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, 2016 AND 2015 (AS RESTATED)

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

Years Ended September 30, 2016 and 2015
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Development Bank:

Report on the Financial Statements

We have audited the accompanying financial statements of the Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands, which comprise the statements of net position as of September 30, 2016 and 2015, 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, 2016 and 2015, 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.

Deloitte.

Emphasis-of-Matter

Implementation of New Accounting Standards

As described in Note 2 to the financial statements, MIDB implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

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 GASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2017, 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

June 8, 2017

Fiscal year October 1, 2015 to September 30, 2016 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, 2016.

FINANCIAL HIGHLIGHTS

- MIDB's total assets increased by $1.8M or 6.1% from $29.3M in 2015 to $31.1M in 2016.
- MIDB's total net position increased by $2.4M or 9% 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 increased by $231K from $3.78M in 2015 to $4.02M in 2016, $2.76M of which was generated through interest on loans. Total operating expenses virtually remained unchanged.
- Allowance for loan losses increased by $1.8M from $2.3M in 2015 to $4.1M in 2016. Total non-operating revenues virtually remained unchanged.

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 2016, MIDB's assets of $31.1M exceeded liabilities of $3.3M by $27.8M. However, $1M or 4% 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, 2016 unrestricted net position amounted to $26.8M, enough to repay all outstanding debt.

Summary of Statements of Net Position

	2016	2015 (As Restated)	2014 (As Restated)
ASSETS:			
Cash and equivalents	$ 2,652,073	$ 373,544	$ 75,423
Restricted assets	907,701	627,380	1,806,960
Investment in shares of stock	6,440,333	5,915,213	5,323,338
Loans receivable, net	20,100,494	21,207,758	21,066,853
Premises and equipment, net	718,937	899,622	1,118,670
Other assets	278,322	295,444	273,880
Total assets	$ 31,097,860	$ 29,318,961	$ 29,665,124

	2016	2015 (As Restated)	2014 (As Restated)
LIABILITIES:			
Long-term debt	$ 837,241	$ 1,066,789	$ 3,609,051
RepMar deposit	590,258	1,085,406	1,952,136
Other liabilities	1,859,131	1,714,727	1,649,694
Total liabilities	3,286,630	3,866,922	7,210,881
NET POSITION:			
Net investment in capital assets	718,937	899,622	1,118,670
Restricted	279,581	279,581	279,581
Unrestricted	26,812,712	24,272,836	21,055,992
Total net position	27,811,230	25,452,039	22,454,243
	$ 31,097,860	$ 29,318,961	$ 29,665,124

- Loan approvals for the year were approximately $28.4M, broken down by projects, $28.1M released under various consumer loans and $0.4M granted to housing loans. Net loans receivable decreased by $1.11M in 2016 compared with a $141K increase in 2015. Loans released increased from $26.7M to $28.4M during the fiscal years 2015 and 2016, respectively.

- The Government of the Marshall Islands invested $7M in a Time Certificate of Deposit at the rate of 4% in May 9, 2003, maturing May 8, 2018. The money received from such TCD was used to finance various loans. As of September 30, 2016, the balance owed for Time Certificate of Deposit to the RMI Government was $590K.

