MARSHALL ISLANDS DEVELOPMENT BANK

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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

Years Ended September 30, 2015 and 2014
Table of Contents

		Page No.
I.	INDEPENDENT AUDITORS' REPORT	1
II.	MANAGEMENT'S DISCUSSION AND ANALYSIS	3
III.	FINANCIAL STATEMENTS:	
	Statements of Net Position	8
	Statements of Revenues, Expenses and Changes in Net Position	9
	Statements of Cash Flows	10
	Notes to Financial Statements	11
IV.	OTHER SUPPLEMENTARY INFORMATION:	
	Combining Statement of Net Position	25
	Combining Statement of Revenues, Expenses and Changes in Net Position	26
V.	INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
	Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	27
	Schedule of Findings and Responses	29
	Unresolved Prior Year Findings	32

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Development Bank:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MIDB as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information on pages 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 May 3, 2016, on our consideration of MIDB's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MIDB's internal control over financial reporting and compliance.

Deloitte + Touche LLP

May 3, 2016

Fiscal year October 1, 2014 to September 30, 2015 has been a productive year for the Marshall Islands Development Bank (MIDB). During the fiscal year, the Bank's resources were utilized to prioritize Consumer and Housing Loan Programs with the goal and purpose of improving the living standards and conditions of the people of the Republic of the Marshall Islands.

Management's Discussion and Analysis provides an overview of the Bank's financial highlights and activities for the fiscal year ended September 30, 2015.

FINANCIAL HIGHLIGHTS

- MIDB's total net position increased by **$**2.41M or 14% over the course of this year's operations. Net position represents funds from the RMI Government, Housing Preservation Grant and the USDA Self-Help Housing Project.

- Operating revenues decreased by $140K from $3.92M in 2014 to $3.78M in 2015, $2.73M of which was generated through interest on loans. Total operating expenses virtually remain unchanged.

- Allowance for loan losses decreased by $10M from $12.26M in 2014 to $2.26M in 2015. Nonoperating revenues increased by $42K or 29% from $145K in 2014 to $187K in 2015.

ANALYSIS OF MIDB'S FINANCIAL STATUS

This Analysis serves as an overview to MIDB's basic financial statements. A Summary of Statements of Net Position is shown below that will give insight on MIDB's resources, liabilities and net position, MIDB's priority investments and performance results compared to previous year. At the end of the fiscal year 2015, MIDB's assets of $23.77M exceeded liabilities of $3.87M by $19.9M. However, $1.18M or 6% of the net position is either invested in capital assets or restricted funds that can only be used for the purpose of which the funds were created. The capital assets are resources used by the Bank during the course of its operations to provide services to the people and are assets that are not easily liquidated. As of September 30, 2015, unrestricted net position amounted to $18.72M, enough to repay all outstanding debt.

Summary of Statements of Net Position

		2015	2014	2013
Position	Cash and Equivalents	$ 373,544	$ 75,423	$ 108,740
	Restricted Cash	567,927	553,787	526,468
	Restricted TCD	59,453	1,253,173	684,188
	Loan Receivable, net	21,207,758	21,066,853	20,571,274
	Premises and Equipment, net	899,622	1,118,670	1,296,595
	Other Assets	662,192	640,628	753,227
Liabilities	Total Assets	23,770,496	24,708,534	23,940,492
	Loan Payable	1,066,789	3,609,051	5,067,312
	RepMar Deposit	1,085,406	1,952,136	1,877,054
	Other Liabilities	1,714,727	1,649,694	1,489,907
	Total Liabilities	3,866,922	7,210,881	8,434,273
Net Position				
	Investment in Capital Assets	899,622	1,118,670	1,296,595
	Restricted	279,581	279,581	279,581
	Unrestricted	18,724,371	16,099,402	13,930,043
	Total Net Position	$ 19,903,574	$ 17,497,653	$ 15,506,219

- Loan approvals for the year were approximately $26.67M, broken down by projects, $26.43M released under various consumer loans, $0.04M for business loans and $0.20M granted for housing loans. Loans receivable, net, increased by $141K in 2015 compared with a $496K increase in 2014. Loans released increased from $24.11M to $26.67M during the fiscal years 2014 and 2015, respectively.

- The Government of the Marshall Islands invested $7M in a Time Certificates of Deposit at the rate of 4% in May 9, 2003, maturing May 8, 2018. The money received from such TCDs was used to finance various loans. As of September 30, 2015, the balance owed for Time Certificates of Deposit to the RMI Government was $1.09M.

- MIDB obtained $2.0M and $1.0M of long-term loans with Bank of Marshall Islands in 2012. Interest payments shall be at an annual rate of 5% per annum until maturity date on March 14 and August 31, 2017, respectively. On September 22, 2015, these loans were restructured for a principal amount of $1,090,500, interest at 6.5% per annum, due in November 30, 2019. As of September 30, 2015, the outstanding principal balance of this loan is $1.07M. MIDB also obtained a $2.5M long-term loan with BOMI on behalf of the Government of the Marshall Islands in 2013. Interest shall be at 5.5% per annum until maturity date on May 31, 2018. On September 2, 2015, this loan was fully paid through offset with a MIDB Time Certificate of Deposit in BOMI.

