

*Financial Statements, Required Supplementary  
Information, Supplementary Information, and Report  
on Internal Control and Compliance*

**Marshall Islands Development Bank**  
(A Component Unit of the Republic of the Marshall Islands)

*Year ended September 30, 2022  
with Report of Independent Auditors*



Marshall Islands Development Bank  
(A Component Unit of the Republic of the Marshall Islands)

Financial Statements, Required Supplementary Information,  
Supplementary Information, and Report on Internal Control and Compliance

Year ended September 30, 2022

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## Report of Independent Auditors

The Board of Directors  
Marshall Islands Development Bank

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of the business-type activities of Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise MIDB's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of MIDB as of September 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of MIDB, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MIDB's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MIDB's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MIDB's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## ***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 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on pages 35 and 36 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2024, 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.

*Ernst + Young LLP*

June 19, 2024

**Marshall Islands Development Bank**  
(A Component Unit of the Republic of the Marshall Islands)

**Management's Discussion and Analysis**

Year ended September 30, 2022

Fiscal year October 1, 2021 to September 30, 2022 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, 2022.

**FINANCIAL HIGHLIGHTS**

- MIDB's total assets increased by \$2.69M or 5.5% from \$48.58M in 2021 to \$51.26M in 2022.
- MIDB's total net position increased by \$2.05M or 4.5% 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 increased by \$239K or 6.2% from \$3.87M in 2021 to \$4.11M in 2022, \$3.14M of which was generated through interest on loans. Operating and general administrative expenses decreased marginally by \$32K or 1% from \$3.15M in 2021 to \$3.12M in 2022.
- Allowance for loan losses decreased by \$112K from \$4M in 2021 to \$3.89M in 2022. Total non-operating revenues increased marginally by \$22K or 3.1% from \$735K in 2021 to \$758K in 2022.

**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 2022, MIDB's assets of \$51.26M exceeded liabilities and deferred inflow of resources of \$3.84M by \$47.42M. However, \$884K or 2% of the net position is either invested in capital assets or 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 its operations to provide services to the people and are assets that are not easily liquidated. As of September 30, 2022, unrestricted net position amounted to \$46.53M, enough to repay all outstanding debts.

**Marshall Islands Development Bank**  
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**Management's Discussion and Analysis, continued**

**ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED**

A summary of MIDB's Statements of Net Position for 2022 with comparative presentation for 2021 and 2020 is presented below:

**Summary Statements of Net Position**  
As of September 30

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
<b>Assets:</b>					
Cash and cash equivalents	\$ 14,488,488	\$ 10,878,489	\$ 3,609,999	33.2%	\$ 9,378,886
Investments	10,497,360	9,976,328	521,032	5.2%	9,452,095
Loans receivable, net	22,111,135	22,084,301	26,834	0.1%	21,929,266
Current and other assets	3,671,773	5,165,508	(1,493,735)	(28.9)%	4,500,966
Capital assets	492,658	470,582	22,076	4.7%	415,514
<b>Total assets</b>	<b>51,261,414</b>	<b>48,575,208</b>	<b>2,686,206</b>	<b>5.5%</b>	<b>45,676,727</b>
<b>Liabilities:</b>					
Current and other liabilities	1,826,300	1,891,625	(65,325)	(3.5)%	1,699,283
Long-term debt	1,792,000	1,000,000	792,000	79.2%	1,000,000
<b>Current and other liabilities</b>	<b>3,618,300</b>	<b>2,891,625</b>	<b>726,675</b>	<b>25.1%</b>	<b>2,699,283</b>
<b>Deferred inflows of resources:</b>					
Leases	226,400	317,498	(91,098)	(28.7)%	-
<b>Net position:</b>					
Net investment in capital					
assets	349,127	354,290	(5,163)	(1.5)%	415,514
Restricted	534,650	516,812	17,838	3.5%	500,012
Unrestricted	46,532,937	44,494,983	2,037,954	4.6%	42,061,918
<b>Total net position</b>	<b>\$ 47,416,714</b>	<b>\$ 45,366,085</b>	<b>\$ 2,050,629</b>	<b>4.5%</b>	<b>\$ 42,977,444</b>

- Loan approvals for the year were approximately \$20.8M, broken down by projects, \$18.88M released under various consumer loans, \$0.74M for small-medium enterprise loans, \$0.73M for commercial, and \$0.45M for housing loans. Net loans receivable increased marginally by \$27K or 0.1% from \$22.08M in 2021 to \$22.11M in 2022. Loans released decreased from \$22.5M in 2021 to \$20.8M in 2022.
- 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 year ended September 30, 2022, MIDB received dividend income from MIHI of \$213K.

**Marshall Islands Development Bank**  
(A Component Unit of the Republic of the Marshall Islands)

**Management's Discussion and Analysis, continued**

**ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED**

- In 2018, 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.
- In 2022, MIDB entered into a Memorandum of Agreement with the Government of the Marshall Islands through the Ministry of Finance for the purpose of administering the Senior Citizen Housing Support project. Grant proceeds of \$992K were received by MIDB; however, the project had yet to commence at year end.

