COMMONWEALTH DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Deloitte & Touche LLC
P.O. Box 500308
Saipan, MP 96950-0308
USA

Tel: +1 670 322 7337/0860/0861
Fax: +1 670 322 7340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Development Authority:

We have audited the accompanying 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, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012, on our consideration of CDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 16 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, 2011 (pages 44 through 46) 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, 2011 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.

Deloitte & Touche LLC

September 12, 2012

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

Management's Discussion and Analysis
Year Ended September 30, 2011

The Management 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, 2011, with selected comparative information for the fiscal years ended September 30, 2010 and 2009. 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 included in 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 for staggered four-year terms by the Governor of the CNMI. CDA maintains its main office in Saipan and branch offices in Tinian and Rota.

DBD and DCD

DBD generally engages in government and public sector activities while 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.

DCD's mission is to initiate, stimulate and facilitate development of the economy in 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 to the private sector in the CNMI.

DCD's primary activity relates to the servicing of its direct loan portfolio. As of September 30, 2011, DCD's net loans receivable was $13,577,967, which was an increase of $1,373,944 or 11% compared to 2010. As of September 30, 2010, DCD's net loans receivable was $12,204,023, which was a decrease of $653,935 or 5% compared to 2009. The cause of the increase in fiscal year 2011 can be attributed to several large loans approved and disbursed by CDA and loan revisions under the 2% debt relief program. Also, several loan revisions due to loan judgments and asset foreclosures caused a decrease in the allowance account. In fiscal year 2010, the decrease was due to increased collection efforts and a more accurate analysis of loan collateral values.

DBD maintains a portfolio consisting of loans to various governmental and quasi-governmental agencies of the CNMI government. In fiscal year 2010, CDA's Board of Directors approved the restructuring of the loan to the Commonwealth Ports Authority (CPA). The restructured loan lowered the interest rate to 2% and extended the repayment term to 20 years, giving CPA a more manageable monthly payment. Since the restructuring, CPA has been timely on all payments, resulting in management's decision to reduce the allowance for the loan from 100% in fiscal 2009 to 50% in fiscal year 2010.

DBD and DCD, Continued

DBD continues to hold preferred stock in the Commonwealth Utilities Corporation (CUC) based on the conversion of debt dated September 30, 2009. See note 7 to the financial statements for more detailed information. The conversion has permitted CUC to move ahead with greater flexibility in obtaining financing and has given CDA the opportunity to receive funds loaned to CUC through dividends on the preferred stock, which will be recorded in the Revolving Fund for CIP projects.

Unfortunately, with the Asian economic crisis in the early 1990s and the subsequent global economic crisis beginning in late 2007, many of the projects financed by DCD loans have suffered significantly in value both as going concerns and in terms of the fair market value of the loans' underlying collateral. Events such as the attacks on 9/11, the SARS epidemic, the war in Iraq and sharp increases in fuel prices have had significant negative impact on the CNMI's tourist-based economy. Local factors such as significant increases in utility charges and the loss of the major tax base provided by the garment manufacturing industry only served to make weathering the external crises more difficult.

In 2004, the CNMI was swept by two major typhoons, Tingting and Chaba, devastating CDA-funded clients in the Marine and Agriculture loan categories. While these categories of loans are slowly recovering, there continues to be high delinquency rates.

As stated earlier, the net value of DCD's loan portfolio after recoveries was $13,577,967 in 2011 and $12,204,023 in 2010. Total recoveries were $1,744,771 and $550,526 in 2011 and 2010, respectively. These figures represent the estimated potential loss of value of the loans and accrued interest for the respective fiscal years. The recoveries for fiscal years 2011 and 2010 were primarily due to more loans being returned to non-delinquent status via efforts of the Loan Department and a more accurate valuation of collateral backing the loans. The ultimate collection of the principal value of loans is DCD's greatest financial concern.

The CDA Board of Directors has given management greater flexibility in pursuing solutions to the high delinquency rate among CDA borrowers and continues to emphasize the need to work with clients, or within the judicial system when necessary, to resolve delinquent loans.

In response to the difficulties experienced by virtually all of DCD's borrowers, management has been working on solutions that can benefit both CDA and the borrowers. One such solution is the Debt-Relief Program. Qualified borrowers are encouraged to restructure their delinquent loans at new, less-burdensome interest rates (typically 2%) and the accrued interest is set aside so that the new loan has a chance of being fully amortized if the new payment schedule is adhered to. This gives borrowers who were previously in seemingly hopeless situations new hope of paying off their loans and retaining possession of their collateral. While CDA may potentially lose some of the accrued interest that has been set aside, the reality is that this accrued interest would likely have never been recovered if the original loan terms had not been modified.

In cases where borrowers are in default and there is no workable solution for repayment of the loan, CDA has been forced to foreclose on properties collateralizing the loans or accept properties through deed in lieu of foreclosure. CDA then attempts to sell or lease properties to recover as much of the loan principal as possible. Given the extremely depressed state of the real estate market in the CNMI, the value realized on foreclosed property sales is often significantly less than the balance of the loan. In cases where CDA is unable to obtain a reasonable value for a foreclosed property, management may decide to defer disposal of the property until market conditions improve.

NMHC

NMHC is a multifaceted organization that offers direct housing loans, housing loan guarantees, rental properties, housing and community development (including low income housing tax credits) and where necessary, infrastructure development.

NMHC, Continued

NMHC has finalized the closing of Tottotville and forty-five houses are fully occupied and sold to respective homeowners. With the closure of the Expansion Project, NMHC is in the process of transferring infrastructure values to CUC and the Department of Public Works. During fiscal year 2005, homeowners filed complaints with respect to the poor workmanship in the construction of their homes and NMHC is still attempting resolution with the homeowners. The designer/construction manager and contractor for the subdivision have been contacted and all parties are addressing the areas of complaints. Mediation was also pursued; however, major issues being disputed are still unresolved by parties involved. In July 2011, an order was issued stating that both the contractor and construction manager breached their contracts and are therefore liable to NMHC. In addition, the order stated that the contractor and construction manager also violated the building safety code. NMHC settled with the forty-five homeowners and has filed litigation against the contractor and the construction manager. Court hearings are ongoing with the latest held on September 8, 2011.

Another major concern is Public Law (PL) 15-48 which Governor Benigno R. Fitial signed into law on March 13, 2007. This law repealed in its entirety, 2 CMC § 4486 and 4498, and amended 2 CMC § 4497 to eliminate the moratorium extended to NMHC on the loan made to NMHC by the Marianas Public Land Trust (MPLT). PL 15-48 imposes serious financial burdens as NMHC was required to commence payment to MPLT. During fiscal year 2008, MPLT and NMHC finalized a portfolio transfer and resolved the financial burden imposed on NMHC.

Mortgage & Credit Division

The Mortgage & Credit Division revised the HUD-funded HOME Program policies and procedures and, as a result, twelve rehabilitation loans/grants and eleven new construction loans/deferred loans have been entertained and/or presented to the Board of Directors for approval in fiscal year 2011. Existing HOME clients are also covered by the new policies and procedures as they can also be assisted through loan modifications or loan-to-grant conversions. Aside from loans for rehabilitation or new construction, NMHC also provides grants for the elderly or persons with disabilities.

In June 2008, the Agreement Between the Parties, the U.S. Department of Agriculture (USDA) Rural Development (USDA RD) and NMHC to Resolve Defaulted USDA Rural Development Loans was executed. This agreement has been established to outline the steps and mutually agreed-upon terms in liquidating defaulted USDA RD loans which NMHC agreed to act as trustee on deeds of trust securing USDA RD housing loans in the CNMI. The loans and properties covered by this agreement are accelerated accounts and accounts that are expected to be accelerated in the near future. This agreement encompasses forty-eight seriously delinquent loans. As of fiscal year 2011, thirty-two accounts have been purchased by NMHC.

On July 30, 2008, PL 110-289, or the Housing and Economic Recovery Act of 2008 (HERA), created the Neighborhood Stabilization Program (NSP). NSP is a HUD program which provides emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their respective communities. NSP provides grants to every state and local community to purchase foreclosed or abandoned homes and to rehabilitate, resale, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes.

Through NSP, NMHC has secured two contracts with NMHC-approved contractors to rehabilitate (including fencing and installation of typhoon shutters) seven foreclosed properties (six in Kagman and one in Dan Dan). The rehabilitation work was completed in December 2010 and five of seven properties have been sold.

An additional new program in fiscal year 2011 is the Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Program. NMHC also administers the U.S. Department of Veterans Affairs' Native American Direct Loan Program and the USDA's Section 504 Program.

NMHC, Continued

Program and Housing Division

A. Saipan Housing Choice Voucher Program (HCV Program)

In fiscal year 2011, the HCV Program utilized three hundred thirty-eight vouchers. In January 2009, the waiting list was closed due to the number of applicants on the list. Demand for the HCV Program is high due to the portability of the program and the applicant's ability to select a unit in an area of their choice.

B. Saipan Multi-Family/New Construction Program

In fiscal year 2011, Mihaville had forty-seven occupants of forty-eight units and Koblerville had thirty-two occupants of thirty-four units. Although Mihaville and Koblerville are almost at full capacity, there has been a turnover of tenants due to tenant requests to relocate and tenants being terminated for noncompliance with their lease. Both properties are well maintained and NMHC will continue its efforts to prepare for future REAC inspections.

C. Short-Term Goals

Goals for the Program and Housing Division are to a) maintain efforts to apply for additional rental vouchers by continuing to monitor HUD's Notices of Funding Availability (NOFA) and/or Super NOFAs for potential opportunities to increase its voucher count in the future; b) improve voucher management by addressing certain performance indicators to potentially increase its Section 8 Management Assessment Program rating; c) increase customer satisfaction; and d) continue planning efforts towards the development and possible implementation of the Family Self-Sufficiency Program should the severe economic conditions begin to improve in the CNMI.

Rota Field Office

A. Rota HCV Program

At the onset of fiscal year 2011, twenty-four voucher certificates were utilized on Rota. By the end of the fiscal year, one End of Participation was processed leaving Rota with only twenty-three voucher certificates. The demand for additional vouchers still exists, especially since qualified families prefer the HCV Program over the Multi-Family/New Construction Program for a variety of reasons. The NMHC Rota Field Office received numerous inquiries from interested families wanting to apply for housing assistance under this program; however, since January 2009, a moratorium was in effect on new applications for the HCV Program due to the lack of new voucher certificates and funding availability to sustain the growing number of applicants on the waiting list. Housing assistance to prospective tenants on the waiting list is on a first-come first-serve basis. Prior to the moratorium, Rota maintained its own waiting list; however, NMHC combined the waiting lists of all three islands thereby leaving Rota applicants at a greater disadvantage since Saipan comprised the majority of applicants with a leverage for selection based on weight, preference and placement on the waiting list. As a result, many Rota HCV Program applicants withdrew their applications.