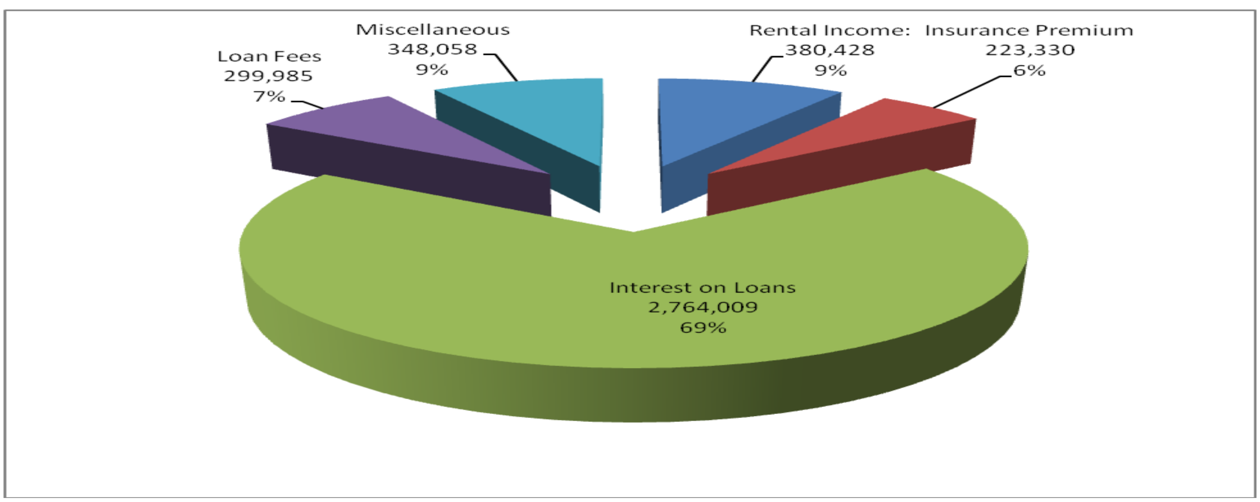
- MIDB obtained $2M and $1M of long-term loans from Bank of Marshall Islands (BOMI) in 2012. On September 22, 2015, these loans were restructured for a principal amount of $1,090,500, interest at 6.5% per annum, due in November 30, 2019. As of September 30, 2016 and 2015, the outstanding principal balance of this loan is $837K and $1.07M, respectively. 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 an MIDB Time Certificate of Deposit in BOMI.

Effective October 1, 2014, MIDB implemented the Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value and Application. This GASB statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. In addition, the implementation resulted in the re-measurement of MIDB's equity investments from cost-basis to Net Asset Value, which required MIDB to restate prior year financial statements for the carrying value of equity investments in shares of investees. Please refer to Note 2 for additional information on the restatement.

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

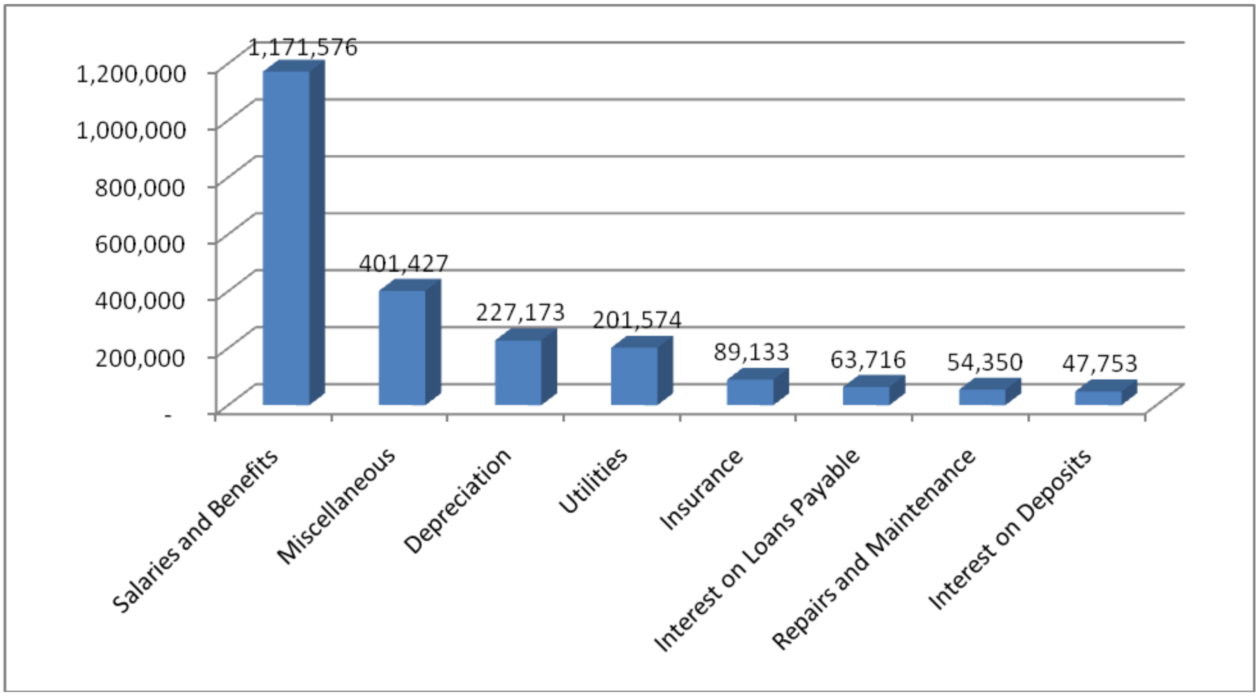
	2016	2015 (As Restated)	2014 (As Restated)
REVENUES:			
Operating revenues	$ 4,015,810	$ 3,784,616	$ 3,924,362
Recovery of loan losses	-	865,999	546,436
Nonoperating revenues	711,552	779,207	1,240,574
	4,727,362	5,429,822	5,711,372
EXPENSES:			
Operating expenses	111,469	227,495	319,819
General administrative expenses	2,256,702	2,204,531	2,304,613
	2,368,171	2,432,026	2,624,432
Change in net position	2,359,191	2,997,796	3,086,940
Net position at beginning of year	25,452,039	22,454,243	19,367,303
Net position at end of year	$ 27,811,230	$ 25,452,039	$ 22,454,243