A summary of MIDB's Statements of Revenues, Expenses and Changes in Net Position for 2022 with comparative presentation for 2021 and 2020 is presented below:

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

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Operating:					
Operating revenues	\$ 4,113,115	\$ 3,874,024	\$ 239,091	6.2%	\$ 4,215,480
Loan loss recovery	303,117	989,562	(686,445)	(69.4)%	2,641,634
Operating expenses	<u>(3,119,200)</u>	<u>(3,210,185)</u>	<u>90,985</u>	(2.8)%	<u>(2,522,682)</u>
Operating income	<u>1,297,032</u>	<u>1,653,401</u>	<u>(356,369)</u>	(21.6)%	<u>4,334,432</u>
Nonoperating:					
Nonoperating revenues	757,720	735,240	22,480	3.1%	596,314
Nonoperating expenses	<u>(4,123)</u>	<u>-</u>	<u>(4,123)</u>	100.0%	<u>(155,953)</u>
	<u>753,597</u>	<u>735,240</u>	<u>18,357</u>	2.5%	<u>440,361</u>
Change in net position	2,050,629	2,388,641	(338,012)	(14.2)%	4,774,793
Net position - beginning	<u>45,366,085</u>	<u>42,977,444</u>	<u>2,388,641</u>	5.6%	<u>38,202,651</u>
Net position - ending	<u>\$ 47,416,714</u>	<u>\$ 45,366,085</u>	<u>\$ 2,050,629</u>	4.5%	<u>\$ 42,977,444</u>

- Total operating revenues for 2022 increased by \$239K or 6.2% compared to 2021. About 76% of MIDB's operating revenue comes from interest on loans, 82% of which was generated from consumer loans, 11% from commercial loans, 4% from housing loans and the remaining 3% from small-medium enterprise loans.

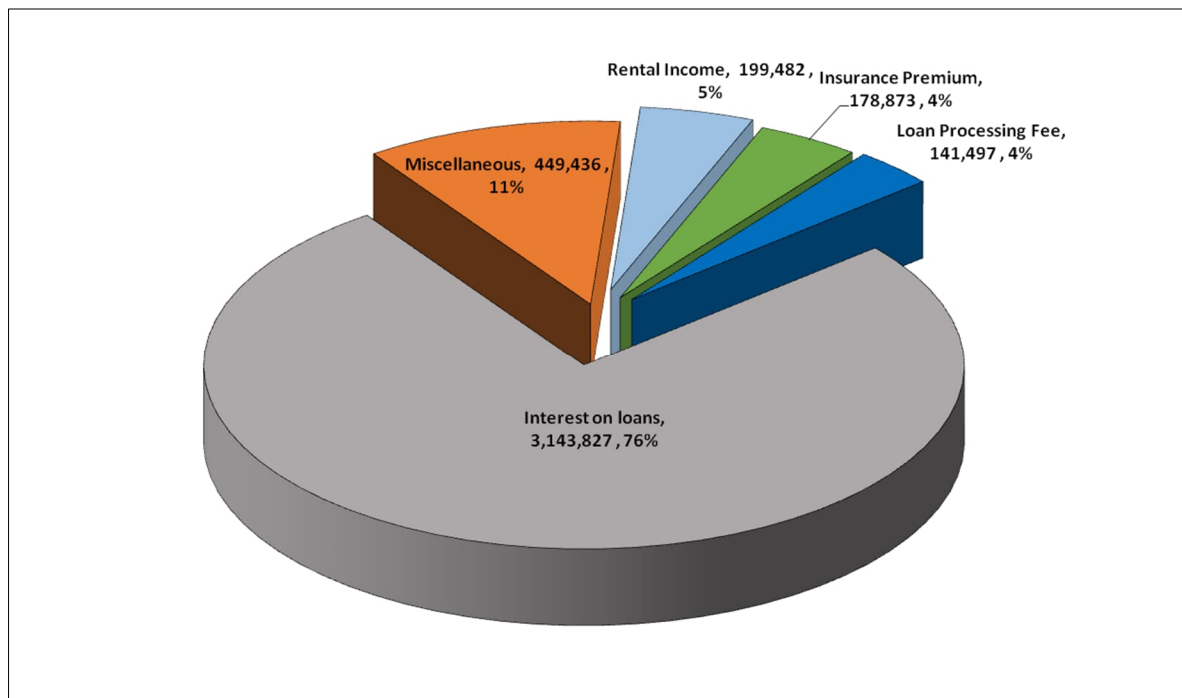


**Marshall Islands Development Bank**  
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**Management's Discussion and Analysis, continued**

**ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED**

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



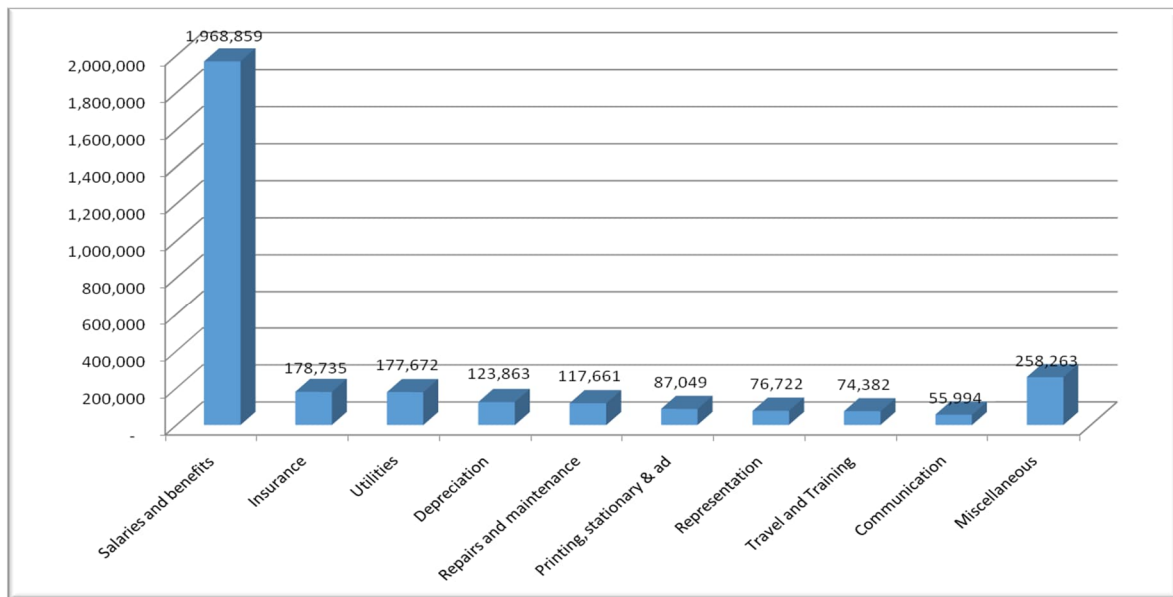
- Loan loss recovery for 2022 decreased by \$686K from \$990K in 2021 to \$303K in 2022 primarily due to collection of delinquent loan receivables.
- Total operating expenses for 2022 decreased by \$91K or 2.8% compared with 2021. MIDB's expenses cover a range of operating, general and administrative 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 additional allowance to be provided.

