

COMMONWEALTH DEVELOPMENT AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2007

COMMONWEALTH DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2007 AND 2006

## 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, 2007 and 2006, 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, 2007 and 2006, 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 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). This supplementary information is the responsibility of the Commonwealth Development Authority's management. We did not audit and do not express an opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. As a result of these limited procedures, we believe that the Management's Discussion and Analysis is not in conformity with guidelines established by GASB because it refers to components of CDA and not the basic financial statements and there is insufficient analysis of the basic financial statements.

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, the Combining Statement of Revenues, Expenses and Changes in Net Assets and the Combining Statement of Cash Flows as of and for the year ended September 30, 2007 (pages 39 through 41) 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, the Combining Statement of Revenues, Expenses and Changes in Net Assets and the Combining Statement of Cash Flows as of and for the year ended September 30, 2007 have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are 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 December 29, 2008, 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*

December 29, 2008



# COMMONWEALTH DEVELOPMENT AUTHORITY

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## Management's Discussion and Analysis Year Ended September 30, 2007

The Management's Discussion and Analysis of the Commonwealth Development Authority's (CDA) financial performance provides an overview of CDA's financial activity for the fiscal year ended September 30, 2007, with selected comparative information for the fiscal years ended September 30, 2006 and 2005. Please read it in conjunction with the more detailed information contained within the accompanying financial statements.

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 of the Northern Mariana Islands (CNMI). Its mission statement is to provide appropriate financial and technical assistance to facilitate the start-up or expansion of private and public enterprises for their success, the benefit of the CNMI's economic welfare and the long-term sustainability of CDA. CDA'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 CNMI, successfully continues its role to stimulate the CNMI's economy by financing 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 CNMI.

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 CNMI for the economic and social advancement of the people of the CNMI by making loans, loan guarantees and providing financial, technical and advisory assistance in its discretion to the private sector in the CNMI.

DCD's primary activity relates to the servicing of its direct loan portfolio. As of September 30, 2007, CDA's loans receivable, net portfolio was \$10,094,223, which was a decrease of \$1,131,885 or 10% compared to 2006. As of September 30, 2006, CDA's loans receivable, net portfolio was \$11,226,108, which was a decrease of \$2,539,527 or 18% compared to the previous year. The cause of the decreases was due to the continuous effort of the Loan Department to provide loan servicing to all clients and to refer accounts that were 120 days in arrears to the legal counsel for litigation process. Auction processes were also in effect decreasing the loan delinquency. 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 diminished in value both as commercial enterprises and in carrying assets that DCD placed on them. This was further exacerbated by the events of the 911, SARS, the war in Iraq and the increase in fuel prices and utility rates as well.

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

As stated earlier, the net value of the loans receivable portfolio, after bad debts was \$10,094,223 in 2007 and \$11,226,108 in 2006. Total bad debts were \$2,272,922 and \$4,746,223 in 2007 and 2006, respectively. This figure represents CDA's estimated potential of the loss of value of the loans and accrued interest for the current year. The drastic increase in 2006 from prior year was due to the 5% allowance on bad debts on current status accounts as approved by the Board of Directors in accordance with the FY2005 audit implementation. The ultimate collection of the earned interest and the principal value of loans is DCD's biggest financial concern. In 2006, 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 up to June 1, 2005. In 2007, CDA lifted the moratorium after a thorough analysis was made of its asset accounts and cash flow resulting in a positive financial re-lending position.

The Board of Directors continuously emphasizes 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. Furthermore, CDA had properties on auction, which resulted in an increase in collection for the year.

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 with full force what we have been doing for the past years. The current assets for DCD increased by \$3,721,313 or 71% and \$484,951 or 10% in 2007 and 2006, respectively. This is a strong indication that CDA is moving in a positive direction to decrease its loan delinquency and increase its assets.

### **Financial Highlights**

- In 2007, DCD has net operating revenues of \$1,549,403 while DBD has \$549,634. Interest earned on loans for DCD for the year slightly increased by \$105,729 or 3%. DBD had a slight decrease of \$19,574 or 11% compared to 2006.
- In 2006, in spite of efforts by the Loan Department to increase collections and service our clients, DCD has net operating revenues of \$(1,230,347) while DBD has \$351,666, which was caused by the adjustment on the NMHC loan of the due to/due from accounts. Fortunately, the interest earned on loans for DCD for the year slightly increased by \$227,766 or 8%. On the other hand, DBD had a slight decrease of \$23,230 or 11% compared to the previous year.

- In 2007, operating expenses for DCD, omitting the provisions for loan guaranty and foreclosed real estate, decreased by \$406 or 0%. In 2006, operating expenses for DCD, omitting the provision for foreclosed real estate, decreased by \$233,002 or 16%. These decreases were related primarily to the decrease in activities of the provision for foreclosed real estate.
- DCD's bad debts and the provisions for loan guaranty and foreclosed real estate increased by \$2,670,402 or 47% in 2007. In 2006, DCD's bad debts and the provision for foreclosed real estate increased by \$3,635,792 or 180%. The increase in 2006 also reflected the amount of the write-off of loans and the adjustment on the due to/due from on the NMHC loan, and the transfer of \$4,000,000 as per Public Law 15-1 for the Commonwealth Utilities Corporation Emergency Declaration.
- In 2007, the Combined Statement of Net Assets decreased by \$56,310 or 1% compared to 2006. This was due to decreases in all categories except for total current assets, total other assets and total liabilities which increased by \$3,678,164, \$2,145,599 and \$7,436,900 or 53%, 11% and 33%, respectively.
- In 2006, the Combined Statement of Net Assets decreased by \$14,775,786 or 19% compared to the previous year. This was due to decreases in all categories except for current liabilities which increased by \$729,317 or 5%.

## Capital Assets and Debt Administration

### Capital Assets

At September 30, 2007 and 2006, CDA had \$14,813,822 and \$15,689,514, respectively, invested in capital assets, net of depreciation where applicable. This represents a net decrease of \$875,692 or 6% during fiscal year 2007.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Property and equipment, net	\$ 2,703,108	\$ 2,814,400	\$ 5,161,806
Asset held for sale	-	443,000	443,000
Land	10,409,682	10,409,682	10,409,682
Foreclosed real estate	<u>1,701,032</u>	<u>2,022,432</u>	<u>1,682,203</u>
	<u>\$ 14,813,822</u>	<u>\$ 15,689,514</u>	<u>\$ 17,696,691</u>

See notes 7, 8 and 9 to the financial statements for more detail information on CDA's capital assets and changes therein.

### Long-Term Debt

At September 30, 2007 and 2006, CDA had \$10,608,466 and \$10,709,566, respectively, in long-term debt outstanding. See note 10 to the financial statements for more detail information on CDA's long-term debt and changes therein.

### **Contacting CDA's Financial Management**

This financial report is designed to provide a general overview of CDA's finances and to demonstrate its accountability for the monies received. The Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the report on the audit of CDA's financial statements which is dated December 12, 2008. That Discussion and Analysis explains the major factors impacting the 2006 financial statements. If you have questions about this report or need additional financial information, contact Mr. Oscar C. Camacho, CDA Officer-In-Charge, P.O. Box 502149, Saipan, MP 96950-2149, or call (670) 234-7145/6293 or email at [executive@cda.gov.mp](mailto:executive@cda.gov.mp).



Commonwealth Development Authority  
 Combined Statements of Net Assets  
 As of September 30, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 12,188,230	\$ 6,920,156	\$ 9,096,426
Other assets	21,729,620	19,584,021	23,305,984
Capital assets	14,813,822	15,689,514	17,696,691
Noncurrent assets	<u>14,550,106</u>	<u>21,144,397</u>	<u>28,014,773</u>
<b>Total assets</b>	<b><u>\$ 63,281,778</u></b>	<b><u>\$ 63,338,088</u></b>	<b><u>\$ 78,113,874</u></b>
Current liabilities	\$ 11,098,399	\$ 4,471,051	\$ 5,451,835
Noncurrent liabilities	<u>14,955,840</u>	<u>14,146,288</u>	<u>13,416,971</u>
<b>Total liabilities</b>	<u>26,054,239</u>	<u>18,617,339</u>	<u>18,868,806</u>
Invested in capital assets	14,813,822	15,689,514	17,696,691
Restricted	<u>22,413,717</u>	<u>29,031,235</u>	<u>41,548,377</u>
<b>Total net assets</b>	<u>37,227,539</u>	<u>44,720,749</u>	<u>59,245,068</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 63,281,778</u></b>	<b><u>\$ 63,338,088</u></b>	<b><u>\$ 78,113,874</u></b>

Commonwealth Development Authority  
Development Banking Division  
Condensed Comparative Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2007, 2006 and 2005

	<u>2007</u>	<u>%</u>	<u>2006</u>	<u>%</u>	<u>Increase (Decrease) Between Years</u>	<u>%</u>	<u>2005</u>
<b>Operating revenues</b>							
Interest on fees and loans	\$ 164,216	30%	\$ 183,790	39%	\$ (19,574)	-11%	\$ 207,020
Interest on investments	383,016	70%	287,193	61%	95,823	33%	138,023
Other	<u>2,402</u>	<u>0%</u>	<u>-</u>	<u>0%</u>	<u>2,402</u>	<u>0%</u>	<u>-</u>
	549,634	100%	470,983	100%	78,651	17%	345,043
Bad debts	<u>-</u>		<u>(119,317)</u>		<u>119,317</u>	<u>-100%</u>	<u>-</u>
<b>Net operating revenues</b>	<b><u>549,634</u></b>		<b><u>351,666</u></b>		<b><u>197,968</u></b>	<b><u>56%</u></b>	<b><u>345,043</u></b>
<b>Operating expenses</b>							
Other	<u>156,662</u>	<u>100%</u>	<u>153,261</u>	<u>100%</u>	<u>3,401</u>	<u>2%</u>	<u>169,046</u>
<b>Total operating expenses</b>	<b><u>156,662</u></b>	<b><u>100%</u></b>	<b><u>153,261</u></b>	<b><u>100%</u></b>	<b><u>3,401</u></b>	<b><u>2%</u></b>	<b><u>169,046</u></b>
<b>Operating income</b>	<b><u>392,972</u></b>		<b><u>198,405</u></b>		<b><u>194,567</u></b>	<b><u>98%</u></b>	<b><u>175,997</u></b>
<b>Nonoperating revenues (expenses)</b>							
Other income	208,918		208,495		423	0%	211,150
Write-off of due to/from other funds	-		6,695,556		(6,695,556)	-100%	-
Interest expense	<u>(107,818)</u>		<u>(113,395)</u>		<u>5,577</u>	<u>-5%</u>	<u>(121,028)</u>
<b>Total nonoperating revenues (expenses), net</b>	<b><u>101,100</u></b>		<b><u>6,790,656</u></b>		<b><u>(6,689,556)</u></b>	<b><u>-99%</u></b>	<b><u>90,122</u></b>
Income before transfers	494,072		6,989,061		(6,494,989)	-93%	266,119
Transfers (out) in for capital development grants	<u>(658,806)</u>		<u>(2,608,963)</u>		<u>1,950,157</u>	<u>-75%</u>	<u>(1,359,489)</u>
<b>Change in net assets</b>	<b><u>\$ (164,734)</u></b>		<b><u>\$ 4,380,098</u></b>		<b><u>\$ (4,544,832)</u></b>	<b><u>-104%</u></b>	<b><u>\$ (1,093,370)</u></b>

Commonwealth Development Authority  
Development Corporation Division  
Condensed Comparative Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2007, 2006 and 2005

	<u>2007</u>	<u>%</u>	<u>2006</u>	<u>%</u>	<u>Increase (Decrease) Between Years</u>	<u>%</u>	<u>2005</u>
<b>Operating revenues</b>							
Interest and fees on loans	\$ 3,217,211	84%	\$ 3,111,482	88%	\$ 105,729	3%	\$ 2,883,716
Interest on investments	320,500	8%	285,290	8%	35,210	12%	140,038
Other	284,614	8%	119,104	4%	165,510	139%	256,053
	<u>3,822,325</u>	<u>100%</u>	<u>3,515,876</u>	<u>100%</u>	<u>306,449</u>	<u>9%</u>	<u>3,279,807</u>
Bad debts	<u>(2,272,922)</u>		<u>(4,746,223)</u>		<u>2,473,301</u>	<u>-52%</u>	<u>(1,281,657)</u>
<b>Net operating revenues</b>	<u>1,549,403</u>		<u>(1,230,347)</u>		<u>2,779,750</u>	<u>-226%</u>	<u>1,998,150</u>
<b>Operating expenses</b>							
Provision for loan guaranty	5,429,690	75%	-	0%	5,429,690	0%	-
Salaries and wages	384,683	5%	453,327	22%	(68,644)	-15%	521,244
Depreciation	15,278	0%	65,984	3%	(50,706)	-77%	101,398
Provision for foreclosed real estate	628,663	9%	914,650	43%	(285,987)	-31%	743,424
Employee benefits	239,957	3%	196,875	9%	43,082	22%	201,865
Professional fees	166,649	3%	7,153	0%	159,496	2230%	117,790
Office rent	118,527	2%	122,733	6%	(4,206)	-3%	126,514
Travel	74,661	1%	48,061	2%	26,600	55%	79,183
Other	191,393	2%	297,421	15%	(106,028)	-36%	276,562
<b>Total operating expenses</b>	<u>7,249,501</u>	<u>100%</u>	<u>2,106,204</u>	<u>100%</u>	<u>5,143,297</u>	<u>244%</u>	<u>2,167,980</u>
<b>Operating loss</b>	<u>(5,700,098)</u>		<u>(3,336,551)</u>		<u>(2,363,547)</u>	<u>71%</u>	<u>(169,830)</u>
<b>Nonoperating revenues (expenses)</b>							
Write-off of due to/from other funds	-		(6,695,556)		6,695,556	-100%	-
Contributions to the CNMI	-		(4,000,000)		4,000,000	-100%	-
<b>Total nonoperating revenues (expenses), net</b>	<u>-</u>		<u>(10,695,556)</u>		<u>10,695,556</u>	<u>-100%</u>	<u>-</u>
<b>Change in net assets</b>	<u>\$ (5,700,098)</u>		<u>\$ (14,032,107)</u>		<u>\$ 8,332,009</u>	<u>-59%</u>	<u>\$ (169,830)</u>

Commonwealth Development Authority  
 Development Banking Division  
 Condensed Comparative Statements of Cash Flows  
 Years Ended September 30, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	Increase (Decrease) Between Years	%	<u>2005</u>
Cash flows from operating activities	\$ 404,255	\$ 281,275	\$ 122,980	44%	\$ 191,600
Cash flows from capital and related financing activities	34,859	(1,889,425)	1,924,284	-102%	(522,469)
Cash flows from investing activities	<u>(439,114)</u>	<u>1,608,150</u>	<u>(2,047,264)</u>	-127%	<u>330,869</u>
Net increase in cash and cash equivalents	-	-	-	0%	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	0%	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	0%	<u>\$ -</u>

Commonwealth Development Authority  
Development Corporation Division  
Condensed Comparative Statements of Cash Flows  
Years Ended September 30, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	Increase (Decrease) Between Years	%	<u>2005</u>
Cash flows from operating activities	\$ 2,302,143	\$ 259,561	\$ 2,042,582	787%	\$ (162,959)
Cash flows from capital and related financing activities	(1,427,589)	(4,314,299)	2,886,710	-67%	1,874,027
Cash flows from investing activities	<u>(852,586)</u>	<u>3,822,008</u>	<u>(4,674,594)</u>	-122%	<u>(2,047,158)</u>
Net increase in cash and cash equivalents	21,968	(232,730)	254,698	-109%	(336,090)
Cash and cash equivalents at beginning of year	<u>1,223,952</u>	<u>1,456,682</u>	<u>(232,730)</u>	-16%	<u>1,792,772</u>
Cash and cash equivalents at end of year	<u>\$ 1,245,920</u>	<u>\$ 1,223,952</u>	<u>\$ 21,968</u>	2%	<u>\$ 1,456,682</u>

COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Statements of Net Assets  
September 30, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 2,287,675	\$ 1,712,434
Time certificates of deposit	1,078,122	1,022,514
Receivables:		
Current portion of loan receivable, net	8,042,720	3,278,521
Current portion capital development loans from related parties, net	176,498	219,218
Rent, net	79,543	57,122
Accrued interest, net of allowance for doubtful accounts of \$16,246,000 and \$16,499,317 as of September 30, 2007 and 2006, respectively	494,240	480,277
Other	23,444	133,287
Prepaid expenses	5,988	16,783
Total current assets	<u>12,188,230</u>	<u>6,920,156</u>
Other assets:		
Cash and cash equivalents, restricted	7,053,728	7,559,694
Time certificates of deposit, restricted	14,675,892	12,024,327
Total other assets	<u>21,729,620</u>	<u>19,584,021</u>
Noncurrent assets:		
Loans receivable, net	13,084,236	19,066,784
Capital development loans receivable from related parties, net	1,465,870	2,077,613
Property and equipment, net	2,703,108	2,814,400
Asset held for sale	-	443,000
Land	10,409,682	10,409,682
Foreclosed real estate	1,701,032	2,022,432
Total noncurrent assets	<u>29,363,928</u>	<u>36,833,911</u>
	<u>\$ 63,281,778</u>	<u>\$ 63,338,088</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current installment of notes payable to related party	\$ 114,243	\$ 107,457
Accounts payable and accrued expenses	1,461,862	1,231,865
Deferred revenues	14,020	263,385
Interest payable	1,927,030	1,162,317
Due to grantor agency	1,321,927	852,677
Reserve for loan guaranty	6,259,317	853,350
Total current liabilities	<u>11,098,399</u>	<u>4,471,051</u>
Notes payable to related party, net of current installments	10,494,223	10,602,109
Deferred revenues, net of current portion	4,461,617	3,544,179
Total liabilities	<u>26,054,239</u>	<u>18,617,339</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	14,813,822	15,689,514
Restricted	22,413,717	29,031,235
Total net assets	<u>37,227,539</u>	<u>44,720,749</u>
	<u>\$ 63,281,778</u>	<u>\$ 63,338,088</u>