- Total operating revenues for 2016 increased by $231K or 6% compared to 2015. About 69% of MIDB's operating revenue comes from interest on loans, generated mostly from consumer loans, 99% and the remaining balance from housing loans, 1%. Please see the chart below depicting the distribution of the Bank's operating revenues.



- Total expenses for 2016 decreased by $64K or 3% compared with 2015. MIDB's 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 $116K or 51% during fiscal year ended September 30, 2016 compared to fiscal year ended September 30, 2015 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 pledged deposits.

- General and administrative expenses in the aggregate increased by $52K or 2% from last year's operation due primarily to an increase in land lease of $16K or 66%. Expenses such as recreation expense and loan guarantee amounting to $44K had zero balance in FY2015.

- Total non-operating revenues for 2016 decreased by $67K from $779K in 2015 to $712K in 2016. Non-operating revenues mainly consists of unrealized gain on investments.

Capital Assets and Debt

Capital assets acquisitions amounted to $90K in 2016. For additional information concerning capital assets, please refer to Note 8 to the financial statements. Long-term debt decreased by $230K in 2016. 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 Note 11 to the financial statements.

Management's and Discussion and Analysis for the year ended September 30, 2015 is set forth in MIDB's report on the audit of financial statements, which is dated May 3, 2016. That Discussion and Analysis explains the major factors impacting the 2015 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 debts. 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, 2016. 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, 2016 and 2015

ASSETS	2016	2015 (As Restated)
Cash and cash equivalents	$ 2,652,073	$ 373,544
Restricted cash	582,002	567,927
Restricted time certificate of deposit	325,699	59,453
Investment in shares of stock	6,440,333	5,915,213
Receivables, net:		
Loans	20,100,494	21,207,758
Accrued interest	53,545	76,422
Other	173,077	219,022
Inventory	51,700	-
Capital assets:		
Non-depreciable capital assets	48,110	70,808
Capital assets, net of accumulated depreciation	670,827	828,814
	$ 31,097,860	$ 29,318,961

LIABILITIES AND NET POSITION	2016	2015 (As Restated)
Liabilities:		
Notes payable	$ 837,241	$ 1,066,789
RepMar deposit	590,258	1,085,406
Accrued interest payable	10,979	20,404
Accounts payable and accrued expenses	161,924	215,546
Deposits pledged	1,686,228	1,478,777
Total liabilities	3,286,630	3,866,922
Commitments		
Net position:		
Net investment in capital assets	718,937	899,622
Restricted	279,581	279,581
Unrestricted	26,812,712	24,272,836
Total net position	27,811,230	25,452,039
	$ 31,097,860	$ 29,318,961

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, 2016 and 2015

	2016	2015 (As Restated)
Operating revenues:		
Interest income on loans	$ 2,764,009	$ 2,730,242
Rental income	380,428	358,136
Insurance premiums	223,330	177,851
Loan fees	299,985	267,572
Federal grants	148,860	144,008
Interest income on time certificate of deposit	23,140	40,448
Miscellaneous	176,058	66,359
Total operating revenues	4,015,810	3,784,616
Recovery of loan losses	-	865,999
Net operating revenues	4,015,810	4,650,615
Operating expenses:		
Interest expense:		
Interest on deposits	47,753	70,059
Interest on loans payable	63,716	157,436
Total interest expense	111,469	227,495
General and administrative expenses:		
Salaries and employee benefits	1,171,576	1,110,168
Depreciation	270,466	256,526
Utilities	201,574	188,825
Insurance	89,133	101,319
Printing, stationery and advertising	71,056	60,576
Communications	60,265	49,660
Professional fees	55,472	52,164
Repairs and maintenance	54,350	59,005
Representation	49,785	64,175
Land lease	41,019	24,682
Promotion and donation	38,274	31,703
Office and house rental	28,200	21,000
Travel and training	27,773	58,282
Recreation	24,899	-
USDA loan guarantee	19,168	-
Fuel	16,693	20,135
Taxes and licenses	1,770	5,805
Bad debts	-	68,162
Miscellaneous	35,229	32,344
Total general and administrative expenses	2,256,702	2,204,531
Income from operations	1,647,639	2,218,589
Nonoperating revenues:		
Investment earnings	711,552	779,207
Change in net position	2,359,191	2,997,796
Net position at beginning of year	25,452,039	22,454,243
Net position at end of year	$ 27,811,230	$ 25,452,039

