COMMONWEALTH DEVELOPMENT AUTHORITY

REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS
IN ACCORDANCE WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2004

COMMONWEALTH DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

Deloitte.

Deloitte & Touche
P.O. Box 500308
Saipan, MP 96950-0308
Tel: (670) 322-7337/0860/0861
Fax: (670) 322-7340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Development Authority:

We have audited the accompanying combined statements of net assets of the Commonwealth Development Authority (CDA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), as of September 30, 2004 and 2003, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of CDA'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 respective 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 the CDA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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, such financial statements present fairly, in all material respects, the financial position of the Commonwealth Development Authority as of September 30, 2004 and 2003, and their changes in net assets and their 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 14 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 the Commonwealth Development Authority'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 Commonwealth Development Authority's basic financial statements. The Combining Statement of Net Assets, Combining Statement of Revenues, Expenses and Changes in Net Assets and Combining Statement of Cash Flows as of and for the year ended September 30, 2004 (pages 34 through 36) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth Development Authority's management. The Combining Statement of Net Assets, Combining Statement of Revenues, Expenses and Changes in Net Assets and Combining Statement of Cash Flows as of and for the year ended September 30, 2004 has been subjected to the auditing procedures applied by us in the audit of the basic financial statements 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 July 1, 2005, on our consideration of 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.

Deloitte + Touche LLC

July 1, 2005

COMMONWEALTH DEVELOPMENT AUTHORITY

P.O. BOX 502149, SAIPAN MP 96950
Tel.: (670) 234-6245/6293/7145/7146 • Fax: (670) 234-7144 or 235-7147
Email: cda@itecnmi.com • Website: www.cda.gov.mp

Management's Discussion and Analysis

For Fiscal Year Ended September 30, 2004

The Management Discussion and Analysis of the Commonwealth Development Authority's financial performance provides an overview of the Authority's financial activity for the fiscal year ended September 30, 2004.

The Commonwealth Development Authority (CDA), formerly known as the Economic Development Loan Fund, was established as an autonomous public agency in 1985 through Public Law 4-49. Its overall purpose is to stimulate economic development in the Commonwealth. The Authority's functions are carried out through the Development Banking Division (DBD) and the Development Corporation Division (DCD). Additionally in 1994 the Northern Marianas Housing Corporation (NMHC) was consolidated into CDA. CDA as the financing arm of the Commonwealth (CNMI), successfully continues its role to stimulate the Commonwealth's economy by the financing of major capital improvements and investing in its people. CDA has a Board of Directors composed of seven individuals that are appointed staggered four-year terms by the Governor of the Commonwealth.

The Banking Division (DBD) generally engages in government and public sector activities while the Corporation Division (DCD) engages in private sector activities. Additionally, on December 1, 2000, CDA was given administrative authority for the Qualifying Certificate Program (QC). The QC is a tax incentive program to encourage new investment within the CNMI. The Housing Division (NMHC) provides low cost housing and rentals and housing loans to qualifying residents of the CNMI. In addition, NMHC has many loan programs to all income level qualified applicants. CDA maintains three offices: its main office is in Saipan and branch offices are in Tinian and Rota.

DCD's mission is to initiate, stimulate, and facilitate development of the economy of the Commonwealth for the economic and social advancement of the people of the Commonwealth by making loans, loan guarantees and providing financial, technical, and advisory assistance in its discretion to the private sector in the Northern Marianas.

DCD's primary activity relates to the servicing of its direct loan portfolio. As of year-end, DCD's Loans Receivable, net portfolio was $15,890,223, a decrease of $3,163,497 or 19% compared to the previous year. The cause of the decrease was due to the continuous effort of the Loan Department by providing loan servicing to all clients and referring accounts that were 120 days in arrears to the legal counsel for litigation process. The vast majority of the outstanding balances relate to loans that were initiated during the late 1980's and the early 1990's.

Unfortunately, with the Asian economic crisis in the early 1990's many of the projects financed by these loans greatly diminish their values both as commercial enterprises and in carrying assets that DCD places on them. This was further exacerbated by the events of the 911, SARS and the war in Iraq.

Additionally, the Commonwealth was swept with two major typhoons. Typhoon Tingting struck the CNMI on June 27, 2004 and about a month later, Typhoon Chaba devastated again the CNMI on August 21, 2004. With these two major typhoons, the clients in the Marine and Agriculture Divisions were greatly impacted with their operations and productivity resulting in non-revenue generation. As a result, their financial obligation with CDA was a problem.

As stated earlier, the net value of the Loans Receivable portfolio, after provision for doubtful accounts was $15,890,223. The increase in the provision for doubtful accounts was $5,168,121. This figure represents CDA's estimated potential of loss of value of the loans and accrued interest for the current year. The ultimate collection of the earned interest and the principal value of loans is DCD's biggest financial concern. The inability of borrowers to repay their commitments has not allowed funds to be accumulated and re-loaned to new borrowers. CDA has recognized this concern and continued the moratorium during the current year.

The Board of Directors continuously emphasized to management that the collection of delinquent loans is its top priority.

As its number one priority, CDA proceeded with numerous court judgments on seriously delinquent clients. CDA has foreclosed on several properties.

Delinquency will continue to plague CDA's financial condition but if we work closely with our clients, we will decrease the delinquency ratio then monitor a consistent collection activity and structure to meet the clients' cash flow capability. But we must maintain constant communication with them.

Even if many of our clients continue to be seriously in arrears, we will continue what we have been doing for the past year. Cash and Cash Equivalents for DCD increased $237,893 from the prior year or a 15% increase. This tells us that what we are doing is working.

<u>Financial Highlights</u>

- Operating revenues for DCD slightly increased from the prior year by $214,339, a 6% increase primarily due to the increase in interest and fees. However, operating revenues of DBD decreased by $114,139 or 28% due to the drastic decrease in interest earned on investments.

- Operating expenses (combined DCD and DBD), omitting the provision of doubtful accounts, decreased by $205,627 or 12%. This decrease is related primarily to the decrease of the salaries and wages, employee benefits, professional fees and others.

- The provision for doubtful accounts expense increased dramatically by $4,016,881 or 349%. This increase was due to the high delinquency of non-performing loans.

- The total net assets of DCD and DBD decreased by $2,458,902 or 6% to $40,936,171, primarily due to the effects of the increase of the provisions for doubtful loans.

- The $40 Million Bond for land compensation claims was executed on December 10, 2003. CDA was able to get its reimbursement back for the interim financing for CIP expenses during the bond floatation.

- The Loan Division was very aggressive in pursuing non-performing loans. Management saw the need for additional staff and hired a new Loan Officer on June 29, 2004.

- CDA submitted two Qualifying Certificates Resolutions for Recommendations to Governor Juan N. Babauta:

  1. He signed on March 18, 2004 Resolution #2002-01 issued to Asia Pacific Hotels, Inc. dba Daiichi Hotel Saipan Branch.

  2. He also signed on August 31, 2004 Resolution #2002-02 issued to World Corporation dba World Resort Saipan.

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Management Discussion and Analysis

For Fiscal Year Ended September 30, 2004

Division Analysis of the Northern Marianas Housing Corporation (NMHC)

Exhibit B(3) shows the results of operations for NMHC and compares it to the prior year. NMHC is a multifaceted organization that offers direct housing loans, housing loan guarantees, rental properties, housing development and where necessary, infrastructure development.

In Fiscal Year 2004, NMHC finalized the completion of Tottotville. These units are fully occupied however; financing has not yet been finalized for the sale. With closure of the Expansion Project, NMHC needs to transfer infrastructure values to the Commonwealth Utilities Corporation and the Department of Public Works.

The U.S. Department of Housing and Urban Development (HUD), through NMHC, assisted the victims of Typhoon Pongsona with an award of 50 Vouchers for the Island of Rota exclusively, and an annual budget of $520,000. As of September 30, 2004, all 50 Vouchers have been occupied.

NMHC's revenues increased 22% from prior years and expenses declined by 1%. The Vouchers awarded to the victims of Typhoon Pongsona will not be reimbursed to NMHC from HUD until Fiscal Year 2004.

Short-Term Goals: NMHC - 2004

The Mortgage & Credit Division continues to work diligently to sell the nine remaining Sugar King II units and updated appraisal reports have been obtained.

NMHC has prepared a "standard" Loan Guaranty Agreement for use with participating lenders. NMHC did not renew the BankPacific Agreement as the requirements became too stringent. Bank of Hawaii has also changed their requirements and as such, loans made cannot be transferred. The revolving affect will not avail NMHC with more funds for these Programs.

NMHC now services a total of 378 loans and has implemented the HOME New Construction Loan Program. NMHC has started the update of applications, commitments and loan closings for the Islands of Rota and Tinian. NMHC has nearly exhausted/committed the $1.3 M available for the Program - the balance as of the end of the fiscal year.

The Partnership Program with Rural Development (RD) is underway and NMHC has received nine loan commitments. This is a leveraging program between NMHC and RD so that more loans can be made with budgeted funds.

The activities of the Program and Housing Division have significantly increased due to the administration and oversight of additional vouchers approved by HUD for the Housing Choice Voucher Program. With the additional 50 vouchers received for Typhoon Pongsona, and new approvals granted by HUD for Typhoons Tingting and Chaba for 63 and 85 vouchers, respectively, NMHC now administers a total of 363 units in this Program. At present, the occupancy rate is 99%. We submitted the Typhoon Pongsona's request for reimbursement to FEMA which would entitle NMHC to 90% of the total reimbursement and it is anticipated that the receipt of the reimbursement will be in FY 2005.

The New Construction, Project-Based Program, consisting of 132 housing units, has a 98% occupancy rate. As NMHC receives revenues for its operations from the rental of housing units, repairs and maintenance of project-based units require the majority of these revenues. With each passing year and because of the age of the units, costs to maintain the units become greater, however, HUD's Housing Quality Standards (HQS) must continually be met. HUD's inspector has raised critical issues in the maintenance of the Section 8 units which are more than 15 years old, and thus costs to bring the units to standard will be greater and continue to escalate considering the increased costs of materials purchased from vendors. Replacement of appliances and smoke alarms will be costly as well. It is anticipated that total costs for repairs and maintenance will approximate $800,000 through the next fiscal year.

CDBG 5 Year Consolidated Plan

Community Development Block Grant (CDBG) will improve the quality of life for all citizens of the Commonwealth of the Northern Marianas Islands through economic development and capital improvements such as; public facilities (general); infrastructure upgrades; rehabilitation/revitalization and the removal of blight; public services and recreational opportunities. The CNMI intends to accomplish this over the next five years by meeting priority goals and objectives. During the course of the 2005-2009 Five Year Consolidated Plan (ConPlan), NMHC intends to utilize CDBG funding along with matching funds, for larger yet fewer capital improvement projects, and would like to rotate the funding between islands each program year. NMHC would retain roughly 20% percent of the CDBG funding for smaller projects and activities for those islands not in the funding rotation. The HOME program is transitioning from funding rehabilitation into funding new construction. It is anticipated that forty-five new units will be completed over the next five years. The goal of Section 8 housing is to increase vouchers, concentrate on decreasing the waiting list, promote self-sufficiency, promote homeownership and maintain the existing units under management. See Charts 1-4.

