MARSHALL ISLANDS DEVELOPMENT BANK

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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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

Years Ended September 30, 2009 and 2008
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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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 (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, 2009 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 September 30, 2010, 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

September 30, 2010

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

Management's Discussion and Analysis
Year Ended September 30, 2009

Fiscal year October 1, 2008 to September 30, 2009 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, 2009.

FINANCIAL HIGHLIGHTS

- MIDB's total net assets increased by $1.14M or 11% 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 $1.14M.

- Revenues virtually remain unchanged while Expenses increased by $0.12M or 5%. MIDB earned $2.97M during the fiscal year, $2.30M of which was generated through Interest on loans. On the other hand, the Bank incurred various expenses for banking activities, broken down as $0.26M for Interest Expense, and $1.98M for General and Administrative Expenses. Other expense such as Probable Loan Loss amounting $0.07M was also provided. These expenses were funded by Interest Income on Loans and Other Income of $3.04M 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 2009, MIDB's assets of $17.67M exceeded liabilities of $5.97M by $11.70M. However, $1.51M or 13% 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, 2009 Unrestricted Net Assets amounted to $10.20M, enough to repay all outstanding debts.

Summary of Statements of Net Assets

		2009	2008	2007
Assets:	Cash and Cash Equivalent	$ 17,179	$ 33,995	$ 31,468
	Restricted TCD	548,492	549,833	1,992,354
	Loan Receivable, net	15,080,869	13,898,260	12,443,232
	Premises and Equipment, net	1,232,384	1,363,674	1,584,215
	Other Assets	793,741	840,928	1,020,797
	Total Assets	$ 17,672,665	$ 16,686,690	$ 17,072,066
Liabilities:	Loan Payable	$ 2,274,976	$ 2,400,000	$ 2,800,000
	RepMar Deposit	2,628,328	2,064,511	3,736,218
	Other Liabilities	1,064,810	1,654,612	1,132,525
	Total Liabilities	$ 5,968,114	$ 6,119,123	$ 7,668,743
Net Assets:	Investment in Capital Assets	$ 1,232,384	$ 1,363,674	$ 1,584,215
	Restricted	275,839	273,783	273,336
	Unrestricted	10,196,328	8,930,110	7,545,772
	Total Net Assets	$ 11,704,551	$ 10,567,567	$ 9,403,323

- Loan approvals for the year were approximately $16.29M, broken down by projects, $15.69M released under various consumer loans, $0.47M granted to housing loans, and $0.13M to business loans and joint USDA-MIDB loans. Loans Receivable, Net increased by $1.18M in 2009 compared with $1.46M increase in 2008. Loans released increased from $14.22M to $16.29M during the fiscal years 2008 and 2009, respectively.

- The Government of the Marshall Islands invested $7M in Time Certificate of Deposit at the rate of 4% in May 9, 2003, maturing May 8, 2018. The money received from such TCD Payable was used to finance the loans granted to RRE and PMI. RMI Government made withdrawals, net of deposits, during fiscal years 2008 and 2009 to finance some governmental operations and obligations. As of September 30, 2009, Time Certificate Deposit of RMI Government was $2.63M.

- MIDB continuously liquidates its long-term loan with International Commercial Bank of China (ICBC) by paying approximately $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, 2009, outstanding principal balance on ICBC loan was $2.0M.

