

MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD
(AN EXPENDABLE TRUST FUND)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2002



INDEPENDENT AUDITORS' REPORT

Chairman
Marshall Islands Scholarship Grant and Loan Board:

We have audited the accompanying combined balance sheet of the Marshall Islands Scholarship Grant and Loan Board (MISGLB) (an Expendable Trust Fund), a component unit of the Republic of the Marshall Islands, as of September 30, 2002, and the related combined statement of revenues, expenditures and changes in fund balance (deficit) for the year 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 audit.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MISGLB as of September 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 (Deficit) for the year ended September 30, 2002 (page 10) is presented for purposes 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2003, on our consideration of MISGLB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

Deloitte & Touche

May 19, 2003

MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD
(AN EXPENDABLE TRUST FUND)

Combined Balance Sheet - All Fund Types and Account Groups
September 30, 2002
(With comparative totals as of September 30, 2001)

	Fiduciary Fund Type	Account Group	Totals	
	Expendable Trust	General Fixed Assets	(Memorandum Only)	
			2002	2001
<u>ASSETS</u>				
Cash	\$ 60,141	\$ -	\$ 60,141	\$ 797
Receivables (note 4):				
Loans, net	-	-	-	-
Grant	-	-	-	76,500
Other, net	15,350	-	15,350	15,250
Fixed assets, net of accumulated depreciation (note 5)	-	60,082	60,082	67,642
	\$ 75,491	\$ 60,082	\$ 135,573	\$ 160,189
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Bank overdraft	\$ -	\$ -	\$ -	\$ 3,554
Payable to grantor agency	13,500	-	13,500	-
Deferred revenue	-	-	-	275,000
Loan payable (note 6)	200,000	-	200,000	-
Total liabilities	213,500	-	213,500	278,554
Fund equity:				
Investment in general fixed assets (note 5)	-	60,082	60,082	67,642
Fund balances (deficit):				
Reserved for scholarships	310,405	-	310,405	369,429
Unreserved	(448,414)	-	(448,414)	(555,436)
Total fund equity	(138,009)	60,082	(77,927)	(118,365)
Contingencies (notes 3 and 8)	\$ 75,491	\$ 60,082	\$ 135,573	\$ 160,189

See accompanying notes to financial statements.

MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD
(AN EXPENDABLE TRUST FUND)

Combined Statement of Revenues, Expenditures and Changes in
Fund Balance (Deficit) - Expendable Trust Fund
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	2002	2001
Revenues:		
Compact of Free Association - Section 216(a)(3) (note 7)	\$ 720,962	\$ 724,872
Nitijela appropriation (note 7)	274,122	100,000
Interest	342	974
Grant	-	30,000
Other	10,000	10,000
	1,005,426	865,846
 Expenditures:		
Bad debts	864,851	1,000,355
Training and travel	31,586	30,192
Grant	25,500	13,500
Communications	10,696	9,106
Capital outlays	3,916	7,001
Repairs and maintenance	445	867
Miscellaneous	20,434	4,061
	957,428	1,065,082
 Excess (deficiency) of revenues over (under) expenditures	47,998	(199,236)
(Deficit) fund balance at beginning of year	(186,007)	13,229
Deficit at end of year	\$ (138,009)	\$ (186,007)

See accompanying notes to financial statements.

MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD
(AN EXPENDABLE TRUST FUND)

Notes to Financial Statements
September 30, 2002

(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 received under Title Two, Article I, Section 216(a)(3) of the Compact of Free Association (the Compact) between RepMar and the United States of America. The Scholarship Fund Account accounts for any funds appropriated by the Nitijela (the RepMar Legislature) for scholarship assistance, including Section 216(a)(3) Compact funding. 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.

(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 fiduciary 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 and an account group to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain MISGLB functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations.

In the accompanying financial statements, MISGLB's fund is classified as a fiduciary fund type.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within RepMar. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not MISGLB is under an obligation to maintain the trust principal.

MARSHALL ISLANDS SCHOLARSHIP
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Notes to Financial Statements
September 30, 2002

(2) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting, Continued

MISGLB's expendable trust fund consists of the following:

- i. Compact Scholarship Fund - This fund was established to account for monies received under Title Two, Article I, Section 216(a)(3) of the Compact.
- ii. Third Country Grants Fund - This Fund was established to account for monies appropriated by the Nitijela for scholarship assistance.

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Expendable trust 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 combined 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 expendable trust 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.

Cash

For the purpose of the combined balance sheet, cash is defined as cash in demand accounts. As of September 30, 2002, the carrying amount of MISGLB's total cash was \$60,141 and the corresponding bank balance was \$101,278, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2002, bank deposits were insured to \$100,000.