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Interest and fees on loans	\$ 4,534,674	\$ 4,490,641
Section 8 income:		
Federal housing assistance rentals	4,254,926	3,977,799
Tenant share	113,514	77,937
Interest on investments	703,516	572,483
HOME Investment Partnership Program grants	665,067	1,211,497
HOME Investment Partnership grants program income	299,808	119,276
CDBG Program Grant	555,622	765,393
ESG Program Grant	26,184	67,503
Housing rental	2,381	963
Other	251,219	91,714
	<u>11,406,911</u>	<u>11,375,206</u>
Bad debts	<u>(3,476,736)</u>	<u>(11,638,614)</u>
Net operating revenues	<u>7,930,175</u>	<u>(263,408)</u>
Operating expenses:		
Provision for loan guaranty	5,689,799	-
Section 8 rental	2,788,538	2,471,599
Salaries and wages	836,184	1,013,668
Professional fees	689,956	201,259
HOME Investment Partnership Program grants	665,067	1,211,497
Provision for foreclosed real estate	628,663	914,650
CDBG Program Grant	555,622	765,393
Depreciation	478,869	679,164
Employee benefits	477,092	457,833
Repairs and maintenance	358,113	512,660
HOME Investment Partnership grants program income expense	299,808	119,276
Utilities	296,745	277,608
Travel	158,199	93,259
Office rent	126,927	128,006
ESG Program Grant	26,184	67,503
Other	449,477	566,304
Total operating expenses	<u>14,525,243</u>	<u>9,479,679</u>
Operating loss	<u>(6,595,068)</u>	<u>(9,743,087)</u>
Nonoperating revenues (expenses):		
Other income	535,449	249,705
Interest income	97,746	51,463
Interest expense	(872,531)	(878,108)
Write-off of note and interest payable to CNMI	-	4,174,042
Infrastructure transferred out to related party	-	(1,769,371)
Contributions to the CNMI	-	(4,000,000)
Total nonoperating revenues (expenses), net	<u>(239,336)</u>	<u>(2,172,269)</u>
Loss before transfers	<u>(6,834,404)</u>	<u>(11,915,356)</u>
Transfers out for capital development grants	<u>(658,806)</u>	<u>(2,608,963)</u>
Change in net assets	<u>(7,493,210)</u>	<u>(14,524,319)</u>
Net assets - beginning	<u>44,720,749</u>	<u>59,245,068</u>
Net assets - ending	<u>\$ 37,227,539</u>	<u>\$ 44,720,749</u>

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Statements of Cash Flows  
Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	\$ 3,690,351	\$ 1,861,644
Cash received from interest and fees on capital development loans	161,989	182,986
Interest and dividends on investments	724,659	536,840
Cash payments to suppliers for goods and services	(1,732,171)	(1,228,911)
Cash received from customers	285,047	105,686
Cash payments to employees for services	(836,184)	(1,013,668)
Cash received from federal grant awards	6,270,857	6,056,034
Cash payments from federal grant awards	<u>(4,918,765)</u>	<u>(5,094,152)</u>
Net cash provided by operating activities	<u>3,645,783</u>	<u>1,406,459</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(133,771)	(101,129)
Proceeds from sale of property and equipment	535,725	-
Net disbursements of loans receivable	(1,226,108)	(794,164)
Contributions to the CNMI	-	(4,000,000)
Payments for guaranteed loans	(138,584)	-
Payments received on capital development loans	654,463	637,366
Transfers for capital development grants	<u>(658,806)</u>	<u>(2,608,963)</u>
Net cash used for capital and related financing activities	<u>(967,081)</u>	<u>(6,866,890)</u>
Cash flows from investing activities:		
Net proceeds from (purchase of) restricted cash and cash equivalents	505,966	(1,926,233)
Net (purchase of) proceeds from time certificates of deposit	(2,707,173)	5,137,130
Interest income	<u>97,746</u>	<u>51,463</u>
Net cash (used for) provided by investing activities	<u>(2,103,461)</u>	<u>3,262,360</u>
Net increase (decrease) in cash and cash equivalents	575,241	(2,198,071)
Cash and cash equivalents at beginning of year	<u>1,712,434</u>	<u>3,910,505</u>
Cash and cash equivalents at end of year	<u>\$ 2,287,675</u>	<u>\$ 1,712,434</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (6,595,068)	\$ (9,743,087)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Bad debts	3,476,736	11,638,614
Provision for loan guaranty	5,689,799	-
Provision for foreclosed real estate	628,663	914,650
Depreciation	478,869	679,164
(Increase) decrease in assets:		
Receivables:		
Rent	(82,067)	(64,928)
Other	(82,169)	(67,618)
Accrued interest	(579,022)	(2,414,036)
Prepaid expenses	10,795	(4,663)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	229,997	553,797
Due to grantor agency	<u>469,250</u>	<u>(85,434)</u>
Net cash provided by operating activities	<u>\$ 3,645,783</u>	<u>\$ 1,406,459</u>

See accompanying notes to financial statements.



COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Statements of Cash Flows, Continued  
 Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Supplemental disclosure of noncash capital and related financing activities:</b>		
<b>Transfer of Koblerville Expansion Project:</b>		
Noncash decrease in property and equipment	\$ -	\$ 1,769,371
Noncash increase in nonoperating expenses	-	(1,769,371)
	<u>\$ -</u>	<u>\$ -</u>
<b>Recognition of liability arising from defaulted loans guaranteed:</b>		
Noncash increase in other assets	\$ -	\$ 853,350
Noncash increase in accounts payable and accrued expenses	-	(853,350)
	<u>\$ -</u>	<u>\$ -</u>
<b>Write-off of note and interest payable to CNMI:</b>		
Noncash decrease in note payable	\$ -	\$ (1,003,377)
Noncash decrease in interest payable	-	(3,170,665)
Noncash increase in nonoperating revenues	-	4,174,042
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

## (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 is affiliated with all other component units of the CNMI Government. 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;

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

## (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.

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.

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

## (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 and Time Certificates of Deposit

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

- Category 1 Deposits that are federally insured or collateralized with securities held by CDA or its agent in CDA's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in CDA's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in CDA's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, CDA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. CDA does not have a deposit policy for custodial credit risk.

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

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

### Cash and Cash Equivalents and Time Certificates of Deposit, Continued

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, 2007 and 2006, total unrestricted cash and cash equivalents were \$2,287,675 and \$1,712,434, respectively, and the corresponding bank balances were \$2,336,895 and \$1,881,058, respectively. Of the bank balance amounts, \$1,427,107 and \$1,881,058 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance as of September 30, 2007 and 2006, respectively, and \$909,788 are maintained at a non-FDIC insured bank as of September 30, 2007. Bank deposits in the amount of \$264,647 and \$254,662 were FDIC insured as of September 30, 2007 and 2006, 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. Accordingly, the deposits are exposed to custodial credit risk.

Time certificates of deposit (TCDs), with maturities of more than three months when purchased, had fair value approximating cost as of September 30, 2007 and 2006. At September 30, 2007 and 2006, approximately \$1,078,122 and \$1,022,514 respectively, of CDA's TCDs are with financial institutions subject to FDIC. As of September 30, 2007 and 2006, TCDs in the amount of \$100,000 were FDIC insured. CNMI law does not require component units to collateralize their bank accounts and thus CDA's deposits in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

### Prepaid Expenses

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

### Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets. Current policy is to capitalize items in excess of \$500.

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.

### Land

Land is recorded at fair market value at the date of acquisition. Valuations are periodically performed by management and adjustments are made to reflect the land at the lower of the carrying amount or fair market value.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

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 collectability 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 Time Certificates of Deposit

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.

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.

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

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

### Revenue Recognition

Operating revenues include all direct revenues such as interest and fees on loans, federal grants and interest on investments.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Interest on loans is accrued and credited to income based on the principal amount outstanding for both performing and nonperforming loans. Due to current confines of CDA and NMHC's systems, interest on nonperforming loans remains to be accrued and credited to income. However, a bad debt expense is recognized for the amount of interest deemed uncollectible. CDA and NMHC are currently working to be able to prospectively cease recognition of interest income on nonperforming loans.

Federal grant revenues are recognized when allowable expenses are incurred.

Non-operating revenues result from capital and financing activities.

### Deferred Revenues

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. Deferred revenues include prepaid lease income on foreclosed real estate held for lease and recorded loan receivables from individuals eligible under the HOME Investment Partnerships program administered by NMHC.

### Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Accumulated sick pay benefits as of September 30, 2007 and 2006 was approximately \$146,836 and \$69,356, respectively.

### 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, 2007, 2006 and 2005 were \$409,185, \$326,053 and \$331,105, respectively, which were equal to the required contributions for each year.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

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:

- Invested 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, 2007 and 2006, 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, 2007 and 2006.

New Accounting Standards

During fiscal year 2007, CDA implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34. The implementation of this pronouncement did not have a material impact on the accompanying 2007 financial statements.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

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



COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

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

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this statement will have a material effect on the financial statements of CDA.

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

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

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

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

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

### Off-Balance Sheet Financial Instruments

In the ordinary course of business, CDA has entered into off-balance sheet financial instruments consisting of commitments to extend credit and loan guarantees. Such financial instruments are recorded in the financial statements when they become payable.

### 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 Time Certificates of Deposit

### Development Banking Division

Restricted cash and cash equivalents and time certificates of deposit 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, 2007 and 2006, restricted cash and cash equivalents and time certificates of deposit consist of time certificates of deposit with maturity periods ranging from eight to sixteen months 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, 2007 and 2006, total restricted cash and cash equivalents and time certificates of deposit were \$9,007,216 and \$8,568,102, respectively, with \$9,007,216 and \$8,568,102, respectively, maintained in financial institutions subject to FDIC insurance. Restricted cash and cash equivalents and investments in the amount of \$100,000 were FDIC insured as of September 30, 2007 and 2006. 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. Accordingly, the deposits are exposed to custodial credit risk.

### Development Corporation Division

At September 30, 2007 and 2006, restricted cash and cash equivalents and time certificates of deposit consist of time certificates of deposit with maturity periods ranging from six to nine months and amounts held in demand deposit accounts. Restricted cash and cash equivalents and time certificates of deposit amounted to \$6,601,380 and \$5,804,402 at September 30, 2007 and 2006, respectively, and comprise amounts maintained as a guarantee against loans issued by the bank. Of the bank balance amounts, \$6,601,380 and \$4,842,412 is maintained in financial institutions subject to FDIC insurance as of September 30, 2007 and 2006, respectively, and \$-0- and \$961,990 are maintained at a non-FDIC insured bank as of September 30, 2007 and 2006, respectively. Restricted cash and cash equivalents and investments in the amount of \$100,000 were FDIC insured as of September 30, 2007 and 2006. Accordingly, the deposits are exposed to custodial credit risk.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(3) Restricted Cash and Cash Equivalents and Time Certificates of Deposit, Continued

Northern Marianas Housing Corporation

NMHC maintains depository accounts with financial institutions in the CNMI which are restricted for various purposes, as detailed below. At September 30, 2007 and 2006, restricted cash and cash equivalents consist of amounts held in demand deposit accounts and time certificates of deposit with sixty days maturity. Of the amounts detailed below, \$135,358 and \$145,338 at September 30, 2007 and 2006, respectively, were FDIC insured. Accordingly, the deposits are exposed to custodial credit risk.

	<u>2007</u>	<u>2006</u>
<u>Restricted cash and cash equivalents:</u>		
Escrow account maintained as a guarantee for any deficiency in foreclosure proceeds related to U.S. Farmers Home Administration loans	\$ 256,872	\$ 255,588
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	196,425	196,033
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	74,888	93,172
MPLT collateral account	1,043,485	2,001,112
Time certificates of deposit for MPLT loan program	2,641,310	1,070,234
Collateral account designated as sinking fund for U.S. Farmers Home Administration defaulted loans	-	907,649
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,644,962	63,361
Other depository accounts reserved for various purposes	<u>263,082</u>	<u>624,368</u>
	<u>\$ 6,121,024</u>	<u>\$ 5,211,517</u>

CDA's investments in time certificates of deposit had the following maturities at September 30, 2007:

	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
DBD	\$ 8,074,512	\$ 8,074,512	\$ -	\$ -	\$ -
DCD	<u>6,601,380</u>	<u>4,250,536</u>	<u>2,350,844</u>	<u>-</u>	<u>-</u>
	<u>\$ 14,675,892</u>	<u>\$ 12,325,048</u>	<u>\$ 2,350,844</u>	<u>\$ -</u>	<u>\$ -</u>

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(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.

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, 2007 and 2006 (with combining information as of September 30, 2007), are as follows:

	<u>Development Corporation Division</u>	<u>Northern Marianas Housing Corporation</u>	<u>2007</u>	<u>2006</u>
General	\$ 25,511,714	\$ 1,425,426	\$ 26,937,140	\$ 26,624,152
Direct family home loans	-	11,954,633	11,954,633	12,024,566
Marine	5,368,630	-	5,368,630	5,566,464
Agriculture	2,593,312	-	2,593,312	2,638,013
HOME Investment Partnerships Act grant	-	3,700,877	3,700,877	2,294,299
Housing construction	-	552,546	552,546	598,220
Tinian turnkey	-	500,878	500,878	505,645
Home revenue bond	-	82,219	82,219	84,658
Section 8	-	168,318	168,318	164,793
Housing preservation grant	-	46,364	46,364	49,713
Trust Territory Guaranteed	<u>8,887</u>	<u>-</u>	<u>8,887</u>	<u>8,887</u>
Loan principal receivable	33,482,543	18,431,261	51,913,804	50,559,410
Less allowance for loan losses	<u>(23,388,320)</u>	<u>(7,398,528)</u>	<u>(30,739,045)</u>	<u>(28,214,105)</u>
Net loans receivable	\$ <u>10,094,223</u>	\$ <u>11,032,733</u>	\$ <u>21,174,759</u>	\$ <u>22,345,305</u>

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Notes to Financial Statements  
September 30, 2007 and 2006

(4) Loans Receivable, Continued

Maturities of the above principal balances subsequent to September 30, 2007, will be as follows:

	<u>Development Corporation Division</u>	<u>Northern Marianas Housing Corporation</u>	<u>Total</u>
Fully matured and others	\$ 23,111,002	\$ 1,552,398	\$ 24,663,400
1 - 6 months	1,317,006	551,635	1,868,641
7 - 18 months	2,375,340	1,103,166	3,478,506
19 months - 3 years	2,754,481	1,552,004	4,306,485
After 3 years	<u>3,924,714</u>	<u>13,672,058</u>	<u>17,596,772</u>
	<u>\$ 33,482,543</u>	<u>\$ 18,431,261</u>	<u>\$ 51,913,804</u>

Allowance for Loan Losses

An analysis of the change in the allowance for loan losses is as follows:

	<u>Development Corporation Division</u>	<u>Northern Marianas Housing Corporation</u>	<u>2007</u>	<u>2006</u>
Balance - beginning of year	\$ 21,474,877	\$ 6,508,112	\$ 27,982,989	\$ 20,310,011
Provision for loan losses	1,914,851	890,416	2,805,267	7,904,094
Write-off of loans	<u>(1,408)</u>	<u>-</u>	<u>(1,408)</u>	<u>-</u>
Balance - end of year	<u>\$ 23,388,320</u>	<u>\$ 7,398,528</u>	<u>\$ 30,786,848</u>	<u>\$ 28,214,105</u>

(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:

	<u>2007</u>	<u>2006</u>
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.	\$ 1,027,211	\$ 1,027,211
Operating expenses	<u>54,045</u>	<u>54,045</u>
	<u>\$ 1,081,256</u>	<u>\$ 1,081,256</u>

DBD provided an allowance of \$119,316 to the outstanding balance of the due from NMHC at September 30, 2007 and 2006.

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Notes to Financial Statements  
September 30, 2007 and 2006

(5) Due from/to Other Funds, Continued

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:

	<u>2007</u>	<u>2006</u>
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.	(7,372,201)	(7,372,201)
Amount written-off	(6,695,556)	(6,695,556)
Operating expenses	<u>400,576</u>	<u>280,267</u>
	\$ <u>79,915</u>	\$ <u>(40,394)</u>

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

All due from/to balances of CDA are eliminated in the basic financial statements.

(6) Capital Development Loans Receivable From Related Parties

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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
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
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

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Notes to Financial Statements  
September 30, 2007 and 2006

(6) Capital Development Loans Receivable From Related Parties, Continued

	<u>2007</u>	<u>2006</u>
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.	<u>6,232,718</u>	<u>6,887,181</u>
Total capital development loans receivable	67,801,468	68,455,931
Less allowance for loan losses	<u>(66,159,100)</u>	<u>(66,159,100)</u>
Net capital development loans receivable	<u>\$ 1,642,368</u>	<u>\$ 2,296,831</u>

At September 30, 2007, estimated proceeds from principal and interest repayments of loans receivable (excluding all CUC loans) for the following years ending September 30, are as follows:

<u>Year ending September 30,</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 669,802	\$ 149,526	\$ 819,328
2009	683,757	132,696	816,453
2010	701,012	115,441	816,453
2011	718,702	97,751	816,453
2012	736,839	79,614	816,453
2013 - 2015	<u>2,722,606</u>	<u>110,430</u>	<u>2,833,036</u>
	<u>\$ 6,232,718</u>	<u>\$ 685,458</u>	<u>\$ 6,918,176</u>

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 ended 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 74% and 67% of the outstanding principal balance at September 30, 2007 and 2006, respectively.