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, 2016 and 2015

	2016	2015 (As Restated)
Cash flows from operating activities:		
Cash received from customers	$ 3,938,155	$ 3,480,940
Cash payments to suppliers for goods and services	(890,304)	(782,668)
Cash payments to employees for services	(1,201,254)	(1,094,393)
Interest received on time certificate of deposit	23,140	40,448
Interest paid	(120,894)	(238,112)
Operating grants received	148,860	144,008
Net cash provided by operating activities	1,897,703	1,550,223
Cash flows from noncapital financing activities:		
Net change in RepMar deposit	43,005	76,643
Net change in pledged deposits	207,451	72,868
Net cash provided by noncapital financing activities	250,456	149,511
Cash flows from capital and related financing activities:		
Principal repayment of long-term debt	(229,548)	(2,542,262)
Additions to premises, equipment and foreclosed assets	(89,781)	(29,370)
Net cash used for capital and related financing activities	(319,329)	(2,571,632)
Cash flows from investing activities:		
Loan originations and principal collections, net	543,588	(196,893)
Net change in restricted assets	(280,321)	1,179,580
Dividends received	186,432	187,332
Net cash provided by investing activities	449,699	1,170,019
Net change in cash and cash equivalents	2,278,529	298,121
Cash and cash equivalents at beginning of year	373,544	75,423
Cash and cash equivalents at end of year	$ 2,652,073	$ 373,544
Cash flows from operating activities:		
Income from operations	$ 1,647,639	$ 2,218,589
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Recovery of loan losses	-	(865,999)
Bad debts expense	-	68,162
Depreciation	270,466	256,526
(Increase) decrease in assets:		
Receivables:		
Accrued interest	22,877	(291)
Other	45,945	(157,933)
Inventory	(51,700)	-
Increase (decrease) in liabilities:		
Accrued interest payable	(9,425)	(10,617)
Accrued expenses	(53,622)	2,782
Unearned premiums	25,523	39,004
Net cash provided by operating activities	$ 1,897,703	$ 1,550,223
Supplemental information of noncash financing activities:		
Related party loan receivable offset:		
Loans receivable	$ 538,153	$ 943,373
RepMar deposit	(538,153)	(943,373)
	$ -	$ -
Unrealized gain (loss) on investment in shares of stock:		
Investment in shares of stock	$ (525,120)	$ (591,875)
Investment earnings	525,120	591,875
	$ -	$ -

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, 2016 and 2015, 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 and deferred outflows of resources, and liabilities and deferred inflows of resources associated with the operation of the fund are included in the statements of net position. Proprietary fund operating statements present increases and decreases in net position. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Classification of Revenues

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

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

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

Cash and Cash Equivalents and Time Certificates of Deposit

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

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

As of September 30, 2016 and 2015, the carrying amounts of cash and cash equivalents and time certificates of deposit are $3,559,774 and $1,000,924, respectively, and the corresponding bank balances are $3,801,788 and $1,105,554, respectively. Of the bank balances, $751,530 and $662,247, respectively, are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $3,050,258 and $443,307, respectively, are maintained in a financial institution not subject to depository insurance. As of September 30, 2016 and 2015, 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.

(2) Summary of Significant Accounting Policies, Continued

Investments

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

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

Loans Receivable, Interest Receivable and Allowances for Losses

Loans and interest receivables are due from customers, both individuals and businesses, located within the Republic of the Marshall Islands and are stated at the unpaid principal balances adjusted for charge-offs less the allowances for losses, and unearned 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 represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. MIDB has no items that qualify for reporting in this category.

