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, 2013 AND 2012

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

Years Ended September 30, 2013 and 2012
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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, 2013 and 2012, 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, 2013 and 2012, 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 basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise MIDB's basic financial statements. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplementary Information is the responsibility of MIDB's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2014, 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 29, 2014

Fiscal year October 1, 2012 to September 30, 2013 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 standard and conditions of the people of the Republic of the Marshall Islands.

Management's Discussion and Analysis will give you an overview of the Bank's financial highlights and activities for the fiscal year ended September 30, 2013.

FINANCIAL HIGHLIGHTS

- MIDB's total net position increased marginally by $76K or 0.5% over the course of this year's operation. Net position represents funds from the RMI Government, Housing Preservation Grant and the USDA Self-Help Housing Project.

- Operating revenues increased by $0.82M or 27% from $3.04M in 2012 to $3.87M in 2013, $2.93M of which was generated through interest on loans. Operating expenses also increased by $0.31M or 13% from $2.32M in 2012 to $2.63M in 2013.

- Provision for loan losses increased by $1.45M from $0.01M in 2012 to $1.46M in 2013. Nonoperating revenues decreased by $0.68M or 70% from $0.98M in 2012 to $0.3M in 2013, $0.15M of which represents a contribution from the RMI government.

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 incite 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 2013, MIDB's assets of $23.94M exceeded liabilities of $8.43M by $15.51M. However, $1.58M or 10% of the net position is either invested in capital assets or restricted funds that can only be used for the purpose of which the fund was 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, 2013 unrestricted net position amounted to $13.93M, enough to repay all outstanding debts.

Summary of Statements of Net Position

	2013	2012	2011
Assets:			
Cash and equivalents	$ 108,740	$ 386,349	$ 55,361
Restricted cash	526,468	518,242	500,007
Restricted TCD	684,188	128,758	-
Loans receivable, net	20,571,274	18,908,587	15,125,289
Premises and equipment, net	1,296,595	1,455,422	1,297,801
Other assets	753,227	775,684	946,236
Total Assets	**$ 23,940,492**	**$ 22,173,042**	**$ 17,924,694**

Summary of Statements of Net Position, Continued

	2013	2012	2011
Liabilities:			
Loans payable	$ 5,067,312	$ 3,690,095	$ 1,269,120
RepMar TCD deposit	1,877,054	1,805,049	1,739,989
Other liabilities	1,489,907	1,248,152	1,179,577
Total Liabilities	**$ 8,434,273**	**$ 6,743,296**	**$ 4,188,686**
Net Position:			
Investment in capital assets	$ 1,296,595	$ 1,455,422	$ 1,297,801
Restricted	279,581	278,805	277,386
Unrestricted	13,930,043	13,695,519	12,160,821
Total Net Position	**$ 15,506,219**	**$ 15,429,746**	**$ 13,736,008**

- Loan approvals for the year were approximately $24.81M, broken down as follows: $21.91M released under various consumer loans, $2.5M released for business loans, and $0.40M released for housing loans. Net loans receivable increased by $1.55M in 2013 compared with $3.78M increase in 2012. Loans approved increased from $23.62M in 2012 to $24.81M in 2013.

- The Government of the Marshall Islands invested $7M in time certificate of deposit (TCD) at the rate of 4% in May 9, 2003, maturing May 8, 2018. The money received from such TCD payable was used to finance loans granted to two local businesses. The RMI Government made withdrawals, net of deposits, during fiscal years 2010, 2011 and 2012 to finance some governmental operations and obligations. As of September 30, 2013, the RMI Government's TCD was $1.88M.