The most recent audited financial statements of CUC are as of September 30, 2005, and reflect a net deficiency of \$52,781,063 and a working capital deficiency of \$156,315,715. 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 \$115,827,825 and \$105,094,248 at September 30, 2007 and 2006, 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.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(6) Capital Development Loans Receivable From Related Parties, Continued

On June 6, 2006, the Governor of the CNMI approved Public Law (P.L.) No. 15-12 which authorized CDA to waive the sum of \$45,500,000 of the principal amount owed by CUC, such amount being the aggregate sum of all outstanding sewer and water project loans given to CUC and referenced in an amended MOA executed in January 2004. Pursuant to the amended MOA, CDA is authorized to waive any and all accrued interest owed by CUC on all outstanding loans. Section 2 of P.L. 15-12 provides that in the event the power generation system for the CNMI is privatized and controlled by an independent power producer, fifty percent of the principal amount of \$45,500,000 shall be paid by the independent power producer to CDA. As of September 30, 2007 and 2006, no adjustments have been made to the accompanying financial statements as CUC and CDA have yet to finalize an agreement on the execution of the provisions of P.L. 15-12.

On January 23, 2007, the Governor of the CNMI approved P.L. 15-44 to amend section 2 of P.L. 15-12. P.L. 15-44 removes the fifty percent (\$22,750,000) payment requirement by the independent power producer and instead requires such amount to be rebated to residential power consumers in the event that the power generation system is privatized and controlled by an independent power producer. The rebate shall be subject to review and approval of the Public Utilities Commission upon privatization. As of September 30, 2007, no adjustments have been made to the accompanying financial statements as CUC and CDA have yet to finalize an agreement on the execution of the provisions of P.L. 15-44.

(7) Property and Equipment

Property and equipment consist of the following at September 30, 2007 and 2006:

Development Corporation Division

	Estimated Useful Lives	Balance at October 1, 2006	Additions	Deletions	Balance at September 30, 2007
Structure and improvements	7 years	\$ 469,125	\$ -	\$ -	\$ 469,125
Vehicles/office equipment	3 - 5 years	111,269	899	-	112,168
Computer equipment	3 - 5 years	122,620	658	-	123,278
Furniture and fixtures	7 years	<u>125,619</u>	<u>-</u>	<u>-</u>	<u>125,619</u>
		828,633	1,557	-	830,190
Less accumulated depreciation		<u>(795,203)</u>	<u>(15,278)</u>	<u>-</u>	<u>(810,481)</u>
		\$ <u>33,430</u>	\$ <u>(13,721)</u>	\$ <u>-</u>	\$ <u>19,709</u>
	Estimated Useful Lives	Balance at October 1, 2005	Additions	Deletions	Balance at September 30, 2006
Structure and improvements	7 years	\$ 468,456	\$ 669	\$ -	\$ 469,125
Vehicles/office equipment	3 - 5 years	140,069	500	(29,300)	111,269
Computer equipment	3 - 5 years	121,290	1,330	-	122,620
Furniture and fixtures	7 years	<u>125,619</u>	<u>-</u>	<u>-</u>	<u>125,619</u>
		855,434	2,499	(29,300)	828,633
Less accumulated depreciation		<u>(758,519)</u>	<u>(65,984)</u>	<u>29,300</u>	<u>(795,203)</u>
		\$ <u>96,915</u>	\$ <u>(63,485)</u>	\$ <u>-</u>	\$ <u>33,430</u>



COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(7) Property and Equipment, Continued

Northern Marianas Housing Corporation

	Estimated Useful Lives	Balance at October 1, 2006	Additions	Deletions	Balance at September 30, 2007
<b>Residential Housing Development Projects:</b>					
Section 8 Mihaville Housing	30 years	\$ 2,460,684	\$ 2,847	\$ -	\$ 2,463,531
Section 8 Koblerville Housing	30 years	1,926,648	6,505	-	1,933,153
Section 8 Rota Housing	30 years	1,176,222	565	-	1,176,787
Section 8 Tinian Housing	30 years	1,065,154	-	-	1,065,154
Section 8 Housing Phase II	30 years	635,229	-	-	635,229
Section 8 Housing Phase I	30 years	<u>600,515</u>	<u>-</u>	<u>-</u>	<u>600,515</u>
		<u>7,864,452</u>	<u>9,917</u>	<u>-</u>	<u>7,874,369</u>
<b>Other:</b>					
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	53,645	-	478,231
Equipment and computers	3 - 8 years	476,311	40,902	-	517,213
Vehicles	3 years	<u>139,197</u>	<u>27,750</u>	<u>(16,470)</u>	<u>150,477</u>
		<u>3,863,585</u>	<u>122,297</u>	<u>(16,470)</u>	<u>3,969,412</u>
		11,728,037	132,214	(16,470)	11,843,781
Less accumulated depreciation		<u>(8,947,067)</u>	<u>(463,591)</u>	<u>250,276</u>	<u>(9,160,382)</u>
		<u>\$ 2,780,970</u>	<u>\$ (331,377)</u>	<u>\$ 233,806</u>	<u>\$ 2,683,399</u>
	Estimated Useful Lives	Balance at October 1, 2005	Additions	Deletions	Balance at September 30, 2006
<b>Residential Housing Development Projects:</b>					
Section 8 Mihaville Housing	30 years	\$ 2,442,014	\$ 18,670	\$ -	\$ 2,460,684
Section 8 Koblerville Housing	30 years	1,921,397	5,251	-	1,926,648
Section 8 Rota Housing	30 years	1,170,178	6,044	-	1,176,222
Section 8 Tinian Housing	30 years	1,063,057	2,097	-	1,065,154
Section 8 Housing Phase II	30 years	635,229	-	-	635,229
Section 8 Housing Phase I	30 years	<u>600,515</u>	<u>-</u>	<u>-</u>	<u>600,515</u>
		<u>7,832,390</u>	<u>32,062</u>	<u>-</u>	<u>7,864,452</u>
<b>Other:</b>					
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	409,743	66,568	-	476,311
Vehicles	3 years	<u>144,196</u>	<u>-</u>	<u>(4,999)</u>	<u>139,197</u>
		<u>3,802,016</u>	<u>66,568</u>	<u>(4,999)</u>	<u>3,863,585</u>
		11,634,406	98,630	(4,999)	11,728,037
Less accumulated depreciation		<u>(8,857,501)</u>	<u>(613,180)</u>	<u>523,614</u>	<u>(8,947,067)</u>
		<u>2,776,905</u>	<u>(514,550)</u>	<u>518,615</u>	<u>2,780,970</u>
Koblerville Expansion Project Infrastructure to be transferred out to related party		<u>2,287,986</u>	<u>-</u>	<u>(2,287,986)</u>	<u>-</u>
		<u>\$ 5,064,891</u>	<u>\$ (514,550)</u>	<u>\$ (1,769,371)</u>	<u>\$ 2,780,970</u>

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Notes to Financial Statements  
September 30, 2007 and 2006

(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, 2007 and 2006. 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. The infrastructure was transferred to CUC during the fiscal year ended September 30, 2006. The infrastructure had a carrying value of \$1,769,371 at the date of transfer.

(8) Asset Held For Sale

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, 2007 and 2006, NMHC has sold fifty-two units amounting to \$3,375,000 and forty-six units amounting to \$2,932,000, respectively. The remaining value of the units to be disposed is \$-0- and \$443,000 as of September 30, 2007 and 2006, respectively. As of September 30, 2007 and 2006, NMHC has remitted \$2,264,600 to CDA.

(9) Foreclosed Real Estate

A summary of the changes in foreclosed real estate and the related valuation allowance as of September 30, 2007 and 2006 is as follows:

	Development Corporation Division		Northern Marianas Housing Corporation	2007	2006
	For Sale	For Lease			
<b>Foreclosed Real Estate</b>					
Balance at beginning of year	\$ 1,182,000	\$ 1,554,000	\$ 654,432	\$ 3,390,432	\$ 2,710,353
Additions	45,000	549,000	72,638	666,638	1,254,879
Deletions	(13,000)	-	(346,375)	(359,375)	-
Decline in market value	<u>(157,726)</u>	<u>(518,600)</u>	<u>-</u>	<u>(676,326)</u>	<u>(574,800)</u>
	1,056,274	1,584,400	380,695	3,021,369	3,390,432
Valuation allowance	<u>(528,137)</u>	<u>(792,200)</u>	<u>-</u>	<u>(1,320,337)</u>	<u>(1,368,000)</u>
Balance at end of year	\$ <u>528,137</u>	\$ <u>792,200</u>	\$ <u>380,695</u>	\$ <u>1,701,032</u>	\$ <u>2,022,432</u>
<b>Valuation Allowance</b>					
Balance at beginning of year	\$ 591,000	\$ 777,000	\$ -	\$ 1,368,000	\$ 1,028,150
Recoveries	(62,863)	-	-	(62,863)	-
Provision	<u>-</u>	<u>15,200</u>	<u>-</u>	<u>15,200</u>	<u>339,850</u>
Balance at end of year	\$ <u>528,137</u>	\$ <u>792,200</u>	\$ <u>-</u>	\$ <u>1,320,337</u>	\$ <u>1,368,000</u>

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(10) Notes Payable to Related Party

Development Banking Division

Note payable at September 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
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.	\$ <u>1,611,843</u>	\$ <u>1,712,943</u>

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

<u>Year ending September 30,</u>	<u>Principal Balance</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 114,243	\$ 101,180	\$ 215,423
2009	115,111	93,955	209,066
2010	122,820	86,246	209,066
2011	131,046	78,020	209,066
2012	139,822	69,244	209,066
2013 - 2017	852,762	192,567	1,045,329
2018	<u>136,039</u>	<u>3,336</u>	<u>139,375</u>
	\$ <u>1,611,843</u>	\$ <u>624,548</u>	\$ <u>2,236,391</u>

Northern Marianas Housing Corporation

Notes payable at September 30, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
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 12-27 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. Operating transfers to the general fund reduce NMHC's liability to MPLT. Repayment of the loan principal is deferred for a period of ten years.	\$ <u>8,996,623</u>	\$ <u>8,996,623</u>

On March 13, 2007, the Governor of the CNMI approved P.L. 15-48 to repeal and amend the restrictions and obligations imposed by Public Laws 10-29 and 12-27. Public Law 15-48 repeals the appropriation of MPLT's annual interest distribution to the CNMI against NMHC's loans with MPLT. In addition, Public Law 15-48 lifts the ten-year repayment moratorium on NMHC and requires NMHC to begin making loan payments to MPLT.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(10) Notes Payable to Related Party, Continued

Northern Marianas Housing Corporation, Continued

Principal maturities for subsequent fiscal years are as follows:

<u>Year ending September 30,</u>	<u>Principal Balance</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 764,713	\$ 764,713
2009	-	764,713	764,713
2010	-	764,713	764,713
2011	-	764,713	764,713
2012	-	764,713	764,713
2013 - 2016	<u>8,996,623</u>	<u>2,372,320</u>	<u>11,368,943</u>
	<u>\$ 8,996,623</u>	<u>\$ 6,195,885</u>	<u>\$ 15,192,508</u>

Changes in loans payable for the years ended September 30, 2007 and 2006, are as follows:

	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2007</u>	<u>Due Within One Year</u>
DBD	\$ 1,712,943	\$ -	\$ (101,100)	\$ 1,611,843	\$ 114,243
NMHC (MPLT)	<u>8,996,623</u>	<u>-</u>	<u>-</u>	<u>8,996,623</u>	<u>-</u>
	<u>\$ 10,709,566</u>	<u>\$ -</u>	<u>\$ (101,100)</u>	<u>\$ 10,608,466</u>	<u>\$ 114,243</u>
	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Due Within One Year</u>
DBD	\$ 1,808,043	\$ -	\$ (95,100)	\$ 1,712,943	\$ 107,457
NMHC (MPLT)	<u>8,996,623</u>	<u>-</u>	<u>-</u>	<u>8,996,623</u>	<u>-</u>
NMHC (CNMI)	<u>1,003,377</u>	<u>-</u>	<u>(1,003,377)</u>	<u>-</u>	<u>-</u>
	<u>\$ 11,808,043</u>	<u>\$ -</u>	<u>\$ (1,098,477)</u>	<u>\$ 10,709,566</u>	<u>\$ 107,457</u>

(11) Contributions to the CNMI

On July 26, 2006, CDA contributed \$4,000,000 to the CNMI Government pursuant to P.L. 15-1. P.L. 15-1 authorized the Governor reprogramming authority prior to the enactment of a comprehensive appropriations act for fiscal year 2006 and for other purposes. Further, P.L. 15-1 was enacted in order to avoid a fiscal crisis and deficit spending of the CNMI Government and to assist the CNMI administration in prioritizing needs until a comprehensive budget for fiscal year 2006 was enacted.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(12) Transfers 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 for capital development grants consist of transfers to the CNMI Office of the Governor for matching funds for grants from the U.S. Department of the Interior amounted to \$658,806 and \$2,608,963 for the years ended September 30, 2007 and 2006, respectively.

(13) Related Party Transactions

CDA maintains depository accounts in FDIC insured financial institutions. One of the Board members of CDA is currently the President Regional Manager of one of these financial institutions. CDA's deposits in this financial institution amounted to \$17,851,314 and \$15,121,542 as of September 30, 2007 and 2006, respectively. Management is of the opinion that transactions with this financial institution are of similar terms and conditions as with unrelated parties.

(14) Commitments and Contingencies

Commitments

CDA leases certain foreclosed real estate properties for periods ranging from fifteen to fifty-five years. Lease income for the years ended September 30, 2007 and 2006 amounted to \$17,025 and \$13,529, respectively. Minimum future lease income is as follows:

<u>Year ending September 30,</u>	<u>Minimum Lease Income Due</u>
2008	\$ 41,770
2009	48,270
2010	62,620
2011	56,770
2012	64,720
Thereafter	<u>1,389,155</u>
	<u>\$ 1,663,305</u>

Under a lease agreement beginning April 30, 2003 and expiring September 30, 2020, CDA leases office space in Saipan. The lease agreement provides for an annual rental of \$96,000 during the term of the lease. Also, CDA leases its office space in Tinian for an annual rental of \$8,400. The related lease agreement expires on May 31, 2008. Rental expense for these leases for each of the years ended September 30, 2007 and 2006 is \$104,400.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

(14) Commitments and Contingencies, Continued

Commitments, Continued

Total minimum future rentals under these operating leases as of September 30, 2007 are as follows:

<u>Year ending</u> <u>September 30,</u>	
2008	\$ 101,600
2009	96,000
2010	96,000
2011	96,000
2012	96,000
2013 - 2017	480,000
2018 - 2020	<u>384,000</u>
	<u>\$ 1,349,600</u>

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 amounts for which CDA was contingently liable under this arrangement at September 30, 2007 and 2006, was \$6,347,083 and \$7,478,517, respectively. As of September 30, 2007, CDA recorded a liability of \$5,429,690 for these loan guarantees.

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, 2007 and 2006, NMHC has guaranteed outstanding loans of approximately \$12,270,000 and \$8,800,000, respectively. As of September 30, 2007 and 2006, the balance in the escrow account was \$256,872 and \$255,588, respectively. These amounts are included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2007 and 2006, the amount of defaulted loans related to the agreement was \$4,473,936 and \$3,541,503, respectively. Of the total defaulted loans, the amount with demand notices from FmHA was \$569,518 and \$616,127 at September 30, 2007 and 2006, respectively, for which NMHC recorded a liability included in "reserve for loan guaranty" in the accompanying financial statements. NMHC management cannot presently determine any additional liability on the remaining defaulted loans of \$3,904,418 at September 30, 2007 and \$2,925,376 at September 30, 2006 and, accordingly, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

## (14) Commitments and Contingencies, Continued

### 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, 2007 and 2006, NMHC was contingently liable for \$1,198,817 and \$1,664,779, 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, 2007 and 2006 was \$74,888 and \$93,172, respectively, which is included in "restricted cash and cash equivalents" in the accompanying financial statements.

NMHC also has similar arrangements with other financial institutions whereby NMHC guarantees a varying percentage of loans issued by the banks for housing construction. At September 30, 2007 and 2006, NMHC was contingently liable to these institutions for \$5,187,500 and \$3,064,200, respectively. As of September 30, 2007 and 2006, the total amount of defaulted loans related to these arrangements was \$260,109 and \$237,223, respectively. As of September 30, 2007 and 2006, the amount was recorded by NMHC as a liability and was included in "reserve for loan guaranty" in the accompanying financial statements.

## (15) 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.

## (16) Subsequent Events

On December 31, 2007, NMHC and MPLT entered into a Settlement Agreement to compromise and settle all disputed issues and claims relating to the \$10 million note payable. Under the Agreement, NMHC agreed to assign to MPLT certain loans and mortgages in the NMHC owned loan portfolio. The total amount of the loan portfolio to be transferred is \$10,621,895 representing the portfolio balance at December 31, 2007 which is the effective date of the assignment. Under the Agreement, NMHC will pay MPLT the sum of \$2,025,000 upon execution of the Agreement. Further, NMHC will retain an amount of \$1,500,000 as additional consideration for its obligations under the Agreement. Additionally, there are several loans which NMHC issued with funds from MPLT and subsequently sold or transferred to certain CNMI banking institutions. Under the Agreement, MPLT will assume liability for repayment of these loans in an amount not to exceed \$1,672,102 in contingent liabilities for and on behalf of NMHC in the form of guarantees to certain financial institutions. As of September 30, 2007, the related notes payable to MPLT are classified as noncurrent in the accompanying financial statements.