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

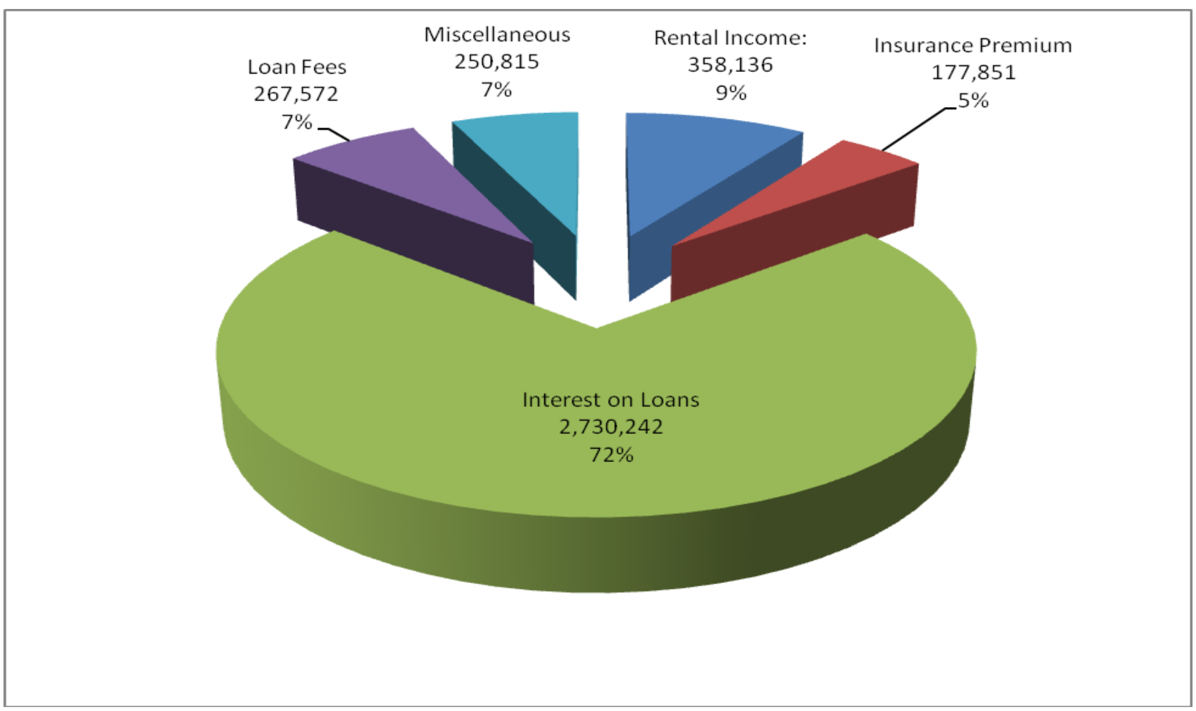
Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014

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

	2015	2014	2013
Operating Revenues	$ 3,784,616	$ 3,924,362	$ 3,868,377
Recovery of (provision for) loan losses	865,999	546,436	(1,461,201)
	4,650,615	4,470,798	2,407,176
Less: expenses			
Operating expenses	227,495	319,819	297,764
General administrative expenses	2,204,531	2,304,613	2,328,507
	2,432,026	2,624,432	2,626,271
Earnings (loss) from operations	2,218,589	1,846,366	(219,095)
Non-operating revenues	187,332	145,068	295,568
Increase in net position	2,405,921	1,991,434	76,473
Net position at beginning of year	17,497,653	15,506,219	15,429,746
Net position at end of year	$ 19,903,574	$ 17,497,653	$ 15,506,219

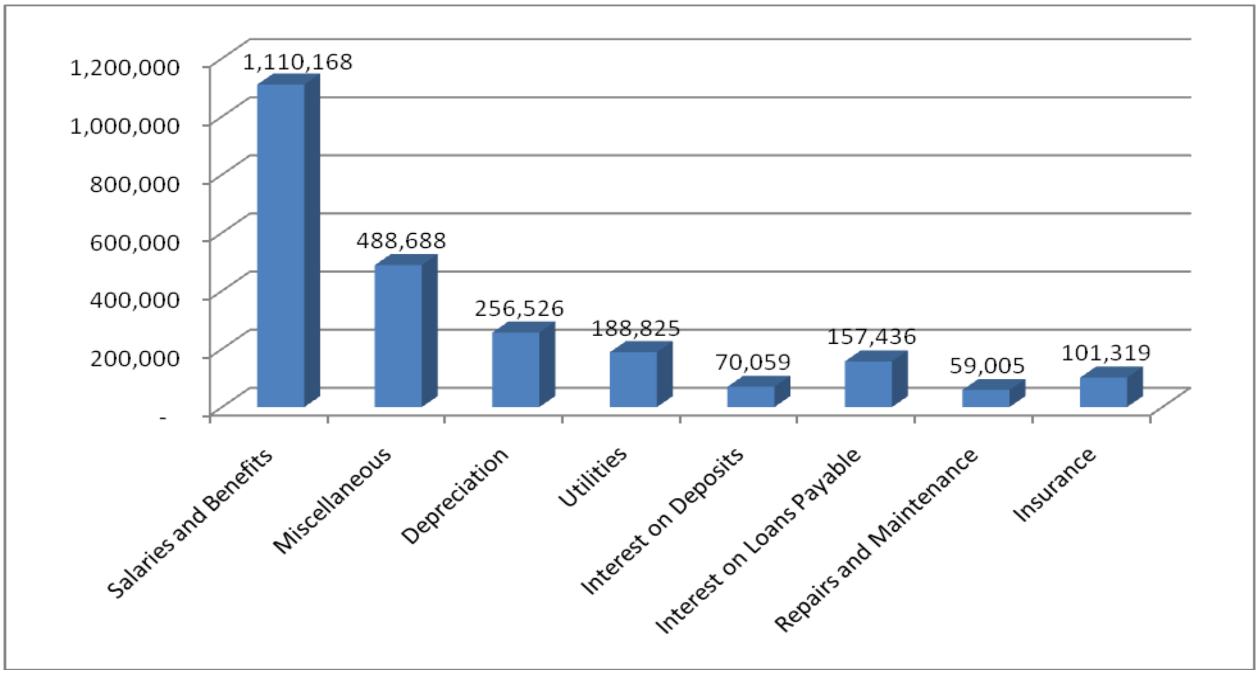
- Total operating revenues for 2015 decreased by $140K or 4% compared to 2014. About 72% MIDB's operating revenue comes from interest on loans, 87%, 6%, and 7% of which are generated earnings from consumer, business and housing loans, respectively. Please see the chart below depicting the distribution of the Bank's revenue.