**Marshall Islands Development Bank**  
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**Management's Discussion and Analysis, continued**

**ANALYSIS OF MIDB'S FINANCIAL STATUS, CONTINUED**

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



- Total non-operating revenues increased by \$22K or 3.1% from \$735K in 2021 to \$758K in 2022.

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in MIDB's report on the audit of financial statements dated December 20, 2022. That Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be obtained from MIDB's Managing Director at [rmimidb@gmail.com](mailto:rmimidb@gmail.com).

**Marshall Islands Development Bank**  
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**Management's Discussion and Analysis, continued**

**CAPITAL ASSETS AND DEBT**

**Capital Assets**

Net capital assets decreased by \$21K or 4.1% from \$514K in 2021 to \$493K in 2022. The decrease is due primarily to current year depreciation and amortization expense of \$124K less net acquisitions of \$103K. A summary of MIDB's capital assets as of September 30, 2022 compared with 2021 and 2020 is presented below:

**Summary of Capital Assets**  
As of September 30

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Building and houses	\$ 2,727,738	\$ 2,802,738	\$ (75,000)	(2.7)%	\$ 2,802,738
Computer systems	374,008	356,426	17,582	4.9%	314,838
Motor vehicles	369,022	282,877	86,145	30.5%	280,076
Office furniture	80,402	79,707	695	0.9%	74,032
Office equipment	480,855	473,215	7,640	1.6%	463,042
	4,032,025	3,994,963	37,062	0.9%	3,934,726
Accumulated depreciation	(3,736,331)	(3,703,515)	(32,816)	0.9%	(3,613,956)
	295,694	291,448	4,246	1.5%	320,770
Construction materials	53,523	62,842	(9,319)	(14.8)%	94,744
	349,217	354,290	(5,073)	(1.4)%	415,514
Lease assets	159,488	116,292	43,196	37.1%	-
Accumulated amortization	(16,047)	-	(16,047)	100.0%	-
	143,441	116,292	27,149	23.3%	-
	<u>\$ 492,658</u>	<u>\$ 470,582</u>	<u>\$ 22,076</u>	4.7%	<u>\$ 415,514</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, continued**

**Long-term Debt**

Long term debt decreased by \$200K or 20% in 2022. A summary of MIDB's debt as of September 30, 2022 compared with 2021 and 2020 is presented below:

**Summary of Debt**

As of September 30

	2022	2021	\$ Change 2022-2021	% Change 2022-2021	2020
Due to primary government	\$ 800,000	\$ 1,000,000	\$ (200,000)	(20.0)%	\$ 1,000,000

In 2018, MIDB entered into 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 related to this subsidiary loan in 2021 and 2022.

**ECONOMIC OUTLOOK**

In the next years to come, MIDB is continuing to expect growth in the demand for housing loans, 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 the housing loan projects under 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 debts. MIDB may have to look for other sources of funds to maintain the current portfolio and the rising demand for loans. MIDB has adopted its Business Plan which will guide the operation of MIDB in the next 3 years to 2025. 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, 2022. 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)

**Statement of Net Position**

September 30, 2022

**Assets**

Current assets	
Cash	\$ 13,953,838
Restricted cash	534,650
Certificates of deposit	2,130,736
Receivables, net:	
Loans	9,840,140
Leases	96,688
Accrued interest	108,817
Other	333,373
Due from primary government	<u>871,960</u>
Total current assets	27,870,202
Receivables, net:	
Loans	12,270,995
Leases	130,199
Investment in shares of stock	10,497,360
Capital assets:	
Non-depreciable capital assets	53,523
Capital assets, net of accumulated depreciation and amortization	<u>439,135</u>
Total assets	<u>\$ 51,261,414</u>

**Liabilities, Deferred Inflows of  
Resources and Net Position**

Liabilities:	
Current liabilities	
Due to primary government	\$ 1,192,000
Accounts payable and accrued expenses	265,862
Accrued interest payable	61,000
Lease liabilities	16,503
Deposits pledged	47,672
Customer refunds payable	<u>1,308,235</u>
Total current liabilities	2,891,272
Due to primary government, net of current portion	600,000
Lease liabilities, net of current portion	<u>127,028</u>
Total liabilities	<u>3,618,300</u>
Deferred inflows of resources:	
Lease revenues	<u>226,400</u>
Commitments	
Net position:	
Net investment in capital assets	349,127
Restricted	534,650
Unrestricted	<u>46,532,937</u>
Total net position	<u>47,416,714</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 51,261,414</u>

