

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED SEPTEMBER 30, 2004 AND 2003**



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**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 component unit of the Republic of the Marshall Islands, as of September 30, 2004 and 2003, and the related statements of revenues, expenditures, and changes in fund balance (deficit) 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MISGLB as of September 30, 2004 and 2003, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Combining Statements of Revenues, Expenditures, and Changes in Fund Balances (Deficit) for the years ended September 30, 2004 and 2003 (pages 10 and 11) are presented for the purpose of additional analysis and are 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 audits 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2005, on our consideration of MISGLB's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the 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 read in conjunction with this report in considering the results of our audit.

December 14, 2005



Jean M. Tonyokwe  
Auditor-General

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

Balance Sheet - Governmental Fund  
September 30, 2004  
(With comparative totals for the year ended September 30, 2003)

	2004	2003
<u>ASSETS</u>		
Cash	\$ 67,813	\$ 177,117
Receivables, net	350	75,350
Due from the Republic of the Marshall Islands	140,000	150,000
Total assets	\$ 208,163	\$ 402,467
<u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$ 13,500	\$ 19,500
Total liabilities	13,500	19,500
Contingencies		
Fund balance (deficit):		
Reserved for scholarships	326,087	178,321
Unreserved	(131,424)	204,646
Total fund balance	194,663	382,967
	\$ 208,163	\$ 402,467

See accompanying notes to financial statements.

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

Combined Statement of Revenues, Expenditures and Changes in  
Fund Balance (Deficit) - Governmental Fund  
Year ended September 30, 2004  
(With comparative totals for the year ended September 30, 2003)

	2004	2003
Revenues:		
Compact of Free Association	\$ 856,938	\$ 828,455
Grant	25,000	121,500
Interest	79	116
Nitijela appropriation	-	325,247
Other	680	8,565
Total revenues	882,697	1,283,883
Expenditures:		
Bad debts	1,027,342	688,687
Communications	10,821	7,553
Office rental	12,000	13,000
Training and travel	5,342	6,283
Capital outlays	4,010	17,758
Repairs and maintenance	260	1,593
Miscellaneous	12,726	28,033
Total expenditures	1,072,501	762,907
Net change in fund balance (deficit)	(189,804)	520,976
Fund balance (deficit) at the beginning of the year	382,967	(138,009)
Fund balance at the end of the year	\$ 193,163	\$ 382,967

See accompanying notes to financial statements.

# MARSHALL ISLANDS SCHOLARSHIP GRANT AND LOAN BOARD

Notes to Financial Statements  
September 30, 2004 and 2003

## (1) Organization

The Marshall Islands Scholarship Grant and Loan Board (MISGLB), a component unit 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 Type - Special Revenue Fund. 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 accompanying financial statements relate solely to those accounting records maintained by MISGLB and do not incorporate any accounts related to the Scholarship Fund Account. MISGLB is governed by a nine-member Board appointed by the Cabinet of RepMar.

## (2) Summary of Significant Accounting Policies

The financial statements of MISGLB have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically governmental fund types. The Governmental Accounting Standards Board is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. MISGLB's financial statements are incorporated into the general purpose financial statements of RepMar as a component unit. The more significant of MISGLB's accounting policies are described below:

### Measurement Focus and Basis of Accounting

MISGLB uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain MISGLB functions or activities. In the accompanying financial statements, MISGLB's fund is classified as a governmental fund type - special revenue fund.

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

MISGLB's special revenue funds consist of the following:

- i. Compact I Scholarship Fund - This fund was established to account for monies received by MISGLB that were appropriated by RepMar under the initial Compact.
- ii. Compact II Scholarship Fund - This fund was established to account for monies received by MISGLB that were appropriated by RepMar under the amended Compact.
- iii. Byrd Grant Scholarship Fund - This fund was established to account for monies received by MISGLB under the Robert C. Byrd Honors Scholarship Program.
- iv. Nitijela Fund - This Fund was established to account for monies received by MISGLB that were appropriated by the Nitijela for scholarship assistance.

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

Notes to Financial Statements  
September 30, 2004 and 2003

(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. Governmental fund type - special revenue 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 net current assets.

The modified accrual basis of accounting is used by governmental fund type - special revenue funds. 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. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Budgetary Information

An annual appropriated budget has not been formally adopted on a legal basis or a basis consistent with accounting principles generally accepted in the United States of America. Accordingly, a budget to actual presentation is not required or presented.

Cash

For the purpose of the balance sheets, cash is defined as cash in demand accounts. As of September 30, 2004 and 2003, the carrying amount of MISGLB's total cash was \$67,813 and \$177,117, respectively, and the corresponding bank balance was \$88,860 and \$189,048, respectively, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2004 and 2003, bank deposits were insured to \$88,860 and \$162,173, respectively. MISGLB does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

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.

Taxes

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

**MARSHALL ISLANDS SCHOLARSHIP  
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Notes to Financial Statements  
September 30, 2004 and 2003

(2) Summary of Significant Accounting Policies, Continued

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or which are legally segregated for a specific future use.

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

Effective October 1, 2003, MISGLB has adopted the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*. Management believes that they have properly identified and reported as a component unit of MISGLB each organization that meets the criteria established in GASB Statement No. 39.

For fiscal year 2005, MISGLB will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISGLB.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISGLB.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MISGLB.