- Recovery of loan losses for 2015 increased by $320K compared to 2014 primarily due to the RMI Cabinet approving and authorizing the use of the RMI TCD to repay delinquent loan payments for the Air Marshall Islands loan receivable, which was fully allowed in the prior year. In addition, MIDB also wrote off non-performing loans fully allowed in prior years per BOD approval. Continued payments were received on some of these loans.



- Total operating expenses for 2015 decreased by $192K or 8% compared with 2014. MIDB's operating expenses cover a range of operating, general and administrative expenses.

- Provision for delinquent loans is provided based on the Bank's reasonable estimate, wherein the number of days an account is due, the amount of loan outstanding balance, and the borrower's capability to pay play vital information in the computation of additional allowances to be provided. The graph below shows itemized expenses and provides an over-all picture of the Bank's spending activities.



- Interest expense decreased by $92K or 29% during fiscal year ended September 30, 2015 compared to fiscal year ended September 30, 2014 due to a decrease in both interest on loans payable and interest on deposits. Interest on loans payable pertains to interest payments and accruals for a Bank of Marshall Islands loan while interest on deposits pertains to payments and accruals on the RepMar TCD and various savings accounts.

- General and administrative expenses in the aggregate decreased by $100K, or 4% from last year's operation due primarily to a decrease in repairs and maintenance of $37K or 39% and miscellaneous expense of $29K or 47%.

- Total non-operating revenues for 2015 increased by $42K or 29% compared to 2014 due to an increase in dividend rate per share on the investment in BOMI from $5.50 in 2014 to $7.00 in 2015.

<u>Capital Assets and Debt</u>

Capital assets acquisitions amounted to $29K in 2015. For additional information concerning capital assets, please refer to Note 8 to the financial statements.

Long term-debt decreased by $2.54M in 2015. MIDB liquidated its long-term loan with Bank of Marshall Islands amounting to $2.5M which was granted on May 30, 2013 with an interest of 5.5% per annum. For additional information concerning debt, please refer to Note11 to the financial statements.

Management's and Discussion and Analysis for the year ended September 30, 2014 is set forth in MIDB's report on the audit of financial statements, which is dated May 12, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be obtained from MIDB's Managing Director at rmimidb@ntamar.net

ECONOMIC OUTLOOK

In the next years to come, MIDB is continuing to expect growth in the demand for housing loans and consumer loans, the latter being the major component of MIDB's loan portfolio. MIDB is involved in improving the living conditions of the RMI people through the housing loan projects under Mutual Self Help Housing Projects and USDA Rural Development.

The Bank is currently dependent on income generated from new loans. The net position is just sufficient to pay for MIDB's outstanding debt. MIDB may have to look for other sources of funds to maintain the current portfolio and the rising demand for loans. Starting FY16, MIDB adopted its new Strategic Plan which will guide the operation of MIDB in the next 5 years, to 2020. MIDB is determined to redouble its efforts to make a difference in the economy in the next 5 years.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide MIDB's customers and other stake holders with an overview of MIDB's operations and financial condition as at September 30, 2015. 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, 2015 and 2014

ASSETS	2015	2014
Cash and cash equivalents	$ 373,544	$ 75,423
Restricted cash	567,927	553,787
Restricted time certificate of deposit	59,453	1,253,173
Investments	366,748	366,748
Receivables, net:		
Loans	21,207,758	21,066,853
Accrued interest	76,422	136,521
Other	219,022	129,251
Capital assets:		
Non-depreciable capital assets	70,808	57,453
Capital assets, net of accumulated depreciation	828,814	1,061,217
Investment property held for sale, net	-	8,108
	$ 23,770,496	$ 24,708,534

LIABILITIES AND NET POSITION	2015	2014
Liabilities:		
Notes payable	$ 1,066,789	$ 3,609,051
RepMar deposit	1,085,406	1,952,136
Accrued interest payable	20,404	31,021
Accounts payable and accrued expenses	215,546	212,764
Deposits pledged	1,478,777	1,405,909
Total liabilities	3,866,922	7,210,881
Commitments		
Net position:		
Net investment in capital assets	899,622	1,118,670
Restricted	279,581	279,581
Unrestricted	18,724,371	16,099,402
Total net position	19,903,574	17,497,653
	$ 23,770,496	$ 24,708,534

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Interest income on loans	$ 2,730,242	$ 2,876,257
Rental income	358,136	326,409
Insurance premiums	177,851	207,461
Loan fees	267,572	191,224
Federal grants	144,008	158,385
Interest income on time certificate of deposit	40,448	18,003
Miscellaneous	66,359	146,623
Total operating revenues	3,784,616	3,924,362
Recovery of loan losses	865,999	546,436
Net operating revenues	4,650,615	4,470,798
Operating expenses:		
Interest expense:		
Interest on deposits	70,059	85,535
Interest on loans payable	157,436	234,284
Total interest expense	227,495	319,819
General and administrative expenses:		
Salaries and employee benefits	1,110,168	1,068,011
Depreciation	256,526	273,536
Utilities	188,825	198,536
Insurance	101,319	90,480
Bad debts expense	68,162	16,518
Representation	64,175	62,112
Printing, stationery and advertising	60,576	58,711
Repairs and maintenance	59,005	96,271
Travel and training	58,282	55,332
Professional fees	52,164	63,037
Communications	49,660	53,450
Promotion and donation	31,703	34,459
Land lease	24,682	24,682
Office and house rental	21,000	33,600
Fuel	20,135	23,495
Taxes and licenses	5,805	7,189
USDA loan guarantee	-	84,251
Miscellaneous	32,344	60,943
Total general and administrative expenses	2,204,531	2,304,613
Income from operations	2,218,589	1,846,366
Nonoperating revenues:		
Investment earnings	187,332	145,068
Change in net position	2,405,921	1,991,434
Net position at beginning of year	17,497,653	15,506,219
Net position at end of year	$19,903,574	$17,497,653

See accompanying notes to financial statements.

