

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, 2020 AND 2019

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

Years Ended September 30, 2020 and 2019
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Development Bank:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2020 and 2019, 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, 2020 and 2019, 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

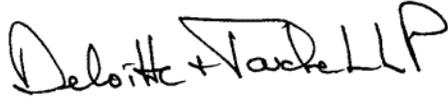
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2022, 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

January 24, 2022

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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

Fiscal year October 1, 2019 to September 30, 2020 has been a productive year for the Marshall Islands Development Bank (MIDB). During the fiscal year, the Bank's resources were utilized to prioritize Commercial, Small-Medium Enterprises, Food Security and Consumer Loans 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, 2020.

FINANCIAL HIGHLIGHTS

- MIDB's total assets increased by \$5.1M or 12.5% from \$40.9M in 2019 to \$46M in 2020.
- MIDB's total net position increased by \$4.8M or 12.5% 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 \$0.3M from \$3.9M in 2019 to \$4.2M in 2020, \$2.8M of which was generated through interest on loans. Operating and general administrative expenses increased by \$0.2M from \$2.3M in 2019 to \$2.5M in 2020.
- Allowance for loan losses decreased by \$2.4M from \$7.1M in 2019 to \$4.7M in 2020. Total non-operating revenues decreased by \$0.5M from \$1.1M in 2019 to \$0.6M in 2020.

ANALYSIS OF MIDB'S FINANCIAL STATUS

This analysis serves as an overview to MIDB's basic financial statements. At the end of the fiscal year 2020, MIDB's assets of \$46M exceeded liabilities of \$3M by \$43M. However, \$0.9M or 2.1% of the net position is either invested in capital assets or in restricted funds that can only be used for the purpose of which the funds were created. The capital assets are resources used by MIDB during the course of its operations to provide services to the people and are assets that are not easily liquidated. As of September 30, 2020, unrestricted net position amounted to \$42.1M, enough to repay all outstanding debt. A summary of MIDB's Statements of Net Position as of September 30, 2020 compared with 2019 and 2018 is presented below:

Summary Statements of Net Position
As of September 30

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Assets:					
Loans receivable	\$ 22,264,979	\$ 21,248,840	\$ 1,016,139	4.8%	\$ 20,317,855
Investment in stock	9,452,095	9,068,994	383,101	4.2%	8,189,665
Due from RepMar	2,562,806	3,904,330	(1,341,524)	(34.4)%	-
Current and other assets	11,317,046	6,273,244	5,043,802	80.4%	9,112,623
Capital assets	<u>415,514</u>	<u>391,664</u>	<u>23,850</u>	6.1%	<u>522,148</u>
Total assets	<u>46,012,440</u>	<u>40,887,072</u>	<u>5,125,368</u>	12.5%	<u>38,142,291</u>
Liabilities:					
Current and other liabilities	2,034,996	1,684,421	350,575	20.8%	1,738,546
Long-term debt	<u>1,000,000</u>	<u>1,000,000</u>	<u>-</u>	0.0%	<u>301,955</u>
Total liabilities	<u>3,034,996</u>	<u>2,684,421</u>	<u>350,575</u>	13.1%	<u>2,040,501</u>
Net position:					
Net investment in capital assets	415,514	391,664	23,850	6.1%	522,148
Restricted	500,012	627,585	(127,573)	(20.3)%	1,505,822
Unrestricted	<u>42,061,918</u>	<u>37,183,402</u>	<u>4,878,516</u>	13.1%	<u>34,073,820</u>
Total net position	<u>\$ 42,977,444</u>	<u>\$ 38,202,651</u>	<u>\$ 4,774,793</u>	12.5%	<u>\$ 36,101,790</u>

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

Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED

- Loan approvals for the year were approximately \$22.8M, broken down by projects, \$20.6M released under various consumer loans, \$1.1M for small-medium enterprise loans, \$0.6M for commercial loans and \$0.5M for housing loans. Net loans receivable increased by \$1M from \$21.2M in 2019 to \$22.2M in 2020. Loans released decreased from \$37.4M to \$22.8M during the fiscal years 2019 and 2020, respectively.
- Investment in stock includes MIDB's 16% holding in the outstanding shares of Marshall Islands Holdings, Inc. (MIHI), which engages in all aspects of holding company activities and is the sole shareholder of Bank of Marshall Islands (BOMI). During the years ended September 30, 2020 and 2019, MIDB received dividend income from MIHI of \$0.2M.
- Due from RepMar represents amounts outstanding under a \$6M financing arrangement authorized by RepMar Cabinet Minute C.M. 087 (2019) for the purpose of funding copra subsidies to Tobolar Copra Processing Authority.
- 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. On March 26, 2019, MIDB received \$1M at an interest rate of 2% per annum.