Deferred Inflows of Resources

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

Taxes

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

Recognition of 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, 2016, MIDB implemented the following pronouncements:

- GASB 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 implementation of this statement resulted in additional disclosures about fair value measurements, the level of fair value hierarchy, and valuation techniques. Additionally, the implementation resulted in the re-measurement of equity investment from cost-basis to NAV, as cost-basis measurement is no longer an allowable measureable method for equity investments.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

Such implementation had a material effect on the accompanying financial statements resulting in the restatement of MIDB's 2015 financial statements to reflect the required adjustments as follows:

	As Previously Reported	Adjustment	As Restated
As of September 30, 2014:			
Net position	$ 17,497,653	$ 4,956,590	$ 22,454,243
For the year ended September 30, 2015:			
Investment earnings	$ 187,332	$ 591,875	$ 779,207
Change in net position	$ 2,405,921	$ 591,875	$ 2,997,796
As of September 30, 2015:			
Equity investment	$ 366,748	$ 5,548,465	$ 5,915,213
Total assets	$ 23,770,496	$ 5,548,465	$ 29,318,961
Total net position	$ 19,903,574	$ 5,548,465	$ 25,452,039

- GASB 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 implementation of this standard did not have a material effect on the accompanying financial statements.

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this standard did not have a material effect on the accompanying financial statements.

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 No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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.

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.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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.

Estimates

The preparation of financial statements in accordance 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 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, 2016 and 2015 that are valued using the net asset value (NAV) per share is as follows:

	2016	2015
Marshall Islands Holdings, Inc.	$ 6,397,763	$ 5,876,603
Marshall Islands Service Corporation	42,570	38,610
	$ 6,440,333	$ 5,915,213

The investment in Marshall Islands Holdings, Inc. (MIHI) comprises approximately 15% of the outstanding shares of MIHI as of September 30, 2016 and 2015. MIHI engages in all aspects of holding company activities in the Marshall Islands and which is the sole shareholder of Bank of Marshall Islands (BOMI). In addition, the investment in Marshall Islands Service Corporation (MISCO), an affiliate of BOMI, comprises approximately 1% of the outstanding shares of MISCO as of September 30, 2016 and 2015. During the years ended September 30, 2016 and 2015, dividend income earned from investees was $186,432 and $187,332, respectively.

(4) Loans Receivable

Loans receivable as of September 30, 2016 and 2015 are summarized as follows:

	2016	2015
Loans receivable	$ 24,533,569	$ 23,786,124
Less: unearned premiums	(342,240)	(316,717)
Less: allowance for loan losses	(4,090,835)	(2,261,649)
	$ 20,100,494	$ 21,207,758

An analysis of the change in the allowance for loan losses during the years ended September 30, 2016 and 2015 is as follows:

	2016	2015
Beginning balance	$ 2,261,649	$ 12,255,056
Reinstated loans which were subsequently collected	2,033,975	-
Recovery of loan losses	-	(926,389)
Charge-offs	(204,789)	(9,067,018)
Ending balance	$ 4,090,835	$ 2,261,649

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2016 and 2015 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, 2016 and 2015 is summarized as follows:

	2016	2015
Republic of the Marshall Islands	$ 93,860	$ 121,182
Investment Development Fund	32,729	28,284
Gross accrued interest receivable	126,589	149,466
Less: allowance for doubtful interest	(73,044)	(73,044)
	$ 53,545	$ 76,422

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2016 and 2015 is as follows:

	2016	2015
Beginning balance	$ 73,044	$ 28,500
Provision for loan losses	-	60,390
Charge-offs	-	(15,846)
Ending balance	$ 73,044	$ 73,044

(6) Other Receivables

Other receivables as of September 30, 2016 and 2015, are as follows:

	2016	2015
Rental	$ 483,292	$ 495,204
Other	91,029	125,062
	574,321	620,266
Allowance for uncollectible accounts	(401,244)	(401,244)
	$ 173,077	$ 219,022

(7) Restricted Deposits

MIDB maintains a savings deposit as of September 30, 2016 and 2015 in the amount of $582,002 and $567,927, 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, 2016 and 2015 with an affiliated bank in the amount of $325,699 and $59,453, respectively, which is restricted to collateralize certain loans payable.