B. Rota Multi-Family/New Construction Program

The Section 8 Multi-Family New Construction Program in Rota still faces huge challenges having a low occupancy rate for several years. At the onset of the fiscal year, only eleven of thirty housing units at the Liyo' Housing Subdivision were occupied. This figure translates to a 36.67% occupancy rate. NMHC aggressively advertised the availability of housing assistance and vacant units through local media outlets and networking with local municipal government agencies. The campaign effort paid off with three new leases, raising the occupied units to fifteen and the occupancy rate to 50%. The low occupancy rate could be attributed to the following factors:

Rota Field Office, Continued

1. HCV Program

   a. The existence of the HCV Program has led to many qualified applicants for housing assistance wanting to apply for this program instead;

   b. Applicants qualified for housing assistance prefer the HCV Program because of the ability to choose a housing unit at a preferred location; and

   c. Housing units registered under the HCV Program are typically semi to fully furnished, unlike the housing units under the Multi-Family/New Construction Program.

2. Condition of the Housing Units

   a. Safety concerns have been one of the biggest reasons why the NMHC Rota Field Office struggles to occupy the vacant units under the Multi-Family/New Construction Program. The housing units at the Liyo' Housing Subdivision have undergone and continue to undergo constant repairs due to hairline and severe cracks that are formed on the walls and ceilings due to the condition of rebars which have been slowly deteriorating because of moisture. Maintaining these units is costing NMHC significant amounts of money annually for materials and labor.

3. Utility Security Deposit

   a. Applicants find it very difficult to afford the security deposit required by CUC in order to connect to utilities. NMHC requires a receipt of payment for utility connection prior to moving in a tenant.

Despite the problems that exists within the Multi-Family/New Construction Program, efforts to increase the occupancy rate at the Liyo' Housing Subdivision are ongoing. The Rota Field Office advertises the vacant units and informs the general public of the housing assistance available to qualified applicants. Printed advertisements and notices posted on the local television channel are some of the methods used to reach the public. Furthermore, constant repairs and maintenance are being conducted to ensure the units meet HUD's Uniform Physical Condition Standards so that NMHC may continue to provide housing assistance to families in need.

C. Short-Term Goals

The goal of the NMHC Rota Field Office is to increase the occupancy rate at the Liyo' Housing Subdivision to 100% during the next fiscal year. To attain this goal, NMHC must continue with the repairs and maintenance of the units and ultimately find a more adequate long-term solution to their deteriorating conditions. NMHC will have to provide additional amenities in the units, such as basic furnishings (beds, dining tables, etc.), community gardens, playgrounds or picnic grounds and enhance the landscape in common areas. Finally, the NMHC Rota Field Office will continue to work with the Mayor's Office and other agencies like the Department of Community & Cultural Affairs and the Northern Marianas Protection & Advocacy Systems Inc. to promote and educate the local community about the housing assistance available through our Section 8 Multi-Family/New Construction Program.

Tinian Field Office

A. Section 8 Programs: Multi-Family/New Construction and HCV Programs

NMHC, Continued

Tinian Field Office, Continued

1. The Tinian Multi-Family/New Construction has twenty occupied units. The units have been properly maintained to meet the Housing Quality Standards (HQS). The continuation of repairs and maintenance of the units not only meets the HQS, but also invites families to move into these units. Families are encouraged to claim ownership so that they live in a safe and decent environment.

2. The HCV Program is very limited on Tinian. Since 2008, Tinian has had only one voucher of three hundred sixty-three vouchers for the CNMI. Merging of the waiting lists of the three islands moved Tinian applicants to the bottom of the waiting list. People are still encouraged to apply and be included on the waiting list; however, most of the interested applicants' housing needs are immediate.

B. Loans

1. The state of the economy has discouraged interested homeowners in obtaining home loans. The reduction of hours, reduction of holiday pay, ceased overtime pay and increased cost of living have hampered the living conditions of families on the island. Therefore, they hesitate to apply to either build a home or renovate a home. NMHC continues to assist those that come in and inquire or to pick up applications.

2. There is an increase in the delinquency rate of the loan portfolio due to the austerity measures imposed by the CNMI Government. NMHC needs to work with the borrowers to ensure that the revised loan payments are reasonable and affordable. The servicing of these loans needs to be consistent in order to enforce collection efforts.

C. Goals

1. The short-term goals for the Tinian Field Office are to a) continue to improve the Section 8 housing units; b) continue working with families in maintaining ownership on the units so they are maintained in safe and decent conditions and therefore meet the HQS; c) continue to ensure that the basketball court is conducive to the safety of children and youth; and d) work with borrowers in reducing the delinquency rate.

2. The long-term goals are to a) request for funding for the upgrade of the basketball court to include playground equipment and fencing for young and school-aged children who reside in the units; b) increase the awareness of the HOME program for people with developmental disabilities and to work in addressing their housing needs; c) work with management in numbering forms for both the loan application and the Section 8 Housing Assistance Program; d) streamline the application process; e) work with Board members in ensuring that residents are not shortchanged on the HCV Program because of the merging of the waiting lists; and f) address the needs of the new homesteaders.

Community Development Block Grant (CDBG)

In fiscal year 2011, NMHC received $824,363 in CDBG funding. As stated in NMHC's Five-Year Consolidated Plan, community development goals include the following:

- Construct or rehabilitate facilities that will improve services delivered to the public
- Recreational facilities
- Infrastructure upgrades
- Public services
- Rehabilitate/remove slum and blight

In fiscal year 2011, the CNMI allocated CDBG funding for the construction of a junior high public school facility to alleviate the overcrowding of the current public junior high school facility which will improve the classroom environment and, in turn, improve faculty and staff services to the students.

NMHC, Continued

Emergency Shelter Grant (ESG)

NMHC received $40,642 (first allocation of fiscal year 2011) in ESG funding, which was divided equally between the Guma Esperansa and the Division of Youth Services (DYS) shelters. Guma Esperansa serves women and their children who are victims of domestic violence and human trafficking. The DYS shelter serves youths who are victims of child abuse/neglect and runaway youths. ESG funding is used to assist with the operational costs and essential services of both shelters. The second allocation (funding expected to be available in July 2012) of $22,861 will be subgranted to Karidat for rapid re-housing activities.

Homeless Prevention and Rapid Re-Housing Program (HPRP)

In fiscal year 2010, NMHC received $589,165 though the HPRP and used the funds to assist low-income individuals and families with rent and utilities to prevent such individuals and families from becoming homeless. The funds will also be used to house individuals and families who are currently homeless. As of September 30, 2011, NMHC expended more than 50% of the total funds and assisted approximately 200 families. The HPRP grant closeout is July 10, 2012.

Community Development Block Grant-Recovery Funds (CDBG-R)

NMHC received $1,374,719 through the CDBG-R Program, which were used for projects that increased economic efficiency, improved infrastructure and provided for investment in environmental protection. The following projects were funded through the CDBG-R grant:

- Grotto Bathrooms Infrastructure Improvement;
- Sinapalo Elementary School Public Facility;
- Tinian Infiltration System Infrastructure Improvement; and
- Chalan Kanoa Kios Ku Leadership Courtyard Public Facility

As of September 30, 2011, three of the aforementioned projects were completed. The Chalan Kanoa Kios Ku Phase III Public Facility will be completed by July 3, 2012. The CDBG-R grant close out is September 30, 2012.

Neighborhood Stabilization Program (NSP)

NMHC received $364,162 through NSP, made possible through the Housing and Economic Recovery Act of 2008, which was designed to address foreclosures across the United States of America and the insular areas. NMHC used the funds to purchase and rehabilitate foreclosed and abandoned properties/homes and provided opportunities to borrowers to own their homes. As of September 30, 2011, a total of seven homes were rehabilitated.

LIHTC Program

NMHC is the agency authorized to allocate the LIHTC Program in the CNMI. The United States 1986 Tax Reform Act created the federal low-income housing tax credit under Section 42 of the Internal Revenue Code (the Code) to assist the development of low-income rental housing by providing qualified owners with credit to offset their federal tax obligations. The LIHTC Program is available to owners/developers of qualifying buildings and projects that meet certain low-income occupancy and rent restrictions.

Section 42 of the Code provides that the CNMI prepare a Qualified Allocation Plan (QAP) to determine housing priorities and to give preference to projects serving the lowest income tenants and projects obligated to serve qualified tenants for the longest periods. The QAP must incorporate selection criteria, which includes project location, housing need characteristics, sponsor characteristics, tenant populations with special needs and public housing waiting lists.

NMHC, Continued

LIHTC Program, Continued

NMHC has developed a QAP for 2010 and 2011 which describes the basis that NMHC will use to allocate LIHTCs. Sandy Beach Homes LLC was awarded $26,877,000 in 1602 cash grants for the construction of a 60-unit (all 3 bedrooms) apartment building with a targeted completion date of December 2011. Blue Water Homes LLC was awarded $48,579,030 for the construction of an 80-unit (2, 3 and 4 bedrooms) apartment building.

Combined Statements of Net Assets, Statements of Revenues, Expenses and Changes in Nets Assets and Statements of Cash Flows as of and for the year ended September 30, 2011 follows, with comparative information as of and for the years ended September 30, 2010 and 2009:

Combined Statements of Net Assets
As of September 30, 2011, 2010 and 2009

	2011	2010	$ Change	% Change	2009
Current assets	$ 10,788,961	$ 9,547,772	$ 1,241,189	13%	$ 5,601,394
Other assets	6,878,114	9,941,084	(3,062,970)	-31%	13,822,477
Capital assets	12,136,628	13,872,311	(1,735,683)	-13%	14,308,503
Noncurrent assets	15,104,769	13,451,676	1,653,093	12%	12,421,357
Total assets	**$ 44,908,472**	**$ 46,812,843**	**$ (1,904,371)**	**-4%**	**$ 46,153,731**
Current liabilities	$ 3,239,830	$ 3,882,223	$ (642,393)	-17%	$ 3,884,224
Noncurrent liabilities	7,308,393	6,096,157	1,212,236	20%	5,705,221
Total liabilities	**10,548,223**	**9,978,380**	**569,843**	**6%**	**9,589,445**
Invested in capital assets	12,136,628	13,872,311	(1,735,683)	-13%	14,308,503
Restricted	22,223,621	22,962,152	(738,531)	-3%	22,255,783
Total net assets	**34,360,249**	**36,834,463**	**(2,474,214)**	**-7%**	**36,564,286**
Total liabilities and net assets	**$ 44,908,472**	**$ 46,812,843**	**$ (1,904,371)**	**-4%**	**$ 46,153,731**