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

Statements of Cash Flows
September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	$ 3,480,940	$ 3,838,538
Cash payments to suppliers for goods and services	(782,668)	(964,776)
Cash payments to employees for services	(1,094,393)	(1,096,752)
Interest received on time certificate of deposit	40,448	18,003
Interest paid	(238,112)	(321,530)
Operating grants received	144,008	158,385
Net cash provided by operating activities	1,550,223	1,631,868
Cash flows from noncapital financing activities:		
Net change in RepMar deposit	76,643	75,082
Net change in pledged deposits	72,868	222,628
Net cash provided by noncapital financing activities	149,511	297,710
Cash flows from capital and related financing activities:		
Net borrowings under short-term loan arrangement	-	(14,161)
Principal repayment of long-term debt	(2,542,262)	(1,458,261)
Additions to premises, equipment and foreclosed assets	(29,370)	(81,711)
Net cash used for capital and related financing activities	(2,571,632)	(1,554,133)
Cash flows from investing activities:		
Loan originations and principal collections, net	(196,893)	42,474
Net change in restricted assets	1,179,580	(596,304)
Dividends received	187,332	145,068
Net cash provided by (used in) investing activities	1,170,019	(408,762)
Net change in cash and cash equivalents	298,121	(33,317)
Cash and cash equivalents at beginning of year	75,423	108,740
Cash and cash equivalents at end of year	$ 373,544	$ 75,423
Cash flows from operating activities:		
Income from operations	$ 2,218,589	$ 1,846,366
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Recovery of loan losses	(865,999)	(546,436)
Bad debts expense	68,162	16,518
Depreciation	256,526	273,536
(Increase) decrease in assets:		
Receivables:		
Accrued interest	(291)	14,710
Other	(157,933)	67,471
Increase (decrease) in liabilities:		
Accrued interest payable	(10,617)	(1,711)
Accrued expenses	2,782	(46,969)
Unearned premiums	39,004	8,383
Net cash provided by operating activities	$ 1,550,223	$ 1,631,868
Supplemental information of noncash financing activities:		
Related party loan receivable offset:		
Loans receivable	$ 943,373	$ -
RepMar deposit	(943,373)	-
	$ -	$ -

See accompanying notes to financial statements.

(1) Organization

The Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands (RepMar), was incorporated under the laws of RepMar as a non-stock corporation pursuant to the Marshall Islands Development Bank Act of 1988 (Public Law 1988-1). MIDB was established to promote the development and expansion of the economy of the Marshall Islands in order to improve the standard of living of the people and is governed by a seven-member Board of Directors appointed by the Cabinet of RepMar. The primary activities of MIDB have been designed to strengthen the nation's economic base, increase employment and production, improve the standards of housing, promote exports, and reduce the country's dependence on imports and foreign aid through the approval of viable development loans. MIDB has received funds under Section 211 of the Compact of Free Association (the Compact), direct contributions from RepMar and funds from the U.S. Department of Agriculture (USDA) under the Rural Housing and Community Development Service Housing Preservation and Self-Help Housing Program Grants. MIDB also assumed the assets and liabilities of the former Marshall Islands Economic Development Loan Office, Inc.

MIDB's financial statements are incorporated into the financial statements of RepMar as a component unit.

(2) Summary of Significant Accounting Policies

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and modified by Statement No. 38, *Certain Financial Statement Note Disclosures,* 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.

To conform to the requirements of GASB 34, equity is presented in the following net position categories:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus construction or improvement of those assets.

- Restricted: Nonexpendable - Net position subject to externally imposed stipulations that requires MIDB to maintain such permanently. At September 30, 2015 and 2014, 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.

- 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.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Classification of Revenues

MIDB has classified its revenues as either operating or nonoperating according to the following criteria:

- *Operating Revenues* - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) insurance premiums, loan fees and interest income on loans and Certificates of Deposit, (2) rental occupancy income associated with MIDB assets, and (3) USDA federal grant revenues.

- *Nonoperating Revenues* - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as RepMar appropriations and investment income.

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net position and cash flows, cash and cash equivalents is defined as amounts in demand deposits as well as short-term investments maturing within three months of the date acquired. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified.

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

As of September 30, 2015 and 2014, the carrying amounts of cash and cash equivalents and time certificates of deposit are $1,000,924 and $1,882,383, respectively, and the corresponding bank balances are $1,105,555 and $2,021,825, respectively. Of the bank balances, $662,247 and $576,527, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, bank deposits in the amount of $250,000 and $251,736, respectively, were FDIC insured. Bank deposits of $443,307 and $1,445,298, respectively, are maintained in financial institutions not subject to depository insurance. 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.

(2) Summary of Significant Accounting Policies, Continued

Investments

Investments of 20% or more of the voting stock of an investee are presumed to give the investor significant influence and are carried using the equity method. Under the equity method, the investor records, as earnings or loss, its proportionate share of the investee's earnings or loss.

Loans Receivable, Interest Receivable and Allowances for Losses

Loans and interest receivables are due from customers, both individuals and businesses, located within the Republic of the Marshall Islands and are stated at the unpaid principal balances adjusted for charge-offs less the allowances for losses, and unearned insurance premiums. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding.