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements  
September 30, 2007 and 2006

## (16) Subsequent Events, Continued

On December 14, 2007, CDA entered into a sublease agreement for a portion of its office space in Saipan. The sublease is for a period of two years commencing from December 1, 2007 for an annual rental of \$24,000.

On January 25, 2008, CDA entered into a ground lease and option to purchase agreement for a foreclosed real estate property. The lease is for a period of twenty-five years for a total rental of \$569,000, which will be paid by lessee in monthly installments based on a payment schedule specified in the agreement. At any time during the twenty-five year term of the lease, upon and subject to payment by lessee of the full \$569,000 rental, the lessee is given the option to purchase the property at \$100.

In June 2008, NMHC entered into an agreement with the USDA Rural Development (formerly the U.S. Farmers Home Administration or FmHA) to resolve defaulted USDA Rural Development loans. The agreement has been established to outline the steps and mutually agreed-upon terms in liquidating defaulted USDA Rural Development loans which NMHC agreed to act as Trustee, in accordance with D.L. 5-42 (the Act) on Deeds of Trust securing Rural Development housing loans in the CNMI. The agreement encompasses forty-eight seriously delinquent loans totaling \$3,126,371. This number may decline if any accounts cure before the auction dates. On June 5, 2008, NMHC's Board of Directors approved a Board resolution authorizing the expenditure of \$1,521,923 from NMHC's funds for the purpose of paying any amount due and payable to USDA Rural Development from NMHC pursuant to the terms and conditions of the agreement.

On October 15, 2008, in light of P.L. 15-48 and the settlement agreement entered into between NMHC and MPLT on December 31, 2007, the CNMI Government agreed that NMHC does not have a liability to the CNMI for NMHC loan payments withheld by MPLT from interest due to the CNMI. As of September 30, 2006, the related note and interest payable to CNMI is written-off in the accompanying financial statements.



COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Net Assets  
September 30, 2007

ASSETS	Development Banking Division	Development Corporation Division	Component Unit	Elimination Entries	Total
			Northern Marianas Housing Corporation		
<b>Current assets:</b>					
Cash and cash equivalents	\$ -	\$ 1,245,920	\$ 1,041,755	\$ -	\$ 2,287,675
Time certificates of deposit	-	1,078,122	-	-	1,078,122
<b>Receivables:</b>					
Loans, net	-	6,452,810	1,589,910	-	8,042,720
Capital development loans from related parties, net	176,498	-	-	-	176,498
Rent, net	-	-	79,543	-	79,543
Accrued interest, net	94,168	128,454	271,618	-	494,240
Other	-	23,444	-	-	23,444
Prepaid expenses	-	5,988	-	-	5,988
<b>Total current assets</b>	<b>270,666</b>	<b>8,934,738</b>	<b>2,982,826</b>	<b>-</b>	<b>12,188,230</b>
<b>Other assets:</b>					
Cash and cash equivalents, restricted	932,704	-	6,121,024	-	7,053,728
Time certificates of deposit, restricted	8,074,512	6,601,380	-	-	14,675,892
<b>Total other assets</b>	<b>9,007,216</b>	<b>6,601,380</b>	<b>6,121,024</b>	<b>-</b>	<b>21,729,620</b>
<b>Noncurrent assets:</b>					
Loans receivable, net	-	3,641,413	9,442,823	-	13,084,236
Capital development loans receivable from related parties, net	1,465,870	-	-	-	1,465,870
Due from other funds	961,940	79,915	-	(1,041,855)	-
Property and equipment, net	-	19,709	2,683,399	-	2,703,108
Land	-	-	10,409,682	-	10,409,682
Foreclosed real estate	-	1,320,337	380,695	-	1,701,032
<b>Total noncurrent assets</b>	<b>2,427,810</b>	<b>5,061,374</b>	<b>22,916,599</b>	<b>(1,041,855)</b>	<b>29,363,928</b>
	<b>\$ 11,705,692</b>	<b>\$ 20,597,492</b>	<b>\$ 32,020,449</b>	<b>\$ (1,041,855)</b>	<b>\$ 63,281,778</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current liabilities:</b>					
Current installment of notes payable to related party	\$ 114,243	\$ -	\$ -	\$ -	\$ 114,243
Accounts payable and accrued expenses	-	304,370	1,157,811	(319)	1,461,862
Deferred revenues	-	14,020	-	-	14,020
Interest payable	-	-	1,927,030	-	1,927,030
Due to grantor agency	-	-	1,321,927	-	1,321,927
Reserve for loan guaranty	-	5,429,690	829,627	-	6,259,317
<b>Total current liabilities</b>	<b>114,243</b>	<b>5,748,080</b>	<b>5,236,395</b>	<b>(319)</b>	<b>11,098,399</b>
Notes payable to related party, net of current installments	1,497,600	-	8,996,623	-	10,494,223
Deferred revenues, net of current portion	-	707,535	3,754,082	-	4,461,617
Due to other funds	79,596	-	1,081,256	(1,160,852)	-
<b>Total liabilities</b>	<b>1,691,439</b>	<b>6,455,615</b>	<b>19,068,356</b>	<b>(1,161,171)</b>	<b>26,054,239</b>
<b>Net assets:</b>					
Invested in capital assets	-	1,340,046	13,473,776	-	14,813,822
Restricted	10,014,253	12,801,831	(521,683)	119,316	22,413,717
<b>Total net assets</b>	<b>10,014,253</b>	<b>14,141,877</b>	<b>12,952,093</b>	<b>119,316</b>	<b>37,227,539</b>
	<b>\$ 11,705,692</b>	<b>\$ 20,597,492</b>	<b>\$ 32,020,449</b>	<b>\$ (1,041,855)</b>	<b>\$ 63,281,778</b>

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended September 30, 2007

	Development Banking Division	Development Corporation Division	Component Unit Northern Marianas Housing Corporation	Elimination Entries	Total
Operating revenues:					
Interest and fees on loans	\$ 164,216	\$ 3,217,211	\$ 1,153,247	\$ -	\$ 4,534,674
Section 8 income:					
Federal housing assistance rentals	-	-	4,254,926	-	4,254,926
Tenant share	-	-	113,514	-	113,514
Interest on investments	383,016	320,500	-	-	703,516
HOME Investment Partnership					
Program grants	-	-	665,067	-	665,067
HOME Investment Partnership grants					
program income	-	-	299,808	-	299,808
CDBG Program Grant	-	-	555,622	-	555,622
ESG Program Grant	-	-	26,184	-	26,184
Housing rental	-	-	2,381	-	2,381
Other	2,402	284,614	67,461	(103,258)	251,219
	<u>549,634</u>	<u>3,822,325</u>	<u>7,138,210</u>	<u>(103,258)</u>	<u>11,406,911</u>
Bad debts	-	(2,272,922)	(1,203,814)	-	(3,476,736)
Net operating revenues	<u>549,634</u>	<u>1,549,403</u>	<u>5,934,396</u>	<u>(103,258)</u>	<u>7,930,175</u>
Operating expenses:					
Provision for loan guaranty	-	5,429,690	260,109	-	5,689,799
Section 8 rental	-	-	2,788,538	-	2,788,538
Salaries and wages	-	384,683	451,501	-	836,184
Professional fees	-	166,649	523,307	-	689,956
HOME Investment Partnership					
Program grants	-	-	665,067	-	665,067
Provision for foreclosed real estate	-	628,663	-	-	628,663
CDBG Program Grant	-	-	555,622	-	555,622
Depreciation	-	15,278	463,591	-	478,869
Employee benefits	-	239,957	237,135	-	477,092
Repairs and maintenance	-	11,321	346,792	-	358,113
HOME Investment Partnership grants					
program income expense	-	-	299,808	-	299,808
Utilities	-	28,919	267,826	-	296,745
Travel	-	74,661	83,538	-	158,199
Office rent	-	118,527	8,400	-	126,927
ESG Program Grant	-	-	26,184	-	26,184
Other	156,662	151,153	244,920	(103,258)	449,477
Total operating expenses	<u>156,662</u>	<u>7,249,501</u>	<u>7,222,338</u>	<u>(103,258)</u>	<u>14,525,243</u>
Operating income (loss)	<u>392,972</u>	<u>(5,700,098)</u>	<u>(1,287,942)</u>	<u>-</u>	<u>(6,595,068)</u>
Nonoperating revenues (expenses):					
Other income	208,918	-	326,531	-	535,449
Interest income	-	-	97,746	-	97,746
Interest expense	(107,818)	-	(764,713)	-	(872,531)
Total nonoperating revenues					
(expenses), net	<u>101,100</u>	<u>-</u>	<u>(340,436)</u>	<u>-</u>	<u>(239,336)</u>
Income (loss) before transfers	494,072	(5,700,098)	(1,628,378)	-	(6,834,404)
Transfers out for capital development grants	(658,806)	-	-	-	(658,806)
Change in net assets	<u>(164,734)</u>	<u>(5,700,098)</u>	<u>(1,628,378)</u>	<u>-</u>	<u>(7,493,210)</u>
Net assets - beginning	10,178,987	19,841,975	14,580,471	119,316	44,720,749
Net assets - ending	<u>\$ 10,014,253</u>	<u>\$ 14,141,877</u>	<u>\$ 12,952,093</u>	<u>\$ 119,316</u>	<u>\$ 37,227,539</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Cash Flows  
Year Ended September 30, 2007

	Development Banking Division	Development Corporation Division	Component Unit Northern Marianas Housing Corporation	Elimination Entries	Total
<b>Cash flows from operating activities:</b>					
Cash received from interest and fees on loans receivable	\$ -	\$ 2,851,525	\$ 838,826	\$ -	\$ 3,690,351
Cash received from interest and fees on capital development loans	161,989	-	-	-	161,989
Interest and dividends on investments	396,526	328,133	-	-	724,659
Cash payments to suppliers for goods and services	(156,662)	(777,446)	(901,002)	102,939	(1,732,171)
Cash received from customers	2,402	284,614	101,289	(103,258)	285,047
Cash payments to employees for services	-	(384,683)	(451,501)	-	(836,184)
Cash received from federal grant awards	-	-	6,270,857	-	6,270,857
Cash payments from federal grant awards	-	-	(4,918,765)	-	(4,918,765)
Net cash provided by operating activities	<u>404,255</u>	<u>2,302,143</u>	<u>939,704</u>	<u>(319)</u>	<u>3,645,783</u>
<b>Cash flows from capital and related financing activities:</b>					
Net interdivisional transactions	39,202	(39,521)	-	319	-
Acquisition of property and equipment	-	(1,557)	(132,214)	-	(133,771)
Proceeds from sale of property and equipment	-	-	535,725	-	535,725
Net (disbursements) proceeds of loans receivable	-	(1,386,511)	160,403	-	(1,226,108)
Payments for guaranteed loans	-	-	(138,584)	-	(138,584)
Payments received on capital development loans	654,463	-	-	-	654,463
Transfers for capital development grants	(658,806)	-	-	-	(658,806)
Net cash provided by (used for) capital and related financing activities	<u>34,859</u>	<u>(1,427,589)</u>	<u>425,330</u>	<u>319</u>	<u>(967,081)</u>
<b>Cash flows from investing activities:</b>					
Net proceeds from (purchase of) restricted cash and cash equivalents	453,483	961,990	(909,507)	-	505,966
Net purchase of time certificates of deposit	(892,597)	(1,814,576)	-	-	(2,707,173)
Interest income	-	-	97,746	-	97,746
Net cash used for investing activities	<u>(439,114)</u>	<u>(852,586)</u>	<u>(811,761)</u>	<u>-</u>	<u>(2,103,461)</u>
Net increase in cash and cash equivalents	-	21,968	553,273	-	575,241
Cash and cash equivalents at beginning of year	-	1,223,952	488,482	-	1,712,434
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 1,245,920</u>	<u>\$ 1,041,755</u>	<u>\$ -</u>	<u>\$ 2,287,675</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ 392,972	\$ (5,700,098)	\$ (1,287,942)	\$ -	\$ (6,595,068)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Bad debts	-	2,272,922	1,203,814	-	3,476,736
Provision for loan guaranty	-	5,429,690	260,109	-	5,689,799
Provision for foreclosed real estate	-	628,663	-	-	628,663
Depreciation	-	15,278	463,591	-	478,869
(Increase) decrease in assets:					
Receivables:					
Rent	-	-	(82,067)	-	(82,067)
Other	-	(82,169)	-	-	(82,169)
Accrued interest	11,283	(275,884)	(314,421)	-	(579,022)
Prepaid expenses	-	10,795	-	-	10,795
Increase (decrease) in liabilities:					
Accounts payable and accrued expenses	-	2,946	227,370	(319)	229,997
Due to grantor agency	-	-	469,250	-	469,250
Net cash provided by operating activities	<u>\$ 404,255</u>	<u>\$ 2,302,143</u>	<u>\$ 939,704</u>	<u>\$ (319)</u>	<u>\$ 3,645,783</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Schedule of Revenues, Expenses and Changes in Net Assets  
- Budget and Actual  
Year Ended September 30, 2007

	Budget	Actual	Variance
Operating revenues:			
Interest and fees on loans	\$ 4,111,761	\$ 4,534,674	\$ 422,913
Section 8 income:			
Federal housing assistance rentals	4,719,302	4,254,926	(464,376)
Tenant share	-	113,514	113,514
Interest on investments	320,500	703,516	383,016
HOME Investment Partnership Program grants	665,068	665,067	(1)
HOME Investment Partnership grants program income	299,808	299,808	-
CDBG Program Grant	633,458	555,622	(77,836)
ESG Program Grant	-	26,184	26,184
Housing rental	-	2,381	2,381
Other	284,614	251,219	69,863
Total operating revenues	11,034,511	11,406,911	475,658
Recoveries (bad debts)	-	(3,476,736)	(3,476,736)
Net operating revenues	11,034,511	7,930,175	(3,001,078)
Operating expenses:			
Section 8 rental	3,171,560	2,788,538	383,022
Provision for loan guaranty	-	5,689,799	(5,689,799)
Salaries and wages	1,334,189	1,076,504	257,685
HOME Investment Partnership Program grants	575,082	575,082	-
HOME Investment Partnership Program grants program income expense	299,808	299,808	-
Provision for foreclosed real estate	-	628,663	(628,663)
Depreciation	440,000	478,869	(38,869)
CDBG Program Grant	387,412	387,412	-
Repairs and maintenance	237,776	358,113	(120,337)
Employee benefits	585,535	477,092	108,443
Professional fees	253,150	689,956	(436,806)
Office rent	127,944	126,927	1,017
Travel	145,131	162,199	(17,068)
Capital outlay	46,180	25,349	20,831
ESG Program Grant	-	26,184	(26,184)
Utilities	273,295	296,745	(23,450)
Contingent expenses	391,408	-	391,408
Other	601,208	449,477	48,473
Total operating expenses	8,869,678	14,536,717	(5,770,297)
Operating (loss) income	2,164,833	(6,606,542)	(8,771,375)
Nonoperating revenues (expenses):			
Other income	-	535,449	535,449
Interest income	38,426	97,746	59,320
Interest expense	-	(872,531)	(872,531)
Total nonoperating revenues (expenses), net	38,426	(239,336)	(277,762)
(Loss) income before contributions and transfers	2,203,259	(6,845,878)	(9,049,137)
Transfers out for capital development grants	-	(658,806)	(658,806)
Change in net assets	2,203,259	(7,504,684)	(9,707,943)
Net assets - beginning	-	44,619,620	44,500,304
Net assets - ending	\$ 2,203,259	\$ 37,114,936	\$ 34,792,361
The following reconciles budget to GAAP differences:			
Net assets at end of year, budgetary basis		\$ 37,114,936	
Capital outlay reported as expense for budget purposes:			
FY 2006	\$ 101,129		
FY 2007	11,474	112,603	
Net assets at end of year, GAAP basis		\$ 37,227,539	

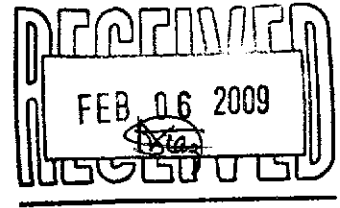
See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual  
Year Ended September 30, 2007

