

**MARSHALL ISLANDS DEVELOPMENT BANK**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

## **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, 2004 and 2003, 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.

Except as discussed in the following paragraphs, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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.

We were unable to determine the propriety of loans receivable as of September 30, 2004 and 2003 (stated at \$17,572,373 and \$17,664,057, respectively) and accrued interest receivable as of September 30, 2004 and 2003 (stated at \$478,079 and \$514,865, respectively) as MIDB did not adequately assess the allowance for loan and interest receivable losses. We were unable to satisfy ourselves as to the carrying value of loans and accrued interest receivables by means of other auditing procedures. The allowances for loan and interest receivable losses materially affect the determination of the results of operations for the years ended September 30, 2004 and 2003.

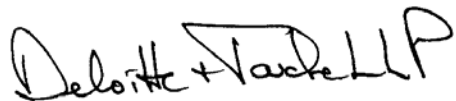
As more fully described in note 2 to the financial statements, MIDB recorded certain revenues related to insurance premiums and loan origination fees of \$140,710 and \$76,730, respectively, as they were billed and collected. In our opinion, such revenues should be recorded as they are earned over the contractual life of the loan to conform with accounting principles generally accepted in the United States of America. The effects of that departure on the financial statements are not reasonably determinable.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the carrying value of loans and accrued interest receivable as of September 30, 2004 and 2003, and had MIDB deferred and recognized insurance premiums and loan origination fees over the contractual life of the loan for the year ended September 30, 2004, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of MIDB as of September 30, 2004 and 2003, and the changes in its 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 supplementary information. However, we did not audit such information and we do not express an 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, 2004 (pages 22 and 23) and the Schedule of Operating Expenses and Capital Expenditures - Budget and Actual for the year ended September 30, 2004 (page 24) 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 audits of the basic financial statements and, in our opinion, except as discussed in the third and fourth paragraphs above, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006, on our consideration of MIDB's internal control over financial reporting and 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

December 22, 2006

# MARSHALL ISLANDS DEVELOPMENT BANK

## Management's Discussion and Analysis Year Ended September 30, 2004

Fiscal year October 1, 2003 to September 30, 2004 has been a productive year to 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 living 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, 2004.

### FINANCIAL HIGHLIGHTS

- MIDB's total net assets slightly increased by \$.23M or 2.8% over the course of this year's operation. While net assets of funds coming from the Government of the Marshall Islands and Housing Preservation Grant increased by \$696,817 and \$200,899, respectively, this was offset by a decrease in net assets from the Investment Development Fund and Section 211 Compact of Free Association by \$608,827 and \$60,750, respectively. This increase is primarily attributable to MIDB establishing its own Credit Life Insurance and all credit life insurance fees are considered income instead of outsourcing the insurance to Individual Assurance Company.
- MIDB incurred \$2.80M in expenses for banking activities, broken down as \$.54M on Interest Expenses, \$.93M on Provision for Loan Losses, and \$1.32M on General and Administrative Expenses. These expenses were funded partly by Interest Income on Loans and Other Income of \$2.82M and by Contributions from the RMI Government of \$.21M. Both revenues and expenses were up from fiscal year 2003 by \$.69M or 30 % and \$.49M or 21%, respectively. The increase in revenues is due to the increment of the Consumer Loan Portfolio generating more interest income. On the other hand, the rise on expenses is attributable to Utilities, Depreciation, Repair and Maintenance incurred on the MIDB Bldg. which was acquired by the Bank on May 2003.

### 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 investment and performance results compared to previous year. At the end of the fiscal year 2004, MIDB's assets of \$21.45M exceeded liabilities of \$13.04M by \$8.41M. However, \$7.09M or 84% 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, 2004, Unrestricted Net Assets amounted to \$1.32M, which is not enough to repay all outstanding debt and therefore, it should be noted that other sources should be utilized to liquidate the liabilities.

## MARSHALL ISLANDS DEVELOPMENT BANK

### Management's Discussion and Analysis Year Ended September 30, 2004

#### Summary of Statements of Net Assets

		<u>2004</u>	<u>2003</u>
Assets	Cash and Cash Equivalent	\$ 258,165	\$ 13,373
	Loan Receivable, net	17,572,373	17,664,057
	Premises and Equipment, net	1,803,714	1,758,791
	Other Assets	<u>1,823,971</u>	<u>1,871,909</u>
	Total Assets	\$ <u>21,458,223</u>	\$ <u>21,308,130</u>
Liabilities	Long-term Debt	\$ 4,096,716	\$ 4,400,000
	RepMar Deposit	7,539,041	7,503,382
	Other Liabilities	<u>1,408,611</u>	<u>1,219,032</u>
	Total Liabilities	\$ <u>13,044,368</u>	\$ <u>13,122,414</u>
Net Assets	Investment in Capital Assets	\$ 1,803,714	\$ 1,758,791
	Restricted	5,284,317	5,827,511
	Unrestricted	<u>1,325,824</u>	<u>599,414</u>
	Total Net Assets	\$ <u>8,413,855</u>	\$ <u>8,185,716</u>