The allowances for loan losses and interest receivable losses are established through a provision for losses charged to expense. Loans and interest receivables are charged against the allowance for losses when management believes that collection is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans and interest receivables that may be uncollectible, based on evaluations of the collectability and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

Other Receivables

Other receivables are due from government agencies, businesses and individuals located within the Republic of the Marshall Islands and are interest-free and uncollateralized. The allowance for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Management determines the adequacy of the allowance for uncollectible accounts based upon review of the aged accounts receivable. The allowance is established through a provision for bad debts charged to expense.

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

(2) Summary of Significant Accounting Policies, Continued

Foreclosed Assets

Assets acquired through, or in lien of, loan foreclosures are held for sale and are initially recorded at the lower of loan carrying amount or fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources 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, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. MIDB has no items that qualify for reporting in this category.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross revenue tax of 3% on revenues. MIDB is specifically exempt from gross revenue tax pursuant to Section 817 of Public Law 1988-1.

Recognition of Premium Revenues

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

New Accounting Standards

During the year ended September 30, 2015, MIDB implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of MIDB.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, 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, 2015 and 2014 is as follows:

	2015	2014
Bank of Marshall Islands	$ 336,748	$ 336,748
Marshall Islands Service Corporation	30,000	30,000
	$ 366,748	$ 366,748

(3) Investments, Continued

The investment in Bank of Marshall Islands (BOMI) is recorded at cost as MIDB does not exercise significant influence over the operating and financial policies of the investee. The investment comprises approximately 15% and 14% of the outstanding shares of BOMI as of September 30, 2015 and 2014. In addition, MIDB has an equity interest in Marshall Islands Service Corporation, an affiliate of BOMI. This investment is recorded at cost as MIDB does not exercise significant influence over the operating and financial policies of the investee. During the years ended September 30, 2015 and 2014, dividend income earned from investees was $187,332 and $145,068, respectively.

(4) Loans Receivable

Loans receivable as of September 30, 2015 and 2014 are summarized as follows:

	2015	2014
Investment Development Fund	$ -	$ 1,176,157
Compact Section 211	-	286,613
Republic of the Marshall Islands	23,786,124	32,126,930
Housing Preservation Grant	-	9,922
Gross loans	23,786,124	33,599,622
Less: unearned premiums	(316,717)	(277,713)
Less: allowance for loan losses	(2,261,649)	(12,255,056)
	$ 21,207,758	$ 21,066,853

An analysis of the change in the allowance for loan losses during the years ended September 30, 2015 and 2014 is as follows:

	2015	2014
Beginning balance	$ 12,255,056	$ 13,091,000
Recovery of loan losses	(926,389)	(546,436)
Charge-offs	(9,067,018)	(289,508)
Ending balance	$ 2,261,649	$ 12,255,056

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2015 and 2014 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 5.5% - 6.5% for Investment Development Fund loans, 4.0% - 6.5% for Compact Section 211 loans, 4.0% -14.0% for Republic of Marshall Islands loans, and 2.0% - 6.0% for Housing Preservation Grant loans.

(5) Accrued Interest Receivable

Accrued interest receivable as of September 30, 2015 and 2014 is summarized as follows:

	2015	2014
Republic of the Marshall Islands	$ 121,182	$ 141,167
Investment Development Fund	28,284	23,854
Gross accrued interest receivable	149,466	165,021
Less: allowance for doubtful interest	(73,044)	(28,500)
	$ 76,422	$ 136,521

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2015 and 2014 is as follows:

	2015	2014
Beginning balance	$ 28,500	$ 46,430
Provision for loan losses	60,390	-
Charge-offs	(15,846)	(17,930)
Ending balance	$ 73,044	$ 28,500

(6) Other Receivables

Other receivables as of September 30, 2015 and 2014, are as follows:

	2015	2014
Rental	$ 495,204	$ 405,373
Other	125,062	56,960
	620,266	462,333
Allowance for uncollectible accounts	(401,244)	(333,082)
	$ 219,022	$ 129,251

(7) Restricted Deposits

MIDB maintains a savings deposit as of September 30, 2015 and 2014 in the amount of $567,927 and $553,787, respectively, which is restricted to collateralize loans funded by Rural Housing Service (RHS). The Memorandum of Understanding signed with the RHS requires MIDB to create and maintain an escrow account with an initial deposit of $500,000. If the account falls below $500,000, MIDB shall deposit in the escrow account 5% of all RHS loans issued until such time that the account has reached $500,000. MIDB also maintains a time certificate of deposit as of September 30, 2015 and 2014 with an affiliated bank in the amount of $59,453 and $1,253,173, respectively, which is restricted to collateralize certain loans payable.

(8) Premises and Equipment

Capital asset activity during the years ended September 30, 2015 and 2014 is as follows:

	2015			
	October 1, 2014	Additions	Deletions/ Transfers	September 30, 2015
Building and houses	$ 2,663,256	$ -	$ -	$ 2,663,256
Computer systems	261,771	12,440	-	274,211
Motor vehicles	239,526	-	-	239,526
Office furniture	58,024	575	-	58,599
Office equipment	412,723	3,000	-	415,723
	3,635,300	16,015	-	3,651,315
Less accumulated depreciation	(2,574,083)	(248,418)	-	(2,822,501)
	1,061,217	(232,403)	-	828,814
Construction Materials	57,453	13,355	-	70,808
	$ 1,118,670	$ (219,048)	$ -	$ 899,622