Combined Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011, 2010 and 2009

	2011	2010	$ Change	% Change	2009
Operating revenues	$ 36,001,398	$ 8,046,824	$ 27,954,574	347%	$ 11,154,596
Recoveries (bad debts)	1,406,066	2,486,358	(1,080,292)	-43%	(1,205,618)
Net operating revenues	**37,407,464**	**10,533,182**	**26,874,282**	**255%**	**9,948,978**
Operating expenses	35,740,430	9,067,161	26,673,269	294%	10,112,607
Operating income (loss)	**1,667,034**	**1,466,021**	**201,013**	**14%**	**(163,629)**
Total nonoperating revenues (expenses), net	(3,860,503)	(817,851)	(3,042,652)	372%	(237,245)
Income (loss) before transfers	**(2,193,469)**	**648,170**	**(2,841,639)**	**-438%**	**(400,874)**
Transfers out for capital development grants	(280,745)	(377,993)	97,248	-26%	(860,972)
Change in net assets	**(2,474,214)**	**270,177**	**(2,744,391)**	**-1016%**	**(1,261,846)**
Net assets - beginning	36,834,463	36,564,286	270,177	1%	37,826,132
Net assets - ending	**$ 34,360,249**	**$ 36,834,463**	**$ (2,474,214)**	**-7%**	**$ 36,564,286**

Combined Statements of Cash Flows
Years Ended September 30, 2011, 2010 and 2009

	2011	2010	$ Change	% Change	2009
Cash flows from operating activities	$ 454,395	$ (1,019,069)	$ 1,473,464	-145%	$ (1,571,290)
Cash flows from capital and related financing activities	(2,731,599)	(864,608)	(1,866,991)	216%	410,073
Cash flows from investing activities	3,072,147	3,889,876	(817,729)	-21%	376,196
Net increase (decrease) in cash and cash equivalents	**794,943**	**2,006,199**	**(1,211,256)**	**-60%**	**(785,021)**
Cash and cash equivalents at beginning of year	4,222,924	2,216,725	2,006,199	91%	3,001,746
Cash and cash equivalents at end of year	**$ 5,017,867**	**$ 4,222,924**	**$ 794,943**	**19%**	**$ 2,216,725**

Condensed Statements of Revenues, Expenses and Changes in Nets Assets and Statements of Cash Flows by division as of and for the year ended September 30, 2011 follows, with comparative information as of and for the years ended September 30, 2010 and 2009:

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011, 2010 and 2009

Development Banking Division

	2011	2010	$ Change	% Change	2009
Operating revenues:					
Interest on fees and loans	$ 140,048	$ 144,687	$ (4,639)	-3%	$ 130,386
Interest on investments	22,108	58,026	(35,918)	-62%	137,577
Other	-	-	-	0%	1,200
	162,156	202,713	(40,557)	-20%	269,163
Recoveries (bad debts)	117,154	2,792,451	(2,675,297)	-96%	(290,200)
Net operating revenues	**279,310**	**2,995,164**	**(2,715,854)**	**-91%**	**(21,037)**
Operating expenses:					
Professional fees	330	2,564	(2,234)	-87%	10,753
Other	32,432	8,054	24,378	303%	156,251
Total operating expenses	**32,762**	**10,618**	**22,144**	**209%**	**167,004**
Operating income (loss)	**246,548**	**2,984,546**	**(2,737,998)**	**-92%**	**(188,041)**
Nonoperating revenues (expenses):					
Other income	208,755	206,489	2,266	1%	259,794
Contribution to the CNMI	(1,700,000)	-	(1,700,000)	100%	-
Interest expense	(76,856)	(85,089)	8,233	-10%	(92,900)
Total nonoperating revenues (expenses), net	**(1,568,101)**	**121,400**	**(1,689,501)**	**-1392%**	**166,894**
Income (loss) before transfers	(1,321,553)	3,105,946	(4,427,499)	-143%	(21,147)
Transfer in to other funds	-	(1,050,715)	1,050,715	-100%	-
Transfers out for capital development grants	(280,745)	(1,377,993)	1,097,248	-80%	(860,972)
Change in net assets	**$ (1,602,298)**	**$ 677,238**	**$ (2,279,536)**	**-337%**	**$ (882,119)**

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Assets, Continued
Years Ended September 30, 2011, 2010 and 2009

Development Corporation Division

	2011	2010	$ Change	% Change	2009
Operating revenues:					
Interest and fees on loans	$ 426,250	$ 441,856	$ (15,606)	-4%	$ 3,049,330
Interest on investments	10,533	13,389	(2,856)	-21%	60,015
Other	164,706	78,337	86,369	110%	256,238
	601,489	533,582	67,907	13%	3,365,583
Recoveries (bad debts)	2,061,105	550,526	1,510,579	274%	(796,207)
Net operating revenues	**2,662,594**	**1,084,108**	**1,578,486**	**146%**	**2,569,376**
Operating expenses:					
Salaries and wages	540,832	532,926	7,906	1%	434,591
Provision for foreclosed real estate	-	523,317	(523,317)	-100%	575,889
Employee benefits	183,880	202,279	(18,399)	-9%	138,690
Professional fees	106,339	113,675	(7,336)	-6%	114,060
Office rent	106,978	104,416	2,562	2%	110,234
Travel	14,478	23,099	(8,621)	-37%	64,479
Depreciation	8,920	8,288	632	8%	10,964
Other	98,325	211,036	(112,711)	-53%	93,072
Total operating expenses	**1,059,752**	**1,719,036**	**(659,284)**	**-38%**	**1,541,979**
Operating income (loss)	**1,602,842**	**(634,928)**	**2,237,770**	**-352%**	**1,027,397**
Nonoperating revenues (expenses):					
Other income	-	9,719	(9,719)	-100%	-
Interest expense	-	-	-	0%	(46,894)
Other expense	(34,449)	(11,498)	(22,951)	200%	(11,520)
Total nonoperating revenues (expenses), net	**(34,449)**	**(1,779)**	**(32,670)**	**1836%**	**(58,414)**
(Loss) income before transfers	1,568,393	(636,707)	2,205,100	-346%	968,983
Transfers out to other funds	-	1,050,715	(1,050,715)	-100%	-
Change in net assets	**$ 1,568,393**	**$ 414,008**	**$ 1,154,385**	**279%**	**$ 968,983**

Northern Marianas Housing Corporation

	2011	2010	$ Change	% Change	2009
Operating revenues	$ 35,270,185	$ 7,351,071	$ 27,919,114	380%	$ 7,675,423
Bad debts	(772,193)	(183,566)	(588,627)	321%	(279,025)
Net operating revenues	**34,497,992**	**7,167,505**	**27,330,487**	**381%**	**7,396,398**
Operating expenses	34,680,348	8,051,102	26,629,246	331%	8,559,197
Operating loss	**(182,356)**	**(883,597)**	**701,241**	**-79%**	**(1,162,799)**
Nonoperating revenues (expenses), net	(2,257,953)	519,139	(2,777,092)	-535%	(345,725)
Change in net assets	**$ (2,440,309)**	**$ (364,458)**	**$ (2,075,851)**	**570%**	**$ (1,508,524)**

Condensed Comparative Statements of Cash Flows
Years Ended September 30, 2011, 2010 and 2009

Development Banking Division

	2011	2010	$ Change	% Change	2009
Cash flows from operating activities	$ 172,974	$ 96,782	$ 76,192	79%	$ 120,521
Cash flows from capital and related financing activities	(1,778,867)	(2,319,257)	540,390	-23%	1,363,752
Cash flows from investing activities	1,605,893	2,222,475	(616,582)	-28%	(1,484,273)
Net increase in cash and cash equivalents	-	-	-	0%	-
Cash and cash equivalents at beginning of year	-	-	-	0%	-
Cash and cash equivalents at end of year	**$ -**	**$ -**	**$ -**	**0%**	**$ -**

Development Corporation Division

	2011	2010	$ Change	% Change	2009
Cash flows from operating activities	$ (423,065)	$ (797,923)	$ 374,858	-47%	$ (363,186)
Cash flows from capital and related financing activities	722,022	1,350,861	(628,839)	-47%	(718,604)
Cash flows from investing activities	646,978	1,695,968	(1,048,990)	-62%	492,992
Net (decrease) increase in cash and cash equivalents	945,935	2,248,906	(1,302,971)	-58%	(588,798)
Cash and cash equivalents at beginning of year	3,361,270	1,112,364	2,248,906	202%	1,701,162
Cash and cash equivalents at end of year	**$ 4,307,205**	**$ 3,361,270**	**$ 945,935**	**28%**	**$ 1,112,364**

Northern Marianas Housing Corporation

	2011	2010	$ Change	% Change	2009
Cash flows from operating activities	$ 704,486	$ (317,928)	$ 1,022,414	-322%	$ (1,328,625)
Cash flows from capital and related financing activities	(1,674,754)	103,788	(1,778,542)	-1714%	(235,075)
Cash flows from investing activities	819,276	(28,567)	847,843	-2968%	1,367,477
Net (decrease) increase in cash and cash equivalents	(150,992)	(242,707)	91,715	-38%	(196,223)
Cash and cash equivalents at beginning of year	861,654	1,104,361	(242,707)	-22%	1,300,584
Cash and cash equivalents at end of year	**$ 710,662**	**$ 861,654**	**$ (150,992)**	**-18%**	**$ 1,104,361**

FINANCIAL HIGHLIGHTS

DBD and DCD

- In 2011, DCD had net operating revenues of $2,662,594 while DBD had revenues of $279,310. A significant part of the change in net operating revenues is due to recoveries of bad debts. DCD recorded recoveries of $1,744,771 in 2011 compared with recoveries of $550,526 in 2010. DBD recorded recoveries of $117,154 and $2,792,451 in 2011 and 2010, respectively, which brought the allowance for its loans to 50% in 2011 and 2010. Interest and fees earned on loans for DCD decreased by $15,606, or 4% in fiscal year 2011 primarily due to a change in the method used to record interest on loans by only recognizing interest earned up to 120 days if the loan is delinquent. While interest earned has decreased due to this change in methodology, the allowance for losses has decreased proportionately. Interest and fees earned on loans for DCD in fiscal year 2010 decreased by $2,607,474, or 86%. DBD had a decrease of $4,639, or 3% in fiscal year 2011 compared to an increase of $14,301, or 11% in fiscal year 2010.

FINANCIAL HIGHLIGHTS, CONTINUED

DBD and DCD, Continued

- Another area of concern is the decrease in earnings on investments suffered by each division as interest rates on short-term investments hover near zero. DCD's invested funds decreased from $646,978 at September 30, 2010 to $-0- at September 30, 2011, a decrease of $646,978, or 100%. Related earnings on investments decreased from $13,389 for the year ended September 30, 2010 to $10,533 for the year ended September 30, 2011, a decrease of $2,856, or 21%. DBD's invested funds decreased by $2,265,295, or 69%, from $3,265,295 at September 30, 2010 to $1,000,000 at September 30, 2011. Earnings on these investments decreased from $58,026 for the year ended September 30, 2010 to $22,108 for the year ended September 30, 2011, a decrease of $35,918, or 62%. The decrease in DBD's investments in fiscal year 2011 reflects a continued unattractive rate environment for investing funds. CDA's management must keep these negative trends in mind when creating budgets and making commitments for its limited funds.