CHART 1 – HOUSING AND SPECIAL NEEDS HOUSING GOALS

GOALS	PROBLEM / NEED	INPUTS / RESOURCES	#	ACTIVITIES	OUTPUT YEAR	OUTPUT	OUTCOMES
Increase homeownership opportunities	There is lack of afford-able housing in the CNMI	HOME program funds	HO-1	Construct affordable low and moderate income housing	2005 2006 2007 2008 2009 **TOTAL**	9 new homes 9 new homes 9 new homes 9 new homes 9 new homes **45 new homes**	Based on a household composition of five, two hundred twenty-five individuals will benefit from new housing over a five year period
Improve housing standards	Un-enforced building codes, expanding family size, and age of the units create a need for rehabilitation	HOME program funds	HO-2	Rehabilitate existing homes	2005 2006 2007 2008 2009 **TOTAL**	6 rehabilitations 6 rehabilitations 6 rehabilitations 6 rehabilitations 6 rehabilitations **30 rehabilitations**	Based on a household composition of five, one hundred fifty individuals will benefit from rehab. over a five year period
Increase low interest lending opportunities	Affordability is an impediment to home–ownership in the CNMI	Banks, HOME, CDBG.	HO-3	Look into alternative grant opportunities to assist homeownership	2005 2006 2007 2008 2009 **TOTAL**	Research & develop. 1 new funding source 2 new funding source 2 new funding source 2 new funding source **7 funding sources**	
Increase rental housing opportunities	The Section 8 waiting list is approx. 400 clients currently NMHC only has 215 Vouchers available	Section 8 Voucher funds	HR-1	Provide rental assistance	2005 2006 2007 2008 2009 **TOTAL**	238 rentals 347 rentals 347 rentals 390 rentals 450 rentals **1772 rentals**	Based on a household composition of five, eight thousand eight hundred and sixty individuals will benefit from rental assistance over a five year period
Maintain decent, safe and sanitary project-based units currently under management	As the housing stock ages they need to be rehabilitated	Section 8 Voucher funds	HR-2	Housing Quality Standards (HQS)	2005 2006 2007 2008 2009 **TOTAL**	132 units 132 units 132 units 132 units 132 units **660 units**	Based on a household composition of five, three thousand three hundred individuals will benefit from HQS for units under management over a five year period
Improve the quality of life for persons with a disability by making their homes reasonably accommodating	Most housing is not compliant w/ ADA or Section 504 standards	CDBG program funds	HR-3	Identify clients and begin actual rehab. Bring elderly and disabled homes up to Section 504 and ADA compliance standards	2005 2006 2007 2008 2009 **TOTAL**	2 units 2 units 2 units 2 units 2 units **10 units**	Improve the quality of life for the elderly and the disabled
Decrease dependency on non-renewable energy resources and reduce the cost of homeownership	The rising cost of oil has severally affected the world and the CNMI economies.	CDBG program funds	HI-1	Initiate research into energy efficient alternatives for new housing construction and CDBG funded projects (youth centers, homeless shelters etc.)	2005 2006 2007 2008 2009 **TOTAL**	Research & develop. 1 model unit 1 unit 2 units 3 units **7 units**	Reduced homeownership costs, less reliance on expensive and non-renewable resources

CHART 2 – FAIR HOUSING GOALS

GOALS	PROBLEM / NEED	INPUTS / RESOURCES	#	ACTIVITIES	OUTPUT YEAR	OUTPUT	OUTCOMES
Create and ensure equal opportunities to obtain housing	Many individuals are unaware of their rights and suffer from unfair practices	Section 8 program funds	FH-1	Informing and educating the public about their rights regarding fair housing (holding workshops, developing an information pamphlet etc.)	2005	2 workshops	Better informed public regarding their rights to fair housing under the law
					2006	2 workshops	
					2007	2 workshops	
					2008	2 workshops	
					2009	2 workshops	
					TOTAL	**10 workshops**	
Assist families to achieve self-sufficiency	Many Section 8 clients lack the education necessary to get a good paying job to support themselves	Section 8 program funds	FH-2	Establish an escrow account for clients while attending secondary or post-secondary school, that will be available to them upon successful completion of their educational program	2005	Initiate FSS planning	Clients moving up and out of assisted housing, the start of a better life. Reducing the waiting list and assisting more needy families
					2006	Implement the plan	
					2007	Manage the plan	
					2008	Manage the plan	
					2009	Manage the plan	
					TOTAL		

CHART 3 – HOMELESS GOALS

GOALS	PROBLEM / NEED	INPUTS / RESOURCES	#	ACTIVITIES	OUTPUT YEAR	OUTPUT	OUTCOMES
Identify the homeless population in the CNMI. Write and submit a Continuum of Care grant application	There is insufficient information as to the # of homeless in the CNMI	There are currently 10 agencies the NMHC is working with	HL-1	Meet on a monthly basis with all interested parties to identify goals and establish achievable deadlines	2005	Initiate CoC planning	Provide shelters, transitional housing, permanent supportive and permanent housing to those in need
					2006	Submit CoC plan	
					2007	Implement the plan	
					2008	Manage the plan	
					2009	Manage the plan	
					TOTAL	**To be determined**	
Identify the # of people affected by HIV/AIDS. Write and submit a HOPWA grant application	There is insufficient information as to the # of affected people with HIV/AIDS in the CNMI	There are currently 10 agencies the NMHC is working with	HL-2	Meet on a monthly basis with all interested parties to identify goals and establish achievable deadlines	2005	HOPWA planning	Caring for those infected by HIV/AIDS and elevating community awareness and safety.
					2006	Submit HOPWA plan	
					2007	Implement the plan	
					2008	Manage the plan	
					2009	Manage the plan	
					TOTAL	**To be determined**	

CHART 4 – COMMUNTIY DEVELOPMENT GOALS

GOALS	PROBLEM / NEED	INPUTS / RESOURCES	#	ACTIVITIES	OUTPUT YEAR	OUTPUT	OUTCOMES
Infrastructure upgrades to provide basic services to the community and encourage economic development	Insufficient sewer, water waste water, solid waste facilities. aging road s and harbors	There are currently 17 agencies the NMHC is working with. CIP & CDBG funding along with other sources	CD-1	Coordinate with the CIP office and other interested parties to identify capital improvement projects CDBG can contribute to	2005	1-2 projects	Infrastructure upgrades to community resources that will assist in economic development activities
					2006	3 projects	
					2007	3 projects	
					2008	1-2 projects	
					2009	1-2 projects	
					TOTAL	**9-12 projects**	
Create a community environment is both functional and inviting to business, residents and tourists	Aging business districts and abandoned/unused buildings have blighted economic development zones	CIP & CDBG funding along with other sources	CD-2	Coordinate with the CIP office and other interested parties to identify capital improvement projects CDBG can contribute to	2005	0 projects	Removal of blight to encourage investment opening up space for business or community development
					2006	1 projects	
					2007	2 projects	
					2008	2 projects	
					2009	2 projects	
					TOTAL	**6 projects**	
Provide support for limited clientele and community needs	There remains several underserved population in the CNMI	NGO, CDBG and ESG funds. Coordination with the public, governor and the mayors to identify need	CD-3	Provide or contribute to services for senior, youth and the disabled (see HR-3)	2005	2 units	Improve the quality of life for the elderly and the disabled
					2006	2 units	
					2007	2 units	
					2008	2 units	
					2009	2 units	
					TOTAL	**10 units**	
Promote community health, ,team work and sportsmanship	The CNMI suffers from many health related problems	Local and CDBG funding along with other sources	CD-4	Build new facilities and rehabilitate existing facilities (e.g. playgrounds for kids)	2005	1 project	Improving the health and quality of life for residents of the CNMI
					2006	1 project	
					2007	2 projects	
					2008	2 projects	
					2009	2 projects	
					TOTAL	**8 projects**	

Commonwealth Development Authority
Combined Statement of Net Assets
September 30, 2004 and 2003

Exhibit A

	2004	2003
Current assets	$ 8,843,001	$ 13,684,058
Other assets	21,081,500	13,513,889
Noncurrent assets	56,710,884	62,417,357
Total assets	$ 86,635,385	$ 89,615,304
Current liabilities	$ 3,991,814	$ 2,964,684
Noncurrent liabilities	20,630,479	22,199,343
Total liabilities	24,622,293	25,164,027
Investment in capital assets	17,254,978	18,067,965
Restricted	44,758,114	46,383,312
Total net assets	62,013,092	64,451,277
Total liabilities and net assets	$ 86,635,385	$ 89,615,304

Commonwealth Development Authority
Development Banking Division
Condense, Comparative Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Years Ended September 30, 2004 and 2003

Exhibit B(1)

	2004	%	2003	%	Increase (Decrease) Between Yrs.	%
Operating Revenues:						
Interest and fees on loans	$ 220,598	76%	$ 240,955	59%	$ (20,357)	-8%
Interest on investments	71,088	24%	164,870	41%	(93,782)	-57%
Total operating revenues	291,686	100%	405,825	100%	(114,139)	-28%
Operating Expenses:						
Other	180,331	100%	214,745	100%	(34,414)	-16%
Total operating expenses	180,331	100%	214,745	100%	(34,414)	-16%
Operating income	111,355		191,080		(79,725)	-42%
Nonoperating Revenues (Expenses):						
Other income	274,069		-		274,069	0%
Interest expense	(172,234)		-		(172,234)	0%
Total nonoperating revenues (expenses), net	101,835		-		101,835	0%
Income before contributions and transfers	213,190		191,080		22,110	12%
Contributed capital	1,895,306		-		1,895,306	0%
Transfers out for capital development grants	(1,819,900)		(4,795,111)		2,975,211	-62%
Change in net assets	$ 288,596		$ (4,604,031)		$ 4,892,627	-106%

Commonwealth Development Authority
Development Corporation Division
Condense, Comparative Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Years Ended September 30, 2004 and 2003

Exhibit B(2)

	2004	%	2003	%	Increase (Decrease) Between Yrs.	%
Operating Revenues:						
Interest and fees on loans	$ 3,643,461	95%	$ 3,299,192	92%	$ 344,269	10%
Interest on investments	88,192	2%	116,837	3%	(28,645)	-25%
Other	84,585	2%	185,870	5%	(101,285)	-54%
Total operating revenues	3,816,238	100%	3,601,899	100%	214,339	6%
Operating Expenses:						
Provision for doubtful accounts	5,168,121	79%	1,151,240	43%	4,016,881	349%
Salaries and wages	534,830	8%	583,535	22%	(48,705)	-8%
Employee benefits	160,214	2%	282,163	10%	(121,949)	-43%
Office rent	128,762	2%	134,521	5%	(5,759)	-4%
Professional fees	118,685	2%	127,944	5%	(9,259)	-7%
Depreciation	100,298	2%	97,249	4%	3,049	3%
Travel	93,431	1%	34,936	1%	58,495	167%
Other	248,397	4%	295,482	11%	(47,085)	-16%
Total operating expenses	6,552,738	100%	2,707,070	100%	3,845,668	142%
Operating loss (income)	(2,736,500)		894,829		(3,631,329)	-406%
Nonoperating Revenues (Expenses):						
Interest expense	(10,998)		(22,953)		11,955	-52%
Change in net assets	$ (2,747,498)		$ 871,876		$ (3,619,374)	-415%

Commonwealth Development Authority
Northern Marianas Housing Corporation
Condense, Comparative Statement of Income and Expense

For the Fiscal Years Ended September 30, 2004 and 2003

Exhibit B(3)

