MARSHALL ISLANDS DEVELOPMENT BANK

(A COMPONENT UNIT OF THE REPUBLIC OF THE MARSHALL ISLANDS)

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Years Ended September 30, 2014 and 2013
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Development Bank:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIDB as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 May 12, 2015, on our consideration of MIDB'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 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 MIDB's internal control over financial reporting and compliance.

Deloitte & Touche LLP

May 12, 2015

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis
Years Ended September 30, 2014 and 2013

Fiscal year October 1, 2013 to September 30, 2014 has been a productive year for the Marshall Islands Development Bank (MIDB). During the fiscal year, the Bank's resources were utilized to prioritize Consumer and Housing Loan Programs with the goal and purpose of improving the living standards and conditions of the people of the Republic of the Marshall Islands.

Management's Discussion and Analysis provides an overview of the Bank's financial highlights and activities for the fiscal year ended September 30, 2014.

FINANCIAL HIGHLIGHTS

- MIDB's total net position increased by $1.99M or 13% over the course of this year's operations. Net position represents funds from the RMI Government, Housing Preservation Grant and the USDA Self-Help Housing Project.

- Operating revenues increased by $56K from $3.87M in 2013 to $3.92M in 2014, $2.88M of which was generated through interest on loans. Total operating expenses virtually remained unchanged.

- Allowance for loan losses decreased by $836K from $13.1M in 2013 to $12.3M in 2014. Nonoperating revenues decreased by $151K or 51% from $296K in 2013 to $145K in 2014.

ANALYSIS OF MIDB'S FINANCIAL STATUS

This Analysis serves as an overview of MIDB's financial statements. A Summary of Statements of Net Position is shown below that will give insight on MIDB's resources, liabilities and net position, MIDB's priority investments and performance results compared to previous year. At the end of the fiscal year 2014, MIDB's assets of $24.71M exceeded liabilities of $7.21M by $17.5M. However, $1.40M or 8% of the net position is either invested in capital assets or in restricted funds that can only be used for the purpose for which the funds were created. Capital assets are resources used by the Bank during the course of its operation to provide services to the people and are assets that are not easily liquidated. As of September 30, 2014, unrestricted net position amounted to $16.1M, enough to repay all outstanding debts.

Summary of Statements of Net Position

		2014	2013	2012
Position	Cash and Equivalents	$ 75,423	$ 108,740	$ 386,349
	Restricted Cash	553,787	526,468	518,242
	Restricted TCD	1,253,173	684,188	128,758
	Loan Receivable, net	21,066,853	20,571,274	18,908,587
	Premises and Equipment, net	1,118,670	1,296,595	1,455,422
	Other Assets	640,628	753,227	775,684
Liabilities	**Total Assets**	**24,708,534**	**23,940,492**	**22,173,042**
	Loan Payable	3,609,051	5,067,312	3,690,095
	RepMar Deposit	1,952,136	1,877,054	1,805,049
	Other Liabilities	1,649,694	1,489,907	1,248,152
	Total Liabilities	**7,210,881**	**8,434,273**	**6,743,296**
Net Position				
	Invested in Capital Assets	1,118,670	1,296,595	1,455,422
	Restricted	279,581	279,581	278,805
	Unrestricted	16,099,402	13,930,043	13,695,519
	Total Net Position	**$ 17,497,653**	**$ 15,506,219**	**$ 15,429,746**

- Loan approvals for the year were approximately $24.11M, broken down by projects, $23.57M released under various consumer loans, $0.05M for business loans and $0.49M granted to housing loans. Loans receivable, net, increased by $496K in 2014 compared with a $1.66M increase in 2013. Loans released decreased from $24.81M to $24.11M during the fiscal years 2013 and 2014, respectively.

- The Government of the Marshall Islands invested $7M in Time Certificate of Deposit at the rate of 4% in May 9, 2003, maturing May 8, 2018. The money received from such TCDs was used to finance various loans. As of September 30, 2014, the balance owed for Time Certificates of Deposit to the RMI Government was $1.95M.

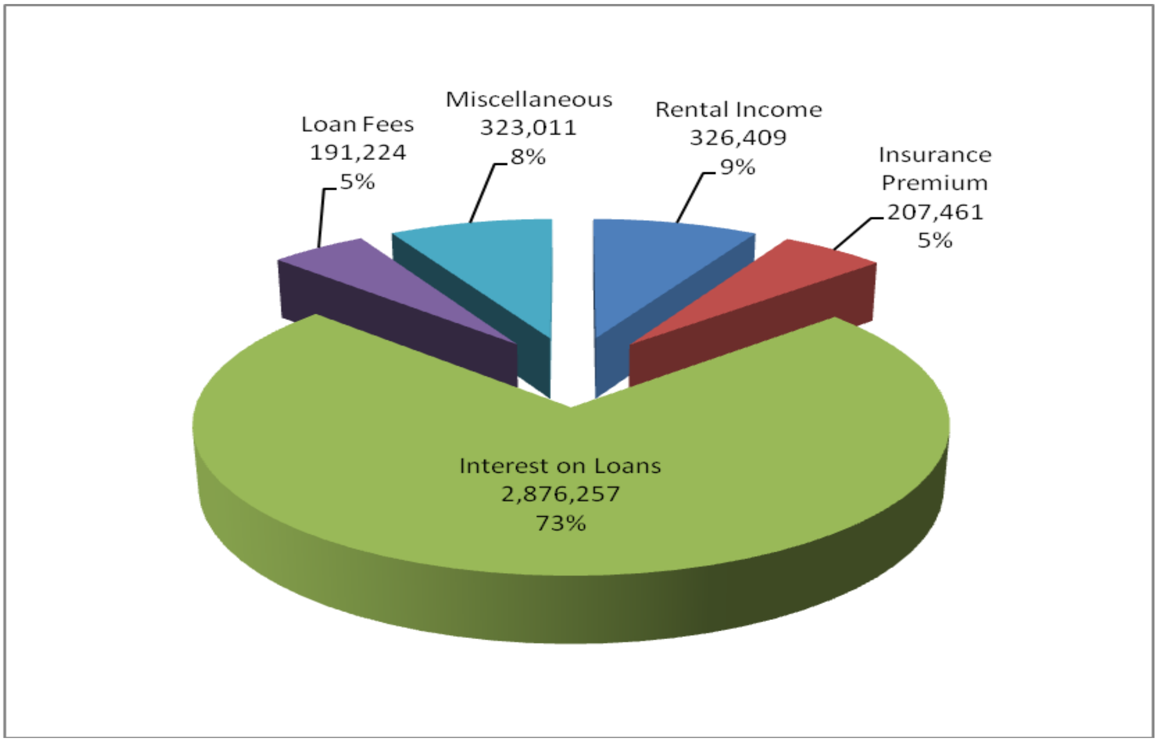
- MIDB availed of $2.0M and $1.0M long-term loans with Bank of Marshall Islands in 2012. Interest payments shall be at an annual rate of 5% per annum until maturity date on March 14 and October 31, 2017, respectively. As of September 30, 2014, outstanding principal balances on the 2012 BOMI loans was $1.10M and $0.61M, respectively. MIDB also availed of a $2.5M long-term loan with BOMI on behalf of the Government of the Marshall Islands in 2013. Interest shall be at 5.5% per annum until maturity date on May 31, 2018. All loan proceeds were issued to Air Marshall Islands. As of September 30, 2014, the outstanding principal balance on the 2013 BOMI loan was $1.90M.