- In fiscal year 2011, operating expenses for DCD, omitting the provisions for loan guaranty and foreclosed real estate, decreased by $135,967, or 11%, from 2010. DBD's operating expenses increased by $22,144, or 209% from fiscal year 2010. Efforts of management and staff are ongoing to reduce DCD's expenses. DBD's expenses increased due to the expense reimbursements paid to DCD to cover shared costs.

- As reflected above, DCD's bad debts and the provisions for loan guaranty and foreclosed real estate losses continue to be highly volatile and reflect a negative trend. Only through renewed efforts by CDA to work with loan clients, finding innovative ways to restore their loans to "performing" status and pursuing realization of value from collateralizing assets for loans that have no hope of recovery can this trend be reversed.

- DBD and DCD saw a decrease in combined net assets of $33,905, or less than 1%, from 2010 to 2011. Much of this decrease was due to recoveries on previously non-performing loans and the resulting changes in the valuation allowances.

NMHC

- Total assets decreased by 7% from $19,081,197 in fiscal year 2010 to $17,715,303 in fiscal year 2011 mainly due to recording the impairment loss on land of $2,262,131 and by 2% from $19,407,494 in fiscal year 2009 to $19,081,197 in fiscal year 2010 mainly due to housing assistance payment (HAP) equity being utilized to fund the deficiency in revenues received from the grantor over actual HAP payments made for fiscal year 2009. In addition, all disaster vouchers from Typhoons Tingting and Chaba were converted to regular vouchers bringing the total to 363 voucher units that NMHC now administers and monitors for compliance.

- Total liabilities increased by 14% from $7,465,357 in fiscal year 2010 to $8,539,772 in fiscal year 2011 and by 1% from $7,427,196 in fiscal year 2009 to $7,465,357 in fiscal year 2010.

- Total net assets decreased by 21% from $11,615,840 in fiscal year 2010 to $9,175,531 in fiscal year 2011 and by 3% from $11,980,298 in fiscal year 2009 to $11,615,840 in fiscal year 2010.

- Net operating revenues increased by 381% from $7,167,505 in fiscal year 2010 to $34,497,992 in fiscal year 2011 and decreased by 3% from $7,396,398 in fiscal year 2009 to $7,167,505 in fiscal year 2010. The increase in fiscal year 2011 is primarily attributable to the receipt of the LIHTC Program grant. The decrease in fiscal year 2010 is primarily attributable to the decrease in CDBG grant revenues offset by the new HPRP and HOME grants.

- Total operating expenses increased by 331% from $8,051,102 in fiscal year 2010 to $34,680,348 in fiscal year 2011 and decreased by 6% from $8,559,197 in fiscal year 2009 to $8,051,102 in fiscal year 2010. The increase in fiscal year 2011 is primarily attributable to expenses incurred under the LIHTC Program grant. The decrease is primarily attributable to decreases in repairs and maintenance, the provision for loan guaranty, travel, CDBG Program and ESG Program grant expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2011 and 2010, CDA had $12,136,628 and $13,872,311, respectively, invested in capital assets, net of depreciation where applicable. This represents a net decrease of $1,735,683, or 13%, during fiscal year 2011.

	2011	2010	2009
Property and equipment, net	$ 1,673,992	$ 1,619,043	$ 1,968,305
Land	7,388,182	9,650,313	9,747,313
Foreclosed real estate	3,074,454	2,602,955	2,592,885
	$ 12,136,628	$ 13,872,311	$ 14,308,503

See notes 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, 2011 and 2010, CDA had $1,120,943 and $1,252,843, respectively, in long-term debt outstanding. See note 10 to the financial statements for more detailed information on CDA's long-term debt and changes therein.

ECONOMIC OUTLOOK

DBD and DCD

CDA is being affected by the negative economic forces at play globally as well as locally. If the recent trend in the performance of CDA's assets were to continue, a question of CDA's viability to continue operating as an independent entity must be addressed. CDA is currently not able to fund its ongoing operations from earnings generated by its loan portfolio and investments, and must use its cash reserves to cover this shortfall. The budget for fiscal year 2012 also reflects a significant shortfall. Management is addressing this problem in several ways. As mentioned above, the Debt-Relief Program brings qualified borrowers from a delinquent, non-paying status to a performing, paying status. The "price" to CDA of this program is to reduce the rate of interest on these loans to 2%, a rate that does not go far in generating income for CDA. However, management believes that if enough of the delinquent borrowers see hope of paying off their loans and preserving their collateral, they will begin to make regular payments. Once these payments are added back to the loan fund and re-lent to qualified borrowers, the interest earned will increase to a point where CDA can operate "in the black." Of course, beyond these revenue-side enhancements, management is pursuing meaningful expense reductions.

While there is no simple solution to reverse the deterioration of CDA's loan portfolio, management believes there is still time and are still steps that can be taken to improve the likelihood of CDA's continuing existence as a contributing member of the CNMI Government and be a beneficial part of the economy of the CNMI.

NMHC

The CNMI's economic outlook continues to be uncertain. Austerity measures continue to be in effect government-wide in fiscal year 2011 to compensate for decreased revenues. The tourism and garment industries, which played material roles in driving the CNMI's economy have been in decline for a number of years. A series of unfortunate events hindered the return of tourist arrival levels to that enjoyed in the 1990s and the industry and the economy continue to suffer as a result. Tourism overall appears to be on the rebound and partially stabilized. The garment industry has declined almost entirely compounding the CNMI's economic woes. While several efforts are underway to look at alternative industries to revive the economy, no immediate appreciable growth is anticipated in the foreseeable future.

ECONOMIC OUTLOOK, CONTINUED

NMHC, CONTINUED

As a result of the dwindling resources available for NMHC, the budget of federal funds will also be affected and is expected to decrease until recovery. As such, NMHC continues to apply the cost reduction approach to lower the deficit for every fiscal year. NMHC continues to take internal measures to ensure that this would not result in a deficit. The continuing economic challenges may result in further budget reductions in fiscal year 2012 but NMHC has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

NMHC received an NSP3 grant in the amount of $300,001 in fiscal year 2011, which will address housing foreclosures in the CNMI. NMHC plans to rehabilitate up to eight homes, inclusive of homes on the islands of Tinian and Rota, in order to sell those homes to HOME-eligible low-moderate income households.

CONTACTING CDA AND NMHC'S MANAGEMENT

This financial report is designed to provide a general overview of CDA's financial condition and to demonstrate its accountability for monies received. The Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in the report on the audit of CDA's financial statements which is dated August 1, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements. If you have questions about this report or the 2010 or 2009 reports or need additional financial information, contact Mr. Donnie James Militante, CDA Comptroller, P.O. Box 502149, Saipan, MP 96950-2149, or call (670) 234-7145/6293 or send email to executive@cda.gov.mp or Mr. Jesse S. Palacios, NMHC Acting Corporate Director, P.O. Box 500514, Saipan MP 96950 or call (670)234-6866/9447 or send email to jspalacios@nmhc.gov.mp.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Net Assets
September 30, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash and cash equivalents	$ 5,017,867	$ 4,222,924
Receivables:		
Current portion of loans receivable, net	5,316,170	4,497,462
Finance lease, net	45,496	27,219
Rent, net	141,564	108,114
Accrued interest, net of allowance for doubtful accounts of $2,554,954 and $3,807,939 as of September 30, 2011 and 2010, respectively	123,047	571,044
Other, net	112,828	120,679
Due from grantor agency	31,590	-
Prepaid expenses	399	330
Total current assets	10,788,961	9,547,772
Other assets:		
Cash and cash equivalents, restricted	5,878,114	6,028,811
Time certificates of deposit, restricted	1,000,000	3,912,273
Total other assets	6,878,114	9,941,084
Noncurrent assets:		
Loans receivable, net of current portion	14,322,371	12,856,860
Finance lease, net of current portion	782,398	594,816
Property and equipment, net	1,673,992	1,619,043
Land	7,388,182	9,650,313
Foreclosed real estate, net	3,074,454	2,602,955
Total noncurrent assets	27,241,397	27,323,987
	$ 44,908,472	$ 46,812,843
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current installment of note payable to related party	$ 140,300	$ 131,900
Accounts payable and accrued expenses	1,661,686	647,277
Due to related party	-	500,000
Deferred revenues	59,100	13,129
Due to grantor agency	-	565,261
Reserve for loan guaranty	1,378,744	2,024,656
Total current liabilities	3,239,830	3,882,223
Note payable to related party, net of current installments	980,643	1,120,943
Deferred revenues, net of current portion	6,327,750	4,975,214
Total liabilities	10,548,223	9,978,380
Commitments and contingencies		
Net assets:		
Invested in capital assets	12,136,628	13,872,311
Restricted	22,223,621	22,962,152
Total net assets	34,360,249	36,834,463
	$ 44,908,472	$ 46,812,843

See accompanying notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Program Grant	$ 23,981,996	$ -
Section 8 income:		
Federal housing assistance rentals	5,053,009	5,088,251
Tenant share	110,468	126,008
Community Development Block Grants (CDBG) Program	3,864,549	369,231
Interest and fees on loans	814,952	1,000,105
Recovery from loan guaranty	645,912	-
HOME Investment Partnership Program Grant	638,281	171,381
HOME Investment Partnership Grant program income	443,069	432,926
Neighborhood Stabilization Program (NSP) Grant	132,621	224,416
Homelessness Prevention and Rapid Re-Housing Program (HPRP) Grant	88,528	451,828
Emergency Shelter Grants (ESG) Program	49,061	43,554
Interest on investments	32,641	71,415
Other	146,311	67,709
	36,001,398	8,046,824
Recovery of loan impairment	1,089,732	3,159,411
Recovery of (provision for) foreclosed real estate	316,334	(673,053)
Net operating revenues	37,407,464	10,533,182
Operating expenses:		
LIHTC Program Grant	23,981,996	-
CDBG Program	3,864,549	369,318
Section 8 rental	3,324,558	3,422,919
HOME Investment Partnership Program Grant	638,281	171,381
HOME Investment Partnership Grant program income	443,069	432,926
NSP Grant	132,621	224,416
HPRP Grant	88,528	451,828
ESG Program	49,061	43,554
Operations:		
Salaries and wages	1,096,368	1,115,186
Repairs and maintenance	425,637	521,929
Depreciation	359,519	378,228
Utilities	359,017	369,704
Employee benefits	327,274	372,737
Professional fees	239,882	262,645
Rent	118,978	111,616
Travel	57,809	86,981
Provision for loan guaranty	-	422,749
Other	233,283	309,044
Total operating expenses	35,740,430	9,067,161
Operating income	1,667,034	1,466,021
Nonoperating revenues (expenses):		
Other income	208,755	270,253
Interest income	9,178	8,483
Impairment loss on land	(2,262,131)	-
Contribution to the CNMI	(1,700,000)	(1,000,000)
Interest expense	(76,856)	(85,089)
Loss on sale of foreclosed properties	(5,000)	-
Other expense	(34,449)	(11,498)
Total nonoperating revenues (expenses), net	(3,860,503)	(817,851)
(Loss) income before transfers	(2,193,469)	648,170
Transfers out for capital development grants	(280,745)	(377,993)
Change in net assets	(2,474,214)	270,177
Net assets - beginning	36,834,463	36,564,286
Net assets - ending	$ 34,360,249	$ 36,834,463