	2004	%	2003	%	Increase (Decrease) Between Yrs.	%
Operating Revenues:						
Interest and fees on loans	$ 1,314,345	21%	$ 1,356,814	26%	$ (42,469)	-3%
Section 8 grant	3,417,261	55%	3,127,675	61%	289,586	9%
CDBG grant	757,557	12%	394,736	8%	362,821	92%
Other grants	218,226	3%	122,179	2%	96,047	79%
Other	547,324	9%	133,910	3%	413,414	309%
Total operating revenues	6,254,713	100%	5,135,314	100%	1,119,399	22%
Operating Expenses:						
Section 8 program	1,816,204	32%	1,595,239	28%	220,965	14%
CDBG grant projects	757,557	13%	394,736	7%	362,821	92%
Repairs and maintenance	701,982	12%	594,479	10%	107,503	18%
Salaries and wages	633,638	11%	679,184	12%	(45,546)	-7%
Depreciation	592,217	10%	597,669	10%	(5,452)	-1%
Other grant programs	218,226	4%	122,480	2%	95,746	78%
Employee benefits	194,238	3%	205,897	4%	(11,659)	-6%
Provision for doubtful accounts	169,999	3%	876,360	15%	(706,361)	-81%
Professional fees	72,551	1%	50,668	1%	21,883	43%
Travel	49,803	1%	45,037	1%	4,766	11%
Office rent	9,307	0%	9,600	0%	(293)	-3%
Other	441,886	8%	554,303	10%	112,417	20%
Total operating expenses	5,657,608	100%	5,725,652	100%	(68,044)	-1%
Operating income (loss)	597,105		(590,338)		1,187,443	-201%
Nonoperating Revenues (Expenses):						
Interest income	44,212		70,475		(26,263)	-37%
Interest expense	(768,628)		(795,473)		26,845	-3%
Total nonoperating revenues (expenses), net	(724,416)		(724,998)		582	0%
Income before contributions and transfers	(127,311)		(1,315,336)		1,188,025	-90%
Contributed capital	148,028		120,689		27,339	23%
Change in net assets	$ 20,717		$ (1,194,647)		$ 1,215,364	-102%

Combined Statements of Net Assets
September 30, 2004 and 2003

ASSETS	2004	2003
Current assets:		
Cash and cash equivalents	$ 3,442,743	$ 2,669,440
Time certificates of deposit	500,000	6,220,865
Receivables:		
Current portion of loan receivable, net	3,097,848	2,557,015
Current portion capital development loans, net	808,393	603,648
Rent, net	23,797	35,226
Accrued interest, net of allowance for doubtful accounts of $11,619,778 and $8,740,467 as of September 30, 2004 and 2003, respectively	838,149	1,252,720
Other	110,888	29,636
Inventory	-	264,879
Prepaid expenses	21,183	50,629
Total current assets	8,843,001	13,684,058
Other assets:		
Cash and cash equivalents, restricted	10,714,428	6,446,559
Investments, restricted	10,367,072	7,067,330
Total other assets	21,081,500	13,513,889
Noncurrent assets:		
Loans receivable, net	27,450,053	30,286,057
Capital development loans receivable, net	2,924,503	3,543,384
Due from other funds	8,829,112	10,309,157
Property and equipment, net	6,302,296	7,115,283
Land	10,409,682	10,409,682
Foreclosed real estate	795,238	753,794
Total noncurrent assets	56,710,884	62,417,357
	$ 86,635,385	$ 89,615,304
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current installment of notes payable	$ 96,798	$ 109,814
Accounts payable and accrued expenses	1,091,460	818,122
Interest payable	2,803,556	2,036,748
Total current liabilities	3,991,814	2,964,684
Notes payable, net of current installments	11,801,367	11,890,186
Due to other funds	8,829,112	10,309,157
Total liabilities	24,622,293	25,164,027
Contingencies		
Net assets:		
Investment in capital assets	17,254,978	18,067,965
Restricted	44,758,114	46,383,312
Total net assets	62,013,092	64,451,277
	$ 86,635,385	$ 89,615,304

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

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

	2004	2003
Operating revenues:		
Interest and fees on loans	$ 5,178,404	$ 4,896,961
Section 8 income:		
Federal housing assistance rentals	3,356,260	3,048,227
Tenant share	61,001	79,448
Interest on investments	159,280	281,707
HOME Investment Partnership Program grants	166,023	113,466
CDBG Program Grant	757,557	394,736
ESG Program Grant	52,203	8,713
Housing rental	3,305	5,102
Other	628,604	314,678
Total operating revenues	10,362,637	9,143,038
Operating expenses:		
Provision for doubtful accounts	5,338,120	2,027,600
Section 8 rental	1,816,204	1,595,239
Salaries and wages	1,168,468	1,262,719
CDBG Program Grant	757,557	394,736
Repairs and maintenance	701,982	594,479
Depreciation	692,515	694,918
Employee benefits	354,452	488,060
Professional fees	191,236	178,612
HOME Investment Partnership Program grants	166,023	113,466
Travel	143,234	79,973
Office rent	138,069	144,121
ESG Program Grant	52,203	9,014
Other	870,614	1,064,530
Total operating expenses	12,390,677	8,647,467
Operating (loss) income	(2,028,040)	495,571
Nonoperating revenues (expenses):		
Other income	274,069	-
Interest income	44,212	70,475
Interest expense	(951,860)	(818,426)
Total nonoperating revenues (expenses), net	(633,579)	(747,951)
Loss before contributions and transfers	(2,661,619)	(252,380)
Contributed capital	2,043,334	120,689
Transfers out for capital development grants	(1,819,900)	(4,795,111)
Change in net assets	(2,438,185)	(4,926,802)
Net assets - beginning	64,451,277	69,378,079
Net assets - ending	$ 62,013,092	$ 64,451,277

See accompanying notes to financial statements.

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

	2004	2003
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	$ 2,496,292	$ 2,150,112
Cash received from interest and fees on capital development loans	205,203	279,249
Interest and dividends on investments	163,240	281,707
Cash payments to suppliers for goods and services	(1,394,821)	(2,529,469)
Cash received from customers	162,901	367,216
Cash payments to employees for services	(1,168,468)	(1,468,616)
Cash received from federal grant awards	4,674,662	3,614,984
Cash payments from federal grant awards	(3,493,968)	(2,142,500)
Net cash provided by operating activities	1,645,041	552,683
Cash flows from noncapital financing activities:		
Net repayment of line of credit	-	(789,799)
Net cash used for noncapital financing activities	-	(789,799)
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(71,528)	(41,452)
Proceeds from sale of property and equipment	192,000	221,763
Contributed capital	2,043,334	120,689
Net proceeds of loans receivable	185,571	144,593
Payments received on capital development loans	414,137	443,317
Capital development grants	(1,819,900)	(4,795,111)
Proceeds from notes payable	-	2,000,000
Principal paid on notes payable	-	(674,740)
Interest paid on notes payable	(12,818)	(54,770)
Net cash provided by (used for) capital and related financing activities	930,796	(2,635,711)
Cash flows from investing activities:		
Net proceeds from sale and maturities of restricted cash and cash equivalents, time certificates of deposit and investments	-	4,396,341
Net purchase of restricted cash and cash equivalents, time certificates of deposit and investments	(1,846,746)	(465,971)
Interest income	44,212	70,475
Net cash (used for) provided by investing activities	(1,802,534)	4,000,845
Net increase in cash and cash equivalents	773,303	1,128,018
Cash and cash equivalents at beginning of year	2,669,440	1,541,422
Cash and cash equivalents at end of year	$ 3,442,743	$ 2,669,440
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (2,028,040)	$ 495,571
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Provision for doubtful accounts	5,338,120	2,027,600
Depreciation	692,515	694,918
(Increase) decrease in assets:		
Receivables:		
Rent	(72,901)	(2,376)
Other	(81,252)	(9,839)
Accrued interest	(2,464,741)	(2,467,600)
Inventory	-	269,849
Prepaid expenses	29,446	(32,219)
Other assets	(41,444)	57,547
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	273,338	(480,768)
Net cash provided by operating activities	$ 1,645,041	$ 552,683
Supplemental disclosure of noncash capital and related financing activities:		
Sale of Koblerville Expansion Project Housing units:		
Noncash increase in loans receivable	$ 264,879	$ -
Noncash decrease in inventory	(264,879)	-
	$ -	$ -

See accompanying notes to financial statements.

(1) Reporting Entity

The Commonwealth Development Authority (CDA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was created as an autonomous public agency of the CNMI pursuant to Public Law 4-49 as amended by Public Laws 4-63 and 5-27. CDA's existence is to be perpetual and it shall have all the rights and privileges of a corporation. The purpose of CDA is to stimulate the economic development of the CNMI.

The functions of CDA are carried out through a Development Banking Division (DBD, government and public sector activities), a Development Corporation Division (DCD, private sector activities), and a discretely presented component unit, the Northern Marianas Housing Corporation (NMHC). NMHC, formerly the Mariana Islands Housing Authority (MIHA), was established under Public Law 5-37 to assist in the development and administration of low cost residential housing in the Northern Mariana Islands. In 1977, Public Law 5-37 was succeeded by Public Law 5-67, which empowered MIHA to provide low cost residential housing and employment through the construction, maintenance, and repair of such housing. On October 20, 1994, Executive Order 94-3 became effective which abolished MIHA and all of its functions, assets and liabilities were transferred to CDA. CDA established a subsidiary corporation (i.e., NMHC) to account for the operations, assets and liabilities of MIHA. NMHC is governed by a five member Board of Directors appointed by the Board of Directors of CDA. The purpose and functions of the two divisions and NMHC are as follows:

Development Banking Division:

- To receive and hold United States economic assistance for economic development loans provided under Section 702(c) of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (the Covenant);

- To aid in the financing of capital improvement projects and other projects undertaken by the CNMI and its autonomous public agencies;

- To achieve the greatest possible return, in terms of economic development, on the funds made available to the CNMI by the United States in accordance with the Covenant; and on such other funds as may be made available to CDA as capital contributions;

- To disseminate modern practices and techniques of financing, management and business administration in order to raise the levels of efficiency and productivity in all sectors; and

- To serve as the Northern Marianas development bank identified in Article IX, Section 6(c) of the Constitution.

As such, DBD considers all its net assets restricted for such purposes.

Development Corporation Division:

- To identify, formulate, initiate, stimulate and facilitate business and commercial enterprises, with special emphasis on agricultural and marine resources, manufacturing and processing activities, import substitution, export development and responsible use of indigenous raw materials;

(1) Reporting Entity, Continued

Development Corporation Division, Continued:

- To identify, formulate, initiate, stimulate and facilitate business and commercial enterprises where a service necessary and vital to economic development is required, or where profit incentives are not sufficient to attract private sector investors; and

- To serve as the economic development loan fund agency for qualified private sector enterprises.

- During the year ended September 30, 2003, served as an intermediary lender for the Microloan Program, administered by the U.S. Small Business Administration (SBA), the objective of which was to assist small business concerns in those areas suffering from a lack of credit due to economic downturns. Under the program, SBA made loans to CDA, who used the loan funds to make short-term microloans in amounts up to $35,000 to start-up newly established and growing small business concerns. This program was terminated in 2003.

As such, DCD considers all its net assets, except net assets invested in capital assets, to be restricted for such purposes.