Summary of Statements of Revenues, Expenses and Changes in Net Position

	2014	2013	2012
Operating revenues	$ 3,924,362	$ 3,868,377	$ 3,045,209
Recovery of (provision for) loan losses	546,436	(1,461,201)	(14,987)
	4,470,798	2,407,176	3,030,222
Less: expenses			
Operating expenses	319,819	297,764	177,017
General administrative expenses	2,304,613	2,328,507	2,138,716
	2,624,432	2,626,271	2,315,733
Earnings (loss) from operations	1,846,366	(219,095)	714,489
Non-operating revenues	145,068	295,568	979,249
Increase in net position	1,991,434	76,473	1,693,738
Net position at beginning of year	15,506,219	15,429,746	13,736,008
Net position at end of year	**$ 17,497,653**	**$ 15,506,219**	**$ 15,429,746**

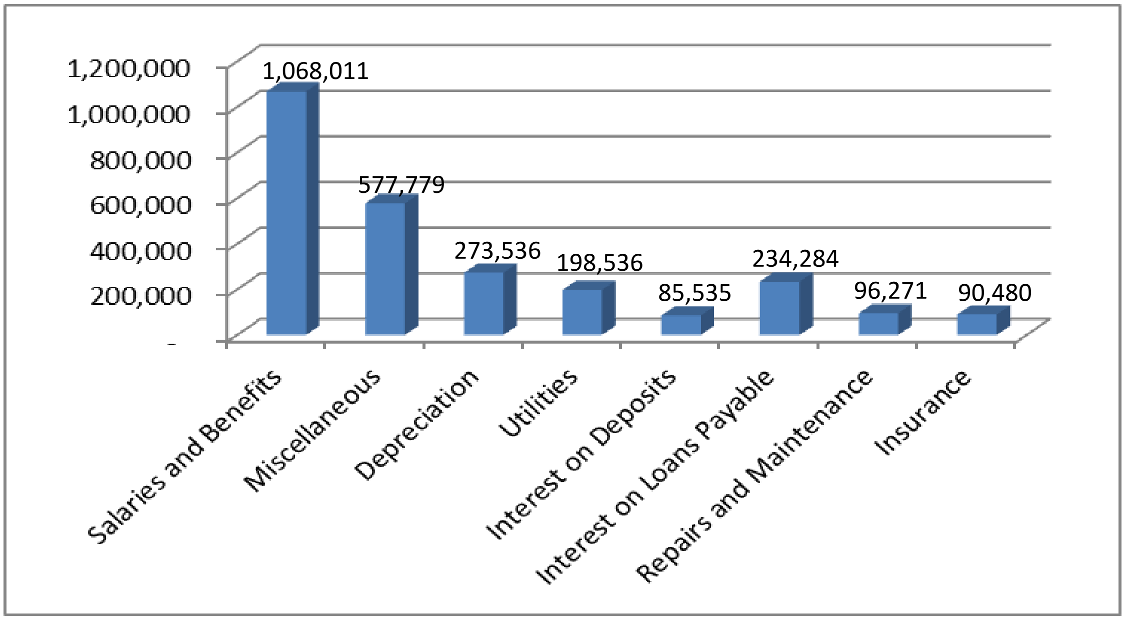
- Total operating revenues for 2014 increased by $56K or 1.5% compared to 2013. About 73% MIDB's operating revenue comes from interest on loans, 86%, 7%, and 6% of which are generated earnings from consumer, business and housing loans, respectively. Please see the chart below depicting the distribution of the Bank's revenue.

- Recovery of loan losses for 2014 of $546K was primarily the result of the RMI Cabinet approving and authorizing the use of the RMI TCD to repay delinquent loan payments on the Air Marshall Islands loan receivable, which was fully allowed in the prior year.



- Total operating expenses for 2014 marginally decreased by $2K compared with 2013. MIDB's operating expenses cover a range of operating, general and administrative expenses.

- Provision for delinquent loan accounts is provided based on the Bank's reasonable estimate, wherein the number of days an account is due, the amount of loan outstanding balance, and the borrower's capability to pay play vital information in the computation of additional allowance to be provided. The graph below shows itemized expenses and provide an over-all picture of the Bank's spending activities.



- Interest expense increased by $22K or 7% during fiscal year ended September 30, 2014 compared to fiscal year ended September 30, 2013 due to an increase to both interest on loans payable and interest on deposits. Interest on loans payable pertains to interest payments and accruals for Bank of Marshall Islands loan while interest on deposits pertains to payments and accruals on the RepMar TCD and various savings accounts.