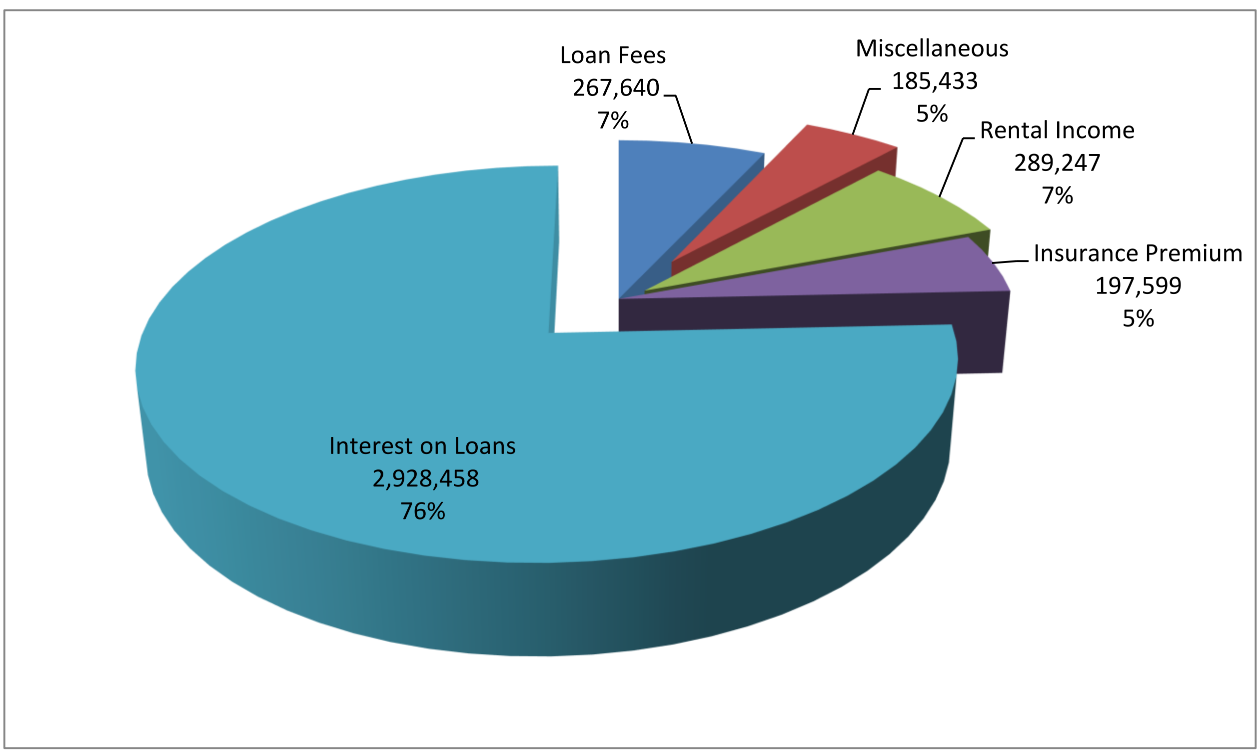
- MIDB continuously liquidates its long-term loan payable to International Commercial Bank of China (ICBC) by paying $0.40M on principal every year. The loan with ICBC amounting to $5M was granted in August 6, 1999 with an interest rate of 5% per annum, maturing in August 6, 2014, no collateral or security was provided. As of September 30, 2013, outstanding principal balance on the ICBC loan was $0.4M.

- In 2012, MIDB availed of a $2.0M and $1.0M long-term loan from Bank of Marshall Islands (BOMI) with interest payments at an annual rate of 5% per annum until the maturity in 2017. As of September 30, 2013, outstanding principal balance on these BOMI loans were $1.51M and $0.81M, respectively. In 2013, MIDB availed of a $2.5M long-term loan with BOMI on behalf of the Government of the Marshall Islands with interest payments at an annual rate of 5.5% per annum until maturity date in 2018. All loan proceeds were issued to Air Marshall Islands. As of September 30, 2013, outstanding principal balance on this BOMI loan was $2.35M.

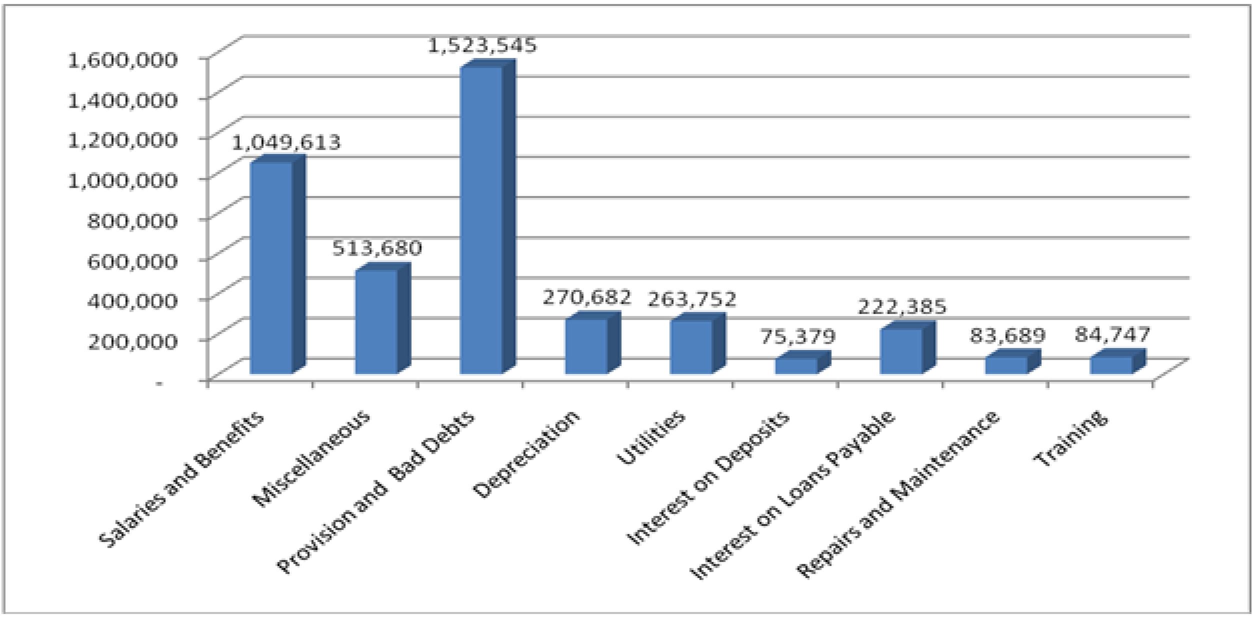
Summary of Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating revenues	$ 3,868,377	$ 3,045,209	$ 3,174,043
Expenses:			
Provision for loan losses	1,461,201	14,987	467,992
Interest expense	297,764	177,017	172,835
General and administrative	2,328,507	2,138,716	1,847,618
Total operating expenses	4,087,472	2,330,720	2,488,445
Earnings (loss) from operations	(219,095)	714,489	685,598
Non-operating revenues	295,568	979,249	153,342
Change in net position	76,473	1,693,738	838,940
Net position, beginning of year	15,429,746	13,736,008	12,897,068
Net position, end of year	$ 15,506,219	$ 15,429,746	$ 13,736,008