Northern Marianas Housing Corporation:

- To administer direct loans to qualified individuals for housing construction;

- To participate as guarantor or trustee in housing loan programs;

- To develop and construct rental housing;

- To construct and/or administer various other Federal and local residential and housing projects; and

- To participate in projects subsidized by the U.S. Department of Housing and Urban Development (HUD). Upon completion of the projects, the residential units are rented to qualifying families and individuals.

As such, NMHC considers all its net assets, except net assets invested in capital assets, to be restricted for such purposes.

(2) Summary of Significant Accounting Policies

The accounting policies of CDA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement 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. CDA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

All 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 this fund are included on the statements of net assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net 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.

Budgets

In accordance with Public Law 3-68, the Planning and Budgeting Act of 1983, CDA submits an annual budget to the CNMI Office of the Governor.

Cash and Cash Equivalents

For purposes of the statements of net assets and cash flows, cash and cash equivalents is defined as cash held in demand deposits, savings and unrestricted time certificates of deposit with a maturity date 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. At September 30, 2004 and 2003, total unrestricted cash and cash equivalents were $3,442,743 and $2,669,440, respectively, and the corresponding bank balances were $3,546,379 and $2,762,005, respectively. Of the bank balance amounts, $3,546,379 and $2,762,005 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance as of September 30, 2004 and 2003, respectively. Bank deposits in the amount of $300,000 and $400,000 were FDIC insured as of September 30, 2004 and 2003, respectively. CNMI law does not require component units to collateralize their bank accounts and thus CDA's deposits in excess of FDIC insurance are uncollateralized.

Time Certificates of Deposit

Unrestricted investments are held in time certificates of deposit (TCDs) with maturities of more than three months when purchased, and fair value approximated cost as of September 30, 2004 and 2003. At September 30, 2004 and 2003, approximately $500,000 and $6,220,865, respectively, of CDA's TCDs are with financial institutions subject to FDIC. As of September 30, 2004 and 2003, TCDs in the amount of $100,000 and $300,000 were FDIC insured, respectively. CNMI law does not require component units to collateralize their bank accounts and thus CDA's deposits in excess of FDIC insurance are uncollateralized.

Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses.

Property and Equipment

Property and equipment, set forth in note 7, are recorded at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets.

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

Long-lived assets for which management has committed to a plan to dispose of the assets, whether by sale or abandonment, are reported at the lower of carrying amount or fair value less costs to sell.

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure less estimated selling costs establishing a new cost basis. Valuations are periodically performed by management and adjustments are made to reflect the real estate at the lower of the carrying amount or fair value less estimated costs to sell. Operating expenses or income, reductions in estimated values, and gains or losses on disposition of such properties are charged to current operations.

Loans Receivable, Interest Receivable and Allowance for Loan Losses

Loans and interest receivable are stated at the amount of unpaid principal and interest, reduced by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for doubtful accounts charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of the collectibility of loans 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.

Restricted Cash and Cash Equivalents and Investments

As described in note 1, DBD receives and holds United States economic assistance for economic development loans provided under Section 702(c) of the Covenant. The *Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands* requires that a revolving fund be established into which repayments of principal and interest from revenue-producing projects shall be deposited for financing of additional revenue-producing capital development projects. From its inception on October 1, 1985, DBD has exclusively accounted for Covenant 702(c) funding and thus represents the required revolving fund.

As described in note 1, DCD serves as the economic development loan fund agency for qualified private sector enterprises. DCD accounts for all funds received by the former Northern Mariana Islands Economic Development Loan Fund pursuant to Article VII, Section 702(c) of the Covenant from February 15, 1975 through September 30, 1985. In addition to the aforementioned financial resources, DCD has been designated as the administrative agency for economic development loans transferred from the Trust Territory of the Pacific Islands government to the CNMI. DCD represents a revolving fund to account for economic development loans to qualified private sector enterprises.

(2) Summary of Significant Accounting Policies, Continued

Restricted Cash and Cash Equivalents and Investments, Continued

As described in note 1, NMHC administers various Federal and local residential and housing projects. In administering these programs, NMHC is required to maintain certain funds as collateral or in accounts which are restricted for specific purposes.

Retirement Plan

CDA contributes to the Northern Mariana Islands Retirement Fund (the Fund), a cost-sharing multiple employer defined benefit pension plan administered by the CNMI. The Fund provides retirement, security and other benefits to employees, and their spouses and dependents of the CNMI Government and CNMI agencies, instrumentalities, and public corporations. CNMI Public Law 6-17, the Northern Mariana Retirement Fund Act of 1988 assigns the authority to establish and amend benefit provisions to the Fund's Board of Trustees. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and CDA is required to contribute at an actuarially determined rate. The current rate is 26.4% of annual covered payroll. The contribution requirements of plan members and CDA are established and may be amended by the Fund's Board of Trustees. CDA's contributions to the Fund for the years ended September 30, 2004, 2003 and 2002 were $273,169, $328,153 and $274,518, respectively, equal to the required contributions for each year.

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required CDA to establish net asset categories as follows:

- Investment in capital assets; capital assets, net of accumulated depreciation.

- Restricted:

  Nonexpendable - Net assets subject to externally imposed stipulations that CDA maintain them permanently. At September 30, 2004 and 2003, CDA does not have nonexpendable net assets.

  Expendable - Net assets whose use by CDA is subject to externally imposed stipulations that can be fulfilled by actions of CDA pursuant to those stipulations or that expire by the passage of time. As described in note 1, CDA considers all assets, except investments in capital assets, to be restricted for economic development.

- Unrestricted; net assets that are not subject to externally imposed stipulations. As CDA considers all assets, except investments in capital assets, to be restricted for economic development, CDA does not have unrestricted net assets of September 30, 2004 and 2003.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

For fiscal year 2005, CDA will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* As of September 30, 2004, CDA has not evaluated the financial statement impact of GASB Statement Nos. 40 and 42.

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 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.

(3) Restricted Cash and Cash Equivalents and Investments

Development Banking Division

Restricted cash and cash equivalents and investments represent the proceeds of Covenant funding and liquidated revenue bonds derived from pledged Covenant funding, and are restricted for capital development purposes. Proceeds are deposited with commercial lending institutions and the securities are held in the name of CDA.

At September 30, 2004 and 2003, restricted cash and cash equivalents and investments consist of U.S. Government agency bonds, U.S. Government-secured money market funds, time certificates of deposit and amounts held in demand deposit accounts. These investments are presented at fair value in the accompanying financial statements, in accordance with GASB Statement No. 31. At September 30, 2004 and 2003, total restricted cash and cash equivalents and investments were $10,507,121 and $9,849,702, respectively, with $10,459,557 and $9,801,455, respectively, maintained in financial institutions subject to FDIC insurance. Restricted cash and cash equivalents and investments in the amount of $100,000 and $200,000 were FDIC insured as of September 30, 2004 and 2003, respectively. CNMI law does not require component units to collateralize their bank accounts and thus CDA's restricted cash and cash equivalents and investments in excess of FDIC insurance are uncollateralized.

Restricted cash and cash equivalents and investments of DBD as of September 30, 2004 and 2003, are summarized below:

	Fair Value	
	2004	2003
Restricted cash and cash equivalents:		
Demand deposit accounts	$ 7,741,815	$ 4,077,759
Restricted investments:		
Time certificates of deposit	$ 2,765,306	$ 5,771,943

(3) Restricted Cash and Cash Equivalents and Investments, Continued

Development Corporation Division

Restricted cash and cash equivalents and investments amounted to $8,101,766 and $1,295,387 at September 30, 2004 and 2003, respectively, and comprise amounts maintained as a guarantee against loans issued by the bank. Of the bank balance amounts, $6,787,434 and $-0- is maintained in financial institutions subject to FDIC insurance as of September 30, 2004 and 2003, respectively, and $1,314,332 and $1,295,387 are maintained at a non-FDIC insured bank as of September 30, 2004 and 2003, respectively. Restricted cash and cash equivalents and investments in the amount of $100,000 were FDIC insured as of September 30, 2004.

Northern Marianas Housing Corporation

NMHC maintains depository accounts with financial institutions in the CNMI which are restricted for various purposes, as detailed below. Of the amounts detailed below, $200,000 and $300,000 at September 30, 2004 and 2003, respectively, were FDIC insured.

	2004	2003
Restricted cash and cash equivalents:		
Escrow account maintained as a guarantee for any deficiency in foreclosure proceeds related to U.S. Farmers Home Administration loans	$ 253,045	$ 251,666
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	194,981	194,730
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	120,400	120,134
MPLT collateral account	628,065	626,677
Time certificates of deposit for MPLT loan program	1,019,943	1,015,428
Other depository accounts reserved for various purposes	256,179	160,165
	$ 2,472,613	$ 2,368,800

CDA's investments are categorized as either (1) insured or registered or for which the securities are held by CDA or its agent in CDA's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in CDA'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 CDA's name. All of CDA's investments in U.S. Government agency bonds are classified in category (2).

(4) Loans Receivable

Development Corporation Division

As described in note 1, DCD was established to serve as the economic development loan fund agency for qualified private sector enterprises pursuant to Public Law 4-49. In this capacity all functions, powers, duties, funds, contracts, obligations and liabilities managed and administered by the Northern Marianas Islands Economic Development Loan Fund (EDLF) were transferred to DCD. EDLF was established pursuant to Article VII, Section 702(c) of the Covenant, dated February 15, 1975, to administer financial resources received under the Covenant which were specifically set aside for a loan program to assist the general economic development of the Northern Marianas Islands. Additionally, the Trust Territory of the Pacific Islands Government contributed to the economic development loan portfolio. During the year ended September 30, 2003, DCD also served as an intermediary lender in the Microloan Program, administered by SBA, in which DCD received loan funds from SBA and, in turn, made short-term, fixed rate microloans to small business concerns in the Northern Mariana Islands. This program was terminated in 2003.

Outstanding loans are due within various periods not to exceed twenty (20) years. The interest rates charged are based on the economic purpose of the loan. Production development loans bear interest at 9%, marine and agriculture loans bear interest at 5%, commercial development loans bear interest at 9%, and microloans bear interest at 9% to 12%.

Northern Marianas Housing Corporation

NMHC makes loans for the specific purpose of providing residents of the Northern Mariana Islands with approved low-cost housing. The loans have terms from ten to thirty-three years in duration at interest rates of 4.5% to 12%. Loans are restricted to ninety percent (90%) of the appraised value of the property or the purchase price, whichever is lower. For construction loans, the purchase price of the property is defined as the value of the land plus the estimated cost of construction.