- General and administrative expenses in the aggregate decreased by $24K, or 1% from last year's operation due primarily to a decrease in utilities of $65K or 25% and bad debts expense of $46K or 74%.

- Total non-operating revenues for 2014 decreased by $151K or 51% compared with 2013 due primarily to contributions from the RMI government of $149K in 2013.

<u>Capital Assets and Debt</u>

Capital asset acquisitions amounted to $82K in 2014. For additional information concerning capital assets, please refer to Note 8 to the financial statements.

Long term-debt decreased by $1.46M in 2014. MIDB liquidated its long term loan with International Commercial Bank of China amounting to $5M which was granted on August 6, 1999 with an interest rate of 5% per annum. For additional information concerning debt, please refer to Note 12 to the financial statements.

Management's and Discussion and Analysis for the year ended September 30, 2013 is set forth in MIDB's report on the audit of financial statements, which is dated May 29, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be obtained from MIDB's Managing Director at rmimidb@ntamar.net

ECONOMIC OUTLOOK

In the next years to come, MIDB is continuing to expect growth in the demand for housing loans and consumer loans, the latter being the major component of MIDB's loan portfolio. MIDB is involved in improving the living conditions of the RMI people through the housing loan projects under Mutual Self Help Housing Projects and USDA Rural development.

The Bank is currently dependent with its income generated from new loans. The net position is just sufficient to pay for MIDB's outstanding debts. MIDB may have to look for other sources of funds to maintain the current portfolio and the rising demand for loans.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MIDB's customers and other stake holders with an overview of MIDB's operations and financial condition as at September 30, 2014. Should the reader have questions regarding the information included in this report, or wish to request additional financial information, please contact the Marshall Islands Development Bank Managing Director at the above email address or at P.O Box 1048, Majuro, Marshall Islands, MH 96960.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Statements of Net Position
September 30, 2014 and 2013

ASSETS	2014	2013
Cash and cash equivalents	$ 75,423	$ 108,740
Restricted cash	553,787	526,468
Restricted time certificate of deposit	1,253,173	684,188
Investments	366,748	366,748
Receivables, net:		
Loans	21,066,853	20,571,274
Accrued interest	136,521	151,231
Other	129,251	213,240
Capital assets:		
Non-depreciable capital assets	57,453	88,745
Capital assets, net of accumulated depreciation	1,061,217	1,207,850
Investment property held for sale, net	8,108	22,008
	$ 24,708,534	$ 23,940,492

LIABILITIES AND NET POSITION	2014	2013
Liabilities:		
Notes payable	$ 3,609,051	$ 5,067,312
Short-term debt	-	14,161
RepMar deposit	1,952,136	1,877,054
Accrued interest payable	31,021	32,732
Accounts payable and accrued expenses	212,764	259,733
Deposits pledged	1,405,909	1,183,281
Total liabilities	7,210,881	8,434,273
Commitments and contingency		
Net position:		
Net investment in capital assets	1,118,670	1,296,595
Restricted	279,581	279,581
Unrestricted	16,099,402	13,930,043
Total net position	17,497,653	15,506,219
	$ 24,708,534	$ 23,940,492

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Statements of Revenues, Expenses and Changes in Net Position
September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Interest income on loans	$ 2,876,257	$ 2,928,458
Rental income	326,409	289,247
Insurance premiums	207,461	197,599
Loan fees	191,224	267,640
Federal grants	158,385	114,724
Interest income on time certificate of deposit	18,003	7,330
Miscellaneous	146,623	63,379
Total operating revenues	3,924,362	3,868,377
Recovery of (provision for) loan losses	546,436	(1,461,201)
Net operating revenues	4,470,798	2,407,176
Operating expenses:		
Interest expense:		
Interest on deposits	85,535	75,379
Interest on loans payable	234,284	222,385
Total interest expense	319,819	297,764
General and administrative expenses:		
Salaries and employee benefits	1,068,011	1,049,613
Depreciation	273,536	270,682
Utilities	198,536	263,752
Repairs and maintenance	96,271	83,689
Insurance	90,480	90,909
USDA loan guarantee	84,251	28,851
Professional fees	63,037	11,728
Representation	62,112	49,047
Printing, stationery and advertising	58,711	66,684
Travel and training	55,332	84,747
Communications	53,450	51,469
Promotion and donation	34,459	40,213
Office and house rental	33,600	27,000
Land lease	24,682	26,382
Fuel	23,495	23,693
Bad debts expense	16,518	62,344
Taxes and licenses	7,189	12,533
Miscellaneous	60,943	85,171
Total general and administrative expenses	2,304,613	2,328,507
Income (loss) from operations	1,846,366	(219,095)
Nonoperating revenues:		
Contributions from RepMar	-	148,800
Investment earnings	145,068	145,968
Other	-	800
Total nonoperating revenues	145,068	295,568
Change in net position	1,991,434	76,473
Net position at beginning of year	15,506,219	15,429,746
Net position at end of year	$17,497,653	$15,506,219

