

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, 2019 AND 2018

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

Years Ended September 30, 2019 and 2018
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	4
III. FINANCIAL STATEMENTS:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
IV. OTHER SUPPLEMENTARY INFORMATION:	
Combining Statement of Net Position	23
Combining Statement of Revenues, Expenses and Changes in Net Position	24
V. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	25
Schedule of Findings and Responses	27
Unresolved Prior Year Findings	29

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis-of-Matters

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.

COVID-19

As discussed in Note 15 to the financial statements, MIDB has determined that the COVID-19 pandemic may negatively impact its business, results of operations and net position. MIDB is unable to reasonably estimate its ultimate financial impact.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

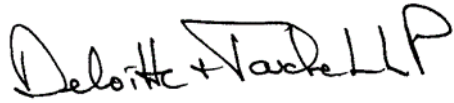
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting 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 June 16, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MIDB's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MIDB's internal control over financial reporting and compliance.

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

June 16, 2020

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Fiscal year October 1, 2018 to September 30, 2019 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, Housing, Small to Medium Business, and Solar 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, 2019.

FINANCIAL HIGHLIGHTS

- MIDB's total assets increased by \$2.74M or 7% from \$38.14M in 2018 to \$40.88M in 2019.
- MIDB's total net position increased by \$2.1M or 6% 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 decreased by \$0.24M from \$4.12M in 2018 to \$3.88M in 2019, \$2.4M of which was generated through interest on loans. Operating and general and administrative expenses decreased by \$0.08M from \$2.41M in 2018 to \$2.33M in 2019.
- Allowance for loan losses increased by \$1.09M from \$5.99M in 2018 to \$7.08M in 2019. Total non-operating revenues decreased by \$0.09M from \$1.19M in 2018 to \$1.10M in 2019.

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 2019, MIDB's assets of \$40.88M exceeded liabilities of \$2.68M by \$38.20M. However, \$1.02M or 2.7% 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, 2019, unrestricted net position amounted to \$37.18M, enough to repay all outstanding debt.

Summary Statements of Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
ASSETS:			
Cash and equivalents	\$ 4,179,746	\$ 6,647,034	\$ 6,343,344
Restricted cash	627,585	611,610	557,103
Time certificate of deposit	1,155,251	894,212	594,862
Investments in shares of stock	9,068,994	8,189,665	7,196,576
Receivables, net	25,153,170	21,017,855	20,542,406
Premises and equipment, net	391,664	522,148	618,422
Other assets	<u>310,662</u>	<u>259,767</u>	<u>291,651</u>
	<u>\$ 40,887,072</u>	<u>\$ 38,142,291</u>	<u>\$ 36,144,364</u>
LIABILITIES AND NET POSITION:			
Liabilities:			
Notes payable	\$ 1,000,000	\$ 301,955	\$ 603,070
Other liabilities	<u>1,684,421</u>	<u>1,738,546</u>	<u>1,789,279</u>
Total liabilities	<u>2,684,421</u>	<u>2,040,501</u>	<u>2,392,349</u>
Net Position:			
Net investment in capital assets	391,664	522,148	618,422
Restricted	627,585	1,505,822	1,151,965
Unrestricted	<u>37,183,402</u>	<u>34,073,820</u>	<u>31,981,628</u>
Total net position	<u>38,202,651</u>	<u>36,101,790</u>	<u>33,752,015</u>
	<u>\$ 40,887,072</u>	<u>\$ 38,142,291</u>	<u>\$ 36,144,364</u>

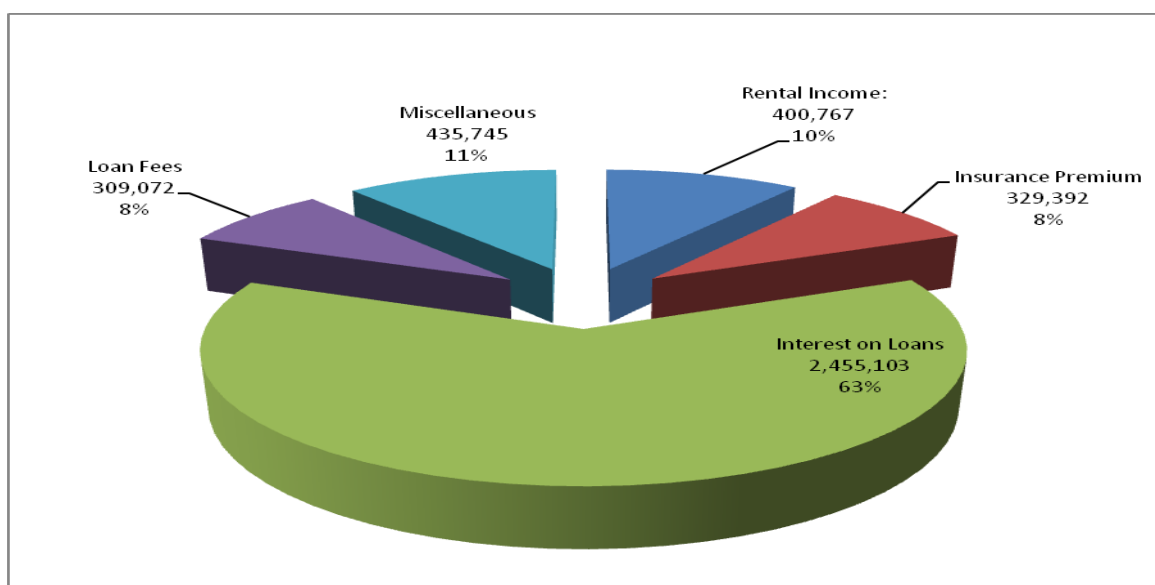
MARSHALL ISLANDS DEVELOPMENT BANK
(A Component Unit of the Republic of the Marshall Islands)