A summary of MIDB's Statements of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2020 compared with 2019 and 2018 is presented below:

Summary Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30

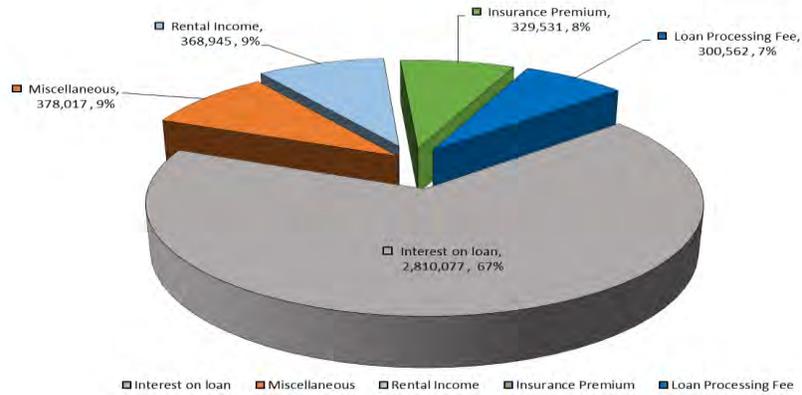
	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Operating:					
Operating revenues	\$ 4,187,132	\$ 3,873,762	\$ 313,370	8.1%	\$ 4,118,975
Operating expenses	2,494,334	2,331,417	162,917	7.0%	2,414,818
Loan recovery (loss)	<u>2,641,634</u>	<u>(536,983)</u>	<u>3,178,617</u>	(591.9)%	<u>(545,291)</u>
Operating income	<u>4,334,432</u>	<u>1,005,362</u>	<u>3,329,070</u>	331.1%	<u>1,158,866</u>
Nonoperating:					
Nonoperating revenues	596,314	1,095,499	(499,185)	(45.6)%	1,190,909
Nonoperating expenses	<u>155,953</u>	<u>-</u>	<u>155,953</u>		<u>-</u>
Nonoperating income	<u>440,361</u>	<u>1,095,499</u>	<u>(655,138)</u>	(59.8)%	<u>1,190,909</u>
Change in net position	<u>\$ 4,774,793</u>	<u>\$ 2,100,861</u>	<u>\$ 2,673,932</u>	127.3%	<u>\$ 2,349,775</u>

- Total operating revenues for 2020 increased by \$0.3M or 8.1% compared to 2019. About 67% of MIDB's operating revenue comes from interest on loans, 82% of which was generated from consumer loans, 10% from commercial loans, 5% from housing loans and the remaining 3% from small-medium enterprise loans. Please see chart below depicting the distribution of MIDB's operating revenues.

MARSHALL ISLANDS DEVELOPMENT BANK
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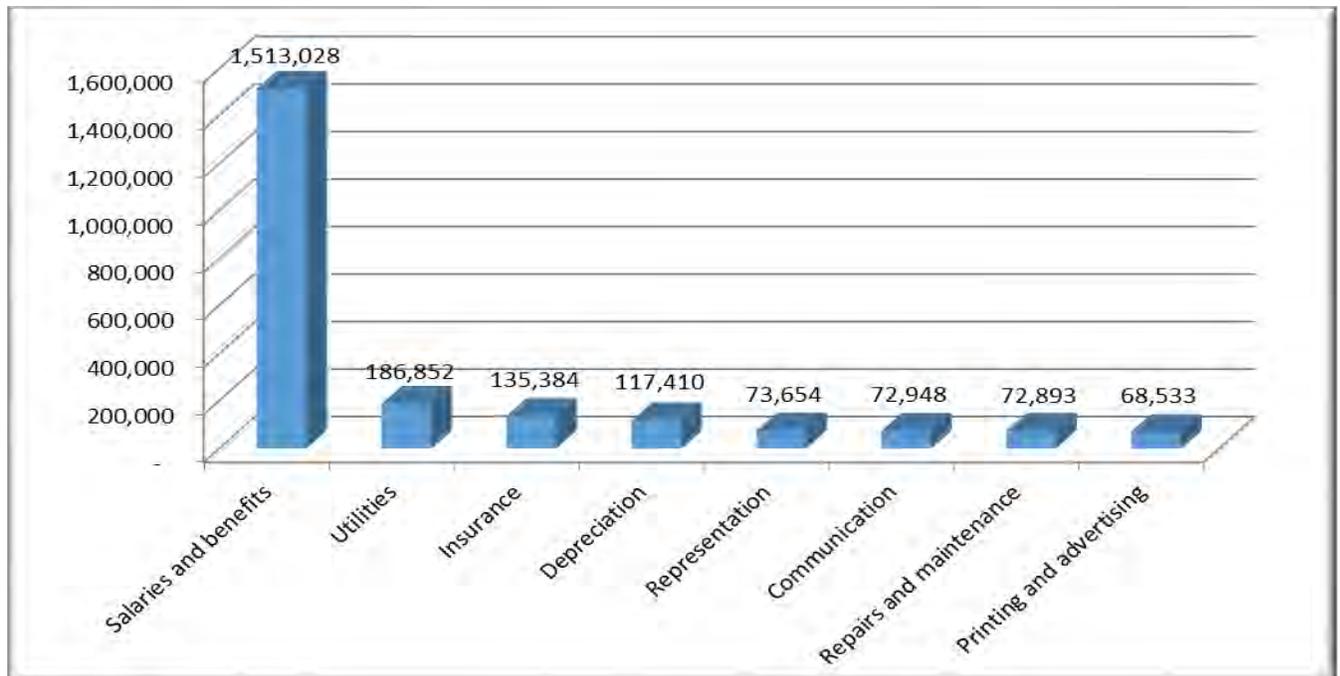
Management's Discussion and Analysis
 Years Ended September 30, 2020 and 2019

ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED



- Loan loss expense for 2020 decreased by \$3.2M from a \$0.5M loss in 2019 to a \$2.7M recovery in 2020 primarily due to collection of loan receivables.
- Total operating expenses for 2020 increased by \$0.2M or 7% compared with 2019. MIDB's expenses cover a range of interest, general and administrative expenses.
- Provision for delinquent loans is provided based on MIDB'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 an additional allowance to be provided.

The graph below shows itemized expenses and provides an over-all picture of MIDB's spending activities.



MARSHALL ISLANDS DEVELOPMENT BANK
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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED

- Utilities expense decreased by \$16K or 8% during the fiscal year ended September 30, 2020 compared to the fiscal year ended September 30, 2019 from \$203K to \$187K, respectively.
- General and administrative expenses in the aggregate increased by \$171K or 7.4% from last year's operation due primarily to an increase in repairs and maintenance by \$22K or 42%, representation by \$22K or 42%, and printing and advertising by \$16K or 30%.
- Total non-operating revenues for 2020 decreased by \$0.5M from \$1.1M in 2019 to \$0.6M in 2020.

Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in MIDB's report on the audit of financial statements dated June 16, 2020. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be obtained from MIDB's Managing Director at rmimidb@ntamar.net.

CAPITAL ASSETS AND DEBT

Net capital assets increased by \$24K or 6.1% from \$392K in 2019 to \$416K in 2020. The increase is due primarily to the acquisition of construction materials for self-help housing.

A summary of MIDB's capital assets as of September 30, 2020 compared with 2019 and 2018 is presented below:

Summary of Capital Assets
As of September 30

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Building and houses	\$ 2,802,738	\$ 2,779,453	\$ 23,285	0.8%	\$ 2,761,063
Computer systems	314,838	294,458	20,380	6.9%	292,930
Motor vehicles	280,076	261,576	18,500	7.1%	239,981
Office furniture	74,032	65,079	8,953	13.8%	63,094
Office equipment	<u>463,042</u>	<u>455,915</u>	<u>7,127</u>	1.6%	<u>447,391</u>
	3,934,726	3,856,481	78,245	2.0%	3,804,459
Accumulated depreciation	<u>(3,613,956)</u>	<u>(3,516,023)</u>	<u>(97,933)</u>	2.8%	<u>(3,392,996)</u>
	320,770	340,458	(19,688)	(5.8)%	411,463
Construction materials	<u>94,744</u>	<u>51,206</u>	<u>43,538</u>	85.0%	<u>110,685</u>
	<u>\$ 415,514</u>	<u>\$ 391,664</u>	<u>\$ 23,850</u>	6.1%	<u>\$ 522,148</u>

Please refer to Note 7 to the accompanying financial statements for additional information regarding MIDB's capital assets.

MARSHALL ISLANDS DEVELOPMENT BANK
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Management's Discussion and Analysis
Years Ended September 30, 2020 and 2019

CAPITAL ASSETS AND DEBT, CONTINUED

A summary of MIDB's debt as of September 30, 2020 compared with 2019 and 2018 is presented below:

Summary of Debt
As of September 30

	2020	2019	\$ Change 2020-2019	% Change 2020-2019	2018
Note payable	\$ -	\$ -	\$ -		\$ 301,955
Due to primary government	1,000,000	1,000,000	-	0.0%	-
	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	0.0%	<u>\$ 301,955</u>

In 2015, MIDB obtained a \$1M term loan from a bank for the purpose of restructuring prior loans of \$2M and \$1M. In 2019, the loan was paid in full.

