MARSHALL ISLANDS DEVELOPMENT BANK

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marshall Islands Development Bank:

We have audited the accompanying statements of net assets of the Marshall Islands Development Bank (MIDB), a component unit of the Republic of the Marshall Islands, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of MIDB's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MIDB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Marshall Islands Development Bank as of September 30, 2008 and 2007, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of MIDB's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of MIDB taken as a whole. The accompanying Combining Statement of Net Assets and Combining Statement of Revenues, Expenses and Changes in Net Assets as of and for the year ended September 30, 2008 (pages 22 and 23) are presented for purposes of additional analysis and are not a required part of the basic financial statements of MIDB. This additional information is the responsibility of the management of MIDB. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements as of September 30, 2008 and for the year then ended and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte + Touche LLP

June 15, 2009

Fiscal year October 1, 2007 to September 30, 2008 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 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, 2008.

FINANCIAL HIGHLIGHTS

- MIDB's total net assets increased by $1.16M or 12.38% over the course of this year's operation. Net assets are funds from the RMI Government, the Housing Preservation Grant and the USDA Self-Help Housing Project, which increased collectively by $1.16M.

- Revenues virtually remained unchanged while expenses decreased by $0.31M. MIDB earned $2.89M during the fiscal year, $2.3M of which was generated through interest on loans. On the other hand, the Bank incurred various expenses for banking activities, broken down as $.30M for Operating Expenses, and $1.82M for General and Administrative Expenses. These expenses were funded by Interest Income on Loans and Other Income of $2.89M and by Contributions from RMI Government and other investment earnings of $0.40M.

ANALYSIS OF MIDB'S FINANCIAL STATUS

This analysis serves as an overview to MIDB's basic financial statements. A Summary of Statements of Net Assets is shown below that will give insight on the Bank's resources, liabilities and net assets, the Bank's priority investments and performance results compared to previous year. At the end of the fiscal year 2008, MIDB's assets of $16.7M exceeded liabilities of $6.1M by $10.6M. However, $1.64M or 15% of these net assets are 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 operation to provide services to the people and are assets that are not easily liquidated. As of September 30, 2008 Unrestricted Net Assets amounted to $8.93M, enough to repay all outstanding debts.

Summary of Statements of Net Assets

		2008	2007	2006
Assets:	Cash and cash equivalent	$ 33,995	$ 31,468	$ 2,385,783
	Restricted TCD	549,833	1,992,354	2,148,970
	Loan receivable, net	13,898,260	12,443,232	11,560,653
	Premises and equipment, net	1,363,674	1,584,215	1,704,584
	Other assets	840,928	1,020,797	1,236,531
	Total assets	$ 16,686,690	$ 17,072,066	$ 19,036,521
Liabilities:	Loan payable	$ 2,400,000	$ 2,800,000	$ 3,200,000
	RepMar deposit	2,064,511	3,736,218	5,669,213
	Other liabilities	1,654,612	1,132,525	1,582,113
	Total liabilities	6,119,123	7,668,743	10,451,326
Net Assets:	Invested in capital assets	1,363,674	1,584,215	1,704,584
	Restricted	273,783	273,336	262,236
	Unrestricted	8,930,110	7,545,772	6,618,375
	Total net assets	$ 10,567,567	$ 9,403,323	$ 8,585,195

- Loan approvals for the year were approximately $14.22M, broken down by projects, $13.42M released under various consumer loans, $0.33M granted to housing loans, $60K to joint USDA-MIDB loans and $0.28M to business loans. Loans Receivable, Net increased by $1.46M in 2008 compared with an increase of $0.88M in 2007. Loans released increased from $9.73M to $14.22M during the fiscal year 2007 to 2008, respectively.

