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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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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, 2012 and 2011, 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 also 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, the financial statements referred to previously present fairly, in all material respects, the financial position of the Commonwealth Development Authority as of September 30, 2012 and 2011 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 August 19, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We did not audit and do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. However, we have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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 opinions on the Commonwealth Development Authority's 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, 2012 (pages 43 through 45) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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, 2012 are fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLC

August 19, 2013

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Management's Discussion and Analysis
Year Ended September 30, 2012

The Management's Discussion and Analysis of the Commonwealth Development Authority's (CDA) financial performance provides an overview of CDA's financial activity for the fiscal year ended September 30, 2012, with selected comparative information for the fiscal years ended September 30, 2011 and 2010. 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 who are appointed for staggered four-year terms by the Governor of the CNMI. CDA maintains its main office in Saipan and a branch in Rota. The Tinian branch is temporarily closed.

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 granting loans and 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, 2012, DCD's net loans receivable was $11,296,641, which was a decrease of $2,281,326 or 17% compared to 2011. 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. The cause of the net decrease in fiscal year 2012 can be attributed partly to the CDA Board of Directors' decision to implement a loan moratorium. Also, several loan revisions due to loan judgments, a 2% debt relief program, asset foreclosures and delinquent loan accounts contributed to an increase in the allowance account. In fiscal year 2011, the increase was due to several large loans approved and disbursed by CDA.

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 6 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 of the loans' underlying collateral. The March 2011 Japan triple disaster as well as the 9/11 attacks, the SARS epidemic, the Iraq and Afghanistan wars and sharp increases in fuel prices had negatively impacted the CNMI's tourist-based economy, which is heavily reliant on the Japan tourist market. 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 $11,296,641 in 2012 and $13,577,967 in 2011. Total (bad debts) recoveries were $(2,609,625) and $1,744,771 in 2012 and 2011, respectively. These figures represent the estimated potential loss of value of the loans and accrued interest for the respective fiscal years. The increase in bad debts for fiscal year 2012 was primarily due to several deficiency judgments and foreclosures via the 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 the Commonwealth Utilities Corporation (CUC) and the Department of Public Works (DPW). 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 the 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 filed litigation against the contractor and the construction manager. Court hearings are ongoing with the latest held on September 8, 2011.

A binding mediation/arbitration was held from June 4 to June 11, 2012 and the defendants and plaintiffs (NMHC and the homeowners) were present with their expert witnesses and attorneys. The purpose of the mediation/arbitration was to attempt settlement after experts testified and, if unsuccessful, to issue a binding non-appealable decision.

On July 24, 2012, the Court ordered that damages of $694,851 be awarded to NMHC, $3,779,476 to the Castro homeowners and $513,704 to the Flores homeowners. The Castro and Flores homeowners were also awarded reasonable attorney fees and costs. Defendants were held jointly and severally liable for the awards granted to NMHC and the Castro homeowners. One defendant was solely liable for the award granted to the Flores homeowners, as they have already settled with other defendants.

Another major concern is Public Law (PL) 15-48 which was signed into law on March 13, 2007. The 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 U.S. Department of Housing and Urban Development (HUD)-funded HOME Program policies and procedures and, as a result, twelve rehabilitation loans/grants and twenty-one new construction/deferred loans have been entertained and/or presented to the Board of Directors for approval in fiscal year 2012. 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 Commonwealth of the Northern Mariana Islands (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.

In fiscal year 2012, the Mortgage & Credit Division successfully auctioned off twelve properties arising from the purchased loans accelerated accounts agreement with USDA RD. In addition, eight accounts were leased. The following table lists auctioned and leased properties by location and amount.

NMHC, Continued

Mortgage & Credit Division, Continued

Location	Number of Properties Auctioned	Amount	Number of Properties Leased	Amount
Dandan	-	$ -	1	$ 21,936
Kagman	4	174,139	1	111,417
Koblerville	3	100,200	1	100,620
Rota	-	-	1	34,400
Sadog Tasi	1	32,419	-	-
San Jose	-	-	1	112,207
San Vicente	3	163,986	-	-
Sugar King	1	51,107	-	-
Tanapag	-	-	2	152,224
Tinian	-	-	1	86,590
TOTAL	**12**	**$ 521,851**	**8**	**$ 619,394**

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. NMHC used this grant to address the problems created by foreclosed and abandoned homes. Foreclosed homes have been acquired, rehabilitated and resold to low-income families. Through the NSP Program, NMHC 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 Dandan). The rehabilitation work was completed in December 2010 and as of September 30, 2012 all properties have been sold.

On March 14, 2011, NMHC signed an agreement with HUD to administer the NSP3 Program. The grant amounted to $300,002 and will be used to rehabilitate five properties in Kagman, one property in Tinian and one property in Rota.

NMHC also administers the U.S. Department of Veterans Affairs' Native American Direct Loan Program and the USDA's Section 504 Program. In fiscal year 2012, the Mortgage & Credit Division presented to the Board of Directors, and the Board of Directors approved, two loans of which one successfully closed within the fiscal year.