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Statements of Cash Flows
September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	3,838,538	$ 3,581,704
Cash payments to suppliers for goods and services	(964,776)	(923,744)
Cash payments to employees for services	(1,096,752)	(1,037,943)
Interest received on time certificate of deposit	18,003	7,330
Interest paid	(321,530)	(287,406)
Operating grants received	158,385	114,724
Net cash provided by operating activities	1,631,868	1,454,665
Cash flows from noncapital financing activities:		
Contributions from RepMar	-	148,800
Net change in RepMar deposit	75,082	72,005
Net change in pledged deposits	222,628	183,442
Net cash provided by noncapital financing activities	297,710	404,247
Cash flows from capital and related financing activities:		
Net borrowings under short-term loan arrangement	(14,161)	14,161
Proceeds from long-term debt	-	2,500,000
Principal repayment of long-term debt	(1,458,261)	(1,122,783)
Additions to premises, equipment and foreclosed assets	(81,711)	(97,955)
Proceeds from sale of property and equipment	-	800
Net cash provided by (used for) capital and related financing activities	(1,554,133)	1,294,223
Cash flows from investing activities:		
Loan originations and principal collections, net	42,474	(3,013,056)
Net change in restricted assets	(596,304)	(563,656)
Dividends received	145,068	145,968
Net cash used in investing activities	(408,762)	(3,430,744)
Net change in cash and cash equivalents	(33,317)	(277,609)
Cash and cash equivalents at beginning of year	108,740	386,349
Cash and cash equivalents at end of year	$ 75,423	$ 108,740
Cash flows from operating activities:		
Income (loss) from operations	$ 1,846,366	$ (219,095)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Recovery of (provision for) loan losses	(546,436)	1,461,201
Bad debts expense	16,518	62,344
Depreciation	273,536	270,682
(Increase) decrease in assets:		
Receivables:		
Accrued interest	14,710	(38,192)
Other	67,471	(15,595)
Increase (decrease) in liabilities:		
Accrued interest payable	(1,711)	10,358
Accrued expenses	(46,969)	33,794
Deferred loan fees	-	(106,335)
Unearned premiums	8,383	(4,497)
Net cash provided by operating activities	$ 1,631,868	$ 1,454,665

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands (RepMar), was incorporated under the laws of RepMar as a non-stock corporation pursuant to the Marshall Islands Development Bank Act of 1988 (Public Law 1988-1). MIDB was established to promote the development and expansion of the economy of the Marshall Islands in order to improve the standard of living of the people and is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar. The primary activities of MIDB have been designed to strengthen the nation's economic base, increase employment and production, improve the standards of housing, promote exports, and reduce the country's dependence on imports and foreign aid through the approval of viable development loans. MIDB has received funds under Section 211 of the Compact of Free Association (the Compact), direct contributions from RepMar and funds from the U.S. Department of Agriculture (USDA) under the Rural Housing and Community Development Service Housing Preservation and Self-Help Housing Program Grants. MIDB also assumed the assets and liabilities of the former Marshall Islands Economic Development Loan Office, Inc.

MIDB’s financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures,* establish financial reporting standards for governmental entities, which require that management’s discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements.

To conform to the requirements of GASB 34, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

- Restricted: Nonexpendable - Net position subject to externally imposed stipulations that requires MIDB to maintain such permanently. At September 30, 2014 and 2013, MIDB does not have nonexpendable net position. Expendable - Net position whose use by MIDB is subject to externally imposed stipulations that can be fulfilled by actions of MIDB pursuant to those stipulations or that expire by the passage of time.

- Unrestricted; net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Classification of Revenues

MIDB has classified its revenues as either operating or nonoperating according to the following criteria:

- *Operating Revenues* - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) insurance premiums, loan fees and interest income on loans and Certificates of Deposit, (2) rental occupancy income associated with MIDB assets, and (3) USDA federal grant revenues.

- *Nonoperating Revenues* - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as RepMar appropriations and investment income.

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net position and cash flows, cash and cash equivalents is defined as amounts in demand deposits as well as short-term investments maturing within three months of the date acquired. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified.

Custodial credit risk is the risk that in the event of a bank failure, MIDB'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. MIDB does not have a deposit policy for custodial credit risk.

As of September 30, 2014 and 2013, the carrying amounts of cash and cash equivalents and time certificates of deposit are $1,882,383 and $1,319,396, respectively, and the corresponding bank balances are $2,021,825 and $1,503,889, respectively. Of the bank balances, $576,527 and $583,305, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014 and 2013, bank deposits in the amount of $251,736 and $261,251, respectively, were FDIC insured. Bank deposits of $1,445,298 and $920,584, respectively, are maintained in financial institutions not subject to depository insurance. MIDB does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

(2) Summary of Significant Accounting Policies, Continued

Investments

Investments of 20% or more of the voting stock of an investee are presumed to give the investor significant influence and are carried using the equity method. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

Loans Receivable, Interest Receivable and Allowances for Losses

Loans and interest receivables are due from customers, both individuals and businesses, located within the Republic of the Marshall Islands and are stated at the unpaid balances less the allowances for losses, and unearned insurance premiums. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding.

The allowances for loan losses and interest receivable losses are established through a provision for losses charged to expense. Loans and interest receivables are charged against the allowance for losses when management believes that collection is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans and interest receivables that may be uncollectible, based on evaluations of the collectability and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

Other Receivables

Other receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense.

Premises and Equipment

Premises and equipment with a cost that equals or exceeds $500 are capitalized. Such assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method based on the estimated useful lives of the respective assets. The estimated useful lives of these assets are as follows:

Building and houses	5 - 15 years
Computer systems	5 years
Motor vehicles	3 years
Office furniture	5 years
Office equipment	5 years

(2) Summary of Significant Accounting Policies, Continued

Foreclosed Assets

Assets acquired through, or in lien of, loan foreclosures are held for sale and are initially recorded at the lower of loan carrying amount or fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MIDB has no items that qualify for reporting in this category.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MIDB has no items that qualify for reporting in this category.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. MIDB is specifically exempt from gross revenue tax pursuant to Section 817 of Public Law 1988-1.

Recognition of Premium Revenues

Loan insurance premiums are generally recognized as revenue on a pro rata basis up to a three year term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

New Accounting Standards

During fiscal year 2014, MIDB implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of MIDB.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and valuation of foreclosed assets.