*See accompanying notes.*

**Marshall Islands Development Bank**  
(A Component Unit of the Republic of the Marshall Islands)

**Statement of Revenues, Expenses and Changes in Net Position**

Year Ended September 30, 2022

Operating revenues:	
Interest income on loans	\$ 3,143,827
Federal grants	218,197
Rental income	199,482
Insurance premiums	178,873
Loan fees	141,497
Lease revenue	104,768
Interest income on bank deposits	91,632
Interest income on lease	12,540
Miscellaneous	<u>22,299</u>
Total operating revenues	4,113,115
Recovery of loan losses	<u>303,117</u>
Net operating revenues	<u>4,416,232</u>
Operating expenses:	
Interest expense on loans payable	16,000
Insurance loss on loans	<u>60,685</u>
Total operating expenses	<u>76,685</u>
General and administrative expenses:	
Salaries and employee benefits	1,968,859
Insurance	178,735
Utilities	177,672
Depreciation and amortization	123,863
Repairs and maintenance	117,661
Printing, stationery and advertising	87,049
Representation	76,722
Travel and training	74,382
Communications	55,994
Entertainment	38,762
Promotion and donation	34,187
Professional fees	32,584
Fuel	26,339
Office and house rental	21,000
Taxes and licenses	4,130
Miscellaneous	<u>24,576</u>
Total general and administrative expenses	<u>3,042,515</u>
Income from operations	<u>1,297,032</u>
Nonoperating revenues (expenses):	
Investment earnings	734,246
Recovery of USDA loan guarantee	23,474
Interest expense on leases	( 4,123 )
Total nonoperating revenues, net	<u>753,597</u>
Change in net position	2,050,629
Net position at beginning of year	<u>45,366,085</u>
Net position at end of year	<u>\$ 47,416,714</u>

*See accompanying notes.*

Marshall Islands Development Bank  
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Statement of Cash Flows

Year Ended September 30, 2022

Cash flows from operating activities:	
Cash received from customers	\$ 3,933,593
Cash payments to suppliers for goods and services	( 983,521 )
Cash payments to employees for services	( 2,005,042 )
Interest received on bank deposits	91,632
Operating grants received	50,000
Interest paid	( 5,000 )
Net cash provided by operating activities	<u>1,081,662</u>
Cash flows from noncapital financing activities:	
Net change in due from primary government	1,690,846
Net change in due to primary government	992,000
Repayment of long term debt	( 200,000 )
Net change in pledged deposits	( 1,858 )
Net cash provided by noncapital financing activities	<u>2,480,988</u>
Cash flows from capital and related financing activities:	
Additions to premises, equipment and foreclosed assets	( 112,062 )
Principal paid on lease liabilities	( 15,957 )
Interest paid on lease liabilities	( 4,123 )
Cash used in capital and related financing activities	<u>( 132,142 )</u>
Cash flows from investing activities:	
Loan originations and principal collections, net	205,128
Additions to TCD	( 262,325 )
Collections on recovery of USDA guaranteed loans	23,474
Dividends received	<u>213,214</u>
Net cash provided by investing activities	<u>179,491</u>
Net change in cash and cash equivalents	3,609,999
Cash and cash equivalents at beginning of year	<u>10,878,489</u>
Cash and cash equivalents at end of year	<u>\$ 14,488,488</u>
Consisting of:	
Cash	\$ 13,953,838
Restricted cash	<u>534,650</u>
	<u>\$ 14,488,488</u>

*See accompanying notes.*

Marshall Islands Development Bank  
(A Component Unit of the Republic of the Marshall Islands)

Statement of Cash Flows, continued

Cash flows from operating activities:

Income from operations	\$ 1,297,032
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Recovery of loan losses	( 303,117 )
Depreciation and amortization	123,863
Insurance loss on loans	60,685
Bad debts	6,110
Change in assets, liabilities and deferred inflows of resources:	
Receivables:	
Leases	90,611
Accrued interest	118,592
Other	( 146,622 )
Accounts payable and accrued expenses	( 76,021 )
Accrued interest payable	11,000
Customer refunds payable	( 25,685 )
Unearned premiums	2,532
Unearned loan fees	13,780
Deferred inflow of resources - lease revenue	( 91,098 )
Net cash provided by operating activities	<u>\$ 1,081,662</u>

Supplemental information of noncash operating activities:

Initial implementation of GASB 87:	
Lease receivable	\$ 317,498
Deferred inflows of resources	( 317,498 )
	<u>\$ ---</u>

Supplemental information of noncash financing activities:

Unrealized gain on investment in shares of stock:	
Investment in shares of stock	\$ 521,032
Investment earnings	( 521,032 )
	<u>\$ ---</u>

Supplemental information of noncash investing activities:

Reinstated loans which were subsequently collected:	
Allowance for loan losses	\$ 260,833
Loans receivable	( 260,833 )
	<u>\$ ---</u>



**Marshall Islands Development Bank**  
(A Component Unit of the Republic of the Marshall Islands)

**Notes to Financial Statements**

Year Ended September 30, 2022

**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. 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 is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar.

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.

**Marshall Islands Development Bank**  
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**Notes to Financial Statements, continued**

**2. Summary of Significant Accounting Policies, continued**

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 and related debt, 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, 2022, 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, 2022, MIDB has expendable net position of \$534,650 relating to the Rural Housing Service loan escrow account.
- 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.