**MARSHALL ISLANDS SCHOLARSHIP  
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Notes to Financial Statements  
September 30, 2004 and 2003

(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 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, 2004 and 2003, including the applicable allowance for uncollectible accounts, are as follows:

	<u>2004</u>	<u>2003</u>
Loans receivable	\$ 7,781,225	\$ 10,347,156
Due from grantor agency	-	60,000
Other	<u>15,350</u>	<u>15,350</u>
	<u>7,796,575</u>	<u>10,422,506</u>
Less allowance for uncollectible accounts	<u>(7,796,225)</u>	<u>(10,347,156)</u>
	<u>\$ 350</u>	<u>\$ 75,350</u>

Subsequent to September 30, 2004, MISGLB converted \$3,563,273 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, 2004.

(5) Related Party Transactions

During the years ended September 30, 2004 and 2003, the operations of MISGLB were funded by an appropriation, totaling \$856,938 and \$828,455, respectively, from funds received by RepMar under the Compact, of which \$140,000 and \$150,000, respectively, was due from RepMar as of September 30, 2004 and 2003. In addition, the operations of MISGLB during the years ended September 30, 2004 and 2003 were funded by appropriations, totaling \$0- and \$325,247, respectively, from the Nitijela of RepMar.

MISGLB is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities. During the years ended September 30, 2004 and 2003, RepMar recorded payroll and related expenditures for MISGLB of \$53,328 and \$48,329, respectively.

**MARSHALL ISLANDS SCHOLARSHIP  
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Notes to Financial Statements  
September 30, 2004 and 2003

(6) Contingencies

MISGLB receives Compact funding for scholarship assistance. Federally assisted funds can be subject to financial and compliance audits to ascertain if federal and other laws and guidelines have been followed. Expenditures of \$15,000 have been questioned as of September 30, 2004. If these costs are ultimately disallowed, MISGLB could be charged for the necessary reimbursement to the grantor agency. No provision for any liability, if any, which may be ultimately due, has been provided for in the accompanying financial statements.

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, 2005, RepMar appropriated funding to MISGLB in the amount of \$871,498 for the purpose of funding scholarship activities.

**MARSHALL ISLANDS SCHOLARSHIP  
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Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit) - Governmental Funds  
Year Ended September 30, 2004

	Compact I Scholarship Fund	Compact II Scholarship Fund	Byrd Grant Scholarship Fund	Nitijela Fund	Total
<b>Revenues:</b>					
Compact of Free Association	\$ -	\$ 856,938	\$ -	\$ -	\$ 856,938
Grant	-	-	15,000	10,000	25,000
Interest	-	79	-	-	79
Other	-	680	-	-	680
<b>Total revenues</b>	<b>-</b>	<b>857,697</b>	<b>15,000</b>	<b>10,000</b>	<b>882,697</b>
<b>Expenditures:</b>					
Bad debts	-	828,990	15,000	183,352	1,027,342
Communications	-	-	-	10,821	10,821
Office rental	-	-	-	12,000	12,000
Training and travel	-	-	-	5,342	5,342
Capital outlays	-	-	-	4,010	4,010
Repairs and maintenance	-	-	-	260	260
Miscellaneous	-	-	-	12,726	12,726
<b>Total expenditures</b>	<b>-</b>	<b>828,990</b>	<b>15,000</b>	<b>228,511</b>	<b>1,072,501</b>
Excess (deficiency) of revenues over (under) expenditures	-	28,707	-	(218,511)	(189,804)
<b>Other financing sources (uses):</b>					
Operating transfers in	27,880	-	-	-	27,880
Operating transfers out	-	-	-	(27,880)	(27,880)
<b>Total other financing sources (uses), net</b>	<b>27,880</b>	<b>-</b>	<b>-</b>	<b>(27,880)</b>	<b>-</b>
<b>Net change in fund balances (deficit)</b>	<b>27,880</b>	<b>28,707</b>	<b>-</b>	<b>(246,391)</b>	<b>(189,804)</b>
Fund balances (deficit) at the beginning of the year	(27,880)	-	-	410,847	382,967
<b>Fund balances at the end of the year</b>	<b>\$ -</b>	<b>\$ 28,707</b>	<b>\$ -</b>	<b>\$ 164,456</b>	<b>\$ 193,163</b>

See accompanying independent auditors' report.

**MARSHALL ISLANDS SCHOLARSHIP  
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Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (Deficit) - Governmental Funds  
Year Ended September 30, 2003

	Compact I Scholarship Fund	Byrd Grant Scholarship Fund	Nitijela Fund	Total
<b>Revenues:</b>				
Compact of Free Association	\$ 828,455	\$ -	\$ -	\$ 828,455
Nitijela appropriation	-	-	325,247	325,247
Grant	-	121,500	-	121,500
Interest	116	-	-	116
Other	8,565	-	-	8,565
	<u>837,136</u>	<u>121,500</u>	<u>325,247</u>	<u>1,283,883</u>
<b>Expenditures:</b>				
Bad debts	533,730	121,500	33,457	688,687
Communications	7,553	-	-	7,553
Office rental	13,000	-	-	13,000
Training and travel	6,283	-	-	6,283
Capital outlays	17,758	-	-	17,758
Repairs and maintenance	1,593	-	-	1,593
Miscellaneous	28,033	-	-	28,033
	<u>607,950</u>	<u>121,500</u>	<u>33,457</u>	<u>762,907</u>
Net change in fund balances (deficit)	229,186	-	291,790	520,976
Fund balances (deficit) at the beginning of the year	<u>(257,066)</u>	<u>-</u>	<u>119,057</u>	<u>(138,009)</u>
Fund balances (deficit) at the end of the year	<u>\$ (27,880)</u>	<u>\$ -</u>	<u>\$ 410,847</u>	<u>\$ 382,967</u>

See accompanying independent auditors' report.