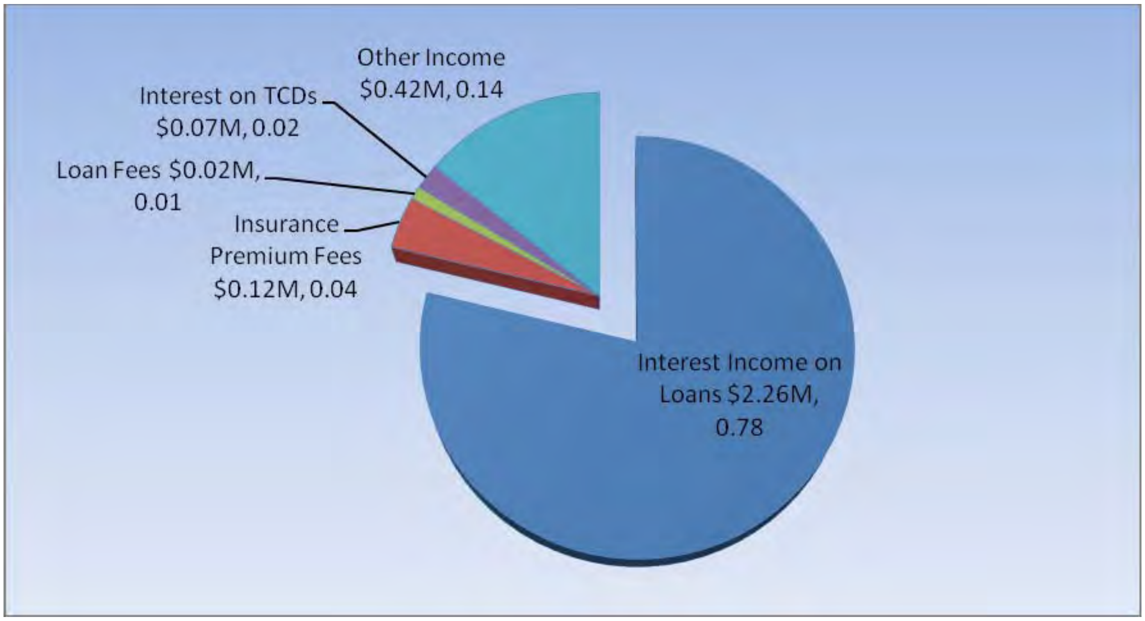
- The Government of the Marshall Islands invested $7M in Time Certificates of Deposit at the rate of 4% on May 9, 2003, maturing May 8, 2018. The money received from such TCD Payable was used to finance loans granted to RRE and PMI. RMI Government made withdrawals, net of deposits, during fiscal years 2007 and 2008 to finance some governmental operations and obligations.

- MIDB continuously liquidates its long-term loan with International Commercial Bank of China (ICBC) by paying $0.4M on principal every year. The loan with ICBC amounting to $5M was granted on August 6, 1999 with an interest rate of 5% per annum, maturing on August 6, 2014, and no collateral or security was provided. As of September 30, 2008, outstanding principal on the ICBC loan was $2.4M.

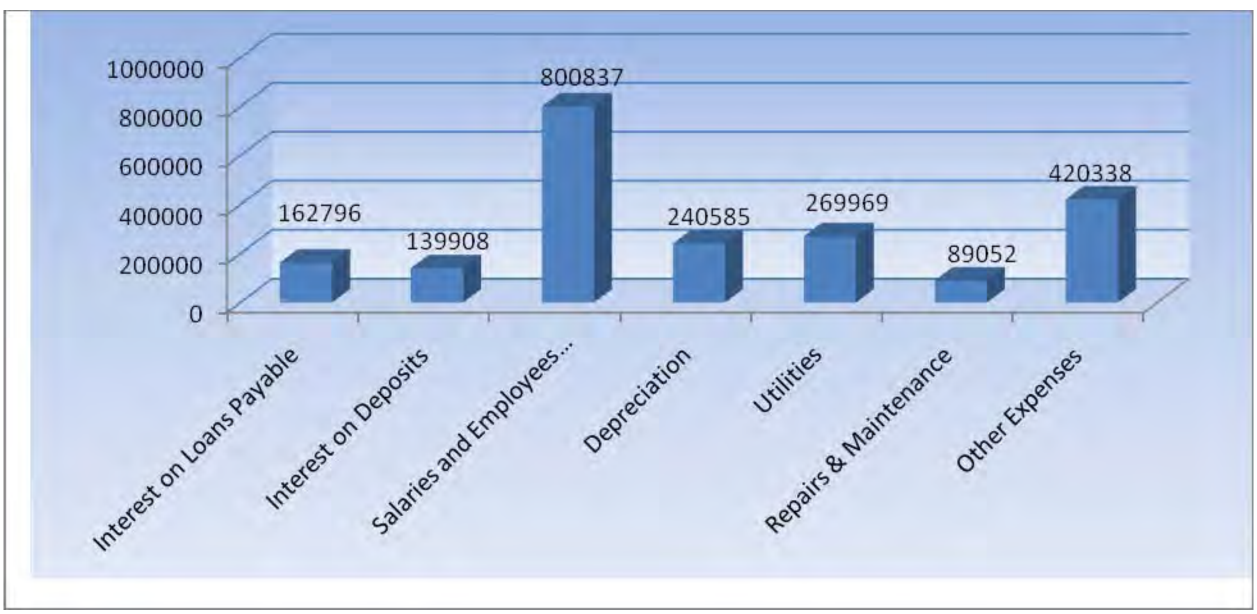
Summary of Statements of Revenues, Expenses and Changes in Net Assets

	2008	2007	2006
Operating revenues	$ 2,885,887	$ 2,873,953	$ 2,861,582
Less: expenses			
Provision for loan losses	-	276,599	842,443
Operating expenses	302,704	352,160	500,243
General and administrative expenses	1,820,781	1,811,870	1,656,222
Earnings (loss) from operations	762,402	433,324	(137,326)
Non-operating revenues	401,842	384,804	466,566
Increase in net assets	1,164,244	818,128	329,240
Net assets at beginning of year	9,403,323	8,585,195	8,255,955
Net assets at end of year	$ 10,567,567	$ 9,403,323	$ 8,585,195

- The Bank's total revenues (excluding Non-operating Revenues) virtually remained unchanged comparing the fiscal years ended September 30, 2008 and September 30, 2007. About 82% of the Bank's revenue comes from Interest Income on Loans, 74% and 17% of which are generated earnings from consumer loans and business loans, respectively. Please see the chart below depicting the distribution of the Bank's revenue.