- Loan approvals for the year were approximately \$10.57M, broken down by projects, \$10.52M was released under various consumer loans and \$51K was granted to housing loans. Loans Receivable, net virtually remained unchanged, although Loans Receivable increased by \$.84M or 2.8% from FY2003 ending balances, Allowance for Probable Loan Losses also increased by \$.93M or 7.7%. Additional provision for loan losses was provided for delinquent Consumer Loan accounts.
- The Government of the Marshall Islands invested \$7M in Time Certificate 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 the loans granted to RRE and PMI. The Bank accrues approximately \$.28M per annum of interest on this TCD. During the year no withdrawals were made by the RMI Govt.
- MIDB obtained a short-term loan from Bank of the Marshall Islands (BOMI) amounting to \$.25M with the purpose of financing the renovation of the MIDB Bldg. The loan was obtained on January 13, 2004 at 5.5% interest rate per annum, collateralized by MIDB TCD#8813004648 which is deposited with BOMI. MIDB agrees to pay the loan out of the allotment from RMI Payroll received from the Secretary of Finance until such loan is paid in full.
- MIDB continuously liquidates its long-term loan with International Commercial Bank of China(ICBC) by paying approximately \$.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, no collateral or security was provided. As of September 30, 2004 outstanding principal balance on the ICBC loan was \$4M.

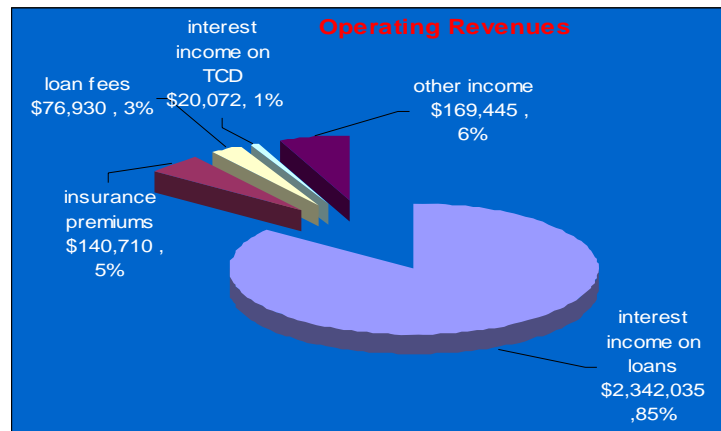
## MARSHALL ISLANDS DEVELOPMENT BANK

### Management's Discussion and Analysis Year Ended September 30, 2004

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

	<u>2004</u>	<u>2003</u>
Operating Revenues	\$ 2,749,192	\$ 2,114,164
Less: Expenses		
Provision for loan losses	928,642	1,027,546
Interest expenses	544,859	402,266
General and administrative expenses	<u>1,322,704</u>	<u>876,889</u>
Earnings (Loss) from Operations	(47,013)	(192,537)
Non-operating Revenues(Expenses) Net	<u>275,152</u>	<u>216,143</u>
Increase in Net Assets	228,139	23,606
Net Assets at Beginning of Year	<u>8,185,716</u>	<u>8,162,110</u>
Net Assets at End of Year	\$ <u>8,413,855</u>	\$ <u>8,185,716</u>

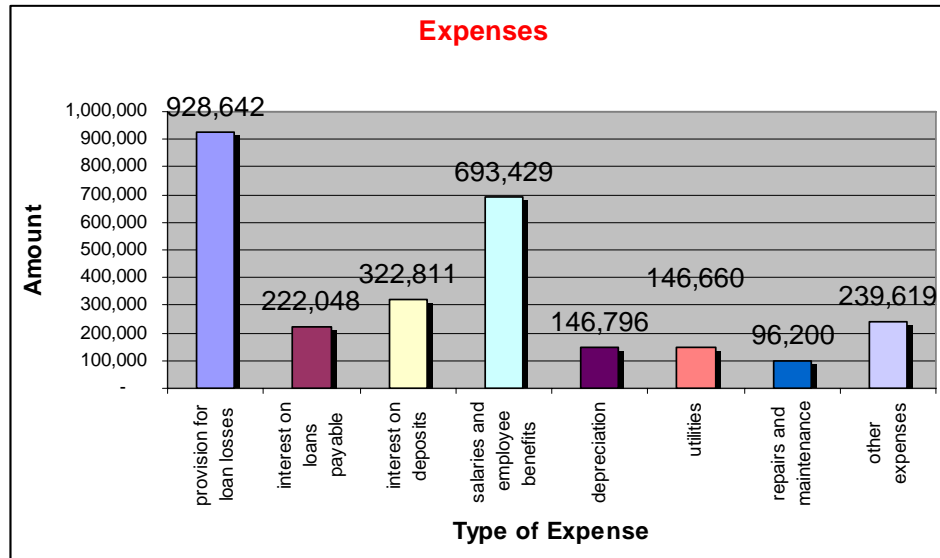
- The Bank's total revenues (excluding Non-operating Revenues) increased by \$.63M or 30%. More than 85% of the Bank's revenue comes from Interest Income on Loans. With the substantial growth in loans released, Interest on Loans increased by \$.49M or 26%. Insurance Premiums on the other hand, is a new by-product income of loans. With the Bank establishing its own Insurance Division, effective October 2003, all loans will be insured by MIDB and any outsourcing of insurance to other Insurance Companies will no longer be implemented.



