

*Financial Statements, Supplementary Information, and
Reports on Internal Control and Compliance*

**Marshall Islands Scholarship, Grant and
Loan Board**

(A Governmental Fund of the Republic of the
Marshall Islands)

*Year ended September 30, 2022
with Report of Independent Auditors*



Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Financial Statements, Supplementary Information
and Reports on Internal Control and Compliance

Year ended September 30, 2022

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Report of Independent Auditors

The Board of Directors
Marshall Islands Scholarship, Grant and Loan Board

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the general fund of the Marshall Islands Scholarship, Grant and Loan Board (MISGLB) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise MISGLB's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the general fund of MISGLB as of September 30, 2022, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MISGLB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only MISGLB and are not intended to present fairly the financial position and results of operations of the Republic of the Marshall Islands in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MISGLB's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design 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. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MISGLB's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise MISGLB's basic financial statements. The information on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2024, on our consideration of MISGLB'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 solely 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 effectiveness of MISGLB's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MISGLB's internal control over financial reporting and compliance.

Ernst + Young LLP

December 19, 2024

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Balance Sheet

September 30, 2022

Assets

Cash	\$ 427,665
Time certificate of deposit	363,993
Interest receivable	<u>16,277</u>
Total assets	<u><u>\$ 807,935</u></u>

Liabilities and Fund Balance

Liabilities:	
Accounts payable	\$ <u>29,585</u>
Contingency and commitment	
Fund balance:	
Restricted	1,500
Committed	<u>776,850</u>
Total fund balance	<u>778,350</u>
Total liabilities and fund balance	<u><u>\$ 807,935</u></u>

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year ended September 30, 2022

Revenues:	
Nitijela appropriation	\$ 999,498
Compact of Free Association	792,202
Interest	<u>8,282</u>
Total revenues	<u>1,799,982</u>
Expenditures:	
Scholarship assistance	1,391,773
Salaries and wages	119,470
Communications	28,651
Office supplies	16,638
Sitting fees	16,200
Office rental	15,840
Capital outlays	14,752
Training and travel	7,990
Representation and entertainment	7,548
Petroleum, oil and lubes	2,868
Meetings	2,025
Printing and reproduction	1,042
Miscellaneous	<u>10,834</u>
Total expenditures	<u>1,635,631</u>
Net change in fund balance	164,351
Fund balance at the beginning of the year	<u>613,999</u>
Fund balance at the end of the year	<u><u>\$ 778,350</u></u>

See accompanying notes.

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Notes to Financial Statements

Year ended September 30, 2022

1. Organization

The Marshall Islands Scholarship, Grant and Loan Board (MISGLB), a governmental 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 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, as Amended (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 (a governmental fund) of RepMar and is governed by a nine-member Board appointed by the Cabinet of RepMar.

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the recognized 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.

The general fund is used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies.

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

MISGLB's general 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 as well as other grants, gifts and donations received for scholarship assistance.

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The general fund is 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 fund balance.

The modified accrual basis of accounting is used by the general fund. 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. For this purpose, MISGLB considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred.

Cash and Time Certificate of Deposit

The deposit and investment policies of MISGLB are governed by 3 MIRC 7, *Investments of Public Funds*, and 11 MIRC 1, *Financial Management*. 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.

Marshall Islands Scholarship, Grant and Loan Board
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Cash and Time Certificate of Deposit, continued

For the purpose of the balance sheet, cash is defined as cash in demand accounts. Deposits maintained in time certificates of deposit with an original maturity date greater than ninety days are separately classified. As of September 30, 2022, the carrying amount of MISGLB's total cash and time certificate of deposit was \$791,658, and the corresponding bank balance was \$949,380. Of the bank balance amount, \$585,387, was maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance with the remaining amounts of \$363,993, being maintained in a financial institution not subject to depository insurance.

As of September 30, 2022, bank deposits in the amount of \$500,000 was FDIC insured. 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.