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	$ 855,714	$ 690,832
Interest and dividends on investments	50,374	97,892
Cash payments to suppliers for goods and services	(302,553)	(887,806)
Cash received from customers	260,163	239,984
Cash payments to employees for services	(1,280,248)	(1,315,690)
Cash received from federal grant awards	33,654,263	6,563,053
Cash payments from federal grant awards	(32,783,318)	(6,407,334)
Net cash provided by (used for) operating activities	454,395	(1,019,069)
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(415,421)	(28,966)
Acquisition of foreclosed real estate	(1,326,216)	-
Proceeds from disposal of property and equipment	500	108,000
Net receipts of loans receivable	1,002,279	833,337
Contribution to the CNMI	(1,700,000)	(1,000,000)
Transfers to CNMI	(11,996)	(23,018)
Transfers for capital development grants	(280,745)	(753,961)
Net cash used for capital and related financing activities	(2,731,599)	(864,608)
Cash flows from investing activities:		
Net proceeds from restricted cash and cash equivalents and time certificates of deposit	3,062,969	3,881,393
Interest received	9,178	8,483
Net cash provided by investing activities	3,072,147	3,889,876
Net increase in cash and cash equivalents	794,943	2,006,199
Cash and cash equivalents at beginning of year	4,222,924	2,216,725
Cash and cash equivalents at end of year	$ 5,017,867	$ 4,222,924
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	$ 1,667,034	$ 1,466,021
Adjustments to reconcile operating income to net cash provided by (used for) operating activites:		
Recovery of loan impairment	(1,089,732)	(3,159,411)
(Recovery of) provision for loan guaranty	(645,912)	422,749
(Recovery of) provision for foreclosed real estate	(316,334)	673,053
Depreciation	359,519	378,228
Loss on disposal of property and equipment	453	-
Gain on sale of land	-	(11,000)
(Increase) decrease in assets:		
Receivables:		
Rent	(33,489)	(51,103)
Other	(56,208)	6,686
Accrued interest	58,495	(282,796)
Prepaid expenses	(69)	22,835
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,014,409	(330,656)
Deferred revenues	93,080	64,859
Due from/to grantor agency	(596,851)	(218,534)
Net cash provided by (used for) operating activities	$ 454,395	$ (1,019,069)

See accompanying notes to financial statements.

Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of foreclosed properties:		
Noncash increase in foreclosed real estate	$ 98,822	$ 1,002,588
Noncash decrease in loans receivable	(98,822)	(1,002,588)
	$ -	$ -
Loan restructuring:		
Noncash increase in loans receivable	$ -	$ 136,569
Noncash decrease in accrued interest	-	(128,217)
Noncash decrease in other receivables	-	(8,352)
	$ -	$ -
Loan payable to MPLT:		
Noncash decrease in note payable to related party	$ 131,900	$ 121,400
Noncash interest expense	76,856	85,089
Noncash other income	(208,756)	(206,489)
	$ -	$ -
Write-off of due to CDA:		
Noncash decrease in due to CDA	$ -	$ (510,656)
Noncash increase in nonoperating other income	-	510,656
	$ -	$ -

See accompanying notes to financial statements.

(1) Reporting Entity

The Commonwealth Development Authority (CDA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was created as an autonomous public agency of the CNMI pursuant to Public Law 4-49 as amended by Public Laws 4-63 and 5-27. CDA 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 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 division (i.e., NMHC) to account for the operations, assets and liabilities of MIHA. NMHC is governed by a seven member Board of Directors appointed by the Board of Directors of CDA. The purpose and functions of the two divisions and NMHC are as follows:

Development Banking Division:

- To receive and hold United States economic assistance for economic development loans provided under Section 702(c) of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (the Covenant);
- To aid in the financing of capital improvement projects and other projects undertaken by the CNMI and its autonomous public agencies;
- To achieve the greatest possible return, in terms of economic development, on the funds made available to the CNMI by the United States in accordance with the Covenant; and on such other funds as may be made available to CDA as capital contributions;
- To disseminate modern practices and techniques of financing, management and business administration in order to raise the levels of efficiency and productivity in all sectors; and
- To serve as the Northern Marianas development bank identified in Article IX, Section 6(c) of the Constitution.

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

Development Corporation Division:

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

(1) Reporting Entity, Continued

Development Corporation Division, Continued:

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

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

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

Northern Marianas Housing Corporation:

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

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

- To develop and construct rental housing;

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

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

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

(2) Summary of Significant Accounting Policies

The accounting policies of CDA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. CDA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statements of net assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budgets

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

Cash and Cash Equivalents and Time Certificates of Deposit

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, 2011 and 2010, total cash and cash equivalents and time certificates of deposit were $11,895,981 and $14,164,008, respectively, and the corresponding bank balances were $11,972,963 and $14,341,968, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $336,550 and $822,675 were FDIC insured as of September 30, 2011 and 2010, respectively. CNMI law does not require component units to collateralize their bank accounts and thus CDA's deposits in excess of FDIC insurance are uncollateralized.

Prepaid Expenses

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

Property and Equipment

Property and equipment 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.

(2) Summary of Significant Accounting Policies, Continued

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. The carrying amount of the land is evaluated on an annual basis to determine impairment by estimating the recoverable value. Recoverable value is based on management's historical knowledge and changes in market conditions from the time of valuation. An impairment loss is recognized in the period in which it arises.

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.

Finance Lease Receivables

Finance lease receivables are carried at the aggregate of lease rental receivable less unearned finance lease income. Unearned finance lease income is amortized on a straight line basis over the lease term.

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.

(2) Summary of Significant Accounting Policies, Continued

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

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.

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 NMHC's system, 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. 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 primarily result from capital and financing activities and forgiveness of debt.

On October 4, 2010, NMHC received a $26.877 million grant from the U.S. Department of Treasury (US Treasury) for Low-Income Housing Projects in Lieu of Tax Credits for 2009. This grant is authorized under Section 1602 of the American Recovery and Reinvestment Tax Act of 2009. On October 15, 2010, NMHC entered into a Section 1602 Exchange Fund Agreement with Sandy Beach Homes LLC to finance the construction of a qualified low-income housing project known as Sandy Beach Homes consisting of sixty (60) three-bedroom units, which will be income-restricted and rent-restricted pursuant to Section 42 of the Internal Revenue Code. NMHC received federal funds of $23,981,996 from the US Treasury and the same amount was disbursed to Sandy Beach Homes during the year ended September 30, 2011.

Deferred Revenues

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. Deferred revenue of DCD represents prepaid lease income on foreclosed real estate held for lease and amounted to $727,275 and $634,195 as of September 30, 2011 and 2010, respectively. Amounts to be recognized over the terms of the leases is as follows:

(2) Summary of Significant Accounting Policies, Continued

Deferred Revenues, Continued

Year ending September 30,	Lease Recognition
2012	$ 59,100
2013	53,159
2014	15,212
2015	13,917
2016	13,529
2017 - 2021	67,648
2022 - 2026	67,648
2027 - 2031	67,648
2032 - 2036	67,648
2037 - 2041	67,648
2042 - 2046	67,648
2047 - 2051	64,601
2052 - 2056	57,011
2057 - 2061	44,858
	$ 727,275

Deferred revenues of NMHC represent recorded loans receivable from individuals eligible under the HOME Investment Partnership program administered by NMHC. Recognition of revenue through the use of these funds has not been determined and deferred revenues of $5,659,575 and $4,354,148 as of September 30, 2011 and 2010, respectively, have been presented as long-term in the accompanying financial statements.

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, 2011 and 2010 was approximately $214,369 and $251,917, respectively.

Retirement Plan

CDA contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the CNMI.

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. CDA has complied with GASB 45 by recording OPEB expense based on the statutorial determined contribution rate of the Fund. CDA's OPEB liability is incorporated into the contribution amount. It is the understanding of the management of CDA that the statutorial determined contribution rate of the Fund incorporates both the pension liability and the OPEB liability. GASB 45 also requires detailed disclosure of information related to the OPEB plan and CDA management is unable to obtain this information from the Fund financial report. CDA management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of CDA that the Fund is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2 and 16-36.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal years ended September 30, 2011 and 2010 have yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 60.8686% of covered payroll based on an actuarial valuation as of October 1, 2009 issued in May 2011. The established statutory rate at September 30, 2011 and 2010 is 37.3909% of covered payroll. CDA's recorded DB contributions to the Fund for the years ended September 30, 2011, 2010 and 2009 were $234,203, $269,997 and $249,660, respectively, equal to the required statutory contributions for each year.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CDA is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CDA's recorded DC contributions for the years ended September 30, 2011, 2010 and 2009 were $27,869, $23,629 and $13,603, respectively, equal to the required contributions for each year.

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

(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, 2011 and 2010, 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, 2011 and 2010.

New Accounting Standards

During fiscal year 2011, CDA implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, which* addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus, which* is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity, and No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

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.

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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, 2011 and 2010, restricted cash and cash equivalents and time certificates of deposit amounting to $4,260,556 and $5,866,450, respectively, consist of a time certificate of deposit with a maturity period of twelve 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.

Development Corporation Division

At September 30, 2011 and 2010, 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 $-0- and $646,978 at September 30, 2011 and 2010, respectively, and comprise amounts maintained as a guarantee against loans issued by the bank and for loan activities. These investments are presented at fair value in the accompanying financial statements in accordance with GASB Statement No. 31.

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, 2011 and 2010, restricted cash and cash equivalents consist of amounts held in demand deposit accounts. Of the amounts detailed below, $1,511,358 and $278,298 at September 30, 2011 and 2010, respectively, was FDIC insured. Accordingly, the deposits are exposed to custodial credit risk.

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

Restricted cash and cash equivalents:

	2011	2010
Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	$ 1,096,538	$ 2,169,557
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	199,509	197,480
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	100	13,211
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,275,439	880,916
Other depository accounts reserved for various purposes	45,972	166,492
	$ 2,617,558	$ 3,427,656

CDA's investments in time certificates of deposit had the following maturities at September 30, 2011:

	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
DBD	$ 1,000,000	$ 1,000,000	$ -	$ -	$ -

(4) Loans Receivable

Development Banking Division

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. At September 30, 2011 and 2010, the revolving fund consists of one note receivable from the Commonwealth Ports Authority (CPA), bearing interest at 2.5% per annum, with monthly principal and interest payments in the amount of $31,000, with maturity date of June 15, 2030. Proceeds are used for the Saipan Harbor Project.