- The total cost incurred increased by \$.49M or 21% from last year's operation. The Bank's expenses cover a range of operating, general and administrative expenses, with Provision on Loan Losses amounting to \$.93M and \$1.03M or 33% and 44% of Total Expenses on fiscal years ended September 30, 2004 and September 30, 2003, 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 and the amount of loan outstanding balance 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 requirements for fiscal year 2004.

# MARSHALL ISLANDS DEVELOPMENT BANK

## Management's Discussion and Analysis Year Ended September 30, 2004



- Interest Expenses increased by \$.14M or 35% from \$.40M to \$.54M on fiscal years ended September 30, 2003 and September 30, 2004, respectively. Interest expenses pertain to interest paid and accrued on loans, savings accounts and time certificate of deposits invested by Clients of the Bank. Interest Expenses on Loans virtually remain unchanged over the course of this year's operation. Interest Expenses on Loans pertains mainly to interest payments and accruals on the ICBC loan. Interest on Deposits increased by
- \$16M or 100% from last year's operations due to interest accruals on RepMar Time Certificate of Deposit with MIDB of \$7M.
- General and Administrative Expenses increased by \$.44M or 50% from last year's operation due to increase in Depreciation Expenses, Utilities, Repairs and Maintenance primarily because of the acquisition of the MIDB Building on May 2003. Salaries and Expenses rose up by \$.16M or 29% due to overtime of accounting staffs in order to expedite the updating of the Loan System and the Accounting System.

**MARSHALL ISLANDS DEVELOPMENT BANK**

Statements of Net Assets  
September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 258,165	\$ 13,373
Restricted time certificates of deposit	501,172	500,000
Investments	397,106	397,106
Receivables:		
Loans, net	17,572,373	17,664,057
Accrued interest, net	478,079	514,865
Other	205,531	182,855
Premises and equipment, net	1,803,714	1,758,791
Foreclosed assets, net	<u>242,083</u>	<u>277,083</u>
	<u>\$ 21,458,223</u>	<u>\$ 21,308,130</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Bank overdraft	\$ -	\$ 33,103
Long-term debt	4,096,716	4,400,000
RepMar deposit	7,539,041	7,503,382
Accounts payable	-	2,101
Accrued interest payable	209,258	210,601
Accrued expenses	424,701	375,635
Deposits pledged	<u>774,652</u>	<u>597,592</u>
Total liabilities	<u>13,044,368</u>	<u>13,122,414</u>
Commitments and contingency		
Net assets:		
Invested in capital assets	1,803,714	1,758,791
Restricted	2,981,450	5,827,511
Unrestricted	<u>3,628,691</u>	<u>599,414</u>
Total net assets	<u>8,413,855</u>	<u>8,185,716</u>
	<u>\$ 21,458,223</u>	<u>\$ 21,308,130</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS DEVELOPMENT BANK**

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2004 and 2003

	2004	2003
Operating revenues:		
Interest income on loans (net of bad debts of \$830,305 and \$594,428 as of September 30, 2004 and 2003, respectively)	\$ 2,342,035	\$ 1,851,696
Insurance premiums	140,710	-
Loan fees	76,930	86,904
Interest income on time certificates of deposit	20,072	30,532
Other	169,445	145,032
Total operating revenues	2,749,192	2,114,164
Provision for loan losses	928,642	1,027,546
Operating expenses:		
Interest expense:		
Interest on loans payable	222,048	241,280
Interest on deposits	322,811	160,986
Total interest expense	544,859	402,266
General and administrative expenses:		
Salaries and employee benefits	693,429	537,779
Depreciation	146,796	68,085
Utilities	146,660	-
Repairs and maintenance	96,200	60,609
Travel and training	63,722	19,850
Foreclosed assets, net	35,000	35,000
Printing, stationery and advertising	33,541	25,061
Professional fees	32,738	34,092
Communications	26,868	21,930
Office rental	-	20,000
Insurance	5,707	39,242
Bad debts	-	406
Miscellaneous	42,043	14,835
Total general and administrative expenses	1,322,704	876,889
Operating loss	(47,013)	(192,537)
Nonoperating revenues:		
Contributions from RepMar	207,000	165,029
Investment earnings	68,152	51,114
Total nonoperating revenues	275,152	216,143
Change in net assets	228,139	23,606
Net assets at beginning of year	8,185,716	8,162,110
Net assets at end of year	\$ 8,413,855	\$ 8,185,716

See accompanying notes to financial statements.