	Development Banking Division			Development Corporation Division			Northern Marianas Housing Corporation		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Operating revenues:									
Interest and fees on loans	\$ -	\$ 164,216	\$ 164,216	\$ 3,217,211	\$ 3,217,211	\$ -	\$ 894,550	\$ 1,153,247	\$ 258,697
Section 8 income:									
Federal housing assistance rentals	-	-	-	-	-	-	4,719,302	4,254,926	(464,376)
Tenant share	-	-	-	-	-	-	-	113,514	113,514
Interest on investments	-	383,016	383,016	320,500	320,500	-	-	-	-
HOME Investment Partnership Program grants	-	-	-	-	-	-	665,068	665,067	(1)
HOME Investment Partnership grants program income	-	-	-	-	-	-	299,808	299,808	-
CDBG Program Grant	-	-	-	-	-	-	633,438	555,622	(77,836)
ESG Program Grant	-	-	-	-	-	-	-	26,184	26,184
Housing rental	-	-	-	-	-	-	-	2,381	2,381
Other	-	2,402	2,402	284,614	284,614	-	-	67,461	67,461
<b>Total operating revenues</b>	<b>-</b>	<b>549,634</b>	<b>549,634</b>	<b>3,822,325</b>	<b>3,822,325</b>	<b>-</b>	<b>7,212,186</b>	<b>7,138,210</b>	<b>(73,976)</b>
Recoveries (bad debts)	-	-	-	-	(2,272,922)	(2,272,922)	-	(1,203,814)	(1,203,814)
<b>Net operating revenues</b>	<b>-</b>	<b>549,634</b>	<b>549,634</b>	<b>3,822,325</b>	<b>1,549,403</b>	<b>(2,272,922)</b>	<b>7,212,186</b>	<b>5,934,396</b>	<b>(1,277,790)</b>
Operating expenses:									
Section 8 rental	-	-	-	-	-	-	3,171,560	2,788,538	383,022
Provision for loan guaranty	-	-	-	-	5,429,690	(5,429,690)	-	260,109	(260,109)
HOME Investment Partnership Program grants	-	-	-	-	-	-	575,082	575,082	-
HOME Investment Partnership Program grants program income expense	-	-	-	-	-	-	299,808	299,808	-
Salaries and wages	-	-	-	523,589	384,683	138,906	810,600	691,821	118,779
CDBG Program Grant	-	-	-	-	-	-	387,412	387,412	-
Depreciation	-	-	-	-	15,278	(15,278)	440,000	463,591	(23,591)
Provision for foreclosed real estate	-	-	-	-	628,663	(628,663)	-	-	-
Repairs and maintenance	-	-	-	-	11,321	(11,321)	237,776	346,792	(109,016)
Employee benefits	-	-	-	222,629	239,957	(17,328)	362,906	237,135	125,771
Professional fees	-	-	-	90,000	166,649	(76,649)	163,150	523,307	(360,157)
Office rent	-	-	-	116,724	118,527	(1,803)	11,220	8,400	2,820
Travel	-	-	-	59,000	74,661	(15,661)	86,131	87,538	(1,407)
ESG Program Grant	-	-	-	-	-	-	-	26,184	(26,184)
Capital outlay	-	-	-	7,000	1,557	5,443	39,180	23,792	15,388
Utilities	-	-	-	22,500	28,919	(6,419)	250,795	267,826	(17,031)
Contingent expenses	-	-	-	-	-	-	391,408	-	391,408
Other	-	156,662	(156,662)	137,624	151,153	(13,529)	463,584	244,920	218,664
<b>Total operating expenses</b>	<b>-</b>	<b>156,662</b>	<b>(156,662)</b>	<b>1,179,066</b>	<b>7,251,058</b>	<b>(6,071,992)</b>	<b>7,690,612</b>	<b>7,232,255</b>	<b>458,357</b>
<b>Operating (loss) income</b>	<b>-</b>	<b>392,972</b>	<b>392,972</b>	<b>2,643,259</b>	<b>(5,701,655)</b>	<b>(8,344,914)</b>	<b>(478,426)</b>	<b>(1,297,859)</b>	<b>(819,433)</b>
Nonoperating revenues (expenses):									
Other income	-	208,918	208,918	-	-	-	-	326,531	326,531
Interest income	-	-	-	-	-	-	38,426	97,746	59,320
Interest expense	-	(107,818)	(107,818)	-	-	-	-	(764,713)	(764,713)
<b>Total nonoperating revenues (expenses), net</b>	<b>-</b>	<b>101,100</b>	<b>101,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,426</b>	<b>(340,436)</b>	<b>(378,862)</b>
<b>(Loss) income before contributions and transfers</b>	<b>-</b>	<b>494,072</b>	<b>494,072</b>	<b>2,643,259</b>	<b>(5,701,655)</b>	<b>(8,344,914)</b>	<b>(440,000)</b>	<b>(1,638,295)</b>	<b>(1,198,295)</b>
Transfers out for capital development grants	-	(658,806)	(658,806)	-	-	-	-	-	-
<b>Change in net assets</b>	<b>-</b>	<b>(164,734)</b>	<b>(164,734)</b>	<b>2,643,259</b>	<b>(5,701,655)</b>	<b>(8,344,914)</b>	<b>(440,000)</b>	<b>(1,638,295)</b>	<b>(1,198,295)</b>
Net assets - beginning	-	10,178,987	10,178,987	-	19,839,476	19,839,476	-	14,481,841	14,481,841
<b>Net assets - ending</b>	<b>\$ -</b>	<b>\$ 10,014,253</b>	<b>\$ 10,014,253</b>	<b>\$ 2,643,259</b>	<b>\$ 14,137,821</b>	<b>\$ 11,494,562</b>	<b>\$ (440,000)</b>	<b>\$ 12,843,546</b>	<b>\$ 13,283,546</b>

See Accompanying Independent Auditors' Report.



COMMONWEALTH DEVELOPMENT AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2007

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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, 2007, and have issued our report thereon dated December 29, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CDA's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CDA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of CDA's financial statements that is more than inconsequential will not be prevented or detected by CDA's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 47) to be significant deficiencies in internal control over financial reporting as items 2007-1 through 2007-7.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1, 2007-3, 2007-4 and 2007-7 to be material weaknesses.

#### 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2007-8.

We noted certain matters that we reported to management of CDA in a separate letter dated December 29, 2008.

CDA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit CDA's responses and, accordingly, we express no opinion on it.

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*

December 29, 2008



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 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, 2007. 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 47). 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 2007-9 through 2007-28 in the accompanying Schedule of Findings and Questioned Costs, CDA did not comply with requirements regarding allowable costs/cost principles, cash management, Davis-Bacon Act, eligibility, matching, level of effort, earmarking, procurement and suspension and debarment, program income, reporting and special tests and provisions that are applicable to its CFDA 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas, CFDA 14.239 HOME Investment Partnerships Program and CFDA 14.871 Section 8 Housing Choice Vouchers programs. Compliance with such requirements is necessary, in our opinion, for CDA to comply with the requirements applicable to that program.

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, 2007.

#### 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CDA's internal control over compliance.

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

A *control deficiency* in CDA's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects CDA's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by CDA's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2007-9 through 2007-28 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected in CDA's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2007-9, 2007-10, 2007-14, 2007-17 and 2007-25 to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of CDA as of and for the year ended September 30, 2007, and have issued our report thereon dated December 29, 2008. Our audit was performed for the purpose of forming our opinion on CDA's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 6) 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. 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.

CDA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit CDA's responses and, accordingly, we express no opinion on it.

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.

*Debate + Towhe LLC*

December 29, 2008

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2007

Federal Grantor/ Program Title	Federal CFDA Number	Federal Cumulative Amount of Grant Award	Receivable (Deferred Revenue) from Grantor at October 1, 2006	Federal Funds Received in Fiscal Year 2007	Federal Funds Expended in Fiscal Year 2007	Receivable (Deferred Revenue) from Grantor at September 30, 2007
<b>Direct Programs:</b>						
U.S. Department of Housing and Urban Development /Section 8 Housing Choice Vouchers	14.871	\$ 3,755,134	\$ (764,291)	\$ 3,958,149	\$ 3,167,587	\$ (1,554,853)
U.S. Department of Housing and Urban Development /Section 8 New Construction and Substantial Rehabilitation	14.182	480,416	-	319,504	480,416	160,912
	14.182	262,173	-	218,243	262,173	43,930
	14.182	160,967	-	160,967	160,967	-
	14.182	183,783	-	121,302	183,783	62,481
Subtotal CFDA #14.182		1,087,339	-	820,016	1,087,339	267,323
U.S. Department of Housing and Urban Development/Community Development Block Grants/Special Purpose Grants/Insular Areas						
Tinian Shelter/Tinian Outdoor Stage Public Library Phase II	14.225	165,559	-	30,339	30,339	-
Living Transitional Model Homes	14.225	64,000	-	28,055	28,055	-
Rota Baseball Field	14.225	300,000	-	184,340	184,340	-
Sugar King Cultural Center	14.225	328,000	-	142,478	142,478	-
Public Restroom in Rota	14.225	250,000	-	2,200	2,200	-
Administrative Fee	14.225	247,000	-	168,210	168,210	-
Subtotal CFDA #14.225		1,354,559	-	555,622	555,622	-
U.S. Department of Housing and Urban Development /Emergency Shelter Grants Program	14.231	342,006	8,239	28,250	26,184	6,173
U.S. Department of Housing and Urban Development /HOME Investment Partnerships Program	14.239	569,024	-	84,511	89,986	5,475
	14.239	414,778	(96,625)	249,228	299,808	(46,045)
	14.239	3,224,471	-	575,083	575,083	-
Subtotal CFDA #14.239		4,208,273	(96,625)	908,822	964,877	(40,570)
		\$ 10,747,311	\$ (852,677)	\$ 6,270,859	\$ 5,801,609	\$ (1,321,927)
<b>Reconciliation of expenditures to Statement of Revenues, Expenses and Changes in Net Assets:</b>						
<b>Federal award expenditures per above:</b>						
U.S. Department of Housing and Urban Development /Section 8 Housing Choice Vouchers					\$ 3,167,587	
U.S. Department of Housing and Urban Development /Section 8 New Construction and Substantial Rehabilitation					1,087,339	
					\$ 4,254,926	
<b>Federal award expenditures per Statement of Revenues, Expenses and Changes in Net Assets:</b>						
U.S. Department of Housing and Urban Development /Section 8 Housing Choice Vouchers:					\$ 2,788,538	
Section 8 rental					174,660	
Utilities					125,109	
Salaries and wages					22,563	
Employee benefits					38,842	
Travel					4,000	
Professional fees					13,875	
Property and equipment acquisition					3,167,587	
U.S. Department of Housing and Urban Development /Section 8 New Construction and Substantial Rehabilitation:						
Salaries and wages					191,456	
Employee benefits					88,338	
Professional fees					233,590	
Repairs and maintenance					346,792	
Office rent					8,400	
Travel					21,820	
Utilities					93,166	
Other					103,777	
					1,087,339	
					\$ 4,254,926	

See accompanying notes to schedule of expenditures of federal awards.

# COMMONWEALTH DEVELOPMENT AUTHORITY

## Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2007

### (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

*U.S. Department of HUD - Community Development Block Grants/Special Purpose Grants/Insular Areas/HOME Investment Partnerships Program/Emergency Shelter Grants Program* - NMHC received these funds in a direct capacity in fiscal year 2007 and administers the funds and is responsible for ensuring compliance with laws and regulations.

*U.S. Department of HUD - Section 8 New Construction and Substantial Rehabilitation /Section 8 Housing Choice Vouchers* - 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.

#### d. Indirect Cost Allocation

CDA does not receive an indirect cost allocation.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2007

(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, 2007, such funds amounting to \$658,806 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, 2007, \$1,642,368 (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, 2007, \$10,094,223 (net of the allowance for doubtful accounts of \$23,388,320) 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, 2007, \$2,596,145 (net of the related allowance for doubtful accounts of \$1,575,811 and out of total NMHC net loans receivable of \$11,032,733) of loans made out of this revolving fund were outstanding.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2007

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of CDA.
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements, some of which are considered to be material weaknesses.
3. One instance of noncompliance considered material to the financial statements of CDA was disclosed during the audit.
4. Significant deficiencies in internal control were disclosed by the audit of the major federal award programs, some of which are considered to be material weaknesses.
5. The auditors' report on compliance for the major federal award programs for CDA expresses a qualified opinion.
6. There were audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

<u>Name or Cluster</u>	<u>CFDA Number</u>
U.S. Department of Housing and Urban Development:	
Community Development Block Grants/ Special Purpose Grants/Insular Areas	14.225
HOME Investment Partnerships Program	14.239
Section 8 Housing Choice Vouchers	14.871

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. CDA was determined not to be a low-risk auditee.

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2007-1 - 2	DCD Loans Receivable	11 - 14
2007-3	NMHC Loans Receivable	15
2007-4	NMHC Land	16
2007-5	DCD Foreclosed Real Estate	17 - 18
2007-6	DCD Lease Transactions	19 - 20
2007-7	NMHC Loan Guarantee Agreements	21
2007-8	Local Noncompliance	22

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2007-9	Allowable Costs/Cost Principles	\$ 1,211	23 - 24
2007-10	Allowable Costs/Cost Principles	\$ -	25
2007-11	Cash Management	\$ -	26
2007-12	Davis-Bacon Act	\$ -	27
2007-13	Eligibility	\$ -	28
2007-14	Matching, Level of Effort, Earmarking	\$ -	29
2007-15	Procurement and Suspension and Debarment	\$ -	30
2007-16 - 18	Program Income	\$ -	31 - 33
2007-19 - 20	Reporting	\$ -	34 - 36
2007-21 - 28	Special Tests and Provisions	\$ -	37 - 47



COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

DCD Loans Receivable

Finding No. 2007-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis. Further, all receivables should be assessed and monitored for collectability. Balances deemed not collectible should be adequately allowed for. Additionally, calculation of allowance for loan losses and other related receivables should be regularly reviewed for accuracy, completeness and reasonableness. Further, for restructured loans, the allowance should be determined in the same manner as prior to the restructuring until a sufficient time has passed that the borrower can meet the revised debt service requirements.

Condition: Our tests of DCD's loans receivable noted the following:

- An analysis of DCD's past due loans was performed to determine the propriety of the allowance for doubtful loans as of September 30, 2007. This analysis revealed that loans which are six months or more in arrears had increased from \$27,682,659 at September 30, 2006 to \$29,712,801 as of September 30, 2007. The related accrued interest on loans that are six months or more in arrears has also increased from \$13,946,053 at September 30, 2006 to \$14,362,485 as of September 30, 2007. As such, the collateral for these loans is decreasing as a percentage of the total loan and interest portfolio.
- For one delinquent account (# SB 70154), the final notice of delinquency was sent on April 8, 2003. No written evidence was noted in the loan file that subsequent action was taken to address the delinquency status of the loan.
- For three restructured loans (#s RE 70260, RE 70265 and CD 70257), which were past due for more than six months in arrears prior to the restructuring were classified as less than six months in arrears in the receivables aging report since the original due dates and past due balances were revised. As such, the related allowance was calculated based on the revised terms. An audit adjustment was proposed to record an additional allowance of \$900,292 relating to these three loans.
- As of September 30, 2007, CDA has recorded loans receivables miscellaneous charges (GL # 1208-00) of \$426,456 with a related allowance of \$228,970. This receivable account was excluded in CDA's calculation of the loan loss reserve at September 30, 2007. Further, CDA did not perform a separate assessment of the collectability of the account balance. This condition was corrected through a proposed audit adjustment for an additional allowance of \$195,321.

Cause: The cause of the above condition is the increase in past due loans and lack of adequate review of the reasonableness of the calculation of allowance for loan losses and other related receivables.

Effect: The effect of the above condition is an increased possibility of loan losses due to non-payment by borrowers and potential misstatement of loans receivable and related accounts.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-1, Continued

Recommendation: We recommend that CDA continue to follow-up on past due loans, continue to evaluate these loans and develop corrective action plans. We recommend that corrective action plans be documented accordingly. 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. We further recommend CDA review the aging of restructured loans and revisit allowance calculation for these loans. In addition, we recommend CDA perform periodic review of the calculation of allowance for loan losses and other related receivables for accuracy, completeness and reasonableness.

Prior Year Status: Past due loans was reported as a finding in the Single Audits of CDA for fiscal years 1994 through 2006.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Oscar C. Camacho, CDA Acting Chief Executive Officer

**Corrective Action:** Responses provided for audit year 2006 are hereby incorporated and extended as our 2007 response to the same general findings. As of October 2006, CDA adopted a Strategic Mission Plan which became the working document on which to address the identified deficiencies. The Board adopted a debt relief program which has only recently passed legal muster, thus allowing for a realistic approach on working with clients. The program has the following features: interest rates are to be reduced to as low as two percent (2%); terms are to be extended for an additional 30 years for purposes of amortization only with a mandated three (3) year callable (balloon payment) provision where warranted and justified; and the accrued interest will be deferred and set aside and will not be capitalized. The current principal balance will remain as is where the two percent (2%) will be applied.

In addition, we are making recommendations to the CDA Board to adopt a policy and rule that interest will stop accruing after 120 days of being delinquent for all new loans extended since the lifting of the moratorium and all future loans. This will prompt CDA to work with the borrower more closely since interest after the 120<sup>th</sup> day will not be counted as revenue. CDA and the borrower must reach a workable arrangement on how to treat the account. If an arrangement is reached, interest may accrue. Otherwise, any payments received will be applied to principal and the loan will be referred to the Legal Counsel for collection and/or foreclosure.

- For loan # SB 70154, Gung Ho, Inc., attempts were made by the Loan Manager in 2005 and 2006 to prompt the borrower, Ambrosio Ogumoro, to make payments. Payments were made in 2004 and 2005. Further attempts were made to convince the borrower to avail of the 2% debt relief but were unsuccessful. We will attempt again and take a more drastic approach by referring the account to our Legal Counsel for collection and/or foreclosure should our attempts fail. This should be done within the next couple of weeks.
- For loan #s 70260, 07265 and 70257, the allowances as suggested by the auditor are accepted.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-1, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

The total loan portfolio decreased in 2007 from 2006. In 2007, 86% of total outstanding loans were six months or more in arrears while in 2006, the rate was 75%. Between 2004 and 2005, the rate was 61%. We need to do more to improve the conditions of the loans. However, increases in accrued interest between 2006, 2005 and 2004 remained relatively the same at 16%. In 2007, accrued interest increased by only by 3%. The objective of the debt relief program is to arrest this increase to an acceptable rate of 5% to 7% while aggressively collecting on the delinquent accounts. Our primary objective is to reduce the delinquency through this debt relief program while protecting CDA's interest in the collaterals posted to secure these accounts. CDA recognizes that the collateral values relative to the size of the loan accounts have been diminished or reduced due to the mounting accrued interest and will not improve if the objectives mentioned above are not met.