- Total operating revenues for 2013 increased by $823K or 27% compared with 2012. About 76% of MIDB's operating revenue comes from interest on loans, 83%, 11%, and 6% of which are generated earnings from consumer, business, and housing loans, respectively. Please see chart below depicting the distribution of MIDB's revenue.



- Total operating expenses for 2013 increased by $1.76M or 76% compared with 2012 due primarily to an increase in the allowance for loan loss reserve. MIDB's operating expenses cover a range of operating, general and administrative expenses. Provision for delinquent loan accounts 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 allowance to be provided. The graph below will show itemized expenses and will give an overall picture of the Bank's spending activities.



- Interest expense for 2013 increased by $121K or 68% compared with 2012 due to an increase in interest on loans payable. Interest on loans payable pertains to interest payments and accruals for both BOMI and ICBC loans.

- General and administrative expenses for 2013 in the aggregate increased by $190K or 9 % compared with 2012 due primarily to an increase in salaries and employee benefits expense of $130K (or 14%) and utilities expense of $78K or 42%.

- Total non-operating revenues for 2013 decreased by $684K or 70% compared with 2012 due primarily to a one-off gain on sale of BOMI stocks of $790K recognized in 2012.

<u>Capital Assets and Debt</u>

Capital assets acquisitions amounted to $98K in 2013. Significant capital asset activity includes the fully completed Sample House located in Litakboki compound amounting to $69K. For additional information concerning MIDB's capital assets, please refer to Note 8 to the financial statements.

Long-term debt increased by $1.4M or 37% in 2013. Significant debt activity includes obtaining a $2.5M loan from BOMI for the purpose of funding a $2.5M loan to Air Marshall Islands less $1.1M in principal debt repayments. For additional information concerning MIDB's debt, please refer to Note 12 to the financial statements.

Management's and Discussion and Analysis for the year ended September 30, 2012 is set forth in MIDB's report on the audit of financial statements, which is dated May 22, 2013. That Discussion and Analysis explains the major factors impacting the 2012 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 with its 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.

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, 2013. 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, 2013 and 2012

ASSETS	2013	2012
Cash and cash equivalents	$ 108,740	$ 386,349
Restricted cash	526,468	518,242
Restricted time certificate of deposit	684,188	128,758
Investments	366,748	366,748
Receivables, net:		
Loans	20,571,274	18,908,587
Accrued interest	151,231	113,039
Other	213,240	259,989
Capital assets:		
Non-depreciable capital assets	88,745	104,893
Capital assets, net of accumulated depreciation	1,207,850	1,350,529
Investment property held for sale, net	22,008	35,908
	$ 23,940,492	$ 22,173,042

LIABILITIES AND NET POSITION	2013	2012
Liabilities:		
Notes payable	$ 5,067,312	$ 3,690,095
Short-term debt	14,161	-
RepMar deposit	1,877,054	1,805,049
Accrued interest payable	32,732	22,374
Accounts payable and accrued expenses	259,733	225,939
Deposits pledged	1,183,281	999,839
Total liabilities	8,434,273	6,743,296
Commitments and contingency		
Net position:		
Net investment in capital assets	1,296,595	1,455,422
Restricted	279,581	278,805
Unrestricted	13,930,043	13,695,519
Total net position	15,506,219	15,429,746
	$ 23,940,492	$ 22,173,042

