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, 2017 and 2016

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

Years Ended September 30, 2017 and 2016
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Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

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, 2017 and 2016, 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, 2017 and 2016, 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.

Deloitte.

Emphasis-of-Matter

Financial Statement Presentation

As discussed in Note 2 to the financial statements, MIDB elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position for MIDB would be misleading to the extent that the financial statements may be materially misstated. Our opinion is not modified with respect to this matter.

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 23 and 24 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 10, 2018, 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 10, 2018

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

Fiscal year October 1, 2016 to September 30, 2017 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 will give you an overview of the Bank's financial highlights and activities for the fiscal year ended September 30, 2017.

FINANCIAL HIGHLIGHTS

- MIDB's total assets increased by $5M or 16.2% from $31.1M in 2016 to $36.1M in 2017.
- MIDB's total net position increased by $5.9M or 21.4% over the course of this year's operations. Net position represents funds from the RMI Government and the USDA Self-Help Housing Project.
- Operating revenues increased by $13K from $4.016M in 2016 to $4.029M in 2017, $2.69M of which was generated through interest on loans. Operating expenses increased by $105K from $2.37M in 2016 to $2.47M in 2017.
- Allowance for loan losses increased by $0.62M from $4.09M in 2016 to $4.71M in 2017. Total non-operating revenues increased by $3.1M from $712K in 2016 to $3.8M in 2017. Significant portion of non-operating revenues pertain to the recorded subsidy from the RMI Government amounting to $2.8M in 2017.

ANALYSIS OF MIDB'S FINANCIAL STATUS

This analysis serves as an overview to MIDB's basic 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 2017, MIDB's assets of $36.14M exceeded liabilities of $2.39M by $33.75M. However, $1.2M or 3.6% of the net position is either invested in capital assets or restricted funds that can only be used for the purpose of which the funds were created. The 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, 2017 unrestricted net position amounted to $32.5M, enough to repay all outstanding debts.

Summary of Statements of Net Position

	2017	2016	2015
ASSETS:			
Cash and equivalents	$ 6,343,344	$ 2,652,073	$ 373,544
Restricted assets	1,151,965	907,701	627,380
Investments in shares of stock	7,196,576	6,440,333	5,915,213
Loans receivable, net	19,128,806	20,100,494	21,207,758
Due from RepMar	1,413,600	-	-
Premises and equipment, net	618,422	718,937	899,622
Other assets	291,651	278,322	295,444
Total assets	$ 36,144,364	$ 31,097,860	$ 29,318,961

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

Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016

Summary of Statements of Net Position, Continued

	2017	2016	2015
LIABILITIES:			
Long-term debt	$ 603,070	$ 837,241	$ 1,066,789
RepMar deposit	120,301	590,258	1,085,406
Other liabilities	1,668,978	1,859,131	1,714,727
Total liabilities	2,392,349	3,286,630	3,866,922
NET POSITION:			
Net investment in capital assets	618,422	718,937	899,622
Restricted	1,151,965	907,701	627,380
Unrestricted	31,981,628	26,184,592	23,925,037
Total net position	33,752,015	27,811,230	25,452,039
	$ 36,144,364	$ 31,097,860	$ 29,318,961

- Loan approvals for the year were approximately $27.6M, broken down by projects, $27.04M released under various consumer loans, $0.32M for small-medium enterprise loans and $0.26M granted to housing loans. Net loans receivable decreased by $0.97M in 2017 compared with $1.1M decrease in 2016. Loans released decreased from $28.4M to $27.6M during the fiscal years 2016 and 2017, 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 TCD was used to finance various loans. As of September 30, 2017, the balance owed for Time Certificate of Deposit to the RMI Government was $120K.