**MARSHALL ISLANDS DEVELOPMENT BANK**

Statements of Cash Flows  
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,394,160	\$ 1,981,365
Cash payments to suppliers for goods and services	(449,580)	(238,079)
Cash payments to employees for services	(644,363)	(483,661)
Net cash provided by operating activities	<u>1,300,217</u>	<u>1,259,625</u>
Cash flows from noncapital financing activities:		
Net repayments under bank overdraft	(33,103)	(10,994)
Net change in RepMar deposit	35,659	7,033,016
Contributions from RepMar	207,000	165,029
Net cash provided by noncapital financing activities	<u>209,556</u>	<u>7,187,051</u>
Cash flows from capital and related financing activities:		
Net repayment of short-term borrowings	-	(300,000)
Proceeds from issuance of long-term debt	250,000	-
Principal repayment of long-term debt	(553,284)	(400,000)
Additions to equipment	(191,719)	(90,350)
Net cash used in capital and related financing activities	<u>(495,003)</u>	<u>(790,350)</u>
Cash flows from investing activities:		
Loan originations and principal collections, net	(836,958)	(8,150,077)
Net change in restricted time certificates of deposit	(1,172)	333,954
Investment earnings	68,152	51,114
Net cash used in investing activities	<u>(769,978)</u>	<u>(7,765,009)</u>
Net change in cash and cash equivalents	244,792	(108,683)
Cash and cash equivalents at beginning of year	<u>13,373</u>	<u>122,056</u>
Cash and cash equivalents at end of year	<u>\$ 258,165</u>	<u>\$ 13,373</u>
Cash flows from operating activities:		
Operating loss	\$ (47,013)	\$ (192,537)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Provision for loan losses and bad debts	1,758,947	1,622,380
Depreciation	146,796	68,085
Provision for losses on foreclosed asset	35,000	35,000
Increase in assets:		
Receivables:		
Accrued interest	(793,519)	(644,187)
Other	(22,676)	(7,906)
Increase (decrease) in liabilities:		
Accounts payable	(2,101)	(2,460)
Accrued interest payable	(1,343)	125,271
Accrued expenses	49,066	54,118
Deposits pledged	177,060	201,861
Net cash provided by operating activities	<u>\$ 1,300,217</u>	<u>\$ 1,259,625</u>

See accompanying notes to financial statements.

**MARSHALL ISLANDS DEVELOPMENT BANK**

Statements of Cash Flows, Continued  
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ <u>546,202</u>	\$ <u>276,995</u>
Summary disclosure of noncash activities:		
Transfer of premises from loans:		
Loans receivable	\$ -	\$ (3,780,975)
Accrued interest receivable	-	(2,762,943)
Allowance for loan and interest receivable losses	-	4,921,170
Premises and equipment	-	1,622,748
	<u>\$ -</u>	<u>\$ -</u>
Transfer of completed project to premises and equipment:		
Premises and equipment	\$ -	\$ 39,411
Construction work-in-progress	-	(39,411)
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

# MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
September 30, 2004 and 2003

## (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 under the Rural Housing and Community Development Service Housing Preservation Grant. 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 conform 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*, and modified by Statement No. 38, *Certain Financial Statement 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, 2004 and 2003, 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.

# MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
September 30, 2004 and 2003

## (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.

### Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 and interest receivable losses.

### 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. As of September 30, 2004 and 2003, the carrying amounts of cash and cash equivalents and time certificates of deposit are \$759,337 and \$513,373, respectively, and the corresponding bank balances are \$787,243 and \$635,513, respectively. Of the bank balance amounts, \$23,727 and \$5,246, 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.

### Investments

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

# MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
September 30, 2004 and 2003

## (2) Summary of Significant Accounting Policies, Continued

### 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. Interest on loans is calculated using the simple interest method on daily balances of the principal amount outstanding. Loan origination fees are recognized and recorded as revenue upon receipt at the commencement of the loan agreement. 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.

### Premises and Equipment

Premises and equipment with a cost that equals or exceeds \$200 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
Computer systems	5 years
Motor vehicles	3 years
Office furniture	5 years
Office equipment	2 - 10 years

### Foreclosed Assets

Assets acquired through, or in lieu 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.

### 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

MIDB commenced the recognition of loan insurance premium revenues in 2004. Loan insurance premiums are recognized and recorded as revenue when billed and collected.

## MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
September 30, 2004 and 2003

### (2) Summary of Significant Accounting Policies, Continued

#### Adoption of New Accounting Standards

During fiscal year 2004, MIDB implemented GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB Technical Bulletin No. 2003-1 clarifies guidance on derivative disclosures, pending the results of GASB's project on reporting and measurement of derivatives and hedging activities. This Technical Bulletin applies to derivatives that are not reported at fair value on the statement of net assets. GASB Statement No. 39 amends GASB Statement 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of these pronouncements did not have a material effect on the financial statements of MIDB.

For fiscal year 2005, MIDB will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for periods beginning after December 15, 2004. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. 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 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, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of MIDB.

## MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
September 30, 2004 and 2003

### (3) Restricted Time Certificates of Deposit

MIDB has time certificates of deposit as of September 30, 2004 and 2003 in the amount of \$501,172 and \$500,000, 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.

### (4) Investments

A summary of MIDB's investments as of September 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Bank of Marshall Islands	\$ 397,106	\$ 397,106
Air Marshall Islands, Inc.	<u>          -</u>	<u>          -</u>
	<u>\$ 397,106</u>	<u>\$ 397,106</u>

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 outstanding BOMI shares as of September 30, 2004 and 2003. During the years ended September 30, 2004 and 2003, dividend income earned from BOMI amounted to \$68,152 and \$51,114, respectively.

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, 2004 and 2003.

MIDB's investments are categorized as either (1) insured or registered or for which the securities are held by MIDB or its agent in MIDB's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in MIDB's name or (3) uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in MIDB's name. All of MIDB's investments are classified in category (1).

### (5) Loans Receivable

Loans receivable as of September 30, 2004 and 2003 are summarized as follows:

	<u>2004</u>		
	<u>Loans</u>	<u>Allowance</u>	<u>Net</u>
	<u>Receivable</u>		<u>Loans</u>
Investment Development Fund	\$ 4,398,187	\$ (4,233,197)	\$ 164,990
Compact Section 211	1,373,487	(1,090,938)	282,549
Republic of the Marshall Islands	24,809,600	(7,700,025)	17,109,575
Housing Preservation Grant	<u>19,140</u>	<u>(3,881)</u>	<u>15,259</u>
	<u>\$ 30,600,414</u>	<u>\$ (13,028,041)</u>	<u>\$ 17,572,373</u>

**MARSHALL ISLANDS DEVELOPMENT BANK**

Notes to Financial Statements  
September 30, 2004 and 2003

(5) Loans Receivable, Continued

	2003		
	<u>Loans Receivable</u>	<u>Allowance</u>	<u>Net Loans</u>
Investment Development Fund	\$ 4,564,594	\$ (4,123,891)	\$ 440,703
Compact Section 211	1,451,892	(1,047,853)	404,039
Republic of the Marshall Islands	23,724,545	(6,923,774)	16,800,771
Housing Preservation Grant	<u>22,425</u>	<u>(3,881)</u>	<u>18,544</u>
	<u>\$ 29,763,456</u>	<u>\$ (12,099,399)</u>	<u>\$ 17,664,057</u>

An analysis of the change in the allowance for loan losses during the years ended September 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Beginning balance	\$ 12,099,399	\$ 13,230,080
Provision for loan losses	928,642	1,027,546
Loans charged off	<u>-</u>	<u>(2,158,227)</u>
Ending balance	<u>\$ 13,028,041</u>	<u>\$ 12,099,399</u>

(6) Accrued Interest Receivable

Accrued interest receivable as of September 30, 2004 and 2003 is summarized as follows:

	2004		
	<u>Interest Receivable</u>	<u>Allowance</u>	<u>Net Interest Receivable</u>
Investment Development Fund	\$ 1,688,829	\$ (1,592,199)	\$ 96,630
Compact Section 211	526,631	(511,216)	15,415
Republic of the Marshall Islands	1,894,776	(1,532,713)	362,063
Housing Preservation Grant	<u>4,352</u>	<u>(381)</u>	<u>3,971</u>
	<u>\$ 4,114,588</u>	<u>\$ (3,636,509)</u>	<u>\$ 478,079</u>
	2003		
	<u>Interest Receivable</u>	<u>Allowance</u>	<u>Net Interest Receivable</u>
Investment Development Fund	\$ 1,470,617	\$ (1,336,831)	\$ 133,786
Compact Section 211	485,717	(419,648)	66,069
Republic of the Marshall Islands	1,360,022	(1,049,344)	310,678
Housing Preservation Grant	<u>4,713</u>	<u>(381)</u>	<u>4,332</u>
	<u>\$ 3,321,069</u>	<u>\$ (2,806,204)</u>	<u>\$ 514,865</u>