- The total cost incurred decreased compared from last year's operation. The Bank's expenses cover a range of operating, general and administrative expenses, and $0.28M or 0.40% and 11% of Total Expenses on fiscal years ended September 30, 2008 and September 30, 2007, respectively. Provision for delinquent loan accounts is provided based on the Bank's reasonable estimate, where in the number of days an account is due, the amount of loan outstanding balance, and the borrower's capability to pay play a vital information in the computation of additional allowance to be provided. The graph below will show itemized expenses and will give an over-all picture of the Bank's spending activities.



- Operating Expenses decreased by $56K during the fiscal year ended September 30, 2008 compared to the fiscal year ended September 30, 2007 due to a decrease in interest on loans payable. This pertains to interest payments and accruals for the International Commercial Bank of China (ICBC) loan, which decreased by $0.40M. Operating expenses pertain to Interest on Loans Payable and Interest on Deposits. Interest on Deposits are interest expenses paid and accrued on the RepMar TCD and various savings accounts. The RepMar TCD substantially decreased by $1.67M or 45%, from $3.74M to $2.06M, due to withdrawal and payment of an AMI loan facilitated by the RepMar TCD.

- General and administrative expenses on the aggregate increased by $74K or 5% from last year's operation due to increasing employee pay and benefits, prices of commodities and fuel. Salaries and employee benefit, repairs and maintenance, utilities and insurance are the major contributory factors to the increase in general and administrative expenses. Utility expenses increased by $17K or 7% due to an increase in consumption of electricity and water supply while repair and maintenance increased by $29K due to elevator repairs.

Capital Assets and Debt

No significant capital asset activity occurred during 2008. For additional information concerning capital assets, please refer to Note 7 to the financial statements. For additional information concerning debt, please refer to Notes 10 and 11 to the financial statements.

Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the Bank's report on the audit of financial statements, which is dated June 30, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements and can be obtained from the Bank's Managing Director at rmimidb@ntamar.net.

ECONOMIC OUTLOOK

In the next years to come, the Bank is expecting growth in the demand for housing loans and commercial loans, the latter being the major component of MIDB's loan portfolio. The Bank 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. This project nears accomplishment in May 2009 and the Bank shall continue with this joint venture.

The Bank is currently dependent on investments from RMI Government and its income from new loans. The net assets are just sufficient to pay for the Bank's outstanding debts. The Bank may have to look for other sources of funds to maintain the current portfolio and the rising demand for loans.

As more opportunities for work are available outside RMI, cost of living continues to rise and the prevalent economic crisis, the Management is expecting that some borrowers may not be able to comply with their commitments to the Bank, thereby resulting to increased delinquent loans and decreased income.

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

Statements of Net Assets
September 30, 2008 and 2007

ASSETS	2008	2007
Cash and cash equivalents	$ 33,995	$ 31,468
Restricted time certificates of deposit	549,833	1,992,354
Investments	423,748	423,748
Receivables:		
Loans, net	13,898,260	12,443,232
Accrued interest, net	76,925	47,719
Other	146,664	306,839
Premises and equipment, net	1,363,674	1,584,215
Foreclosed assets, net	102,083	137,083
Investment property held for sale, net	91,508	105,408
	$ 16,686,690	$ 17,072,066

LIABILITIES AND NET ASSETS	2008	2007
Liabilities:		
Note payable	$ 2,400,000	$ 2,800,000
Short-term debt	630,118	62,944
RepMar deposit	2,064,511	3,736,218
Accrued interest payable	78,142	157,803
Accrued expenses	211,421	248,534
Deposits pledged	734,931	663,244
Total liabilities	6,119,123	7,668,743
Commitments and contingency		
Net assets:		
Invested in capital assets	1,363,674	1,584,215
Restricted	273,783	273,336
Unrestricted	8,930,110	7,545,772
Total net assets	10,567,567	9,403,323
	$ 16,686,690	$ 17,072,066

See accompanying notes to financial statements.