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, 2013 and 2012

	2013	2012
Operating revenues:		
Interest income on loans	$ 2,928,458	$ 2,443,470
Rental income	289,247	284,223
Loan fees	267,640	114,180
Insurance premiums	197,599	106,091
Federal grants	114,724	55,457
Interest income on time certificates of deposit	7,330	4,995
Miscellaneous	63,379	36,793
Total operating revenues	3,868,377	3,045,209
Provision for loan losses	(1,461,201)	(14,987)
Net operating revenues	2,407,176	3,030,222
Operating expenses:		
Interest expense:		
Interest on deposits	75,379	107,335
Interest on loans payable	222,385	69,682
Total interest expense	297,764	177,017
General and administrative expenses:		
Salaries and employee benefits	1,049,613	919,621
Depreciation	270,682	258,831
Utilities	263,752	185,779
Insurance	90,909	72,004
Travel and training	84,747	65,312
Repairs and maintenance	83,689	69,417
Printing, stationery and advertising	66,684	62,678
Bad debts expense	62,344	195,124
Communications	51,469	41,535
Representation	49,047	58,743
Promotion and donation	40,213	19,830
USDA loan guarantee	28,851	-
Office and house rental	27,000	28,967
Land lease	26,382	21,443
Fuel	23,693	17,739
Taxes and licenses	12,533	7,553
Professional fees	11,728	39,279
Miscellaneous	85,171	74,861
Total general and administrative expenses	2,328,507	2,138,716
Earnings (loss) from operations	(219,095)	714,489
Nonoperating revenues:		
Contributions from RepMar	148,800	-
Gain from sale of stocks	-	790,000
Investment earnings	145,968	187,418
Other	800	1,831
Total nonoperating revenues	295,568	979,249
Change in net position	76,473	1,693,738
Net position at beginning of year	15,429,746	13,736,008
Net position at end of year	$ 15,506,219	$ 15,429,746

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 3,581,704	$ 2,960,281
Cash payments to suppliers for goods and services	(923,744)	(852,809)
Cash payments to employees for services	(1,037,943)	(904,399)
Interest received on time certificates of deposit	7,330	2,644
Interest paid	(287,406)	(188,157)
Operating grants received	114,724	55,457
Net cash provided by operating activities	1,454,665	1,073,017
Cash flows from noncapital financing activities:		
Contributions from RepMar	148,800	-
Net change in RepMar deposit	72,005	65,060
Net change in pledged deposits	183,442	141,200
Net cash provided by noncapital financing activities	404,247	206,260
Cash flows from capital and related financing activities:		
Net borrowings under short-term loan arrangement	14,161	-
Proceeds from long-term debt	2,500,000	3,000,000
Principal repayment of long-term debt	(1,122,783)	(579,025)
Additions to premises, equipment and foreclosed assets	(97,955)	(404,221)
Proceeds from sale of property and equipment	800	3,500
Net cash provided for capital and related financing activities	1,294,223	2,020,254
Cash flows from investing activities:		
Loan originations and principal collections, net	(3,013,056)	(3,855,968)
Net change in restricted assets	(563,656)	(146,993)
Proceeds from sale of investments	-	869,000
Purchase of investments	-	(22,000)
Dividends received	145,968	187,418
Net cash used in investing activities	(3,430,744)	(2,968,543)
Net change in cash and cash equivalents	(277,609)	330,988
Cash and cash equivalents at beginning of year	386,349	55,361
Cash and cash equivalents at end of year	$ 108,740	$ 386,349
Cash flows from operating activities:		
Earnings (loss) from operations	$ (219,095)	$ 714,489
Adjustments to reconcile earnings (loss) from operations to net cash provided by operating activities:		
Provision for loan losses	1,461,201	14,987
Bad debts expense	62,344	195,124
Depreciation	270,682	258,831
Increase in assets:		
Receivables:		
Accrued interest	(38,192)	(52,657)
Other	(15,595)	(57,802)
Increase (decrease) in liabilities:		
Accrued interest payable	10,358	(11,140)
Accrued expenses	33,794	(61,485)
Deferred loan fees	(106,335)	21,911
Unearned premiums	(4,497)	50,759
Net cash provided by operating activities	$ 1,454,665	$ 1,073,017

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 require MIDB to maintain them permanently. At September 30, 2013 and 2012, 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 liabilities 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 total 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, 2013 and 2012, the carrying amounts of cash and cash equivalents and time certificates of deposit are $1,319,396 and $1,033,349, respectively, and the corresponding bank balances are $1,503,889 and $1,243,460, respectively. Of the bank balances, $583,305 and $643,272, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) 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 balances 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 fiscal year 2013, MIDB implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. 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. 61, *The Financial Reporting Entity: Omnibus,* which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity, and No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities. Management has recognized $106,335 in loan origination fees during the year ended September 30, 2013 previously recorded as deferred loan fees as a result of implementation of GASB Statement No. 65.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of MIDB.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and 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 provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of MIDB.