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

- Loan approvals for the year were approximately \$37.09M, broken down by projects, \$29.40M released under various consumer loans, \$7.04M for commercial loans, \$0.5M for small-medium enterprise and \$0.14M granted to housing loans. Net loans receivable increased by \$4.84M in 2019 compared with a \$1.79M increase in 2018. Loans released increased from \$29.39M to \$37.09M during the fiscal years 2018 and 2019, respectively.
- MIDB entered into a subsidiary loan agreement with the Government of the Marshall Islands through the Ministry of Finance in a principal amount of \$4M. The proceeds are exclusively for the purpose of implementing the home energy efficiency and renewable energy project. As of September 2019, the Bank received \$1M at an interest rate of 2% per annum.
- Total operating revenues for 2019 decreased by \$0.24M or 5% compared to 2018. About 62% of MIDB's operating revenues come from interest on loans, 93% of which was generated from consumer loans, 5% from business loans, and the remaining 2% from small to medium enterprise loans. Please see the chart below depicting the distribution of the Bank's operating revenues.

Summary Statements of Revenues, Expenses and Changes in Net Position

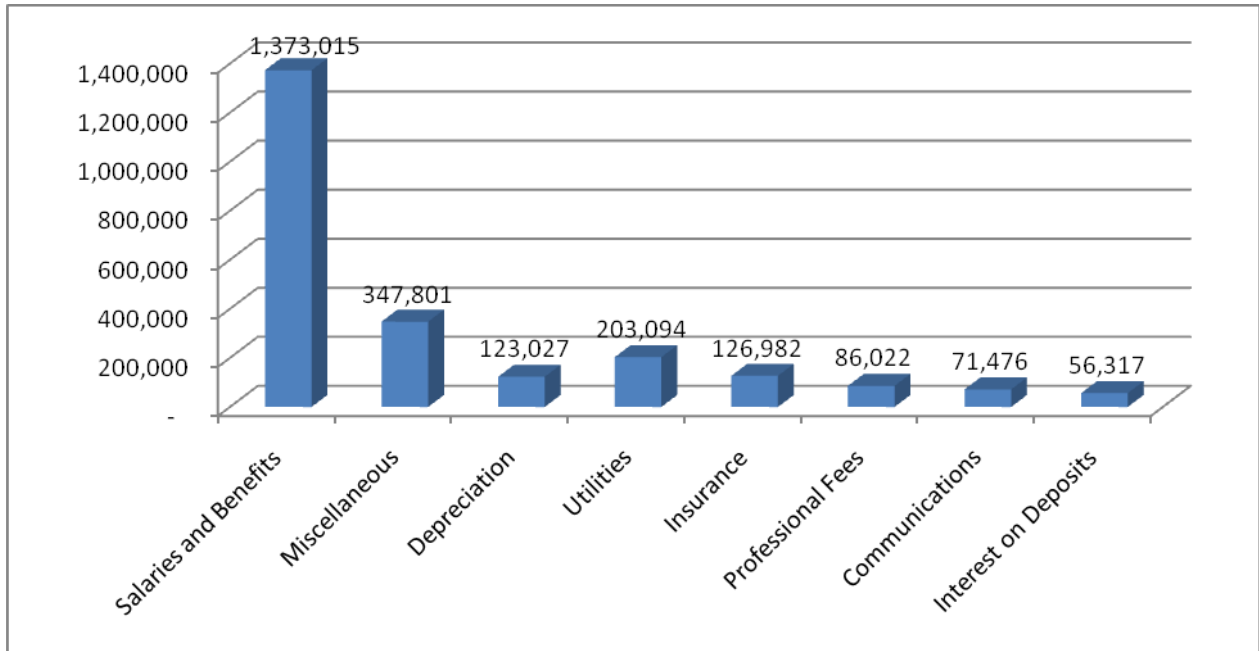
	<u>2019</u>	<u>2018</u>	<u>2017</u>
REVENUES:			
Operating revenues	\$ 3,873,762	\$ 4,118,975	\$ 4,003,860
(Provision for) recovery of loan losses	(536,983)	(545,291)	617,205
Non-operating revenues	<u>1,095,499</u>	<u>1,190,909</u>	<u>3,768,076</u>
Total revenues	<u>4,432,278</u>	<u>4,764,593</u>	<u>8,389,141</u>
EXPENSES:			
Operating expenses	7,944	30,714	43,479
General administrative expenses	<u>2,323,473</u>	<u>2,384,104</u>	<u>2,404,877</u>
Total expenses	<u>2,331,417</u>	<u>2,414,818</u>	<u>2,448,356</u>
Change in net position	2,100,861	2,349,775	5,940,785
Net position at beginning of year	<u>36,101,790</u>	<u>33,752,015</u>	<u>27,811,230</u>
Net position at end of year	<u>\$ 38,202,651</u>	<u>\$ 36,101,790</u>	<u>\$ 33,752,015</u>



