

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

---

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

---

**YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

## 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 years ended September 30, 2006 and 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 audits.

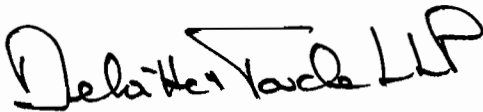
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan 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 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 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, 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, 2006 and 2005, 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.

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, 2006 (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 April 26, 2007 on our consideration of the Marshall Islands Scholarship Grant and Loan Board'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 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.

April 26, 2007

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

Balance Sheets  
September 30, 2006 and 2005

|   | 2006       | 2005       |
|---|------------|------------|
| <u>ASSETS</u>                                 |            |            |
| Cash  | \$ 102,284 | \$ 108,387 |
| Due from the Republic of the Marshall Islands | 83,400     | -          |
|   | \$ 185,684 | \$ 108,387 |
| <u>LIABILITIES AND FUND EQUITY</u>            |            |            |
| Liabilities:                                  |            |            |
| Accounts payable                              | \$ 13,500  | \$ 13,500  |
| Total liabilities                             | 13,500     | 13,500     |
| Contingency                                   |            |            |
| Fund balance (deficit):                       |            |            |
| Reserved for scholarships                     | 402,514    | 447,055    |
| Unreserved                                    | (230,330)  | (352,168)  |
| Total fund balance                            | 172,184    | 94,887     |
|   | \$ 185,684 | \$ 108,387 |

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, 2006 and 2005

|   | <u>2006</u>       | <u>2005</u>      |
|---|-------------------|------------------|
| Revenues:                                 |                   |                  |
| Compact of Free Association               | \$ 1,063,526      | \$ 988,836       |
| Grant                                     | 70,353            | 22,000           |
| Interest                                  | -                 | 52               |
| Other                                     | 84                | 882              |
|   | <u>1,133,963</u>  | <u>1,011,770</u> |
|   |                   |                  |
| Expenditures:                             |                   |                  |
| Bad debts                                 | 1,003,456         | 1,075,586        |
| Training and travel                       | 14,691            | 7,775            |
| Office rental                             | 12,000            | 12,000           |
| Capital outlays                           | 5,397             | -                |
| Communications                            | 4,978             | 4,447            |
| Repairs and maintenance                   | 422               | 131              |
| Miscellaneous                             | 15,722            | 11,607           |
|   | <u>1,056,666</u>  | <u>1,111,546</u> |
|   |                   |                  |
| Net change in fund balance                | 77,297            | (99,776)         |
|   |                   |                  |
| Fund balance at the beginning of the year | <u>94,887</u>     | <u>194,663</u>   |
|   |                   |                  |
| Fund balance at the end of the year       | <u>\$ 172,184</u> | <u>\$ 94,887</u> |

See accompanying notes to financial statements.

# MARSHALL ISLANDS SCHOLARSHIP GRANT AND LOAN BOARD

Notes to Financial Statements  
September 30, 2006 and 2005

## (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 sector grant.
- 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, 2006 and 2005

(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

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 purposes of the balance sheet, cash is defined as cash in demand accounts. As of September 30, 2006 and 2005, the carrying amount of MISGLB's total cash was \$102,284 and \$108,387, respectively, and the corresponding bank balances were \$131,261 and \$138,602, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. 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.

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.

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

Notes to Financial Statements  
September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

Taxes

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

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

During fiscal year 2006, MISGLB implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, an amendment to NCGA Statement 1, which 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.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying 2006 financial statements.

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.

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

Notes to Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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, 2006 and 2005, including the applicable allowance for uncollectible accounts, are as follows:

|   | <u>2006</u>           | <u>2005</u>           |
|---|-----------------------|-----------------------|
| Loans receivable                          | \$ 9,932,852          | \$ 8,856,811          |
| Other                                     | <u>15,000</u>         | <u>15,000</u>         |
|   | 9,947,852             | 8,871,811             |
| Less allowance for uncollectible accounts | <u>(9,947,852)</u>    | <u>(8,871,811)</u>    |
|   | \$ <u>          -</u> | \$ <u>          -</u> |

During the years ended September 30, 2006 and 2005, MISGLB converted \$1,423,090 and \$2,006,089, 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, 2006 and 2005.

**MARSHALL ISLANDS SCHOLARSHIP  
GRANT AND LOAN BOARD**

Notes to Financial Statements  
September 30, 2006 and 2005

(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, 2006 and 2005, RepMar recorded payroll and related expenditures for MISGLB in the amount of \$74,747 and \$63,057, respectively and these expenditures are not reflected in the accompanying financial statements.

During the years ended September 30, 2006 and 2005, the operations of MISGLB were funded by an appropriation, totaling \$1,063,526 and \$988,836, respectively, from funds received by RepMar under the Compact. As of September 30, 2006, funding under the 2006 appropriation not received amounted to \$83,400.

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) 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, 2007, RepMar appropriated funding to MISGLB in the amount of \$1,696,232 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, 2006

|  | Compact<br>Scholarship<br>Fund | Byrd Grant<br>Scholarship<br>Fund | Nitijela<br>Fund  | Total             |
|--|--------------------------------|-----------------------------------|-------------------|-------------------|
| <b>Revenues:</b>   |                                |                                   |                   |                   |
| Compact of Free Association                              | \$ 1,063,526                   | \$ -                              | \$ -              | \$ 1,063,526      |
| Grant  | -                              | -                                 | 70,353            | 70,353            |
| Other  | 84                             | -                                 | -                 | 84                |
|  | <u>1,063,610</u>               | <u>-</u>                          | <u>70,353</u>     | <u>1,133,963</u>  |
| <b>Expenditures:</b>                                     |                                |                                   |                   |                   |
| Bad debts  | 944,489                        | -                                 | 58,967            | 1,003,456         |
| Training and travel                                      | 10,825                         | -                                 | 3,866             | 14,691            |
| Office rental  | 12,000                         | -                                 | -                 | 12,000            |
| Capital outlays  | 5,397                          | -                                 | -                 | 5,397             |
| Communications   | 3,517                          | -                                 | 1,461             | 4,978             |
| Repairs and maintenance                                  | -                              | -                                 | 422               | 422               |
| Miscellaneous  | 10,085                         | -                                 | 5,637             | 15,722            |
|  | <u>986,313</u>                 | <u>-</u>                          | <u>70,353</u>     | <u>1,056,666</u>  |
| Net change in fund balances<br>(deficits)                | 77,297                         | -                                 | -                 | 77,297            |
| Fund balances (deficits) at the beginning<br>of the year | <u>(71,069)</u>                | <u>1,500</u>                      | <u>164,456</u>    | <u>94,887</u>     |
| Fund balances at the end<br>of the year                  | <u>\$ 6,228</u>                | <u>\$ 1,500</u>                   | <u>\$ 164,456</u> | <u>\$ 172,184</u> |

See accompanying independent auditors' report.