In January 2013, GASB issued 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 provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of MIDB.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements 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 and liabilities 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, 2013 and 2012 is as follows:

	2013	2012
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 14% of the outstanding shares of BOMI as of September 30, 2013 and 2012. 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 each of the years ended September 30, 2013 and 2012, dividend income earned from investees was $145,968 and $187,418, respectively.

(4) Loans Receivable

Loans receivable as of September 30, 2013 and 2012 are summarized as follows:

	2013	2012
Investment Development Fund	$ 1,159,422	$ 1,294,319
Compact Section 211	299,431	316,054
Republic of the Marshall Islands	32,462,829	29,315,810
Housing Preservation Grant	9,922	10,683
Gross loans	33,931,604	30,936,866
Less: net deferred loan fees	-	(106,335)
Less: unearned premiums	(269,330)	(273,827)
Less: allowance for loan losses	(13,091,000)	(11,648,117)
	$ 20,571,274	$ 18,908,587

An analysis of the change in the allowance for loan losses during the years ended September 30, 2013 and 2012 is as follows:

	2013	2012
Beginning balance	$ 11,648,117	$ 15,741,288
Provision for loan losses	1,447,235	-
Charge-offs	(4,352)	(4,093,171)
Ending balance	$ 13,091,000	$ 11,648,117

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2013 and 2012 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, 2013 and 2012 is summarized as follows:

	2013	2012
Republic of the Marshall Islands	$ 178,242	$ 130,716
Investment Development Fund	19,419	14,987
Gross accrued interest receivable	197,661	145,703
Less: allowance for doubtful interest	(46,430)	(32,664)
	$ 151,231	$ 113,039

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2013 and 2012 is as follows:

	2013	2012
Beginning balance	$ 32,664	$ 19,453
Provision for loan losses	13,966	14,987
Charge-offs	(200)	(1,776)
Ending balance	$ 46,430	$ 32,664

(6) Other Receivables

Other receivables as of September 30, 2013 and 2012, are as follows:

	2013	2012
Rental	$ 245,677	$ 306,368
Other	162,687	148,745
	408,364	455,113
Allowance for uncollectible accounts	(195,124)	(195,124)
	$ 213,240	$ 259,989

(7) Restricted Deposits

MIDB maintains a savings deposit as of September 30, 2013 and 2012 in the amount of $526,468 and $518,242, 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 time certificates of deposit as of September 30, 2013 and 2012 with an affiliated bank in the amount of $684,188 and $128,758, respectively, which is restricted to collateralize loans payable.

(8) Premises and Equipment

Capital asset activity during the years ended September 30, 2013 and 2012 is as follows:

	2013			
	October 1, 2012	Additions	Deletions/ Transfers	September 30, 2013
Building and houses	$ 2,541,900	$ 80,394	$ -	$ 2,622,294
Computer systems	244,947	6,134	-	251,081
Motor vehicles	211,656	20,386	(37,516)	194,526
Office furniture	58,024	-	-	58,024
Office equipment	389,183	7,189	-	396,372
	3,445,710	114,103	(37,516)	3,522,297
Less accumulated depreciation	(2,095,181)	(256,782)	37,516	(2,314,447)
	1,350,529	(142,679)	-	1,207,850
Construction in progress	104,893	73,591	(89,739)	88,745
	$ 1,455,422	$ (69,088)	$ (89,739)	$ 1,296,595

	2012			
	October 1, 2011	Additions	Deletions/ Transfers	September 30, 2012
Building and houses	$ 2,281,046	$ 260,854	$ -	$ 2,541,900
Computer systems	247,093	890	(3,036)	244,947
Motor vehicles	165,961	72,695	(27,000)	211,656
Office furniture	54,841	3,183	-	58,024
Office equipment	381,900	7,283	-	389,183
	3,130,841	344,905	(30,036)	3,445,710
Less accumulated depreciation	(1,878,617)	(244,931)	28,367	(2,095,181)
	1,252,224	99,974	(1,669)	1,350,529
Construction in progress	45,577	156,934	(97,618)	104,893
	$ 1,297,801	$ 256,908	$ (99,287)	$ 1,455,422

(9) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2013 and 2012 are summarized as follows:

	2013	2012
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, 2013 and 2012, the property is presented net of accumulated depreciation of $116,992 and $103,092, respectively. Depreciation expense of $13,900 was recognized during each of the years ended September 30, 2013 and 2012.

(11) Short-term Debt

On December 12, 2012, MIDB obtained a $95,000 loan from an affiliate bank with interest at 5% per annum and payable on November 30, 2013. The proceeds were used to fund the purchase of supplies, furniture and kitchenware. As of September 30, 2013, the amount outstanding and payable on this loan facility was $14,161.

