

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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

Years Ended September 30, 2021 and 2020
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INDEPENDENT AUDITOR'S 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, 2021 and 2020, 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.

Auditor's 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, 2021 and 2020, and the changes in its financial position 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.

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 25 and 26 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 December 20, 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 & Touche LLP".

December 20, 2022

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

Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

Fiscal year October 1, 2020 to September 30, 2021 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, 2021.

FINANCIAL HIGHLIGHTS

- MIDB's total assets increased by \$2.5M or 5.4% from \$45.6M in 2020 to \$48.1M in 2021.
- MIDB's total net position increased by \$2.4M or 5.6% over the course of this year's operations. Net position primarily represents funds from the RMI Government to carry out the objectives under MIDB's enabling legislation as well as loan programs under the SME Business and Housing Loan Program and the USDA Self-Help Housing Project Loan Program.
- Operating revenues decreased by \$341K from \$4.2M in 2020 to \$3.9M in 2021, \$2.8M of which was generated through interest on loans. Operating and general administrative expenses increased by \$628K from \$2.5M in 2020 to \$3.1M in 2021.
- Allowance for loan losses decreased by \$678K from \$4.7M in 2020 to \$4M in 2021. Total non-operating revenues increased by \$139K from \$596K in 2020 to \$735K in 2021.

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 2021, MIDB's assets of \$48.1M exceeded liabilities of \$2.8M by \$45.3M. However, \$871K or 1.9% of the net position is either invested in capital assets or in restricted funds that can only be used for the purpose for which the funds were created. 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, 2021, unrestricted net position amounted to \$44.5M, enough to repay all outstanding debt.

A summary of MIDB's Statements of Net Position for 2021 with comparative presentation for 2020 and 2019 is presented below:

Summary Statements of Net Position
As of September 30

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Assets:					
Current and other assets	\$ 47,787,128	\$ 45,261,213	\$ 2,525,915	5.6%	\$ 40,495,408
Capital assets	354,290	415,514	(61,224)	(14.7)%	391,664
Total assets	48,141,418	45,676,727	2,464,691	5.4%	40,887,072
Liabilities:					
Current and other liabilities	1,775,333	1,699,283	76,050	4.5%	1,684,421
Long-term debt	1,000,000	1,000,000	-	0.0%	1,000,000
Current and other liabilities	2,775,333	2,699,283	76,050	2.8%	2,684,421
Net position:					
Net investment in capital assets	354,290	415,514	(61,224)	(14.7)%	391,664
Restricted	516,812	500,012	16,800	3.4%	627,585
Unrestricted	44,494,983	42,061,918	2,449,865	5.8%	37,183,402
Total net position	\$ 45,366,085	\$ 42,977,444	\$ 2,405,441	5.6%	\$ 38,202,651

MARSHALL ISLANDS DEVELOPMENT BANK
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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED

- Loan approvals for the year were approximately \$22.5M, broken down by projects, \$18.6M released under various consumer loans, \$2.8M for commercial, \$0.9M for small-medium enterprise loans, and \$0.2M for housing loans. Net loans receivable remained unchanged at \$22M in 2021 and 2020. Loans released decreased from \$22.8M to \$22.5M during the fiscal years 2020 and 2021, 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, 2021 and 2020, MIDB received dividend income from MIHI of \$211K and \$213K, respectively.
- 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. Amount outstanding under this arrangement is \$2.5M as of September 30, 2021 and 2020. At the request of the Ministry of Finance, a 12-month loan deferment was granted with the loan maturity extended to 2023.
- 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. No further drawdowns have occurred.

A summary of MIDB's Statements of Revenues, Expenses, and Changes in Net Position for 2021 with comparative presentation for 2020 and 2019 is presented below:

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

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Operating:					
Operating revenues	\$ 3,874,024	\$ 4,215,480	\$ (341,456)	(8.1)%	\$ 3,873,762
Loan loss recovery (provision)	930,195	2,641,634	(1,711,439)	(64.8)%	(536,983)
Operating expenses	(3,150,818)	(2,522,682)	(628,136)	24.9%	(2,331,417)
Operating income	<u>1,653,401</u>	<u>4,334,432</u>	<u>(2,681,031)</u>	(61.9)%	<u>1,005,362</u>
Nonoperating:					
Nonoperating revenues	735,240	596,314	138,926	23.3%	1,095,499
Nonoperating expenses	-	(155,953)	155,953	(100.0)%	-
	<u>735,240</u>	<u>440,361</u>	<u>294,879</u>	67.0%	<u>1,095,499</u>
Change in net position	2,388,641	4,774,793	(2,386,152)	(50.0)%	2,100,861
Net position - beginning	<u>42,977,444</u>	<u>38,202,651</u>	<u>4,774,793</u>	12.5%	<u>36,101,790</u>
Net position - ending	<u>\$ 45,366,085</u>	<u>\$ 42,977,444</u>	<u>\$ 2,388,641</u>	5.6%	<u>\$ 38,202,651</u>