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

Management's Discussion and Analysis
 Years Ended September 30, 2019 and 2018

- Total expenses for 2019 decreased by \$0.05 or 2% compared with 2018. MIDB's expenses cover a range of operating, general and administrative expenses.
- A 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 the additional allowance to be provided. The graph below shows itemized expenses and provides an overall picture of the Bank's spending activities.



- Interest expense increased by \$0.02M or 74% during the fiscal year ended September 30, 2019 compared with the fiscal year ended September 30, 2018 due to a decrease in interest on deposits. Interest on deposits pertains to payments related to various pledged deposits.
- General and administrative expenses in the aggregate decreased by \$0.06M or 2.5% from last year's operation due primarily to decreases in repairs and maintenance of \$0.06M or 54%, depreciation of 0.08M or 38%, and miscellaneous of \$0.01M or 21%.
- Total non-operating revenues for 2019 decreased by \$0.09M from \$1.19M in 2018 to \$1.10M in 2019.

Management's and Discussion and Analysis for the year ended September 30, 2018 is set forth in MIDB's report on the audit of financial statements dated January 7, 2019. That Discussion and Analysis explains the major factors impacting the 2018 financial statements and can be obtained from MIDB's Managing Director at rmimidb@ntamar.net

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

Management's Discussion and Analysis
Years Ended September 30, 2019 and 2018

Capital Assets and Debt

Capital asset acquisitions amounted to \$52K in 2019. For additional information concerning capital assets, please refer to Note 8 to the financial statements. Long term-debt increased by a net \$698K in 2019. As discussed above, the Bank entered into a \$4M subsidiary loan agreement with the Government of the Marshall Islands through the Ministry of Finance for the purpose of implementing a home energy efficiency and renewable energy project. For additional information concerning debt, please refer to Note 11 to the financial statements.

ECONOMIC OUTLOOK

In response to the Government's emergency declaration on the outbreak of COVID-19, the RMI COVID-19 CDRP Readiness Conditions serves as the basis of the Bank's response plan to provide measures. Unless, otherwise advised by the National Disaster Committee, MIDB continues with business as usual. The Bank continues to provide services to the public and keeps normal business hours. However, all employees of the Bank have been practicing preventative measures as recommended by the Ministry of Health and Human Services.

MIDB efforts to mitigate and respond to the impacts of COVID-19 pandemic in particular, to the outer islands of the Republic of the Marshall Islands, the Bank has offered short term, low interest commercial loans to established retail and wholesale business in order for them to secure food items and other related supplies.

This pandemic has an economic impact and effect on the Bank as it needs to cancel some of its goals and objectives and deviate its focus on taking precautionary measures especially for the welfare and well-being of its employees and its customers.

In the next years to come, once this pandemic is over, MIDB is continuing to expect growth in the demand for housing loans, commercial, small to medium business 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 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 debt. MIDB may have to look for other sources of funds to maintain the current portfolio and the rising demand for loans. Starting FY2020, MIDB will adopt its new Business Plan which will guide the operation of MIDB in the next 3 years, to 2022. MIDB is determined to provide more loans and to introduce additional services that adhere to its mission of promoting the development and expansion of the economy of the Marshall Islands in order to improve the standard living candidates of the people.

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, 2019. 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, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,179,746	\$ 6,647,034
Restricted cash	627,585	611,610
Time certificate of deposit	1,155,251	894,212
Investment in shares of stock	9,068,994	8,189,665
Receivables, net:		
Loans	25,153,170	20,317,855
Note receivable	-	700,000
Accrued interest	157,633	154,429
Other	134,879	87,188
Inventory, net	18,150	18,150
Capital assets:		
Non-depreciable capital assets	51,206	110,685
Capital assets, net of accumulated depreciation	<u>340,458</u>	<u>411,463</u>
	<u>\$ 40,887,072</u>	<u>\$ 38,142,291</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Notes payable	\$ 1,000,000	\$ 301,955
Accounts payable and accrued expenses	209,677	236,605
Deposits pledged	<u>1,474,744</u>	<u>1,501,941</u>
Total liabilities	<u>2,684,421</u>	<u>2,040,501</u>
Commitments		
Net position:		
Net investment in capital assets	391,664	522,148
Restricted	627,585	1,505,822
Unrestricted	<u>37,183,402</u>	<u>34,073,820</u>
Total net position	<u>38,202,651</u>	<u>36,101,790</u>
	<u>\$ 40,887,072</u>	<u>\$ 38,142,291</u>