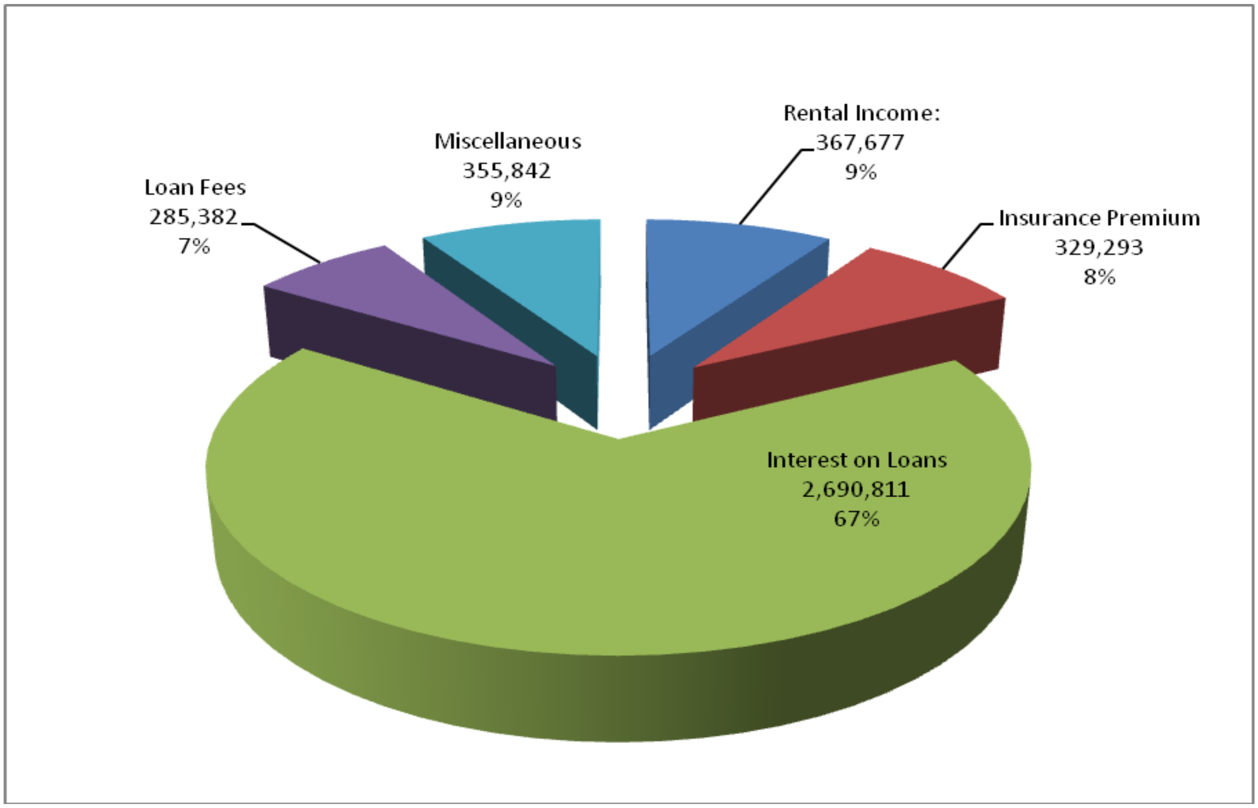
- MIDB obtained $2M and $1M of long-term loans from Bank of Marshall Islands (BOMI) in 2012. On September 22, 2015, these loans were restructured for a principal amount of $1,090,500, interest at 6.5% per annum, due in November 30, 2019. As of September 30, 2017 and 2016, the outstanding principal balance of this loan is $603K and $837K, respectively.

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

	2017	2016	2015
REVENUES:			
Operating revenues	$ 4,029,005	$ 4,015,810	$ 3,784,616
Recovery of loan losses	617,205	-	865,999
Nonoperating revenues	3,768,076	711,552	779,207
	8,414,286	4,727,362	5,429,822
EXPENSES:			
Operating expenses	68,624	111,469	227,495
General administrative expenses	2,404,877	2,256,702	2,204,531
	2,473,501	2,368,171	2,432,026
Change in net position	5,940,785	2,359,191	2,997,796
Net position at beginning of year	27,811,230	25,452,039	22,454,243
Net position at end of year	$ 33,752,015	$ 27,811,230	$ 25,452,039

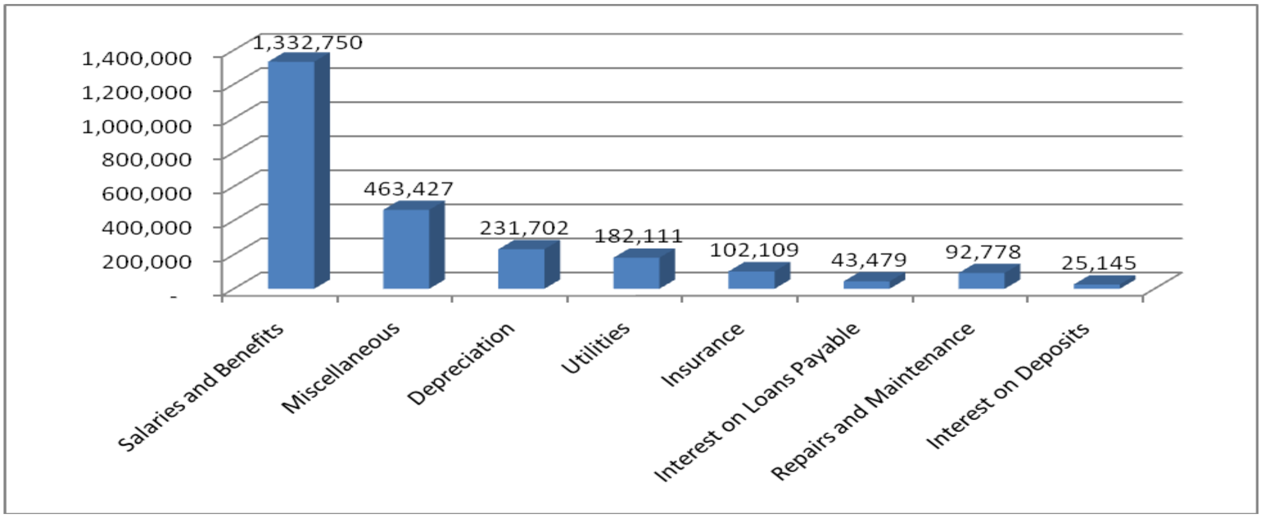
- Total operating revenues for 2017 increased by $13K or 0.03% compared to 2016. About 67% of MIDB's operating revenue comes from interest on loans, 88% of which was generated from consumer loans, 7% from housing loans, and the remaining 5% from business loans. Please see chart below depicting the distribution of the Bank's operating revenues.