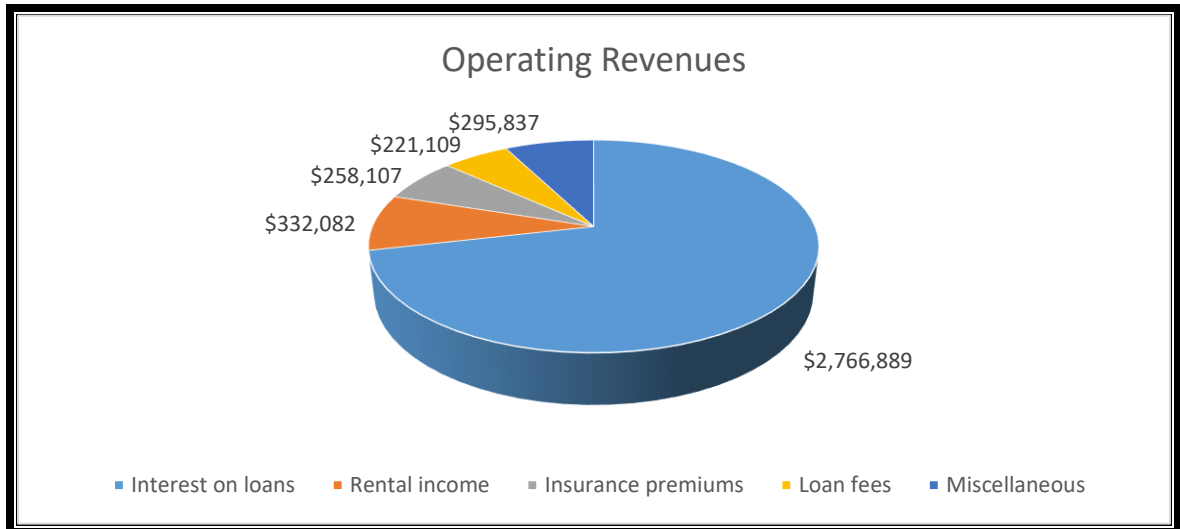
- Total operating revenues for 2021 decreased by \$341K or 8.1% compared to 2020. About 71% of MIDB's operating revenue comes from interest on loans, 82% of which was generated from consumer loans, 10% from commercial loans, 5% from housing loans and the remaining 3% from small-medium enterprise loans. 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, 2021 and 2020

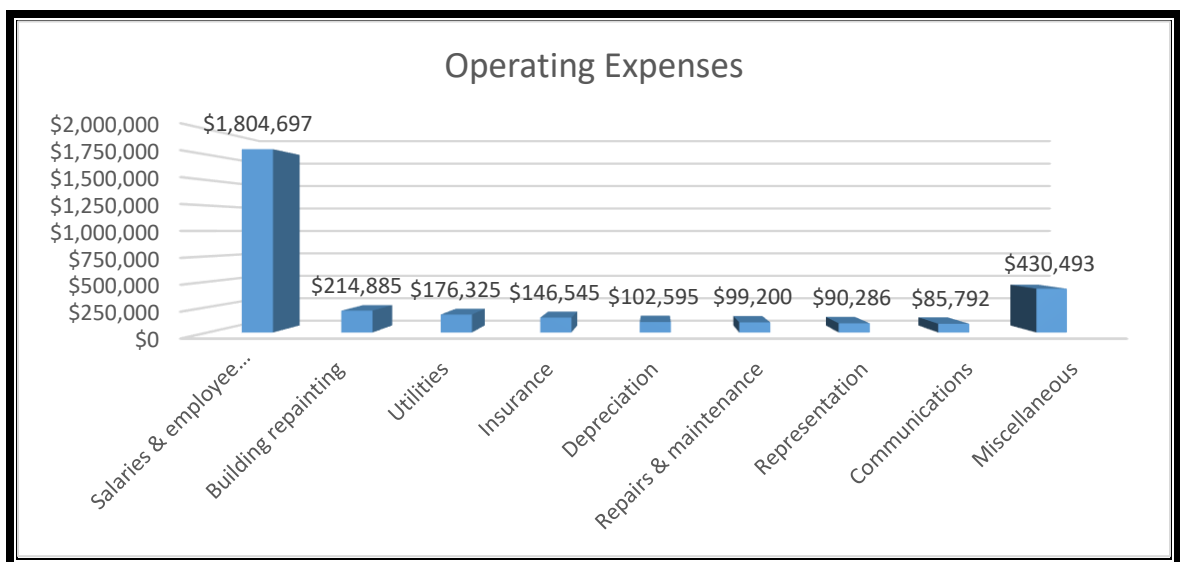
ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED

Please see chart below depicting the distribution of MIDB's operating revenues.