(8) Premises and Equipment

Capital asset activity for the years ended September 30, 2016 and 2015 is as follows:

	2016			
	October 1, 2015	Additions	Deletions/ Transfers	September 30, 2016
Building and houses	$ 2,663,256	$ 5,641	$ 22,698	$ 2,691,595
Computer systems	274,211	7,647	-	281,858
Motor vehicles	239,526	63,300	-	302,826
Office furniture	58,599	595	-	59,194
Office equipment	415,723	12,598	-	428,321
	3,651,315	89,781	22,698	3,763,794
Less accumulated depreciation	(2,822,501)	(270,466)	-	(3,092,967)
	828,814	(180,685)	22,698	670,827
Construction Materials	70,808	-	(22,698)	48,110
	$ 899,622	$ (180,685)	$ -	$ 718,937

(8) Premises and Equipment, Continued

	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

(9) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2016 and 2015 are summarized as follows:

	2016	2015
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, 2016 and 2015, the property is presented net of accumulated depreciation of $139,000 and $139,000, respectively. Depreciation expense of $8,108 was recognized during the year ended September 30, 2015.

(11) Note Payable

MIDB has a note payable to an affiliate bank in the amount of $1,090,500, dated September 22, 2015, interest at 6.5% per annum, due in monthly installments of principal and interest of $25,265 through November 30, 2019, collateralized by a time certificate of deposit and an assignment of loans receivable. This loan was a restructure of the $2,000,000 and $1,000,000 prior year loans. As of September 30, 2016 and 2015, the balance outstanding is $837,241 and $1,066,789, respectively.

(11) Note Payable, Continued

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

Year ending September 30,	Principal	Interest	Total
2017	$ 256,118	$ 47,062	$ 303,180
2018	273,409	29,771	303,180
2019	291,771	11,409	303,180
2020	15,943	85	16,028
	$ 837,241	$ 88,327	$ 925,568

Long-term debt changes during the years ended September 30, 2016 and 2015 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2016:					
Note payable	$ 1,066,789	$ -	$ (229,548)	$ 837,241	$ 256,118
2015:					
Notes payable	$ 3,609,051	$ -	$ (2,542,262)	$ 1,066,789	$ 221,647

(12) Related Party Transactions

MIDB is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including Air Marshall Islands, Inc. (AMI).

On May 30, 2013, MIDB entered into a loan agreement with AMI whereby MIDB loaned AMI $2,500,000 for the purpose of funding operations. On May 14, 2015, the Board approved the charge-off of the entire loan in the amount of $2,376,134. Accordingly, pursuant to Cabinet Minute C.M. 064 (2015), MIDB commenced the withdrawal of funds from the RepMar deposit as partial settlement. Total related payments through withdrawals during the years ended September 30, 2016 and 2015 were $538,153 and $943,373, respectively.

As of September 30, 2016 and 2015, MIDB has deposits with an affiliate bank of $3,050,258 and $443,307, respectively. The deposits accrue interest at rates of 0.25% to 2.0% per annum. Interest earned for the years ended September 30, 2016 and 2015 was $23,140 and $40,448, respectively.

As of September 30, 2016 and 2015, MIDB employees have loans outstanding of $773,236 and $825,982, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2016 and 2015, of $255,094 and $185,413, respectively. All loans were made at normal commercial terms and conditions.

As of September 30, 2016 and 2015, MIDB has an outstanding certificate of deposit of $590,258 and $1,085,406, 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, 2016 and 2015, interest payable relating to this deposit amounted to $10,979 and $20,404, respectively, and is included within the statements of net position as accrued interest payable.

(12) Related Party Transactions, Continued

Movements in the outstanding RepMar certificate of deposit during the years ended September 30, 2016 and 2015 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,
2016:				
RepMar deposit	$ 1,085,406	$ 43,005	$ (538,153)	$ 590,258
2015:				
RepMar deposit	$ 1,952,136	$ 76,643	$ (943,373)	$ 1,085,406

(13) Risk Management

MIDB is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MIDB has elected to purchase insurance covering a 5 story commercial building in Delap Village and 10 residential units in Rairok Village against fire, lighting 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 to which it is exposed.

(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. The loan balance as of September 30, 2014 was $953,853, which was fully provided with an allowance for loan losses. On May 14, 2015, the Board approved the charge-off of the loan.

MIDB committed to guarantee certain loans recorded in the books of an affiliate bank, with principal balances totaling $1,253,134 and $26,487 as of September 30, 2016 and 2015, respectively.