- Recovery of loan losses for 2017 of $617K 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. In addition, MIDB also wrote off non-performing loans fully allowed in prior years per BOD approval. Continued payments were received on some of these loans.



- Total expenses for 2017 increased by $105K or 4% compared with 2016. MIDB's expenses cover a range of operating, general and administrative expenses.

- Provision for delinquent loans 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 provides an over-all picture of the Bank's spending activities.



- Interest expense decreased by $43K or 38% during fiscal year ended September 30, 2017 compared to fiscal year ended September 30, 2016 due to a decrease to both interest on loans payable and interest on deposits. Interests on loans payable pertains to interest payments and accruals for a Bank of Marshall Islands loan while interest on deposits pertains to payments and accruals on the RepMar TCD and various pledged deposits.

- General and administrative expenses in the aggregate increased by $148K or 7% from last year's operation due primarily to an increase in salaries and wages by $161K or 13.8%, travel and training by $21K or 74%, and repairs and maintenance of $38K or 71%.

- Total non-operating revenues for 2017 increased by $3.1M from $712K in 2016 to $3.8M in 2017. This increase was primarily due to contribution from the RMI government of $2.8M.

Management's and Discussion and Analysis for the year ended September 30, 2016 is set forth in MIDB's report on the audit of financial statements, which is dated June 8, 2017. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be obtained from MIDB's Managing Director at rmimidb@ntamar.net

Capital Assets and Debt

Capital assets acquisitions amounted to $131K in 2017. For additional information concerning capital assets, please refer to Note 8 to the financial statements. Long term-debt decreased by $234K in 2017. For additional information concerning debt, please refer to Note 11 to the financial statements.

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 on 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. Starting FY16, MIDB adopted its new Strategic Plan which will guide the operation of MIDB in the next 5 years, to 2020. MIDB is determined to redouble its efforts to make a difference in the economy in the next 5 years.

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, 2017. 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, 2017 and 2016

ASSETS	2017	2016
Cash and cash equivalents	$ 6,343,344	$ 2,652,073
Restricted cash	594,862	582,002
Restricted time certificate of deposit	557,103	325,699
Investment in shares of stock	7,196,576	6,440,333
Receivables, net:		
Loans	19,128,806	20,100,494
Accrued interest	84,226	53,545
Due from RepMar	1,413,600	-
Other	156,825	173,077
Inventory	50,600	51,700
Capital assets:		
Non-depreciable capital assets	83,840	48,110
Capital assets, net of accumulated depreciation	534,582	670,827
	$ 36,144,364	$ 31,097,860

LIABILITIES AND NET POSITION		
Liabilities:		
Notes payable	$ 603,070	$ 837,241
RepMar deposit	120,301	590,258
Accrued interest payable	4,245	10,979
Accounts payable and accrued expenses	221,259	161,924
Deposits pledged	1,443,474	1,686,228
Total liabilities	2,392,349	3,286,630
Commitments		
Net position:		
Net investment in capital assets	618,422	718,937
Restricted	1,151,965	907,701
Unrestricted	31,981,628	26,184,592
Total net position	33,752,015	27,811,230
	$ 36,144,364	$ 31,097,860