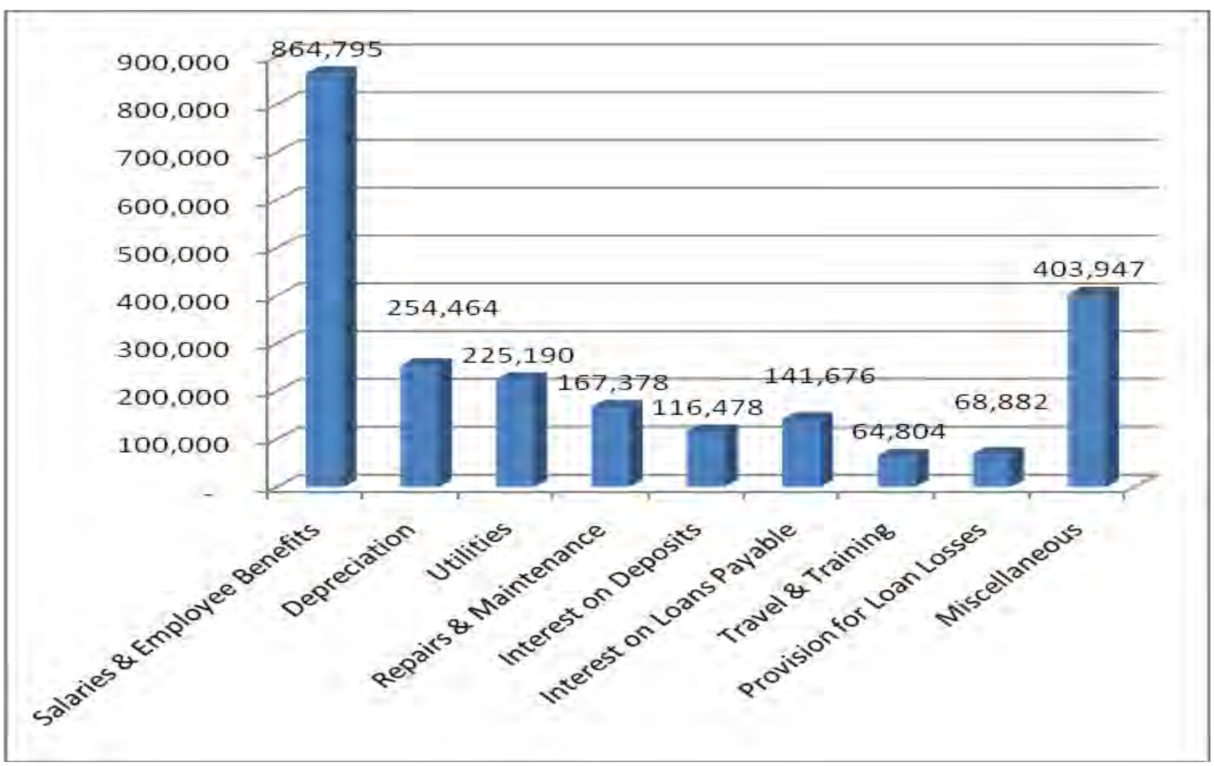
- MIDB availed of a $325K long-term loan with Bank of Marshall Islands on behalf of the Government of Marshall Islands on April 15, 2009. Interest payment shall be at an annual rate of 7.5% until maturity date on March 28, 2012. All loan proceeds were issued to fund partial withdrawals by the Government of the Marshall Islands for the purpose of providing an operating subsidy to Air Marshall Islands. As of September 30, 2009, outstanding principal balance on BOMI loan was $275K.

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

	2009	2008	2007
Operating Revenues	$ 3,037,056	$ 2,885,887	$ 2,873,953
Less: Expenses			
Provision for loan losses	68,882	-	276,599
Operating expenses	258,154	302,704	352,160
General and administrative expenses	1,980,578	1,820,781	1,811,870
Earnings from operations	729,442	762,402	433,324
Non-operating revenues (expenses), net	407,542	401,842	384,804
Increase in net assets	1,136,984	1,164,244	818,128
Net assets at beginning of year	10,567,567	9,403,323	8,585,195
Net assets at end of year	$ 11,704,551	$ 10,567,567	$ 9,403,323

- The Bank's total revenues (excluding Non-operating Revenues of $408K) for current year increased by $151K compared with fiscal year 2008. About 76% of the Bank's revenue comes from Interest Income on Loans, 76% and 16% 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 increased by $184K compared from last year's operation. The Bank's expenses cover a range of operating, general and administrative expenses. Provision for delinquent loan accounts of $69K or 3% of Total Expenses was made for this fiscal year. 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 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 $45K during fiscal year ended September 30, 2009, compared to fiscal year ended September 30, 2008, due to decrease in Interest on Loans Payable and Interest on Deposits. Interest on loans payables pertains to interest payments and accruals for International Commercial Bank of China (ICBC) loan, which decreased by $0.40M. Interest on Deposits are interest expenses paid and accrued on RepMar TCD and various savings accounts. Savings accounts decreased by $102K or 13% from last year's $735K. RepMar TCD, on the other hand, increased by $0.56M or 27%, from $2.06M to $2.63M, due to additional deposits and interest.