- Loan loss recovery for 2021 decreased by \$1.7M from \$2.6M in 2020 to \$930K in 2021 primarily due to a reduction in collection of delinquent loan receivables.
- Total operating expenses for 2021 increased by \$628K or 24.9% compared with 2020. 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 provide vital information in the computation of an additional allowance to be provided.

Please see chart below depicting itemized expenses of MIDB's operating expenses that provides an overall picture of MIDB's spending activities.



MARSHALL ISLANDS DEVELOPMENT BANK
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Management's Discussion and Analysis
 Years Ended September 30, 2021 and 2020

ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED

Operating expenses increased by \$628K or 24.9% in 2021 compared with 2020. Significant changes in operating expenses are as follows:

- Salaries and wages expense increased by \$292K or 19% in 2021 compared to 2020 due to an across-the-board increase in payrates as well as the hiring of additional new staff.
- Building repainting expense increased by \$215K in 2021 compared to 2020 due to a painting contractor hired to repair and paint the exterior of the 5-storey building.

Management's Discussion and Analysis for the year ended September 30, 2020 is set forth in MIDB's report on the audit of financial statements dated January 24, 2022. That Discussion and Analysis explains the major factors impacting the 2020 financial statements and can be obtained from MIDB's Managing Director at rmimidb@gmail.com.

CAPITAL ASSETS AND DEBT

Capital Assets

Net capital assets decreased by \$61K or 14.7% from \$415K in 2020 to \$354K in 2021. The decrease is due primarily to current year depreciation expense of \$102K less net acquisitions of \$41K. A summary of MIDB's capital assets as of September 30, 2021 compared with 2020 and 2019 is presented below:

Summary of Capital Assets
As of September 30

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Building and houses	\$ 2,802,738	\$ 2,802,738	\$ -	0.0%	\$ 2,779,453
Computer systems	356,426	314,838	41,588	13.2%	294,458
Motor vehicles	282,877	280,076	2,801	1.0%	261,576
Office furniture	79,707	74,032	5,675	7.7%	65,079
Office equipment	473,215	463,042	10,173	2.2%	455,915
	3,994,963	3,934,726	60,237	1.5%	3,856,481
Accumulated depreciation	(3,703,515)	(3,613,956)	(89,559)	2.5%	(3,516,023)
	291,448	320,770	(29,322)	(9.1)%	340,458
Construction materials	62,842	94,744	(31,902)	(33.7)%	51,206
	<u>\$ 354,290</u>	<u>\$ 415,514</u>	<u>\$ (61,224)</u>	(14.7)%	<u>\$ 391,664</u>

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

Long-term Debt

No change occurred in MIDB's long-term debt balances. A summary of MIDB's debt as of September 30, 2021 compared with 2020 and 2019 is presented below:

Summary of Debt
As of September 30

	2021	2020	\$ Change 2021-2020	% Change 2021-2020	2019
Due to primary government	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ -</u>	0.0%	<u>\$ 1,000,000</u>

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Management's Discussion and Analysis
Years Ended September 30, 2021 and 2020

CAPITAL ASSETS AND DEBT, CONTINUED

Long-term Debt, Continued

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 and 2021.

Please refer to Note 12 to the accompanying financial statements for additional information regarding MIDB's long-term 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, 2021. 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, 2021 and 2020

	2021	2020
<u>ASSETS</u>		
Cash	\$ 10,361,677	\$ 8,878,874
Restricted cash	516,812	500,012
Certificates of deposit	1,868,411	1,537,128
Investment in shares of stock	9,976,328	9,452,095
Receivables, net:		
Loans	22,084,301	21,929,266
Accrued interest	223,932	155,131
Other	192,861	245,901
Due from primary government	2,562,806	2,562,806
Capital assets:		
Non-depreciable capital assets	62,842	94,744
Capital assets, net of accumulated depreciation	291,448	320,770
	\$ 48,141,418	\$ 45,676,727
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Due to primary government	\$ 1,000,000	\$ 1,000,000
Accounts payable and accrued expenses	341,883	271,086
Accrued interest payable	50,000	-
Deposits pledged	49,530	215,534
Customer refunds payable	1,333,920	1,212,663
Total liabilities	2,775,333	2,699,283
Commitments		
Net position:		
Net investment in capital assets	354,290	415,514
Restricted	516,812	500,012
Unrestricted	44,494,983	42,061,918
Total net position	45,366,085	42,977,444
	\$ 48,141,418	\$ 45,676,727