(3) Investments

A summary of MIDB's investments as of September 30, 2014 and 2013 is as follows:

	2014	2013
Bank of Marshall Islands	$ 336,748	$ 336,748
Marshall Islands Service Corporation	30,000	30,000
	$ 366,748	$ 366,748

The investment in Bank of Marshall Islands (BOMI) is recorded at cost as MIDB does not exercise significant influence over the operating and financial policies of the investee. The investment comprises approximately 14% of the outstanding shares of BOMI as of September 30, 2014 and 2013. In addition, MIDB has an equity interest in Marshall Islands Service Corporation, an affiliate of BOMI. This investment is recorded at cost as MIDB does not exercise significant influence over the operating and financial policies of the investee. During the years ended September 30, 2014 and 2013, dividend income earned from investees was $145,068 and $145,968, respectively.

(4) Loans Receivable

Loans receivable as of September 30, 2014 and 2013 are summarized as follows:

	2014	2013
Investment Development Fund	$ 1,176,157	$ 1,159,422
Compact Section 211	286,613	299,431
Republic of the Marshall Islands	32,126,930	32,462,829
Housing Preservation Grant	9,922	9,922
Gross loans	33,599,622	33,931,604
Less: unearned premiums	(277,713)	(269,330)
Less: allowance for loan losses	(12,255,056)	(13,091,000)
	$ 21,066,853	$ 20,571,274

An analysis of the change in the allowance for loan losses during the years ended September 30, 2014 and 2013 is as follows:

	2014	2013
Beginning balance	$ 13,091,000	$ 11,648,117
Provision for loan losses	-	1,447,235
Recovery from loan losses	(546,436)	-
Charge-offs	(289,508)	(4,352)
Ending balance	$ 12,255,056	$ 13,091,000

(4) Loans Receivable, Continued

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2014 and 2013 loan portfolio is unsecured, while the remaining portion is secured by various forms of collateral. Additionally, these loans are normally cosigned by third parties. The basis for expected repayment of a majority of the consumer loans and housing loans is the continued employment of the borrower and allotment agreements between MIDB and the borrower's employer. All loans are at fixed rates ranging from 5.5% - 6.5% for Investment Development Fund loans, 4.0% - 6.5% for Compact Section 211 loans, 4.0% -14.0% for Republic of Marshall Islands loans, and 2.0%-6.0% for Housing Preservation Grant loans.

(5) Accrued Interest Receivable

Accrued interest receivable as of September 30, 2014 and 2013 is summarized as follows:

	2014	2013
Republic of the Marshall Islands	$ 141,167	$ 178,242
Investment Development Fund	23,854	19,419
Gross accrued interest receivable	165,021	197,661
Less: allowance for doubtful interest	(28,500)	(46,430)
	$ 136,521	$ 151,231

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2014 and 2013 is as follows:

	2014	2013
Beginning balance	$ 46,430	$ 32,664
Provision for loan losses	-	13,966
Charge-offs	(17,930)	(200)
Ending balance	$ 28,500	$ 46,430

(6) Other Receivables

Other receivables as of September 30, 2014 and 2013, are as follows:

	2014	2013
Rental	$ 405,373	$ 245,677
Other	56,960	162,687
	462,333	408,364
Allowance for uncollectible accounts	(333,082)	(195,124)
	$ 129,251	$ 213,240

(7) Restricted Deposits

MIDB maintains a savings deposit as of September 30, 2014 and 2013 in the amount of \$553,787 and \$526,468, respectively, which is restricted to collateralize loans funded by Rural Housing Service (RHS). The Memorandum of Understanding signed with the RHS requires MIDB to create and maintain an escrow account with an initial deposit of \$500,000. If the account falls below \$500,000, MIDB shall deposit in the escrow account 5% of all RHS loans issued until such time that the account has reached \$500,000. MIDB also maintains a time certificate of deposit as of September 30, 2014 and 2013 with an affiliated bank in the amount of \$1,253,173 and \$684,188, respectively, which is restricted to collateralize certain loans payable.

(8) Premises and Equipment

Capital asset activity during the years ended September 30, 2014 and 2013 is as follows:

	2014			
	October 1, 2013	Additions	Deletions/ Transfers	September 30, 2014
Building and houses	$ 2,622,294	$ 40,962	$ -	$ 2,663,256
Computer systems	251,081	10,690	-	261,771
Motor vehicles	194,526	45,000	-	239,526
Office furniture	58,024	-	-	58,024
Office equipment	396,372	16,351	-	412,723
	3,522,297	113,003	-	3,635,300
Less accumulated depreciation	(2,314,447)	(259,636)	-	(2,574,083)
	1,207,850	(146,633)	-	1,061,217
Construction in progress	88,745	9,670	(40,962)	57,453
	$ 1,296,595	$ (136,963)	$ (40,962)	$ 1,118,670

	2013			
	October 1, 2012	Additions	Deletions/ Transfers	September 30, 2013
Building and houses	$ 2,541,900	$ 80,394	$ -	$ 2,622,294
Computer systems	244,947	6,134	-	251,081
Motor vehicles	211,656	20,386	(37,516)	194,526
Office furniture	58,024	-	-	58,024
Office equipment	389,183	7,189	-	396,372
	3,445,710	114,103	(37,516)	3,522,297
Less accumulated depreciation	(2,095,181)	(256,782)	37,516	(2,314,447)
	1,350,529	(142,679)	-	1,207,850
Construction in progress	104,893	73,591	(89,739)	88,745
	$ 1,455,422	$ (69,088)	$ (89,739)	$ 1,296,595

(9) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2014 and 2013 are summarized as follows:

	2014	2013
Foreclosed assets	$ 350,000	$ 350,000
Allowance for losses	(350,000)	(350,000)
	$ -	$ -

(10) Investment in Property

In April 2005, MIDB purchased property for $139,000, with the intention of selling the property in the near future. Currently, the property is being leased to tenants. Depreciation is recognized by use of an estimated 10-year life and the straight line method. As of September 30, 2014 and 2013, the property is presented net of accumulated depreciation of $130,892 and $116,992, respectively. Depreciation expense of $13,900 was recognized during each of the years ended September 30, 2014 and 2013.