Major classifications of economic development loans as of September 30, 2004 and 2003 (with combining information as of September 30, 2004), are as follows:

	Development Corporation Division	Northern Marianas Housing Corporation	2004	2003
General	$ 27,055,435	$ 1,284,602	$ 28,340,037	$ 27,577,756
Direct family home loans	-	11,687,878	11,687,878	11,502,349
Marine	5,962,677	-	5,962,677	5,872,700
Agriculture	2,785,392	-	2,785,392	2,793,299
HOME Investment Partnerships Act grant	-	1,203,729	1,203,729	1,125,613
Housing construction	-	597,891	597,891	598,825
Tinian turnkey	-	515,856	515,856	520,056
Home revenue bond	-	110,178	110,178	125,757
Section 8	-	161,991	161,991	173,656
Housing preservation grant	-	47,501	47,501	63,074
Trust Territory Guaranteed	9,678	-	9,678	10,493
Loan principal receivable	35,813,182	15,609,626	51,422,808	50,363,578
Less allowance for doubtful loans	(19,922,959)	(951,948)	(20,874,907)	(18,500,429)
Net loans receivable	$ 15,890,223	$ 14,657,678	$ 30,547,901	$ 31,863,149

(5) Due from/to Other Funds

Due from/to balances between NMHC and DBD result from loans made by CDA to the former Marianas Islands Housing Authority (MIHA) prior to that entity being established as a subsidiary corporation of CDA. The year end balances are summarized as follows:

	2004	2003
Housing construction loan. On February 3, 1999, CNMI Public Law 11-57 authorized CDA to write off the portion of this loan not considered recoverable through sale of housing construction units. Interest has therefore been suspended pending sales of the units.	$ 1,593,410	$ 2,367,411
Operating expenses	54,046	54,046
	$ 1,647,456	$ 2,421,457

Due from/to balances between DBD and DCD result from the use of restricted funding between the two divisions. The year end balances are summarized as follows:

	2004	2003
Principal and interest payments made by DCD on a note payable to Bank of America-Asia Limited.	$ 13,747,096	$ 13,747,096
Principal and interest payments made by NMHC on the note payable to DBD.	(6,806,001)	(6,012,937)
Operating expenses	240,561	153,541
	$ 7,181,656	$ 7,887,700

NMHC is obligated to repay CDA for the construction cost of housing units at Sugar King II.

(6) Capital Development Loans Receivable

As described in note 2, DBD is required to establish a revolving fund into which repayments of principal and interest from revenue-producing projects shall be deposited. The revolving fund consists of the following notes receivable as of September 30, 2004 and 2003:

	2004	2003
Note receivable from the Commonwealth Utilities Corporation (CUC), bearing interest at 7% per annum, with quarterly principal and interest payments due February 17, 1992 in the amount of $658,469, with a maturity date of February 17, 2013. Proceeds are to be used for certain power generation and distribution projects within the CNMI.	$ 30,000,000	$ 30,000,000

(6) Capital Development Loans Receivable, Continued

	2004	2003
Note receivable from CUC, bearing interest at 5% per annum, with quarterly principal and interest payments due January 12, 1994 in the amount of $359,514, with a maturity date of January 12, 2014. Proceeds are to be used for certain water projects within the CNMI.	16,068,750	16,068,750
Due from CUC, bearing interest at 7% per annum, with monthly principal and interest payments of $58,509. No promissory agreement related to this note has been signed.	10,000,000	10,000,000
Note receivable from CUC, bearing interest at 7% per annum, with quarterly principal and interest payments due two years after January 30, 1990 in the amount of $276,471, with a maturity date of January 30, 2000. Proceeds are to be used for Saipan Power Plant expansion.	5,500,000	5,500,000
Note receivable from the Commonwealth Ports Authority (CPA), bearing interest at 2.5% per annum, with quarterly principal and interest payments in the amount of $204,113, with maturity date of November 16, 2014. Proceeds are to be used for the Saipan Harbor Project.	8,323,246	8,737,382
Total capital development loans receivable	69,891,996	70,306,132
Less allowance for loan losses	(66,159,100)	(66,159,100)
Net capital development loans receivable	$ 3,732,896	$ 4,147,032

At September 30, 2004, estimated proceeds from principal and interest repayments of loans receivable (excluding all CUC loans) for the following years ending September 30, are as follows:

Year ending September 30,	Principal Amount	Interest	Total
2005	$ 808,393	$ 197,571	$ 1,005,964
2006	634,499	181,954	816,453
2007	650,511	165,942	816,453
2008	666,927	149,526	816,453
2009	683,757	132,696	816,453
2010 - 2014	3,686,483	395,782	4,082,265
2015	1,192,676	7,454	1,200,130
	$ 8,323,246	$ 1,230,925	$ 9,554,171

On February 4, 2003, CDA authorized the deferral of 50% of CPA's current outstanding loan payment amounts, the reduction of quarterly loan payments for one year ending September 30, 2004, and extension of terms of the loan to accommodate the deferral. An amendment to the loan agreement has not been signed by both CPA and CDA. Management provided an allowance of $4,590,350 representing 55% and 53% of the outstanding principal balance at September 30, 2004 and 2003, respectively.

(6) Capital Development Loans Receivable, Continued

The most recent audited financial statements of CUC are as of September 30, 2003, and reflect negative net assets of $12,932,748 and a working capital deficiency of $119,058,614. Management of CDA has determined that collection of the principal of the above described loans to CUC is unlikely and has included 100% of the loan balances in its allowance for loan losses. CDA has also suspended accrual of interest income on the loans from CUC since collection of the principal has become doubtful. Unrecorded accrued interest receivable amounted to $85,491,654 and $76,689,015 at September 30, 2004 and 2003, respectively.

On November 21, 2002, a Memorandum of Agreement (MOA) was established between CDA and CUC to waive a portion of the capital development loans receivable and the conversion into equity ownership of the balance. Public Law 13-35 effectuated terms of the MOA requiring CDA to waive $16,068,750 and waive certain specified interest payments and for other purposes. Public Law 13-36 effectuated terms of the MOA by authorizing CUC to issue shares to CDA of cumulative nonconvertible non-transferable preferred stock valued at $45,500,000. At September 30, 2004, terms of the MOA are being negotiated between CDA and CUC and thus the capital development loans receivable have not been waived and preferred stock has not been issued.

(7) Property and Equipment

Property and equipment consist of the following at September 30, 2004 and 2003:

Development Corporation Division	Estimated Useful Lives	Balance at October 1, 2003	Additions	Deletions	Balance at September 30, 2004
Structure and improvements	7 years	$ 468,456	$ -	$ -	$ 468,456
Vehicles/office equipment	3 - 5 years	135,994	960	-	136,954
Computer equipment	3 - 5 years	128,265	-	-	128,265
Furniture and fixtures	7 years	125,103	516	-	125,619
		857,818	1,476	-	859,294
Less accumulated depreciation		(586,793)	(100,298)	-	(687,091)
		$ 271,025	$ (98,822)	$ -	$ 172,203

Development Corporation Division	Estimated Useful Lives	Balance at October 1, 2002	Additions	Deletions	Balance at September 30, 2003
Structure and improvements	7 years	$ 468,456	$ -	$ -	$ 468,456
Vehicles/office equipment	3 - 5 years	139,394	26,000	(29,400)	135,994
Computer equipment	3 - 5 years	114,210	14,055	-	128,265
Furniture and fixtures	7 years	123,704	1,399	-	125,103
		845,764	41,454	(29,400)	857,818
Less accumulated depreciation		(518,942)	(97,251)	29,400	(586,793)
		$ 326,822	$ (55,797)	$ -	$ 271,025

(7) Property and Equipment, Continued

	Estimated Useful Lives	Balance at October 1, 2003	Additions	Deletions	Balance at September 30, 2004
Northern Marianas Housing Corporation					
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,428,654	$ 7,131	$ -	$ 2,435,785
Section 8 Koblerville Housing	30 years	1,913,419	4,639	-	1,918,058
Section 8 Rota Housing	30 years	1,153,038	17,140	-	1,170,178
Section 8 Tinian Housing	30 years	1,059,068	1,777	-	1,060,845
Section 8 Housing Phase II	30 years	635,229	-	-	635,229
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,789,923	30,687	-	7,820,610
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	424,586	-	-	424,586
Equipment and computers	3 - 8 years	299,160	41,174	-	340,334
Vehicles	3 years	77,394	-	-	77,394
		3,624,631	41,174	-	3,665,805
		11,414,554	71,861	-	11,486,415
Less accumulated depreciation		(7,884,282)	(594,026)	-	(8,478,308)
		3,530,272	(522,165)	-	3,008,107
Koblerville Expansion Project Infrastructure to be transferred out to CUC		2,287,986	-	-	2,287,986
Sugar King Housing to be disposed of		1,026,000	-	(192,000)	834,000
		$ 6,844,258	$ (522,165)	$ (192,000)	$ 6,130,093

	Estimated Useful Lives	Balance at October 1, 2002	Additions	Deletions	Balance at September 30, 2003
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,424,982	$ 3,672	$ -	$ 2,428,654
Section 8 Koblerville Housing	30 years	1,912,380	1,039	-	1,913,419
Section 8 Rota Housing	30 years	1,161,243	700	(8,905)	1,153,038
Section 8 Tinian Housing	30 years	1,078,334	4,170	(23,436)	1,059,068
Section 8 Housing Phase II	30 years	634,544	685	-	635,229
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,811,998	10,266	(32,341)	7,789,923
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	424,586	-	-	424,586
Equipment and computers	3 - 8 years	259,619	40,301	(760)	299,160
Vehicles	3 years	104,319	7,500	(34,425)	77,394
		3,612,015	47,801	(35,185)	3,624,631
		11,424,013	58,067	(67,526)	11,414,554
Less accumulated depreciation		(7,353,685)	(597,669)	67,072	(7,884,282)
		4,070,328	(539,602)	(454)	3,530,272
Koblerville Expansion Project Infrastructure to be transferred out to CUC		2,508,362	-	(220,376)	2,287,986
Sugar King Housing to be disposed of		1,085,000	-	(59,000)	1,026,000
		$ 7,663,690	$ (539,602)	$ (279,830)	$ 6,844,258

(7) Property and Equipment, Continued

NMHC also holds title to approximately 339,000 square meters of land acquired at no cost which was originally held for development of low income rental housing or resale to low income families for construction of housing. The land is recorded on NMHC's financial statements at estimated fair value of $10,409,682 at September 30, 2004 and 2003. Public Law 6-34 provides NMHC, subject to certain terms and conditions, the authority to lease for commercial development certain land situated in the North Garapan Subdivision Annex No. 2. NMHC is currently in the process of promoting the development of the abovementioned land to allow NMHC to meet its future commitments.

On February 12, 1999, a Memorandum of Agreement (MOA) was executed between NMHC and CUC whereby CUC agreed to reimburse NMHC for the costs associated with power, water and sewer facilities within the Koblerville Expansion Project (KEP) and NMHC to transfer the KEP infrastructure to CUC. On April 19, 2001, the MOA was amended whereby CUC will instead reimburse the CNMI Government for the related power, water and sewer costs. In January 2002, the project was completed; however, the infrastructure has not been transferred to CUC as of September 30, 2004 as terms of the MOA are being negotiated. At September 30, 2004 and 2003, the carrying value of the infrastructure in NMHC's records is $2,287,000.

Pursuant to Public Law 11-57, NMHC shall have the duty to pay CDA approximately $3,364,412 for the cost of constructing fifty-two housing units located at the Sugar King II. Repayment of the loan shall come from the sale of the fifty-two units at Sugar King Part II. As of September 30, 2004 and 2003, NMHC has sold thirty-nine units amounting to $2,541,000 and thirty-six units amounting to $2,349,000, respectively. The remaining value of the units to be disposed is $834,000 and $1,026,000 as of September 30, 2004 and 2003, respectively. As of September 30, 2004 and 2003, NMHC has remitted $1,771,000 and $997,000 to CDA, respectively.