Type of Assistance	2012		2010 through 2012	
	Number of Loans	Amount	Number of Loans	Amount
Deferred	6	$ 319,030	14	$ 763,830
Direct	10	534,400	18	955,200
Grant	2	80,000	11	443,910
Loan and grant	1	40,000	12	480,000
TOTAL	**19**	**$ 973,430**	**55**	**$ 2,642,940**

NMHC, Continued

Program and Housing Division

A. Saipan Housing Choice Voucher (HCV) Program

In fiscal year 2012, the HCV Program utilized three hundred, twenty-four vouchers. Nine vouchers were for applicants previously on the waiting list. In addition, there were eleven families who ended their participation, four port-out families and one port-in family for the year ended September 30, 2012. 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 2012, Mihaville had forty-four 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 continued turnover of tenants due to tenant requests to relocate. 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

For fiscal year 2012, the Rota Field Office registered only two families who ended their participation. At the end of the fiscal year, the island had eighteen families participating in the Section 8 HCV program.

B. Rota Multi-Family/New Construction Program

The NMHC Rota Multi-Family/New Construction Program is improving its leasing efforts. At the end of fiscal year 2012, twenty of thirty housing units at the Liyo' Housing Subdivision were occupied. This figure translates to a 66.66% occupancy rate which is a 50% increase from fiscal year 2011.

C. Short-Term Goals

The goal of NMHC Rota Field Office is to increase the occupancy rate at the Liyo' Housing Subdivision. 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 to the units, such as basic furnishings (beds, dining tables, etc.), community gardens, playgrounds or picnic grounds and improving lighting conditions at night to attract qualified families. Finally, the NMHC Rota Field Office will continue to work with the Mayor's Office, 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.

NMHC, Continued

Tinian Field Office

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

1. The Tinian Multi-Family/New Construction Program has twenty occupied units; however, turnover of tenants still exists due to tenants gaining employment. Tenants prefer to move to inexpensive apartment units, despite the condition. In the past, people have been reluctant to apply to the program but with ongoing renovation and maintenance of the units, NMHC has managed to keep units occupied. People used to visualize the area as a "ghetto" but that outlook has changed.

2. There were five vouchers issued; however, only one is being utilized on Tinian as the other four were transferred to Saipan. There have been inquires as students from Tinian enrolled at Northern Marianas College relocate to Saipan. People are still encouraged to apply to the program even if there is a shortage of vouchers. This is one way for us to justify requesting for additional vouchers for Tinian. Some applicants request to be included on both waiting lists. The waiting list for this island has been separated and our office will continue to work closely with the Program and Housing Division to issue more vouchers to eligible Tinian residents interested in participating in the Section 8 HCV Program.

B. Loans

1. The Tinian Field Office continues to work with applicants whose loans were approved but remain unclosed. There are also new applications for renovation or construction of new homes. The delay is due to the changes in the HOME Program policies and procedures and the additional requirement of environmental assessment on the properties.

2. One of the goals is to work with management and local leadership to address the needs of the new homesteaders. There were four hundred seventy-five homestead applicants that drew homestead properties in various areas around Tinian; however, the survey for these lots have not been conducted.

C. Short-Term Goals

Short-term goals for the Tinian Field Office are to a) continue to work with the Saipan office to increase the number of vouchers; b) improve the outlook of the Section 8 housing area; c) continue to work with families in maintaining ownership of the units so that safe and sanitary conditions are maintained; d) reduce renovation costs; and e) upgrade the basketball court.

Community Development Block Grant (CDBG)

In fiscal year 2012, NMHC received $1,036,852 in CDBG funding. As stated in NMHC's Annual Action 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 (neighborhood revitalization, particularly in the villages of Garapan and Chalan Kanoa)

In fiscal year 2012, the construction of the new Koblerville Junior High School facility was selected and the school gymnasium will be the first facility within the campus to be built.

NMHC, Continued

Emergency Shelter Grant (ESG)

In fiscal year 2012, NMHC received $94,667 in ESG funding. As in previous years, the funding was used for operational costs and essential services of the Division of Youth Services (DYS) shelter and the Guma Esperansa domestic violence shelter. Guma Esperansa serves women and 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. Additionally, certain funds were subgranted to Karidat Social Services to serve households who qualify for rapid re-housing and homelessness prevention assistance.

Homeless Prevention and Rapid Re-Housing Program (HPRP)

The HPRP grant close-out date was on July 10, 2012. The CNMI assisted nearly two hundred families with rapid re-housing and homelessness prevention assistance.

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

The CDBG-R grant close-out date was on September 30, 2012. The CNMI completed a total of six projects with CDBG-R funding.

Economic Development Initiative (EDI) Program

The CNMI received $200,000 from the Economic Development Initiative, in which NMHC and the Joeten-Kiyu Public Library worked together to initiate the roof rehabilitation of the Joeten-Kiyu Public Library project. The EDI grant agreement was executed on January 1, 2011. Due to the lengthy planning process, an environmental assessment was not completed until January 12, 2012. Upon undergoing the procurement process, a contractor was selected and the notice to proceed was issued on September 4, 2012. The project duration is for twenty-six weeks. As with other HUD-funded programs, the EDI Program was created to fund economic development projects that will create jobs for low-moderate income individuals.