	2014			
	October 1, 2013	Additions	Deletions/ Transfers	September 30, 2014
Building and houses	$ 2,622,294	$ 40,962	$ -	$ 2,663,256
Computer systems	251,081	10,690	-	261,771
Motor vehicles	194,526	45,000	-	239,526
Office furniture	58,024	-	-	58,024
Office equipment	396,372	16,351	-	412,723
	3,522,297	113,003	-	3,635,300
Less accumulated depreciation	(2,314,447)	(259,636)	-	(2,574,083)
	1,207,850	(146,633)	-	1,061,217
Construction Materials	88,745	9,670	(40,962)	57,453
	$ 1,296,595	$ (136,963)	$ (40,962)	$ 1,118,670

(9) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2015 and 2014 are summarized as follows:

	2015	2014
Foreclosed assets	$ 350,000	$ 350,000
Allowance for losses	(350,000)	(350,000)
	$ -	$ -

(10) Investment in Property

In April 2005, MIDB purchased property for $139,000, with the intention of selling the property in the near future. Currently, the property is being leased to tenants. Depreciation is recognized by use of an estimated 10-year life and the straight line method. As of September 30, 2015 and 2014, the property is presented net of accumulated depreciation of $139,000 and $130,892, respectively. Depreciation expense of $8,108 and $13,900 was recognized during the year ended September 30, 2015 and 2014.

(11) Notes Payable

Notes payable at September 30, 2015 and 2014 are as follows:

	2015	2014
Note payable to an affiliate bank in the amount of $2,000,000, dated June 14, 2012, interest at 5% per annum, due in monthly installments of principal and interest of $40,000 through March 14, 2017, collateralized by loans receivable in the amount of $15,232,330. Loan proceeds were used to fund housing loans.	$ -	$ 1,095,673
Note payable to an affiliate bank in the amount of $1,000,000, dated August 15, 2012, interest at 5% per annum, due in monthly installments of principal and interest of $18,920 through August 31, 2017, collateralized by the MAKO building and a time certificate of deposit. Loan proceeds were used to fund housing loans.	-	614,373
Note payable to an affiliate bank in the amount of $2,500,000, dated May 30, 2013, interest at 5.5% per annum, due in monthly installments of principal and interest of $47,773 through May 31, 2018, collateralized by time certificate of deposit and assignment of loans receivable. Loan proceeds were used to fund a commercial loan to Air Marshall Islands, Inc.	-	1,899,005
Note payable to an affiliate bank in the amount of $1,090,500, dated September 22, 2015, interest at 6.5% per annum, due in monthly installments of principal and interest of $25,265 through November 30, 2019, collateralized by time certificate of deposit and assignment of loans receivable. This loan was a restructure of the $2,000,000 and $1,000,000 prior year loans.	1,066,789	-
	$ 1,066,789	$ 3,609,051

(11) Notes Payable, Continued

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

Year ending September 30,	Principal	Interest	Total
2016	$ 221,647	$ 81,533	$ 303,180
2017	255,587	47,593	303,180
2018	272,842	30,338	303,180
2019	291,167	12,013	303,180
2020	25,546	139	25,685
	$ 1,066,789	$ 171,616	$ 1,238,405

Long-term debt changes during the years ended September 30, 2015 and 2014 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2015:					
Notes payable	$ 3,609,051	$ -	$ (2,542,262)	$ 1,066,789	$ 221,647
2014:					
Notes payable	$ 5,067,312	$ -	$ (1,458,261)	$ 3,609,051	$ 1,095,950

(12) Related Party Transactions

As of September 30, 2015 and 2014, MIDB has deposits with a bank of $339,745 and $1,305,354, respectively, in which MIDB has an equity investment. The deposits accrue interest at rates of 0.25% to 2.5% per annum. Interest earned for the years ended September 30, 2015 and 2014 was $40,448 and $18,003, respectively.

As of September 30, 2015 and 2014, MIDB employees have loans outstanding of $825,982 and $813,693, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2015 and 2014, of $185,413 and $146,521, respectively. All loans were made at normal commercial terms and conditions.

As of September 30, 2015 and 2014, MIDB has an outstanding certificate of deposit, totaling $1,085,406 and $1,952,136, respectively, payable to RepMar. The deposit is for a fifteen-year term and accrues interest at 4% per annum. This deposit is withdrawable in full or in part before maturity date with the consent of MIDB. As of September 30, 2015 and 2014, interest payable relating to this deposit amounted to $20,404 and $30,806, respectively, and is included within the statements of net position as accrued interest payable.

(12) Related Party Transactions, Continued

Movements in long-term liabilities during the years ended September 30, 2015 and 2014 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,
2015:				
RepMar deposit	$ 1,952,136	$ 76,643	$ (943,373)	$ 1,085,406
2014:				
RepMar deposit	$ 1,877,054	$ 75,082	$ -	$ 1,952,136

On May 30, 2013, MIDB entered into a loan agreement with Air Marshall Islands, Inc. (AMI), a component unit of RepMar, whereby MIDB loaned AMI $2,500,000 for the purpose of funding operations. The amount outstanding as of September 30, 2014 is $2,376,134. On May 14, 2015, the Board approved the charge-off of the entire loan receivable from AMI. Accordingly, pursuant to Cabinet Minute C.M. 064 (2015), MIDB commenced the withdrawal of funds from the RepMar deposit as partial settlement on AMI's loan. Total payments made as of September 30, 2015 is $943,373.

On August 7, 2000, MIDB entered into a loan agreement with RepMar whereby MIDB loaned RepMar $1,800,000 for the purpose of paying off debts owed by the Marshall Islands Social Security Administration (MISSA). The amount outstanding as of September 30, 2014 is $24,973. On May 14, 2015, the Board approved the charge-off of the entire loan receivable from MISSA.

(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 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 does not maintain general liability insurance and fire, lightning and typhoon insurance for its office building and properties. In the event of an insurable loss, MIDB may be self-insured to a material extent.