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, 2017 and 2016

	2017	2016
Operating revenues:		
Interest income on loans	$ 2,690,811	$ 2,764,009
Rental income	367,677	380,428
Insurance premiums	329,293	223,330
Loan fees	285,382	299,985
Federal grants	172,573	148,860
Interest income on time certificate of deposit	24,468	23,140
Miscellaneous	158,801	176,058
Total operating revenues	4,029,005	4,015,810
Recovery of loan losses	617,205	-
Net operating revenues	4,646,210	4,015,810
Operating expenses:		
Interest expense:		
Interest on deposits	25,145	47,753
Interest on loans payable	43,479	63,716
Total interest expense	68,624	111,469
General and administrative expenses:		
Salaries and employee benefits	1,332,750	1,171,576
Depreciation	231,702	270,466
Utilities	182,111	201,574
Insurance	102,109	89,133
Repairs and maintenance	92,778	54,350
Printing, stationery and advertising	68,149	71,056
Bad debts	65,365	-
Communications	61,594	60,265
Representation	53,654	49,785
Travel and training	48,323	27,773
Promotion and donation	34,972	38,274
Land lease	26,636	41,019
Professional fees	23,191	55,472
Office and house rental	21,000	28,200
Fuel	15,815	16,693
Taxes and licenses	9,804	1,770
Recreation	-	24,899
USDA loan guarantee	-	19,168
Miscellaneous	34,924	35,229
Total general and administrative expenses	2,404,877	2,256,702
Income from operations	2,172,709	1,647,639
Nonoperating revenues:		
Contributions from RepMar	2,827,200	-
Investment earnings	940,876	711,552
Total nonoperating revenues	3,768,076	711,552
Change in net position	5,940,785	2,359,191
Net position at beginning of year	27,811,230	25,452,039
Net position at end of year	$ 33,752,015	$ 27,811,230

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 3,737,514	$ 3,938,155
Cash payments to suppliers for goods and services	(715,692)	(890,304)
Cash payments to employees for services	(1,331,682)	(1,201,254)
Interest received on time certificate of deposit	24,468	23,140
Interest paid	(75,358)	(120,894)
Operating grants received	172,573	148,860
Net cash provided by operating activities	1,811,823	1,897,703
Cash flows from noncapital financing activities:		
Contributions from RepMar	1,413,600	-
Net change in RepMar deposit	(469,957)	43,005
Net change in pledged deposits	(242,754)	207,451
Net cash provided by noncapital financing activities	700,889	250,456
Cash flows from capital and related financing activities:		
Principal repayment of long-term debt	(234,171)	(229,548)
Additions to premises, equipment and foreclosed assets	(131,187)	(89,781)
Net cash used for capital and related financing activities	(365,358)	(319,329)
Cash flows from investing activities:		
Loan originations and principal collections, net	1,603,549	543,588
Net change in restricted assets	(244,264)	(280,321)
Dividends received	184,632	186,432
Net cash provided by investing activities	1,543,917	449,699
Net change in cash and cash equivalents	3,691,271	2,278,529
Cash and cash equivalents at beginning of year	2,652,073	373,544
Cash and cash equivalents at end of year	$ 6,343,344	$ 2,652,073
Cash flows from operating activities:		
Income from operations	$ 2,172,709	$ 1,647,639
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Recovery of loan losses	(617,205)	-
Bad debts expense	65,365	-
Depreciation	231,702	270,466
(Increase) decrease in assets:		
Receivables:		
Accrued interest	(30,681)	22,877
Other	(49,112)	45,945
Inventory	1,100	(51,700)
Increase (decrease) in liabilities:		
Accrued interest payable	(6,734)	(9,425)
Accrued expenses	59,335	(53,622)
Unearned premiums	(14,656)	25,523
Net cash provided by operating activities	$ 1,811,823	$ 1,897,703
Supplemental information of noncash financing activities:		
Related party loan receivable offset:		
Loans receivable	$ 493,153	$ 538,153
RepMar deposit	(493,153)	(538,153)
	$ -	$ -
Unrealized gain on investment in shares of stock:		
Investment in shares of stock	$ (756,243)	$ (525,120)
Investment earnings	756,243	525,120
	$ -	$ -

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

MIDB follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America (GAAP) for governmental entities.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and 34*, 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. In addition, GASB Statement No. 34 requires assets and liabilities of proprietary funds be presented in a classified format to distinguish between current and long-term assets and liabilities. MIDB is a government-owned bank. Banks do not present a classified statement of net position because current assets are not matched with current liabilities. The statements of net position of MIDB present assets and liabilities in order of their relative liquidity, rather than in a classified format.

To conform to these requirements, 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, 2017 and 2016, 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. As of September 30, 2017 and 2016, MIDB has expendable net position amounting to $1,151,965 and $907,701, respectively.

(2) Summary of Significant Accounting Policies, Continued

- 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.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources, and liabilities and deferred inflows of resources 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.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2017 and 2016, the carrying amounts of cash and cash equivalents and time certificates of deposit are $7,495,309 and $3,559,774, respectively, and the corresponding bank balances are $7,674,806 and $3,801,788, respectively. Of the bank balances, $740,273 and $751,530, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $6,934,533 and $3,050,258, respectively, are maintained in a financial institution not subject to depository insurance. As of September 30, 2017 and 2016, bank deposits in the amount of $250,000 were FDIC insured. 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.