MARSHALL ISLANDS DEVELOPMENT BANK
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Statements of Revenues, Expenses and Changes in Net Assets
September 30, 2008 and 2007

	2008	2007
Operating revenues:		
Interest income on loans	$ 2,263,381	$ 1,977,103
Interest income on time certificates of deposit	71,304	170,718
Federal grants	74,149	153,565
Insurance premiums	116,725	150,582
Loan fees	18,434	73,185
Other	341,894	348,800
Total operating revenues	2,885,887	2,873,953
Provision for loan losses	-	276,599
Operating expenses:		
Interest expense:		
Interest on deposits	139,908	184,836
Interest on loans payable	162,796	167,324
Total interest expense	302,704	352,160
General and administrative expenses:		
Salaries and employee benefits	800,837	830,234
Utilities	269,969	249,694
Depreciation	240,585	252,474
Repairs and maintenance	89,052	60,066
Travel and training	76,538	63,568
Insurance	60,101	38,863
Printing, stationery and advertising	45,546	45,760
Foreclosed assets, net	35,000	35,000
Office and house rental	33,200	49,200
Communications	28,007	30,437
Professional fees	24,975	63,364
Taxes and licenses	265	674
Miscellaneous	116,706	92,536
Total general and administrative expenses	1,820,781	1,811,870
Operating income	762,402	433,324
Nonoperating revenues:		
Contributions from RepMar	248,500	248,500
Investment earnings	153,342	136,304
Total nonoperating revenues	401,842	384,804
Change in net assets	1,164,244	818,128
Net assets at beginning of year	9,403,323	8,585,195
Net assets at end of year	$ 10,567,567	$ 9,403,323

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, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers	$ 2,738,135	$ 2,656,758
Cash payments to suppliers for goods and services	(676,490)	(713,109)
Cash payments to employees for services	(792,072)	(851,490)
Interest received on time certificates of deposit	76,330	151,029
Interest paid	(382,365)	(396,424)
Operating grants received	107,754	98,533
Net cash provided by operating activities	1,071,292	945,297
Cash flows from noncapital financing activities:		
Net borrowings under loan arrangement	567,174	62,944
Net change in RepMar deposit	(669,090)	(1,932,995)
Net change in pledged deposits	71,687	(336,982)
Contributions from RepMar	248,500	248,500
Net cash provided by (used in) noncapital financing activities	218,271	(1,958,533)
Cash flows from capital and related financing activities:		
Principal repayment of long-term debt	(400,000)	(400,000)
Additions to equipment	(6,144)	(118,205)
Net cash used in capital and related financing activities	(406,144)	(518,205)
Cash flows from investing activities:		
Loan originations and principal collections, net	(1,484,234)	(1,159,178)
Withdrawal from time certificate of deposit	450,000	200,000
Dividends received	153,342	136,304
Net cash used in investing activities	(880,892)	(822,874)
Net change in cash and cash equivalents	2,527	(2,354,315)
Cash and cash equivalents at beginning of year	31,468	2,385,783
Cash and cash equivalents at end of year	$ 33,995	$ 31,468
Cash flows from operating activities:		
Operating income	$ 762,402	$ 433,324
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Provision for loan losses	-	276,599
Depreciation	240,585	252,474
Provision for losses on foreclosed asset	35,000	35,000
Decrease (increase) in assets:		
Receivables:		
Accrued interest	(79,661)	138,713
Other	160,175	28,121
Decrease in liabilities:		
Accrued expenses	(37,113)	(175,550)
Net cash provided by operating activities	$ 1,081,388	$ 988,681

Supplemental disclosure of non-cash financing activity:

In December 31, 2007, MIDB's time certificate of deposit in the amount of $1,002,617 maintained with an affiliate bank as collateral for the outstanding loan of an investee company was utilized to pay off the loan.

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.

(2) Summary of Significant Accounting Policies

The accounting policies of MIDB conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statements No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. MIDB has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The preparation of MIDB's financial statements conforms to general practices within the banking industry, which includes the presentation of an unclassified statement of net assets.

GASB issued 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*. These statements 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, retained earnings are presented in the following net assets categories:

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

- Restricted: Nonexpendable - Net assets subject to externally imposed stipulations that require MIDB to maintain them permanently. At September 30, 2008 and 2007, MIDB does not have nonexpendable net assets. Expendable - Net assets 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.

(2) Summary of Significant Accounting Policies, Continued

- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets 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.

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 assets. Proprietary fund operating statements present increases and decreases in net total assets. 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 assets 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.

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by MIDB or its agent in MIDB's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in MIDB's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in MIDB's name and non-collateralized deposits.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. 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, 2008 and 2007, the carrying amounts of cash and cash equivalents and time certificates of deposit are $583,828 and $2,023,822 respectively, and the corresponding bank balances are $691,480 and $2,168,301, respectively. Of the bank balances, $22,103 and $22,251, 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.

Investments

Investments in companies that exceed 20% and which MIDB exercises significant influence over are accounted for using the equity method.

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, any deferred fees or cost on originated loans, and unearned insurance premiums. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding. Loan origination fees are deferred and recognized as an adjustment of the related loan yield using the straight-line method over the contractual life of the loans. Direct loan origination costs are expensed as incurred. Differences between this method and the method prescribed by Statement of Financial Accounting Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, are not significant and do not otherwise materially affect the accompanying financial statements. 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 collectibility 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.

(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 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.

