

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2003 AND 2002



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INDEPENDENT AUDITORS' REPORT

Chairman
Marshall Islands Scholarship Grant and Loan Board:

We have audited the accompanying balance sheet of the Marshall Islands Scholarship Grant and Loan Board (MISGLB), a component unit of the Republic of the Marshall Islands, as of September 30, 2003, and the related 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. The financial statements of MISGLB for the year ended September 30, 2002, were audited by other auditors whose report, dated May 19, 2003, expressed an unqualified opinion on those statements.


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 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 audit 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, 2003, 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, 2003 (page 9) 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 June 6, 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.

June 6, 2005



Jean M. Tonyokwe
Auditor-General

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Balance Sheet - Governmental Fund
September 30, 2003
(With comparative totals for the year ended September 30, 2002)

	2003	2002
<u>ASSETS</u>		
Cash	\$ 177,117	\$ 60,141
Receivables, net (note 4):	75,350	15,350
Due from the Republic of the Marshall Islands (note 5):	150,000	-
Total assets	\$ 402,467	\$ 75,491
<u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts Payable	\$ 19,500	\$ -
Payable to grantor agency	-	13,500
Loan payable	-	200,000
Total liabilities	19,500	213,500
Contingencies (notes 3 and 6)		
Fund balance (deficit):		
Reserved for scholarships	178,321	310,405
Unreserved	204,646	(448,414)
Total fund balance (deficit)	382,967	(138,009)
	\$ 402,467	\$ 75,491

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, 2003
(With comparative totals for the year ended September 30, 2002)

	2003	2002
Revenues:		
Compact of Free Association - Section 216(a)(3) (note 5) \$	828,455	\$ 720,962
Nitijela appropriation (note 5)	325,247	274,122
Grant	121,500	-
Interest	116	342
Other	8,565	10,000
	<u>1,283,883</u>	<u>1,005,426</u>
Expenditures:		
Bad debts	651,187	864,851
Grant	37,500	25,500
Capital outlays	17,758	3,916
Communications	7,553	10,696
Training and travel	6,283	31,586
Repairs and maintenance	1,593	445
Miscellaneous	41,033	20,434
	<u>762,907</u>	<u>957,428</u>
Excess of revenues over expenditures	520,976	47,998
Deficit at beginning of year	<u>(138,009)</u>	<u>(186,007)</u>
Fund balance (deficit) at end of year	<u>\$ 382,967</u>	<u>\$ (138,009)</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 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 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. 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 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.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 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 sheet, cash is defined as cash in demand accounts. As of September 30, 2003, the carrying amount of MISGLB's total cash was \$177,117 and the corresponding bank balance was \$189,048, which is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2003, bank deposits were insured to \$162,173. 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
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2003

(2) Summary of Significant Accounting Policies, Continued

Fund Equity

Reserves represent those portions of fund equity not appropriate 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.

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

Loans receivable:	
Compact Scholarship Fund	\$ 9,318,356
Third Country Grants Fund	1,028,800
Due from grantor agency	60,000
Other	<u>15,350</u>
	10,422,506
Less allowance for uncollectible accounts	<u>(10,347,156)</u>
	\$ <u>75,350</u>

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

(5) Related Party Transactions

During the year ended September 30, 2003, the operations of MISGLB were funded by an appropriation, totaling \$828,455, from RepMar's Scholarship Fund Account, of which \$150,000 was due from RepMar as of September 30, 2003. In addition, the operations of MISGLB were funded by an appropriation, totaling \$325,247, 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, 2003, RepMar processed the bi-weekly payroll for MISGLB. RepMar's Scholarship Fund Account recorded payroll and related expenditures of MISGLB of \$48,329 for the year ended September 30, 2003.

(6) Contingencies

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, 2003. 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, 2004, RepMar appropriated funding to MISGLB in the amount of \$856,938 for the purpose of funding scholarship activities.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

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

	Compact Scholarship Fund	Third Country Grants Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Compact of Free Association - Section 216(a)(3)	\$ 828,455	\$ -	\$ 828,455
Nitijela appropriation	-	325,247	325,247
Grant	61,500	60,000	121,500
Interest	116	-	116
Other	8,565	-	8,565
	<u>898,636</u>	<u>385,247</u>	<u>1,283,883</u>
Total revenues			
Expenditures:			
Bad debts	557,730	93,457	651,187
Grant	37,500	-	37,500
Capital outlays	17,758	-	17,758
Communications	7,553	-	7,553
Training and travel	6,283	-	6,283
Repairs and maintenance	1,593	-	1,593
Miscellaneous	41,033	-	41,033
	<u>669,450</u>	<u>93,457</u>	<u>762,907</u>
Total expenditures			
Excess of revenues over expenditures	229,186	291,790	520,976
Fund balances (deficit) at beginning of year	<u>(257,066)</u>	<u>119,057</u>	<u>(138,009)</u>
Fund balances (deficit) at end of year	<u>\$ (27,880)</u>	<u>\$ 410,847</u>	<u>\$ 382,967</u>

See accompanying independent auditors' report.