Investments

Investments and related investment earnings are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

Equity investments in the common stock of Marshall Islands Holdings, Inc. and Marshall Islands Service Corporation (investees) are stated at the Net Asset Value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equities reported by the respective investees.

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 principal balances adjusted for charge-offs 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. Loans are not carried at fair value because they do not meet the definition of an investment under GASB Statement No. 72.

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.

(2) Summary of Significant Accounting Policies, Continued

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

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 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 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 maximum of three-year term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2017, MIDB implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68.

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

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 deferred outflows of resources, liabilities and deferred inflows of resources, 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, 2017 and 2016 that are valued using the Net Asset Value (NAV) per share is as follows:

	2017	2016
Marshall Islands Holdings, Inc.	$ 7,152,116	$ 6,397,763
Marshall Islands Service Corporation	44,460	42,570
	$ 7,196,576	$ 6,440,333

The investment in Marshall Islands Holdings, Inc. (MIHI) comprises of 16% and 15%, respectively, of the outstanding shares as of September 30, 2017 and 2016. MIHI engages in all aspects of holding company activities in the Marshall Islands and is the sole shareholder of Bank of Marshall Islands (BOMI). In addition, the investment in Marshall Islands Service Corporation (MISC), an affiliate of BOMI, comprises of less than 1% of the outstanding shares as of September 30, 2017 and 2016. During the years ended September 30, 2017 and 2016, related dividend income was $184,632 and $186,432, respectively.

(4) Loans Receivable

Loans receivable as of September 30, 2017 and 2016 are summarized as follows:

	2017	2016
Loans receivable	$ 24,166,207	$ 24,533,569
Less: unearned premiums	(327,584)	(342,240)
Less: allowance for loan losses	(4,709,817)	(4,090,835)
	$ 19,128,806	$ 20,100,494

An analysis of the change in the allowance for loan losses during the years ended September 30, 2017 and 2016 is as follows:

	2017	2016
Beginning balance	$ 4,090,835	$ 2,261,649
Reinstated loans which were subsequently collected	1,237,047	2,033,975
Recovery of loan losses	(617,205)	-
Charge-offs	(860)	(204,789)
Ending balance	$ 4,709,817	$ 4,090,835

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2017 and 2016 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 4.0% - 8.5% for business loans, 6.0% - 8.5% for housing loans, and 8.5% - 14.0% for consumer loans.

(5) Accrued Interest Receivable

Accrued interest receivable as of September 30, 2017 and 2016 is summarized as follows:

	2017	2016
Republic of the Marshall Islands	$ 92,340	$ 93,860
Investment Development Fund	37,161	32,729
Gross accrued interest receivable	129,501	126,589
Less: allowance for doubtful interest	(45,275)	(73,044)
	$ 84,226	$ 53,545

An analysis of the change in the allowance for interest receivable during the years ended September 30, 2017 and 2016 is as follows:

	2017	2016
Beginning balance	$ 73,044	$ 73,044
Charge-offs	(27,769)	-
Ending balance	$ 45,275	$ 73,044

(6) Other Receivables

Other receivables as of September 30, 2017 and 2016, are as follows:

	2017	2016
Rental	$ 499,684	$ 483,292
Other	123,751	91,029
	623,435	574,321
Allowance for uncollectible accounts	(466,610)	(401,244)
	$ 156,825	$ 173,077

(7) Restricted Deposits

MIDB maintains a savings deposit as of September 30, 2017 and 2016 in the amount of $594,862 and $582,002, 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, 2017 and 2016 with an affiliated bank in the amount of $557,103 and $325,699, respectively, which is restricted to collateralize a loan payable by Tobolar Copra Processing Authority.

(8) Premises and Equipment

Capital asset activity for the years ended September 30, 2017 and 2016 is as follows:

	2017			
	October 1, 2016	Additions	Deletions/ Transfers	September 30, 2017
Building and houses	$ 2,691,595	$ 31,348	$ -	$ 2,722,943
Computer systems	281,858	2,810	-	284,668
Motor vehicles	302,826	51,845	-	354,671
Office furniture	59,194	3,305	-	62,499
Office equipment	428,321	6,149	-	434,470
	3,763,794	95,457	-	3,859,251
Less accumulated depreciation	(3,092,967)	(231,702)	-	(3,324,669)
	670,827	(136,245)	-	534,582
Construction Materials	48,110	55,020	(19,290)	83,840
	$ 718,937	$ (81,225)	$ (19,290)	$ 618,422