## MARSHALL ISLANDS DEVELOPMENT BANK

### Notes to Financial Statements September 30, 2004 and 2003

#### (6) Accrued Interest Receivable, Continued

An analysis of the change in the allowance for interest receivable losses during the years ended September 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Beginning balance	\$ 2,806,204	\$ 4,974,719
Provision for interest receivable losses	830,305	594,428
Interest receivable on loans charged off	<u>-</u>	<u>(2,762,943)</u>
Ending balance	\$ <u>3,636,509</u>	\$ <u>2,806,204</u>

#### (7) Premises and Equipment

Capital assets activity during the years ended September 30, 2004 and 2003 is as follows:

	<u>2004</u>			
	October 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2004</u>
Building and houses	\$ 1,712,190	\$ 183,054	\$ -	\$ 1,895,244
Computer systems	150,323	5,074	-	155,397
Motor vehicles	72,328	-	-	72,328
Office furniture	45,303	1,046	-	46,349
Office equipment	<u>34,367</u>	<u>2,545</u>	<u>-</u>	<u>36,912</u>
	2,014,511	191,719	-	2,206,230
Less accumulated depreciation	<u>(255,720)</u>	<u>(146,796)</u>	<u>-</u>	<u>(402,516)</u>
	1,758,791	44,923	-	1,803,714
Construction work-in-progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>1,758,791</u>	\$ <u>44,923</u>	\$ <u>-</u>	\$ <u>1,803,714</u>
	<u>2003</u>			
	October 1, <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	September 30, <u>2003</u>
Buildings and houses	\$ -	\$ 1,712,190	\$ -	\$ 1,712,190
Computer systems	115,191	35,132	-	150,323
Motor vehicles	72,328	-	-	72,328
Office furniture	43,901	1,402	-	45,303
Office equipment	<u>30,582</u>	<u>3,785</u>	<u>-</u>	<u>34,367</u>
	262,002	1,752,509	-	2,014,511
Less accumulated depreciation	<u>(187,635)</u>	<u>(68,085)</u>	<u>-</u>	<u>(255,720)</u>
	74,367	1,684,424	-	1,758,791
Construction work-in-progress	<u>39,411</u>	<u>-</u>	<u>(39,411)</u>	<u>-</u>
	\$ <u>113,778</u>	\$ <u>1,684,424</u>	\$ <u>(39,411)</u>	\$ <u>1,758,791</u>

## MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
September 30, 2004 and 2003

### (8) Foreclosed Assets

Foreclosed assets are presented net of an allowance for losses. An analysis of the allowance for losses on foreclosed assets for the years ended September 30, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
Balance at beginning of year	\$ 72,917	\$ 37,917
Provision for losses	<u>35,000</u>	<u>35,000</u>
Balance at end of year	\$ <u>107,917</u>	\$ <u>72,917</u>

### (9) Long-Term Debt

	<u>2004</u>	<u>2003</u>
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.	\$ 4,000,000	\$ 4,400,000
On January 13, 2004, MIDB entered into a \$250,000 loan agreement with an affiliate bank. The loan is due February 4, 2005, bears interest at 5.5% per annum, and is payable in bi-weekly installments of \$10,000, including interest. The loan is collateralized by a \$300,000 time certificate of deposit.	<u>96,716</u>	-
	<u>\$ 4,096,716</u>	<u>\$ 4,400,000</u>

Long-term debt changes during the years ended September 30, 2004 and 2003 are as follows:

2004				
Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004	Balance due in One Year
\$ <u>4,400,000</u>	\$ <u>250,000</u>	\$ <u>(553,284)</u>	\$ <u>4,096,716</u>	\$ <u>496,716</u>
2003				
Balance October 1, 2002	Additions	Reductions	Balance September 30, 2003	Balance due in One Year
\$ <u>5,100,000</u>	\$ _____	\$ <u>(700,000)</u>	\$ <u>4,400,000</u>	\$ <u>400,000</u>

## MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
September 30, 2004 and 2003

### (9) Long-Term Debt, Continued

Future repayment commitments are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 496,716	\$ 197,750	\$ 694,466
2006	400,000	177,472	577,472
2007	400,000	157,194	557,194
2008	400,000	137,278	537,278
2009	400,000	116,639	516,639
2010-2014	<u>2,000,000</u>	<u>271,641</u>	<u>2,271,641</u>
	<u>\$ 4,096,716</u>	<u>\$ 1,057,974</u>	<u>\$ 5,154,690</u>

### (10) Related Party Transactions

MIDB has deposits with a bank of \$735,210 and \$507,928 as of September 30, 2004 and 2003, respectively, in which MIDB has an equity investment. The deposits accrue interest at rates of 1.0% to 5.5% per annum. Interest earned for the years ended September 30, 2004 and 2003 amounted to \$18,318 and \$26,815, respectively.