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Interest income on loans	\$ 2,398,786	\$ 2,914,284
Rental income	400,767	380,174
Insurance premiums	329,392	333,426
Loan fees	309,072	124,842
Federal grants	196,923	161,526
Interest income on time certificate of deposit	40,287	40,437
Miscellaneous	<u>198,535</u>	<u>164,286</u>
Total operating revenues	3,873,762	4,118,975
Provision for loan losses	<u>(536,983)</u>	<u>(545,291)</u>
Net operating revenues	<u>3,336,779</u>	<u>3,573,684</u>
Operating expenses:		
Interest expense:		
Interest on loans payable	<u>7,944</u>	<u>30,714</u>
General and administrative expenses:		
Salaries and employee benefits	1,373,015	1,332,920
Utilities	203,094	194,041
Insurance	126,982	136,429
Depreciation	123,027	198,414
Professional fees	86,022	60,785
Communications	71,476	48,551
Printing, stationery and advertising	52,542	51,889
Representation	51,712	48,353
Repairs and maintenance	51,371	111,343
Travel and training	39,529	33,823
Promotion and donation	31,800	28,322
Land lease	29,492	26,020
Office and house rental	21,000	21,000
Fuel	13,735	15,656
Taxes and licenses	12,372	1,531
Impairment loss	-	29,150
Miscellaneous	<u>36,304</u>	<u>45,877</u>
Total general and administrative expenses	<u>2,323,473</u>	<u>2,384,104</u>
Income from operations	1,005,362	1,158,866
Nonoperating revenues:		
Investment earnings	<u>1,095,499</u>	<u>1,190,909</u>
Change in net position	2,100,861	2,349,775
Net position at beginning of year	<u>36,101,790</u>	<u>33,752,015</u>
Net position at end of year	<u>\$ 38,202,651</u>	<u>\$ 36,101,790</u>

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 3,687,429	\$ 4,099,992
Cash payments to suppliers for goods and services	(852,747)	(787,896)
Cash payments to employees for services	(1,374,627)	(1,349,998)
Interest received on time certificate of deposit	40,287	40,437
Interest paid	(7,944)	(30,714)
Operating grants received	196,923	161,526
Net cash provided by operating activities	1,689,321	2,133,347
Cash flows from noncapital financing activities:		
Contributions from RepMar	-	1,413,600
Net change in pledged deposits	(27,197)	58,467
Net cash provided by (used for) noncapital financing activities	(27,197)	1,472,067
Cash flows from capital and related financing activities:		
Principal additions of long-term debt	1,000,000	-
Repayment of long-term debt	(301,955)	(301,115)
Additions to premises, equipment and foreclosed assets	(52,022)	(120,043)
Net cash provided by (used for) capital and related financing activities	646,023	(421,158)
Cash flows from investing activities:		
Loan originations and principal collections, net	(4,714,591)	(2,724,529)
Net change in restricted cash and time certificate of deposit	(277,014)	(353,857)
Dividends received	216,170	197,820
Net cash used for investing activities	(4,775,435)	(2,880,566)
Net change in cash and cash equivalents	(2,467,288)	303,690
Cash and cash equivalents at beginning of year	6,647,034	6,343,344
Cash and cash equivalents at end of year	\$ 4,179,746	\$ 6,647,034
Cash flows from operating activities:		
Income from operations	\$ 1,005,362	\$ 1,158,866
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Provision for loan losses	536,983	545,291
Impairment loss	-	29,150
Depreciation	123,027	198,414
(Increase) decrease in assets:		
Receivables:		
Accrued interest	(3,204)	(70,203)
Other	(47,691)	69,637
Inventory	-	3,300
Increase (decrease) in liabilities:		
Accrued interest payable	-	(4,245)
Accrued expenses	(26,928)	15,346
Unearned premiums	25,914	(10,107)
Unearned fees	75,858	197,898
Net cash provided by operating activities	\$ 1,689,321	\$ 2,133,347
Supplemental information of noncash financing activities:		
Related party loan receivable offset:		
Loans receivable	\$ -	\$ 120,301
RepMar deposit	-	(120,301)
	\$ -	\$ -
Unrealized gain on investment in shares of stock:		
Investment in shares of stock	\$ (879,329)	\$ (993,089)
Investment earnings	879,329	993,089
	\$ -	\$ -

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018, MIDB has expendable net position of \$627,585 and \$1,505,822, respectively.