In 2018, MIDB entered into a subsidiary loan agreement with RepMar relating to a loan between RepMar and the International Cooperation and Development Fund (ICDF) for the Home Energy Efficiency and Renewable Energy Project. The total available subsidiary loan of \$4M was divided into four drawdowns of \$1M each. Loan drawdowns commenced in 2019 and there were no additions or reductions related to this subsidiary loan in 2020.

Please refer to Notes 11 and 12 to the accompanying financial statements for additional information regarding MIDB's debt.

ECONOMIC OUTLOOK

In the next years to come, 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 the Mutual Self Help Housing Projects and USDA Rural development.

MIDB 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 to meet the rising demand for loans. MIDB has adopted its Business Plan which will guide the operation of MIDB in the next 3 years to 2023. MIDB is determined to provide more loans 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 living conditions 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, 2020. 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, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Cash	\$ 8,878,874	\$ 4,179,746
Restricted cash	500,012	627,585
Certificates of deposit	1,537,128	1,155,251
Investment in shares of stock	9,452,095	9,068,994
Receivables, net:		
Loans	22,264,979	21,248,840
Accrued interest	155,131	157,633
Other	245,901	134,879
Due from primary government	2,562,806	3,904,330
Inventory, net	-	18,150
Capital assets:		
Non-depreciable capital assets	94,744	51,206
Capital assets, net of accumulated depreciation	320,770	340,458
	\$ 46,012,440	\$ 40,887,072
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Due to primary government	\$ 1,000,000	\$ 1,000,000
Accounts payable and accrued expenses	271,086	209,677
Deposits pledged	1,763,910	1,474,744
Total liabilities	3,034,996	2,684,421
Commitments		
Net position:		
Net investment in capital assets	415,514	391,664
Restricted	500,012	627,585
Unrestricted	42,061,918	37,183,402
Total net position	42,977,444	38,202,651
	\$ 46,012,440	\$ 40,887,072

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, 2020 and 2019

	2020	2019
Operating revenues:		
Interest income on loans	\$ 2,810,077	\$ 2,398,786
Rental income	368,945	400,767
Insurance premiums	329,531	329,392
Loan fees	300,562	309,072
Federal grants	181,668	196,923
Interest income on bank deposits	58,058	40,287
Miscellaneous	138,291	198,535
	4,187,132	3,873,762
Total operating revenues		
(Provision for) recovery of loan losses	2,641,634	(536,983)
	6,828,766	3,336,779
Net operating revenues		
Operating expenses:		
Interest expense:		
Interest on loans payable	-	7,944
	-	7,944
General and administrative expenses:		
Salaries and employee benefits	1,513,028	1,373,015
Utilities	186,852	203,094
Insurance	135,384	126,982
Depreciation	117,410	123,027
Representation	73,654	51,712
Communications	72,948	71,476
Repairs and maintenance	72,893	51,371
Printing, stationery and advertising	68,533	52,542
Professional fees	60,730	86,022
Travel and training	39,825	39,529
Land lease	26,354	29,492
Office and house rental	21,000	21,000
Impairment loss	18,150	-
Fuel	16,291	13,735
Promotion and donations	16,276	31,800
Taxes and licenses	11,452	12,372
Miscellaneous	43,554	36,304
	2,494,334	2,323,473
Total general and administrative expenses		
Income from operations	4,334,432	1,005,362
	4,334,432	1,005,362
Nonoperating revenues (expenses):		
Investment earnings	596,314	1,095,499
USDA loan guarantee	(155,953)	-
	440,361	1,095,499
Total nonoperating revenues (expenses), net		
Change in net position	4,774,793	2,100,861
Net position at beginning of year	38,202,651	36,101,790
	\$ 42,977,444	\$ 38,202,651
Net position at end of year		