(11) Short-term Debt

On December 12, 2012, MIDB obtained a $95,000 loan from an affiliate bank with interest at 5% per annum and payable on November 30, 2013. The proceeds were used to fund the purchase of supplies, furniture and kitchenware. The loan has been fully paid as of September 30, 2014.

Short-term debt changes during the years ended September 30, 2014 and 2013 is as follows:

	Balance October 1,	Drawdowns	Repayment	Balance September 30,
2014:				
Loan payable	$ 14,161	$ -	$ (14,161)	$ -
2013:				
Loan payable	$ -	$ 95,000	$ (80,839)	$ 14,161

(12) Long-term Debt

Long-term debt at September 30, 2014 and 2013 is as follows:

	2014	2013
Loan payable to the Mega International Commercial Bank (formerly the International Commercial Bank of China) in the amount of $5,000,000, dated August 6, 1999, interest at 5% per annum, due in semi-annual installments of $200,000 plus interest through August 6, 2014, uncollateralized.	$ -	$ 400,000

(12) Long-term Debt, Continued

Note payable to an affiliate bank in the amount of $2,000,000, dated June 14, 2012, interest at 5% per annum, due in monthly installments of principal and interest of $40,000 through March 14, 2017, collateralized by loans receivable in the amount of $15,232,330. Loan proceeds were used to fund housing loans.	1,095,673	1,509,005
Note payable to an affiliate bank in the amount of $1,000,000, dated August 15, 2012, interest at 5% per annum, due in monthly installments of principal and interest of $18,920 through August 31, 2017, collateralized by the MAKO building and a time certificate of deposit. Loan proceeds were used to fund housing loans.	614,373	805,164
Note payable to an affiliate bank in the amount of $2,500,000, dated May 30, 2013, interest at 5.5% per annum, due in monthly installments of principal and interest of $47,773 through May 31, 2018, collateralized by time certificate of deposit and assignment of loans receivables. Loan proceeds were used to fund a commercial loan to Air Marshall Islands, Inc.	1,899,005	2,353,143
	$ 3,609,051	$ 5,067,312

Annual debt service requirements to maturity for principal and interest are as follows:

Year ending September 30,	Principal	Interest	Total
2015	$ 1,095,950	$ 184,366	$ 1,280,316
2016	1,163,932	116,384	1,280,316
2017	974,580	46,385	1,020,965
2018	374,589	7,595	382,184
	$ 3,609,051	$ 354,730	$ 3,963,781

Long-term debt changes during the years ended September 30, 2014 and 2013 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2014:					
Notes payable	$ 5,067,312	$ -	$ (1,458,261)	$ 3,609,051	$ 1,095,950
2013:					
Notes payable	$ 3,690,095	$ 2,500,000	$ (1,122,783)	$ 5,067,312	$ 1,444,161

(13) Related Party Transactions

As of September 30, 2014 and 2013, MIDB has deposits with a bank of $1,305,354 and $738,400, respectively, in which MIDB has an equity investment. The deposits accrue interest at rates of 0.25% to 2.5% per annum. Interest earned for the years ended September 30, 2014 and 2013 was $18,003 and $7,330, respectively.

As of September 30, 2014 and 2013, MIDB employees have loans outstanding of $813,693 and $858,749, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2014 and 2013, of $146,521 and $143,136, respectively. All loans were made at normal commercial terms and conditions.

As of September 30, 2014 and 2013, MIDB has an outstanding certificate of deposit, totaling $1,952,136 and $1,877,054, respectively, payable to RepMar. The deposit is for a fifteen-year term and accrues interest at 4% per annum. This deposit is withdrawable in full or in part before maturity date with the consent of MIDB. As of September 30, 2014 and 2013, interest payable relating to this deposit amounted to $30,806 and $29,621, respectively, and is included within the statements of net position as accrued interest payable.

Movements in long-term liabilities during the years ended September 30, 2014 and 2013 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,
2014:				
RepMar deposit	$ 1,877,054	$ 75,082	$ -	$ 1,952,136
2013:				
RepMar deposit	$ 1,805,049	$ 72,005	$ -	$ 1,877,054

On May 30, 2013, MIDB entered into a loan agreement with Air Marshall Islands, Inc. (AMI), a component unit of RepMar, whereby MIDB loaned AMI $2,500,000 for the purpose of funding operations. The amount outstanding as of September 30, 2014 and 2013 is $2,376,134 and $2,500,000, respectively.

On August 7, 2000, MIDB entered into a loan agreement with RepMar whereby MIDB loaned RepMar $1,800,000 for the purpose of paying off debts owed by the Marshall Islands Social Security Administration. The amount outstanding as of September 30, 2014 and 2013 is $24,973.

(14) Risk Management

MIDB 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. MIDB has elected to purchase commercial automobile insurance and fire, lightning and typhoon insurance covering office contents from independent third parties for the risks of losses to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. MIDB does not maintain general liability insurance and fire, lightning and typhoon insurance for its office building and properties. In the event of an insurable loss, MIDB may be self-insured to a material extent.

(15) Commitments and Contingency

Commitments

On March 31, 2012, MIDB entered into an agreement to manage the hotel of a delinquent loan customer. Under the terms of the agreement, MIDB is required to manage the operations and to apply the proceeds less operating expenses to the customer's outstanding balance. The term of the agreement is for as long as is required to bring the loan current. Loan balances as of September 30, 2014 and 2013 of $953,853 and $938,443, respectively, were fully provided with an allowance for loan losses.

MIDB committed to guarantee certain loans recorded in the books of an affiliate bank, with principal balances totaling $33,995 and $39,107 as of September 30, 2014 and 2013, respectively.

Further, certain loans recorded in the books of USDA are subject to MIDB guarantee, the balance of which amounted to $10,533,413 and $10,379,126 as of September 30, 2014 and 2013, respectively. During the years ended September 30, 2014 and 2013, MIDB made payments to USDA in the amount of $84,251 and $28,851, respectively, on delinquent USDA loans.