NMHC has entered into a construction agreement to have forty-five housing units built in Koblerville, Saipan. The Koblerville Expansion Project will provide forty-five single-family houses for very low, low and moderate-income families at a cost of $6,377,130. On January 11, 2002, the project was turned over to the buyers. In 2003, the project cost was paid in full to the contractor. Of the forty-five units, three units were unsold as of September 30, 2003, valued at $264,879. These units are recorded as inventory. As of September 30, 2004, all forty-five units are sold. Sales of the units amounted to $264,879 and $269,849 in 2004 and 2003, respectively, of which $264,879 and $269,849, respectively, was purchased under NMHC's loan program.

(8) Notes Payable

Development Banking Division

Note payable at September 30, 2004 and 2003, is as follows:

	2004	2003
Note payable to Marianas Public Land Trust (MPLT), bearing interest at 6.5% per annum, due over a fifteen-year term, beginning June, 2003. The note is collateralized by the full faith and credit of the CNMI Government held in trust by MPLT, for the purpose of development and maintenance of the American Memorial Park, and is being repaid from earnings of the investments pursuant to CNMI Public Law 11-72.	$ 1,898,165	$ 2,000,000

(8) Notes Payable, Continued

Development Banking Division, Continued

Principal maturities for subsequent fiscal years are as follows (estimated as repayments depend on earnings on the investments):

Year ending September 30,	Principal Balance	Interest	Total
2005	$ 96,798	$ 120,247	$ 217,045
2006	94,767	114,299	209,066
2007	101,114	107,952	209,066
2008	107,886	101,180	209,066
2009	115,111	93,955	209,066
2010 - 2014	702,052	343,277	1,045,329
2015 - 2018	680,437	86,136	766,573
	$ 1,898,165	$ 967,046	$ 2,865,211

Northern Marianas Housing Corporation

Notes payable at September 30, 2004 and 2003, are as follows:

	2004	2003
Note payable to MPLT, bearing interest at 8.5% per annum, due on March 1, 2016, collateralized by the full faith and credit of the CNMI Government. CNMI Public Law 12-17 approved the repayment of the loan through legislative appropriation of operating transfers to the general fund of the CNMI Government from investment income of MPLT. Repayment of the loan is deferred for a period of ten years.	$ 8,996,623	$ 8,996,623
Note payable to the CNMI Government for the operating transfers to the general fund of the CNMI Government from investment income of MPLT pursuant to the approved repayment of the MPLT loan through legislative appropriation as provided for in Public Law 12-27. Operating transfers in the general fund reduces NMHC's payable to MPLT but recognizes a payable to the CNMI Government deferred for ten years.	1,003,377	1,003,377
	$ 10,000,000	$ 10,000,000

Principal maturities for subsequent fiscal years are as follows:

Year ending September 30,	Principal Balance	Interest	Total
2005	$ -	$ -	$ -
2006	-	-	-
2007	-	-	-
2008	-	-	-
2009	-	-	-
2010 - 2014	-	-	-
2015 - 2016	10,000,000	7,725,311	17,725,311
	$ 10,000,000	$ 7,725,311	$ 17,725,311

(9) Transfer Out for Capital Development Grants

As described in note 2, DBD receives and holds U.S. economic assistance provided in the Covenant. Terms and conditions of this assistance are contained in the *Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands* (the Agreement). In accordance with the Agreement, DBD uses the proceeds, and accumulated earnings, by issuing either grants or loans to subrecipients, and acts in a pass through capacity. Revenues and expenditures related to grant agreements are recognized by the subrecipient with DBD recording expense under the caption "transfer out for capital development grants".

Transfers out for capital development grants consist of the following for the years ended September 30, 2004 and 2003:

	2004	2003
Transfer to CNMI Office of the Governor for matching funds for grants from the U.S. Department of the Interior	$ 1,819,900	$ 2,795,111
Transfer to CNMI Office of the Governor for improvements to the American Memorial Park, pursuant to CNMI Public Law No. 12-58	-	2,000,000
	$ 1,819,900	$ 4,795,111

(10) Contingencies

CDA is authorized to guarantee up to 90% of the principal of loans and lines of credit made by financial institutions to qualified borrowers, in addition to approving direct loans. The amount for which CDA was contingently liable under this arrangement at September 30, 2004 and 2003, was $15,846,786 and $16,546,839, respectively.

CDA has time certificates of deposit in a non-FDIC bank institution amounting to $1,314,332 as of September 30, 2004. The bank institution went into receivership on April 30, 2002. It is uncertain when CDA will realize the abovementioned deposits. CDA has determined that due to the receivership of the bank institution, interest on the time certificates of deposit will only be accrued through the maturity date. CDA has also determined that any future loss on the time certificates of deposit will be offset against CDA's underlying contingent liability for loan guarantees with the bank.

NMHC has entered into an agreement with the U.S. Farmers Home Administration (FmHA) whereby NMHC assists borrowers in obtaining FmHA financing for housing construction. The agreement requires NMHC to guarantee any deficiency in foreclosure proceeds should borrowers default on the FmHA loans. As security under the agreement, NMHC is required to maintain an escrow account of $286,436. Beginning September 30, 1993, the amount in the escrow account will be reduced each year by the product of $1,500 multiplied by the number of loans paid in full for that particular year, or 4% of the total outstanding balance, whichever is less. As of September 30, 2004 and 2003, NMHC has guaranteed outstanding loans of approximately $8,500,000 and $8,900,000, respectively. As of September 30, 2004 and 2003, the balance in the escrow account was $253,045 and $251,666, respectively. These amounts are included in "restricted cash and cash equivalents and investments" in the accompanying statements of net assets.

(11) Contingencies, Continued

NMHC entered into a loan agreement and related loan purchase agreement with a savings and loan in the CNMI whereby the savings and loan will make available up to $6,000,000 for housing loans. Under the agreements, NMHC is responsible for administering the loan purchase program and the savings and loan agrees to purchase qualified loans from NMHC. NMHC guarantees the first 25% of the principal balance plus interest on each loan sold to the savings and loan. As of September 30, 2004 and 2003, NMHC was contingently liable for $1,823,770 and $1,980,899, respectively, of the balance of loans purchased by the savings and loan. In addition, NMHC is required to maintain an account at the savings and loan equal to the lesser of 5% of all loans sold to the savings and loan or $100,000. The balance in the account at September 30, 2004 and 2003 was $120,400 and $120,134, respectively, which is included in "restricted cash and cash equivalents" in the accompanying balance sheet.

NMHC also has similar arrangements with other bank institutions whereby NMHC guarantees a varying percentage of loans issued by the banks for housing construction. At September 30, 2004 and 2003, NMHC was contingently liable to these institutions for $3,364,234 and $3,462,636, respectively.

(12) Risk Management

CDA 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. CDA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Net Assets
September 30, 2004

ASSETS	Development Banking Division	Development Corporation Division	Component Unit: Northern Marianas Housing Corporation	Total
Current assets:				
Cash and cash equivalents	$ -	$ 1,792,772	$ 1,649,971	$ 3,442,743
Time certificates of deposit	-	500,000	-	500,000
Receivables:				
Loans, net	-	2,430,446	667,402	3,097,848
Capital development loans, net	808,393	-	-	808,393
Rent, net	-	-	23,797	23,797
Accrued interest, net	84,607	295,295	458,247	838,149
Other	-	37,844	73,044	110,888
Prepaid expenses	-	21,183	-	21,183
Total current assets	893,000	5,077,540	2,872,461	8,843,001
Other assets:				
Cash and cash equivalents, restricted	7,741,815	500,000	2,472,613	10,714,428
Investments, restricted	2,765,306	7,601,766	-	10,367,072
Total other assets	10,507,121	8,101,766	2,472,613	21,081,500
Noncurrent assets:				
Loans receivable, net	-	13,459,777	13,990,276	27,450,053
Capital development loans receivable, net	2,924,503	-	-	2,924,503
Due from other funds	1,647,456	7,181,656	-	8,829,112
Property and equipment, net	-	172,203	6,130,093	6,302,296
Land	-	-	10,409,682	10,409,682
Foreclosed real estate	-	543,000	252,238	795,238
Total noncurrent assets	4,571,959	21,356,636	30,782,289	56,710,884
	$ 15,972,080	$ 34,535,942	$ 36,127,363	$ 86,635,385
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current installment of notes payable	$ 96,798	$ -	$ -	$ 96,798
Accounts payable and accrued expenses	-	492,030	599,430	1,091,460
Interest payable	-	-	2,803,556	2,803,556
Total current liabilities	96,798	492,030	3,402,986	3,991,814
Notes payable, net of current installments	1,801,367	-	10,000,000	11,801,367
Due to other funds	7,181,656	-	1,647,456	8,829,112
Total liabilities	9,079,821	492,030	15,050,442	24,622,293
Net assets:				
Investment in capital assets	-	715,203	16,539,775	17,254,978
Restricted	6,892,259	33,328,709	4,537,146	44,758,114
Total net assets	6,892,259	34,043,912	21,076,921	62,013,092
	$ 15,972,080	$ 34,535,942	$ 36,127,363	$ 86,635,385

See Accompanying Independent Auditors' Report.

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

	Development Banking Division	Development Corporation Division	Component Unit: Northern Marianas Housing Corporation	Total
Operating revenues:				
Interest and fees on loans	$ 220,598	$ 3,643,461	$ 1,314,345	$ 5,178,404
Section 8 income:				
Federal housing assistance rentals	-	-	3,356,260	3,356,260
Tenant share	-	-	61,001	61,001
Interest on investments	71,088	88,192	-	159,280
HOME Investment Partnership Program grants	-	-	166,023	166,023
CDBG Program Grant	-	-	757,557	757,557
ESG Program Grant	-	-	52,203	52,203
Housing rental	-	-	3,305	3,305
Other	-	84,585	544,019	628,604
Total operating revenues	291,686	3,816,238	6,254,713	10,362,637
Operating expenses:				
Provision for doubtful accounts	-	5,168,121	169,999	5,338,120
Section 8 rental	-	-	1,816,204	1,816,204
Salaries and wages	-	534,830	633,638	1,168,468
CDBG Program Grant	-	-	757,557	757,557
Repairs and maintenance	-	-	701,982	701,982
Depreciation	-	100,298	592,217	692,515
Employee benefits	-	160,214	194,238	354,452
Professional fees	-	118,685	72,551	191,236
HOME Investment Partnership Program grants	-	-	166,023	166,023
Travel	-	93,431	49,803	143,234
Office rent	-	128,762	9,307	138,069
ESG Program Grant	-	-	52,203	52,203
Other	180,331	248,397	441,886	870,614
Total operating expenses	180,331	6,552,738	5,657,608	12,390,677
Operating (loss) income	111,355	(2,736,500)	597,105	(2,028,040)
Nonoperating revenues (expenses):				
Other income	274,069	-	-	274,069
Interest income	-	-	44,212	44,212
Interest expense	(172,234)	(10,998)	(768,628)	(951,860)
Total nonoperating revenues (expenses), net	101,835	(10,998)	(724,416)	(633,579)
Loss (income) before contributions and transfers	213,190	(2,747,498)	(127,311)	(2,661,619)
Contributed capital	1,895,306	-	148,028	2,043,334
Transfers out for capital development grants	(1,819,900)	-	-	(1,819,900)
Change in net assets	288,596	(2,747,498)	20,717	(2,438,185)
Net assets - beginning	6,603,663	36,791,410	21,056,204	64,451,277
Net assets - ending	$ 6,892,259	$ 34,043,912	$ 21,076,921	$ 62,013,092