MIDB is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including Air Marshall Islands, Inc. (AMI). As of September 30, 2004 and 2003, MIDB has loans outstanding with affiliated entities of \$185,000. These loans are fully provided for in the allowance for loan losses. In addition, interest receivable as of September 30, 2004 and 2003 from affiliated entities amounted to \$81,051 and \$73,632, respectively, which are fully provided for in the allowance for interest receivable losses. All loans were made at normal commercial terms and conditions.

Employees have loans outstanding as of September 30, 2004 and 2003, of \$718,011 and \$640,568, respectively. In addition, the directors of MIDB have loans outstanding as of September 30, 2004 and 2003, of \$141,269 and \$188,038, respectively. All loans were made at normal commercial terms and conditions.

MIDB has issued certificates of deposit to RepMar totaling \$7,539,041 and \$7,503,382 as of September 30, 2004 and 2003, respectively. The deposits are for fifteen-year and one-year terms and accrue interest at 4% and 7%, respectively, per annum. As of September 30, 2004 and 2003, interest payable relating to these deposits amounted to \$127,302 and \$137,979, respectively, and are 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, 2004 and 2003 is \$24,973. As of September 30, 2004 and 2003, total interest accrued is \$3,759 and \$1,629, respectively.

# MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
September 30, 2004 and 2003

## (11) 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.

## (12) Commitments and Contingency

### Commitments

On April 12, 1999, MIDB entered into an agreement to manage an 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 loan customer's outstanding loan 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 make the loan current. As of September 30, 2004, the customer's principal loan balance and accrued interest were \$1,412,671 and \$360,590, respectively. These balances are recorded as loans receivable and accrued interest receivable, respectively, on the accompanying statements of net assets.

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:

<u>Year ending</u> <u>September 30,</u>	
2005	\$ 8,290
2006	8,290
2007	8,290
2008	8,290
2009	8,583
2010-2014	43,693
2015-2019	45,643
2020-2024	40,760
2025-2029	<u>24,863</u>
	\$ <u>196,702</u>

## MARSHALL ISLANDS DEVELOPMENT BANK

Notes to Financial Statements  
September 30, 2004 and 2003

### (12) Commitments and Contingency, Continued

#### 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.

### (13) Subsequent Events

MIDB has guaranteed three loans totaling \$1,000,000 obtained by AMI from an affiliate bank on June 10, 2005, September 21, 2005 and December 9, 2005.

On September 1, 2005, MIDB turned over to a third party the management of an entertainment complex MIDB had been managing for a delinquent loan customer.

On February 28, 2006, MIDB entered into an agreement with an affiliate bank whereby MIDB will guarantee loans issued by the bank to MIDB's borrowers. As of December 22, 2006, MIDB has guaranteed such bank loans totaling \$2,249,403.

**MARSHALL ISLANDS DEVELOPMENT BANK**

Combining Statement of Net Assets  
September 30, 2004

<u>ASSETS</u>	<u>Investment Development Fund</u>	<u>Section 211 Compact of Free Association</u>	<u>Republic of the Marshall Islands</u>	<u>Housing Preservation Grant</u>	<u>Elimination of Interfund Balances</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,799,591	\$ 2,126,847	\$ (4,175,683)	\$ 507,410	\$ -	\$ 258,165
Restricted time certificates of deposit	-	-	501,172	-	-	501,172
Investments	-	-	397,106	-	-	397,106
Receivables:						
Loans, net	164,990	282,549	17,109,575	15,259	-	17,572,373
Accrued interest, net	96,630	15,415	362,063	3,971	-	478,079
Other	29,820	-	175,711	-	-	205,531
Due from other funds	-	29,999	-	-	(29,999)	-
Premises and equipment, net	1,640,367	-	163,347	-	-	1,803,714
Foreclosed assets, net	242,083	-	-	-	-	242,083
	<u>\$ 3,973,481</u>	<u>\$ 2,454,810</u>	<u>\$ 14,533,291</u>	<u>\$ 526,640</u>	<u>\$ (29,999)</u>	<u>\$ 21,458,223</u>
 <u>LIABILITIES AND NET ASSETS</u>						
Liabilities:						
Long-Term debt	\$ -	\$ -	\$ 4,096,716	\$ -	\$ -	\$ 4,096,716
RepMar deposit	-	-	7,539,041	-	-	7,539,041
Accrued interest payable	-	-	209,258	-	-	209,258
Accrued expenses	386	-	424,315	-	-	424,701
Due to other funds	29,861	-	138	-	(29,999)	-
Deposits pledged	-	-	774,652	-	-	774,652
Total liabilities	<u>30,247</u>	<u>-</u>	<u>13,044,120</u>	<u>-</u>	<u>(29,999)</u>	<u>13,044,368</u>
Net assets:						
Invested in capital assets	1,640,367	-	163,347	-	-	1,803,714
Restricted	-	2,454,810	-	526,640	-	2,981,450
Unrestricted	<u>2,302,867</u>	<u>-</u>	<u>1,325,824</u>	<u>-</u>	<u>-</u>	<u>3,628,691</u>
Total net assets	<u>3,943,234</u>	<u>2,454,810</u>	<u>1,489,171</u>	<u>526,640</u>	<u>-</u>	<u>8,413,855</u>
	<u>\$ 3,973,481</u>	<u>\$ 2,454,810</u>	<u>\$ 14,533,291</u>	<u>\$ 526,640</u>	<u>\$ (29,999)</u>	<u>\$ 21,458,223</u>

See accompanying independent auditors' report.