Low-Income Housing Projects in Lieu of Tax Credits (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 has developed a QAP for 2012. The tax credit allocated to the CNMI for 2012 was $2,895,004. The deadline to submit applications was on September 14, 2012.

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, 2012 follows, with comparative information as of and for the years ended September 30, 2011 and 2010:

Combined Statements of Net Assets
As of September 30, 2012, 2011 and 2010

	2012	2011	$ Change	% Change	2010
Current assets	$ 7,792,725	$ 10,788,961	$ (2,996,236)	-28%	$ 9,547,772
Other assets	8,179,493	6,878,114	1,301,379	19%	9,941,084
Capital assets	11,804,832	12,136,628	(331,796)	-3%	13,872,311
Noncurrent assets	14,539,198	15,104,769	(565,571)	-4%	13,451,676
Total assets	**$ 42,316,248**	**$ 44,908,472**	**$ (2,592,224)**	**-6%**	**$ 46,812,843**
Current liabilities	$ 4,940,041	$ 3,239,830	$ 1,700,211	52%	$ 3,882,223
Noncurrent liabilities	7,846,055	7,308,393	537,662	7%	6,096,157
Total liabilities	**12,786,096**	**10,548,223**	**2,237,873**	**21%**	**9,978,380**
Invested in capital assets	9,681,058	9,062,174	618,884	7%	11,269,356
Restricted	19,849,094	25,298,075	(5,448,981)	-22%	25,565,107
Total net assets	**29,530,152**	**34,360,249**	**(4,830,097)**	**-14%**	**36,834,463**
Total liabilities and net assets	**$ 42,316,248**	**$ 44,908,472**	**$ (2,592,224)**	**-6%**	**$ 46,812,843**

Combined Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012, 2011 and 2010

	2012	2011	$ Change	% Change	2010
Operating revenues	$ 11,966,896	$ 36,001,398	$ (24,034,502)	-67%	$ 8,046,824
(Bad debts) recoveries	(3,574,808)	1,406,066	(4,980,874)	-354%	2,486,358
Net operating revenues	**8,392,088**	**37,407,464**	**(29,015,376)**	**-78%**	**10,533,182**
Operating expenses	13,287,004	35,740,430	(22,453,426)	-63%	9,067,161
Operating (loss) income	**(4,894,916)**	**1,667,034**	**(6,561,950)**	**-394%**	**1,466,021**
Total nonoperating revenues (expenses), net	266,699	(3,860,503)	4,127,202	-107%	(817,851)
(Loss) income before transfers	**(4,628,217)**	**(2,193,469)**	**(2,434,748)**	**111%**	**648,170**
Transfers out for capital development grants	(201,880)	(280,745)	78,865	-28%	(377,993)
Change in net assets	**(4,830,097)**	**(2,474,214)**	**(2,355,883)**	**95%**	**270,177**
Net assets - beginning	34,360,249	36,834,463	(2,474,214)	-7%	36,564,286
Net assets - ending	**$ 29,530,152**	**$ 34,360,249**	**$ (4,830,097)**	**-14%**	**$ 36,834,463**

Combined Statements of Cash Flows
Years Ended September 30, 2012, 2011 and 2010

	2012	2011	$ Change	% Change	2010
Cash flows from operating activities	$ 614,780	$ 454,395	$ 160,385	35%	$ (1,019,069)
Cash flows from capital and related financing activities	(1,655,457)	(2,731,599)	1,076,142	-39%	(864,608)
Cash flows from investing activities	(1,286,254)	3,072,147	(4,358,401)	-142%	3,889,876
Net (decrease) increase in cash and cash equivalents	**(2,326,931)**	**794,943**	**(3,121,874)**	**-393%**	**2,006,199**
Cash and cash equivalents at beginning of year	5,017,867	4,222,924	794,943	19%	2,216,725
Cash and cash equivalents at end of year	**$ 2,690,936**	**$ 5,017,867**	**$ (2,326,931)**	**-46%**	**$ 4,222,924**

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, 2012 follows, with comparative information as of and for the years ended September 30, 2011 and 2010:

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012, 2011 and 2010

Development Banking Division

	2012	2011	$ Change	% Change	2010
Operating revenues:					
Interest on fees and loans	$ 134,524	$ 140,048	$ (5,524)	-4%	$ 144,687
Interest on investments	11,229	22,108	(10,879)	-49%	58,026
	145,753	162,156	(16,403)	-10%	202,713
Recoveries	117,646	117,154	492	0%	2,792,451
Net operating revenues	**263,399**	**279,310**	**(15,911)**	**-6%**	**2,995,164**
Operating expenses:					
Professional fees	-	330	(330)	-100%	2,564
Other	29,320	32,432	(3,112)	-10%	8,054
Total operating expenses	**29,320**	**32,762**	**(3,442)**	**-11%**	**10,618**
Operating income	**234,079**	**246,548**	**(12,469)**	**-5%**	**2,984,546**
Nonoperating revenues (expenses):					
Other income	208,477	208,755	(278)	-0%	206,489
Contribution to the CNMI	-	(1,700,000)	1,700,000	-100%	-
Interest expense	(68,176)	(76,856)	8,680	-11%	(85,089)
Total nonoperating revenues (expenses), net	**140,301**	**(1,568,101)**	**1,708,402**	**-109%**	**121,400**
Income (loss) before transfers	374,380	(1,321,553)	1,695,933	-128%	3,105,946
Transfer in to other funds	-	-			(1,050,715)
Transfers out for capital development grants	(201,880)	(280,745)	78,865	-28%	(1,377,993)
Change in net assets	**$ 172,500**	**$ (1,602,298)**	**$ 1,774,798**	**-111%**	**$ 677,238**

Development Corporation Division

	2012	2011	$ Change	% Change	2010
Operating revenues:					
Interest and fees on loans	$ 530,332	$ 426,250	$ 104,082	24%	$ 441,856
Interest on investments	8,892	10,533	(1,641)	-16%	13,389
Other	196,221	164,706	31,515	19%	78,337
	735,445	601,489	133,956	22%	533,582
(Bad debts) recoveries	(2,589,420)	2,061,105	(4,650,525)	-226%	550,526
Net operating revenues	**(1,853,975)**	**2,662,594**	**(4,516,569)**	**-170%**	**1,084,108**
Operating expenses:					
Salaries and wages	496,545	540,832	(44,287)	-8%	532,926
Provision for foreclosed real estate	-	-	-	0%	523,317
Employee benefits	267,873	183,880	83,993	46%	202,279
Professional fees	115,303	106,339	8,964	8%	113,675
Office rent	106,535	106,978	(443)	-0%	104,416
Travel	24,896	14,478	10,418	72%	23,099
Depreciation	18,859	8,920	9,939	111%	8,288
Other	111,106	98,325	12,781	13%	211,036
Total operating expenses	**1,141,117**	**1,059,752**	**81,365**	**8%**	**1,719,036**

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Assets, Continued
Years Ended September 30, 2012, 2011 and 2010, Continued

Development Corporation Division, Continued

	2012	2011	$ Change	% Change	2010
Operating (loss) income	**(2,995,092)**	**1,602,842**	**(4,597,934)**	**-287%**	**(634,928)**
Nonoperating revenues (expenses):					
Other income	(25,580)	-	(25,580)	-100%	9,719
Other expense	(11,207)	(34,449)	23,242	-67%	(11,498)
Total nonoperating revenues (expenses), net	**(36,787)**	**(34,449)**	**(2,338)**	**7%**	**(1,779)**
(Loss) income before transfers	(3,031,879)	1,568,393	(4,600,272)	-293%	(636,707)
Transfers out to other funds	-	-	-	0%	1,050,715
Change in net assets	**$ (3,031,879)**	**$ 1,568,393**	**$ (4,600,272)**	**-293%**	**$ 414,008**

Northern Marianas Housing Corporation

	2012	2011	$ Change	% Change	2010
Operating revenues	$ 11,115,018	$ 35,270,185	$ (24,155,167)	-68%	$ 7,351,071
Bad debts	(1,103,034)	(772,193)	(330,841)	43%	(183,566)
Net operating revenues	**10,011,984**	**34,497,992**	**(24,486,008)**	**-71%**	**7,167,505**
Operating expenses	12,145,887	34,680,348	(22,534,461)	-65%	8,051,102
Operating loss	**(2,133,903)**	**(182,356)**	**(1,951,547)**	**1070%**	**(883,597)**
Nonoperating revenues (expenses), net	163,185	(2,257,953)	2,421,138	-107%	519,139
Change in net assets	**$ (1,970,718)**	**$ (2,440,309)**	**$ 469,591**	**-19%**	**$ (364,458)**

Condensed Comparative Statements of Cash Flows
Years Ended September 30, 2012, 2011 and 2010

Development Banking Division

	2012	2011	$ Change	% Change	2010
Cash flows from operating activities	$ 155,006	$ 172,974	$ (17,968)	-10%	$ 96,782
Cash flows from capital and related financing activities	25,939	(1,778,867)	1,804,806	-101%	(2,319,257)
Cash flows from investing activities	(180,945)	1,605,893	(1,786,838)	-111%	2,222,475
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%**	**$ -**

Condensed Comparative Statements of Cash Flows
Years Ended September 30, 2012, 2011 and 2010, Continued

Development Corporation Division

	2012	2011	$ Change	% Change	2010
Cash flows from operating activities	$ (537,370)	$ (423,065)	$ (114,305)	27%	$ (797,923)
Cash flows from capital and related financing activities	(1,183,046)	722,022	(1,905,068)	-264%	1,350,861
Cash flows from investing activities	-	646,978	(646,978)	-100%	1,695,968
Net (decrease) increase in cash and cash equivalents	(1,720,416)	945,935	(2,666,351)	-282%	2,248,906
Cash and cash equivalents at beginning of year	4,307,205	3,361,270	945,935	28%	1,112,364
Cash and cash equivalents at end of year	**$ 2,586,789**	**$ 4,307,205**	**$ (1,720,416)**	**-40%**	**$ 3,361,270**