Short-term debt changes during the year ended September 30, 2013 is as follows:

	Balance October 1,	Drawdowns	Repayment	Balance September 30,
Loan payable	$ -	$ 95,000	$ (80,839)	$ 14,161

(12) Long-term Debt

Long-term debt at September 30, 2013 and 2012 is as follows:

	2013	2012
Loan payable to the Mega International Commercial Bank (formerly the International Commercial Bank of China) in the amount of $5,000,000, dated August 6, 1999, interest at 5% per annum, due in semi-annual installments of $200,000 plus interest through August 6, 2014, uncollateralized.	$ 400,000	$ 800,000
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.	1,509,005	1,903,004
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.	805,164	987,091

(12) Long-term Debt, Continued

	2013	2012
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 receivables. Loan proceeds were used to fund a commercial loan to an affiliate.	2,353,143	-
	$ 5,067,312	$ 3,690,095

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

Year ending September 30,	Principal	Interest	Total
2014	$ 1,444,161	$ 251,405	$ 1,695,566
2015	1,104,870	175,446	1,280,316
2016	1,168,788	111,528	1,280,316
2017	975,112	45,808	1,020,920
2018	374,381	7,803	382,184
	$ 5,067,312	$ 591,990	$ 5,659,302

Long-term debt changes during the years ended September 30, 2013 and 2012 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2013:					
Notes payable	$ 3,690,095	$ 2,500,000	$ (1,122,783)	$ 5,067,312	$ 1,444,161
2012:					
Notes payable	$ 1,269,120	$ 3,000,000	$ (579,025)	$ 3,690,095	$ 963,700

(13) Related Party Transactions

As of September 30, 2013 and 2012, MIDB has deposits with a bank of $738,400 and $389,577, 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, 2013 and 2012 was $7,330 and $4,995, respectively.

As of September 30, 2013 and 2012, MIDB employees have loans outstanding of $858,749 and $764,670, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2013 and 2012, of $143,136 and $89,010, respectively. All loans were made at normal commercial terms and conditions.

(13) Related Party Transactions, Continued

As of September 30, 2013 and 2012, MIDB has an outstanding certificate of deposit, totaling \$1,877,054 and \$1,805,049, 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, 2013 and 2012, interest payable relating to this deposit amounted to \$29,621 and \$28,485, respectively, and is included within the statements of net position as accrued interest payable.

Movements in long-term liabilities during the years ended September 30, 2013 and 2012 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,
2013:				
RepMar deposit	\$ 1,805,049	\$ 72,005	\$ -	\$ 1,877,054
2012:				
RepMar deposit	\$ 1,739,989	\$ 69,600	\$ (4,540)	\$ 1,805,049

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, 2013 is \$2,500,000.

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. The amount outstanding as of September 30, 2013 and 2012 is \$24,973.

(14) 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.

(15) Commitments and Contingency

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 balances as of September 30, 2013 and 2012 of \$938,443 and \$1,064,224, respectively, were fully provided with an allowance for loan losses.

(15) Commitments and Contingency, Continued

Commitments, Continued

MIDB committed to guarantee certain loans recorded in the books of an affiliate bank, with principal balances totaling $39,107 and $63,407 as of September 30, 2013 and 2012, respectively.

Further, certain loans recorded in the books of USDA are subject to MIDB guarantee, the balance of which amounted to $10,379,126 and $10,638,147 as of September 30, 2013 and 2012, respectively. During the year ended September 30, 2013, MIDB made payments to USDA in the amount of $28,851 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,	
2014	$ 10,457
2015	10,554
2016	10,554
2017	10,554
2018	10,554
2019-2023	54,234
2024-2028	37,184
2029-2033	14,733
2034-2035	7,421
2039-2043	7,421
2044-2048	7,421
2049-2053	7,421
2054-2058	7,421
2059-2060	1,392
	$ 197,321

(15) Commitments and Contingency, Continued

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,	
2014	$ 194,080
2015	143,910
2016	46,360
2017	34,360
2018	30,360
2019-2023	151,800
2024-2028	151,800
2029-2030	65,780
	$ 818,450

Contingency

MIDB participates in a number of federally assisted programs from the U.S. Department of the Interior and the U.S. Department of Agriculture. These programs are subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. The United States Department of the Interior, Office of the Inspector General, in their audit report "Marshall Islands Development Bank, Republic of the Marshall Islands", dated August 1999, have identified loans funded under Sections 111 and 211 of the Compact (CFDA # 15.875) totaling $12,410,148, and loans converted to an equity interest in Air Marshall Islands, Inc. totaling $2,933,321, as questionable. The ultimate disposition of these questionable loans can be determined only by final action of the grantor agency. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements. If these loans are ultimately denied, MIDB could be charged for the necessary reimbursement to the grantor agency.