	2016			
	October 1, 2015	Additions	Deletions/ Transfers	September 30, 2016
Building and houses	$ 2,663,256	$ 5,641	$ 22,698	$ 2,691,595
Computer systems	274,211	7,647	-	281,858
Motor vehicles	239,526	63,300	-	302,826
Office furniture	58,599	595	-	59,194
Office equipment	415,723	12,598	-	428,321
	3,651,315	89,781	22,698	3,763,794
Less accumulated depreciation	(2,822,501)	(270,466)	-	(3,092,967)
	828,814	(180,685)	22,698	670,827
Construction Materials	70,808	-	(22,698)	48,110
	$ 899,622	$ (180,685)	$ -	$ 718,937

(9) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2017 and 2016 are summarized as follows:

	2017	2016
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 ultimate intention of selling the property. The property is currently being leased to tenants. Depreciation is recognized by use of an estimated 10-year life and by the straight line method. As of September 30, 2017 and 2016, the property has been fully depreciated and is presented net of accumulated depreciation of $139,000.

(11) Note Payable

MIDB has a note payable to an affiliate bank in the amount of $1,090,500, dated September 22, 2015, interest at 6.5% per annum, due in monthly installments of principal and interest of $25,265 through November 30, 2019, collateralized by a time certificate of deposit and an assignment of loans receivable. This loan was a restructure of the $2,000,000 and $1,000,000 prior year loans. As of September 30, 2017 and 2016, the balance outstanding is $603,070 and $837,241, respectively.

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

Year ending September 30,	Principal	Interest	Total
2018	$ 295,449	$ 32,996	$ 328,445
2019	291,777	11,403	303,180
2020	15,844	85	15,929
	$ 603,070	$ 44,484	$ 647,554

Long-term debt changes during the years ended September 30, 2017 and 2016 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2017:					
Note payable	$ 837,241	$ -	$ (234,171)	$ 603,070	$ 295,449
2016:					
Note payable	$ 1,066,789	$ -	$ (229,548)	$ 837,241	$ 256,118

(12) Related Party Transactions

MIDB is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including Air Marshall Islands, Inc. (AMI) and Tobolar Copra Processing Authority.

In 2013, MIDB entered into a loan with AMI whereby MIDB loaned AMI $2,500,000 for the purpose of funding operations. In 2015, the Board approved the charge-off of the entire loan in the amount of $2,376,134. Accordingly, pursuant to Cabinet Minute C.M. 064 (2015), MIDB commenced withdrawal of funds from the RepMar deposit as a partial settlement. Total related payments through withdrawals during the years ended September 30, 2017 and 2016 were $493,153 and $538,153, respectively.

As of September 30, 2017 and 2016, MIDB has deposits with an affiliate bank of $6,934,533 and $3,050,258, respectively. The deposits accrue interest at rates of 0.25% to 2.0% per annum. Interest earned for the years ended September 30, 2017 and 2016 was $24,468 and $23,140, respectively.

As of September 30, 2017 and 2016, MIDB employees have outstanding loans of $807,640 and $773,236, respectively. In addition, the directors of MIDB have outstanding loans as of September 30, 2017 and 2016, of $323,546 and $255,094, respectively. All loans were made at normal commercial terms and conditions.

(12) Related Party Transactions, Continued

As of September 30, 2017 and 2016, MIDB has an outstanding certificate of deposit of $120,301 and $590,258, 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, 2017 and 2016, interest payable relating to this deposit amounted to $4,245 and $10,979, respectively, and is included within the statements of net position as accrued interest payable.

Movements in the outstanding RepMar certificate of deposit during the years ended September 30, 2017 and 2016 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,
2017:				
RepMar deposit	$ 590,258	$ 23,196	$ (493,153)	$ 120,301
2016:				
RepMar deposit	$ 1,085,406	$ 43,005	$ (538,153)	$ 590,258

During the year ended September 30, 2017, the operations of MIDB were funded by an appropriation of $2,827,200 from the Nitijela of RepMar for the purpose of funding the Small and Medium-sized Enterprises Business and Housing Loan Program. MIDB has recorded a receivable due from RepMar at September 30, 2017 of $1,413,600 associated with this appropriation.

(13) 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 insurance covering a 5-story commercial building in Delap Village and 10 residential units in Rairok Village against fire, lightning and typhoon. MIDB has also purchased 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 management believes that the policies purchased are sufficient to cover any loss to which it is exposed.

(14) Commitments

MIDB committed to guarantee a loan payable to an affiliate bank by Tobolar Copra Processing Authority with a principal balance totaling $976,103 and $1,253,134 as of September 30, 2017 and 2016, respectively.

Further, certain loans recorded in the books of USDA are subject to a MIDB guarantee, the balance of which amounted to $11,087,474 and $11,027,518 as of September 30, 2017 and 2016, respectively. During the years ended September 30, 2017 and 2016, MIDB made payments to USDA in the amount of $0 and $19,168, respectively for related delinquent loans.

