representing certain payroll and related expenditures that RepMar paid directly on behalf of MISGLB.

During the years ended September 30, 2013 and 2012, the operations of MISGLB were funded by appropriations from RepMar, totaling \$1,416,778 and \$1,323,471, respectively.

MISGLB entered into an office lease agreement with MIDB for a term of five years commencing February 25, 2010. Annual rent payments amount to \$12,000.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2013 and 2012

(6) Contingency

MISGLB receives a substantial amount of its revenue from annual RepMar appropriations. A significant reduction in the level of budgetary support from RepMar, if this were to occur, may have an effect on MISGLB's scholarship programs and activities. For the year ended September 30, 2014, RepMar appropriated funding to MISGLB in the amount of \$1,297,658 for the purpose of funding scholarship activities.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Year Ended September 30, 2013

	Compact Scholarship Fund	Other Grant Scholarship Fund	Nitijela Fund	Total
Revenues:				
Compact of Free Association	\$ 1,071,925	\$ -	\$ -	\$ 1,071,925
Nitijela appropriation	-	-	421,162	421,162
Interest	35,388	-	-	35,388
Total revenues	<u>1,107,313</u>	<u>-</u>	<u>421,162</u>	<u>1,528,475</u>
Expenditures:				
Scholarship assistance	1,207,283	-	254,348	1,461,631
Salaries and wages	-	-	76,309	76,309
Training and travel	22,382	-	-	22,382
Communications	20,907	-	-	20,907
Office rental	12,000	-	-	12,000
Repairs and maintenance	329	-	-	329
Miscellaneous	28,484	-	5,877	34,361
Total expenditures	<u>1,291,385</u>	<u>-</u>	<u>336,534</u>	<u>1,627,919</u>
Net change in fund balances	(184,072)	-	84,628	(99,444)
Fund balances at the beginning of the year	<u>614,201</u>	<u>1,500</u>	<u>270,721</u>	<u>886,422</u>
Fund balances at the end of the year	<u>\$ 430,129</u>	<u>\$ 1,500</u>	<u>\$ 355,349</u>	<u>\$ 786,978</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

Chairman
Marshall Islands Scholarship Grant and Loan Board:

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 Scholarship Grant and Loan Board (MISGLB), which comprise the balance sheet as of September 30, 2013, and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MISGLB'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 MISGLB's internal control. Accordingly, we do not express an opinion on the effectiveness of MISGLB'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

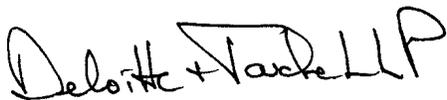
As part of obtaining reasonable assurance about whether MISGLB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001.

MISGLB's Responses to Findings

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

Purpose of this Report

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

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

June 12, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Chairman
Marshall Islands Scholarship Grant and Loan Board:

We have audited the Marshall Islands Scholarship Grant and Loan Board's (MISGLB) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MISGLB's major federal programs for the year ended September 30, 2013. MISGLB's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MISGLB's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MISGLB's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MISGLB's compliance.

Opinion on Each Major Federal Program

In our opinion, MISGLB complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of MISGLB is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MISGLB's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MISGLB's internal control over compliance.

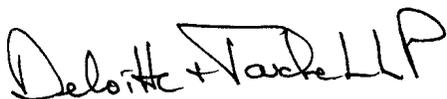
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of MISGLB as of and for the year ended September 30, 2013, and have issued our report thereon dated June 12, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



June 12, 2014

**MARSHALL ISLANDS SCHOLARSHIP
GRANTS AND LOAN BOARD**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

	Fund Balance Beginning of Year	Federal Funds Received	Other Funds Received	Funds Expended	Fund Balance End of Year
Funds passed through the Republic of the Marshall Islands:					
<u>U.S. Department of the Interior</u>					
<u>CFDA #15.875</u>					
Economic, Social and Political Development of the Territories:					
Compact of Free Association, As Amended, Sector Grants:					
Section 211(a)(1)					
Education Sector	\$ 461,144	\$ 471,925	\$ 35,388	\$ 538,328	\$ 430,129
Supplemental Education Grant	-	500,000	-	500,000	-
Section 211(b)(1)					
Kwajalein Special Needs	<u>153,057</u>	<u>100,000</u>	<u>-</u>	<u>253,057</u>	<u>-</u>
	<u>\$ 614,201</u>	<u>\$ 1,071,925</u>	<u>\$ 35,388</u>	<u>\$ 1,291,385</u>	<u>\$ 430,129</u>

See accompanying notes to schedule of expenditures of federal awards.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Schedule of Expenditures of Federal Awards
September 30, 2013

(1) Organization and Compact of Free Association

The Marshall Islands Scholarship Grant and Loan Board (MISGLB) is a subrecipient of funds received through Sections 211(a) and 211(b) and the Supplemental Education Grant of the Compact of Free Association, As Amended (the Compact), from the Republic of the Marshall Islands (RepMar). These funds are provided to support the post-secondary education of citizens of the Marshall Islands attending accredited post-secondary institutions.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of MISGLB and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

A. SUMMARY OF AUDITORS' RESULTS SECTION

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | No |
| 3. Significant deficiency(ies) identified? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major programs | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes |
| 9. Identification of major programs: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
---------------------	---

15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, as amended, Sector Grants
--------	--

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 11. Auditee qualified as a low-risk auditee? | No |

B. FINANCIAL STATEMENTS FINDINGS SECTION

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2013-001	Local Noncompliance	20

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

None

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Local Noncompliance

Finding No. 2013-001

Criteria: Section 6(e) of the Scholarship Assistance of 1979 (the Act), as amended, requires MISGLB to ensure timely repayment of scholarship assistance loans. MISGLB policies and procedures require the repayment of student loans within one year of completion or cessation of studies. Furthermore, Section 7(h) of the Act authorizes MISGLB to convert scholarship assistance loans to grants.

Condition: During the year ended September 30, 2013, MISGLB converted \$422,514 in loans receivable to grants as recipients met the criteria for conversion. However, as of September 30, 2013, MISGLB recorded outstanding loans receivable of \$18,669,526. Due to the lack of collection of these loans receivable, a corresponding allowance for uncollectable loans has been recorded. Furthermore, MISGLB does not maintain a detailed subsidiary ledger for outstanding loans receivable.

Cause: The cause of the above condition is lack of enforcement of MISGLB policies and procedures requiring the repayment of scholarship assistance loans and the lack of a reconciled subsidiary loan ledger.

Effect: The effect of the above condition is the lack of loan repayments and a possibility that converted loans may not be completed.

Recommendation: We recommend that MISGLB enforce established policies and procedures requiring the repayment of scholarship assistance loans. Furthermore, we recommend that MISGLB reconstruct the subsidiary loan ledger to reconcile and agree with the general ledger in order that converted loans are complete and accurate.

Prior Year Status: The lack of loan repayments and the possibility that converted loans may not be completed was reported as a finding in the Single Audits of MISGLB for fiscal years 1997 through 2012.

Auditor Response:

No formal response was provided by management in regards to this finding.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2013

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 19 and 20).