When both restricted and unrestricted resources are available for use for the same purpose, it is MIDB'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.

**Cash and Cash Equivalents and Certificates of Deposit**

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

**Marshall Islands Development Bank**  
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**Notes to Financial Statements, continued**

**2. Summary of Significant Accounting Policies, continued**

**Cash and Cash Equivalents and Certificates of Deposit, continued**

For purposes of the statements of net position and cash flows, cash and cash equivalents are 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. As of September 30, 2022, the carrying amount of cash and cash equivalents and certificates of deposit are \$16,619,224, and the corresponding bank balances are \$17,009,680. Of the bank balances, \$781,042, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$16,228,638, are maintained in a financial institution not subject to depository insurance.

As of September 30, 2022, bank deposits in the amount of \$250,000 were FDIC insured. MIDB does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

**Investments**

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

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

**Loans Receivable, Interest Receivable and Allowances for Losses**

Loans and interest receivables are due from customers, both individuals and businesses, located within the Republic of the Marshall Islands and are stated at the unpaid principal balances adjusted for charge-offs less the allowances for losses, and unearned loan fees and insurance premiums. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding. Loans are not carried at fair value because they do not meet the definition of an investment under GASB Statement No. 72, *Fair Value Measurement and Application*.

Marshall Islands Development Bank  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Loans Receivable, Interest Receivable and Allowances for Losses, continued**

For the statement of net position presentation purpose, the current portion of loans is determined based on expected principal collections, including those loans that are scheduled to mature, within the next twelve months. Actual loan collections in subsequent period may differ significantly due to term extensions that may be in the normal course of business.

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 against revenues.

**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:

	<u>Estimated Useful Lives</u>
Building and houses	5 - 15 years
Computer systems	5 years
Motor vehicles	3 years
Office furniture	5 years
Office equipment	5 years

**Marshall Islands Development Bank**  
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**Notes to Financial Statements, continued**

**2. Summary of Significant Accounting Policies, continued**

**Foreclosed Assets**

Assets acquired through, or lien of, loan foreclosures are held for sale and are initially recorded at the lower of loan carrying amount or fair value at the date of foreclosure, establishing a new cost basis. After 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.

**Leases**

MIDB is a party as lessee for various long-term land leases and lease of office space. MIDB determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, land, or equipment in exchange for consideration. Leases result in the recognition of right-to-use lease assets and lease liabilities on the statement of net position. Lease assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis.

MIDB is also a party as lessor for various long-term leases of office space and apartment house. MIDB recognizes lease receivables and deferred inflow of resources at the commencement of the lease term, with exceptions for certain short-term leases. As lessor, the assets underlying the lease are not derecognized. The lease receivables are measured at the present value of the lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivables in addition to any payments received at or before the commence of the lease term that relate to future periods.

**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.

Marshall Islands Development Bank  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Credit Life Insurance Policies**

MIDB underwrites its own credit life insurance policies on the lives of certain borrowers up to the amount of the borrower's outstanding loan balance at the time of death.

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

Loan losses are charged directly to earnings and against the loan receivable when management believes the collectability of a loan is confirmed i.e., death of borrower.

**Recognition of Loan Processing Revenues**

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

**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.

**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. As of September 30, 2022, MIDB has recorded deferred inflow of resources for lease revenues.

Marshall Islands Development Bank  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements**

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, MIDB's management has elected to postpone implementation of these statements.

During the year ended September 30, 2022, MIDB implemented the following pronouncements:

- GASB Statement No. 87, *Leases*, which increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Limited exceptions to the single approach guidance are provided for short-term leases, financed purchases, leases of assets that are classified as investments, and certain regulated leases. As a result, MIDB has recognized leases receivable and related deferred inflows of resources, as lessor, in the initial amount of \$317,498. MIDB has also recognized right-to-use leased assets and related lease liabilities, as lessee, in the initial amount of \$116,292.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.

Marshall Islands Development Bank  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- GASB 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*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances 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. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that addresses different accounting and financial reporting issues identified during implementation of the new standards and during the GASB's review of recent pronouncements. GASB Statement No. 99:
  - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
  - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.



Marshall Islands Development Bank  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Recently Adopted Accounting Pronouncements, continued**

- 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

Marshall Islands Development Bank  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements**

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 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.

Marshall Islands Development Bank  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset effective for fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

Marshall Islands Development Bank  
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Notes to Financial Statements, continued

**2. Summary of Significant Accounting Policies, continued**

**Upcoming Accounting Pronouncements, continued**

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

**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.

**Marshall Islands Development Bank**  
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**Notes to Financial Statements, continued**

**2. Summary of Significant Accounting Policies, continued**

**Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and valuation of foreclosed assets.

**3. Investments**

A summary of MIDB's investments as of September 30, 2022 that are valued using the Net Asset Value (NAV) per share is as follows:

Marshall Islands Holdings, Inc.	\$10,439,621
Marshall Islands Service Corporation	<u>57,739</u>
	<u>\$10,497,360</u>

As of September 30, 2022, MIDB owns 26,376 shares (or 16%) and 3,150 shares (or less than 1%) of common stock of Marshall Islands Holdings, Inc. (MIHI) and Marshall Islands Service Corporation (MISC), respectively. MIHI engages in all aspects of holding company activities in the Marshall Islands and is the sole shareholder of Bank of Marshall Islands (BOMI) and also has majority ownership in MISC. During the year ended September 30, 2022, related dividend income was \$213,214.