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	10 - 15 years
Trailers and mobile houses	5 years
Computer systems	5 years
Motor vehicles	3 years
Office furniture	5 years
Office equipment	5 years

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 2008, MIDB implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments and GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing, and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the MIDB.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments – financial arrangements used by governments to manage specific risks or make investments – in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

Estimates

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

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by the Bank or its agent in MIDB's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in MIDB's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in MIDB's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

A summary of MIDB's investments as of September 30, 2008 and 2007 is as follows:

	2008	2007
Bank of Marshall Islands	$ 393,748	$ 393,748
Marshall Islands Service Corporation	30,000	30,000
Air Marshall Islands, Inc.	-	-
	$ 423,748	$ 423,748

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 16% of the outstanding shares of BOMI as of September 30, 2008 and 2007. During the years ended September 30, 2008 and 2007, dividend income earned from BOMI amounted to $153,342 and $136,304, respectively. 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.

On December 23, 1994, MIDB accepted an offer from Air Marshall Islands, Inc. (AMI) to convert loans and interest receivables to an equity interest. The equity interest comprises approximately 30% of the outstanding shares of AMI and is considered fully impaired as of September 30, 2008 and 2007.

(4) Loans Receivable

Loans receivable as of September 30, 2008 and 2007 are summarized as follows:

	2008	2007
Investment Development Fund	$ 4,211,026	$ 4,213,648
Compact Section 211	1,075,906	1,126,903
Republic of the Marshall Islands	23,952,349	22,445,955
Housing Preservation Grant	13,554	14,059
Gross loans	29,252,835	27,800,565
Less: net deferred loan fees	(68,264)	(52,113)
Less: unearned premiums	(163,047)	(112,439)
Less: allowance for loan losses	(15,123,264)	(15,192,781)
	$ 13,898,260	$ 12,443,232

An analysis of the change in the allowance for loan losses during the years ended September 30, 2008 and 2007 is as follows:

	2008	2007
Beginning balance	$ 15,192,781	$ 14,916,489
Provision for loan losses	-	276,599
Charge-offs	(69,517)	(307)
Ending balance	$ 15,123,264	$ 15,192,781

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2008 and 2007 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 the Bank and the borrower's employer. All loans are at fixed rates ranging from 5.5% - 6.5% for Investment Development Fund loans, 4% - 6.5% for Compact Section 211 loans, 4% -12% for Republic of Marshall Islands loans, and 2%-6% for Housing Preservation Grant loans.

(5) Accrued Interest Receivable

Accrued interest receivable as of September 30, 2008 and 2007 is summarized as follows:

	2008	2007
Compact Section 211	$ 889	$ 320
Republic of the Marshall Islands	84,224	62,107
	85,113	62,427
Less: allowance for doubtful interest	(8,188)	(14,708)
	$ 76,925	$ 47,719

(5) Accrued Interest Receivable, Continued

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2008 and 2007 is as follows:

	2008	2007
Beginning balance	$ 14,708	$ 4,314,730
Charge-offs	(6,520)	(4,300,022)
Ending balance	$ 8,188	$ 14,708

(6) Restricted Time Certificates of Deposit

MIDB has time certificates of deposit as of September 30, 2008 and 2007 in the amount of $517,743 and $501,065, respectively, with an affiliate bank that are 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 has a time certificate of deposit as of September 30, 2008 and 2007 in the amount of $0 and $1,000,844, respectively, with an affiliate bank that is restricted to collateralize outstanding loans of an investee company with the Bank. On August 24, 2007, the investee company refinanced the loan with the affiliate bank. At September 30, 2007, the principal of the loan amounted to $1,000,000 with interest at 8.5% per annum, maturing in August 2011. In December 2007, MIDB's time certificate of deposit was utilized to pay off the outstanding loans of an investee company with the affiliate bank.

In addition, MIDB has a time certificate of deposit as of September 30, 2008 and 2007 in the amount of $32,090 and $490,445, respectively, with an affiliate bank that is restricted to collateralize outstanding loans issued by an affiliate bank from May 2006 to December 2006. At September 30, 2008 and 2007, these loans amounted to $52,114 and $67,913, respectively.

(7) Premises and Equipment

Capital asset activity during the years ended September 30, 2008 and 2007 is as follows:

	2008			
	October 1, 2007	Additions	Retirements	September 30, 2008
Building and houses	$ 1,911,480	$ -	$ -	$ 1,911,480
Computer systems	195,588	5,879	-	201,467
Motor vehicles	122,516	-	-	122,516
Office furniture	59,546	265	-	59,811
Office equipment	295,687	-	-	295,687
	2,584,817	6,144	-	2,590,961
Less accumulated depreciation	(1,000,602)	(226,685)	-	(1,227,287)
	$ 1,584,215	$ (220,541)	$ -	$ 1,363,674

(7) Premises and Equipment, Continued

	2007			
	October 1, 2006	Additions	Retirements	September 30, 2007
Building and houses	$ 1,901,503	$ 9,977	$ -	$ 1,911,480
Computer systems	179,527	16,061	-	195,588
Motor vehicles	107,197	41,000	(25,680)	122,516
Office furniture	58,849	697	-	59,546
Office equipment	245,216	50,470	-	295,687
	2,492,292	118,205	(25,680)	2,584,817
Less accumulated depreciation	(787,708)	(238,574)	25,680	(1,000,602)
	$ 1,704,584	$ (120,369)	$ -	$ 1,584,215