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.

(4) Loans Receivable, Continued

Development Corporation Division, Continued

Outstanding loans are due within various periods not to exceed thirty (30) years. The interest rates charged are based on the economic purpose of the loan. Production development loans bear interest at 7% to 9%, marine and agriculture loans bear interest at 4.5%, commercial development loans bear interest at 7% to 9%, and microloans bear interest at 7% to 12%. In October 2007, CDA initiated a "Debt Relief Program" (the Program) to address increasing delinquent loans. The Program provides for reduction of interest to two percent and extension of term up to thirty years with a mandated three year callable provision where warranted and justified.

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, 2011 and 2010 (with combining information as of September 30, 2011), are as follows:

	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	2011	2010
General	$ -	$ 28,254,976	$ 638,380	$ 28,893,356	$ 28,715,563
Capital development loan receivable from related party	5,486,731	-	-	5,486,731	5,721,041
HOME Investment Partnerships Act grant	-	-	5,114,057	5,114,057	4,146,238
Marine	-	4,681,481	-	4,681,481	4,878,054
Direct family home loans	-	-	2,967,118	2,967,118	2,909,690
Agriculture	-	2,456,567	-	2,456,567	2,446,341
Tinian turnkey	-	-	538,326	538,326	496,769
Housing construction	-	-	465,227	465,227	454,739
Neighborhood Stabilization Program grant	-	-	340,070	340,070	-
Section 8	-	-	168,615	168,615	163,177
Home revenue bond	-	-	94,476	94,476	94,791
Housing preservation grant	-	-	26,842	26,842	30,239
Loan principal receivable	5,486,731	35,393,024	10,353,111	51,232,866	50,056,642
Less allowance for loan losses	(2,743,366)	(21,815,057)	(7,035,902)	(31,594,325)	(32,702,320)
Net loans receivable	$ 2,743,365	$ 13,577,967	$ 3,317,209	$ 19,638,541	$ 17,354,322

Maturities of the above principal balances subsequent to September 30, 2011, will be as follows:

	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Total
Fully matured and others	$ -	$ 21,969,610	$ 960,196	$ 22,929,806
1 - 6 months	118,161	3,166,513	712,488	3,997,162
7 - 18 months	240,401	3,800,086	844,747	4,885,234
19 months - 3 years	371,566	1,476,347	964,784	2,812,697
After 3 years	4,756,603	4,980,468	6,870,896	16,607,967
	$ 5,486,731	$ 35,393,024	$ 10,353,111	$ 51,232,866

(4) Loans Receivable, Continued

Allowance for Loan Losses

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

	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	2011	2010
Balance - beginning of year	$ 2,860,520	$ 23,201,392	$ 6,640,408	$ 32,702,320	$ 36,193,390
(Recovery of) provision for loan losses	(117,154)	(1,744,771)	772,193	(1,089,732)	(3,419,092)
Reclassification	-	358,436	-	358,436	-
Write-off of loans	-	-	(376,699)	(376,699)	(71,978)
Balance - end of year	$ 2,743,366	$ 21,815,057	$ 7,035,902	$ 31,594,325	$ 32,702,320

(5) Finance Lease Receivable

Direct financing lease receivables are comprised of the following:

Finance lease receivables	$ 1,283,293
Less: unearned finance lease income	455,399
Finance lease receivables, net	$ 827,894

CDA leases certain foreclosed real estate properties for periods ranging from ten to twenty-five years under direct finance leases. The leases bear interest at fixed rates ranging from 4.5% to 5.0% and provide options to purchase at $1 plus the outstanding lease receivable and related accrued interest. Finance lease income for the years ended September 30, 2011 and 2010 amounted to $23,963 and $37,153, respectively. Future minimum lease rentals and future minimum lease income under these arrangements as of September 30, 2011, are as follows:

Year ending September 30,	Minimum Lease Rentals	Minimum Lease Income	Net Amount
2012	$ 73,550	$ 28,054	$ 45,496
2013	73,550	28,054	45,496
2014	78,050	28,054	49,996
2015	78,350	27,934	50,416
2016	78,350	27,934	50,416
Thereafter	901,443	315,369	586,074
	$ 1,283,293	$ 455,399	$ 827,894

(6) Due to Related Party

On March 11, 2008, CDA and the CNMI Department of Finance (DOF) entered into a Memorandum of Agreement to resolve certain tax liens that remained in place against property owned by CDA in anticipation of the sale of the property and division of sales proceeds therefrom. On March 24, 2011, a release of tax liens was issued by DOF for liens against four parcels of real property for the agreed consideration of $500,000. These tax liens are subordinate to certain mortgages foreclosed by CDA. At September 30, 2011 and 2010, CDA recorded a liability of $-0- and $500,000, respectively.

(7) Preferred Stock With Related Party

A Memorandum of Agreement (MOA) was established between CDA and Commonwealth Utilities Corporation (CUC) on November 21, 2002, as amended in January 2004, to waive a portion of the capital development loans receivable and to provide for the conversion into equity ownership of the balance. Public Laws 13-35, 13-36 and 16-17 were enacted to effectuate the settlement of disputes between CDA and CUC as required by the MOA.

On May 7, 2009, CUC and CDA, entered into a Preferred Stock Agreement (the Agreement) to effectuate the terms and conditions of the MOA by requiring CUC to issue shares of cumulative, non-convertible and non-transferrable preferred stock of $45,000,000 to CDA and yielding annual dividends of two percent. The Commonwealth Public Utilities Commission approved the Agreement on September 3, 2009. The Agreement provides CUC the right to purchase from CDA up to $16,200,000 of the $45,000,000 preferred stock through offset against CUC’s future, internally-funded capital improvement projects. Subject to CUC purchase exception, CDA shall not transfer any of its rights, title or interest to such preferred stock. Further, the Agreement provides for deferral of the dividend payments for the first three years after issuance, with such deferred dividend payments being amortized, interest free, over a fifteen-year period. Dividends are to be paid to CDA beginning October 1, 2012. The Agreement cancels and discharges the indebtedness of CUC to CDA of $61,568,750 in principal and $138,670,797 in accrued interest, including related late charges and any other charges owed by CUC on the capital development loans.

CUC issued to CDA forty-five shares of preferred stock with a par value of $1,000,000 per share for a total aggregate value of $45,000,000 dated September 28, 2009. The preferred stock yields guaranteed dividends at two percent per annum payable quarterly in advance. The dividends of the preferred stock are cumulative from and after October 1, 2009 and bear no interest. CDA has taken the position that the value of the preferred stock represents the net present value of the future stream of dividend payments required by CUC and not the face value of the stock itself. At September 30, 2011 and 2010, CDA has recorded an investment of $11,309,651, with a corresponding 100% valuation allowance, based on the discounted cash flows of the future dividend payments at 6.27% per annum.

Future receipts (which do not factor in CUC’s right to purchase up to $16,200,000 of preferred stock through offset against CUC’s future, internally-funded capital improvement projects) for subsequent fiscal years are as follows:

(7) Preferred Stock With Related Party, Continued

Year ending September 30,	Principal Amount	Interest	Total
2012	$ -	$ -	$ -
2013	875,589	204,411	1,080,000
2014	822,775	257,225	1,080,000
2015	773,147	306,853	1,080,000
2016	726,512	353,488	1,080,000
2017 - 2021	3,025,766	2,374,234	5,400,000
2022 - 2026	2,216,869	3,183,131	5,400,000
2027 - 2031	1,414,594	3,265,406	4,680,000
2032 - 2036	991,673	3,508,327	4,500,000
2037 - 2039	462,726	2,237,274	2,700,000
	$ 11,309,651	$ 15,690,349	$ 27,000,000

(8) Property and Equipment

Property and equipment consist of the following at September 30, 2011 and 2010:

Development Corporation Division

	Estimated Useful Lives	Balance at October 1, 2010	Additions	Deletions	Balance at September 30, 2011
Structure and improvements	7 years	$ 475,959	$ -	$ -	$ 475,959
Vehicles/office equipment	3 - 5 years	86,838	8,835	(2,444)	93,229
Computer equipment	3 - 5 years	69,946	7,668	(24,693)	52,921
Furniture and fixtures	7 years	118,424	-	-	118,424
		751,167	16,503	(27,137)	740,533
Less accumulated depreciation		(724,009)	(8,920)	26,184	(706,745)
		$ 27,158	$ 7,583	$ (953)	$ 33,788

	Estimated Useful Lives	Balance at October 1, 2009	Additions	Deletions	Balance at September 30, 2010
Structure and improvements	7 years	$ 475,959	$ -	$ -	$ 475,959
Vehicles/office equipment	3 - 5 years	140,459	995	(54,616)	86,838
Computer equipment	3 - 5 years	126,222	1,370	(57,646)	69,946
Furniture and fixtures	7 years	125,619	-	(7,195)	118,424
		868,259	2,365	(119,457)	751,167
Less accumulated depreciation		(835,114)	(8,288)	119,393	(724,009)
		$ 33,145	$ (5,923)	$ (64)	$ 27,158

(8) Property and Equipment, Continued

Northern Marianas Housing Corporation

	Estimated Useful Lives	Balance at October 1, 2010	Additions	Deletions	Balance at September 30, 2011
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,488,338	$ 1,950	$ -	$ 2,490,288
Section 8 Koblerville Housing	30 years	1,947,367	1,825	-	1,949,192
Section 8 Rota Housing	30 years	1,184,097	1,835	-	1,185,932
Section 8 Tinian Housing	30 years	1,071,528	27	-	1,071,555
Section 8 Housing Phase II	30 years	636,829	875	-	637,704
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,928,674	6,512	-	7,935,186
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	478,231	380,000	-	858,231
Equipment and computers	3 - 8 years	570,568	12,406	-	582,974
Vehicles	3 years	150,477	-	-	150,477
		4,022,767	392,406	-	4,415,173
		11,951,441	398,918	-	12,350,359
Less accumulated depreciation		(10,359,556)	(350,599)	-	(10,710,155)
		$ 1,591,885	$ 48,319	$ -	$ 1,640,204

	Estimated Useful Lives	Balance at October 1, 2009	Additions	Deletions	Balance at September 30, 2010
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,480,870	$ 7,468	$ -	$ 2,488,338
Section 8 Koblerville Housing	30 years	1,944,074	3,293	-	1,947,367
Section 8 Rota Housing	30 years	1,176,787	7,310	-	1,184,097
Section 8 Tinian Housing	30 years	1,070,025	1,503	-	1,071,528
Section 8 Housing Phase II	30 years	635,929	900	-	636,829
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,908,200	20,474	-	7,928,674
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	478,231	-	-	478,231
Equipment and computers	3 - 8 years	564,377	6,191	-	570,568
Vehicles	3 years	150,477	-	-	150,477
		4,016,576	6,191	-	4,022,767
		11,924,776	26,665	-	11,951,441
Less accumulated depreciation		(9,989,616)	(369,940)	-	(10,359,556)
		$ 1,935,160	$ (343,275)	$ -	$ 1,591,885

NMHC also holds title to approximately 338,000 square meters of land as follows:

1. Lot 014 R 01, containing an area of 31,407 square meters, more or less, and the improvements thereon, located at As Liyo, Rota, CNMI.