The allowance for uncollectible accounts is established through direct scholarship assistance charged to expenditures. Loans receivable are charged against the allowance for uncollectible accounts when management has determined that the scholarship recipients have met the criteria for conversion to grants.

Fund Balance

Fund balance classifications are based on the extent to which MISGLB is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Fund Balance, continued

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed.
- Unassigned includes negative fund balances in other governmental funds.

MISGLB has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of MISGLB is to use committed resources first followed by unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

Taxes

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

Recently Adopted Accounting Pronouncements

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, MISGLB's management has elected to postpone implementation of these statements.

Marshall Islands Scholarship, Grant and Loan Board
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

During the year ended September 30, 2022, MISGLB implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

Marshall Islands Scholarship, Grant and Loan Board
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
 - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance.
 - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance.
 - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance.
 - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance.
 - 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance.

Marshall Islands Scholarship, Grant and Loan Board
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance.

The implementation of these statements did not have a material effect on the accompanying financial statements.

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

Marshall Islands Scholarship, Grant and Loan Board
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.

Marshall Islands Scholarship, Grant and Loan Board
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

Marshall Islands Scholarship, Grant and Loan Board
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Estimates

The preparation of financial statements in accordance 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 to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with respect to the use of motor vehicles. For other risks of loss to which it is exposed, 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 year.

4. Receivables

Receivables as of September 30, 2022, including the applicable allowance for uncollectible accounts, are as follows:

Loans receivable	\$15,337,241
Less allowance for uncollectible accounts	<u>(15,337,241)</u>
	\$ <u>---</u>

During the year ended September 30, 2022, MISGLB converted \$192,698, in loans receivable to grants as the recipients met the criteria for conversion. The effect of loan conversion has been reflected in loans receivable balances as of September 30, 2022.

Marshall Islands Scholarship, Grant and Loan Board
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Notes to Financial Statements, continued

5. Related Party Transactions

MISGLB is a governmental 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 year ended September 30, 2022, MISGLB recognized certain on-behalf payments as contributions from RepMar, totaling \$119,470, representing certain payroll and related expenditures that RepMar paid directly on behalf of MISGLB.

During the year ended September 30, 2022, the operations of MISGLB were funded by appropriations from RepMar, totaling \$1,672,230.

MISGLB entered into an office lease with MIDB for a term of five years commencing February 25, 2017 with annual rent of \$15,840, payable in quarterly installments of \$3,960. In 2022, MISGLB renewed the lease for an additional two years with the same terms and conditions.

6. Contingencies

MISGLB receives a substantial amount of its revenue from annual RepMar appropriations. If a significant reduction in the level of budgetary support from RepMar were to occur, MISGLB's scholarship programs and activities may be impacted. For the year ending September 30, 2023, RepMar appropriated funding to MISGLB in the amount of \$1,809,088 for the purpose of funding scholarship activities.

Supplementary Information

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances

Year ended September 30, 2022

	Compact Scholarship Fund	Other Grant Scholarship Fund	Nitijela Fund	Total
Revenues:				
Nitijela appropriation	\$ ---	\$ ---	\$ 999,498	\$ 999,498
Compact of Free Association	792,202	---	---	792,202
Interest	---	---	8,282	8,282
Total revenues	<u>792,202</u>	<u>---</u>	<u>1,007,780</u>	<u>1,799,982</u>
Expenditures:				
Scholarship assistance	792,202	---	599,571	1,391,773
Salaries and wages	---	---	119,470	119,470
Communications	---	---	28,651	28,651
Office supplies	---	---	16,638	16,638
Sitting fees	---	---	16,200	16,200
Office rental	---	---	15,840	15,840
Capital outlays	---	---	14,752	14,752
Training and travel	---	---	7,990	7,990
Representation and entertainment	---	---	7,548	7,548
Petroleum, oil and lubes	---	---	2,868	2,868
Meetings	---	---	2,025	2,025
Printing and reproduction	---	---	1,042	1,042
Miscellaneous	---	---	10,834	10,834
Total expenditures	<u>792,202</u>	<u>---</u>	<u>843,429</u>	<u>1,635,631</u>
Net change in fund balances	---	---	164,351	164,351
Fund balances at the beginning of the year	<u>---</u>	<u>1,500</u>	<u>612,499</u>	<u>613,999</u>
Fund balances at the end of the year	<u>\$ ---</u>	<u>\$ 1,500</u>	<u>\$ 776,850</u>	<u>\$ 778,350</u>