**4. Loans Receivable**

Loans receivable as of September 30, 2022 are summarized as follows:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Loans receivable	\$12,391,166	\$13,971,522	\$26,362,688
Less: unearned premiums	( 78,089)	( 107,033)	( 185,122)
Less: unearned loan processing fees	( 72,543)	( 99,431)	( 171,974)
Less: allowance for loan losses	( <u>2,400,394</u> )	( <u>1,494,063</u> )	( <u>3,894,457</u> )
	<u>\$ 9,840,140</u>	<u>\$12,270,995</u>	<u>\$22,111,135</u>

**Marshall Islands Development Bank**  
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**Notes to Financial Statements, continued**

**4. Loans Receivable, continued**

An analysis of the change in the allowance for loan losses during the year ended September 30, 2022 is as follows:

Beginning balance	\$4,006,750
Reinstated loans which were subsequently collected	260,833
Recovery of loan losses	( 339,364)
Charge-offs	<u>( 33,762)</u>
 Ending balance	 <u>\$3,894,457</u>

The loan portfolio is comprised of consumer, housing, and business loans. A majority of the 2022 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 significant portion 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, 2022 is summarized as follows:

Interest receivable	\$111,184
Less: allowance for doubtful interest	<u>( 2,367)</u>
	 <u>\$108,817</u>

An analysis of the change in the allowance for interest receivable during the year ended September 30, 2022 is as follows:

Beginning balance	\$5,844
Recovery of interest income	<u>(3,477)</u>
 Ending balance	 <u>\$2,367</u>

**Marshall Islands Development Bank**  
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**Notes to Financial Statements, continued**

**6. Other Receivables**

Other receivables as of September 30, 2022, are as follows:

Rental	\$394,637
Grants	224,005
Other	<u>90,019</u>
	708,661
Less: allowance for uncollectible accounts	<u>(375,288)</u>
	<u>\$333,373</u>

**7. Capital Assets**

Capital asset activity for the year ended September 30, 2022 is as follows:

	<u>October 1, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>September 30, 2022</u>
Nondepreciable capital assets:				
Construction materials	\$ <u>62,842</u>	\$ <u>---</u>	\$( <u>9,319</u> )	\$ <u>53,523</u>
Depreciable capital assets:				
Building and houses	2,802,738	---	(75,000)	2,727,738
Computer systems	356,426	17,582	---	374,008
Motor vehicles	282,877	86,145	---	369,022
Office furniture	79,707	695	---	80,402
Office equipment	<u>473,215</u>	<u>7,640</u>	<u>---</u>	<u>480,855</u>
	3,994,963	112,062	(75,000)	4,032,025
Less accumulated depreciation	<u>(3,703,515)</u>	<u>(107,816)</u>	<u>75,000</u>	<u>(3,736,331)</u>
	<u>291,448</u>	<u>4,246</u>	<u>---</u>	<u>295,694</u>
Lease assets:				
Right-to-use assets	116,292	43,196	---	159,488
Less accumulated amortization	<u>---</u>	<u>( 16,047)</u>	<u>---</u>	<u>( 16,047)</u>
	<u>116,292</u>	<u>27,149</u>	<u>---</u>	<u>143,441</u>
	<u>407,740</u>	<u>31,395</u>	<u>---</u>	<u>439,135</u>
	<u>\$ 470,582</u>	<u>\$ 31,395</u>	<u>\$( 9,319)</u>	<u>\$ 492,658</u>

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Notes to Financial Statements, continued

**8. Restricted Assets**

MIDB maintains a savings deposit as of September 30, 2022 in the amount of \$534,650, 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.

**9. Foreclosed Assets**

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2022 are summarized as follows:

Foreclosed assets	\$350,000
Less: allowance for losses	<u>(350,000)</u>
	\$ <u>---</u>

**10. Investment in Property**

In 2005, MIDB purchased property for \$139,000, with the ultimate intention of selling the property. The property with an estimated 10-year life has been fully depreciated by the straight-line method. During the year ended September 30, 2022, the property was sold to a third party for a purchase price of \$12,860 and is included in miscellaneous revenue in the accompanying statement of revenues, expenses and changes in net position.

**11. Leases**

*As Lessor*

MIDB is a lessor for non-cancelable leases of buildings and office space. The terms of the agreements range from 1 to 5 years generally at fixed monthly payments with no variable payments or escalation clauses. In accordance with GASB Statement No. 87, *Leases*, MIDB recognizes a lease receivable and a deferred inflow of resources at commencement of the lease term. As of September 30, 2022, lease receivables and deferred inflow of resources associated with MIDB's leases totaled \$226,887 and \$226,400, respectively.



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Notes to Financial Statements, continued

**11. Leases, continued**

*As Lessor, continued*

Future minimum payments that are included in the measurement of the lease receivable as of September 30, 2022, are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 96,688	\$10,112	\$106,800
2024	82,828	5,189	88,017
2025	35,362	1,730	37,092
2026	<u>12,009</u>	<u>231</u>	<u>12,240</u>
	<u>\$226,887</u>	<u>\$17,262</u>	<u>\$244,149</u>

*As Lessee*

MIDB has leases for certain use of land and office space. The terms of the agreements range from 2 to 50 years generally at fixed monthly payments with no variable payments. The calculated interest rates used were 5.5%.