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

Combining Statement of Net Position
September 30, 2013

ASSETS	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Cash and cash equivalents	$ (197,598)	$ 279,581	$ 26,757	$ 108,740
Restricted cash	526,468	-	-	526,468
Restricted time certificates of deposit	684,188	-	-	684,188
Investments	366,748	-	-	366,748
Receivables, net:				
Loans	20,571,274	-	-	20,571,274
Accrued interest	151,231	-	-	151,231
Other	211,977	-	1,263	213,240
Capital assets:				
Nondepreciable capital assets	88,745	-	-	88,745
Depreciable capital assets, net	1,194,007	-	13,843	1,207,850
Investment property held for sale, net	22,008	-	-	22,008
	$ 23,619,048	$ 279,581	$ 41,863	$ 23,940,492
LIABILITIES AND NET POSITION				
Liabilities:				
Notes payable	$ 5,067,312	$ -	$ -	$ 5,067,312
Short-term debt	14,161	-	-	14,161
RepMar deposit	1,877,054	-	-	1,877,054
Accrued interest payable	32,732	-	-	32,732
Accrued expenses	227,933	-	31,800	259,733
Deposits pledged	1,183,281	-	-	1,183,281
Total liabilities	8,402,473	-	31,800	8,434,273
Net position:				
Net investment in capital assets	1,282,752	-	13,843	1,296,595
Restricted	-	279,581	-	279,581
Unrestricted	13,933,823	-	(3,780)	13,930,043
Total net position	15,216,575	279,581	10,063	15,506,219
	$ 23,619,048	$ 279,581	$ 41,863	$ 23,940,492

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, 2013

	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	$ 2,928,443	$ 15	$ -	$ 2,928,458
Rental income	289,247	-	-	289,247
Loan fees	267,640	-	-	267,640
Insurance premiums	197,599	-	-	197,599
Federal grants	-	-	114,724	114,724
Interest income on time certificates of deposit	7,330	-	-	7,330
Miscellaneous	62,618	761	-	63,379
Total operating revenues	3,752,877	776	114,724	3,868,377
Provision for loan losses	(1,461,201)	-	-	(1,461,201)
Net operating revenues	2,291,676	776	114,724	2,407,176
Operating expenses:				
Interest expense:				
Interest on deposits	75,379	-	-	75,379
Interest on loans payable	222,385	-	-	222,385
Total interest expense	297,764	-	-	297,764
General and administrative expenses:				
Salaries and employee benefits	964,376	-	85,237	1,049,613
Depreciation	262,349	-	8,333	270,682
Utilities	263,752	-	-	263,752
Insurance	90,879	-	30	90,909
Travel and training	80,247	-	4,500	84,747
Repairs and maintenance	79,651	-	4,038	83,689
Printing, stationery and advertising	66,684	-	-	66,684
Bad debts expense	62,344	-	-	62,344
Communications	51,139	-	330	51,469
Representation	49,047	-	-	49,047
Promotion and Donation	40,213	-	-	40,213
USDA loan guarantee	28,851	-	-	28,851
Office and house rental	27,000	-	-	27,000
Land lease	22,882	-	3,500	26,382
Fuel	17,308	-	6,385	23,693
Taxes and licenses	12,533	-	-	12,533
Professional fees	11,728	-	-	11,728
Miscellaneous	84,382	-	789	85,171
Total general and administrative expenses	2,215,365	-	113,142	2,328,507
Earnings from operations	(221,453)	776	1,582	(219,095)
Nonoperating revenues:				
Contributions from RepMar	148,800	-	-	148,800
Investment earnings	145,968	-	-	145,968
Other	800	-	-	800
Total nonoperating revenues	295,568	-	-	295,568
Change in net position	74,115	776	1,582	76,473
Net position at beginning of year	15,142,460	278,805	8,481	15,429,746
Net position at end of year	$ 15,216,575	$ 279,581	$ 10,063	$ 15,506,219

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 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, 2013, 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 29, 2014.

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 2013-1 and 2013-2 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2013-3 and 2013-4.

MIDB's Response to Findings

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

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 29, 2014

Finding No. 2013-1

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 75 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 to independently verify completeness of documents required by the policy before the loan can be approved; however, no completeness check were performed for thirteen newly boarded loans.

b. The Bank’s lending policy does not provide for a waiver of credit background checks; however, no background checks were performed for six loans.

c. Promissory notes and loan agreements should contain sufficient detail. The Bank does not include information such as the loan number for thirty-six loans granted. Additionally, safeguarding documents should be strengthened. For eleven loans, credit folders containing the promissory note, loan agreement, collateral documents and other loan-related information could not be located.

d. For nine loans, promissory note terms differed from that indicated in the loan system.

e. For nine commercial loans, financial statements or casualty insurance policies were not obtained.

f. The Bank's policy requires that approved salary allotment forms be executed for consumer loans secured through allotments. For three consumer loans, no allotments were obtained.

g. One loan, was not signed by the Managing Director.