(8) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2008 and 2007 are summarized as follows:

	2008	2007
Foreclosed assets	$ 350,000	$ 350,000
Allowance for losses	(247,917)	(212,917)
	$ 102,083	$ 137,083

An analysis of the allowance for losses on foreclosed assets for the years ended September 30, 2008 and 2007 is as follows:

	2008	2007
Balance at beginning of year	$ 212,917	$ 177,917
Provision for losses	35,000	35,000
Balance at end of year	$ 247,917	$ 212,917

(9) 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, 2008 and 2007, the property is presented net of accumulated depreciation of $47,492 and $33,592 respectively. Depreciation expense of $13,900 was recognized during the years ended September 30, 2008 and 2007.

(10) Short-Term Debt

On March 16, 2007, MIDB obtained a loan from affiliate bank in the amount of $606,000, with interest of 7.5% per annum, and payable on September 30, 2007.

(10) Short-Term Debt, Continued

In June 2008, MIDB obtained another loan from an affiliate bank in the amount of $1,000,000, with interest at 9.5% per annum, and payable on June 05, 2008. Both loans were used to fund partial withdrawals by RepMar from its certificate of deposit with MIDB. As of September 30, 2008 and 2007, the amount outstanding and payable on this loan facility was $630,118 and $62,944, respectively.

Short-term debt changes during the years ended September 30, 2008 and 2007 are as follows:

	Balance October 31,	Drawdowns	Repayment	Balance September 30,
2008:				
Loan payable	$ 62,944	$ 1,000,000	$ (432,826)	$ 630,118
2007:				
Loan payable	$ -	$ 606,000	$ (543,056)	$ 62,944

(11) Note Payable

On August 6, 1999, MIDB entered into a loan agreement with the International Commercial Bank of China in the amount of $5,000,000, due August 6, 2014, for the purpose of funding private enterprise purchase of transportation ships. The loan is uncollateralized, bears interest at 5% per annum, with interest due semi-annually commencing March 6, 2000. Repayment of principal commenced August 6, 2002 in semi-annual installments of $200,000. As of September 30, 2008 and 2007, the amount outstanding and payable under this loan agreement was $2,400,000 and $2,800,000, respectively.

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

Year ending September 30,	Principal	Interest	Total
2009	$ 400,000	$ 116,639	$ 516,639
2010	400,000	96,361	496,361
2011	400,000	69,044	469,044
2012	400,000	55,944	455,944
2013	400,000	35,042	435,042
2014	400,000	15,250	415,250
	$ 2,400,000	$ 388,280	$ 2,788,280

Long-term debt changes during the years ended September 30, 2008 and 2007 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2008:					
Loan payable	$ 2,800,000	$ -	$ (400,000)	$ 2,400,000	$ 400,000
2007:					
Loan payable	$ 3,200,000	$ -	$ (400,000)	$ 2,800,000	$ 400,000

(12) Related Party Transactions

As of September 30, 2008 and 2007, MIDB has deposits with a bank of $669,377 and $2,146,050, respectively, in which MIDB has an equity investment. The deposits accrue interest at rates of 1% to 5% per annum. Interest earned for the years ended September 30, 2008 and 2007 was $71,304 and $170,718, respectively. Bank charges incurred for the years ended September 30, 2008 and 2007 in connection with overdraft facilities amounted to $1,360 and $8,041, respectively.

MIDB is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands Development Authority. As of September 30, 2008 and 2007, MIDB has loans outstanding with affiliated entities of $185,000. These loans are fully provided for in the allowance for loan losses. All loans were made at normal commercial terms and conditions.

As of September 30, 2008 and 2007, MIDB employees have loans outstanding of $763,068 and $945,412, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2008 and 2007, of $149,578 and $158,190, respectively. All loans were made at normal commercial terms and conditions.

As of September 30, 2008 and 2007, MIDB has an outstanding certificate of deposit, totaling $2,064,511 and $3,736,218, 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, 2008 and 2007, interest payable relating to this deposit amounted to $39,781 and $55,804, respectively, and is included within the statements of net assets as accrued interest payable.

On August 7, 2000, MIDB entered into an 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, 2008 and 2007 is $24,973.

(13) Risk Management

MIDB is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. MIDB has elected to purchase commercial automobile insurance and fire, lightning and typhoon insurance covering office contents from independent third parties for the risks of losses to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. MIDB does not maintain general liability insurance and fire, lightning and typhoon insurance for its office building and properties. In the event of an insurable loss, MIDB may be self-insured to a material extent.

(14) Commitments and Contingency

Commitments

On April 12, 1999, MIDB entered into an agreement to manage the entertainment complex 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. In return, MIDB receives a management fee of $12,000 per year. The term of the agreement is for as long as is required to bring the loan current. As of September 30, 2008, the customer’s balance was $1,599,745 which is fully provided for in the allowance for loan losses.