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Marshall Islands Scholarship, Grant and Loan Board

We have audited, in accordance with the 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, the financial statements of the general fund of the Marshall Islands Scholarship, Grant and Loan Board (MISGLB), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise MISGLB's basic financial statements, and have issued our report thereon dated December 19, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MISGLB's internal control over financial reporting (internal control) as the basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MISGLB's internal control. Accordingly, we do not express an opinion on the effectiveness of MISGLB's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MISGLB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001.

MISGLB's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the MISGLB's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. MISGLB's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

December 19, 2024

**Report of Independent Auditors on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Directors
Marshall Islands Scholarship, Grant and Loan Board

Report of Independent Auditors on Compliance for the Sole Major Federal Program

Opinion on the Sole Major Federal Program

We have audited the Marshall Islands Scholarship, Grant and Loan Board's (MISGLB's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on MISGLB's sole major federal program for the year ended September 30, 2022. MISGLB's sole major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, MISGLB complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the sole major federal program for the year ended September 30, 2022.

Basis for Opinion on the Sole Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of MISGLB and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for the sole major federal program. Our audit does not provide a legal determination of MISGLB's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to MISGLB's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on MISGLB's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about MISGLB's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding MISGLB's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of MISGLB's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of MISGLB's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the general fund of MISGLB as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise MISGLB's basic financial statements. We issued our report thereon dated December 19, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst + Young LLP

December 19, 2024

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

Assistance Listing Number	Pass-Through Entity Identifying Numbers	Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal Expenditures
		<u>U.S. Department of the Interior</u>	
		Funds passed through the Republic of the Marshall Islands:	
15.875		Economic, Social and Political Development of the Territories:	
		Compact of Free Association, As Amended, Sector Grants:	
		Section 211(a)(1) Education Sector	\$ 592,202
		Section 211(b)(1) Kwajalein Special Needs	200,000
		Total Expenditures of Federal Awards	\$ <u>792,202</u>

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

1. Scope of Audit

The Marshall Islands Scholarship, Grant and Loan Board (MISGLB) is a subrecipient of funds received through Sections 211(a) and 211(b) of the Compact of Free Association, As Amended (the Compact), from the Republic of the Marshall Islands (RepMar). These funds are provided to support the post-secondary education of citizens of the Marshall Islands attending accredited post-secondary institutions.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of MISGLB under a program of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of MISGLB, it is not intended to and does not present the financial position or changes in financial position of MISGLB.

3. Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which MISGLB maintains its accounting records. All funds expended are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. MISGLB has not elected to use the 10-percent de-minimis indirect cost rate allowed under the Uniform Guidance.

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs

Year ended September 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ **Yes** X **No**

Significant deficiency(ies) identified?

_____ **Yes** X **None reported**

Noncompliance material to financial statements noted?

 X **Yes** _____ **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ **Yes** X **No**

Significant deficiency(ies) identified?

_____ **Yes** X **None reported**

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ **Yes** X **No**

Identification of major federal programs:

Assistance Listing Number
(ALN)

Name of Federal Program

15.875

Economic, Social, and Political Development of the Territories

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ **Yes** X **No**

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Section II - Financial Statement Findings

<u>Finding Numbers</u>	<u>Requirement</u>
2022-001	Local Noncompliance

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-001

Area: Local Noncompliance

Criteria: Section 6(e) of the Scholarship Assistance of 1979 (the Act), as amended, requires MISGLB to ensure timely repayment of scholarship assistance loans. MISGLB policies and procedures require the repayment of student loans within one year of completion or cessation of studies. Furthermore, Section 7(h) of the Act authorizes MISGLB to convert scholarship assistance loans to grants.