During the year ended December 31, 2001, MIDB assumed the payment obligations under a fifteen-year ground lease, expiring on January 14, 2003, with an option to renew for an additional five years. On January 17, 2005, MIDB entered into an amended lease agreement with the landowners for the property. The term of the amended lease is twenty years, expiring on January 13, 2023. On May 14, 2003, MIDB assumed the payment obligations under a thirty-year ground lease, expiring on December 31, 2028, with an option to renew for two additional terms of thirty years each.

On January 15, 2010, MIDB entered into a fifty-year ground lease agreement for a portion of Awao Weto property expiring on January 14, 2060. On June 14, 2010, MIDB entered into a fifty-year ground lease agreement for a portion of Kabilwe Weto property expiring on May 31, 2060. Future minimum lease payments under these leases are as follows:

Year ending September 30,		
2015	$	10,554
2016		10,554
2017		10,554
2018		10,554
2019		10,847
2020-2024		48,180
2025-2029		32,283
2030-2034		7,421
2035-2039		7,421
2040-2044		7,421
2045-2049		7,421
2050-2054		7,421
2055-2059		7,421
2060		1,797
	$	179,849

15) Commitments and Contingency, Continued

Commitments, Continued

MIDB has entered into several lease agreements expiring over various years through December 31, 2029. Future minimum lease income for the subsequent years ending September 30 is as follows:

Years ending September 30,	
2015	$ 251,780
2016	107,596
2017	65,491
2018	54,153
2019	30,360
2020-2024	151,800
2025-2029	151,800
2030	7,590
	$ 820,570

Contingency

MIDB participates in a number of federally assisted programs from the U.S. Department of the Interior and the U.S. Department of Agriculture. These programs are subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. The United States Department of the Interior, Office of the Inspector General, in their audit report “Marshall Islands Development Bank, Republic of the Marshall Islands”, dated August 1999, have identified loans funded under Sections 111 and 211 of the Compact (CFDA # 15.875) totaling $12,410,148, and loans converted to an equity interest in Air Marshall Islands, Inc. totaling $2,933,321, as questionable. The ultimate disposition of these questionable loans can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements. If these loans are ultimately denied, MIDB could be charged for the necessary reimbursement to the grantor agency.

(16) Subsequent Event

On April 17, 2015, the Cabinet of RepMar approved and authorized MIDB pursuant to C.M. 064(2015) to withdraw funds from the RMI TCD held by MIDB to pay for the AMI loan with MIDB.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Combining Statement of Net Position
September 30, 2014

ASSETS	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Cash and cash equivalents	$ (200,067)	279,581	(4,091)	$ 75,423
Restricted cash	553,787	-	-	553,787
Restricted time certificate of deposit	1,253,173	-	-	1,253,173
Investments	366,748	-	-	366,748
Receivables, net:				
Loans	21,066,853	-	-	21,066,853
Accrued interest	136,521	-	-	136,521
Other	129,251	-		129,251
Capital assets:				
Nondepreciable capital assets	34,840	-	22,613	57,453
Depreciable capital assets, net	1,046,891	-	14,326	1,061,217
Investment property held for sale, net	8,108	-	-	8,108
	$ 24,396,105	$ 279,581	$ 32,848	$ 24,708,534
LIABILITIES AND NET POSITION				
Liabilities:				
Notes payable	$ 3,609,051	$ -	$ -	$ 3,609,051
RepMar deposit	1,952,136	-	-	1,952,136
Accrued interest payable	31,021	-	-	31,021
Accrued expenses	185,006	-	27,758	212,764
Deposits pledged	1,405,909	-	-	1,405,909
Total liabilities	7,183,123	-	27,758	7,210,881
Net position:				
Net investment in capital assets	1,081,731	-	36,939	1,118,670
Restricted	-	279,581	-	279,581
Unrestricted	16,131,251	-	(31,849)	16,099,402
Total net position	17,212,982	279,581	5,090	17,497,653
	$ 24,396,105	$ 279,581	$ 32,848	$ 24,708,534

See accompanying independent auditors' report.

MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Combining Statement of Revenues, Expenses and Changes in Net Position
September 30, 2014

	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	$ 2,876,257	$ -	$ -	$ 2,876,257
Rental income	326,409	-	-	326,409
Loan fees	191,224	-	-	191,224
Insurance premiums	207,461	-	-	207,461
Federal grants	-	-	158,385	158,385
Interest income on time certificate of deposit	17,987	-	16	18,003
Miscellaneous	146,623	-	-	146,623
Total operating revenues	3,765,961	-	158,401	3,924,362
Recovery from loan losses	546,436	-	-	546,436
Net operating revenues	4,312,397	-	158,401	4,470,798
Operating expenses:				
Interest expense:				
Interest on deposits	85,535	-	-	85,535
Interest on loans payable	234,284	-	-	234,284
Total interest expense	319,819	-	-	319,819
General and administrative expenses:				
Salaries and employee benefits	946,323	-	121,688	1,068,011
Depreciation	269,099	-	4,437	273,536
Utilities	198,536	-	-	198,536
Insurance	80,305	-	10,175	90,480
Travel and training	50,567	-	4,765	55,332
Repairs and maintenance	94,706	-	1,565	96,271
Printing, stationery and advertising	57,987	-	724	58,711
Bad debts expense	16,518	-	-	16,518
Communications	53,090	-	360	53,450
Representation	62,112	-	-	62,112
Promotion and Donation	34,459	-	-	34,459
USDA loan guarantee	84,251	-	-	84,251
Office and house rental	26,400	-	7,200	33,600
Land lease	24,682	-	-	24,682
Fuel	17,923	-	5,572	23,495
Taxes and licenses	6,933	-	256	7,189
Professional fees	59,537	-	3,500	63,037
Miscellaneous	57,811	-	3,132	60,943
Total general and administrative expenses	2,141,239	-	163,374	2,304,613
Income (loss) from operations	1,851,339	-	(4,973)	1,846,366
Nonoperating revenues:				
Investment earnings	145,068	-	-	145,068
Total nonoperating revenues	145,068	-	-	145,068
Change in net position	1,996,407	-	(4,973)	1,991,434
Net position at beginning of year	15,216,575	279,581	10,063	15,506,219
Net position at end of year	$ 17,212,982	$ 279,581	$ 5,090	$ 17,497,653

See accompanying independent auditors' report.