The following is a summary of principal and interest requirements to maturity for the lease liabilities as of September 30, 2022:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 16,503	\$ 7,577	\$ 24,080
2024	15,763	6,707	22,470
2025	16,645	5,825	22,470
2026	11,508	4,962	16,470
2027	5,912	4,558	10,470
2028 - 2032	9,422	19,528	28,950
2033 - 2037	5,095	18,005	23,100
2038 - 2042	6,695	16,405	23,100
2043 - 2047	8,798	14,302	23,100
2048 - 2052	11,561	11,539	23,100
2053 - 2057	15,192	7,908	23,100
2058 - 2062	16,957	3,338	20,295
2063	<u>3,480</u>	<u>120</u>	<u>3,600</u>
	<u>\$143,531</u>	<u>\$120,774</u>	<u>\$264,305</u>

**Marshall Islands Development Bank**  
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**Notes to Financial Statements, continued**

**12. Insurance Loss on Loans**

MIDB is self-insured for losses incurred under credit life insurance policies which it has underwritten. As of September 30, 2022, the outstanding principal balance of loans covered by MIDB's self-insurance amounted to \$11,681,434.

**13. Employee Retirement Plan**

MIDB has 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 \$67,889 to Plan participant accounts during the year ended September 30, 2022, and total combined plan assets were \$244,361 as of September 30, 2022.

**14. 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) and Tobolar Copra Processing Authority (TCPA).

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 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 of \$1,000,000 with repayment commencing December 15, 2021, in equal semi-annual installments with interest at 2% per annum with no further loan drawdowns having occurred. Loan repayment is based on total drawdowns made. During the year ended September 30, 2022, loan repayments commenced in the amount of \$200,000. As of September 30, 2022, loan payable to RepMar associated with this subsidiary loan agreement amounted to \$800,000 and included in due to primary government in the accompanying statement of net position.

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Notes to Financial Statements, continued

**14. Related Party Transactions, continued**

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>
2023	\$200,000	\$16,000	\$216,000
2024	400,000	10,000	410,000
2025	<u>200,000</u>	<u>2,000</u>	<u>202,000</u>
	<u>\$800,000</u>	<u>\$28,000</u>	<u>\$828,000</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.

In 2019, MIDB provided a \$6,000,000 loan to RepMar for the purpose of funding copra subsidies to TCPA, with interest at a preferential rate of 1.25% per annum for a term of two years. As of September 30, 2022, the related amount due from RepMar is \$871,960.

In 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. The loan was subsequently paid in full by MRI on September 29, 2022.

**Marshall Islands Development Bank**  
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**Notes to Financial Statements, continued**

**14. Related Party Transactions, continued**

On September 29, 2022, MIDB approved a \$2,020,000 loan facility to MRI, interest at 4% per annum, due February 28, 2039, with an 18-month grace period, and collateralized by a chattel mortgage over a 150-room hotel, an assignment of business operations payments and guaranteed by RepMar. Drawdowns against this loan facility amounted to \$520,000 during the year ended September 30, 2022. As of September 30, 2022, MIDB has a \$1,500,000 loan commitment related to this loan facility.

During the year ended September 30, 2022, MIDB received \$992,000 from RepMar for the purpose of administering the Senior Citizens Housing Support project. As of September 30, 2022, MIDB has yet to commence the project and, in accordance with the memorandum of understanding, unexpended proceeds amounting to \$992,000 are included in due to primary government in the accompanying statement of net position.

As of September 30, 2022, MIDB has deposits with an affiliate bank of \$16,228,638. The deposits accrue interest at rates of 0.25% to 2% per annum. Interest earned during the year ended September 30, 2022 was \$91,540.

As of September 30, 2022, MIDB employees and directors have outstanding loans of \$1,024,003 and \$361,449, respectively. All loans were made at normal commercial terms and conditions and included in loans receivable, net in the accompanying statement of net position.

**15. 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.

**16. Commitments**

Loans recorded by USDA are subject to a MIDB guarantee, the balance of which is \$11,278,835 as of September 30, 2022. During the year ended September 30, 2022, MIDB received collection in the amount of \$23,474 from recovery of related delinquent loans.

## Supplementary Information

**Marshall Islands Development Bank**  
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**Combining Statement of Net Position**

September 30, 2022

	Marshall Islands Development Bank	RMI Small- Medium Enterprise Project	USDA Self-Help Housing Project	Total
<b>Assets</b>				
Current assets				
Cash	\$ 12,342,407	\$ 1,838,931	\$( 227,500 )	\$ 13,953,838
Restricted cash	534,650	---	---	534,650
Certificates of deposit	2,130,736	---	---	2,130,736
Receivables, net:				
Loans	9,254,286	585,854	---	9,840,140
Leases	96,688	---	---	96,688
Accrued interest	100,803	8,014	---	108,817
Other	105,546	1,557	226,270	333,373
Due from primary government	<u>871,960</u>	<u>---</u>	<u>---</u>	<u>871,960</u>
Total current assets	25,437,076	2,434,356	( 1,230 )	27,870,202
Receivables, net:				
Loans	11,922,996	347,999	---	12,270,995
Leases	130,199	---	---	130,199
Investment in shares of stock	10,497,360	---	---	10,497,360
Capital assets:				
Nondepreciable capital assets	53,523	---	---	53,523
Depreciable capital assets, net	<u>434,318</u>	<u>---</u>	<u>4,817</u>	<u>439,135</u>
Total assets	<u>\$ 48,475,472</u>	<u>\$ 2,782,355</u>	<u>\$ 3,587</u>	<u>\$ 51,261,414</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>				
Liabilities:				
Current liabilities				
Due to primary government	\$ 1,192,000	\$ ---	\$ ---	\$ 1,192,000
Accounts payable and accrued expenses	176,161	81,831	7,870	265,862
Accrued interest payable	61,000	---	---	61,000
Lease liabilities	16,503	---	---	16,503
Deposits pledged	47,611	---	61	47,672
Customer refunds payable	<u>1,308,235</u>	<u>---</u>	<u>---</u>	<u>1,308,235</u>
Total current liabilities	2,801,510	81,831	7,931	2,891,272
Due to primary government, net of current portion	600,000	---	---	600,000
Lease liabilities, net of current portion	<u>127,028</u>	<u>---</u>	<u>---</u>	<u>127,028</u>
Total liabilities	3,528,538	81,831	7,931	3,618,300
Deferred inflows of resources:				
Lease revenues	<u>226,400</u>	<u>---</u>	<u>---</u>	<u>226,400</u>
Commitments				
Net position:				
Net investment in capital assets	344,310	---	4,817	349,127
Restricted	534,650	---	---	534,650
Unrestricted	<u>43,841,574</u>	<u>2,700,524</u>	<u>( 9,161 )</u>	<u>46,532,937</u>
Total net position	<u>44,720,534</u>	<u>2,700,524</u>	<u>( 4,344 )</u>	<u>47,416,714</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 48,475,472</u>	<u>\$ 2,782,355</u>	<u>\$ 3,587</u>	<u>\$ 51,261,414</u>