**Proposed Completion Date:** A new bank or classification has been created in 2007 dedicated only to accounts under this debt relief program. Under this bank, the arrested accrued interest is identified and removed and will be presented to the Board to be written-off only when warranted. Currently, CDA dumps all arrested accrued interest into the "write-off" bank classification. This allows CDA to identify how much has accrued, should be written-off and/or expensed as loss. However, this classification does not necessarily absolve or forgive the borrower. The amounts are still legally required to be paid and collected.

A Rights to Possession Agreement as prelude to either a DILOF or actual judicial foreclosure proceeding will be a requisite to this debt relief program. This agreement entitles CDA to take possession and control of the RE collateral and business operations while foreclosure proceedings or DILOF are pursued. Since this program is a last ditch effort to assist borrowers, loans that become 60 days delinquent will be foreclosed.

Should borrowers adhere to the program, there will be no need to foreclose and the loan will continue to be serviced until conditions improve. At such time that principal portions are substantially reduced and the loan becomes manageable and serviceable at a higher interest rate, CDA may negotiate to increase the interest rate at the third year when the loan is due in its entirety in the form of a balloon payment. Should conditions remain the same, terms may be extended for another three years with the same amortization schedules.

All CDA borrowers are given this opportunity but not all will qualify since individual conditions are requirements are different. The goal of this plan is to increase cash collections by enticing delinquent borrowers to realize that there is still hope in escaping foreclosure and losing their collateral.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

DCD Loans Receivable

Finding No. 2007-2

**Criteria:** Identified adjustments to loan balances arising from loan reclassifications should be recorded in the general ledger in a timely manner.

**Condition:** During tests of loans receivables, we noted CDA adjustments in the current fiscal year to reclassify interest receivable, late and miscellaneous charges receivable to principal balance relating to six judgment loans. The related judgment, however, was ordered prior to the current fiscal year. As such, the reclassification should have been recorded in the fiscal year the judgment was ordered. An audit adjustment is not necessary as judgment loans are 100% allowed for. Details are as follows:

<u>New Loan #</u>	<u>Old Loan #</u>	<u>Interest Receivables</u>	<u>Late Charges Receivables</u>	<u>Miscellaneous Charges Receivables</u>	<u>Total</u>
CD 70273	CD 31857	\$ 896,443	\$ 36,812	\$ 9,887	\$ 943,142
CD 70270	CD 33302	471,324	24,537	-	495,861
RE 70268	RE 70014	220,140	12,086	28,467	260,693
CD 70275	CD 33940	137,729	7,496	28,700	173,925
CD 70271	CD 70064	103,127	9,302	15,978	128,407
CD 70274	CD 3315	218,134	9,216	-	227,350
		<u>\$ 2,046,897</u>	<u>\$ 99,449</u>	<u>\$ 83,032</u>	<u>\$ 2,229,378</u>

**Cause:** The cause of the above condition is the lack of monitoring procedures to ensure that all loan reclassification adjustments are recorded timely in the general ledger.

**Effect:** The effect of the above condition is incorrect classification of receivables and a potential misstatement of interest income from loans.

**Recommendation:** We recommend that CDA ensure that adjustments resulting from loan reclassifications are recorded in the general ledger in a timely manner.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Oscar C. Camacho, CDA Acting Chief Executive Officer, Elaine Benjamin, CDA Accounting Manager and Christy Kintol, CDA Office Manager

**Corrective Action:** Timely submission to Accounting will be emphasized and a process will be instituted. The Acting Chief Executive Officer will forward all judgments to Accounting, Administration and the Loan Manager. The Loan Manager and Administration will follow-up with Accounting if adjustments and reclassifications have been recorded 30 days after the submission to Accounting.

**Proposed Completion Date:** Particular findings were resolved via adjustments by the auditor learned in the discussions.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

NMHC Loans Receivable

Finding No. 2007-3

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis. Further, all receivables should be assessed and monitored for collectability. Balances deemed uncollectible should be adequately allowed for. Additionally, calculations of the allowance for loan losses should be regularly reviewed for accuracy, completeness and reasonableness.

Condition: An analysis of NMHC's allowance for delinquent loans revealed that loans which are over one hundred twenty days past due has increased from \$6,588,611 at September 30, 2006 to \$7,813,636 as of September 30, 2007. The related accrued interest on loans that are over one hundred twenty days past due has also increased from \$1,488,643 at September 30, 2006 to \$1,837,541 as of September 30, 2007. As such, the collateral for these loans is decreasing as a percentage of the total loan and interest portfolio. Further, as of September 30, 2007, a total of fifty-seven loans amounting to \$2,908,660 are inactive. The accrued interest on these inactive loans amounted to \$882,734.

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

Effect: The effect of the above condition is the increased possibility of loan losses due to nonpayment of borrowers.

Recommendation: We recommend that follow-up procedures be adhered to. We recommend that evaluations be performed on these loans and a corrective action 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: NMHC's increase in past due loans was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, NMHC Chief Accountant

**Corrective Action:** NMHC will perform a detailed review of the adequacy of its reserve for seriously defaulted loans and guaranteed loans for these financial institutions and assess the need to provide additional reserves for defaulted loans which is based on the appraisal value of the property and establish a policy that support reasonable allowances calculation.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

NMHC Land

Finding No. 2007-4

**Criteria:** Long-lived assets should be reported at the lower of carrying amount or fair value. A review of the valuations of real property should be periodically performed by management and adjustments should be made to reflect the lower of the carrying amount or fair market value.

**Condition:** As of September 30, 2007, NMHC has land with recorded values of \$10,409,602. The last appraisal of the land occurred during fiscal year 2003. However, a November 2008 appraisal of two lots with a carrying value of \$256,000 resulted in an \$84,000 decrease in recorded values. Currently, the land is not for sale and is recorded by NMHC based on the most recent appraised values. In the event that the land will be marketed, NMHC will adjust to reflect the carrying amount or fair market value, whichever is lower.

**Cause:** The cause of the above condition is the lack of established policies and procedures to periodically review the recorded values of real property and the high cost of obtaining appraisal services.

**Effect:** The effect of the above condition is a potential misstatement of land.

**Recommendation:** We recommend that NMHC ensure that long-lived assets are reported at the lower of carrying amount or fair value. Additionally, we recommend that NMHC establish policies and procedures to periodically evaluate the carrying values of long-lived assets.

**Prior Year Status:** The lack of established policies and procedures of periodic review of recorded values of real property and the high cost of obtaining appraisal services was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Jesse S. Palacios, NMHC Manager, Mortgage Credit Division

**Corrective Action:** NMHC will take corrective measures to ensure that long-lived assets are reported at the lower of carrying amount or fair values. To determine the fair market value of these assets, NMHC will publish an RFP for the performance of an appraisal of each individual long-lived asset. The entities submitting the proposals must be licensed by the CNMI Board of Professional Licensing. The winning entity will then be contracted to perform the appraisals to determine each asset's fair market value. This process will be repeated every other year so that the most current fair market value is readily available.

**Proposed Completion Date:** From RFP announcement in the newspapers to selection of winning entity to the completion of appraisal reports, NMHC proposes a completion date of February 27, 2009.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

DCD Foreclosed Real Estate

Finding No. 2007-5

**Criteria:** Valuations of real estate property acquired through, or in lieu of, loan foreclosures should be periodically performed by management and adjustments should be made to reflect real estate at the lower of the carrying amount or fair value less estimated costs to sell.

**Condition:** During tests of foreclosed real estate, we noted the following:

- At September 30, 2007, CDA has recorded six (reference lot #s 001 T 38, 1691-11-1, 1625 NEW-9-R1, TR22845-11, TR22845-13 and 016 H 47) foreclosed properties held for lease in which a long term leasehold interest was purchased by individuals or companies that are not of Northern Marianas decent; thus CDA still holds title to the properties. These properties were not valued at the lower of carrying amount or fair value less estimated costs to sell. This condition was corrected through a proposed audit adjustment.
- For one property (reference lot # 024 L 02), consisting of land and a building, CDA estimated a total market value of \$331,400 as of September 30, 2007. CDA valued the land and building at 100% and 30%, respectively, of the appraised values indicated in the latest independent appraisal report dated December 28, 2005. However, assumptions used and the basis of determination of the rates to estimated market values were not adequately documented or justified.

**Cause:** The cause of the above condition is the improper valuation of real estate properties held for lease and failure to maintain adequate documentation of assumptions used for in-house appraisals performed.

**Effect:** The effect of the above condition is the potential misstatement of foreclosed real estate properties.

**Recommendation:** We recommend that CDA management ensure that foreclosed properties, whether held for sale or lease, are valued at the lower of carrying amount or fair value less estimated costs to sell. Further, we recommend that CDA management perform periodic valuations of foreclosed properties, by obtaining independent appraisals or through the performance of in-house appraisals. Additionally, where in-house appraisals are performed, we recommend that CDA ensure that assumptions and the basis used are adequately documented and supported.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Oscar C. Camacho, CDA Acting Chief Executive Officer and Christy Kintol, CDA Office Manager

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-5, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:** CDA adopted a Schedule of Real Estate Evaluation using the lower market valuations of appraisals and agrees with the auditor's recommendation to provide for a 50% allowance. Should an in-house valuation be performed, it will be documented in memo form describing the approach to derive at a value. Otherwise, restricted appraisals will be obtained from appraisal companies every two years for properties needing valuation. Administration has supervision over CDA's assets, thus administering a process to obtain appraisals and valuations will come from this department. Accounting will be informed of periodic valuations and a similar process as above will be instituted.

**Proposed Completion Date:** A cut-off date of no later than June 30 of every year, should be established for appraisals and valuations to be completed.



COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

DCD Lease Transactions

Finding No. 2007-6

Criteria: Lease arrangements and related transactions should be evaluated for proper accounting.

Condition: During tests of existing lease agreements, the following were noted:

- CDA maintains foreclosed property in which long term leasehold interests were purchased by individuals or companies that are not of Northern Marianas decent, thus CDA still holds title to the property. CDA recorded full payments received at the date of sale as reductions of the foreclosed real estate account (for property initially purchased by CDA). For such arrangements, CDA should have recorded the advance payments as deferred lease revenues and should have recognized lease revenues over the term of the lease. This condition was corrected through a proposed audit adjustment. As of September 30, 2007 deferred lease revenues relating to these transactions amounted to \$721,555.
- Subsequent to September 30, 2007, CDA entered into a ground lease and option to purchase agreement for one foreclosed property (ref. lot # 024 L 02). CDA has not evaluated whether the arrangement qualifies as a capital lease.
- CDA leases one foreclosed property at \$1,500 per month. The lease agreement, however, does not specify the term of the lease. Further, the lease agreement was an assignment pursuant to the buy back of the original loan from a financial institution. The agreement has not been updated from the time it was assigned to CDA:

Cause: The cause of the above condition is failure to evaluate underlying lease arrangements.

Effect: The effect of the above condition is the potential misstatement of lease revenues and related accounts.

Recommendation: We recommend that CDA management ensure that lease arrangements are evaluated as to whether they constitute capital or operating leases.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Oscar C. Camacho, CDA Acting Chief Executive Officer and Christy Kintol, CDA Office Manager

**Corrective Action:**

- Initially, the Acting Chief Executive Officer disagreed with the auditor's suggestion to treat payments received from prepaid leases as deferred revenues. This is because prepaid lease was believed to be similar to how payments are treated when REs are sold fee simple. The auditor clarified that with such prepaid leases, CDA will still record the underlying fee simple residual interest as assets, thus treatment of payments received should be deferred. As such, CDA will start treating such leases as recommended.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-6, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

- On the finding with regards to a ground lease agreement qualifying as a capital lease for purposes of recording or accounting for lease revenues, CDA hereby agrees with auditor and has made the evaluation of the lease agreement. This particular lease meets the criteria set forth to qualify as a capital lease rather than as an operating lease. This ground lease is the current arrangement with Covenant Church on the former Pacific Islands Castle building in Koblerville near Coral Ocean Point.
- On the particular lease assignment where it does not specify the terms of the lease agreement, CDA opted to continue the month to month rental arrangement. CDA management at the time believed that with such a short-term rental arrangement, CDA could easily notify the tenant that it is terminating the lease. The tenant happens to be the same person with whom CDA and the bank foreclosed on and entered into the house rental arrangement in Rota. The arrangement proved difficult and the tenant was offered the option for a lease to own at a set price, but the offer was not immediately accepted. Therefore, CDA management took a strong position to terminate the rental arrangement, demand full payment on all back rents due and evict the tenant. However, the CDA Board continues to extend options to the tenant.

**Proposed Completion Date:** Evaluations to classify leases will be performed when executing new leases and Accounting will be notified of such classification. At the next CDA Board meeting, the CDA Board will make its final decision on the lease to own arrangement with the tenant in Rota.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

NMHC Loan Guarantee Agreements

Finding No. 2007-7

**Criteria:** An effective system of internal control includes procedures to ensure that contingent liabilities are assessed and reviewed for probable losses.

**Condition:** NMHC has existing loan guarantee and purchase agreements with certain financial institutions. As of September 30, 2007, NMHC's related loan guarantees amounted to \$18,657,558. Of the total, approximately \$5,178,510 is delinquent and past due. Further, of the \$5,178,510, approximately \$3,285,260 is more than one hundred twenty days past due. NMHC has received demand notices of \$667,045. NMHC has recorded a reserve for loan guaranty for the \$667,045. However, NMHC is unable to determine if any additional reserve should be established for the remaining defaulted loans of \$4,511,465 and has no basis for an additional reserve due to limitations in existing information provided by the financial institutions. NMHC is currently working with related financial institutions to obtain sufficient information to determine a better estimate of the reserve for loan guarantees.

**Cause:** The cause of the above condition is the lack of established policies and procedures in assessing and reviewing the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses.

**Effect:** The effect of the above condition is the possible misstatement of the reserve for loan guaranty and related accounts.

**Recommendation:** We recommend that NMHC ensure that the reserve for guaranteed loans is assessed and reviewed for adequacy. Further, we recommend that NMHC establish policies and procedures to assess the adequacy of the reserve for guaranteed loans, both past due and current. Additionally, we recommend that NMHC continue to obtain sufficient information from financial institutions about the status of defaulted loans and determine which of the defaulted loans will likely result in being paid or settled by NMHC.

**Prior Year Status:** The lack of established policies and procedures to assess and review the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Roger A. Dris, NMHC Chief Accountant and Jesse S. Palacios, NMHC Manager, Mortgage Credit Division

**Corrective Action:** NMHC will ensure that reserve for guaranteed loans is assessed and reviewed for adequacy. NMHC will establish policies and procedures to obtain an appraisal once every two years. The Accounting and Loan Divisions of NMHC will coordinate to obtain an appraisal once every two years. NMHC will review the existing agreements with banking institutions to determine if the reserve requirements are adequate. In addition, the MCD and FD will work closely to assess and review potential loan losses by taking into account changes in local economic and business conditions as well as future developments. MCD will also continue to monitor the delinquency reports provided by the banks so that we can contact those borrowers who are on the list, especially, those who are on the 60-day and above delinquency categories in order to prevent banks from debiting our guarantee accounts or to discourage the banks from calling on the loans.

**Proposed Completion Date:** Beginning of FY 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-8

**Criteria:** Public Law (P.L.) 12-27 and the loan agreement with the Marianas Public Land Trust (MPLT) specifically restrict the use of the \$10,000,000 loan and any interest earned for future housing loans.

**Condition:** Interest earned from housing loans funded by the \$10,000,000 loan from MPLT was included in NMHC's operations budget and was expended for operations.

**Cause:** The cause of the above condition is the lack of control to ensure interest earned from housing loans funded by the \$10,000,000 loan from MPLT is solely used for future housing loans.

**Effect:** The effect of the above condition is noncompliance with P.L. 12-27 and the loan agreement with MPLT.

**Recommendation:** We recommend that NMHC ensure compliance with Public Law 12-27 and the loan agreement with MPLT.

**Prior Year Status:** Noncompliance with P.L. 12-27 and the loan agreement with MPLT were reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, NMHC Chief Accountant

**Corrective Action:** NMHC will ensure strict compliance with Public Law 12-27 and the loan agreement with MPLT. NMHC and its legal counsel are in the process of resolving the issues with MPLT's legal counsel.

**Proposed Completion Date:** Fiscal Year 2008 will resolve the issue due to the final transfer of the portfolio to MPLT.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

Allowable Costs/Cost Principles

Finding No. 2007-9

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Housing and Urban Development / Section 8 Housing Choice Vouchers / CFDA #14.871 / Federal Award # TQ901 / Federal Award Period 10/01/06 - 09/30/07	<p><b>Criteria:</b> In accordance with 24 CFR Section 982.158 and 982 subpart K, the PHA must pay monthly housing assistance payments (HAP) on behalf of the family that corresponds with the amount on line 12u of the HUD-50058. This HAP amount must be reflected on the HAP contract and HAP register.</p> <p><b>Condition:</b> Of thirty HAP rental disbursements and six utility reimbursements tested, we noted the following:</p> <ul style="list-style-type: none"> <li>The HAP disbursement relating to three participants did not correspond with the required HAP indicated in form HUD-50058 and HAP contract. Details are as follow:</li> </ul>	

GL Date	Tenant	Landlord	HAP Disbursement	HAP per HUD 50058 and HAP Contract	Variance
12/05/06	John, Benri S.	Soo San Corporation	\$ 698	\$ 642	\$ 56
01/05/07	Masga, Rosemarie B.	Mary Faith G. Villanueva	\$ 2,200	\$ 1,100	1,100
09/04/07	Cruz, Erwin C.	Guillermina C. Cepeda	\$ 950	\$ 940	10
					<u>\$ 1,166</u>

- The actual utility reimbursement made to one participant did not agree to the utility allowance indicated in form HUD-50058. Details are as follow:

Reference No.	Name of Participant	Actual Reimbursement	Utility Allowance Per HUD 50058	Variance
Check # 2803	Ogo, Ignacio S.	\$ 315	\$ 270	\$ 45

\$ 1,211

**Cause:** The cause of the above condition is the lack of adequate monitoring procedures to ensure that HAP amounts are updated and adjusted to the system for any changes resulting from annual and/or interim reexaminations or other related actions taken.