Further, certain loans recorded in the books of USDA are subject to a MIDB guarantee, the balance of which amounted to $11,027,518 and $10,588,127 as of September 30, 2016 and 2015, respectively. During the year ended September 30, 2016, MIDB made payments to USDA in the amount of $19,168 for related delinquent loans.

During the year ended December 31, 2001, MIDB assumed payment obligations under a fifteen-year ground lease, expiring on January 14, 2003, with an option to renew for an additional five years. On January 17, 2005, MIDB entered into an amended lease agreement with the landowners. The term of the amended lease is twenty years, expiring on January 13, 2023. On May 14, 2003, MIDB assumed payment obligations under a thirty-year ground lease, expiring on December 31, 2028, with an option to renew for two additional terms of thirty years each.

(14) Commitments, Continued

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,	
2017	$ 26,637
2018	26,637
2019	26,930
2020	27,027
2021	27,027
2022-2026	121,374
2027-2031	100,998
2032-2036	52,585
2037-2041	42,835
2042-2046	28,276
2047-2051	25,421
2052-2056	25,421
2057-2061	23,059
2062-2063	7,200
	$ 561,427

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

Years ending September 30,	
2017	$ 293,635
2018	162,276
2019	114,282
2020	98,052
2021	51,696
2022-2026	151,800
2027-2030	98,670
	$ 970,411

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

Combining Statement of Net Position
September 30, 2016

ASSETS	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Cash and cash equivalents	$ 2,372,734	279,581	(242)	$ 2,652,073
Restricted cash	582,002	-	-	582,002
Restricted time certificate of deposit	325,699	-	-	325,699
Investments	6,440,333	-	-	6,440,333
Receivables, net:				
Loans	20,100,536	-	(42)	20,100,494
Accrued interest	53,545	-	-	53,545
Other	151,640	-	21,437	173,077
Inventory	51,700	-	-	51,700
Capital assets:				
Nondepreciable capital assets	25,496	-	22,614	48,110
Depreciable capital assets, net	667,023	-	3,804	670,827
	$ 30,770,708	$ 279,581	$ 47,571	$ 31,097,860

LIABILITIES AND NET POSITION	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Liabilities:				
Notes payable	$ 837,241	$ -	$ -	$ 837,241
RepMar deposit	590,258	-	-	590,258
Accrued interest payable	10,979	-	-	10,979
Accounts payable and accrued expens	120,948	-	40,976	161,924
Deposits pledged	1,678,752	-	7,476	1,686,228
Total liabilities	3,238,178	-	48,452	3,286,630
Net position:				
Net investment in capital assets	692,519	-	26,418	718,937
Restricted	-	279,581	-	279,581
Unrestricted	26,840,011	-	(27,299)	26,812,712
Total net position	27,532,530	279,581	(881)	27,811,230
	$ 30,770,708	$ 279,581	$ 47,571	$ 31,097,860

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, 2016

	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	$ 2,764,009	$ -	$ -	$ 2,764,009
Rental income	380,428	-	-	380,428
Loan fees	299,985	-	-	299,985
Insurance premiums	223,330	-	-	223,330
Federal grants	-	-	148,860	148,860
Interest income on time certificate of deposit	23,092	-	48	23,140
Miscellaneous	176,058	-	-	176,058
Total operating revenues	3,866,902	-	148,908	4,015,810
Operating expenses:				
Interest expense:				
Interest on deposits	47,753	-	-	47,753
Interest on loans payable	63,716	-	-	63,716
Total interest expense	111,469	-	-	111,469
General and administrative expenses:				
Salaries and employee benefits	1,045,159	-	126,417	1,171,576
Depreciation	268,986	-	1,480	270,466
Utilities	201,574	-	-	201,574
Insurance	79,357	-	9,776	89,133
Bad debts expense	-	-	-	-
Representation	49,761	-	24	49,785
Printing, stationery and advertising	69,707	-	1,349	71,056
Repairs and maintenance	53,780	-	570	54,350
Travel and training	27,773	-	-	27,773
Professional fees	55,472	-	-	55,472
Communications	60,089	-	176	60,265
Promotion and donation	38,274	-	-	38,274
Land lease	41,019	-	-	41,019
Office and house rental	21,000	-	7,200	28,200
Fuel	12,622	-	4,071	16,693
Taxes and licenses	1,770	-	-	1,770
USDA loan guarantee	19,168	-	-	19,168
Recreation expense	24,899	-	-	24,899
Miscellaneous	32,291	-	2,938	35,229
Total general and administrative expenses	2,102,701	-	154,001	2,256,702
Income (loss) from operations	1,652,732	-	(5,093)	1,647,639
Nonoperating revenues:				
Investment earnings	711,552	-	-	711,552
Change in net position	2,364,284	-	(5,093)	2,359,191
Net position at beginning of year	25,168,246	279,581	4,212	25,452,039
Net position at end of year	$ 27,532,530	$ 279,581	$ (881)	$ 27,811,230

See accompanying independent auditors' report.