(14) Commitments and Contingency, Continued

Commitments, Continued

MIDB committed to guarantee certain loans recorded in the books of an affiliate bank, with principal balances totaling $52,114 and $67,913 as of September 30, 2008 and 2007, respectively. Further, certain loans recorded in the books of USDA are subject to MIDB guarantee, the balance of which amounted to $8,942,918 and $5,016,270 as of September 30, 2008 and 2007, respectively.

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.

Future minimum lease payments under these leases are as follows:

Year ending September 30,	
2009	$ 8,583
2010	8,680
2011	8,680
2012	8,680
2013	8,680
2014-2018	45,253
2019-2023	44,203
2024-2028	29,153
2029	1,463
	$ 163,375

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 Assets
September 30, 2008

ASSETS	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Cash and cash equivalents	$ (236,185)	$ 274,641	$ (4,461)	$ 33,995
Restricted time certificates of deposit	549,833	-	-	549,833
Investments	423,748	-	-	423,748
Receivables:				
Loans, net	13,898,765	(505)	-	13,898,260
Accrued interest, net	77,278	(353)	-	76,925
Other	117,069	-	29,595	146,664
Premises and equipment, net	1,363,674	-	-	1,363,674
Foreclosed assets, net	102,083	-	-	102,083
Investment property held for sale, net	91,508	-	-	91,508
	$ 16,387,773	$ 273,783	$ 25,134	$ 16,686,690

LIABILITIES AND NET ASSETS	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Liabilities:				
Note payable	$ 2,400,000	$ -	$ -	$ 2,400,000
Short-term debt	630,118	-	-	630,118
RepMar deposit	2,064,511	-	-	2,064,511
Accrued interest payable	78,142	-	-	78,142
Accrued expenses	206,479	-	4,942	211,421
Deposits pledged	734,931	-	-	734,931
Total liabilities	6,114,181	-	4,942	6,119,123
Net assets:				
Invested in capital assets	1,363,674	-	-	1,363,674
Restricted	-	273,783	-	273,783
Unrestricted	8,909,918	-	20,192	8,930,110
Total net assets	10,273,592	273,783	20,192	10,567,567
	$ 16,387,773	$ 273,783	$ 25,134	$ 16,686,690

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 Assets
September 30, 2008

	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	$ 2,262,404	$ 977	$ -	2,263,381
Interest income on time certificates of deposit	71,187	-	117	71,304
Federal grants	-	-	74,149	74,149
Insurance premiums	116,725	-	-	116,725
Loan fees	18,434	-	-	18,434
Other	341,894	-	-	341,894
Total operating revenues	2,810,644	977	74,266	2,885,887
Operating expenses:				
Interest expense:				
Interest on deposits	139,908	-	-	139,908
Interest on loans payable	162,796	-	-	162,796
Total interest expense	302,704	-	-	302,704
General and administrative expenses:				
Salaries and employee benefits	724,307	-	76,530	800,837
Utilities	269,969	-	-	269,969
Depreciation	240,585	-	-	240,585
Repairs and maintenance	88,514	-	538	89,052
Travel and training	76,538	-	-	76,538
Insurance	56,803	-	3,298	60,101
Printing, stationery and advertising	45,546	-	-	45,546
Foreclosed assets, net	35,000	-	-	35,000
Office and house rental	33,200	-	-	33,200
Communications	28,007	-	-	28,007
Professional fees	24,975	-	-	24,975
Taxes and licenses	265	-	-	265
Miscellaneous	109,611	-	7,095	116,706
Total general and administrative expenses	1,733,320	-	87,461	1,820,781
Operating income (loss)	774,620	977	(13,195)	762,402
Nonoperating revenues:				
Contributions from RepMar	248,500	-	-	248,500
Investment earnings	153,342	-	-	153,342
Total nonoperating revenues	401,842	-	-	401,842
Change in net assets	1,176,462	977	(13,195)	1,164,244
Net assets at beginning of year	9,097,130	272,806	33,387	9,403,323
Net assets at end of year	$ 10,273,592	$ 273,783	$ 20,192	$ 10,567,567

See accompanying independent auditors' report.

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

The Board of Directors
Marshall Islands Development Bank:

We have audited the financial statements of the Marshall Islands Development Bank (MIDB), as of and for the year ended September 30, 2008, and have issued our report thereon dated June 15, 2009. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MIDB's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MIDB's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (pages 26 through 29) as items 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted other matters that we reported to management of MIDB in a separate letter dated June 15, 2009.

MIDB’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit MIDB's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

June 15, 2009

Finding No. 2008-01 – Segregation of Duties

Criteria: A functioning system of internal control provides for adequate segregation of duties.

Conditions:

a. The Chief Financial Officer (CFO) is a check signatory and also posts disbursement entries to the general ledger.

b. The MIS Manager performs functions such as payroll register review and posts loan entries in the absence of the CFO.