**MARSHALL ISLANDS DEVELOPMENT BANK**

Combining Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended September 30, 2004

	Investment Development Fund	Section 211 Compact of Free Association	Republic of the Marshall Islands	Housing Preservation Grant	Elimination of Interfund Balances	Total
Operating revenues:						
Interest income on loans, net of bad debts of \$830,305	\$ 76,090	\$ (17,665)	\$ 2,282,711	\$ 899	\$ -	\$ 2,342,035
Insurance premiums	-	-	140,710	-	-	140,710
Loan fees	-	-	76,930	-	-	76,930
Interest income on time certificates of deposit	-	-	20,072	-	-	20,072
Other	65,055	-	104,390	-	-	169,445
Total operating revenues	141,145	(17,665)	2,624,813	899	-	2,749,192
Provision for loan losses	109,306	43,085	776,251	-	-	928,642
Operating expenses:						
Interest expense:						
Interest on loans payable	-	-	222,048	-	-	222,048
Interest on deposits	-	-	322,811	-	-	322,811
Total interest expense	-	-	544,859	-	-	544,859
General and administrative expenses:						
Salaries and employee benefits	286,326	-	407,103	-	-	693,429
Depreciation	107,067	-	39,729	-	-	146,796
Utilities	53,874	-	92,786	-	-	146,660
Repairs and maintenance	86,099	-	10,101	-	-	96,200
Travel and training	5,078	-	58,644	-	-	63,722
Foreclosed assets, net	35,000	-	-	-	-	35,000
Printing, stationery and advertising	12,085	-	21,456	-	-	33,541
Professional fees	12,416	-	20,322	-	-	32,738
Communications	13,273	-	13,595	-	-	26,868
Insurance	5,336	-	371	-	-	5,707
Miscellaneous	24,112	-	17,931	-	-	42,043
Total general and administrative expenses	640,666	-	682,038	-	-	1,322,704
Operating income (loss)	(608,827)	(60,750)	621,665	899	-	(47,013)
Nonoperating revenues:						
Contributions from RepMar	-	-	7,000	200,000	-	207,000
Investment earnings	-	-	68,152	-	-	68,152
Total nonoperating revenues	-	-	75,152	200,000	-	275,152
Change in net assets	(608,827)	(60,750)	696,817	200,899	-	228,139
Net assets at beginning of year	4,552,061	2,515,560	792,354	325,741	-	8,185,716
Net assets at end of year	\$ 3,943,234	\$ 2,454,810	\$ 1,489,171	\$ 526,640	\$ -	\$ 8,413,855

See accompanying independent auditors' report.

**MARSHALL ISLANDS DEVELOPMENT BANK**

Schedule of Operating Expenses and Capital  
Expenditures - Budget and Actual  
Year Ended September 30, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Provision for loan losses	\$ -	\$ 928,642	\$ (928,642)
Operating expenses:			
Interest expense:			
Interest on loans payable	-	222,048	(222,048)
Interest on deposits	-	322,811	(322,811)
Total interest expense	-	544,859	(544,859)
General and administrative expenses:			
Salaries and employee benefits	726,177	693,429	32,748
Depreciation	-	146,796	(146,796)
Utilities	-	146,660	(146,660)
Repairs and maintenance	10,000	96,200	(86,200)
Travel and training	53,000	63,722	(10,722)
Foreclosed assets, net	-	35,000	(35,000)
Printing, stationery and advertising	21,000	33,541	(12,541)
Professional fees	44,000	32,738	11,262
Communications	24,000	26,868	(2,868)
Insurance	23,330	5,707	17,623
Miscellaneous	32,550	42,043	(9,493)
Total general and administrative expenses	934,057	1,322,704	(388,647)
	<u>\$ 934,057</u>	<u>\$ 1,867,563</u>	<u>\$ (933,506)</u>
Capital expenditures:			
Computers/software	\$ 43,000	\$ 5,075	\$ 37,925
Office equipment	15,000	2,545	12,455
Office furniture	10,000	1,046	8,954
Vehicle	26,000	-	26,000
Buildings and houses	-	2,200	(2,200)
	<u>\$ 94,000</u>	<u>\$ 10,866</u>	<u>\$ 83,134</u>

See accompanying independent auditors' report.