Northern Marianas Housing Corporation

	2012	2011	$ Change	% Change	2010
Cash flows from operating activities	$ 997,144	$ 704,486	$ 292,658	42%	$ (317,928)
Cash flows from capital and related financing activities	(498,350)	(1,674,754)	1,176,404	-70%	103,788
Cash flows from investing activities	(1,105,309)	819,276	(1,924,585)	-235%	(28,567)
Net (decrease) increase in cash and cash equivalents	(606,515)	(150,992)	(455,523)	302%	(242,707)
Cash and cash equivalents at beginning of year	710,662	861,654	(150,992)	-18%	1,104,361
Cash and cash equivalents at end of year	**$ 104,147**	**$ 710,662**	**$ (606,515)**	**-85%**	**$ 861,654**

FINANCIAL HIGHLIGHTS

DCD and DBD

- In 2012, DCD had net operating revenues of $(1,853,975) while DBD had $263,399. A significant part of the change in net operating revenues was due to additional allowances on deficiency judgments and foreclosures. DCD recorded bad debts of $2,609,625 in 2012 compared with recoveries of $1,744,771 in 2011. DBD recorded recoveries of $117,646 and $117,154 in 2012 and 2011, respectively, which brought the allowance for its loans to 49% and 50% in 2012 and 2011, respectively. Interest and fees earned on loans for DCD increased by $104,082 or 24% in fiscal year 2012 primarily due to several large loans approved and disbursed by CDA before the loan moratorium was implemented. In addition, large payments were also received from several delinquent loans via the efforts of the Loan Department. Interest and fees earned on loans for DCD in fiscal year 2011 decreased by $15,606 or 4%. DBD had a decrease of $5,524 or 4% in fiscal year 2012 compared to $4,639 or 3% in fiscal year 2011.

- Another area of concern is the decrease in earnings on investments suffered by each division as investments and interest rates continue to decline. DCD has not re-invested funds in time certificates of deposit since fiscal year 2011. Related earnings on investments decreased from $10,533 for the year ended September 30, 2011 to $8,892 for the year ended September 30, 2012, which is a decrease of $1,641 or 16%. DBD's invested funds decreased by $1,000,000, or 100% from $1,000,000 at September 30, 2011 to $-0- at September 30, 2012. Earnings on these investments decreased from $22,108 for the year ended September 30, 2011 to $11,229 for the year ended September 30, 2012, which is a decrease of $10,879 or 49%. The decrease in DBD's investments in fiscal year 2012 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.

FINANCIAL HIGHLIGHTS, CONTINUED

DCD and DBD, Continued

- In fiscal year 2012, operating expenses for DCD increased by $81,365 or 8% from fiscal year 2011. DBD's operating expenses decreased by $3,442 or 11% from fiscal year 2011. Efforts of management and staff are ongoing to reduce DCD's expenses. DBD's expenses decreased due to expense reimbursements paid to DCD to cover shared costs.

- As reflected above, DCD's bad debts and foreclosed real estate losses continue to reflect a highly volatile trend. CDA management and staff had renewed efforts to reverse this trend by working 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.

- DBD and DCD saw a decrease combined net assets of $2,859,379 or 11% from 2011 to 2012. Much of this decrease was due to several deficiency judgments and foreclosures on previously non-performing loans and the resulting changes in the valuation allowances.

NMHC

- Total assets increased by 2% from $17,715,303 in fiscal year 2011 to $18,061,903 in fiscal year 2012 mainly due to increases in other and noncurrent assets and 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.

- Total liabilities increased by 27% from $8,539,772 in fiscal year 2011 to $10,857,090 in fiscal year 2012 and by 14% from $7,465,357 in fiscal year 2010 to $8,539,772 in fiscal year 2011.

- Total net assets decreased by 21% from $9,175,531 in fiscal year 2011 to $7,204,813 in fiscal year 2012 and from $11,615,840 in fiscal year 2010 to $9,175,531 in fiscal year 2011.

- Net operating revenues decreased by 71% from $34,497,992 in fiscal year 2011 to $10,011,984 in fiscal year 2012 and increased by 381% from $7,167,505 in fiscal year 2010 to $34,497,992 in fiscal year 2011. The decrease in fiscal year 2012 is attributable to the decrease in LIHTC Program grant revenues. The increase in fiscal year 2011 is attributable to the receipt of the LIHTC Program grant.