**Marshall Islands Development Bank**  
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**Combining Statement of Revenues, Expenses and Changes in Net Position**

Year Ended September 30, 2022

	Marshall Islands Development Bank	RMI Small- Medium Enterprises Project	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	\$ 3,072,641	\$ 71,186	\$ ---	\$ 3,143,827
Federal grants	---	---	218,197	218,197
Rental income	199,482	---	---	199,482
Insurance premiums	178,873	---	---	178,873
Loan fees	135,021	6,476	---	141,497
Lease revenue	104,768	---	---	104,768
Interest income on bank deposits	91,619	---	13	91,632
Interest income on lease	12,540	---	---	12,540
Miscellaneous	6,014	16,285	---	22,299
Total operating revenues	3,800,958	93,947	218,210	4,113,115
Recovery of loan losses	239,585	63,532	---	303,117
Net operating revenues	4,040,543	157,479	218,210	4,416,232
Operating expenses:				
Interest expense on loans payable	16,000	---	---	16,000
Insurance loss on loans	60,685	---	---	60,685
Total operating expenses	76,685	---	---	76,685
General and administrative expenses:				
Salaries and employee benefits	1,796,223	---	172,636	1,968,859
Insurance	169,055	---	9,680	178,735
Utilities	177,672	---	---	177,672
Depreciation and amortization	122,103	---	1,760	123,863
Repairs and maintenance	113,725	---	3,936	117,661
Printing, stationery and advertising	84,943	---	2,106	87,049
Representation	76,722	---	---	76,722
Travel and training	74,382	---	---	74,382
Communications	55,080	---	914	55,994
Entertainment	38,762	---	---	38,762
Promotion and donation	34,187	---	---	34,187
Professional fees	32,584	---	---	32,584
Fuel	18,872	---	7,467	26,339
Office and house rental	21,000	---	---	21,000
Taxes and licenses	4,130	---	---	4,130
Miscellaneous	24,418	---	158	24,576
Total general and administrative expenses	2,843,858	---	198,657	3,042,515
Income from operations	1,120,000	157,479	19,553	1,297,032
Nonoperating revenues (expenses):				
Investment earnings	734,246	---	---	734,246
Recovery of USDA loan guarantee	23,474	---	---	23,474
Interest expense on leases	( 4,123 )	---	---	( 4,123 )
Total nonoperating revenues, net	753,597	---	---	753,597
Change in net position	1,873,597	157,479	19,553	2,050,629
Net position at beginning of year	42,846,937	2,543,045	( 23,897 )	45,366,085
Net position at end of year	\$ 44,720,534	\$ 2,700,524	\$( 4,344 )	\$ 47,416,714

## Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors  
Marshall Islands Development Bank

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Marshall Islands Development Bank (MIDB), as of and for the year ended September 30, 2022, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2024.

### Report on 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses, as item 2022-001 that we consider to be a significant deficiency.



## **Report on 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on MIDB's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. MIDB's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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 MIDB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst + Young LLP*

June 19, 2024

Marshall Islands Development Bank  
(A Component Unit of the Republic of the Marshall Islands)

Schedule of Findings and Responses

Finding No.: 2022-001

Area: Customer Refunds Payable

Criteria: An established internal control policies and procedures should be in place to timely monitor loan accounts with excess payments.

Condition: MIDB receives loan payments from borrowers through payroll deductions or allotments remitted by borrower employers. Payments received in excess of loan balances are deposited to the borrower's deposit account. Examination of schedule of customer refunds payable indicated 3,638 non-moving/ inactive accounts aggregating \$1,211,447 that have been outstanding for more than 1 year, which were not timely assessed and monitored.

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

Effect: The effect of the above is accumulating or increasing balance of customer refunds payable over time.

Recommendation: We recommend management establish internal control policies and procedures to timely monitor loan accounts with excess payments. Furthermore, we recommend management consider designating a person responsible for informing related borrowers of excess payments.

Auditee View of the Finding: We agree with the finding. Management has produced a memo for responsible departments for an immediate implementation of proper procedures to manage over/excess loan payments accordingly. This area of interest will also be part of the bank's internal audit assessment regularly (monthly). Report of assessment from the IA department will be part of management's review/examination every month. MIS department will be responsible for identifying any new accounts and forward details/info to Delinquent department for further review and initiate proper procedures for cease allotment and process refund if necessary.