In 2001, MIDB assumed payment obligations under a fifteen-year ground lease, expiring on January 14, 2003, with an option to renew for an additional five years. In 2005, MIDB entered into an amended lease agreement with the landowners. The term of the amended lease is twenty years, expiring on January 13, 2023.

(14) Commitments, Continued

In 2003, MIDB assumed 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.

In 2010, MIDB entered into a fifty-year ground lease agreement for a portion of Awao Weto property expiring on January 14, 2060.

In 2010, MIDB entered into a fifty-year ground lease agreement for a portion of Kabilwe Weto property expiring on May 31, 2060.

MIDB has entered into other lease agreements expiring over various years through September 30, 2063.

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2018	$ 26,637
2019	26,930
2020	27,027
2021	27,027
2022	27,027
2023 - 2027	117,764
2028 - 2032	95,148
2033 - 2037	43,585
2038 - 2042	46,067
2043 - 2047	25,421
2048 - 2052	25,421
2053 - 2057	25,421
2058 - 2062	21,575
2063	3,600
	$ 538,650

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

Years ending September 30,	
2018	$ 371,451
2019	305,082
2020	266,004
2021	186,192
2022	127,640
2023 - 2027	151,800
2028 - 2030	68,310
	$ 1,476,479

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

Combining Statement of Net Position
September 30, 2017

ASSETS	Marshall Islands Development Bank	USDA Self-Help Housing Project	Total
Cash and cash equivalents	$ 6,400,927	(57,583)	$ 6,343,344
Restricted cash	594,862	-	594,862
Restricted time certificate of deposit	557,103	-	557,103
Investments	7,196,576	-	7,196,576
Receivables, net:			
Loans	19,128,848	(42)	19,128,806
Accrued interest	84,226	-	84,226
Due from RepMar	1,413,600	-	1,413,600
Other	102,415	54,410	156,825
Inventory	50,600	-	50,600
Capital assets:			
Nondepreciable capital assets	6,207	77,633	83,840
Depreciable capital assets, net	532,157	2,425	534,582
	$ 36,067,521	$ 76,843	$ 36,144,364

LIABILITIES AND NET POSITION	Marshall Islands Development Bank	USDA Self-Help Housing Project	Total
Liabilities:			
Notes payable	$ 603,070	$ -	$ 603,070
RepMar deposit	120,301	-	120,301
Accrued interest payable	4,245	-	4,245
Accounts payable and accrued expenses	149,426	71,833	221,259
Deposits pledged	1,435,998	7,476	1,443,474
Total liabilities	2,313,040	79,309	2,392,349
Net position:			
Net investment in capital assets	538,364	80,058	618,422
Restricted	1,151,965	-	1,151,965
Unrestricted	32,064,152	(82,524)	31,981,628
Total net position	33,754,481	(2,466)	33,752,015
	$ 36,067,521	$ 76,843	$ 36,144,364

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, 2017

	Marshall Islands Development Bank	USDA Self-Help Housing Project	Total
Operating revenues:			
Interest income on loans	$ 2,690,811	$ -	$ 2,690,811
Rental income	367,677	-	367,677
Loan fees	285,382	-	285,382
Insurance premiums	329,293	-	329,293
Federal grants	-	172,573	172,573
Interest income on time certificate of deposit	24,375	93	24,468
Miscellaneous	158,801	-	158,801
Total operating revenues	3,856,339	172,666	4,029,005
Recovery of loan losses	617,205	-	617,205
Net operating revenues	4,473,544	172,666	4,646,210
Operating expenses:			
Interest expense:			
Interest on deposits	25,145	-	25,145
Interest on loans payable	43,479	-	43,479
Total interest expense	68,624	-	68,624
General and administrative expenses:			
Salaries and employee benefits	1,190,922	141,828	1,332,750
Depreciation	229,728	1,974	231,702
Utilities	182,111	-	182,111
Insurance	89,687	12,422	102,109
Bad debts expense	65,365	-	65,365
Representation	53,654	-	53,654
Printing, stationery and advertising	67,326	823	68,149
Repairs and maintenance	90,633	2,145	92,778
Travel and training	48,323	-	48,323
Professional fees	15,191	8,000	23,191
Communications	61,300	294	61,594
Promotion and donation	34,972	-	34,972
Land lease	26,636	-	26,636
Office and house rental	21,000	-	21,000
Fuel	9,299	6,516	15,815
Taxes and licenses	9,804	-	9,804
Miscellaneous	34,675	249	34,924
Total general and administrative expenses	2,230,626	174,251	2,404,877
Income (loss) from operations	2,174,294	(1,585)	2,172,709
Nonoperating revenues:			
Contributions from RepMar	2,827,200	-	2,827,200
Investment earnings	940,876	-	940,876
Total nonoperating revenues	3,768,076	-	3,768,076
Change in net position	5,942,370	(1,585)	5,940,785
Net position at beginning of year	27,812,111	(881)	27,811,230
Net position at end of year	$ 33,754,481	$ (2,466)	$ 33,752,015

See accompanying independent auditors' report.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

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 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, 2017, 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 10, 2018.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2017-001 that we consider to be material weaknesses.