- Total operating expenses decreased by 65% from $34,680,348 in fiscal year 2011 to $12,145,887 in fiscal year 2012 and increased by 331% from $8,051,102 in fiscal year 2010 to $34,680,348 in fiscal year 2011. The decrease in fiscal year 2012 is primarily attributable to decreases in expenses incurred under the LIHTC Program, CDBG program and the HPRP and NSP grants. The increase in fiscal year 2011 is primarily attributable to expenses incurred under the LIHTC Program grant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2012 and 2011, CDA had $9,681,058 and $9,062,174, respectively, invested in capital assets, net of depreciation where applicable. This represents a net increase of $618,884 or 7%, during fiscal year 2012.

	2012	2011	2010
Property and equipment, net	$ 2,108,528	$ 1,673,992	$ 1,619,043
Land	7,572,530	7,388,182	9,650,313
	$ 9,681,058	$ 9,062,174	$ 11,269,356

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

CAPITAL ASSETS AND DEBT ADMINISTRATION, CONTINUED

Long-Term Debt

At September 30, 2012 and 2011, CDA had $980,643 and $1,120,943, respectively, in long-term debt outstanding. See note 9 to the financial statements for more detailed information on CDA's long-term debt and changes therein.

ECONOMIC OUTLOOK

DCD and DBD

CDA is being affected by the negative economic forces at play globally as well as locally. Recent data confirms that the tourism activity in the CNMI is improving faster than anticipated, which indicates that the worst may be over and, while the future remains to be uncertain, there is some reason for optimism. The approval by the U.S. Department of Treasury of $13.2 million in funding, with $4.35 million already received by the CNMI Department of Commerce (DOC), which is the first of three disbursements to the CNMI through the State Small Business Credit Initiative (SSBCI), a component of President Obama's Small Job Business Job Act of 2010, are expected to help spur economic growth in the CNMI. The CNMI DOC has designated CDA as the implementing agency for the CNMI SSBCI programs.

CDA is currently unable to fund its ongoing operations from earnings generated by its loan portfolio and investments, and must use its cash reserves to cover this shortfall. Management is addressing this problem through a combination of, but not limited to, revenue enhancements and expenditure reductions. The budget for fiscal year 2013 also reflects a moderate shortfall. CDA is expected to relocate its office to a newly acquired building to save $77,000 in annual office rental. CDA also offers finance leases with an option to purchase on some of its properties in a move not only to recover principal balances but also to offload its property inventory acquired from foreclosures. CDA also offers a Debt-Relief Program to bring 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."

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 2012 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; however, tourism overall appears to be on the rebound and is 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.

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 2013 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.

CONTACTING CDA'S 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, 2011 is set forth in the report on the audit of CDA's financial statements which is dated September 12, 2012. That Discussion and Analysis explains the major factors impacting the 2011 financial statements. If you have questions about this report or the 2011 or 2010 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 Palacios, NMHC 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, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	$ 2,690,936	$ 5,017,867
Receivables:		
Current portion of loans receivable, net	4,694,123	5,316,170
Current portion of finance lease receivable, net	72,401	45,496
Rent, net	18,768	141,564
Accrued interest, net of allowance for doubtful accounts of $1,344,061 and $2,554,954 as of September 30, 2012 and 2011, respectively	276,315	123,047
Other, net	35,959	112,828
Due from grantor agency	-	31,590
Prepaid expenses	4,223	399
Total current assets	7,792,725	10,788,961
Other assets:		
Cash and cash equivalents, restricted	8,179,493	5,878,114
Time certificates of deposit, restricted	-	1,000,000
Total other assets	8,179,493	6,878,114
Noncurrent assets:		
Loans receivable, net of current portion	13,090,607	14,322,371
Finance lease, net of current portion	1,448,591	782,398
Property and equipment, net	2,108,528	1,673,992
Land	7,572,530	7,388,182
Foreclosed real estate, net	2,123,774	3,074,454
Total noncurrent assets	26,344,030	27,241,397
	$ 42,316,248	$ 44,908,472
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current installment of note payable to related party	$ 140,300	$ 140,300
Accounts payable and accrued expenses	1,178,001	1,661,686
Deferred revenues	56,012	59,100
Due to grantor agency	942,938	-
Reserve for loan guaranty	2,622,790	1,378,744
Total current liabilities	4,940,041	3,239,830
Note payable to related party, net of current installments	840,343	980,643
Deferred revenues, net of current portion	7,005,712	6,327,750
Total liabilities	12,786,096	10,548,223
Commitments and contingencies		
Net assets:		
Invested in capital assets	9,681,058	9,062,174
Restricted	19,849,094	25,298,075
Total net assets	29,530,152	34,360,249
	$ 42,316,248	$ 44,908,472