- General and Administrative expenses on the aggregate increased by $160K or 8% from last year's operation due to increasing employee pay and benefits, prices of commodities and fuel. Salaries and Employee Benefit, Utilities, Repairs and Maintenance, Interest on Deposits, Depreciation and Interest on Loans Payable are the major contributory factors to the increase in General and Administrative expenses. Salaries & Employee Benefits increased by $64K or 8%, Repairs & Maintenance rose by $78K or 88% to fix the elevator.

Capital Assets and Debt

No significant capital asset activity occurred during 2009. 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, 2008 is set forth in the Bank's report on the audit of financial statements, which is dated June 15, 2009. That Discussion and Analysis explains the major factors impacting the 2008 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 continuing to expect 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.

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.

ADDITIONAL FINANCIAL INFORMATION

This discussion and analysis is designed to provide the Bank's customers and other stake holders with an overview of the Bank's operations and financial condition as at September 30, 2009. 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 Assets
September 30, 2009 and 2008

ASSETS	2009	2008
Cash and cash equivalents	$ 17,179	$ 33,995
Restricted time certificates of deposit	548,492	549,833
Investments	423,748	423,748
Receivables:		
Loans, net	15,080,869	13,898,260
Accrued interest, net	90,751	76,925
Other	134,551	146,664
Premises and equipment, net	1,232,384	1,363,674
Foreclosed assets, net	67,083	102,083
Investment property held for sale, net	77,608	91,508
	$ 17,672,665	$ 16,686,690

LIABILITIES AND NET ASSETS	2009	2008
Liabilities:		
Notes payable	$ 2,274,976	$ 2,400,000
Short-term debt	-	630,118
RepMar deposit	2,628,328	2,064,511
Accrued interest payable	91,738	78,142
Accrued expenses	339,825	211,421
Deposits pledged	633,247	734,931
Total liabilities	5,968,114	6,119,123
Commitments and contingency		
Net assets:		
Invested in capital assets	1,232,384	1,363,674
Restricted	275,839	273,783
Unrestricted	10,196,328	8,930,110
Total net assets	11,704,551	10,567,567
	$ 17,672,665	$ 16,686,690

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 Assets
September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Interest income on loans	$ 2,302,791	$ 2,263,381
Rental income	296,295	306,374
Insurance premiums	127,008	116,725
Federal grants	116,365	74,149
Loan fees	114,925	18,434
Interest income on time certificates of deposit	27,612	71,304
Miscellaneous	52,060	35,520
Total operating revenues	3,037,056	2,885,887
Provision for loan losses	68,882	-
Net operating revenues	2,968,174	2,885,887
Operating expenses:		
Interest expense:		
Interest on deposits	116,478	139,908
Interest on loans payable	141,676	162,796
Total interest expense	258,154	302,704
General and administrative expenses:		
Salaries and employee benefits	864,795	800,837
Depreciation	254,464	240,585
Utilities	225,190	269,969
Repairs and maintenance	167,378	89,052
Travel and training	64,804	76,538
Insurance	48,542	60,101
Printing, stationery and advertising	45,180	45,546
Office and house rental	42,450	33,200
Communications	40,199	28,007
Foreclosed assets, net	35,000	35,000
Professional fees	33,925	24,975
Taxes and licenses	1,772	265
Miscellaneous	156,879	116,706
Total general and administrative expenses	1,980,578	1,820,781
Earnings from operations	729,442	762,402
Nonoperating revenues:		
Contributions from RepMar	250,000	248,500
Investment earnings	157,542	153,342
Total nonoperating revenues	407,542	401,842
Change in net assets	1,136,984	1,164,244
Net assets at beginning of year	10,567,567	9,403,323
Net assets at end of year	$ 11,704,551	$ 10,567,567