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
Years Ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Interest income on loans	\$ 2,766,889	\$ 2,937,778
Rental income	332,082	368,945
Insurance premiums	258,107	329,531
Loan fees	221,109	300,562
Federal grants	194,141	181,668
Interest income on bank deposits	69,013	58,058
Miscellaneous	32,683	38,938
Total operating revenues	3,874,024	4,215,480
Recovery of loan losses	930,195	2,641,634
Net operating revenues	4,804,219	6,857,114
Operating expenses:		
Interest expense:		
Interest on loans payable	50,000	-
General and administrative expenses:		
Salaries and employee benefits	1,804,697	1,513,028
Building repainting	214,885	-
Utilities	176,325	186,852
Insurance	146,545	135,384
Depreciation	102,595	117,410
Repairs and maintenance	99,200	72,893
Representation	90,286	73,654
Communications	85,792	72,948
Printing, stationery and advertising	85,511	68,533
Travel and training	67,009	39,825
Professional fees	58,544	60,730
Bad debts	33,859	28,348
Promotion and donation	31,629	16,276
Office and house rental	21,000	21,000
Fuel	18,193	16,291
Land lease	18,154	26,354
Taxes and licenses	4,222	11,452
Impairment loss	-	18,150
Miscellaneous	42,372	43,554
Total general and administrative expenses	3,100,818	2,522,682
Income from operations	1,653,401	4,334,432
Nonoperating revenues (expenses):		
Investment earnings	735,240	596,314
USDA loan guarantee	-	(155,953)
Total nonoperating revenues (expenses), net	735,240	440,361
Change in net position	2,388,641	4,774,793
Net position at beginning of year	42,977,444	38,202,651
Net position at end of year	\$ 45,366,085	\$ 42,977,444

See accompanying notes to financial statements.

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

Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 3,604,581	\$ 3,675,637
Cash payments to suppliers for goods and services	(1,119,055)	(799,972)
Cash payments to employees for services	(1,774,512)	(1,497,393)
Interest received on bank deposits	69,013	58,058
Operating grants received	175,001	181,668
Net cash provided by operating activities	955,028	1,617,998
Cash flows from noncapital financing activities:		
Net change in pledged deposits	(166,004)	289,166
Net change in due from primary government	-	1,341,524
Net cash provided by (used for) noncapital financing activities	(166,004)	1,630,690
Cash flows from capital and related financing activities:		
Additions to premises, equipment and foreclosed assets	(81,832)	(101,745)
Proceeds from sale of capital assets	8,559	-
Net cash used for capital and related financing activities	(73,273)	(101,745)
Cash flows from investing activities:		
Loan originations and principal collections, net	904,128	1,749,229
Additions to TCD	(331,283)	(381,877)
Loan guarantee payment to USDA	-	(155,953)
Dividends received	211,007	213,213
Net cash provided by investing activities	783,852	1,424,612
Net change in cash and cash equivalents	1,499,603	4,571,555
Cash and cash equivalents at beginning of year	9,378,886	4,807,331
Cash and cash equivalents at end of year	\$ 10,878,489	\$ 9,378,886
Consisting of:		
Cash	\$ 10,361,677	\$ 8,878,874
Restricted cash	516,812	500,012
	\$ 10,878,489	\$ 9,378,886
Cash flows from operating activities:		
Income from operations	\$ 1,653,401	\$ 4,334,432
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Recovery of loan losses	(930,195)	(2,641,634)
Depreciation	102,595	117,410
Bad debts	33,859	28,348
Loss on disposal of capital assets	-	4,023
Impairment loss	-	18,150
(Increase) decrease in assets:		
Receivables:		
Accrued interest	(56,776)	2,502
Other	19,181	(139,370)
Increase (decrease) in liabilities:		
Accrued interest payable	50,000	-
Accounts payable and accrued expenses	70,797	61,409
Customer refunds payable	121,257	-
Unearned premiums	(68,238)	(92,563)
Unearned fees	(40,853)	(74,709)
Net cash provided by operating activities	\$ 955,028	\$ 1,617,998
Supplemental information of noncash financing activities:		
Unrealized gain on investment in shares of stock:		
Investment in shares of stock	\$ (524,233)	\$ (383,101)
Investment earnings	524,233	383,101
	\$ -	\$ -

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, 2021 and 2020

(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

The accounting policies of MIDB conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

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 - 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, 2021 and 2020, MIDB has restricted net position of \$516,812 and \$500,012, respectively.
- 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.

