
EXECUTIVE SUMMARY

CDA Single Audit Report as of September 30, 2004 and 2005

Single Audit Summary No. 06-006, August 29, 2006

The Commonwealth Development Authority (CDA) contracted with Deloitte & Touche, an independent auditing firm, to conduct a financial audit of CDA for the fiscal years ended September 30, 2004 and September 30, 2005. The audit was conducted in accordance with auditing standards generally accepted in the United States and with applicable provisions of *Government Auditing Standards* issued by the Comptroller General of the United States. This summary presents the Office of the Public Auditor's (OPA) review of the *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133* of CDA for the fiscal years ended September 30, 2004 and September 30, 2005. This summary is provided solely for informational purposes. As the audit was performed by Deloitte & Touche, no audit opinion on the related data is expressed nor inferred by OPA. A copy of the audit report may be obtained at CDA or the Office of the Public Auditor.

The Opinion, Financial Statements, and Notes to the Financial Statements are the three primary components which, taken together, give an informed reader an overview of the financial condition of the audited entity. CDA received an unqualified opinion or "clean" opinion, indicating that the data contained in the report can be relied upon. Additionally, CDA management prepared a *Management Discussion and Analysis* (MD&A) which provides, in common language, a summary of the financial activities of CDA. The MD&A is presented on pages 3 through 7 of the audit report.

Background

Established in 1985, CDA is the successor entity to the former Economic Development Loan Fund. The primary role of CDA is to stimulate economic development in the CNMI. This is accomplished through the Development Banking Division (DBD) and the Development Corporation Division (DCD). DBD administers the financing of capital improvement and other projects undertaken by the CNMI or its autonomous agencies. It also receives and holds United States economic assistance for economic development loans provided for under the CNMI Covenant. While the Development Banking Division provides assistance to government and public sector activities, the Development Corporation Division stimulates and facilitates business and commercial enterprises that require services essential for economic development. DCD serves as an economic development loan fund agency for qualified private sector enterprises.

The Northern Marianas Housing Corporation (NMHC) was established as a subsidiary corporation of the CDA in 1994. NMHC's purpose is to assist in providing low cost residential housing and direct loans to qualified individuals for the construction, maintenance, and repair of such housing. All arms of CDA produce financial statements that are presented individually and combined into consolidated statements. This presentation format provides readers financial information of the agency as a whole, and by division.

Combined Revenues Increased by \$12.0 M

On a combined basis, total CDA operating revenues increased from \$10.5 million in FY 2004 to \$12.0 million in FY 2005. Significant increases in the HOME Investment Partnership Program and Community Block Development Grants (CBDG) contributed the bulk of the overall revenue increase. These grants totaled \$3.3 million in FY 2005, triple the \$1.0 million received in the previous year. Offsetting these increases, however, were significantly lower revenues realized from loan interest and fees. This revenue item decreased by \$791,000 between FY 2004 and 2005, from \$5.2 million to \$4.4 million. CDA management, acknowledging the continuing downward trend in loan performance and portfolio, noted in its *Management Discussion and Analysis*, that CDA's potential loss on loans and accrued interest is the agency's "biggest financial concern."



Combined Expenses Maintained at \$12.0 M

As expected, specified expense items related to the Home Investment Partnership Program and CBDG grants increased in FY 2005 with increases in grant activity and revenues. These grant expense items alone totaled \$2.4 million in FY 2005, up \$1.5 million from \$0.9 million in FY 2004. Another major increase among expenses resulted from the recording of a \$743,424 provision for foreclosed real estate; none was recorded in the previous year. This provision reflects the decrease in the original value of foreclosed properties, relative to current market value. Offsetting the increases in certain expense items in FY 2005 were decreases in other expenses, most notable of which was a \$3.8 million decrease in provisions for doubtful accounts, dropping from \$5.3 million to \$1.5 million.

On a combined basis, total expenses (which includes interest expense and non operating items) and transfers out for capital development projects remained relatively flat at \$12.9 million in FYs 2004 and 2005.

Allowance for Doubtful Accounts Now \$86.5 M

CDA, as required by generally accepted accounting principles, records as an expense a provision for doubtful accounts (commonly referred to as a “bad debt” expense) when it believes that collection on loans is unlikely. In FY 2005, \$1.5 million was charged to “bad debts” and of this amount, \$1.3 million related to loans at the Development Corporation Division. Including the FY 2005 charge, CDA’s total allowance for doubtful accounts increased to \$86.5 million as of September 30, 2005. Given CDA’s total loans and interest receivable of \$118.1 million as of the FY 2005, CDA management estimates that only \$31.6 million of its loan and interest receivables is collectible based on analyses of its loan portfolio quality, loan loss experience, and economic conditions that may affect the borrowers’ ability to pay.

In FY 2005 CDA implemented stringent policies in its loan servicing portfolio; namely, to actively pursue loans that are nonperforming while proceeding with litigation on those that are delinquent.

Expenses Exceeded Revenues by \$891,000

On a combined basis, CDA’s expenses (inclusive of interest expense and other non-operating items) and transfers out for capital development projects, exceeded revenues by \$891,000:

	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Non-Operating Revs / Exps</u>	<u>Transfers Out for Cap Dev Projects</u>	<u>Change in Net Assets</u>
Development Banking Division	345,043	169,046	90,122	(1,359,489)	(1,093,370)
Development Corporation Division	3,279,807	3,449,637	0	0	(169,830)
Northern Marianas Housing Corp	8,426,532	7,330,885	(724,156)	0	371,491
Combined	12,051,382	10,949,568	(634,034)	(1,359,489)	(891,709)

Audit Findings

Audit findings are reportable items considered material by the auditors. Findings document situations where established policy, procedures or standards have not been followed. Such deviations may lead to losses for the CNMI or misstatements in its financial reports. Findings, if they remain uncorrected, can ultimately lead to qualifications in the Opinion of the auditors. For FYs 2004 and 2005, there were four reported findings. Due to a finding relating to Federal Grants, \$13,406 has been reported as questioned costs for FY 2004 which remained unresolved in FY 2005.



A copy of this report is available at the Office of the Public Auditor

Michael S. Sablan
Public Auditor
Commonwealth of the Northern Mariana Islands
Web Site: www.opacnmi.com

P.O. Box 501399
Saipan, MP 96950
Tel. No. (670) 322-6481
Fax No. (670) 322-7812