(14) Commitments

On March 31, 2012, MIDB entered into an agreement to manage the hotel of a delinquent loan customer. Under the terms of the agreement, MIDB is required to manage the operations and to apply the proceeds less operating expenses to the customer's outstanding balance. The term of the agreement is for as long as is required to bring the loan current. Loan balance as of September 30, 2014 is $953,853, which was fully provided with an allowance for loan losses. On May 14, 2015, the Board approved the write off of the entire loan receivable through the allowance account.

(14) Commitments, Continued

MIDB committed to guarantee certain loans recorded in the books of an affiliate bank, with principal balances totaling $26,487 and $33,995 as of September 30, 2015 and 2014, respectively.

Further, certain loans recorded in the books of USDA are subject to MIDB guarantee, the balance of which amounted to $10,588,127 and $10,533,413 as of September 30, 2015 and 2014, respectively. During the years ended September 30, 2015 and 2014, MIDB made payments to USDA in the amount of $0 and $84,251, respectively, on delinquent USDA loans.

During the year ended December 31, 2001, MIDB assumed the payment obligations under a fifteen-year ground lease, expiring on January 14, 2003, with an option to renew for an additional five years. On January 17, 2005, MIDB entered into an amended lease agreement with the landowners for the property. The term of the amended lease is twenty years, expiring on January 13, 2023. On May 14, 2003, MIDB assumed the 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.

On January 15, 2010, MIDB entered into a fifty-year ground lease agreement for a portion of Awao Weto property expiring on January 14, 2060. On June 14, 2010, MIDB entered into a fifty-year ground lease agreement for a portion of Kabilwe Weto property expiring on May 31, 2060. Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2016	$ 25,852
2017	25,852
2018	25,852
2019	26,145
2020	26,242
2021-2025	121,060
2026-2030	102,923
2031-2035	57,660
2036-2040	38,910
2041-2045	30,254
2046-2050	25,421
2051-2055	25,421
2056-2060	24,543
2061-2065	10,800
	$ 566,935

14) Commitments, Continued

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

Years ending September 30,	
2016	$ 283,870
2017	189,673
2018	100,908
2019	98,745
2020	63,852
2021-2025	159,264
2026-2030	129,030
	$ 1,025,342

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

Combining Statement of Net Position
September 30, 2015

ASSETS	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Cash and cash equivalents	$ 94,931	279,581	(968)	$ 373,544
Restricted cash	567,927	-	-	567,927
Restricted time certificate of deposit	59,453	-	-	59,453
Investments	366,748	-	-	366,748
Receivables, net:				
Loans	21,207,758	-	-	21,207,758
Accrued interest	76,422	-	-	76,422
Other	206,072	-	12,950	219,022
Capital assets:				
Nondepreciable capital assets	48,194	-	22,614	70,808
Depreciable capital assets, net	823,529	-	5,285	828,814
	$ 23,451,034	$ 279,581	$ 39,881	$ 23,770,496

LIABILITIES AND NET POSITION				
Liabilities:				
Notes payable	$ 1,066,789	$ -	$ -	$ 1,066,789
RepMar deposit	1,085,406	-	-	1,085,406
Accrued interest payable	20,404	-	-	20,404
Accrued expenses	179,877	-	35,669	215,546
Deposits pledged	1,478,777	-	-	1,478,777
Total liabilities	3,831,253	-	35,669	3,866,922
Net position:				
Net investment in capital assets	871,723	-	27,899	899,622
Restricted	-	279,581	-	279,581
Unrestricted	18,748,058	-	(23,687)	18,724,371
Total net position	19,619,781	279,581	4,212	19,903,574
	$ 23,451,034	$ 279,581	$ 39,881	$ 23,770,496

See accompanying independent auditors' report.

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

Combining Statement of Revenues, Expenses and Changes in Net Position
September 30, 2015

	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	$ 2,730,242	$ -	$ -	$ 2,730,242
Rental income	358,136	-	-	358,136
Loan fees	267,572	-	-	267,572
Insurance premiums	177,851	-	-	177,851
Federal grants	-	-	144,008	144,008
Interest income on time certificate of deposit	40,410	-	38	40,448
Miscellaneous	66,359	-	-	66,359
Total operating revenues	3,640,570	-	144,046	3,784,616
Recovery of loan losses	865,999	-	-	865,999
Net operating revenues	4,506,569	-	144,046	4,650,615
Operating expenses:				
Interest expense:				
Interest on deposits	70,059	-	-	70,059
Interest on loans payable	157,436	-	-	157,436
Total interest expense	227,495	-	-	227,495
General and administrative expenses:				
Salaries and employee benefits	993,914	-	116,254	1,110,168
Depreciation	245,914	-	10,612	256,526
Utilities	188,825	-	-	188,825
Insurance	90,559	-	10,760	101,319
Bad debts expense	68,162	-	-	68,162
Representation	64,035	-	140	64,175
Printing, stationery and advertising	59,261	-	1,315	60,576
Repairs and maintenance	57,637	-	1,368	59,005
Travel and training	58,282	-	-	58,282
Professional fees	52,164	-	-	52,164
Communications	49,370	-	290	49,660
Promotion and donation	31,703	-	-	31,703
Land lease	24,682	-	-	24,682
Office and house rental	21,000	-	-	21,000
Fuel	16,029	-	4,106	20,135
Taxes and licenses	5,755	-	50	5,805
Miscellaneous	32,315	-	29	32,344
Total general and administrative expenses	2,059,607	-	144,924	2,204,531
Income (loss) from operations	2,219,467	-	(878)	2,218,589
Nonoperating revenues:				
Investment earnings	187,332	-	-	187,332
Change in net position	2,406,799	-	(878)	2,405,921
Net position at beginning of year	17,212,982	279,581	5,090	17,497,653
Net position at end of year	$ 19,619,781	$ 279,581	$ 4,212	$ 19,903,574

See accompanying independent auditors' report.

Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Marshall Islands Development Bank:

We have audited, in accordance with 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 Marshall Islands Development Bank (MIDB), which comprise the statement of net position as of September 30, 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 3, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MIDB's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MIDB's internal control. Accordingly, we do not express an opinion on the effectiveness of MIDB's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2015-001 and 2015-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MIDB's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

MIDB's Response to Findings

MIDB's response to the findings identified in to our audit are described in the accompanying Schedule of Findings and Responses. MIDB's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte + Touche LLP

May 3, 2016

Finding No. 2015-001

Loans Receivable

Criteria: A comprehensive set of policies and procedures should be in place to govern the lending and credit administration processes, which should include, at a minimum, internal control procedures over processing loan approvals, loan boarding, completeness of loan documentation, safeguarding pertinent loan documents and monitoring loan covenant requirements.

Conditions:

Tests of a representative sample of 66 loans revealed several weaknesses in the design, implementation and adherence to internal controls in the lending and credit administration areas.

a. The Bank’s current operating procedures require a person who is not responsible for loan data and processing independently verify the completeness of documents required per policy before the loans can be approved. However, a loan document checklist was not signed by the verifying officer for twelve loans tested, ten of which were boarded in FY15.

b. Safeguarding of pertinent documents should be strengthened as for three loans, the credit folders containing the promissory note; loan agreement, collateral documents and other loan-related information cannot be located.

c. For five loans, two of which were boarded in FY15, loan terms per the promissory note/loan agreement/loan disclosure differ from that indicated in the loan system. Additionally, the difference noted in one of the five loans resulted in an error in the calculation of the provision for allowance for doubtful loans.

d. The Bank’s lending policy does not provide for a waiver of verification of employment; however, we noted no salary allotment form in file for one loan tested and for another loan, guarantor information is not supported by a check stub/pay slip.

e. For one commercial loan tested, there were no financial statements on file as required by the Bank’s lending policy.

f. For two loans, loan drawdown forms approved and signed by the managing director were not on file.

g. For two loans, receipts evidencing subsequent payments were not available.

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

Effect: The effect of the above is the potential occurrence of errors in the loan portfolio. This condition also gives rise to potential losses due to insufficient safeguarding of legal and collateral documents.

Recommendation: The Bank should perform a comprehensive review of its policies and procedures and strengthen controls and monitoring of those controls.

Finding No. 2015-001, Continued

Loans Receivable

Prior Year Status: Similar issues concerning loan documentation that have been reported as a finding in the audits of MIDB for fiscal years 2007 through 2014.

Auditee Response and Corrective Action Plan:

a. The Bank will ensure that the checklist will be properly signed by the verification officer.

b. Two out of three loans have already been found. The Bank has taken steps to correct this where a person was assigned to scan all approved loans so files are in electronic copies and can easily be retrieved if needed, and more manageable, hard copies are labeled and put in storage.

c. The errors in these loans have been corrected already.

d. The loan officer who processes the loan makes her own judgment based on her knowledge that the wife will benefit from applicant's retirement plan and is the rightful person to stand as guarantor for such loan, the wife is not working therefore a stub was not provided but loan officer made the call based on her knowledge that spouse is a more secured guarantor.

e. The borrower has been paying its loan religiously, with this, the Bank is confident that the borrower is in a good financial standing.

f. Although it was not filed in the loan folder, the loan drawdown was attached to the check that was issued to the borrowers which can be easily located.

g. The documents have already been located. The Bank ensures that the recommendation will be taken.

Finding No. 2015-002

Significant Delay in the Accounting Records

Criteria: Transactions should be timely posted. Reconciliations of certain accounts, including reconciliation of loans and deposits, and review of such reconciliations, should be timely performed.

Condition: The Bank does not have established policies, procedures and controls in place to require the timely processing and posting of transactions, and the timely preparation and review of reconciliations. During the year ended September 30, 2015, interest income and accrued interest receivable do not appear to have been timely processed as evidenced by the following:

- Payment transaction postings to the loan system and the general ledger were not current. Loan reconciliations as of September 30, 2015, including posting to the general ledger were not completed until November 27, 2015. Consequently, reconciliation of outstanding loan balances per the loan system with the general ledger was not regularly performed. The same is true for savings deposit reconciliations. Deposit reconciliations were not submitted to the Chief Financial Officer for review and posting until December 7, 2015.

- Bank reconciliations were prepared and were independently reviewed but this review did not occur timely. The September 30, 2015 reconciliations were completed in November 2015.

- Quarterly financial reports were not complete and timely prepared. Interim financial statements for the quarter ending March 31, 2015 was not prepared and the September 30, 2015 financial reports, including calculation of the allowance for loan losses were not completed and submitted to the Managing Director and the Board of Directors for review and approval until December 2015.

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

Effect: The effect of the above is the delayed identification and correction of errors and misstatements in the financial statements.

Recommendation: Management should implement procedures that require timely posting of daily transactions and a checklist of accounts that should be reconciled and reviewed on a monthly basis. Prudence indicates that posting of daily transactions be performed within a week, and the reconciliation of key balance sheet accounts should be performed within a month.

Prior Year Status: Similar issues in the delay of accounting records were reported as a finding in the audits of MIDB for fiscal years 2011 through 2014.

Auditee Response and Corrective Action Plan:

The Bank has assigned additional staff to work station which was determined to have significant amount of workload that affects the accounting process since most of the accounting works are done manually. Also, monitoring of work updates are done weekly to ensure that they have progress. If any concern arise, it will be addressed and corrected immediately. Otherwise, disciplinary action will be taken to those who do not perform their task accordingly.

Unresolved Prior Year Findings
Year Ended September 30, 2015

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