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK
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Statements of Cash Flows
September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 3,675,637	\$ 3,687,429
Cash payments to suppliers for goods and services	(799,972)	(852,747)
Cash payments to employees for services	(1,497,393)	(1,374,627)
Interest received on bank deposits	58,058	40,287
Interest paid	-	(7,944)
Operating grants received	181,668	196,923
Net cash provided by operating activities	1,617,998	1,689,321
Cash flows from noncapital financing activities:		
Net change in due from primary government	1,341,524	(3,904,330)
Net change in pledged deposits	289,166	(27,197)
Net cash provided by (used for) noncapital financing activities	1,630,690	(3,931,527)
Cash flows from capital and related financing activities:		
Drawdown on ICDF loan facility	-	1,000,000
Repayment of long-term debt	-	(301,955)
Additions to premises, equipment and foreclosed assets	(101,745)	(52,022)
Net cash provided by (used for) capital and related financing activities	(101,745)	646,023
Cash flows from investing activities:		
Loan originations and principal collections, net	1,749,229	(810,261)
Loan guarantee payment to USDA	(155,953)	-
Dividends received	213,213	216,170
Net cash provided by (used for) investing activities	1,806,489	(594,091)
Net change in cash and cash equivalents	4,953,432	(2,190,274)
Cash and cash equivalents at beginning of year	5,962,582	8,152,856
Cash and cash equivalents at end of year	\$ 10,916,014	\$ 5,962,582
Consisting of:		
Cash	\$ 8,878,874	\$ 4,179,746
Restricted cash	500,012	627,585
Certificates of deposit	1,537,128	1,155,251
	\$ 10,916,014	\$ 5,962,582
Cash flows from operating activities:		
Income from operations	\$ 4,334,432	\$ 1,005,362
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Provision for loan losses	(2,641,634)	536,983
Impairment loss	18,150	-
Depreciation	117,410	123,027
Loss on disposal of capital assets	4,023	-
(Increase) decrease in assets:		
Receivables:		
Accrued interest	2,502	(3,204)
Other	(111,022)	(47,691)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	61,409	(26,928)
Unearned premiums	(92,563)	25,914
Unearned fees	(74,709)	75,858
Net cash provided by operating activities	\$ 1,617,998	\$ 1,689,321
Supplemental information of noncash financing activities:		
Unrealized gain on investment in shares of stock:		
Investment in shares of stock	\$ (383,101)	\$ (879,329)
Investment earnings	383,101	879,329
	\$ -	\$ -

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, 2020 and 2019

(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. As of September 30, 2020 and 2019, 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, 2020 and 2019, MIDB has expendable net position of \$500,012 and \$627,585, respectively.

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(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 bank deposits, (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 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 certificates of deposit with original maturity dates greater than ninety days are separately classified.

Custodial credit risk is the risk that in the event of a bank failure, MIDB's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. MIDB does not have a deposit policy for custodial credit risk.

As of September 30, 2020 and 2019, the carrying amounts of cash and cash equivalents and certificates of deposit are \$10,916,014 and \$5,962,582, respectively, and the corresponding bank balances are \$11,335,552 and \$6,125,725, respectively. Of the bank balances, \$847,905 and \$832,800, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$10,487,647 and \$5,292,925, respectively, are maintained in a financial institution not subject to depository insurance. As of September 30, 2020 and 2019, 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.

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(2) Summary of Significant Accounting Policies, Continued

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.

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

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(2) Summary of Significant Accounting Policies, Continued

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.

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.

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.

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.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 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, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. Except for paragraphs 11b, 13, and 14, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2021. The requirement in paragraphs 11b, 13, and 14 are effective for fiscal year September 30, 2022.

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

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

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(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

(3) Investments

A summary of MIDB's investments as of September 30, 2020 and 2019 that are valued using the Net Asset Value (NAV) per share is as follows:

	<u>2020</u>	<u>2019</u>
Marshall Islands Holdings, Inc.	\$ 9,401,725	\$ 9,020,064
Marshall Islands Service Corporation	<u>50,370</u>	<u>48,930</u>
	<u>\$ 9,452,095</u>	<u>\$ 9,068,994</u>

The investment in Marshall Islands Holdings, Inc. (MIHI) comprises of 16% of the outstanding shares as of September 30, 2020 and 2019. 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, 2020 and 2019. During the years ended September 30, 2020 and 2019, related dividend income was \$213,213 and \$216,170, respectively.

(4) Loans Receivable

Loans receivable as of September 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Loans receivable	\$ 27,399,968	\$ 28,945,150
Less: unearned premiums	(250,828)	(343,391)
unearned loan processing fees	(199,047)	(273,756)
allowance for loan losses	<u>(4,685,114)</u>	<u>(7,079,163)</u>
	<u>\$ 22,264,979</u>	<u>\$ 21,248,840</u>

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(4) Loans Receivable, Continued

An analysis of the change in the allowance for loan losses during the years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 7,079,163	\$ 5,989,947
Reinstated loans which were subsequently collected	247,585	555,073
Provision for (recovery of) loan losses	(2,641,634)	536,983
Charge-offs	<u>-</u>	<u>(2,840)</u>
Ending balance	<u>\$ 4,685,114</u>	<u>\$ 7,079,163</u>

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2020 and 2019 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, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Republic of the Marshall Islands	\$ 173,000	\$ 162,399
Less: allowance for doubtful interest	<u>(17,869)</u>	<u>(4,766)</u>
	<u>\$ 155,131</u>	<u>\$ 157,633</u>

An analysis of the change in the allowance for interest receivable during the years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 4,766	\$ 11,267
Provision for (recovery of)	<u>13,103</u>	<u>(6,501)</u>
Ending balance	<u>\$ 17,869</u>	<u>\$ 4,766</u>

(6) Other Receivables

Other receivables as of September 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Rental	\$ 417,464	\$ 421,510
Other	<u>172,063</u>	<u>28,649</u>
	589,527	450,159
Allowance for uncollectible accounts	<u>(343,626)</u>	<u>(315,280)</u>
	<u>\$ 245,901</u>	<u>\$ 134,879</u>