Cause: The cause may be a lack of consideration of the criteria.

Effect: Incompatible functions exist which may result in a potential fraud risk.

Recommendation: We recommend that management revisit its organization structure to assist in ensuring that incompatible duties are not assigned.

Auditee Response and Corrective Action Plan:

a. The Chief Finance Officer will no longer be an authorized signatory for MIDB bank accounts with BOMI and BOG effective June 22, 2009.

b. Management shall ensure that incompatible duties are not assigned.

Finding No. 2008-02 – Loans Receivable

Criteria: Loan files and attendant recalculations should support the validity of underlying loan balances and calculations.

Conditions:

(a) Loan Origination Procedures

Procedures performed on loans originated during fiscal year 2008 revealed the following documentation matters:

(1) Borrower: Loan No. 32874

- Loan files and attendant recalculations were not provided.

(2) Borrower: Loan No. 34171

- No application form, verification of employment, credit check, loan action sheet, security documents, insurance policy and business plans.

(3) Borrower: Loan No. 33433

- No loan action sheet and insurance policy on file.
- Loan exceeds the $30,000 limit.
- Repayment term exceed the allowed 15 years.

(4) Borrower: Loan No. 31799

- No insurance policy was on file.

(b) Other Loan Documentation Deficiencies

Borrower: Loan No. 33339 and 20716

- No loan agreement and promissory note were provided.

(c) Posting of Data in the Loan System

(1) Borrower: Loan No. 39631
Loan Amount: $12,500

Loan file indicates that the loan open date is August 6, 2004; however, per the loan system, the loan was opened on June 1, 2005.

(2) Borrower: Loan No. 29516
Loan Amount: $16,869

Amended loan agreement indicated an interest rate of 6.5% compared to 8.5% per the loan system.

Finding No. 2008-02 – Loans Receivable, Continued

(c) Posting of Data in the Loan System, Continued

(3) Borrower: Loan No. 30230
Loan Amount: $4,287

Loan amount per agreement is $5,917. However, total amount borrowed per loan system was $6,367. Further, loan agreement terms do not agree with the promissory note.

(4) Borrower: Loan No. 30203
Loan Amount: $55,148

Loan system showed that no payment was made since March 4, 2008. However, system indicated that the loan is current and is only 55 days past due.

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

Effect: The effect of the above is noncompliance with the criteria and potential errors in the loan portfolio balances and in the financial statements.

Recommendation: We recommend that the above conditions be addressed and be resolved and that formal corrective action plans be established to resolve the above matters.

Prior Year Status: Certain items and above-related matters have been reported as a finding in the audit of MIDB for fiscal year 2007.

Auditee Response and Corrective Action Plan:

(a) 1. Loan 32874 – New documents will be executed to replace the documents. Borrower is aware of this as he had signed the Request for Drawdown.

2. Loan 34171 – Security requirements on this particular loan were waived as per minutes of the Board held on June 24, 2008. As for other files, we will try to locate them.

3. Loan 33433 – There is an action sheet on file. This is RMI funded loan and does not require insurance. The borrower is responsible for its own insurance. As for the amount of loan limit, at the time this loan was approved the maximum amount for MIDB's housing loan program was $75,000, and the term was increased to twenty (20) years. Currently, maximum loanable is at $100,000.

4. Loan 31799 – This is a partnership loan whereby 80% of the total loan comes from Rural Development (RD) and the other 20% from MIDB. The insurance policy is with RD. If necessary, we will maintain a copy in our file.

(b) 1. Loan 33339 – Documents were misplaced, however there are other documents, such as Request for Drawdown and the copy of borrower's check, that the borrower had signed as proof that the loan was made. The borrower is off island at the moment and as soon as she has returned our staff will ask her to sign the new documents.

Finding No. 2008-02 – Loans Receivable, Continued

Auditee Response and Corrective Action Plan, Continued:

2. Loan 20716 – Documents were misplaced, again there are other documents the borrower had signed. The loan has already been paid in full.

(c)

1. Loan 39631 – This is one of those partnership loans with RD. The RD loan was approved on June 1, 2004 but construction started only in February 1, 2005. MIDB's 20% was approved on August 26, 2004. Our payment to Contractor shall start when RD has fully exhausted their funds. For this loan, our payment to Contractor started in June 1, 2005. This is the same day of our loan release or note opening.

2. Loan 29516 – The Borrower was a former MIDB board member, as such lower interest was applied. When he became one of the members of the Parliament, the interest rate was adjusted. Management will document approval on any changes for all loans.

3. Loan 30230 – The correct amount is $6,367 and the loan agreement will be adjusted to reflect the correct amount and terms.

4. Loan 30203 – Management shall have the existing loan system reviewed by the programmer for the cited difference. We have contacted the borrower to update their account. The borrower is reluctant to make payments since the Contractor is still working on the house to correct some problems. MIDB is still holding on to 10% of the total contract until the project is completed.

Unresolved Prior Year Findings
Year Ended September 30, 2008

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 26 through 29) of this report.