**Effect:** The effect of the above condition is the misstatement of HAP payments and questioned costs of \$1,211. This matter is reportable as the projected questioned costs exceed the threshold.

**Recommendation:** We recommend NMHC establish adequate monitoring procedures to ensure that changes to HAP amounts are updated and adjusted in the system. Additionally, we recommend NMHC establish policies and procedures for the timely identification and reconciliation of variances between actual HAP disbursements and HAP per HUD 50058 and HAP contract.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Kimo M. Rosario, NMHC Manager, Program & Housing

**Corrective Action:**

- John, Benri S.:** No HAP check was issued to the landlord on 12/05/06. The landlord was owed \$3,210 in HAP checks representing five (5) months of payment at \$642 per month in HAPs.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-9, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	<b>Corrective Action, Continued:</b>	
	2. <b>Masga, Rosemarie B.:</b> The HAP check in the amount of \$2,200 for landlord Mary Faith G. Villanueva was voided twice on January 5, 2007 and check # 2803 is nowhere to be found in the system.	
	3. <b>Cruz, Erwin C.:</b> The tenant was holding a disaster voucher that expired on September 30, 2007. The tenant underwent an interim reexamination on August 2007 after reporting to us that he was recently employed on July 25, 2007; however, since his voucher was set to expire a month later, NMHC could not change the contract to reflect the change of payment.	
	4. <b>Ogo, Ignacio S.:</b> On April 16, 2007 after transferring a unit from Rota to Saipan, this tenant was owed a prorated amount of \$45 in URP (half of the \$90 URP amount due to tenant). This amount was disbursed on July 3, 2007. Moreover, the tenant was not paid \$90 for the subsequent months of May, June and July. As a result, on July 3, 2007, NMHC issued a check in the amount of \$315 ( $\$90 \times 3 + \$45 = \$315.00$ ).	
	<b>Proposed Completion Date:</b> Fiscal year 2009	

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Allowable Costs/Cost Principles - All Major Programs

Finding No. 2007-10

**Criteria:** OMB Circular A-87, Cost Principles for State and Local Government, Attachment B, Section 11.h (4) states that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary report will be required where employees work on more than one Federal award or a Federal award and a non-Federal award.

**Condition:** Payroll expenses charged to the CDBG, HOME and Section 8 voucher programs amounting to \$150,335, \$89,986 and \$147,672, respectively for the fiscal year ended September 30, 2007 were determined by NMHC's Chief Accountant through an estimated percentage of work spent by employees working on these programs. Of thirteen, ten, and eleven employees tested under the CDBG, HOME and Section 8 voucher programs, respectively, we noted that all employees worked on more than one federal program. However, we did not note any personnel activity report supporting the distribution of time spent on each federal program. Further, we noted that NMHC employees only started maintaining payroll activity reports subsequent to fiscal year 2007 and thus, we are unable to quantify any questioned costs that may result from this condition.

**Cause:** The cause of the above condition is the lack awareness by NMHC of the requirements of OMB Circular A-87, attachment B, Section 11.h (4).

**Effect:** The effect of the above condition is noncompliance with the allowable costs/cost principle requirements.

**Recommendation:** We recommend NMHC ensure that personnel activity reports or equivalent documentation to reflect after-the-fact distributions of the actual activity of each employee are prepared and maintained for all employees who work on more than one federal award or a federal award and a non-federal award.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, NMHC Chief Accountant

**Corrective Action:** NMHC will ensure that personnel activity reports or equivalent documentation to reflect after-the-fact distributions of the actual activity of employee are prepared and maintained for all employees who work on more than one federal award or a federal award and a non-federal award. Corrective action been applied by requiring all employees to submit a timesheet once every quarter as per HUD's recommendation.

**Proposed Completion Date:**

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Cash Management - Community Development Block Grants/Special Purpose Grants/Insular Areas  
CFDA #14.225, Federal Award # B-05-ST-69-0001  
Federal Award Period 10/01/05 - 09/30/10

Finding No. 2007-11

**Criteria:** In accordance with applicable cash management requirements, when funds are advanced, recipients must use and follow procedures to minimize the time elapsing between the transfer of grant funds from the U.S. Treasury and disbursement for program activities. The allowable clearance pattern is three days. The recipient shall be liable for interest on federal funds from the date the federal funds are credited to the recipient's bank account until those funds are paid out and are deducted from that bank account for program purposes.

**Condition:** For four of seventeen disbursements tested relating to the CDBG program, the following were cleared between two to twelve days after the allowable clearance pattern from the date federal funds were credited to NMHC's account. Details are as follows:

<u>Check #</u>	<u>Check Amount</u>	<u>Check Clearance Date</u>	<u>Cash Receipts Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
122	\$ 6,505	06/15/07	06/08/07	2
23858	\$ 56,168	05/15/07	05/04/07	6
13	\$ 68,366	06/04/07	05/25/07	5
22547	\$ 30,339	11/14/06	10/26/06	12

**Cause:** The cause of the above condition is the failure of payees to present the checks to the bank within the allowable three day clearance pattern.

**Effect:** The effect of the above condition is a possible interest liability of \$144. However, no questioned costs resulted from the condition, as the estimated interest liability to the U.S. Department of Housing and Urban Development is less than \$10,000.

**Recommendation:** We recommend that NMHC review existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Roger A. Dris, NMHC Chief Accountant and Edith C. Fejeran, NMHC Office Manager

**Corrective Action:** NMHC has reviewed existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Corrective action will be applied by mailing all checks issued from CDBG, HOME and ESG funds via certified mail and recording them in a certified mail log documenting compliance regarding checks for these programs. Vendors will be informed that checks can no longer be picked-up at the NMHC payment window.

**Proposed Completion Date:** Fiscal year 2009



COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Davis-Bacon Act - Community Development Block Grants/Special Purpose Grants/Insular Areas  
CFDA #14.225, Federal Award # B-04-ST-69-0001  
Federal Award Period 10/01/04 - 09/30/09

Finding No. 2007-12

Criteria: As part of NMHC's control procedures in monitoring compliance with the requirements of the Davis-Bacon Act, interviews of contractor workers at job sites are performed.

Condition: During tests of NMHC's controls over compliance with the Davis-Bacon Act, the records of employee interviews to support job site interviews of contractor employees were not made available for the following CDBG funded projects:

<u>Project Name</u>	<u>Contract Number</u>	<u>Contract Amount</u>
Sugar King Cultural Center	NMHC 2006-004	\$ 119,500
Tinian Outdoor Stage	NMHC 2005-008	\$ 165,559
Independent Living Model Home	NMHC 2006-003	\$ 90,000

Cause: The cause of the above condition is the lack of established monitoring procedures to ensure the job site interviews are performed and are properly documented.

Effect: The effect of the above condition is noncompliance with NMHC's control procedures to ensure that the requirements of the Davis-Bacon Act are complied with.

Recommendation: We recommend NMHC establish monitoring controls to ensure that required procedures relating to job site interviews are strictly performed and are properly documented.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Zenie P. Mafnas, NMHC Grant Writer/Planner and Clemente Sablan, NMHC CDBG Technical Coordinator

**Corrective Action:** Though job site interviews were performed for these projects by its retired employee, NMHC could not locate the files that were under his custody, which were turned over to the Administration for file and maintenance. With the hiring of a CDBG Technical Coordinator, who currently interviews workers at each job site and ensures compliance to Davis-Bacon Act, job interview reports will now be adequately maintained.

**Proposed Completion Date:** Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Eligibility - HOME Investment Partnerships Program  
CFDA #14.239, Federal Award # M-05-ST-69-0001  
Federal Award Period 10/01/04 - 09/30/09

Finding No. 2007-13

**Criteria:** Under NMHC's Policies and Procedures for Home Rehabilitation, one of the requirements to be eligible for Home Program Financial assistance is that the "after-rehabilitation" value of the property must not exceed 95% of the HUD prescribed median purchase price for the type of unit. Additionally, the 95% after-rehabilitation value is described under CFR 92.254 as affordable housing for rehabilitation of property not involving acquisition.

**Condition:** Of fourteen individuals tested for compliance with eligibility requirements, we were not provided any documentation that the after rehabilitation value of the property for two (ref. loan #s DHL-235 and HL- 237) individuals was determined.

**Cause:** The cause of the above condition is failure to ensure that all eligibility documentation are properly maintained.

**Effect:** The effect of the above condition is noncompliance with eligibility requirements.

**Recommendation:** We recommend NMHC ensure that relevant eligibility documentation are properly maintained in the files.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Jesse S. Palacios, NMHC Manager, Mortgage Credit Division

**Corrective Action:** For loan # DHL-235, a drive-by property appraisal was not completed. A completed appraisal will be included in this response. In regard to loan # HL-237, a drive-by property appraisal was completed and is included in this response. MCD will ensure that all after-rehabilitated homes are valued and be less than 95% of the HUD prescribed median purchase price.

**Proposed Completion Date:** Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Matching, Level of Effort, Earmarking - Community Development Block Grants/Special Purpose  
Grants/Insular Areas  
CFDA #14.225, Federal Award # B-04-ST-69-0001  
Federal Award Period 10/01/04 - 09/30/09

Finding No. 2007-14

**Criteria:** In accordance with 24 CFR Section 570.200 (a)(3), not less than 70 percent of the funds must be used over a period of up to three years, as specified by the grantee in its certification, for activities that benefit low- and moderate-income persons.

**Condition:** For program year 2004, NMHC was approved CDBG grant funds of \$1,235,000. As of September 30, 2007, the cumulative total expenditures relating to program year 2004 amounted to \$792,898 equivalent only to 64% of the grant funds.

**Cause:** The cause of the above condition is the lack of adequate controls to ensure that the 70% earmarking requirement is strictly adhered to.

**Effect:** The effect of the above condition is noncompliance with earmarking requirements.

**Recommendation:** We recommend NMHC strengthen controls to ensure that grant funds are expended within the required period.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Zenie P. Mafnas, NMHC Grant Writer/Planner

**Corrective Action:** The above regulation, cited by the auditors, states that not less than 70% of the aggregate of CDBG fund expenditures shall be for activities meeting the criteria under Section 570.208(a) or under Section 570.208(d)(5) or (6) for benefiting low and moderate income persons. The citation does not specify that not less than 70% of the total grant amount should be expended over a period of three years, as stated by the auditors under "Condition". Therefore, 2007-19 should not be a finding.

**Proposed Completion Date:**

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Procurement and Suspension and Debarment - Community Development Block Grants/Special  
Purpose Grants/Insular Areas  
CFDA #14.225, Federal Award # B-04-ST-69-0001  
Federal Award Period 10/01/04 - 09/30/09

Finding No. 2007-15

**Criteria:** In accordance with OMB Circular A-87, Attachment B, Section 43, costs incurred by employees and officers for travel, including costs of lodging, other subsistence and incidental expenses shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit's written travel policy. In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under Subchapter 1 of Chapter 57, Title 5, United States Code or by the Administrator of General Services or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).

**Condition:** During tests of compliance with procurement regulations, we noted that for one item, relating to the purchase of airline ticket, (ref. CV23720), there were no relevant documentation in the file to support that competitive procurement procedures were utilized.

**Cause:** The cause of the above condition is the lack of a written procurement policy concerning travel and related expenditures. Existing procurement regulations followed by NMHC do not include procurement procedures relating to airfare.

**Effect:** The effect of the above condition is noncompliance with federal regulations on federally funded travel and related expenditures.

**Recommendation:** We recommend NMHC adhere to federal travel regulations in the absence of a local procurement policy and/or incorporate procedures relating to the procurement of travel and related expenditures in local procurement regulations.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, NMHC Chief Accountant and Edith C. Fejeran, NMHC Office Manager

**Corrective Action:** NMHC is following the CNMI Government Travel Policies. NMHC does provide equal opportunity to and utilizes several travel agencies to book reservations and procure airline tickets for the Board and staff. Some travel agencies have their respective policies to 1) prefer upfront payment before actually issuing airline tickets; 2) process and issue ticketed reservations upon request with subsequent billing; or 3) accept a purchase order for each ticketed transaction. NMHC's request for inspections on projects are not foreseen in advance as it depends on the progress of the project for example, when cement pouring schedules are made and NMHC is notified by the contractor within several days notice to fly to Rota or Tinian. Immediate corrective action will be taken to solicit quotations directly from airlines and/or travel agencies and document such contacts in the file for audit and inspection.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Program Income - HOME Investment Partnerships Program  
CFDA #14.239, Federal Award # M-07-ST-69-0203  
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-16

**Criteria:** Revenues should be recognized in the period earned. Unearned revenues should be deferred and presented as deferred revenues in the financial statements. Further, HOME program income should be recognized in the general ledger for repayments of principal and interest on loans made with HOME funds.

**Condition:** NMHC records HOME loan disbursements as contributed capital which NMHC presents as revenues in its financial statements. Further, repayments of principal and interest on loans made using HOME funds are not recorded as program income in the general ledger. This condition was corrected through a proposed audit adjustment.

**Cause:** The cause of the above condition is management's oversight of the proper accounting of HOME loan disbursements and program income generated from HOME funds.

**Effect:** The effect of the above condition is the misstatement of revenues and related liabilities.

**Recommendation:** We recommend that NMHC ensure that HOME loan disbursements and repayments from participants are properly recorded in the general ledger. Further, NMHC should ensure that program income is recognized in the general ledger for repayments of principal and interest on loans made using HOME funds.

**Prior Year Status:** Improper accounting of HOME loan disbursements and program income generated from HOME funds was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, NMHC Chief Accountant

**Corrective Action:** NMHC will ensure that HOME loan disbursements and repayments from participants are properly recorded in the general ledger. NMHC will ensure that program income is recognized in the general ledger for repayment of principal and interest on loans made using HOME funds. NMHC agreed with the grantor agency in recording program income by drawing down first the program income before entitlement funds.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Program Income - HOME Investment Partnerships Program  
CFDA #14.239, Federal Award # M-07-ST-69-0203  
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-17

**Criteria:** Under the Code of Federal Regulations (CFR) Title 24 Part 92.502 (c) (3), HOME funds in the local account of the HOME Investment Trust Fund must be disbursed before requests are made for HOME funds in the United States Treasury account. Further, under CFR Title 24 Part 92.2, HOME funds include program income.

**Condition:** NMHC receives payments of principal and interest on loans made with HOME funds and deposits these into its local account and reports these receipts in the Integrated Disbursement and Information System as program income. During fiscal year 2007, NMHC's drawdown from the U.S. Treasury of Home funds amounted to \$659,442. Further, during fiscal year 2007, NMHC reported total program income of \$249,856 and reported disbursements from the program income of \$203,811. As of September 30, 2007, NMHC has \$46,045 of undisbursed program income in its local account.

**Cause:** The cause of the above condition is the earmarking of program income received for loan assistance to eligible applicants. NMHC's records shows that no program income is available for drawdown.

**Effect:** The effect of the above condition is noncompliance with program income compliance requirements.

**Recommendation:** We recommend that NMHC ensure that program income is disbursed before requests are made for HOME funds in the U.S. Treasury account. Additionally, we recommend that NMHC review existing procedures of earmarking program income and ensure that procedures are designed to support compliance of the program requirements.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, NMHC Chief Accountant

**Corrective Acton:** NMHC will ensure that program income is disbursed before requests are made for HOME funds in the U.S. Treasury account. NMHC will review existing procedures of earmarking program income and ensure that procedures are designed to support compliance of the program requirements. NMHC agreed with the grantor agency in recording program income by drawing down the program income before entitlement funds.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Program Income - HOME Investment Partnerships Program  
CFDA #14.239, Federal Award # M-07-ST-69-0203  
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-18

**Criteria:** Under 24 CFR Section 85.20(b)(1), accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.

**Condition:** During fiscal year 2007, NMHC reported program income receipts and drawdowns of \$249,856 and \$300,435, respectively, in the IDIS. However, these amounts did not agree with NMHC's accounting records which reflected program income received and expended during fiscal year 2007 of \$220,093 and \$299,808, respectively.

**Cause:** The cause of the above condition is the lack of timely reporting in the IDIS of program income received and the lack of reconciliation of program income and drawdowns reported in the IDIS and amounts recorded in the general ledger.

**Effect:** The effect of the above condition is inaccurate reporting of program income and drawdowns.

**Recommendation:** We recommend that NMHC strengthen controls in monitoring and ensuring that program income receipts and drawdowns are identified on a timely manner and are accurately reported to the IDIS.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, NMHC Chief Accountant

**Corrective Action:** NMHC will strengthen controls in monitoring and will ensure that program income receipts and drawdown are identified in a timely manner and are accurately reported in IDIS. NMHC will record program income on a spreadsheet for tracking purposes and input on IDIS every first week of the following month.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Reporting - Community Development Block Grants/Special Purpose Grants/Insular Areas  
CFDA #14.225, Federal Award # B-04-ST-69-0001  
Federal Award Period 10/01/04 - 09/30/09

U.S. Department of Housing and Urban Development  
Reporting - HOME Investment Partnerships Program  
CFDA #14.239, Federal Award # M-07-ST-69-0203  
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-19

Criteria: In accordance with 24 CFR 135.3(a) and 135.90, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002, "*Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons*". Where the program providing Section 3 covered assistance requires submission of an annual performance report, the Section 3 report will be submitted with the annual performance report.

Condition: The annual performance report submitted by NMHC for fiscal year 2007 did not include form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons.