Condition: During the year ended September 30, 2022, MISGLB converted \$192,698 of loans to grants as recipients met conversion criteria. Further, \$15,337,241 of loans as of September 30, 2022 included \$6,403,200 that are more than six years old, which exceeds statutory limitations. Due to the lack of collection of these loans, a corresponding allowance for uncollectable loans has been recorded.

In addition, the cost of student airplane tickets and shouldered quarantine costs due to COVID-19 were added to the student's loan balance for which no agreement was executed that requires repayment of such.

Cause: The lack of enforcement of MISGLB policies and procedures requiring the repayment of scholarship assistance loans. Also, there is lack of written policies and procedures to include additional costs shouldered in the total scholarship assistance loans.

Effect: The lack of loan repayments and a possibility that converted loans may not be complete.

Identified as a Repeat Finding: 2021-001 by the predecessor auditor.

Recommendation: We recommend that MISGLB's management enforce established policies and procedures requiring the repayment of scholarship assistance loans. In addition, we recommend that MISGLB include the cost of student airplane tickets, including additional assistance, in the total amount of scholarship assistance reflected on the Student Loan Agreement.

Views of Responsible Officials and Planned Corrective Actions: MISGLB's management agrees with the finding and describes corrective action in the Corrective Action Plan.

Marshall Islands Scholarship, Grant and Loan Board
(A Governmental Fund of the Republic of the Marshall Islands)

Corrective Action Plan

Year ended September 30, 2022



Marshall Islands
Scholarship, Grant and Loan Board

P.O. Box 1436
Majuro, MH 96960
(692) 625-3108 / 5771
(692) 625-7325
misglb@pss.edu.mh

December 12, 2024

Ernst & Yong (RMI), Inc.
PO Box 1288
Majuro, Marshall Islands 96960

Dear EY & Jomar,

The Marshall Islands Scholarship, Grant & Loan Board (MISGLB), strongly agree with your finding for Fiscal Year 2022.

1. Finding No. 2022-001

Marshall Islands Scholarship, Grant and Loan Board has taken immediate action in regarding the student airfare ticket reflected in the Student Loan Agreement total amount. Because of changing in the airfare, we didn't reflect the airfare in the SLA but we inform student about how much will it cost. Student are aware that air plane ticket is included in their balance.

Actions already taken to assist this issue;

- Since last year 2023, we include a reminder in the Student Loan Agreement that we've been sending out to all our new applicants. On the MISGLB Student Loan Agreement under the terms and conditions #9 state that *"I understand and agree that the cost of my airfare ticket will be included in the total amount of the student loans I will be receiving from MISGLB"*

In addition, MISGLB already establish a written policy requiring the repayment of scholarship assistance loans. On the MISGLB new regulation, under section L. Collection on Awards "this agreement includes the requirement that "repayment of the loan will commence with three (3) months after completion or cessation of his/her studies" and not to exceed then (10) years."

Actions already taken to assist this issue;

- After former collector got resigned our new collector got hire this FY 2025. This person has already start working on collecting off islands former RMI recipients. So far two recipients have already made payment starting this month, December. Along with these two, there are more who've schedule their payment and will start submitting their payment soon.

Should you have any further questions, please let us know.

Sincerely,

Elizabeth Jemwai
Director
MISGLB

Marshall Islands Scholarship, Grant and Loan Board
(A Govenmental Fund of the Republic of the Marshall Islands)

Summary Schedule of Prior Year Audit Findings

Year ended September 30, 2022

<u>Finding Number</u>	<u>CFDA/ALN</u>	<u>Questioned Costs</u>	<u>Status</u>
2021-001	N/A	\$ ---	Not resolved. Refer to Finding 2022-001