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(7) Premises and Equipment

Capital asset activity for the years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>			
	<u>October 1, 2019</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>September 30, 2020</u>
Building and houses	\$ 2,779,453	\$ 23,285	\$ -	\$ 2,802,738
Computer systems	294,458	20,380	-	314,838
Motor vehicles	261,576	42,000	(23,500)	280,076
Office furniture	65,079	8,953	-	74,032
Office equipment	<u>455,915</u>	<u>7,127</u>	<u>-</u>	<u>463,042</u>
	3,856,481	101,745	(23,500)	3,934,726
Less accumulated depreciation	<u>(3,516,023)</u>	<u>(117,410)</u>	<u>19,477</u>	<u>(3,613,956)</u>
	340,458	(15,665)	(4,023)	320,770
Construction materials	<u>51,206</u>	<u>76,551</u>	<u>(33,013)</u>	<u>94,744</u>
	<u>\$ 391,664</u>	<u>\$ 60,886</u>	<u>\$ (37,036)</u>	<u>\$ 415,514</u>
	<u>2019</u>			
	<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>-</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>-</u>	<u>(3,516,023)</u>
	411,463	(71,005)	-	340,458
Construction materials	<u>110,685</u>	<u>-</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>

(8) Restricted Assets

MIDB maintains a savings deposit as of September 30, 2020 and 2019 in the amount of \$500,012 and \$627,585, 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.

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(9) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Foreclosed assets	\$ 350,000	\$ 350,000
Allowance for losses	<u>(350,000)</u>	<u>(350,000)</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, 2020 and 2019, the property has been fully depreciated and is presented net of accumulated depreciation of \$139,000.

(11) Note Payable

MIDB had 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 certificates of deposit and an assignment of loans receivable. This loan was a restructure of prior loans of \$2,000,000 and \$1,000,000. This note with an outstanding balance of \$301,955 as of September 30, 2018 was paid in full during 2019.

(12) Related Party Transactions

MIDB is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including Tobolar Copra Processing Authority (TCPA). 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, 2020 and 2019, TCPA has not defaulted on their MIDB guaranteed debt. The amount outstanding and payable by TCPA to the affiliate bank is \$486,865 and \$768,366 as of September 30, 2020 and 2019, respectively.

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 remained unexpended as of September 30, 2019. As of September 30, 2020, this amount was fully expended.

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 of September 30, 2018, the outstanding balance was \$700,000, which was subsequently paid in full on November 2, 2018.

On April 26, 2019, the RepMar Cabinet approved a \$6,000,000 MIDB loan to RepMar for the purpose of funding copra subsidies to TCPA. Interest accrues at a preferential rate of 1.25% per annum for a term of two years. As of September 30, 2020 and 2019, the related amount due from RepMar is \$2,562,806 and \$3,904,330, respectively.

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(12) Related Party Transactions, Continued

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) for the Home Energy Efficiency and Renewable Energy Project. The project aims to increase local energy resources and efficient utilization of energy through the household sector, both of which are expected to reduce pollution through a reduction in the use of imported fossil fuel for power generation. Loan proceeds are to be on lent to MIDB for the purpose of providing funds to household borrowers. The applicant households must take an energy audit to obtain a list of the inefficient appliances and light fittings in need of replacement, which will later be provided to MIDB for loan approval. 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 December 15, 2021 in equal semi-annual 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. During 2020, there were no additions or reductions related to this subsidiary loan.

As of September 30, 2020 and 2019, MIDB has deposits with an affiliate bank of \$10,487,647 and \$5,292,925, respectively. The deposits accrue interest at rates of 0.25% to 2% per annum. Interest earned for the years ended September 30, 2020 and 2019 was \$58,058 and \$40,287, respectively.

As of September 30, 2020 and 2019, MIDB employees have outstanding loans of \$778,692 and \$817,047, respectively. In addition, the directors of MIDB have outstanding loans as of September 30, 2020 and 2019, of \$212,974 and \$218,905, respectively. All loans were made at normal commercial terms and conditions.

(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.

(14) Commitments

Certain loans recorded by USDA are subject to a MIDB guarantee, the balance of which is \$11,557,242 and \$11,570,121 as of September 30, 2020 and 2019, respectively. During the year ended September 30, 2020, MIDB made payments to USDA in the amount of \$155,953 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.