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

Notes to Financial Statements
September 30, 2019 and 2018

(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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2019 and 2018, the carrying amounts of cash and cash equivalents and time certificates of deposit are \$5,962,582 and \$8,152,856, respectively, and the corresponding bank balances are \$6,125,725 and \$8,483,341, respectively. Of the bank balances, \$832,800 and \$830,266, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$5,292,925 and \$7,653,075, respectively, are maintained in a financial institution not subject to depository insurance. As of September 30, 2019 and 2018, 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 loan fees and 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 allowances 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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(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 lieu 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 Loan Premium and Loan Processing Revenues

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

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation.

New Accounting Standards

During the year ended September 30, 2019, MIDB implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

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

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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.

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

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

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, 2019 and 2018 that are valued using the Net Asset Value (NAV) per share is as follows:

	<u>2019</u>	<u>2018</u>
Marshall Islands Holdings, Inc.	\$ 9,020,064	\$ 8,142,535
Marshall Islands Service Corporation	<u>48,930</u>	<u>47,130</u>
	<u>\$ 9,068,994</u>	<u>\$ 8,189,665</u>

The investment in Marshall Islands Holdings, Inc. (MIHI) comprises of 16% of the outstanding shares as of September 30, 2019 and 2018. 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, 2019 and 2018. During the years ended September 30, 2019 and 2018, related dividend income was \$216,170 and \$197,820, respectively.

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

Notes to Financial Statements
September 30, 2019 and 2018

(4) Loans Receivable

Loans receivable as of September 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Loans receivable	\$ 32,849,480	\$ 26,823,177
Less: unearned premiums	(343,391)	(317,477)
unearned loan processing fees	(273,756)	(197,898)
allowance for loan losses	<u>(7,079,163)</u>	<u>(5,989,947)</u>
	<u>\$ 25,153,170</u>	<u>\$ 20,317,855</u>

An analysis of the change in the allowance for loan losses during the years ended September 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 5,989,947	\$ 4,709,817
Reinstated loans which were subsequently collected	555,073	738,978
Provision for loan losses	536,983	545,291
Charge-offs	<u>(2,840)</u>	<u>(4,139)</u>
Ending balance	<u>\$ 7,079,163</u>	<u>\$ 5,989,947</u>

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2019 and 2018 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 1% - 7% for business loans, 6% - 7% for housing loans, and 5% - 14% for consumer loans.

(5) Accrued Interest Receivable

Accrued interest receivable as of September 30, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Republic of the Marshall Islands	\$ 162,399	\$ 165,696
Less: allowance for doubtful interest	<u>(4,766)</u>	<u>(11,267)</u>
	<u>\$ 157,633</u>	<u>\$ 154,429</u>

An analysis of the change in the allowance for interest receivable during the years ended September 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 11,267	\$ 45,275
Recovery	(6,501)	-
Charge-offs	<u>-</u>	<u>(34,008)</u>
Ending balance	<u>\$ 4,766</u>	<u>\$ 11,267</u>

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

Notes to Financial Statements
September 30, 2019 and 2018

(6) Other Receivables

Other receivables as of September 30, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Rental	\$ 421,510	\$ 423,855
Other	<u>28,649</u>	<u>30,168</u>
	450,159	454,023
Allowance for uncollectible accounts	<u>(315,280)</u>	<u>(366,835)</u>
	\$ <u>134,879</u>	\$ <u>87,188</u>

(7) Deposits

MIDB maintains a savings deposit as of September 30, 2019 and 2018 in the amount of \$627,585 and \$611,610, 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, 2018 with an affiliated bank in the amount of \$894,212, which is restricted as collateral for a loan by Tobolar Copra Processing Authority.

(8) Premises and Equipment

Capital asset activity for the years ended September 30, 2019 and 2018 is as follows:

	2019			
	<u>October 1, 2018</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>September 30, 2019</u>
Building and houses	\$ 2,761,063	\$ 18,390	\$ -	\$ 2,779,453
Computer systems	292,930	1,528	-	294,458
Motor vehicles	239,981	21,595	-	261,576
Office furniture	63,094	1,985	-	65,079
Office equipment	<u>447,391</u>	<u>8,524</u>	-	<u>455,915</u>
	3,804,459	52,022	-	3,856,481
Less accumulated depreciation	<u>(3,392,996)</u>	<u>(123,027)</u>	-	<u>(3,516,023)</u>
	411,463	(71,005)	-	340,458
Construction materials	<u>110,685</u>	-	<u>(59,479)</u>	<u>51,206</u>
	\$ <u>522,148</u>	\$ <u>(71,005)</u>	\$ <u>(59,479)</u>	\$ <u>391,664</u>
	2018			
	<u>October 1, 2017</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>September 30, 2018</u>
Building and houses	\$ 2,722,943	\$ 38,120	\$ -	\$ 2,761,063
Computer systems	284,668	8,262	-	292,930
Motor vehicles	354,671	33,300	(147,990)	239,981
Office furniture	62,499	595	-	63,094
Office equipment	<u>434,470</u>	<u>12,921</u>	-	<u>447,391</u>
	3,859,251	93,198	(147,990)	3,804,459
Less accumulated depreciation	<u>(3,324,669)</u>	<u>(198,414)</u>	<u>130,087</u>	<u>(3,392,996)</u>
	534,582	(105,216)	(17,903)	411,463
Construction materials	<u>83,840</u>	<u>74,908</u>	<u>(48,063)</u>	<u>110,685</u>
	\$ <u>618,422</u>	\$ <u>(30,308)</u>	\$ <u>(65,966)</u>	\$ <u>522,148</u>