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2004

	Development Banking Division	Development Corporation Division	Component Unit: Northern Marianas Housing Corporation	Total
Cash flows from operating activities:				
Cash received from interest and fees on loans receivable	$ -	$ 1,380,600	$ 1,115,692	$ 2,496,292
Cash received from interest and fees on capital development loans	205,203	-	-	205,203
Interest and dividends on investments	75,048	88,192	-	163,240
Cash payments to suppliers for goods and services	(180,331)	(653,690)	(560,800)	(1,394,821)
Cash received from customers	-	84,585	78,316	162,901
Cash payments to employees for services	-	(534,830)	(633,638)	(1,168,468)
Cash received from federal grant awards	-	-	4,674,662	4,674,662
Cash payments from federal grant awards	-	-	(3,493,968)	(3,493,968)
Net cash provided by operating activities	99,920	364,857	1,180,264	1,645,041
Cash flows from capital and related financing activities:				
Net interdivisional transactions	67,956	706,044	(774,000)	-
Acquisition of property and equipment	-	(1,476)	(70,052)	(71,528)
Proceeds from sale of property and equipment	-	-	192,000	192,000
Contributed capital	1,895,306	-	148,028	2,043,334
Net proceeds (disbursements) of loans receivable	-	264,980	(79,409)	185,571
Payments received on capital development loans	414,137	-	-	414,137
Capital development grants	(1,819,900)	-	-	(1,819,900)
Interest paid on notes payable	-	(10,998)	(1,820)	(12,818)
Net cash provided by (used for) capital and related financing activities	557,499	958,550	(585,253)	930,796
Cash flows from investing activities:				
Net purchase of restricted cash and cash equivalents, time certificates of deposit and investments	(657,419)	(1,085,514)	(103,813)	(1,846,746)
Interest income	-	-	44,212	44,212
Net cash used for investing activities	(657,419)	(1,085,514)	(59,601)	(1,802,534)
Net increase in cash and cash equivalents	-	237,893	535,410	773,303
Cash and cash equivalents at beginning of year	-	1,554,879	1,114,561	2,669,440
Cash and cash equivalents at end of year	$ -	$ 1,792,772	$ 1,649,971	$ 3,442,743
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	$ 111,355	$ (2,736,500)	$ 597,105	$ (2,028,040)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Provision for doubtful accounts	-	5,168,121	169,999	5,338,120
Depreciation	-	100,298	592,217	692,515
(Increase) decrease in assets:				
Receivables:				
Rent	-	-	(72,901)	(72,901)
Other	-	(8,208)	(73,044)	(81,252)
Accrued interest	(11,435)	(2,254,653)	(198,653)	(2,464,741)
Prepaid expenses	-	29,446	-	29,446
Other assets	-	-	(41,444)	(41,444)
Increase in liabilities:				
Accounts payable and accrued expenses	-	66,353	206,985	273,338
Net cash provided by operating activities	$ 99,920	$ 364,857	$ 1,180,264	$ 1,645,041

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2004

Deloitte.

Deloitte & Touche
P.O. Box 500308
Saipan, MP 96950-0308
Tel: (670) 322-7337/0860/0861
Fax: (670) 322-7340
www.deloitte.com

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

Board of Directors
Commonwealth Development Authority:

We have audited the financial statements of the Commonwealth Development Authority (CDA), as of and for the year ended September 30, 2004, and have issued our report thereon dated July 1, 2005. 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 CDA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CDA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 13) as items 2004-1 and 2004-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated July 1, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CDA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

July 1, 2005

Deloitte.

Deloitte & Touche
P.O. Box 500308
Saipan, MP 96950-0308
Tel: (670) 322-7337/0860/0861
Fax: (670) 322-7340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
Commonwealth Development Authority:

Compliance

We have audited the compliance of the Commonwealth Development Authority (CDA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. CDA's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 13). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CDA's management. Our responsibility is to express an opinion on CDA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CDA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CDA's compliance with those requirements.

As described in items 2004-3 and 2004-4 in the accompanying Schedule of Findings and Questioned Costs, CDA did not comply with requirements regarding procurement and suspension and debarment and reporting related to U.S. Department of Housing and Urban Development programs that are applicable to its major programs. Compliance with such requirements is necessary, in our opinion, for CDA to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, CDA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of CDA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CDA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect CDA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-3 and 2004-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions described above to be material weaknesses. However, we do not consider the reportable conditions described above to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of CDA as of and for the year ended September 30, 2004, and have issued our report thereon dated July 1, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of CDA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the management, the Board of Directors, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

July 1, 2005

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

Federal Grantor/ Program Title	Federal CFDA Number	Federal Cumulative Amount of Grant Award	Federal Funds Received in Fiscal Year 2004	Federal Funds Expended in Fiscal Year 2004
Direct Programs:				
U.S. Department of the Interior/Covenant Capital Development Fund	15.875	$ 1,910,517	$ 1,910,567	$ 1,910,567
U.S. Department of Housing and Urban Development /Section 8 Housing Choice Voucher Program	14.871	2,455,379	2,206,844	2,206,844
U.S. Department of Housing and Urban Development	14.856	455,339	455,339	455,339
/Lower Income Housing Assistance Program	14.856	252,860	252,860	252,860
	14.856	249,325	249,325	249,325
	14.856	191,892	191,892	191,892
Subtotal CFDA #14.856		1,149,416	1,149,416	1,149,416
U.S. Department of Housing and Urban Development /Community Development Block Grant				
Basketball Court Lower Navy Hill	14.225	46,248	23,803	23,803
Garapan Water Quality Restoration	14.225	1,000,000	157,425	157,425
Gualo Rai Teen Center	14.225	140,000	-	-
Kagman Community Center Renovations/Repairs	14.225	120,152	114,728	114,728
Koblerville Sports Complex	14.225	200,000	69,660	69,660
Multi Purpose Center Renovation	14.225	183,648	-	-
NMC Recreational Center	14.225	107,272	-	-
Rota Baseball Field	14.225	300,000	-	-
Rota Baseball Field Lights	14.225	269,666	-	-
Rota Pathway	14.225	350,000	-	-
Sugar King Cultural Center	14.225	388,000	-	-
Susupe Baseball Field Bleachers	14.225	165,000	-	-
Susupe Track and Field	14.225	250,000	165,177	165,177
Tinian Community Center III	14.225	241,345	-	-
Tinian Public Library	14.225	340,000	178,357	178,357
Tinian Seepage Pit	14.225	153,753	-	-
Tinian Shelter	14.225	300,000	-	-
Van for Disabled	14.225	40,480	-	-
Administrative Fee	14.225	976,436	48,407	48,407
Subtotal CFDA #14.225		5,572,000	757,557	757,557
U.S. Department of Housing and Urban Development/Emergency Shelter	14.231	232,450	52,203	52,203
U.S. Department of Housing and Urban Development	14.239	382,800	-	-
/HOME Investment Partnerships Program	14.239	2,169,200	166,023	166,023
Subtotal CFDA #14.239		2,552,000	166,023	166,023
U.S. Department of Agriculture/Rural Development /Home Preservation Grant	10.417	39,500	-	-
		$ 13,911,262	$ 6,242,610	$ 6,242,610

Reconciliation of expenditures to Statement of Revenues, Expenses and Changes in Net Assets:	
Federal award expenditures per above:	
U.S. Department of the Interior/Covenant Capital Development Fund	$ 1,910,567
Federal award expenditures per Statement of Revenues, Expenses and Changes in Net Assets:	
Transfers out for capital development grants	$ 1,819,900
Reconciling items:	
Administrative expenditures funded by Covenant Funds	90,667
	$ 1,910,567

See accompanying notes to schedule of expenditures of federal awards.

(1) Scope of Review

The Commonwealth Development Authority (CDA) was created as an autonomous public agency of the Commonwealth of the Northern Mariana Islands (CNMI) pursuant to Public Law 4-49 as amended by Public Law 4-63 and 5-27. CDA's existence is to be perpetual and it shall have all the rights and privileges of a corporation. The purpose of CDA is to stimulate the economic development of the CNMI. The Northern Marianas Housing Corporation (NMHC), a component unit and subsidiary corporation of CDA, was established under Public Law 5-37 as amended by Public Law 5-67. The purpose of NMHC is to develop and administer low cost residential housing in the CNMI. All significant operations of CDA and NMHC are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as CDA's cognizant agency for the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed, which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotment or grant award received. Disbursements made to subrecipients related to grant agreements are reported as expenditures. Disbursements made to subrecipients related to loan agreements are reported within applicable loan portfolios, and are subject to the Single Audit.

b. Subgrantees

Certain program funds are passed through CDA to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees outside of CDA's control utilized the funds.

c. Funds Received

United States Department of the Interior, Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (the Covenant)

- Covenant Capital Development Funds obtained pursuant to the *Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands* (the Agreement).

(2) Summary of Significant Accounting Policies, Continued

c. Funds Received, Continued

CDA is a subrecipient of funding obtained in Part II, Section 3 of the Agreement, from the Government of the CNMI. These funds are to be disbursed in accordance with a seven-year strategic plan for capital improvement projects of which a minimum of eighty percent (80%) shall be obligated and expended in accordance with such plan for essential infrastructure and no more than twenty percent (20%) shall be obligated and expended in accordance with such plan to provide for economic development activities. Additionally, CDA is required to establish a revolving fund, into which repayments of principal and interest from revenue producing projects shall be deposited for financing of additional revenue producing capital development projects.

- Covenant Funds Obtained Pursuant to Article VII, Section 702(c) of the Covenant.

CDA accounts for all funds received by the former Northern Mariana Islands Economic Development Loan Fund pursuant to Article VII Section 702(c) of the Covenant from February 15, 1975 through September 30, 1985. In addition, CDA has been designated as the administrative agency for economic development loans transferred from the Trust Territory of the Pacific Islands government to the CNMI. In total, these funds are accounted for in a revolving fund for economic development loans which are made to qualified private sector enterprises.

U.S. Department of HUD - CDBG Grants/HOME Investment Partnerships Program/Emergency Shelter Grants Program/Affordable Housing Program - NMHC received these funds in a direct capacity in fiscal year 2004 and administers the funds and is responsible for ensuring compliance with laws and regulations.

U.S. Department of the Interior - NMHC records federal funds received from Covenant appropriations. Program income is interest income earned on notes receivable and time certificates of deposit. Federal funds disbursed are recorded as notes receivable, cash and time certificates of deposit, and operating transfers.

U.S. Department of HUD - Lower Income Housing Assistance Program/Section 8 Rental Voucher Program/Section 8 Rental Certificate Program - NMHC records federal rental assistance as Section 8 income. Program requirements do not entail the reporting of expenditures except for project No. TQ10-0016-004, Koblerville.

U.S. Department of Agriculture - Rural Development - NMHC received these funds in a direct capacity in fiscal year 2004 and administers the funds and is responsible for ensuring compliance with laws and regulations.

d. Indirect Cost Allocation

CDA does not receive an indirect cost allocation.