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

Notes to Financial Statements
September 30, 2020 and 2019

(14) Commitments, Continued

Future minimum lease payments under these leases are as follows:

<u>Years ending September 30,</u>	
2021	\$ 27,812
2022	27,812
2023	24,979
2024	24,104
2025	24,202
2026 - 2030	110,772
2031 - 2035	65,510
2036 - 2040	46,760
2041 - 2045	33,263
2046 - 2050	25,421
2051 - 2055	25,421
2056 - 2060	24,543
2061 - 2063	<u>10,800</u>
	<u>\$ 471,399</u>

MIDB has entered into several leases as lessor expiring over various years through December 31, 2025. Future minimum lease income for subsequent years ending September 30 is as follows:

<u>Years ending September 30,</u>	
2021	\$ 267,348
2022	198,722
2023	100,689
2024	72,096
2025	28,824
2026	<u>2,556</u>
	<u>\$ 670,235</u>

(15) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended the containment and mitigation measures worldwide. On October 28, 2020, one confirmed case was identified in the Marshall Islands that was subsequently isolated and contained. On November 17, 2020, an additional three cases were identified and which were isolated and contained. As of January 24, 2022, no community transmission has been identified. MIDB has determined that should community transmission occur within 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, 2020

<u>ASSETS</u>	Marshall Islands Development Bank	RMI Small- Medium Enterprise Project	USDA Self-Help Housing Project	Total
Cash	\$ 7,281,825	\$ 1,510,178	86,871	\$ 8,878,874
Restricted cash	500,012	-	-	500,012
Certificates of deposit	1,537,128	-	-	1,537,128
Investments	9,452,095	-	-	9,452,095
Receivables, net:				
Loans	20,404,185	1,860,794	-	22,264,979
Accrued interest	148,133	6,998	-	155,131
Other	209,233	-	36,668	245,901
Due from primary government	2,562,806	-	-	2,562,806
Capital assets:				
Nondepreciable capital assets	94,744	-	-	94,744
Depreciable capital assets, net	318,563	-	2,207	320,770
	<u>\$ 42,508,724</u>	<u>\$ 3,377,970</u>	<u>\$ 125,746</u>	<u>\$ 46,012,440</u>
 <u>LIABILITIES AND NET POSITION</u>				
Liabilities:				
Due to primary government	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Accounts payable and accrued expenses	61,183	79,872	130,031	271,086
Deposits pledged	1,572,416	184,018	7,476	1,763,910
Total liabilities	<u>2,633,599</u>	<u>263,890</u>	<u>137,507</u>	<u>3,034,996</u>
Net position:				
Net investment in capital assets	413,307	-	2,207	415,514
Restricted	500,012	-	-	500,012
Unrestricted	38,961,806	3,114,080	(13,968)	42,061,918
Total net position	<u>39,875,125</u>	<u>3,114,080</u>	<u>(11,761)</u>	<u>42,977,444</u>
	<u>\$ 42,508,724</u>	<u>\$ 3,377,970</u>	<u>\$ 125,746</u>	<u>\$ 46,012,440</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, 2020

	Marshall Islands Development Bank	RMI Small- Medium Enterprises Project	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	\$ 2,739,315	\$ 70,762	\$ -	\$ 2,810,077
Rental income	368,945	-	-	368,945
Insurance premiums	329,531	-	-	329,531
Loan fees	296,926	3,636	-	300,562
Federal grants	-	-	181,668	181,668
Interest income on bank deposits	58,020	-	38	58,058
Miscellaneous	138,076	-	215	138,291
Total operating revenues	<u>3,930,813</u>	<u>74,398</u>	<u>181,921</u>	<u>4,187,132</u>
Recovery of loan losses	<u>2,628,640</u>	<u>12,994</u>	<u>-</u>	<u>2,641,634</u>
Net operating revenues	<u>6,559,453</u>	<u>87,392</u>	<u>181,921</u>	<u>6,828,766</u>
General and administrative expenses:				
Salaries and employee benefits	1,359,813	-	153,215	1,513,028
Utilities	186,852	-	-	186,852
Insurance	121,173	-	14,211	135,384
Depreciation	116,566	-	844	117,410
Representation	73,499	-	155	73,654
Communications	72,439	-	509	72,948
Repairs and maintenance	70,931	-	1,962	72,893
Printing, stationery and advertising	66,410	-	2,123	68,533
Professional fees	60,730	-	-	60,730
Travel and training	35,833	-	3,992	39,825
Land lease	26,354	-	-	26,354
Office and house rental	21,000	-	-	21,000
Impairment loss	18,150	-	-	18,150
Fuel	11,156	-	5,135	16,291
Promotion and donation	16,276	-	-	16,276
Taxes and licenses	11,074	-	378	11,452
Miscellaneous	43,554	-	-	43,554
Total general and administrative expenses	<u>2,311,810</u>	<u>-</u>	<u>182,524</u>	<u>2,494,334</u>
Income (loss) from operations	<u>4,247,643</u>	<u>87,392</u>	<u>(603)</u>	<u>4,334,432</u>
Nonoperating revenues (expenses):				
Investment earnings	596,314	-	-	596,314
USDA loan guarantee	(155,953)	-	-	(155,953)
Net nonoperating revenues	440,361	-	-	440,361
Change in net position	4,688,004	87,392	(603)	4,774,793
Net position at beginning of year	<u>35,187,121</u>	<u>3,026,688</u>	<u>(11,158)</u>	<u>38,202,651</u>
Net position at end of year	<u>\$ 39,875,125</u>	<u>\$ 3,114,080</u>	<u>\$ (11,761)</u>	<u>\$ 42,977,444</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, 2020, 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 January 24, 2022.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 2020-001 that we consider to be material weakness.