(8) Property and Equipment, Continued

Northern Marianas Housing Corporation, Continued

2. Lot 021 T 03, containing an area of 143,623 square meters, more or less, located at San Jose, Tinian, CNMI.

3. Lot 021 T 01, containing an area of 26,250 square meters, more or less, and the improvements thereon, located at San Jose, Tinian, CNMI.

4. Lot 005 I 001, containing an area of 40,554 square meters, more or less, and the improvements thereon, located at Koblerville, Saipan, CNMI.

5. Lot 014 D 75, containing an area of 10,923 square meters, more or less, located at Garapan, Saipan, CNMI.

6. Lot 003 D 27, and a portion of Lot 014 D 75, collectively containing an area of 5,824 square meters, more or less, located at Garapan, Saipan, CNMI.

7. Lot 003 D 22, containing an area of 1,022 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

8. Lot 003 D 16, containing an area of 1,022 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

9. Lot 071 D 01, containing an area of 37,145 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

10. Lot 014 D 01, containing an area of 39,816 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

The above land was acquired at no cost and 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 $7,388,182 and $9,650,313 at September 30, 2011 and 2010, respectively. NMHC recorded an impairment loss on land of $2,262,131 and $-0- based on broker's opinions obtained during the years ended September 30, 2011 and 2010, respectively. 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.

(9) Foreclosed Real Estate

A summary of the changes in foreclosed real estate and the related valuation allowance as of September 30, 2011 and 2010 is as follows:

(9) Foreclosed Real Estate, Continued

	Development Corporation Division For Sale	Development Corporation Division For Lease	Northern Marianas Housing Corporation	2011	2010
Foreclosed Real Estate:					
Balance at beginning of year	$ 1,966,460	$ 1,858,000	$ 554,042	$ 4,378,502	$ 4,336,115
Additions	34,700	232,000	1,418,078	1,684,778	811,619
Deletions	(1,144,000)	(240,000)	(264,740)	(1,648,740)	(773,232)
Reclassifications	(106,000)	106,000	-	-	-
Increase (decline) in market value	-	-	-	-	4,000
	751,160	1,956,000	1,707,380	4,414,540	4,378,502
Valuation allowance	(240,580)	(1,099,506)	-	(1,340,086)	(1,775,547)
Balance at end of year	$ 510,580	$ 856,494	$ 1,707,380	$ 3,074,454	$ 2,602,955

	Development Corporation Division For Sale	Development Corporation Division For Lease	Northern Marianas Housing Corporation	2011	2010
Valuation Allowance:					
Balance at beginning of year	$ 818,230	$ 957,317	$ -	$ 1,775,547	$ 1,743,230
(Recoveries) provisions	(544,650)	228,316	-	(316,334)	673,053
Write-offs	-	(119,127)	-	(119,127)	(640,736)
Reclassification	(33,000)	33,000	-	-	-
Balance at end of year	$ 240,580	$ 1,099,506	$ -	$ 1,340,086	$ 1,775,547

(10) Note Payable to Related Party

	2011	2010
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 (AMP), and is being repaid from investment earnings of MPLT's AMP Fund pursuant to CNMI Public Law 11-72. As of September 30, 2011 and 2010, CDA recorded other income of $208,755 and $206,489, respectively.	$ 1,120,943	$ 1,252,843

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

Year ending September 30,	Principal Balance	Interest	Total
2012	$ 140,300	$ 68,176	$ 208,476
2013	148,700	58,571	207,271
2014	157,100	48,610	205,710
2015	165,500	38,103	203,603
2016	173,900	27,128	201,028
2017 - 2018	335,443	19,112	354,555
	$ 1,120,943	$ 259,700	$ 1,380,643

(10) Note Payable to Related Party, Continued

Changes in notes payable for the years ended September 30, 2011 and 2010, are as follows:

	Balance October 1, 2010	Additions	Reductions	Balance September 30, 2011	Due Within One Year
DBD	$ 1,252,843	$ -	$ (131,900)	$ 1,120,943	$ 140,300

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One Year
DBD	$ 1,374,243	$ -	$ (121,400)	$ 1,252,843	$ 131,900

(11) Contributions to the CNMI

On June 8, 2010, a State of Emergency was declared by the Governor of the CNMI due to the imminent incapacity of CUC to provide critical power generation service to the CNMI and the extreme, immediate threat that it poses. Article III §10 of the CNMI Constitution authorizes the Governor to take necessary steps to respond to emergencies. On June 9, 2010, the Governor reprogrammed certain amounts from CDA in response to the State of Emergency declaration. On June 17, 2010, CDA contributed $1,000,000 to the CNMI pursuant to the declaration of the State of Emergency.

On July 22, 2011, a State of Emergency was declared by the Acting Governor of the CNMI due to the imminent threat to the disruption of the delivery of critical health care services to the people of the CNMI. Article III, § 10 of the CNMI Constitution authorizes the Governor to take necessary steps to respond to emergencies and the Acting Governor requested that CDA transfer $1,700,000 to the CNMI for health services purposes. On July 26, 2011, CDA transferred the requested funds to the CNMI.

(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 (a) transfers to the CNMI for perimeter fencing and other facility improvements at the Sinapalo Elementary School pursuant to Public Law 16-24 of $96,865 and $255,629 for the years ended September 30, 2011 and 2010, respectively, (b) transfers to the CNMI Department of Public Safety for the purchase of vehicles for the benefit of the residents of the First Senatorial District pursuant to Public Law No. 14-2 of $-0- and $48,061 for the years ended September 30, 2011 and 2010, respectively, (c) transfers to the CNMI for capital projects of the CNMI First and Second Senatorial Districts pursuant to Public Law No. 13-56 of $30,176 and $121,465 for the years ended September 30, 2011 and 2010, respectively, and (d) transfers to the CNMI for renovations and repair of Tinian Municipal Buildings pursuant to Public Law No. 17-8 of $153,704 and $-0- for the years ended September 30, 2011 and 2010, respectively.

(13) Related Party Transactions

CDA maintains depository accounts in FDIC insured financial institutions. A Board member of CDA is currently the Vice President/Regional Manager of one of these financial institutions. CDA's deposits in this financial institution amounted to $11,972,963 and $14,341,968 as of September 30, 2011 and 2010, 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 one to fifty-five years. On February 10, 2010, CDA entered into a sublease agreement for a portion of its office space in Saipan. The sublease is through March 31, 2012 with monthly rentals of $1,646. Total lease income for the years ended September 30, 2011 and 2010 amounted to $81,367 and $41,185, respectively. Minimum future lease income for all leases is as follows:

Year ending September 30,	Minimum Lease Income Due
2012	$ 84,470
2013	66,272
2014	83,228
2015	65,300
2016	63,100
Thereafter	2,789,550
	$ 3,151,920

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 $7,200. The related lease agreement is expiring on February 28, 2012. Rental expense for these leases for each of the years ended September 30, 2011 and 2010 is $102,750 and 99,850, respectively.

Total minimum future rentals under these operating leases as of September 30, 2011 are as follows:

Year ending September 30,	
2012	$ 99,000
2013	96,000
2014	96,000
2015	96,000
2016	96,000
2017 - 2020	384,000
	$ 867,000

(14) Commitments and Contingencies, Continued

Contingencies

Contributions to the CNMI of $1,700,000 during the year ended September 30, 2011 were derived from investment earnings on the proceeds of a $140,000,000 bond issuance which was liquidated with U.S. federal grant funding restricted for approved construction projects. CDA did not obtain grantor approval for the transfer. As of September 30, 2011, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.

NMHC participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $1,769,272 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2011. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

NMHC has entered into an agreement with the USDA Rural Development (RD) whereby NMHC assists borrowers in obtaining RD financing for housing construction. The agreement requires NMHC to guarantee any deficiency in foreclosure proceeds should borrowers default on RD loans. As of September 30, 2011 and 2010, NMHC has guaranteed outstanding loans of $11,615,302 and $11,888,084, respectively, and the amount of delinquent loans related to the agreement was $5,687,054 and $5,419,055, respectively. As of September 30, 2011 and 2010, total delinquent loans with demand notices from RD were $397,331 and $1,326,216, respectively, for which NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of $1,378,744 and $2,024,656, respectively, in the accompanying financial statements.

In June 2008, NMHC entered into an agreement with RD to resolve forty-eight seriously delinquent guaranteed loans totaling $3,126,371. The agreement was established to outline steps and terms to liquidate defaulted RD loans. On November 2, 2010, NMHC entered into a settlement agreement with RD to settle thirty-two of the forty-eight guaranteed loans. NMHC paid $1,326,216 to RD and recorded foreclosed properties based on the lower of cost or market value and recorded a decrease in the reserve for loan guaranty and a recovery from loan guaranty of $1,326,216. The recovery for loan guaranty was later reduced by $680,304 based on potential additional delinquencies. Any eventual payout related to the remaining sixteen guaranteed loans cannot be presently determined.

As of September 30, 2011 and 2010, total restricted cash and cash equivalents which serve as escrow accounts for RD loans or will pay amounts due to RD pursuant to the agreement amounted to $1,096,538 and $2,169,557, respectively. This amount is included in "restricted cash and cash equivalents" in the accompanying financial statements. NMHC may not have sufficient liquid assets to meet its RD agreement guarantee if RD accelerates demand notices on additional delinquent loans. The amount of potential obligations arising from this matter cannot presently be determined.

(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, 2011 and 2010, NMHC was contingently liable for $868,640 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, 2011 and 2010 was $100 and $13,211, respectively, which is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2011 and 2010, the total defaulted loans related to this arrangement were $208,322.

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, 2011 and 2010, NMHC was contingently liable to these institutions for $1,938,744 and $2,392,896, respectively. As of September 30, 2011 and 2010, the total defaulted loans related to these arrangements were $313,159 and $371,635, respectively.

(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

In November 2011, a financial institution and a corporation organized under the laws of CNMI entered into an interim loan agreement, whereby the financial institution agreed to lend the corporation $600,000. The loan was guaranteed by the stockholders of the corporation pursuant to an unconditional guaranty and secured by a pledge agreement made by CDA in favor of the financial institution. CDA has pledged a cash deposit of $600,000 to the financial institution. On November 16, 2011, CDA transferred $600,000 to the financial institution to fulfill its obligation under the pledge agreement.