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, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 2,846,157	$ 2,708,929
Cash payments to suppliers for goods and services	(671,715)	(676,490)
Cash payments to employees for services	(866,497)	(792,072)
Interest received on time certificates of deposit	39,448	76,330
Interest paid	(244,558)	(382,365)
Operating grants received	125,240	107,754
Net cash provided by operating activities	1,228,075	1,042,086
Cash flows from noncapital financing activities:		
Net borrowings (repayments) under loan arrangement	(630,118)	567,174
Net change in RepMar deposit	563,817	(669,090)
Net change in pledged deposits	(101,684)	71,687
Contributions from RepMar	250,000	248,500
Net cash provided by noncapital financing activities	82,015	218,271
Cash flows from capital and related financing activities:		
Principal repayment of long-term debt	(450,024)	(400,000)
Proceeds from issuance of long-term debt	325,000	-
Additions to equipment	(109,274)	(6,144)
Net cash used in capital and related financing activities	(234,298)	(406,144)
Cash flows from investing activities:		
Loan originations and principal collections, net	(1,251,491)	(1,455,028)
Withdrawal from time certificate of deposit	1,341	450,000
Dividends received	157,542	153,342
Net cash used in investing activities	(1,092,608)	(851,686)
Net change in cash and cash equivalents	(16,816)	2,527
Cash and cash equivalents at beginning of year	33,995	31,468
Cash and cash equivalents at end of year	$ 17,179	$ 33,995
Cash flows from operating activities:		
Earnings from operations	$ 729,442	$ 762,402
Adjustments to reconcile earnings from operations to net cash provided by operating activities:		
Provision for loan losses	68,882	-
Depreciation	254,464	240,585
Provision for losses on foreclosed asset	35,000	35,000
Decrease (increase) in assets:		
Receivables:		
Accrued interest	(13,826)	(29,206)
Other	12,113	150,079
Increase (decrease) in liabilities:		
Accrued interest payable	13,596	(79,661)
Accrued expenses	128,404	(37,113)
Net cash provided by operating activities	$ 1,228,075	$ 1,042,086

Supplemental disclosure of non-cash financing activity:

On 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 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, 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, 2009 and 2008, 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, 2009 and 2008, the carrying amounts of cash and cash equivalents and time certificates of deposit are $565,671 and $583,828 respectively, and the corresponding bank balances are $638,762 and 691,480, respectively. Of the bank balances, $13,535 and $22,103, 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.

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 current accounting guidance 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.

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.

(2) Summary of Significant Accounting Policies, Continued

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 2009, MIDB implemented the following pronouncements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which 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 June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which 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.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

(2) Summary of Significant Accounting Policies, Continued

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.

Reclassification

Certain reclassifications have been made to the 2008 financial statements in order to conform with the 2009 presentation.

(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, 2009 and 2008 is as follows:

	2009	2008
Bank of Marshall Islands	$ 393,748	$ 393,748
Marshall Islands Service Corporation	30,000	30,000
	$ 423,748	$ 423,748

(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 12.5 % and 16%, respectively, of the outstanding shares of BOMI as of September 30, 2009 and 2008. In addition, MIDB has an equity interest in Marshall Islands Service Corporation, an affiliate of BOMI. This investment is recorded at cost as MIDB does not exercise significant influence over the operating and financial policies of the investee. During the years ended September 30, 2009 and 2008, dividend income earned from investees amounted to $157,542 and $153,342, respectively.

(4) Loans Receivable

Loans receivable as of September 30, 2009 and 2008 are summarized as follows:

	2009	2008
Investment Development Fund	$ 4,185,184	$ 4,211,026
Compact Section 211	1,038,854	1,075,906
Republic of the Marshall Islands	25,134,018	23,952,349
Housing Preservation Grant	13,115	13,554
Gross loans	30,371,171	29,252,835
Less: net deferred loan fees	(79,051)	(68,264)
Less: unearned premiums	(193,482)	(163,047)
Less: allowance for loan losses	(15,017,769)	(15,123,264)
	$ 15,080,869	$ 13,898,260

An analysis of the change in the allowance for loan losses during the years ended September 30, 2009 and 2008 is as follows:

	2009	2008
Beginning balance	$ 15,123,264	$ 15,192,781
Provision for loan losses	58,765	-
Charge-offs	(164,260)	(69,517)
Ending balance	$ 15,017,769	$ 15,123,264

The loan portfolio is comprised of consumer, housing and business loans. The majority of the 2009 and 2008 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, 2009 and 2008 is summarized as follows:

	2009	2008
Compact Section 211	$ -	$ 889
Republic of the Marshall Islands	103,298	84,224
	103,298	85,113
Less: allowance for doubtful interest	(12,547)	(8,188)
	$ 90,751	$ 76,925

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2009 and 2008 is as follows:

	2009	2008
Beginning balance	$ 8,188	$ 14,708
Provision for loan losses	10,117	-
Charge-offs	(5,758)	(6,520)
Ending balance	$ 12,547	$ 8,188

(6) Restricted Time Certificates of Deposit

MIDB has time certificates of deposit as of September 30, 2009 and 2008 in the amount of $543,790 and $517,743, 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.