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Section 8 income:		
Federal housing assistance rentals	$ 5,088,590	$ 5,053,009
Tenant share	113,164	110,468
Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Program Grant	2,895,004	23,981,996
Community Development Block Grants (CDBG) Program	1,036,852	3,864,549
Interest and fees on loans	1,034,363	814,952
HOME Investment Partnership Program Grant	655,640	638,281
Deferred HOME loans program income	472,344	5,179
HOME Investment Partnership Grant program income	235,708	443,069
Emergency Shelter Grants (ESG) Program	94,667	49,061
Homelessness Prevention and Rapid Re-Housing Program (HPRP) Grant	48,445	88,528
Interest on investments	20,121	32,641
Housing rental	12,626	-
Neighborhood Stabilization Program (NSP) Grant	5,401	132,621
Recovery from loan guaranty	-	645,912
Other	253,971	141,132
	11,966,896	36,001,398
(Bad debts) recovery of loan impairment	(3,595,013)	1,089,732
Recovery of foreclosed real estate	20,205	316,334
Net operating revenues	8,392,088	37,407,464
Operating expenses:		
Section 8 rental	3,226,627	3,324,558
LIHTC Program Grant	2,895,004	23,981,996
CDBG Program	1,036,852	3,864,549
HOME Investment Partnership Program Grant	655,640	638,281
HOME Investment Partnership Grant program income	235,708	443,069
ESG Program	94,667	49,061
HPRP Grant	48,445	88,528
NSP Grant	5,401	132,621
Operations:		
Provision for loan guaranty	1,244,046	-
Salaries and wages	1,123,609	1,096,368
Repairs and maintenance	588,416	425,637
Utilities	561,191	359,017
Employee benefits	472,718	327,274
Professional fees	314,063	239,882
Depreciation	288,879	359,519
Rent	117,335	118,978
Travel	136,352	57,809
Other	242,051	233,283
Total operating expenses	13,287,004	35,740,430
Operating (loss) income	(4,894,916)	1,667,034
Nonoperating revenues (expenses):		
Other income	182,897	208,755
Interest income	15,125	9,178
Interest expense	(68,176)	(76,856)
Impairment loss on land	-	(2,262,131)
Contribution to the CNMI	-	(1,700,000)
Gain (loss) on sale of foreclosed properties	148,060	(5,000)
Other expense	(11,207)	(34,449)
Total nonoperating revenues (expenses), net	266,699	(3,860,503)
Loss before transfers	(4,628,217)	(2,193,469)
Transfers out for capital development grants	(201,880)	(280,745)
Change in net assets	(4,830,097)	(2,474,214)
Net assets - beginning	34,360,249	36,834,463
Net assets - ending	$ 29,530,152	$ 34,360,249

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	$ 1,517,220	$ 855,714
Interest and dividends on investments	27,189	50,374
Cash payments to suppliers for goods and services	(1,347,803)	(302,553)
Cash received from customers	284,864	260,163
Cash payments to employees for services	(1,391,482)	(1,280,248)
Cash received from federal grant awards	11,034,835	33,654,263
Cash payments from federal grant awards	(9,510,043)	(32,783,318)
Net cash provided by operating activities	614,780	454,395
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(129,095)	(415,421)
Acquisition of foreclosed real estate	31,883	(1,326,216)
Proceeds from sale of foreclosed real estate	532,438	-
Gain on sale of foreclosed real estate	148,060	-
Proceeds from disposal of property and equipment	-	500
Net (disbursements) receipts of loans receivable	(2,036,863)	1,002,279
Contribution to the CNMI	-	(1,700,000)
Transfers to CNMI	-	(11,996)
Transfers for capital development grants	(201,880)	(280,745)
Net cash used for capital and related financing activities	(1,655,457)	(2,731,599)
Cash flows from investing activities:		
(Purchase of) proceeds from restricted cash and cash equivalents and time certificates of deposit	(1,301,379)	3,062,969
Interest received	15,125	9,178
Net cash (used for) provided by investing activities	(1,286,254)	3,072,147
Net (decrease) increase in cash and cash equivalents	(2,326,931)	794,943
Cash and cash equivalents at beginning of year	5,017,867	4,222,924
Cash and cash equivalents at end of year	$ 2,690,936	$ 5,017,867
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	$ (4,894,916)	$ 1,667,034
Adjustments to reconcile operating (loss) income to net cash provided by operating activites:		
Bad debts (recovery of loan impairment)	3,595,013	(1,089,732)
Provision for (recovery of) loan guaranty	1,244,046	(645,912)
Recovery of foreclosed real estate	(20,205)	(316,334)
Depreciation	288,879	359,519
Loss on disposal of property and equipment	1,117	453
(Increase) decrease in assets:		
Receivables:		
Rent	(18,409)	(33,489)
Finance lease	(458,906)	-
Other	(40,172)	(56,208)
Accrued interest	489,925	58,495
Prepaid expenses	(3,822)	(69)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(494,892)	1,014,409
Deferred revenues	(47,406)	93,080
Due from/to grantor agency	974,528	(596,851)
Net cash provided by operating activities	$ 614,780	$ 454,395

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of foreclosed properties:		
Noncash decrease in foreclosed real estate	$ (811,000)	$ -
Noncash increase in property and equipment	811,000	-
	$ -	$ -
Noncash (decrease) increase in foreclosed real estate	$ (284,742)	$ 98,822
Noncash decrease in loans receivable	(92,814)	(98,822)
Noncash increase in finance lease receivable	377,556	-
	$ -	$ -
Loan payable to MPLT:		
Noncash decrease in note payable to related party	$ 140,300	$ 131,900
Noncash interest expense	68,176	76,856
Noncash other income	(208,476)	(208,756)
	$ -	$ -

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 NMHC as a division 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:

DBD:

- 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.