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 the Republic of the Marshall Islands imposes a gross revenue 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, 2002

(2) Summary of Significant Accounting Policies, Continued

Fixed Assets

The accounting and reporting treatment applied to fixed assets associated with a fund are determined by its measurement focus. Fixed assets used in expendable trust fund operations (general fixed assets) are accounted for in the General Fixed Assets Account Group rather than in the expendable trust fund. Fixed assets consist of office furniture, equipment and motor vehicles, and are stated at cost or estimated fair market value. Depreciation is charged as a reduction in the investment in general fixed assets and an increase in accumulated depreciation. 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
Office furniture and equipment	5 years

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.

Memorandum Only - Total Columns

Total columns on the financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position or results of operations in accordance with GAAP. Interfund eliminations have not been made in the aggregation of this data.

(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.

MARSHALL ISLANDS SCHOLARSHIP
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Notes to Financial Statements
September 30, 2002

(4) Receivables

Loans receivable as of September 30, 2002, including the applicable allowance for uncollectible accounts, are as follows:

Compact Scholarship Fund	\$ 8,760,626
Third Country Grants Fund	<u>935,343</u>
	9,695,969
Less allowance for uncollectible accounts	<u>(9,695,969)</u>
	\$ <u> -</u>

Other receivables as of September 30, 2002, are as follows:

Other	\$ 15,000
Deposit with suppliers	<u>350</u>
	\$ <u>15,350</u>

(5) Fixed Assets

Activity in the General Fixed Assets Account Group for the year ended September 30, 2002, was as follows:

	Balance October <u>1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2002</u>
Motor vehicles	\$ 45,062	\$ -	\$ -	\$ 45,062
Office furniture and equipment	<u>48,518</u>	<u>3,916</u>	<u>-</u>	<u>52,434</u>
	93,580	3,916	-	97,496
Less accumulated depreciation	<u>(25,938)</u>	<u>(11,476)</u>	<u>-</u>	<u>(37,414)</u>
	\$ <u>67,642</u>	\$ <u>(7,560)</u>	\$ <u>-</u>	\$ <u>60,082</u>

(6) Loan Payable

On June 17, 2002, MILGLB entered into a loan agreement with a related bank in the amount of \$200,000 for the purpose of funding scholarship assistance. The loan is due on October 30, 2002 including interest at 13.5%.

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September 30, 2002

(7) Related Party Transactions

During the year ended September 30, 2002, the operations of MISGLB were funded by an appropriation, totaling \$720,962, from RepMar's Scholarship Fund Account. In addition, the operations of MISGLB were funded by an appropriation, totaling \$274,122, 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 year ended September 30, 2002, RepMar processed the bi-weekly payroll for MISGLB. RepMar's Scholarship Fund Account recorded payroll and related expenditures of MISGLB of \$61,650 for the year ended September 30, 2002.

(8) Contingency

MISGLB receives compact funding under Title Two, Article I, Section 216(a)(3) of the Compact 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, 2002. 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.

MARSHALL ISLANDS SCHOLARSHIP
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Combining Statement of Revenues, Expenditures
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2002
(With comparative totals for the year ended September 30, 2001)

	Compact Scholarship Fund	Third Country Grants Fund	Totals	
			2002	2001
Revenues:				
Compact of Free Association - Section 216(a)(3)	\$ 720,962	\$ -	\$ 720,962	\$ 724,872
Nitijela appropriation	-	274,122	274,122	100,000
Interest	342	-	342	974
Grant	-	-	-	30,000
Other	10,000	-	10,000	10,000
	<u>731,304</u>	<u>274,122</u>	<u>1,005,426</u>	<u>865,846</u>
Total revenues				
Expenditures:				
Bad debts	587,925	276,926	864,851	1,000,355
Training and travel	31,586	-	31,586	30,192
Grant	25,500	-	25,500	13,500
Communications	10,696	-	10,696	9,106
Capital outlays	3,916	-	3,916	7,001
Repairs and maintenance	445	-	445	867
Miscellaneous	20,434	-	20,434	4,061
	<u>680,502</u>	<u>276,926</u>	<u>957,428</u>	<u>1,065,082</u>
Total expenditures				
Excess (deficiency) of revenues over (under) expenditures	50,802	(2,804)	47,998	(199,236)
Fund balances (deficit) at beginning of year	<u>(307,868)</u>	<u>121,861</u>	<u>(186,007)</u>	<u>13,229</u>
Fund balances (deficit) at end of year	<u>\$ (257,066)</u>	<u>\$ 119,057</u>	<u>\$ (138,009)</u>	<u>\$ (186,007)</u>

See accompanying independent auditors' report.