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(2) Summary of Significant Accounting Policies, Continued

When both restricted and unrestricted resources are available for use for the same purpose, it is the Authority's policy to use unrestricted resources first, then restricted resources as they are needed.

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, 2021 and 2020, the carrying amounts of cash and cash equivalents and certificates of deposit are \$12,746,900 and \$10,916,014, respectively, and the corresponding bank balances are \$12,891,076 and \$11,335,552, respectively. Of the bank balances, \$728,198 and \$847,905, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$12,162,878 and \$10,487,647, respectively, are maintained in a financial institution not subject to depository insurance. As of September 30, 2021 and 2020, 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.

Customer Refunds Payable

Customer refunds payable represent allotment payments received by MIDB from employers for payments on loans that have already been repaid in full.

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.

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(2) Summary of Significant Accounting Policies, Continued

Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation.

New Accounting Standards

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

During the year ended September 30, 2021, MIDB implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves 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.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which establishes accounting and reporting requirements related to the replacement of Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the fiscal year ending September 30, 2022.

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

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 the 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 the fiscal year ending September 30, 2022.

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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 the 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. 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 are effective for the fiscal year ending 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 the 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 the 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for the fiscal year ending September 30, 2022.

(3) Investments

A summary of MIDB's investments as of September 30, 2021 and 2020 that are valued using the Net Asset Value (NAV) per share is as follows:

	<u>2021</u>	<u>2020</u>
Marshall Islands Holdings, Inc.	\$ 9,920,541	\$ 9,401,725
Marshall Islands Service Corporation	<u>55,787</u>	<u>50,370</u>
	<u>\$ 9,976,328</u>	<u>\$ 9,452,095</u>

MIDB owns 26,376 shares of common stock of Marshall Islands Holdings, Inc. (MIHI), which comprises 16% of the outstanding shares as of September 30, 2021 and 2020. 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, 2021 and 2020. During the years ended September 30, 2021 and 2020, related dividend income was \$211,007 and \$213,213, respectively.

(4) Loans Receivable

Loans receivable as of September 30, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Loans receivable	\$ <u>26,431,835</u>	\$ <u>27,064,255</u>
Less: unearned premiums	(182,590)	(250,828)
unearned loan processing fees	(158,194)	(199,047)
allowance for loan losses	<u>(4,006,750)</u>	<u>(4,685,114)</u>
	<u>(4,347,534)</u>	<u>(5,134,989)</u>
	<u>\$ 22,084,301</u>	<u>\$ 21,929,266</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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 4,685,114	\$ 7,079,163
Reinstated loans which were subsequently collected	302,772	247,585
Recovery of loan losses	(930,195)	(2,641,634)
Charge-offs	<u>(50,941)</u>	<u>-</u>
Ending balance	<u>\$ 4,006,750</u>	<u>\$ 4,685,114</u>

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2021 and 2020 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, 2021 and 2020 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Republic of the Marshall Islands	\$ 229,776	\$ 173,000
Less: allowance for doubtful interest	<u>(5,844)</u>	<u>(17,869)</u>
	<u>\$ 223,932</u>	<u>\$ 155,131</u>

An analysis of the change in the allowance for interest receivable during the years ended September 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 17,869	\$ 4,766
Provision for (recovery of)	<u>(12,025)</u>	<u>13,103</u>
Ending balance	<u>\$ 5,844</u>	<u>\$ 17,869</u>

(6) Other Receivables

Other receivables as of September 30, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Rental	\$ 356,389	\$ 417,464
Grants	55,808	36,667
Other	<u>158,149</u>	<u>135,396</u>
	570,346	589,527
Less: allowance for uncollectible accounts	<u>(377,485)</u>	<u>(343,626)</u>
	<u>\$ 192,861</u>	<u>\$ 245,901</u>

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(7) Premises and Equipment

Capital asset activity for the years ended September 30, 2021 and 2020 is as follows:

	2021			
	October 1, <u>2020</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	September 30, <u>2021</u>
Building and houses	\$ 2,802,738	\$ -	\$ -	\$ 2,802,738
Computer systems	314,838	41,588	-	356,426
Motor vehicles	280,076	24,396	(21,595)	282,877
Office furniture	74,032	5,675	-	79,707
Office equipment	<u>463,042</u>	<u>10,173</u>	<u>-</u>	<u>473,215</u>
	3,934,726	81,832	(21,595)	3,994,963
Less accumulated depreciation	<u>(3,613,956)</u>	<u>(102,595)</u>	<u>13,036</u>	<u>(3,703,515)</u>
	320,770	(20,763)	(8,559)	291,448
Construction materials	<u>94,744</u>	<u>-</u>	<u>(31,902)</u>	<u>62,842</u>
	<u>\$ 415,514</u>	<u>\$ (20,763)</u>	<u>\$ (40,461)</u>	<u>\$ 354,290</u>
	2020			
	October 1, <u>2019</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	September 30, <u>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>

(8) Restricted Assets

MIDB maintains a savings deposit as of September 30, 2021 and 2020 in the amount of \$516,812 and \$500,012, 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, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</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, 2021 and 2020, the property has been fully depreciated and is presented net of accumulated depreciation of \$139,000.

(11) Employee Retirement Plan

During the year ended September 30, 2021, MIDB implemented a defined contribution retirement savings plan (the Plan) for their respective employees, whereby employees eighteen years and older are eligible to participate upon regularization of employment. Plan participants may contribute any amount of their salaries to be matched 100% by their respective employers up to 10% of base salaries. Withdrawal from the Plan occurs upon termination of employment, death, or financial hardship. Plan assets are held in a trust fund administered by a trustee in accordance with the trust agreement. Management has the authority to establish or amend Plan provisions and contribution requirements. MIDB contributed \$29,920 to Plan participant accounts during the year ended September 30, 2021, and total combined plan assets were \$162,530 as of September 30, 2021.

(12) Related Party Transactions

MIDB is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including Majuro Resort, Inc. (MRI), Marshall Islands Shipping Corporation (MISC) and Tobolar Copra Processing Authority (TCPA).

During the year ended September 30, 2021, MIDB sold a vehicle to a member of the Board of Directors with a net book value of \$8,559.

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, 2021 and 2020, TCPA has not defaulted on their MIDB guaranteed debt. The amount outstanding and payable by TCPA to the affiliate bank is \$174,503 and \$486,865 as of September 30, 2021 and 2020, 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.

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(12) Related Party Transactions, Continued

In 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, 2020, total drawdowns related to this subsidiary loan were \$1,000,000. During 2021, there were no additions or reductions related to this subsidiary loan.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 50,000	\$ 20,000	\$ 70,000
2023	100,000	18,500	118,500
2024	100,000	16,500	116,500
2025	100,000	14,500	114,500
2026	100,000	12,500	112,500
2027 - 2031	500,000	32,500	532,500
2032	<u>50,000</u>	<u>500</u>	<u>50,500</u>
	<u>\$ 1,000,000</u>	<u>\$ 115,000</u>	<u>\$ 1,115,000</u>

ICDF loans are governed by the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Lender (the "General Conditions"), which set forth covenants to ensure compliance with the terms and conditions of the Projects during the implementation phase and payment of debt service. The primary requirements of the General Conditions are summarized below:

The Borrower shall implement the Projects with due diligence and due care and in accordance with sound financial standards and practice.

Events of default with finance related consequences - Section 13.1 of the General Conditions sets forth various events of default, which occur when the Borrower shall have failed to pay, when due, any interest or installment of principal or any other sums due under the loan agreement; or the Borrower shall have failed to perform any of the covenants provided under Section 11 of the General Conditions.

Acceleration of maturity - Section 13.2 of the General Conditions specify that in the case of default that has occurred and continues for a period of 21 days, the ICDF, at its option, may by notice to the Borrower declare the principal of the loan then outstanding, together with all accrued interest and other charges thereon, to be due and payable immediately. Default interest at a rate equal to 4% above the applicable LIBOR, as defined in the General Conditions, shall accrue on each installment payment of the principal amount of the loan, interest thereon, which are overdue.

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(12) Related Party Transactions, Continued

In 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, 2021 and 2020, the related amount due from RepMar is \$2,562,806.

On December 29, 2020, MISC obtained a \$454,500 loan from MIDB, interest at 7% per annum, due October 30, 2030, and collateralized by a chattel mortgage over a shipping vessel and an assignment of RepMar subsidy payments. The loan was subsequently paid in full by RepMar on May 4, 2021.

On February 28, 2021, MRI obtained a \$303,000 loan from MIDB, interest at 7% per annum, due January 28, 2029, and collateralized by a chattel mortgage over a 150-room hotel and an assignment of business operations payments. As of September 30, 2021, the amount outstanding on this loan is \$303,000.

