

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

INDEPENDENT AUDITORS' REPORT

Chairman
Marshall Islands Scholarship Grant and Loan Board:

We have audited the accompanying financial statements of the Marshall Islands Scholarship Grant and Loan Board, a special revenue fund of the Republic of the Marshall Islands, as of and for the year ended September 30, 2005. These financial statements are the responsibility of the Marshall Islands Scholarship Grant and Loan Board's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Marshall Islands Scholarship Grant and Loan Board for the year ended September 30, 2004 were audited by other auditors whose report, dated December 15, 2005, expressed an unqualified opinion on those statements.

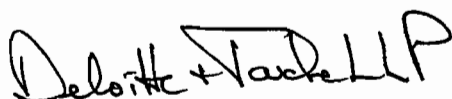
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 the Marshall Islands Scholarship Grant and Loan Board'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 provides 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, such financial statements present fairly, in all material respects, the financial position of the Marshall Islands Scholarship Grant and Loan Board as of September 30, 2005, and the results of that fund's 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, 2005 (page 10) 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 the Marshall Islands Scholarship Grant and Loan Board'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 2, 2006, on our consideration of the Marshall Islands Scholarship Grant and Loan Board's internal control over financial reporting and 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 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.

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

May 2, 2006

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Balance Sheets
September 30, 2005 and 2004

	2005	2004
<u>ASSETS</u>		
Cash	\$ 108,387	\$ 67,813
Receivables, net	-	350
Due from the Republic of the Marshall Islands	-	140,000
	\$ 108,387	\$ 208,163
<u>LIABILITIES AND FUND EQUITY</u>		
Liabilities:		
Accounts payable	\$ 13,500	\$ 13,500
Total liabilities	13,500	13,500
Contingencies		
Fund balance (deficit):		
Reserved for scholarships	447,055	326,087
Unreserved	(352,168)	(131,424)
Total fund balance	94,887	194,663
	\$ 108,387	\$ 208,163

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, 2005 and 2004

	2005	2004
Revenues:		
Compact of Free Association	\$ 988,836	\$ 856,938
Grant	22,000	25,000
Interest	52	79
Other	882	680
Total revenues	1,011,770	882,697
Expenditures:		
Bad debts	1,075,586	1,027,342
Office rental	12,000	12,000
Training and travel	7,775	5,342
Communications	4,447	10,821
Repairs and maintenance	131	260
Capital outlays	-	4,009
Miscellaneous	11,607	12,727
Total expenditures	1,111,546	1,072,501
Net change in fund balance	(99,776)	(189,804)
Fund balance at the beginning of the year	194,663	384,467
Fund balance at the end of the year	\$ 94,887	\$ 194,663

See accompanying notes to financial statements.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2005 and 2004

(1) Organization

The Marshall Islands Scholarship Grant and Loan Board (MISGLB), a governmental fund type - special revenue 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 type - special revenue 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 (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 (governmental fund type - special revenue fund) of RepMar and 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 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.
- iii. 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, 2005 and 2004

(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 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 all governmental fund type. 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.

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 purposes of the balance sheet, cash is defined as cash in demand accounts. As of September 30, 2005 and 2004, the carrying amount of MISGLB's total cash was \$108,387 and \$67,813, respectively, and the corresponding bank balances were \$138,602 and \$88,860, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005 and 2004, bank deposits were fully FDIC insured.

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, 2005 and 2004

(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.

New Accounting Standards

In fiscal year 2005, MISGLB implemented 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.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. 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 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 the implementation of this statement will have a material effect on the financial statements of MISGLB.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. 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.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2005 and 2004

(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.

(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, 2005 and 2004, including the applicable allowance for uncollectible accounts, are as follows:

	<u>2005</u>	<u>2004</u>
Loans receivable	\$ 8,856,811	\$ 7,781,225
Other	<u>15,000</u>	<u>15,350</u>
	8,871,811	7,796,575
Less allowance for uncollectible accounts	<u>(8,871,811)</u>	<u>(7,796,575)</u>
	\$ <u> -</u>	\$ <u> -</u>

During the years ended September 30, 2005 and 2004, MISGLB converted \$2,006,089 and \$0, respectively, in loans receivable to grants as the recipients met the criteria for conversion. Furthermore, subsequent to September 30, 2005, MISGLB converted \$1,557,184 in additional loans to grants. The effect of the conversion of these loans to grants has been reflected in loans receivable balances as of September 30, 2005 and 2004.

**MARSHALL ISLANDS SCHOLARSHIP
GRANT AND LOAN BOARD**

Notes to Financial Statements
September 30, 2005 and 2004

(5) Related Party Transactions

MISGLB is a special revenue 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, 2005 and 2004, RepMar recorded payroll and related expenditures for MISGLB in the amount of \$63,057 and \$53,328, respectively.

During the years ended September 30, 2005 and 2004, the operations of MISGLB were funded by an appropriation, totaling \$988,836 and \$856,938, respectively, from funds received by RepMar under the Compact, of which \$0 and \$140,000, respectively, was due from RepMar as of September 30, 2005 and 2004.

MISGLB has entered into an office lease agreement with MIDB for a term of five years commencing April 1, 2005. Annual rent payments amount to \$12,000.

(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, 2005. 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 \$988,836 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)
Year Ended September 30, 2005

	<u>Compact Scholarship Fund</u>	<u>Byrd Grant Scholarship Fund</u>	<u>Nitijela Fund</u>	<u>Total</u>
Revenues:				
Compact of Free Association Grant	\$ 988,836	\$ -	\$ -	\$ 988,836
Interest	-	12,000	10,000	22,000
Other	52	-	-	52
	<u>882</u>	<u>-</u>	<u>-</u>	<u>882</u>
Total revenues	<u>989,770</u>	<u>12,000</u>	<u>10,000</u>	<u>1,011,770</u>
Expenditures:				
Bad debts	1,053,586	12,000	10,000	1,075,586
Office rental	12,000	-	-	12,000
Training and travel	7,775	-	-	7,775
Communications	4,447	-	-	4,447
Repairs and maintenance	131	-	-	131
Miscellaneous	11,607	-	-	11,607
Total expenditures	<u>1,089,546</u>	<u>12,000</u>	<u>10,000</u>	<u>1,111,546</u>
Net change in deficit	(99,776)	-	-	(99,776)
Fund balances at the beginning	<u>28,707</u>	<u>1,500</u>	<u>164,456</u>	<u>194,663</u>
Fund balances (deficit) at the end of the year	\$ <u><u>(71,069)</u></u>	\$ <u><u>1,500</u></u>	\$ <u><u>164,456</u></u>	\$ <u><u>94,887</u></u>

See accompanying independent auditors' report.