Cause: The cause of the above condition is management's oversight of the reporting requirements specified under 24 CFR Section 135.90.

Effect: The effect of the above is noncompliance with grant reporting requirements.

Recommendation: We recommend that NMHC ensure that all grant reporting requirements are strictly adhered to.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Jesse S. Palacios, NMHC Manager, Mortgage Credit Division (HOME) and Clemente S. Sablan, NMHC CDBG Technical Coordinator

**Corrective Action:** In regard to the HOME Program, NMHC is not required to submit the Section 3 Summary Report since the maximum loan amount for this program is \$50,000. With respect to Section 3 compliance called for under the Community Development Block Grant (CDBG) Program, bid packages do include the Section 3 Summary Report for compliance "to the maximum extent possible", "to the greatest extent feasible" for contractors awarded CDBG projects to provide employment and training opportunities to low-income persons. In projects inspected for compliance, actual job sites do include a Job Information Poster that contractors are required to post for interested job seekers to apply. With the CNMI's limited labor pool, and particularly, the absence of a qualified, skilled and available journey-level workforce (carpenters, cement masons, electricians, steel workers, etc.) contractors have reported to NMHC that the Department of Labor has no local applicants to refer for these occupations. With the recent hiring of a CDBG Technical Coordinator to monitor field compliance, NMHC will move towards collaboration with the Work Investment Partnership (WIA) and Food Stamp Programs including the Department of Labor.

**Proposed Completion Date:** Ongoing



COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Reporting - Section 8 Housing Choice Vouchers  
CFDA #14.871, Federal Award # TQ901  
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-20

**Criteria:** In accordance with 24 CFR part 908 and 24 CFR section 982.158, the PHA is required to submit form HUD-50058, Family Report (OMB No. 2577-0083) electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

**Condition:** Of thirty participants tested, we noted the following:

- The submission transaction lists supporting online submission of form HUD-50058 for three participants were not made available for review. As such, we were unable to verify if the form HUD-50058 was indeed submitted. Details are as follow:

<u>Participant's Name</u>	<u>Type of Change</u>	<u>Effective Date</u>
Delos Santos, Joaquin S.	Interim reexamination	09/01/07
Kenio, Inos K.	Interim reexamination	12/01/06
Teregeyo, Loyola R.	Annual reexamination	09/01/07

- The submission transaction list made available for one item did not reflect the name of the following participant:

<u>Ticket #</u>	<u>Participant's Name</u>	<u>Type of Change</u>	<u>Effective Date</u>
2206094	Cruz, Erwin D.	Annual reexamination	09/01/07

**Cause:** The cause of the above condition is the lack of adequate review procedures to ensure that all grant reporting requirements are submitted completely.

**Effect:** The effect of the above condition is noncompliance with federal reporting requirements.

**Recommendation:** We recommend that NMHC establish and implement review procedures to ensure that all grant reporting requirements are completely submitted and properly supported and documented.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Kimo M. Rosario, NMHC Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-20, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:**

1. **Delos Santos, Joaquin S.:** An Interim Reexamination Certification with an effective date of 09/01/07 does not exist. The only record NMHC has on Interim Reexaminations for this family is dated on 02/01/08 and 05/01/08, both of which were submitted on the same dates, respectively.
2. **Kenio, Inos K.:** This tenant's Interim Reexamination with an effective date of 12/01/06 was not submitted.
3. **Teregeyo, Loyola R.:** This tenant's Annual Reexamination with an effective date of 09/01/07 was not submitted.
4. **Cruz, Erwin D.:** This tenant's Annual Reexamination with an effective date of 09/01/07 was submitted on 10/05/07.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Special Tests and Provisions - HOME Investment Partnerships Program  
CFDA #14.239, Federal Award # M-07-ST-69-0203  
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-21

**Criteria:** HOME loans extended to eligible participants should be properly monitored and accounted for.

**Condition:** Beginning in fiscal year 2006, NMHC has recorded, in its general ledger, loans receivable for HOME loans under a deferment agreement. Prior to fiscal year 2006, NMHC had not recorded loans receivables in its general ledger for loans extended to borrowers under a deferment agreement. At September 30, 2007, NMHC is in the process of determining the cumulative amount of loans under deferment agreement prior to fiscal year 2006.

**Cause:** The cause of the above condition is the NMHC understanding that loans under deferment agreements should not be recorded in the general ledger since repayments from these deferred loans are not expected.

**Effect:** The effect of the above condition is the possibility that loans under deferment agreements are not properly accounted for and presented in the financial reports.

**Recommendation:** We recommend that NMHC determine with the grantor agency whether NMHC should record deferred HOME loans receivable and monitor HOME loans under a deferment agreement.

**Prior Year Status:** Lack of monitoring of loans under deferment agreement was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Roger A. Dris, NMHC Chief Accountant

**Correction Action:** NMHC has confirmed with the grantor agency that all deferred loans should be recorded. NMHC is working with the NMHC legal counsel on revising HOME loans under a deferment agreement. NMHC is implementing and recording deferred HOME loan receivable.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Special Tests and Provisions - HOME Investment Partnerships Program  
CFDA #14.239, Federal Award # M-07-ST-69-0203  
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-22

**Criteria:** Under NMHC's policies and procedures for Homeowner Rehabilitation, HOME loan applicants that have been determined eligible for financial assistance and have proven lack of financial resources for repayment of their direct loan may have their monthly loan payments deferred for a period of up to fifteen years. Further, borrowers with a deferment agreement shall be required to be annually re-certified as eligible to continue receiving a deferment during any potential deferment period.

**Condition:** NMHC did not perform the required annual re-certification for borrowers with deferment agreements.

**Cause:** The cause of the above condition is an oversight by NMHC management in ensuring compliance with established policies and procedures for Homeowner Rehabilitation.

**Effect:** The effect of the above condition is noncompliance with established policies and procedures for Homeowner Rehabilitation.

**Recommendation:** We recommend NMHC management ensure that the annual recertification of borrowers with deferment agreements is strictly performed.

**Prior Year Status:** Failure to perform annual re-certifications of borrowers with deferment agreements was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Jesse S. Palacios, NMHC Manager, Mortgage Credit Division and Roger A. Dris, NMHC Chief Accountant

**Corrective Action:** NMHC will ensure that the annual recertification of borrowers with deferment agreements is strictly performed. The Accounting Division will work closely with Loan Division in compliance with established policies and procedures on Homeowner Rehabilitation.

NMHC will ensure that the annual re-certification requirement wherein borrowers who have their monthly loan payments deferred will be adhered to. Should the borrower's financial situation remain the same then MCD will recommend to the Board to allow the borrower to continue his/her deferment status for another year. NMHC is also in the process of revising the Homeowner Rehabilitation Policies and Procedures. In the loan deferment section, it will have documentation requirements (e.g., affidavit, NAP certification) to show proof that the borrower is for example, unemployed.

**Proposed Completion Date:** Strict compliance of the re-certification requirement will be exercised immediately.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Special Tests and Provisions - Section 8 Housing Choice Vouchers  
CFDA #14.871, Federal Award # TQ901  
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-23

**Criteria:** In accordance with CFR Part 24 Section 982.503(a)(1), the PHA must adopt a payment standard schedule that establishes voucher payment standard amounts for each fair market rent (FMR) area in the PHA jurisdiction. Under NMHC's Section 8 Administrative Plan for Rental Assistance Program Section 10.1, NMHC currently administers a payment standard that is at 90% of the published FMR set for Guam and the Pacific Islands.

**Condition:** During fiscal year 2007, NMHC's payment standard schedule was based on 90% of published 2006 FMR instead of the 2007 FMR which is effective October 1, 2006.

**Cause:** The cause of the above condition is the lack of strict monitoring procedures to ensure that payment standard schedules are updated.

**Effect:** The effect of the above condition is the potential misstatement of payment standard amounts used to calculate the monthly housing assistance payment.

**Recommendation:** We recommend NMHC ensure that payment standard schedules are updated to reflect current fair market rents published by HUD.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Kimo M. Rosario, NMHC Manager, Program & Housing

**Corrective Action:** NMHC based its 2007 payment standard schedule on the published 2007 FMR and the same has been inputted into the system.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Special Tests and Provisions - Section 8 Housing Choice Vouchers  
CFDA #14.871, Federal Award # TQ901  
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-24

Criteria: Under 24 CFR 982.405(a), the Public Housing Agency (PHA) must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standards (HQS). Further, under CFR Part 24 sections 982.158(d), the PHA must prepare a unit inspection report.

Condition: Of thirty items tested for HQS inspections, the annual HQS inspection reports for three items were not made available. Details are as follow:

<u>Participant's Name</u>	<u>Date of HQS Inspection per HUD 50058</u>
Delos Santos, Joaquin S.	07/26/07
John, Benri S.	07/19/07
Pangelinan, Livia Mae T.	07/26/07

Additionally, the annual HQS inspection for one item was performed more than 12 months after the previous HQS inspection performed on 08/25/06. Details follow:

<u>Participant's Name</u>	<u>Date of HQS Inspection per HUD 50058</u>
Cruz, Erwin D.	10/03/07

Cause: The cause of the above condition is the lack of systematic filing of HQS inspection reports and the lack of strict monitoring to ensure that all HQS inspections are performed on a timely manner.

Effect: The effect of the above condition is possible noncompliance with the HQS inspections requirement under the federal regulations.

Recommendation: We recommend that NMHC ensure that all HQS inspections are supported with HQS inspection reports and are performed at least annually. Additionally, we recommend that NMHC ensure that all HQS inspection reports are maintained in participant files.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Kimo M. Rosario, NMHC Manager, Program & Housing

**Corrective Action:**

1. **Delos Santos, Joaquin:** This tenant's Annual Reexamination date is May 1, 2007 and his Annual HQS inspection was performed on April 23, 2007.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-24, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

2. **John, Benri S.:** This tenant's Annual Reexamination date is December 31, 2007 and his Annual HQS Inspection was performed on October 24, 2007.
3. **Pangelinan, Livia Mae T.:** This tenant's Annual HQS Inspection was not timely completed since she requested to transfer to another unit.
4. **Cruz, Erwin D.:** This tenant's Admission Date was September 14, 2006; hence, the HQS inspection date of August 25, 2006 could not possibly be late since admission was just a month away.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Special Tests and Provisions - Section 8 Housing Choice Vouchers  
CFDA #14.871, Federal Award # TO901  
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-25

Criteria: Under CFR Part 24 section 982.405(b), the PHA must conduct supervisory quality control Housing Quality Standards (HQS) inspections. Further, NMHC's Section 8 Administrative Plan for Rental Assistance Program Section 6.3 states that NMHC's manager for the program and housing manager division must re-inspect a sample of units under contract during the last fiscal year. Additionally, completed HQS inspections included in the sample must be no older than three months at the time of the re-inspection. The sample must represent a cross section of neighborhoods where the program units are located and inspections completed by all HQS inspectors.

Condition: During fiscal year 2007, NMHC performed the required supervisory quality control HQS inspections only for "failed" unit inspections and was not based on the required sample of all completed HQS inspections.

Cause: The cause of the above condition is the lack of adequate NMHC personnel to independently perform the required unit inspections and quality control re-inspections.

Effect: The effect of the above condition is noncompliance with the specific requirements of the federal regulation.

Recommendation: We recommend that NMHC ensure that adequate personnel are available to perform the unit inspections and quality control re-inspections and ensure that compliance requirement on supervisory control HQS inspection is strictly adhered to.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Kimo M. Rosario, NMHC Manager, Program & Housing

**Corrective Action:** Since February 2007 to the end of FY 2007, the Program and Housing Division Manager has been performing HQS inspections on all units especially after the agency's HQS inspector resigned in late July 2007.

**Proposed Completion Date:** Fiscal year 2009



COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Special Tests and Provisions - Section 8 Housing Choice Vouchers  
CFDA #14.871, Federal Award # TQ901  
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-26

**Criteria:** In accordance with 24 CFR 982.204(a), except for special admissions, participants must be selected from the Public Housing Agency (PHA) waiting list. The PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan.

**Condition:** During tests of compliance with the selection from the waiting list requirement, we noted the following:

- Of two new admissions during fiscal year 2007 tested, the waiting list relating to one admission (ref. Participant: Lorna Alcala admitted to the program on 10/23/06) was not made available. We are unable to determine if the participant was selected from the waiting list.
- The files for three applicants, reaching the top of the waiting list but not admitted to the program, were not made available. We are unable to determine whether these applicants were provided the opportunity to be admitted to the program and whether the non-admission was properly documented. Details are as follow:

<u>Application #</u>	<u>Applicant's Name</u>
RV06-03	Apatang, Bernard
RV06-04	Hocog, Barbara Ogo
RV06-05	Atalig, Lisa Jeannette

**Cause:** The cause of the above condition is lack of adherence to established policies and procedures to ensure that the selection of participants is completely documented.

**Effect:** The effect of the above condition is noncompliance with the waiting list requirements under federal regulations.

**Recommendation:** We recommend that NMHC ensure that selections of applicants from the waiting list are properly documented and maintained in the files.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Kimo M. Rosario, NMHC Manager, Program & Housing

**Corrective Action:**

1. **Lorna Alcala:** This participant was improperly selected and admitted to the program.
2. **Apatang, Bernard:** This applicant cancelled his application on May 30, 2006. This report is in the SEMAP Indicator No. 1 Folder.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-26, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

3. **Hocog, Barbara:** This applicant was transferred to the New Construction Program on March 8, 2006.
4. **Atalig, Lisa:** This applicant cancelled her application on April 15, 2006.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Special Tests and Provisions - Section 8 Housing Choice Vouchers  
CFDA #14.871, Federal Award # TQ901  
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-27

**Criteria:** As provided under 24 CFR section 982.404, for units under Housing Assistance Payment (HAP) contracts that fail to meet Housing Quality Standards (HQS), the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract.

**Condition:** Of ten unit re-inspections tested, we noted the following:

- For two items, the information on the deficiency report does not clearly indicate whether the corrective action has been addressed by the owner within the prescribed period:

<u>Participant's Name</u>	<u>Inspection Date</u>
Takao, Theresita	03/19/07
Mangatinag, Rosemary	04/24/07

- For one item (ref. Participant name: Theresita Takao), the re-inspection was re-scheduled from 04/04/07 to 05/17/07 which is 59 days from the annual inspection date of 03/19/07.

**Cause:** The cause of the above condition is the lack of proper documentation of the results of re-inspections performed and the lack of monitoring to ensure that deficiencies are timely addressed.

**Effect:** The effect of the above condition is noncompliance with the HQS enforcement requirement under the federal regulations.

**Recommendation:** We recommend NMHC ensure that results of HQS enforcements are properly documented in the deficiency reports and re-inspections are performed on a timely manner.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Kimo M. Rosario, NMHC Manager, Program & Housing

**Corrective Action:**

1. **Takao, Therisita:** The unit for this tenant was re-inspected on May 17, 2007 and it passed the re-inspection; however, the HQS inspector failed to fill in the deficiency report indicating that the deficiencies found on the unit were addressed and cured.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

Finding No. 2007-27, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

2. **Mangatinag, Rosemary:** The unit for this tenant was reinspected on May 11, 2007 and it passed the HQS inspection; however, the HQS inspector failed to fill in the deficiency report indicating that the deficiencies found on the unit were addressed and cured.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development  
Special Tests and Provisions - Section 8 Housing Choice Vouchers  
CFDA #14.871, Federal Award # TQ901  
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-28

**Criteria:** In accordance with CFR Part 24 Section 982.517 (c)(1), a PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule.

**Condition:** During fiscal year 2007, the utility allowance was based on the fiscal year 2005 utility schedule. The utility allowance schedule was only revised subsequent to fiscal year 2007. However, we did not note any documentation of the annual review of the utility allowance schedule subsequent to fiscal year 2005 through fiscal year 2007.

**Cause:** The cause of the above condition is the lack of monitoring to ensure that the required annual review of the utility allowance schedule is performed.

**Effect:** The effect of the above condition is noncompliance with the provisions of CFR Part 24 Section 982.517(c)(1).

**Recommendation:** We recommend that NMHC implement monitoring procedures to ensure that the required annual review of the utility allowance schedule is being performed.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Kimo M. Rosario, NMHC Manager, Program & Housing

**Corrective Action:** At the time, the CUC surcharge, according to HUD Field Office Representative (Darlene Kaholokula), was not considered as a "rate increase." Nonetheless, NMHC has since provided a utility allowance schedule for fiscal year 2007.

**Proposed Completion Date:** Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2007

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, 2007:

Questioned costs as previously reported	\$ 13,406
Questioned costs of fiscal year 2007 Single Audit	<u>1,211</u>
Unresolved questioned costs at September 30, 2007	\$ <u>14,617</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 47).



# COMMONWEALTH DEVELOPMENT AUTHORITY

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## 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, 2006:

### **FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

- Finding No. 2006-1 - Not corrected. See corrective action plan to Finding No. 2007-1.
- Finding No. 2006-2 - Not corrected. See corrective action plan to Finding No. 2007-3.
- Finding No. 2006-3 - Not corrected. See corrective action plan to Finding No. 2007-4.
- Finding No. 2006-4 - Not corrected. See corrective action plan to Finding No. 2007-7.
- Finding No. 2006-5 - Corrective action was taken.
- Finding No. 2006-6 - Not corrected. See corrective action plan to Finding No. 2007-8.

### **FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

- Finding No. 2006-7 - Corrective action was taken.
- Finding No. 2006-8 - Not corrected. See corrective action plan to Finding No. 2007-16.
- Finding No. 2006-9 - Not corrected. See corrective action plan to Finding No. 2007-21.
- Finding No. 2006-10 - Not corrected. See corrective action plan to Finding No. 2007-22.