As of September 30, 2021 and 2020, MIDB has deposits with an affiliate bank of \$12,162,878 and \$10,487,647, respectively. The deposits accrue interest at rates of 0.25% to 2% per annum. Interest earned for the years ended September 30, 2021 and 2020 was \$68,828 and \$58,058, respectively.

As of September 30, 2021 and 2020, MIDB employees have outstanding loans of \$885,807 and \$778,692, respectively. In addition, the directors of MIDB have outstanding loans as of September 30, 2021 and 2020, of \$241,459 and \$212,974, 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 \$11,044,195 and \$11,557,242 as of September 30, 2021 and 2020, respectively. During the year ended September 30, 2020, MIDB made payments to USDA in the amount of \$155,953 for related delinquent loans. No payments were required during the year ended September 30, 2021.

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, 2021 and 2020

(14) Commitments, Continued

Future minimum lease payments under these leases are as follows:

<u>Years ending September 30,</u>	
2022	\$ 16,114
2023	13,280
2024	12,406
2025	12,504
2026	12,504
2027 - 2031	46,432
2032 - 2036	33,270
2037 - 2041	33,270
2042 - 2046	26,860
2047 - 2051	25,421
2052 - 2056	25,421
2057 - 2061	23,059
2062 - 2063	<u>7,200</u>
	<u>\$ 287,741</u>

MIDB has entered into several leases as lessor expiring over various years through January 31, 2026. Future minimum lease income for subsequent years ending September 30 is as follows:

<u>Years ending September 30,</u>	
2022	\$ 197,483
2023	100,231
2024	71,638
2025	40,116
2026	<u>10,020</u>
	<u>\$ 419,488</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. During the year ended September 30, 2021, four confirmed cases were identified in the Marshall Islands that were isolated and contained. On August 8, 2022, community transmission was identified and MIDB has determined that such may negatively impact MIDB's business, results of operations, and financial position and MIDB may become dependent upon the financial support of RepMar. However, the effect of the pandemic on RepMar is also uncertain and future available funding to RepMar component units may be limited. Therefore, 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
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Combining Statement of Net Position
September 30, 2021

<u>ASSETS</u>	Marshall Islands Development Bank	RMI Small- Medium Enterprise Project	USDA Self-Help Housing Project	Total
Cash	\$ 8,808,408	\$ 1,612,301	(59,032)	\$ 10,361,677
Restricted cash	516,812	-	-	516,812
Certificates of deposit	1,868,411	-	-	1,868,411
Investments	9,976,328	-	-	9,976,328
Receivables, net:				
Loans	20,409,483	1,674,818	-	22,084,301
Accrued interest	216,395	7,537	-	223,932
Other	133,686	1,557	57,618	192,861
Due from primary government	2,562,806	-	-	2,562,806
Capital assets:				
Nondepreciable capital assets	62,842	-	-	62,842
Depreciable capital assets, net	287,578	-	3,870	291,448
	<u>\$ 44,842,749</u>	<u>\$ 3,296,213</u>	<u>\$ 2,456</u>	<u>\$ 48,141,418</u>
 <u>LIABILITIES AND NET POSITION</u>				
Liabilities:				
Due to primary government	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Accounts payable and accrued expenses	233,916	81,831	26,136	341,883
Accrued interest payable	50,000	-	-	50,000
Deposits pledged	49,313	-	217	49,530
Refund payable	1,333,920	-	-	1,333,920
Total liabilities	<u>2,667,149</u>	<u>81,831</u>	<u>26,353</u>	<u>2,775,333</u>
Net position:				
Net investment in capital assets	350,420	-	3,870	354,290
Restricted	516,812	-	-	516,812
Unrestricted	41,308,368	3,214,382	(27,767)	44,494,983
Total net position	<u>42,175,600</u>	<u>3,214,382</u>	<u>(23,897)</u>	<u>45,366,085</u>
	<u>\$ 44,842,749</u>	<u>\$ 3,296,213</u>	<u>\$ 2,456</u>	<u>\$ 48,141,418</u>

See accompanying independent auditor's 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
Year Ended September 30, 2021