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

The Board of Directors
Marshall Islands Development Bank:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Marshall Islands Development Bank (MIDB), which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 8, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2016-001 that we consider to be material weaknesses.

Deloitte.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-002.

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

June 8, 2017

Finding No. 2016-001

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 23 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 that document completeness before loans are approved. However, a loan document checklist was not signed by the verifying officer for two loans boarded in FY15.

b. Safeguarding pertinent documents should be strengthened as for three loans, two of which were boarded in FY16, the credit folders containing the promissory note; loan agreement, collateral documents and other loan-related information could not be located.

c. For one loan boarded in FY16, maturity date per the promissory note/loan agreement/loan disclosure differed from that indicated in the loan system.

d. The Bank's lending policy does not provide for a waiver of employment verification for loan guarantors; however, for one loan boarded in FY16, guarantor information was not supported by a check stub/pay slip/land lease schedule. In addition, another loan boarded in FY16 is guaranteed by a MISSA allotment but there is no allotment form was in file.

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

f. For one housing loan tested, an incorrect number of payments wasrecorded in the loan system resulting a $208 difference in the past due total.

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. 2016-001, Continued

Loans Receivable, Continued

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 2015.

Auditee Response and Corrective Action Plan:

a) Although it was not signed by the verifying officer, all the required loan documents were met and completed. The Bank will ensure that all loans are properly signed by the verifying officer; if the person in charge is on leave, another staff will be assigned to take over the responsibility.

b) One of the missing files has been located. The Bank has assigned a staff who will scan loan documents on a daily basis to avoid misplaced loan files in the future. As for the other two files, we will try to locate them.

c) The loan has already been paid in full; however, the Bank will ensure that loan information in the system match what is on file.

d) To secure a MISSA loan, a spouse is required to guarantee a loan. In the borrower's case where there was no spouse enlisted as the beneficiary, the successor in line in the land ownership was chosen to guarantee the loan, stub was not required. Moreover, for the loan with no MISSA allotment form, this loan was processed way back in 2006. The Bank is working on ensuring that policies and procedures on proper loan documentation are complied with.

e) The Bank will ensure that all required documents are obtained and maintained on file.

f) The error in this loan has already been corrected.

Management has already reminded the loan officers to correct and resolve the findings related to the above loans. With the help of the internal auditor, the Bank hopes that all these findings will be minimized if not eliminated.

Finding No.: 2016-002
Area: Procurement

Criteria: RepMar's Procurement Code states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding $25,000 may be made in accordance with small purchase procedures promulgated by Repmar's Policy Office; provided, however, that procurement requirements shall not be artificially divided so as to constitute a small purchase under this Section. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than $25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

(d) Section 129 - notwithstanding any other provision of this Act, emergency procurement may be made when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances. A written determination of the basis for the emergence and for the selection of the particular contractor shall be included in the contract file.

Condition: The following payments were not adequately documented to evidence compliance with the procurement process set forth in the criteria:

- Airfare for staff to attend APIPA ($1,061)
- Purchase of shirts for 100 Home celebration ($2,203)
- Purchase of I-phone for management ($958)
- Purchase of Elevator Motor ($28,339)

Cause: The cause of the above condition is a lack of planning and adequate internal control policies and procedures requiring documentation of procurement procedures and compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with RepMar's Procurement Code.

Auditee Response and Corrective Action Plan:

- The Bank will ensure that all documentation related to procurement of goods and services are obtained and maintained on file.

- The elevator has been in service for more than 20 years. Since it is an obsolete model, looking for parts was really hard. The Bank decided to rely on the suppliers who had brought the elevator on island in the first place. The Bank will ensure that future transactions costing over $25,000 comply with requirements of the procurement code.

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

Unresolved Prior Year Findings
Year Ended September 30, 2016

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