(3) Loan Funds

a. Development Banking Division

The Development Banking Division of CDA represents the revolving fund required under the *Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands* into which repayments of principal and interest from revenue-producing projects funded under Section 702(c) of the Covenant shall be deposited. These funds will be used for financing additional revenue-producing capital development projects. During the year ended September 30, 2004, such funds amounting to $1,819,900 were transferred out as capital development grants to CNMI Office of the Governor for matching funds for grants from the U.S. Department of the Interior. As of September 30, 2004, $3,732,896 (net of the allowance for doubtful accounts of $66,159,100) of loans made out of this revolving fund were outstanding.

b. Development Corporation Division

The Development Corporation Division (DCD) of CDA represents the revolving fund established to account for funds received by the former Northern Mariana Islands Economic Development Loan Fund pursuant to Section 702(c) of the Covenant from February 15, 1975 through September 30, 1985. In addition to the aforementioned financial resources, DCD has been designated as the administrative agency for economic development loans transferred from the Trust Territory of the Pacific Islands government to the CNMI. DCD also served as an intermediary lender for part of the year, for the SBA Microloan Program and obtained loans from SBA and used the loan funds to issue short-term microloans to qualified newly-established and growing small business concerns in the CNMI. As of September 30, 2004, $15,890,223 (net of the allowance for doubtful accounts of $19,922,959) of loans made out of this revolving fund were outstanding.

c. Northern Marianas Housing Corporation

The Northern Marianas Housing Corporation (formerly the Mariana Islands Housing Authority (MIHA)) received economic development loan funds from the former Northern Mariana Islands Economic Development Loan Fund pursuant to a Memorandum of Understanding transferring funds received under Section 702(c) of the Covenant to MIHA. These funds are used for a revolving fund for a special program of low interest housing loans for low income families. As of September 30, 2004, $4,292,953 (net of the related allowance for doubtful accounts of $278,807 and out of total NMHC net loans receivable of $14,657,678) of loans made out of this revolving fund were outstanding.

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.

2. Reportable conditions in internal control over financial reporting were identified, all of which are considered to be material weaknesses.

3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.

4. Reportable conditions in internal control over compliance with requirements applicable to major federal awards programs were identified, which are not considered to be material weaknesses.

5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.

6. The audit disclosed findings required to be reported by OMB Circular A-133.

7. CDA's major programs were as follows:

Name of Federal Program or Cluster	CFDA Number
U.S. Department of Housing and Urban Development:	
Community Development Block Grant	14.225
Section 8 Housing Choice Voucher Program	14.871
HOME Investment Partnerships Program	14.239

8. A threshold of $300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.

9. CDA did not qualify as a low-risk audit as that term is defined in OMB Circular A-133.

Section II - Financial Statement Findings

Reference Number	Findings	Questioned Costs	Refer Page #
2004-1 - 2	Receivables	$ -	10 - 11

Section III - Federal Award Findings and Questioned Costs

Reference Number	Findings	Questioned Costs	Refer Page #
2004-3	Procurement and Suspension and Debarment	$ 13,406	12
2004-4	Reporting	$ -	13

Section II - Financial Statement Findings

Receivables

Finding No. 2004-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis.

Condition: Our audit included an analysis of the Development Corporation Division's past due loans to determine the propriety of the allowance for doubtful loans as of September 30, 2004. This analysis revealed that as of September 30, 2004, one hundred thirty-two loans (61% of the two hundred fifteen total loans outstanding) were six months or more in arrears. At September 30, 2003, one hundred twenty-seven loans (57% of the two hundred twenty-three total loans outstanding) were six months or more in arrears. Accrued interest on loans has also increased from $8,969,125 at September 30, 2003 to $11,225,283 as of September 30, 2004. As such, the collateral for these loans is decreasing as a percentage of the total loan and interest portfolio.

Cause: The cause of the above condition is the increase in past due loans.

Effect: The effect of the above condition is an increased possibility of loan losses due to non-payment by borrowers.

Recommendation: We recommend that follow-up procedures on past due loans be adhered to. We recommend that evaluations be performed on these loans and a corrective plan be developed and documented. Future results may be compared against this plan and actions taken by management as deemed necessary. Legal action should be considered for those loans which are considered unlikely to be serviceable by the borrower.

Prior Year Status: Past due loans was reported as a finding in the Single Audits of CDA for fiscal years 1994 through 2003.

Receivables

Finding No. 2004-2

Criteria: The allowance for loan losses should be adequate to absorb possible losses on existing loans that may be uncollectible based on periodic evaluations of the collectibility of loans and prior loan loss experience.

Condition: The allowance for delinquent loans is automatically calculated in the loan system based on CDA's allowance policy. Our review of the loan loss reserve calculation revealed several loan accounts not included in the calculation. A large portion of these accounts represents matured loans. Moreover, a review and analysis of the reserve calculation to evaluate adequacy of the reserve was not performed. An audit adjustment was proposed to record an additional reserve.

Cause: The cause of the above condition is the failure of the loan system to completely capture all loan accounts subject to reserve calculation as programmed in CDA's loan system and also the lack of periodic review and analysis to evaluate the adequacy of the reserve.

Effect: The effect of the above condition is the misstatement of loans receivables and bad debt expense.

Recommendation: We recommend that management evaluate the existing computerized calculation of loan loss reserve, identify areas where errors are likely to occur and adopt and implement corrective measures and actions. We also recommend that management ensure that periodic reviews and assessments of adequacy of the loan loss reserve be performed.

Section III - Federal Award Findings and Questioned Costs

Procurement and Suspension and Debarment

Finding No. 2004-3

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Housing and Urban Development / Community Development Block Grant / CFDA #14.225	Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) and the CNMI Procurement Regulations (CNMI-PR) aim to provide an effective broad-based competition within a free enterprise system. The CNMI-PR provide that all government procurement shall be awarded through competitive bidding except if another method of procurement is justified, such as a small purchase, sole source, emergency or expedited procurement.	
	Condition: Three disbursements through purchase orders (check #s 15672, 14577 and 15079) for construction management services, amounting to $13,406 were awarded via in-house management authorization without open competition or valid certification from the Division of Procurement and Supply (P&S).	$ 13,406
	Cause: The cause of the above condition is management's belief that the contract does not require compliance with CNMI-PR.	
	Effect: The effect of the above condition is noncompliance with the Common Rule and the CNMI-PR.	
	Recommendation: We recommend that NMHC ensure strict compliance with the requirements of the Common Rule and the CNMI-PR on competitive bidding.	
	Total Questioned Costs	$ 13,406

U.S. Department of Housing and Urban Development
Reporting - HOME Investment Partnerships Program
CFDA #14.239

Finding No. 2004-4

Criteria: HUD requires that HOME expenditures be reported on SF-272, Federal Cash Transactions Report.

Condition: NMHC draws funds for use in HOME expenditures and reports these expenditures on the SF-272. We noted that funds drawn in the current year include administrative expenditures incurred in prior years amounting to $167,128. Additionally, NMHC has not requested for drawdowns for administrative costs incurred in the current year. Administrative costs are included under operating expenses and cannot be readily identified from other federal grant administrative expenses.

Cause: The cause of the above condition is the timing of filing for administrative expenditure.

Effect: The effect of the above condition is variances between expenditures reported on the SF-272 and the general ledger.

Recommendation: We recommend that management ensure proper reporting of expenditures on SF-272's to HUD. We also recommend that management separately account for and monitor administrative costs incurred per specific grant programs.

COMMONWEALTH DEVELOPMENT AUTHORITY

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2004

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2004:

Questioned costs as previously reported	$ -
Questioned costs of fiscal year 2004 Single Audit	13,406
Unresolved questioned costs at September 30, 2004	$ 13,406

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 13).

COMMONWEALTH DEVELOPMENT AUTHORITY
P.O. BOX 502149, SAIPAN MP 96950
Tel.: (670) 234-6245/6293/7145/7146 • Fax: (670) 234-7144 or 235-7147
Email: cda@itecnmi.com • Website: www.cda.gov.mp

Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Report on Internal Control and Compliance for the Year Ended September 30, 2004

Financial Statements Findings

Receivables
Finding No. 2004-1

The Loan Department continues to do its loan servicing. Clients have been contacted to come to the office and try to establish workable solutions to bring their accounts to current. Aging letters of 30, 60 and 90-day delinquency and loan statements as well are mailed to clients on a monthly basis. Field visits are conducted so that a better communication system may be established with the clients to have a better understanding of their business situation and financial conditions. Intern services from the Pacific Business Center Program of the University of Hawaii are maximized by conducting educational assistance such as workshops and working on a one on one basis with our clients. After all means have been exhausted, accounts that are 120 days in arrears are referred to Legal Counsel for litigation. All accounts are carefully scrutinized and analyzed in how best the clients can be assisted to either pay their accounts or improve their existing business conditions. The Loan Manager has exemplified the performance of this department in trying to improve better client relationship and gradually reduce the delinquency rate. The process will take time before it will come to fruitation due to no loan servicing being done in the past.

Finding No. 2004-2

CDA determined that the computerized Loan Loss Report did not include matured loans in the calculation for the loan loss. This was the reason for the understated booking of the loan loss reserve. The programmer was contacted to modify the program to include matured loans. The exclusion of the matured loans was intended due to the fact that those loans were actually matured and must be categorized as non-performing loans. Effective with the modification of the Loan Loss Program, the loan loss calculation will include all matured loans.

Federal Award Findings and Questioned Costs

Procurement and Suspension and Debarment - Community Development Block Grant
Finding No. 2004-3

NMHC ensures strict compliance with requirements of the Common Rule and the CNMI-PR on competitive bidding. This condition was an issue due to leaks and possible cracks in the building casing causing water to seep. Management was called upon to act and needed the building repaired immediately because the community was going to hold a large function at the Center. The air conditioning was also not working and the main assembly hall was very hot. The engineer called in to do the assessment was also the engineer that designed and acted as construction manager during construction. The engineer, members of the Kagman Association, and management met to discuss the problem. Since the engineer did the assessment and came up with some recommendations to correct the problem, the same engineer did the oversight of the work. Quick action needed to be done. The engineer was given the responsibility to review the work of the contractor for general repairs and another company for the air conditioning. NMHC did speak to CNMI Procurement discussing the initial contract under this project that it was like an extension of the original contract. Also, it was anticipated that the cost was within the amount needing only a purchase order. We did contact some alternative sources to get quotations. The information we received was that it would cost NMHC significantly more because they would have to review and evaluate all of the construction plans, drawings and specifications. If we were to bid the project, it would have taken longer. We didn't have funding allocated specifically for this project to oversee the repairs and air conditioning these came from CDBG administration. It was management's decision to act quickly and not to solicit bids or proposals. In urgent and critical cases, Procurement generally grants its approval for us to proceed. NMHC gives its assurances that every project executed or to be executed by NMHC meets the Common Rule and CNMI-PR requirements.

Reporting - HOME Investment Partnerships Program
Finding No. 2004-4

NMHC management ensures proper reporting of expenditures on SF-272s to HUD. NMHC did reconcile expenditures versus revenue prior to reporting to HUD and implemented supporting documents for justification of allowable cost for all grant expenditures.

COMMONWEALTH DEVELOPMENT AUTHORITY
P.O. BOX 502149, SAIPAN MP 96950
Tel.: (670) 234-6245/6293/7145/7146 • Fax: (670) 234-7144 or 235-7147
Email: cda@itecnmi.com • Website: www.cda.gov.mp

Summary of Schedule of Prior Audit Findings

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2003:

Financial Statement Findings

Finding No. 2003-1 - Corrective action has been taken.

Finding No. 2003-2 - Corrective action has been taken.

Finding No. 2003-3 - Not corrected. See corrective action plan to Finding No. 2004-1.

Federal Award Findings and Questioned Costs

Finding No. 2003-4 - Corrective action has been taken.