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INDEPENDENT AUDITORS' REPORT 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 Development Bank:

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 Marshall Islands Development Bank (MIDB), which comprise the statement of net position as of September 30, 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MIDB's internal control over financial reporting (internal control) to determine the 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 MIDB's internal control. Accordingly, we do not express an opinion on the effectiveness of MIDB's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MIDB'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 determination of financial statement amounts. 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 Responses as item 2014-003.

MIDB's Response to Findings

MIDB's response to the findings identified in to our audit are described in the accompanying Schedule of Findings and Responses. MIDB's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Deloitte & Touche LLP

May 12, 2015

Finding No. 2014-001

Loans Receivable

Criteria: A comprehensive set of policies and procedures should be in place to govern the lending and credit administration processes, which should include, at a minimum, internal control procedures over processing loan approvals, loan boarding, completeness of loan documentation, safeguarding pertinent loan documents and monitoring loan covenant requirements.

Conditions:

Tests of a representative sample of 75 loans revealed several weaknesses in the design, implementation and adherence to internal controls in the lending and credit administration areas.

a. The Bank's current operating procedures require a person who is not responsible for loan data and processing independently verify the completeness of documents required per policy before the loans can be approved. However, a loan document checklist was not signed by the validating and/or verifying officer and/or was not filed for seventeen loans boarded in FY14.

b. Promissory notes and loan agreements, which are the pertinent legal documents, should contain sufficient detail. Currently, the Bank does not include information such as loan number for twenty-six loans tested, fourteen of which were boarded in FY14.

   Additionally, safeguarding of pertinent documents should be strengthened as for sixteen loans, the credit folders containing the promissory note; loan agreement, collateral document and other loan-related information cannot be located.

c. For five loans, four of which were boarded in FY14, loan terms per the promissory note/loan agreement/loan disclosure differ from that indicated in the loan system.

d. For ten commercial loans, one of which was boarded in FY14, financial statements or casualty insurance policies protecting collateral were not obtained.

e. For two loans, there was an error in the input of loan details in the system which lead to an error in the calculation of the allowance.

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above is the potential occurrence of errors in the loan portfolio. This condition also gives rise to potential losses due to insufficient safeguarding of legal and collateral documents.

Recommendation: The Bank should perform a comprehensive review of its policies and procedures and strengthen controls and monitoring of those controls.

Prior Year Status: Similar issues concerning loan documentation that have been reported as a finding in the audits of MIDB for fiscal years 2007 through 2013.

Auditee Response and Corrective Action Plan:

a,b. Although the loan number was not indicated on the promissory note/ loan agreement, the name of the borrower and its signatures was affix for each loan document. Loan numbers are also indicated in the loan drawdowns. The bank's procedures as to loan documentation, that all loan documents must be complete before it will be scanned for safekeeping.

Finding No. 2014-001, Continued

Auditee Response and Corrective Action Plan, Continued:

c,e. The errors pertaining to these loans have already been corrected

d. As per bank policies and guidelines as to commercial loans as per insurance, it states that the bank may require loan applicants to produce insurance policies and does not shall require. Refer to commercial loans general policies and guidelines section 31.

Finding No. 2014-002

Significant Delay in the Accounting Records

Criteria: Transactions should be timely posted. Reconciliations of certain accounts, including reconciliation of interest income and accrued interest receivable, and review of such reconciliations, should be timely performed.

Condition: The Bank does not have established policies, procedures and controls in place to require the timely processing and posting of transactions, and the timely preparation and review of reconciliations. During the year ended September 30, 2014, interest income and accrued interest receivable do not appear to have been timely processed as evidenced by the following:

- Interest income postings to the general ledger are based on cash collections. The Bank adjusts accrued interest every quarter. Accrued interest receivable and interest income in the monthly financial statements is therefore not properly presented based on the accrual method of accounting.

Cause: The cause of the above condition appears to be noncompliance with the criteria.

Effect: The effect of the above is the delayed identification and correction of errors and misstatements in the financial statements.

Recommendation: Management should implement procedures that require timely posting of daily transactions and a checklist of accounts that should be reconciled and reviewed on a monthly basis. Prudence indicates that posting of daily transactions be performed within a week, and the reconciliation of key balance sheet accounts should be performed within a month.

Prior Year Status: Similar issues on delay on accounting records were reported as a finding in the audits of MIDB for fiscal years 2011 through 2013.

Auditee Response and Corrective Action Plan:

The Bank does its accounting mostly contributed by inputting and calculating it manually. Currently it is in the process of reviewing and seeking ideas on how to improve and upgrade the systems.

Finding No. 2014-003

Local Non-Noncompliance

Criteria: RepMar's Procurement Code states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding $25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than $25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: RepMar requires that procurement actions for goods and services provide full and open competition and compliance with this provision should be appropriately documented in procurement files. We noted the following items where documentation in file was inadequate to evidence the procurement process:

Item Description	Amount	Comment
Kitchen set for Sample House #2	$4,205	Items purchased on 8/20/2013 under what appears to be sole source. Total purchases amounted to $8,804

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to comply with RepMar's Procurement Requirements.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures to conform to RepMar's Procurement Code.

Prior Year Status: The lack of compliance with RepMar's procurement Code was reported as a finding in the audits of MIDB for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

This line item is a sum up of small construction materials. The Bank makes a call to check and compare prices before purchasing and the bank always consider the best buy. The bank will strengthen its documentation of the quotations from the suppliers. The Bank is religiously complying with the rules and regulations required by the Republic of the Marshall Islands.

Unresolved Prior Year Findings
Year Ended September 30, 2014

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section of this report.