Deloitte.

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 is described in the accompanying Schedule of Findings and Responses as item 2017-002.

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 10, 2018

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

Schedule of Findings and Responses
Year Ended September 30, 2017

Finding No. 2017-001

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 41 loans revealed several matters in the design, implementation and adherence to internal controls in the lending and credit administration areas that we recommend be considered by management.

a. The Bank's current operating procedures require an employee who is not responsible for loan data and processing independently verify document completeness before loans are approved. However, we noted that this process has not been implemented in processing housing loans. Moreover, seven loans tested either do not have a completed loan document checklist in file or were signed by one authorizer as both the validating and verifying officer.

b. Thirteen loans tested contain information such as % paid off of old loan, loan processing fee, loan date opening, maturity date, loan collateral information, loan rate and loan type description that is not consistent throughout the loan files, i.e. loan document checklist, loan drawdown form, promissory note, loan agreement, loan disclosure form, loan trial balance and loan transaction history.

c. The Bank's lending policy requires at least two guarantors for all loan types and does not provide for a waiver of employment verification for loan guarantors; however, fourteen loans tested either do not have loan guarantors or reflect only one guarantor and no guarantor pay verification is in file.

d. For one housing loan tested, only one borrower signed the promissory note for a joint loan.

e. Two loans tested collateralized by salary payments did not have a signed salary allotment form in file.

f. One refinanced loans tested was not tagged based on the status of the loan paid off.

g. A management loan was not signed and approved by the Board of Directors.

Cause: The cause of the above condition appears to be potential 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.

Finding No. 2017-001, Continued

Loans Receivable, Continued

Prior Year Status: Similar issues concerning loan documentation have been reported as a finding in the audits of MIDB for fiscal years 2007 through 2016.

Auditee Response and Corrective Action Plan:

a. Although two of these loans do not have document checklist, the required loan documents are complete. Loan document checklist form is only for the loan department to keep track of the loan documents inside the file. Management will ensure that the recommendation as to the document checklist for the housing loans will be complied with.
b. One of the loans was already 50% paid off at the time that the loan was refinanced. Loan documents and system errors have already been corrected.
c. The missing loan documents have been found and are in place now.
d. The error has been corrected and the loan has already been paid in full.
e. The missing loan documents have been found and are in place now.
f. The error has been corrected.
g. Management is authorized to approve loans up to the maximum limit for consumer and housing loans and $50,000 and below for business loans. Loans more than $50,000 requires approval from the Board of Directors. The loan by management was a housing repair loan and it was not approved by him but by the one who was appointed by the Board of Directors as the acting approver in the absence of the Managing Director.

Finding No.: 2017-002
Area: Procurement

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; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. 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.

(d) Section 129 - notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file.

Condition: The following payments were not adequately documented to evidence compliance with the procurement process set forth in the criteria:

1) Staff meal expenses for the 2016 Christmas Party, $2,043, check #107977
2) Purchase of Hyundai Elantra Sedan 2017 model, $24,995, check #110239
3) Purchase of Mitsubishi L200 pick-up truck, $26,850, check #108622

Cause: The cause of the above condition may be a lack of adequate internal control policies and procedures requiring documentation of compliance with RepMar's Procurement Code.

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

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code.

Prior Year Status: Similar issues concerning noncompliance with RepMar's Procurement Code have been reported as a finding in the audit of MIDB for fiscal year 2016.

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

Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Finding No.: 2017-002, Continued
Area: Procurement, Continued

Auditee Response and Corrective Action Plan:

1. Most of the items for the staff meals were below $500 except for one quotation due to the lump sum of the small items but it is within the approved budget set forth by the Board of Directors.

2. The Bank has secured the required quotation for the purchase of the two vehicles as per the Procurement Act and as to availability in the island. The Bank was supposedly given a $1,300 discount due to the condition of the pick-up but was not applied at the time of the purchase; instead the vendor gave the Bank a credit memo to compensate for the misunderstanding that took place during the purchase. The Managing Director personally paid $700 on a biweekly basis as part of the verbal agreement to reduce the cost of the vehicle to $24,850.

Unresolved Prior Year Findings
Year Ended September 30, 2017

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