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

Notes to Financial Statements
September 30, 2019 and 2018

(9) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Foreclosed assets	\$ 350,000	\$ 350,000
Allowance for losses	<u>(350,000)</u>	<u>(350,000)</u>
	\$ <u> -</u>	\$ <u> -</u>

(10) Investment in Property

In 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, 2019 and 2018, the property has been fully depreciated and is presented net of accumulated depreciation of \$139,000.

(11) Notes 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 prior loans of \$2,000,000 and \$1,000,000. As of September 30, 2018, the balance outstanding was \$301,955. This note was paid in full during 2019.

On June 14, 2018, MIDB entered into a subsidiary loan agreement with RepMar relating to a loan dated November 8, 2016 between RepMar and the International Cooperation and Development Fund (ICDF). Total available subsidiary loan of \$4,000,000 was divided into four drawdowns of \$1,000,000 each. Loan drawdowns commenced in 2019 with repayment commencing in 2021 in bi-monthly installments with interest at 2% per annum. Loan repayment will be based on total drawdowns made up to 2021. As of September 30, 2019, total drawdowns related to this subsidiary loan were \$1,000,000.

Long-term debt changes during the years ended September 30, 2019 and 2018 are as follows:

	<u>Balance October 1,</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30,</u>	<u>Due Within One Year</u>
2019:					
Note payable	\$ <u>301,955</u>	\$ <u>1,000,000</u>	\$ <u>(301,955)</u>	\$ <u>1,000,000</u>	\$ <u> -</u>
2018:					
Note payable	\$ <u>603,070</u>	\$ <u> -</u>	\$ <u>(301,115)</u>	\$ <u>301,955</u>	\$ <u>292,018</u>

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

Notes to Financial Statements
September 30, 2019 and 2018

(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 (TCPA).

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 this 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. This loan was considered paid in full in 2018. Total related payments through withdrawals during the year ended September 30, 2018 were \$125,501.

In 2016, MIDB guaranteed a \$1,430,000 loan of TCPA from an affiliate bank. Principal and interest payments of \$25,500 are due monthly through June 30, 2022. In the event that TCPA is unable to make a payment, MIDB will be required to make that payment. As of September 30, 2019 and 2018, TCPA has not defaulted on their MIDB guaranteed debt. The amount outstanding and payable by TCPA to the affiliate bank is \$768,366 and \$928,164 as of September 30, 2019 and 2018, respectively.

In 2018, MIDB entered into a \$700,000 short-term loan with TCPA collateralized by the agreement of funds allocated to TCPA under Cabinet Minute C.M. 168 (2018) and as guaranteed by RepMar. As at September 30, 2018, the outstanding balance is \$700,000. This loan was paid in full on November 2, 2018.

On April 26, 2019, MIDB entered into a two-year loan with TCPA whereby MIDB agreed to lend TCPA an amount up to \$6,000,000, guaranteed by RepMar under Cabinet Minute C.M. 087 (2019). As of September 30, 2019, total related drawdowns are \$3,904,330.

As of September 30, 2019 and 2018, MIDB has deposits with an affiliate bank of \$5,292,925 and \$7,653,075, respectively. The deposits accrue interest at rates of 0.25% to 2% per annum. Interest earned for the years ended September 30, 2019 and 2018 was \$40,287 and \$40,437, respectively.

As of September 30, 2019 and 2018, MIDB employees have outstanding loans of \$817,047 and \$965,462, respectively. In addition, the directors of MIDB have outstanding loans as of September 30, 2019 and 2018, of \$218,905 and \$316,019, respectively. All loans were made at normal commercial terms and conditions.

In 2017, the operations of MIDB were funded by an appropriation of \$2,827,200 from the RepMar Nitijela for the purpose of funding the Small and Medium-sized Enterprises Business and Housing Loan Program, of which \$642,398 and \$1,721,356 remains unexpended as of September 30, 2019 and 2018, respectively.

(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, if any, to which it is exposed.