In addition, MIDB has a time certificate of deposit as of September 30, 2009 and 2008 in the amount of $4,702 and $32,090, respectively, with an affiliate bank that is restricted to collateralize outstanding loans issued by an affiliate bank. At September 30, 2009 and 2008, these loans amounted to $20,598 and $52,114, respectively.

(7) Premises and Equipment

Capital asset activity during the years ended September 30, 2009 and 2008 is as follows:

	2009			
	October 1, 2008	Additions	Retirements	September 30, 2009
Building and houses	$ 1,911,480	$ 17,000	$ -	$ 1,928,480
Computer systems	201,467	23,067	(10,239)	214,295
Motor vehicles	122,516	-	-	122,516
Office furniture	59,811	-	(12,841)	46,970
Office equipment	295,687	69,207	(3,778)	361,116
	2,590,961	109,274	(26,858)	2,673,377
Less accumulated depreciation	(1,227,287)	(240,564)	26,858	(1,440,993)
	$ 1,363,674	$ (131,290)	$ -	$ 1,232,384

(7) Premises and Equipment, Continued

	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

(8) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. Foreclosed assets as of September 30, 2009 and 2008 are summarized as follows:

	2009	2008
Foreclosed assets	$ 350,000	$ 350,000
Allowance for losses	(282,917)	(247,917)
	$ 67,083	$ 102,083

An analysis of the allowance for losses on foreclosed assets for the years ended September 30, 2009 and 2008 is as follows:

	2009	2008
Balance at beginning of year	$ 247,917	$ 212,917
Provision for losses	35,000	35,000
Balance at end of year	$ 282,917	$ 247,917

(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, 2009 and 2008, the property is presented net of accumulated depreciation of $61,392 and $47,492 respectively. Depreciation expense of $13,900 was recognized during the years ended September 30, 2009 and 2008.

(10) Short-Term Debt

In June 2008, MIDB obtained a loan from an affiliate bank in the amount of $1,000,000, with interest at 9.5% per annum, and payable on June 5, 2009. The proceeds were used to fund partial withdrawals by RepMar from its certificate of deposit with MIDB. As of September 30, 2008, the amount outstanding and payable on this loan facility was $630,118, which was paid off during 2009.

(10) Short-Term Debt, Continued

Short-term debt changes during the years ended September 30, 2009 and 2008 are as follows:

	Balance October 1,	Drawdowns	Repayment	Balance September 30,
2009:				
Loan payable	$ 630,118	$ -	$ (630,118)	$ -
2008:				
Loan payable	$ 62,944	$ 1,000,000	$ (432,826)	$ 630,118

(11) Notes Payable

On August 6, 1999, MIDB entered into a loan agreement with the Mega International Commercial Bank (formerly 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, 2009 and 2008, the amount outstanding and payable under this loan agreement was $2,000,000 and $2,400,000, respectively.

On April 15, 2009, MIDB obtained a loan from an affiliate bank in the amount of $325,000, interest at 7.5% per annum, payable in monthly installments of $10,000 inclusive of interest, and due on March 28, 2012. The proceeds were used to fund partial withdrawals by RepMar from its certificate of deposit with MIDB. As of September 30, 2009, the amount outstanding and payable under this loan agreement was $274,976.

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

Year ending September 30,	Principal	Interest	Total
2010	$ 504,127	$ 113,445	$ 617,572
2011	512,004	78,060	590,064
2012	458,845	57,233	516,078
2013	400,000	35,041	435,041
2014	400,000	15,250	415,250
	$ 2,274,976	$ 299,029	$ 2,574,005

Long-term debt changes during the years ended September 30, 2009 and 2008 are as follows:

	Balance October 1,	Additions	Reductions	Balance September 30,	Due Within One Year
2009:					
Notes payable	$ 2,400,000	$ 325,000	$ (450,024)	$ 2,274,976	$ 504,127
2008:					
Notes payable	$ 2,800,000	$ -	$ (400,000)	$ 2,400,000	$ 400,000

(12) Related Party Transactions

As of September 30, 2009 and 2008, MIDB has deposits with a bank of $625,227 and $669,377, respectively, in which MIDB has an equity investment. The deposits accrue interest at rates of 0.25% to 5% per annum. Interest earned for the years ended September 30, 2009 and 2008 was $27,612 and $71,304, respectively. Bank charges incurred for the years ended September 30, 2009 and 2008 in connection with overdraft facilities amounted to $1,750 and $1,360, 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, 2009 and 2008, 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, 2009 and 2008, MIDB employees have loans outstanding of $754,059 and $763,068, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2009 and 2008, of $88,982 and $149,578, respectively. All loans were made at normal commercial terms and conditions.