Compliance and Other Matters

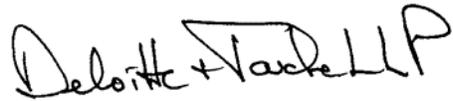
As part of obtaining reasonable assurance about whether MIDB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 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 + Tuck LLP". The signature is written in a cursive, flowing style.

January 24, 2022

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

Schedule of Findings and Responses
Year Ended September 30, 2020

Finding No. 2020-001

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 (40) 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. Thirteen loans tested (Note nos. xx983, xx845, xx428, xx806, xx157, xx608, xx954, xx229, xx654, xx187, xx021, xx242, xx465) contain information, such as loan amount, interest rate, open date, maturity date, term of loan, borrower's name, and next payment due date, that is either incomplete, with erasures and/or is not consistent throughout the loan file, i.e. promissory note, security agreement, and loan trial balance.
- c. One loan tested (Note no. xx654) has no application form in file.
- d. One loan tested (Note no. xx954) has a lesser number of required guarantors.
- e. One loan tested (Note no. xx954) has guarantee forms in file with different borrower names.
- f. Three loans tested (Note nos. xx636, xx021, xx242) had either no guarantor identification card or no guarantor pay check stubs in file.
- g. One loan tested (Note no. xx406) has no borrower check stubs in file.
- h. Three loans tested (Note nos. xx720, xx657, xx197) have missing documents in file, i.e. EIN Card, Document Checklist, Authority to Release Information, Loan Analysis Report and Listing of Real and Personal Assets for Collateral.
- i. One loan tested (Note no. xx242) has incomplete credit checks both for the borrower and co-borrower.
- j. Three loans tested (Note nos. xx176, xx845, xx406) have either an allotment amount below the required periodic amortization, allotment start date is later than the required first payment due date or Notice of Salary Assignment on file is not updated.
- k. One loan tested (Note no. xx465) has a loan payment that was incorrectly posted to a savings account.
- l. Six loans tested (Note nos. xx351, xx406, xx252, xx289, xx196, xx637) in the loan trial balance have incorrect loan tagging.
- m. MIDB requires only one guarantor for a borrower who is a spouse of an MIDB employee. This was not defined in the MIDB Loan Policy.

MARSHALL ISLANDS DEVELOPMENT BANK
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Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Finding No. 2020-001, 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 2019.

Auditee Response and Corrective Action Plan: MIDB's response to the reported conditions are as follows:

- a. The Bank will ensure and made it as a requirement for all loan folders to be electronically scanned into our system on a daily basis.
- b. All thirteen loans have been corrected. Loan information such as loan amount, interest rate, open date, maturity date, term of loan, borrower's name, and next payment due date are now consistent throughout all the loan folders.
- c. The Bank will ensure that loan officers as well as borrowers strictly comply with the Bank's policies by making sure all required documents are met and completed accordingly to our Bank's loan checklist.
- d. A second guarantor has been provided by the borrower and loan file has been updated and scanned by loan officer.
- e. The file has been updated with the correct borrower and guarantors by the loan officer.
- f. The IDs for the two guarantors have been provided by the borrower to loan officer and updated the file.
- g. A borrower's check stub was not needed because borrower already included a signed notice of fund assignment which serves as replacement for borrower's check stub.
- h. All the mentioned loan documents i.e. EIN card, business plans, loan drawdown, etc., have already been secured and scanned by loan officer to the respective loans.
- i. Management will ensure that all loan documents are thoroughly reviewed and all required loan documents are met and completed.
- j. The three loans have already updated and corrected.
- k. This error has been corrected; payments that went to borrower's saving account have been transferred to borrower's loan.
- l. All loans have been properly tagged based on status of loans. Thorough reviewing of loans to ensure they are being tagged correctly will be closely monitored to avoid repeated mistake.
- m. The Bank is requiring only one guarantor for MIDB employees and spouses. The Bank will ensure that the exemption practiced will be included in the Bank's Policy.

MARSHALL ISLANDS DEVELOPMENT BANK
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Unresolved Prior Year Findings
Year Ended September 30, 2020

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