	Marshall Islands Development Bank	RMI Small- Medium Enterprises Project	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	\$ 2,676,643	\$ 90,246	\$ -	\$ 2,766,889
Rental income	332,082	-	-	332,082
Insurance premiums	258,107	-	-	258,107
Loan fees	211,053	10,056	-	221,109
Federal grants	-	-	194,141	194,141
Interest income on bank deposits	68,942	-	71	69,013
Miscellaneous	32,683	-	-	32,683
Total operating revenues	<u>3,579,510</u>	<u>100,302</u>	<u>194,212</u>	<u>3,874,024</u>
Recovery of loan losses	930,195	-	-	930,195
Net operating revenues	<u>4,509,705</u>	<u>100,302</u>	<u>194,212</u>	<u>4,804,219</u>
Operating expenses:				
Interest expense:				
Interest on loans payable	50,000	-	-	50,000
General and administrative expenses:				
Salaries and employee benefits	1,625,840	-	178,857	1,804,697
Building repainting	214,885	-	-	214,885
Utilities	176,325	-	-	176,325
Insurance	131,658	-	14,887	146,545
Depreciation	101,139	-	1,456	102,595
Repairs and maintenance	97,888	-	1,312	99,200
Representation	90,286	-	-	90,286
Communications	84,961	-	831	85,792
Printing, stationery and advertising	82,018	-	3,493	85,511
Travel and training	67,009	-	-	67,009
Professional fees	58,544	-	-	58,544
Bad debts	33,859	-	-	33,859
Promotion and donation	31,629	-	-	31,629
Office and house rental	21,000	-	-	21,000
Fuel	12,883	-	5,310	18,193
Land lease	18,154	-	-	18,154
Taxes and licenses	4,132	-	90	4,222
Miscellaneous	42,260	-	112	42,372
Total general and administrative expenses	<u>2,894,470</u>	<u>-</u>	<u>206,348</u>	<u>3,100,818</u>
Income (loss) from operations	1,565,235	100,302	(12,136)	1,653,401
Nonoperating revenues:				
Investment earnings	735,240	-	-	735,240
Change in net position	2,300,475	100,302	(12,136)	2,388,641
Net position at beginning of year	<u>39,875,125</u>	<u>3,114,080</u>	<u>(11,761)</u>	<u>42,977,444</u>
Net position at end of year	<u>\$ 42,175,600</u>	<u>\$ 3,214,382</u>	<u>\$ (23,897)</u>	<u>\$ 45,366,085</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S 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, 2021, 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 December 20, 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 2021-001 that we consider to be a 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 & Touche LLP".

December 20, 2022

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

Schedule of Findings and Responses
Year Ended September 30, 2021

Finding No. 2021-001

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 thirty-four (34) 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. Eight loans tested (Note nos. xx410, xx108, xx784, xx840, xx040, xx729, xx218, xx149) contain information, such as loan amount, interest rate, open date, and borrower's name, 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.
- b. The loan number is not documented/ reflected in the promissory note, loan agreement and signed guaranty forms.
- c. One loan tested (Note no. xx084) has no guarantor.
- d. Two loans tested (Note nos. xx784, xx040) had no guarantor paycheck stubs in file.
- e. One loan tested (Note no. xx107) had no borrower's identification card in file.
- f. One loan tested (Note no. xx084) had no allotment form in file.
- g. One loan tested (Note no. xx784) has incomplete credit checks for the borrower.
- h. One loan tested (Note no. xx594) in the loan trial balance has incorrect loan tagging.
- i. One loan tested (Note no. xx739) has guarantee form in file that was dated one year earlier than loan open date.
- j. The document checklist for one loan tested (Note no. xx107) was verified after the loan open date.
- k. There are no formal policies and procedures to independently review loan details (such as principal, interest rates, open date, maturity date, payment terms, loan type, etc.) after loan boarding.
- l. The manual calculation prepared by the CFO to reverse recorded interest income arising from payments received from non-accruing/ bad loans (loans that are more than 90 days past due) is not independently reviewed by another person.

MARSHALL ISLANDS DEVELOPMENT BANK
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Schedule of Findings and Responses, Continued
Year Ended September 30, 2021

Finding No. 2021-001, 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. Specifically, we recommend MIDB to perform loan callback procedures to ensure completeness and accuracy of loan information inputted in the system after loan boarding.

Prior Year Status: Similar issues concerning loan documentation have been reported as a finding in the audits of MIDB for fiscal years 2007 through 2020.

Auditee Response and Corrective Action Plan: We agree with the finding. For item a, all eight loans have been corrected. Loan information such as interest rate, borrower's name, and amount in words are now consistent throughout all the loan folders. For item b, the Bank will ensure that loan number is consistent throughout the loan documents. For items c through g, the Bank will ensure that all required loan documents are obtained and in compliance of the Bank's policies. For items h through j, such have been corrected. For item k, the Bank will ensure that recommendation will be complied. For item l, the Bank will ensure that recommendation will be complied. The Bank is in the process of upgrading its loan system to minimize such manual computation.

MARSHALL ISLANDS DEVELOPMENT BANK
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Unresolved Prior Year Findings
Year Ended September 30, 2021

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