

**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, 2011 AND 2010

INDEPENDENT AUDITORS' REPORT

Chairman
Marshall Islands Scholarship Grant and Loan Board:

We have audited the accompanying balance sheets of the Marshall Islands Scholarship Grant and Loan Board (MISGLB), a governmental fund of the Republic of the Marshall Islands, as of September 30, 2011 and 2010, and related statements of revenues, expenditures, and changes in fund balance for the years then ended. These financial statements are the responsibility of MISGLB's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MISGLB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

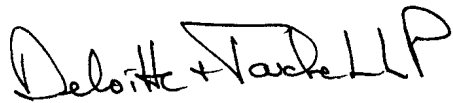
As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Marshall Islands Scholarship Grant and Loan Board and are not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in conformity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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Marshall Islands Scholarship Grant and Loan Board, a governmental fund of the Republic of the Marshall Islands, as of September 30, 2011 and 2010, and the results of that fund's operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, MISGLB adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2013 on our consideration of MISGLB'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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Combining Statement of Revenues, Expenditures, and Changes in Fund Balances for the year ended September 30, 2011 (page 11) is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of MISGLB's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

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

March 6, 2013

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Balance Sheets
September 30, 2011 and 2010

	2011	2010
<u>ASSETS</u>		
Cash	\$ 870,175	\$ 1,038,047
Time certificate of deposit	299,429	227,787
	\$ 1,169,604	\$ 1,265,834
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 1,115	\$ 1,116
Contingency		
Fund balance:		
Restricted:		
Scholarships-Compact	868,923	930,694
Scholarships-Byrd Grant	1,500	1,500
Scholarships-Nitijela	298,066	332,524
Total fund balance	1,168,489	1,264,718
	\$ 1,169,604	\$ 1,265,834

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Compact of Free Association	\$ 1,278,910	\$ 1,961,759
Nitijela appropriation	96,550	162,224
Interest	21,581	5,429
Other	10,000	-
Total revenues	<u>1,407,041</u>	<u>2,129,412</u>
Expenditures:		
Scholarship assistance	1,372,262	1,272,923
Salaries and wages	55,325	65,306
Communications	17,969	13,475
Training and travel	17,104	15,193
Office rental	12,000	12,000
Capital outlay	3,958	26,979
Repairs and maintenance	57	10
Miscellaneous	24,595	18,074
Total expenditures	<u>1,503,270</u>	<u>1,423,960</u>
Net change in fund balance	(96,229)	705,452
Fund balance at the beginning of the year	<u>1,264,718</u>	<u>559,266</u>
Fund balance at the end of the year	<u>\$ 1,168,489</u>	<u>\$ 1,264,718</u>

See accompanying notes to financial statements.

MARSHALL ISLANDS SCHOLARSHIP GRANT AND LOAN BOARD

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010

(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, 2011 and 2010, the carrying amounts of MISGLB's total cash and time certificate of deposit were \$1,169,604 and \$1,265,834, respectively, and the corresponding bank balances were \$1,258,754 and \$1,372,380, respectively. Of the bank balances, \$959,325 and \$1,144,593, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits in the amount of \$385,022 and \$376,581, respectively, were FDIC insured. 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, 2011 and 2010

(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

During fiscal year 2011, MISGLB implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with GASB Statement No. 54, governmental fund balances are classified as follows:

- 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.

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.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2011, MISGLB implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISGLB.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses 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 provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISGLB.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISGLB.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISGLB.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISGLB.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISGLB.

(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, 2011 and 2010, including the applicable allowance for uncollectible accounts, are as follows:

	<u>2011</u>	<u>2010</u>
Loans receivable	\$ 16,750,703	\$ 15,467,534
Other	<u>15,000</u>	<u>15,000</u>
	16,765,703	15,482,534
Less allowance for uncollectible accounts	<u>(16,765,703)</u>	<u>(15,482,534)</u>
	\$ _____	\$ _____

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2011 and 2010

(4) Receivables, Continued

During the years ended September 30, 2011 and 2010, MISGLB converted \$89,093 and \$36,979, 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, 2011 and 2010.

(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, 2011 and 2010, MISGLB recognized certain on-behalf payments as contributions from RepMar, totaling \$55,325 and \$65,306, respectively, representing certain payroll and related expenditures that RepMar paid directly on behalf of MISGLB.

During the years ended September 30, 2011 and 2010, the operations of MISGLB were funded by appropriations from RepMar, totaling \$1,320,135 and \$2,058,677, 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.

(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, 2012, RepMar appropriated funding to MISGLB in the amount of \$1,372,262 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, 2011

	Compact Scholarship Fund	Byrd Grant Scholarship Fund	Nitijela Fund	Total
Revenues:				
Compact of Free Association	\$ 1,278,910	\$ -	\$ -	\$ 1,278,910
Nitijela appropriation	-	-	96,550	96,550
Interest	21,581	-	-	21,581
Other	10,000	-	-	10,000
Total revenues	<u>1,310,491</u>	<u>-</u>	<u>96,550</u>	<u>1,407,041</u>
Expenditures:				
Scholarship assistance	1,372,262	-	-	1,372,262
Salaries and wages	-	-	55,325	55,325
Communications	-	-	17,969	17,969
Training and travel	-	-	17,104	17,104
Office rental	-	-	12,000	12,000
Capital outlay	-	-	3,958	3,958
Repairs and maintenance	-	-	57	57
Miscellaneous	-	-	24,595	24,595
Total expenditures	<u>1,372,262</u>	<u>-</u>	<u>131,008</u>	<u>1,503,270</u>
Net change in fund balances	(61,771)	-	(34,458)	(96,229)
Fund balances at the beginning of the year	<u>930,694</u>	<u>1,500</u>	<u>332,524</u>	<u>1,264,718</u>
Fund balances at the end of the year	<u>\$ 868,923</u>	<u>\$ 1,500</u>	<u>\$ 298,066</u>	<u>\$ 1,168,489</u>

See accompanying independent auditors' report.