As of September 30, 2009 and 2008, MIDB has an outstanding certificate of deposit, totaling $2,628,328 and $2,064,511, 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, 2009 and 2008, interest payable relating to this deposit amounted to $39,603 and $39,781, 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, 2009 and 2008 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, 2009, the customer's balance was $1,599,745 which is fully provided for in the allowance for loan losses.

(14) Commitments and Contingency, Continued

MIDB committed to guarantee certain loans recorded in the books of an affiliate bank, with principal balances totaling $20,598 and $52,114 as of September 30, 2009 and 2008, respectively. Further, certain loans recorded in the books of USDA are subject to MIDB guarantee, the balance of which amounted to $10,806,834 and $8,942,918 as of September 30, 2009 and 2008, 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,	
2010	$ 8,680
2011	8,680
2012	8,680
2013	8,680
2014	8,973
2015-2019	45,643
2020-2024	40,593
2025-2029	24,863
	$ 154,792

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.

(15) Subsequent Event

In July 2010, MIDB obtained a $1,000,000 loan from an affiliate bank to fund the withdrawl by RepMar from its outstanding certificate of deposit.

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

Combining Statement of Net Assets
September 30, 2009

ASSETS	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Cash and cash equivalents	$ (242,106)	$ 275,839	$ (16,554)	$ 17,179
Restricted time certificates of deposit	548,492	-	-	548,492
Investments	423,748	-	-	423,748
Receivables:				
Loans, net	15,080,869	-	-	15,080,869
Accrued interest, net	90,751	-	-	90,751
Other	113,281	-	21,270	134,551
Premises and equipment, net	1,232,384	-	-	1,232,384
Foreclosed assets, net	67,083	-	-	67,083
Investment property held for sale, net	77,608	-	-	77,608
	$ 17,392,110	$ 275,839	$ 4,716	$ 17,672,665

LIABILITIES AND NET ASSETS				
Liabilities:				
Notes payable	$ 2,274,976	$ -	$ -	$ 2,274,976
RepMar deposit	2,628,328	-	-	2,628,328
Accrued interest payable	91,738	-	-	91,738
Accrued expenses	331,399	-	8,426	339,825
Deposits pledged	633,247	-	-	633,247
Total liabilities	5,959,688	-	8,426	5,968,114
Net assets:				
Invested in capital assets	1,232,384	-	-	1,232,384
Restricted	-	275,839	-	275,839
Unrestricted	10,200,038	-	(3,710)	10,196,328
Total net assets	11,432,422	275,839	(3,710)	11,704,551
	$ 17,392,110	$ 275,839	$ 4,716	$ 17,672,665

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, 2009

	Marshall Islands Development Bank	Housing Preservation Grant	USDA Self-Help Housing Project	Total
Operating revenues:				
Interest income on loans	$ 2,302,144	$ 647	$ -	$ 2,302,791
Rental income	296,295	-	-	296,295
Insurance premiums	127,008	-	-	127,008
Federal grants	-	-	116,365	116,365
Loan fees	114,925	-	-	114,925
Interest income on time certificates of deposit	27,994	-	(382)	27,612
Miscellaneous	51,948	112	-	52,060
Total operating revenues	2,920,314	759	115,983	3,037,056
Provision for (recovery of) loan losses	70,179	(1,297)	-	68,882
Net operating revenues	2,850,135	2,056	115,983	2,968,174
Operating expenses:				
Interest expense:				
Interest on deposits	116,478	-	-	116,478
Interest on loans payable	141,676	-	-	141,676
Total interest expense	258,154	-	-	258,154
General and administrative expenses:				
Salaries and employee benefits	766,305	-	98,490	864,795
Depreciation	244,826	-	9,638	254,464
Utilities	225,190	-	-	225,190
Repairs and maintenance	162,456	-	4,922	167,378
Travel and training	64,804	-	-	64,804
Insurance	45,855	-	2,687	48,542
Printing, stationery and advertising	45,180	-	-	45,180
Office and house rental	30,450	-	12,000	42,450
Communications	40,028	-	171	40,199
Foreclosed assets, net	35,000	-	-	35,000
Professional fees	28,925	-	5,000	33,925
Taxes and licenses	1,772	-	-	1,772
Miscellaneous	149,902	-	6,977	156,879
Total general and administrative expenses	1,840,693	-	139,885	1,980,578
Earnings (loss) from operations	751,288	2,056	(23,902)	729,442
Nonoperating revenues:				
Contributions from RepMar	250,000	-	-	250,000
Investment earnings	157,542	-	-	157,542
Total nonoperating revenues	407,542	-	-	407,542
Change in net assets	1,158,830	2,056	(23,902)	1,136,984
Net assets at beginning of year	10,273,592	273,783	20,192	10,567,567
Net assets at end of year	$ 11,432,422	$ 275,839	$ (3,710)	$ 11,704,551