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

Notes to Financial Statements
September 30, 2019 and 2018

(14) Commitments

Certain loans recorded by USDA are subject to a MIDB guarantee, the balance of which \$11,570,121 and \$11,466,905 as of September 30, 2019 and 2018, respectively. During the years ended September 30, 2019 and 2018, MIDB made payments to USDA in the amount of \$0 and \$7,079, 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. 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 addition, 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 <u>September 30,</u>	
2020	\$ 34,060
2021	34,060
2022	34,060
2023	31,227
2024	42,353
2025 - 2029	147,863
2030 - 2034	105,750
2035 - 2039	78,000
2040 - 2044	65,125
2045 - 2049	48,000
2050 - 2054	48,000
2055 - 2059	48,000
2060 - 2063	<u>17,275</u>
	 \$ <u>733,773</u>

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

Years ending <u>September 30,</u>	
2020	\$ 375,606
2021	239,178
2022	168,626
2023	57,033
2024	26,190
2025 - 2029	<u>137,498</u>
	 \$ <u>1,004,131</u>

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

Notes to Financial Statements
September 30, 2019 and 2018

(15) Subsequent Event

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of June 16, 2020, there have been no confirmed cases of COVID-19 in the Marshall Islands. MIDB has determined that should the pandemic reach the Marshall Islands, it may negatively impact MIDB's business, results of operations, and financial position. While MIDB expects this matter to potentially have a negative impact on its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time.

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

Combining Statement of Net Position
September 30, 2019

<u>ASSETS</u>	Marshall Islands Development Bank	RMI Small- Medium Enterprise Project	USDA Self-Help Housing Project	Total
Cash and cash equivalents	\$ 2,212,917	\$ 1,859,486	\$ 107,343	\$ 4,179,746
Restricted cash	627,585	-	-	627,585
Time certificate of deposit	1,155,251	-	-	1,155,251
Investments	9,068,994	-	-	9,068,994
Receivables, net:				
Loans	23,771,571	1,381,599	-	25,153,170
Accrued interest	154,994	2,639	-	157,633
Other	134,879	-	-	134,879
Inventory, net	18,150	-	-	18,150
Capital assets:				
Nondepreciable capital assets	51,206	-	-	51,206
Depreciable capital assets, net	<u>338,598</u>	<u>-</u>	<u>1,860</u>	<u>340,458</u>
	<u>\$ 37,534,145</u>	<u>\$ 3,243,724</u>	<u>\$ 109,203</u>	<u>\$ 40,887,072</u>

LIABILITIES AND NET POSITION

Liabilities:				
Notes payable	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Accounts payable and accrued expenses	16,895	79,897	112,885	209,677
Deposits pledged	<u>1,330,129</u>	<u>137,139</u>	<u>7,476</u>	<u>1,474,744</u>
Total liabilities	<u>2,347,024</u>	<u>217,036</u>	<u>120,361</u>	<u>2,684,421</u>
Net position:				
Net investment in capital assets	389,804	-	1,860	391,664
Restricted	627,585	-	-	627,585
Unrestricted	<u>34,169,732</u>	<u>3,026,688</u>	<u>(13,018)</u>	<u>37,183,402</u>
Total net position	<u>35,187,121</u>	<u>3,026,688</u>	<u>(11,158)</u>	<u>38,202,651</u>
	<u>\$ 37,534,145</u>	<u>\$ 3,243,724</u>	<u>\$ 109,203</u>	<u>\$ 40,887,072</u>

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, 2019

	Marshall Islands Development Bank	RMI Small- Medium Enterprises Project	USDA Self-Help Housing Project	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating revenues:				
Interest income on loans	\$ 2,311,856	\$ 86,930	\$ -	\$ 2,398,786
Rental income	400,767	-	-	400,767
Insurance premiums	329,392	-	-	329,392
Loan fees	298,559	10,513	-	309,072
Federal grants	-	-	196,923	196,923
Interest income on time certificate of deposit	40,190	-	97	40,287
Miscellaneous	198,535	-	-	198,535
	<u>3,579,299</u>	<u>97,443</u>	<u>197,020</u>	<u>3,873,762</u>
Total operating revenues				
(Provision for) recovery of loan losses	(540,957)	3,974	-	(536,983)
	<u>3,038,342</u>	<u>101,417</u>	<u>197,020</u>	<u>3,336,779</u>
Net operating revenues				
Operating expenses:				
Interest expense:				
Interest on loans payable	7,944	-	-	7,944
	<u>7,944</u>	<u>-</u>	<u>-</u>	<u>7,944</u>
General and administrative expenses:				
Salaries and employee benefits	1,215,423	-	157,592	1,373,015
Utilities	203,094	-	-	203,094
Depreciation	121,511	-	1,516	123,027
Insurance	115,150	-	11,832	126,982
Professional fees	86,022	-	-	86,022
Communications	70,657	-	819	71,476
Printing, stationery and advertising	49,420	-	3,122	52,542
Representation	51,712	-	-	51,712
Repairs and maintenance	50,164	-	1,207	51,371
Travel and training	39,529	-	-	39,529
Promotion and donation	31,800	-	-	31,800
Land lease	29,492	-	-	29,492
Office and house rental	21,000	-	-	21,000
Fuel	8,270	-	5,465	13,735
Taxes and licenses	12,250	-	122	12,372
Miscellaneous	35,934	18	352	36,304
	<u>2,141,428</u>	<u>18</u>	<u>182,027</u>	<u>2,323,473</u>
Total general and administrative expenses				
Income from operations	888,970	101,399	14,993	1,005,362
	<u>888,970</u>	<u>101,399</u>	<u>14,993</u>	<u>1,005,362</u>
Nonoperating revenues:				
Investment earnings	1,095,499	-	-	1,095,499
	<u>1,095,499</u>	<u>-</u>	<u>-</u>	<u>1,095,499</u>
Change in net position	1,984,469	101,399	14,993	2,100,861
Net position at beginning of year	33,202,652	2,925,289	(26,151)	36,101,790
	<u>33,202,652</u>	<u>2,925,289</u>	<u>(26,151)</u>	<u>36,101,790</u>
Net position at end of year	\$ 35,187,121	\$ 3,026,688	\$ (11,158)	\$ 38,202,651
	<u>\$ 35,187,121</u>	<u>\$ 3,026,688</u>	<u>\$ (11,158)</u>	<u>\$ 38,202,651</u>