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.

Prior Year Status: Similar issues on loan documentation have been reported as a finding in the audits of MIDB for fiscal years 2007 through 2012.

Auditee Response and Corrective Action Plan: Most of the findings pertain to the old loan folders with dates of 1999-2007 and most of the borrowers where delinquent borrowers and where provided with full reserves wherein the bank is in the process of reviewing and evaluating all these loans and looking on the possibility of charging off long outstanding loans. Currently, the bank’s operations strictly implement screening loan application using checklist form to determine completeness of the required documents before it will be forwarded to the Managing Director for approval. Scanning of loan files for proper safekeeping is required. Internal Audit Department was also created to review monthly reports especially loan documents.

Finding No. 2013-2

Significant Delay in the Accounting Records

Criteria: Transactions should be timely posted. Reconciliations of key accounts, including bank reconciliations, and review of such reconciliations, should be timely performed.

Condition: The Bank does not have established policies, procedures and controls in place to ensure the timely processing and posting of transactions, and the timely preparation and review of reconciliations. During the year ended September 30, 2013, various accounting records 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. Collections during 2013 were posted in November 19, 2013. As of December 20, 2013, payment recording and posting was completed for September 30, 2013 transactions. Consequently, reconciliation of outstanding loan system balances with the general ledger was not regularly performed (i.e., monthly).

- Bank reconciliations were prepared and were independently reviewed but this review did not timely occur. The September 30, 2013 reconciliations were completed in November 2013.

- Interest income postings to the general ledger are based on cash collections. The Bank adjusts accrued interest at the end of the year. Accrued interest receivable and interest income in the monthly financial statements is therefore not properly presented based on the accrual method of accounting.

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 on delay on accounting records were reported as a finding in the audits of MIDB for fiscal years 2011 and 2012.

Auditee Response and Corrective Action Plan: The accounting and loan people were gather to address this issue and was instructed to correct and resolve this repetitive finding. Reshuffle of employees was also implemented to help in the updating of books currently banks operation requires loan department to enter loans on a daily basis and any error shall be resolved immediately.

Finding No. 2013-3

Local Non-Noncompliance

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. 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.

Condition: RepMar requires that procurement actions for goods and services provide full and open competition and compliance with this provision should be appropriately documented in procurement files. We noted the following items where documentation in file was inadequate to evidence the procurement process:

Item Description	Amount	Comment
Volkswagen Sedan 2011 model	$19,500	Price quotations from vendors were not available
Ebeye building materials from Taiwan	$17,800	Price quotations from vendors were not available

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures to comply with RepMar's Procurement Requirements.

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

Recommendation: We recommend that management establish adequate internal control policies and procedures to conform to RepMar's Procurement Code.

Prior Year Status: The lack of compliance with RepMar's procurement Code was reported as a finding in the audits of MIDB for fiscal year 2012.

Auditee Response and Corrective Action Plan: The bank is religiously complying with the rules and regulations set forth by the Republic of the Marshall Islands. In which in every purchases made employee tends to call and compare prices among the local suppliers. However, the bank has tried going to the cheapest but in return it just give us double expenses for a not so good quality. The bank considers the best and qualified deals that could provide the quality that the bank's required.

Finding No. 2013-4

Loan agreement with International Commercial Bank of China

Criteria: In accordance with International Commercial Bank of China (ICBC) loan covenants, MIDB will not, without the prior written consent of ICBC, permit any obligation of, or loan, financing and credit available to MIDB to have any priority or to be entitled to any preferential arrangement, whether or not constituting a security agreement, in favor of any creditor or class of creditors, as to security, the payment of interest or repayment of principal or the right to receive income or revenue.

Conditions: MIDB obtained a bank loan and pledged collateral without prior ICBC written consent.

Cause: The cause of the above condition is the lack of adequate control policies and procedures requiring compliance with existing agreements.

Effect: The effect of the above condition is potential noncompliance with the criteria.

Recommendation: We recommend that management establish adequate internal control policies and procedures requiring compliance with contractual provisions.

Prior Year Status: The lack of compliance in the loan agreement with International Commercial Bank of China was reported as a finding in the audits of MIDB for fiscal year 2012.

Auditee Response and Corrective Action Plan: The bank is aware of its obligation with International Commercial Bank of China. In fact, from the start of the loan the bank hasn’t failed any single payment. The loan will mature on August 6, 2014 in which the bank faithfully complies with its responsibility towards it debt in terms of payment will it be in local or international bank.

Unresolved Prior Year Findings
Year Ended September 30, 2013

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 29 through 32) of this report.