On March 14, 2012, the U.S. Department of Treasury allocated $13,168,350 to the CNMI as the Participating State under Allocation Agreement No. 2011SSBCIIMP-A with the approved program, State Small Business Credit Initiative (CNMI SSBCI). The purpose of the CNMI SSBCI is to assist small businesses by leveraging private capital. On June 25, 2012, the CNMI Department of Commerce, Responsible Agency of CNMI SSBCI, and CDA entered into a Memorandum of Understanding (MOU) which provides for the operation of the CNMI SSBCI. Under the MOU, CDA shall serve as the Implementing Agency and is the host institution and shall operate and maintain an SSBCI Center as a Service Center, which is responsible for furnishing and delivering the CNMI SSBCI program services. The Loan Manager of CDA shall serve as the Administrator of the SSBCI Center.

(16) Subsequent Events, Continued

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. Authorization of participation has not been obtained from the U.S. Government. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On July 24, 2012, a binding and unappealable judgment was issued on a lawsuit filed against the architects, the construction manager and the contractor for deficiencies in the design and construction of homes in the Tottotville Subdivision, which awarded NMHC $694,851 in damages. Due to uncertainties, NMHC has elected to record this award upon receipt of cash.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Net Assets
September 30, 2011

ASSETS	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Elimination Entries	Total
Current assets:					
Cash and cash equivalents	$ -	$ 4,307,205	$ 710,662	$ -	$ 5,017,867
Receivables:					
Current portion of loans receivable, net	237,077	4,393,480	685,613	-	5,316,170
Finance lease, net	-	45,496	-	-	45,496
Rent, net	-	-	141,564	-	141,564
Accrued interest, net	16,087	9,585	97,375	-	123,047
Other, net	-	49,249	63,579	-	112,828
Due from grantor agency	-	-	31,590	-	31,590
Prepaid expenses	-	399	-	-	399
Total current assets	253,164	8,805,414	1,730,383	-	10,788,961
Other assets:					
Cash and cash equivalents, restricted	3,260,556	-	2,617,558	-	5,878,114
Time certificates of deposit, restricted	1,000,000	-	-	-	1,000,000
Total other assets	4,260,556	-	2,617,558	-	6,878,114
Noncurrent assets:					
Loans receivable, net of current portion	2,506,288	9,184,487	2,631,596	-	14,322,371
Finance lease, net of current portion	-	782,398	-	-	782,398
Property and equipment, net	-	33,788	1,640,204	-	1,673,992
Land	-	-	7,388,182	-	7,388,182
Foreclosed real estate, net	-	1,367,074	1,707,380	-	3,074,454
Total noncurrent assets	2,506,288	11,367,747	13,367,362	-	27,241,397
	$ 7,020,008	$ 20,173,161	$ 17,715,303	$ -	$ 44,908,472
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current installment of notes payable to related party	$ 140,300	$ -	$ -	$ -	$ 140,300
Accounts payable and accrued expenses	-	160,233	1,501,453	-	1,661,686
Deferred revenues	-	59,100	-	-	59,100
Reserve for loan guaranty	-	-	1,378,744	-	1,378,744
Total current liabilities	140,300	219,333	2,880,197	-	3,239,830
Notes payable to related party, net of current installments	980,643	-	-	-	980,643
Deferred revenues, net of current portion	-	668,175	5,659,575	-	6,327,750
Total liabilities	1,120,943	887,508	8,539,772	-	10,548,223
Net assets:					
Invested in capital assets	-	1,400,862	10,735,766	-	12,136,628
Restricted	5,899,065	17,884,791	(1,560,235)	-	22,223,621
Total net assets	5,899,065	19,285,653	9,175,531	-	34,360,249
	$ 7,020,008	$ 20,173,161	$ 17,715,303	$ -	$ 44,908,472

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2011

	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Elimination Entries	Total
Operating revenues:					
LIHTC Program Grant	$ -	$ -	$ 23,981,996	$ -	23,981,996
Section 8 income:					
Federal housing assistance rentals	-	-	5,053,009	-	5,053,009
Tenant share	-	-	110,468	-	110,468
CDBG Program	-	-	3,864,549	-	3,864,549
Interest and fees on loans	140,048	426,250	248,654	-	814,952
Recovery from loan guaranty	-	-	645,912	-	645,912
HOME Investment Partnership Program Grant	-	-	638,281	-	638,281
HOME Investment Partnership Grant program income	-	-	443,069	-	443,069
NSP Grant	-	-	132,621	-	132,621
HPRP Grant	-	-	88,528	-	88,528
ESG Program	-	-	49,061	-	49,061
Interest on investments	22,108	10,533	-	-	32,641
Other	-	164,706	14,037	(32,432)	146,311
	162,156	601,489	35,270,185	(32,432)	36,001,398
Recovery of loan impairment (bad debts)	117,154	1,744,771	(772,193)	-	1,089,732
Recovery of foreclosed real estate	-	316,334	-	-	316,334
Net operating revenues	279,310	2,662,594	34,497,992	(32,432)	37,407,464
Operating expenses:					
LIHTC Program Grant	-	-	23,981,996	-	23,981,996
CDBG Program	-	-	3,864,549	-	3,864,549
Section 8 rental	-	-	3,324,558	-	3,324,558
HOME Investment Partnership Program Grant	-	-	638,281	-	638,281
HOME Investment Partnership Grant program income	-	-	443,069	-	443,069
NSP Grant	-	-	132,621	-	132,621
HPRP Grant	-	-	88,528	-	88,528
ESG Program	-	-	49,061	-	49,061
Operations:					
Salaries and wages	-	540,832	555,536	-	1,096,368
Repairs and maintenance	-	2,232	423,405	-	425,637
Depreciation	-	8,920	350,599	-	359,519
Utilities	-	23,630	335,387	-	359,017
Employee benefits	-	183,880	143,394	-	327,274
Professional fees	330	106,339	133,213	-	239,882
Rent	-	106,978	12,000	-	118,978
Travel	-	14,478	43,331	-	57,809
Other	32,432	72,463	160,820	(32,432)	233,283
Total operating expenses	32,762	1,059,752	34,680,348	(32,432)	35,740,430
Operating income (loss)	246,548	1,602,842	(182,356)	-	1,667,034
Nonoperating revenues (expenses):					
Other income	208,755	-	-	-	208,755
Interest income	-	-	9,178	-	9,178
Impairment loss on land	-	-	(2,262,131)	-	(2,262,131)
Contribution to the CNMI	(1,700,000)	-	-	-	(1,700,000)
Interest expense	(76,856)	-	-	-	(76,856)
Loss on sale of foreclosed properties	-	-	(5,000)	-	(5,000)
Other expense	-	(34,449)	-	-	(34,449)
Total nonoperating revenues (expenses), net	(1,568,101)	(34,449)	(2,257,953)	-	(3,860,503)
Income (loss) before transfers	(1,321,553)	1,568,393	(2,440,309)	-	(2,193,469)
Transfers out for capital development grants	(280,745)	-	-	-	(280,745)
Change in net assets	(1,602,298)	1,568,393	(2,440,309)	-	(2,474,214)
Net assets - beginning	7,501,363	17,717,260	11,615,840	-	36,834,463
Net assets - ending	$ 5,899,065	$ 19,285,653	$ 9,175,531	$ -	$ 34,360,249

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2011

	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Elimination Entries	Total
Cash flows from operating activities:					
Cash received from interest and fees on loans receivable	$ 137,691	$ 413,451	$ 304,572	$ -	$ 855,714
Interest and dividends on investments	35,613	14,761	-	-	50,374
Cash payments to suppliers for goods and services	(330)	(291,488)	(10,735)	-	(302,553)
Cash received from customers	-	164,923	95,240	-	260,163
Cash payments to employees for services	-	(724,712)	(555,536)	-	(1,280,248)
Cash received from federal grant awards	-	-	33,654,263	-	33,654,263
Cash payments from federal grant awards	-	-	(32,783,318)	-	(32,783,318)
Net cash provided by (used for) operating activities	172,974	(423,065)	704,486	-	454,395
Cash flows from capital and related financing activities:					
Net interdivisional transactions	(32,432)	32,432	-	-	-
Acquisition of property and equipment	-	(16,503)	(398,918)	-	(415,421)
Acquisition of foreclosed real estate	-	-	(1,326,216)	-	(1,326,216)
Proceeds from disposal of property and equipment	-	500	-	-	500
Net receipts of loans receivable	234,310	717,589	50,380	-	1,002,279
Contribution to the CNMI	(1,700,000)	-	-	-	(1,700,000)
Transfers to CNMI	-	(11,996)	-	-	(11,996)
Transfers for capital development grants	(280,745)	-	-	-	(280,745)
Net cash (used for) provided by capital and related financing activities	(1,778,867)	722,022	(1,674,754)	-	(2,731,599)
Cash flows from investing activities:					
Net proceeds from restricted cash and cash equivalents and time certificates of deposit	1,605,893	646,978	810,098	-	3,062,969
Interest received	-	-	9,178	-	9,178
Net cash provided by investing activities	1,605,893	646,978	819,276	-	3,072,147
Net increase (decrease) in cash and cash equivalents	-	945,935	(150,992)	-	794,943
Cash and cash equivalents at beginning of year	-	3,361,270	861,654	-	4,222,924
Cash and cash equivalents at end of year	$ -	$ 4,307,205	$ 710,662	$ -	$ 5,017,867
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ 246,548	$ 1,602,842	$ (182,356)	$ -	$ 1,667,034
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
(Recovery of loan impairment) bad debts	(117,154)	(1,744,771)	772,193	-	(1,089,732)
Recovery of foreclosed real estate	-	(316,334)	-	-	(316,334)
Provision for loan guaranty	-	-	(645,912)	-	(645,912)
Expenses allocated from DCD to DBD	32,432	(32,432)	-	-	-
Depreciation	-	8,920	350,599	-	359,519
Loss on disposal of property and equipment	-	453	-	-	453
(Increase) decrease in assets:					
Receivables:					
Rent	-	-	(33,489)	-	(33,489)
Other	-	(60,431)	4,223	-	(56,208)
Accrued interest	11,148	(8,571)	55,918	-	58,495
Prepaid expenses	-	(69)	-	-	(69)
Increase (decrease) in liabilities:					
Accounts payable and accrued expenses	-	34,248	980,161	-	1,014,409
Deferred revenues	-	93,080	-	-	93,080
Due from/to grantor agency	-	-	(596,851)	-	(596,851)
Net cash provided by (used for) operating activities	$ 172,974	$ (423,065)	$ 704,486	$ -	$ 454,395
Supplemental disclosure of noncash capital and related financing activities:					
Recognition of foreclosed properties:					
Noncash increase (decrease) in foreclosed real estate	$ -	$ 266,700	$ (167,878)	$ -	$ 98,822
Noncash (decrease) increase in loans receivable	-	(266,700)	167,878	-	(98,822)
	$ -	$ -	$ -	$ -	$ -
Loan payable to MPLT:					
Noncash decrease in note payable to related party	$ 131,900	$ -	$ -	$ -	$ 131,900
Noncash interest expense	76,856	-	-	-	76,856
Noncash other income	(208,756)	-	-	-	(208,756)
	$ -	$ -	$ -	$ -	$ -

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