See accompanying independent auditors' report.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND 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 the financial statements of the Marshall Islands Development Bank (MIDB) as of and for the year ended September 30, 2009, and have issued our report thereon dated September 30, 2010. 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying Schedule of Findings and Responses (pages 26 and 27) as item 2009-01 to be a significant deficiency 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 the significant deficiency described above is not 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 certain matters that we reported to management of MIDB in a separate letter dated September 30, 2010.

MIDB's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit MIDB's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, 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

September 30, 2010

Finding No. 2009-01 – 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 2009 revealed the following documentation matters:

(1) Borrower: Loan No. 23083

- No loan disclosure document, guarantor, assignment of salary, security documents, and insurance policy on file. Further, loan action sheet on file was not signed.
- Loan file indicates that the loan open date is June 25, 2008; however, per loan system, the loan was opened on January 9, 2009.

(2) Borrower: Loan No. 24575

- No loan disclosure document, verification of employment, credit check, guarantor, assignment of salary, and insurance policy on file. Further, loan action sheet on file was not signed.

(3) Borrower: Loan No. 23864

- No loan disclosure document, guarantor, assignment of salary, security documents, and insurance policy on file. Further, loan action sheet on file was not signed.
- Repayment term exceed the allowed 15 years.

(4) Borrower: Loan No. 34833

- No loan action sheet, assignment of salary, security documents, and insurance policy on file.

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.

Finding No. 2009-01 – Loans Receivable, Conrinued

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 years 2008 and 2007.

Auditee Response: Management's response to this finding is as follows:

Borrower: Loan No.23083 – This is one of those partnership loans, whereby RD provides 80% of the loan and MIDB contributing the other 20%. The 20% by MIDB has already been paid by the Rongelap Local Government as agreed under a guaranty agreement. This was a one-time payment. The loan was signed on June 25, 2008, the date the loan with RD was concluded. However, loan drawdown was not made until January 9, 2009, the date the first drawdown was made by RD. This confusion was also explained in our response to similar finding last year. Documentations on the 80% loan are with RD office, including the insurance policy. The account with MIDB has already been closed.

Borrower: Loan No. 24575 – This is a business loan. Usually the disclosure document is not required because the terms and interest rates are stated in the loan documents. The loan was guaranteed by the owners of the Wotje High School land lease, committing lease payment as security for the loan. There is also a chattel mortgage as a partial security. Insurance was not required because the project is to produce cement blocks for the upcoming housing project on Wotje Atoll. On action sheets, no approval is required.

Borrower: Loan No. 23864 – Again the disclosure form was not required as this is a housing loan. Interest rate and terms are stated in the loan documents. The guarantor of the loan is the husband, and he had signed as guarantor, assignment of payments was also made and signed by guarantor, fire insurance is with RD, as the original loan was funded by RD. Term of loan on housing loan was increased from 15 years to 20 years few years back. This was also explained last year in our response to a similar finding.

Borrower: Loan No. 34833 – This is a restructure loan to correct and update a 1995 old housing loan that was left unattended by the borrowers for a while because of some family disputes. Because of the disputes, the loan became delinquent, and restructure was required. After some payments, the loan became delinquent again and is still delinquent to date, however arrangement to correct the problem has already been made. Loan documentations are in the original loan files, and we agree that new documents should have been included in the new loan.

Unresolved Prior Year Findings
Year Ended September 30, 2009

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 26 and 27) of this report.