See accompanying independent auditors' report.

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, 2019, 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 June 16, 2020.

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.

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 2019-001 that we consider to be material weakness.

Compliance and Other Matters

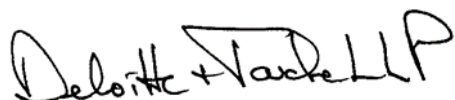
As part of obtaining reasonable assurance about whether MIDB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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

June 16, 2020

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

Schedule of Findings and Responses
Year Ended September 30, 2019

Finding No. 2019-001

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 and accuracy of loan documentation, safeguarding pertinent loan documents and monitoring loan covenant requirements.

Conditions:

Tests of a representative sample of forty-four (44) 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. One loan folder (Note no. xx864) was not provided.
- b. Seven loans tested (Note nos. xx748, xx548, xx328, xx654, xx639, xx242, xx192) contain information, such as loan amount, interest rate, maturity date, term of loan, borrower's name, no. of payments, and frequency, that is not consistent throughout the loan files, i.e. promissory note, security agreement, loan trial balance and loan transaction history.
- c. One loan tested (Note no. xx390) has two guarantee forms in file with a different borrower names.
- d. One loan tested (Note no. xx789) has a blank application form for the co-borrower and one loan tested (Note no. xx654) has no application form in file.
- e. Eight loans tested (Note nos. xx402, xx341, xx544, xx203, xx840, xx639, xx242, xx192) has either no guarantor identification card or no guarantor pay check stubs in file.
- f. One loan tested (Note no. xx654) has no guarantor.
- g. One loan tested (Note no. xx505) has no borrower check stubs in file and one loan tested (Note no. xx192) has no co-borrower verification of employment in file.
- h. One loan tested (Note no. xx789) has loan document checklist in file without a signature of the verifying officer.
- i. One loan tested (Note no. xx192) has no Mortgage of a Leasehold document in file.
- j. Two loans tested (Note nos. xx242 and xx192) have incomplete credit checks both for the borrower and co-borrower.
- k. Eight loans of 6840 loans (Note nos. xx803, xx021, xx986, xx253, xx158, xx689, xx138 and xx056) in the loan trial balance have a different no. of days past due compared to the auditor's recalculation. Furthermore, payment due date for purposes of recalculating no. of days past due of three loans tested (Note nos. xx639, xx402 and xx170) per audit differs from the payment due date per the loan system. Moreover, an updated amortization table of one loan tested (Note no. xx602) was not available.

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

Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Finding No. 2019-001, Continued

Loans Receivable, Continued

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 documents.

Recommendation: MIDB 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 have been reported as a finding in the audits of MIDB for fiscal years 2007 through 2018.

Auditee Response and Corrective Action Plan:

- a. Loan officer who processes the loan will try to locate the folder. Scanning of all loan folders on a daily basis has already been implemented to avoid repeated misplacement errors.
- b. All seven loans have been corrected. Loans information, such as loan amount, interest rate, maturity date, term of loan, borrower's name, no. of payments, and frequency are consistent throughout the loans files.
- c. The error has been corrected and was properly filed.
- d. Co-borrower's application form has been provided.
- e. All guarantors' ID have been provided to each loan files. Currently, the Bank is scanning all IDs into each holder's account to minimize this repeated issue.
- f. The loan was secured by its collateral, therefore no guarantor was needed.
- g. Both borrowers' verification of employments and check-stubs have been provided to respective files.
- h. Loan document checklist has been met and completed.
- i. The Mortgage of a Leasehold has been provided and is available in file.
- j. Management will ensure that borrowers and co-borrowers' credit checks are met and complete, accordingly to loan checklist.
- k. The error has been corrected in the system already and the bank will ensure that such is not repeated in the future.

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

Unresolved Prior Year Findings
Year Ended September 30, 2019

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