DCD:

- 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

DCD, 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.

NMHC:

- 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, 2012 and 2011, total cash and cash equivalents and time certificates of deposit were $10,870,429 and $11,895,981, respectively, and the corresponding bank balances were $10,960,933 and $11,972,963, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $395,358 and $336,550 were FDIC insured as of September 30, 2012 and 2011, 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.

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.

(2) Summary of Significant Accounting Policies, Continued

Foreclosed Real Estate

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

Loans Receivable, Interest Receivable and Allowance for Loan Losses

Loans and interest receivable are stated at the amount of unpaid principal and interest, reduced by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for doubtful accounts charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

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.

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

(2) Summary of Significant Accounting Policies, Continued

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

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

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 is 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 from 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 $2,895,004 and $23,981,996 from the US Treasury, and the same amounts were disbursed to Sandy Beach Homes, during the years ended September 30, 2012 and 2011, respectively.

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 of $679,869 and $727,275 as of September 30, 2012 and 2011, respectively. Amounts to be recognized over the terms of the leases are as follows:

(2) Summary of Significant Accounting Policies, Continued

Deferred Revenues, Continued

Year ending September 30,	Lease Recognition
2013	$ 56,012
2014	14,345
2015	14,345
2016	14,345
2017	14,345
2018 - 2022	71,725
2023 - 2027	70,502
2028 - 2032	67,650
2033 - 2037	67,650
2038 - 2042	67,650
2043 - 2047	67,650
2048 - 2052	65,494
2053 - 2057	57,010
2058 - 2061	31,146
	$ 679,869

Deferred revenues of NMHC represent recorded loans receivable from individuals eligible under the HOME Investment Partnership program administered by NMHC. NMHC recorded deferred HOME loan revenue of $472,344 and $5,179 for the years ended September 30, 2012 and 2011, respectively, and deferred revenues of $6,381,855 and $5,659,575 as of September 30, 2012 and 2011, 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, 2012 and 2011 was approximately $301,760 and $214,369, 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 was 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, 2012 and 2011 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, 2012 and 2011 is 37.3909% of covered payroll. CDA's recorded DB contributions to the Fund for the years ended September 30, 2012, 2011 and 2010 were $311,421, $234,203 and $269,997, respectively, equal to the required statutory contributions for each year.

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.

(2) Summary of Significant Accounting Policies, Continued

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, 2012, 2011 and 2010 were $27,764, $27,869 and $23,629, 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.

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, 2012 and 2011, 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, 2012 and 2011.

New Accounting Standards

During the year ended September 30, 2012, CDA implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB 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 implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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 has not yet determined the effect of implementation of this statement on the financial statements of CDA.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of CDA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of CDA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements 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.

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.

Reclassifications

Certain 2011 balances in the accompanying financial statements have been reclassified to conform to the 2012 presentation.

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

DBD

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.

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

DBD, Continued

At September 30, 2012 and 2011, restricted cash and cash equivalents and time certificates of deposit amounting to $4,441,501 and $4,260,556, 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.

NMHC

NMHC maintains depository accounts with financial institutions in the CNMI which are restricted for various purposes, as detailed below. At September 30, 2012 and 2011, restricted cash and cash equivalents consist of amounts held in demand deposit accounts. Of the amounts detailed below, $2,620,887 and $1,511,358 at September 30, 2012 and 2011, respectively, was FDIC insured. Accordingly, the deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents:

	2012	2011
Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	$ 2,096,359	$ 1,096,538
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	199,738	199,509
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	100	100
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,354,485	1,275,439
Other depository accounts reserved for various purposes	87,310	45,972
	$ 3,737,992	$ 2,617,558

(4) Loans Receivable

DBD

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, 2012 and 2011, 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.

(4) Loans Receivable, Continued

DCD

As described in note 1, DCD was established to serve as the economic development loan fund agency for qualified private sector enterprises pursuant to Public Law 4-49. In this capacity all functions, powers, duties, funds, contracts, obligations and liabilities managed and administered by the Northern Marianas Islands Economic Development Loan Fund (EDLF) were transferred to DCD. EDLF was established pursuant to Article VII, Section 702(c) of the Covenant, dated February 15, 1975, to administer financial resources received under the Covenant which were specifically set aside for a loan program to assist the general economic development of the Northern Marianas Islands. Additionally, the Trust Territory of the Pacific Islands Government contributed to the economic development loan portfolio.

Outstanding loans are due within various periods not to exceed 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.

NMHC

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, 2012 and 2011 (with combining information as of September 30, 2012), are as follows:

	DBD	DCD	NMHC	2012	2011
General	$ -	$ 29,954,285	$ 629,597	$ 30,583,882	$ 28,893,356
Capital development loan receivable from related party	5,251,439	-	-	5,251,439	5,486,731
HOME Investment Partnerships Act grant	-	-	5,831,551	5,831,551	5,114,057
Marine	-	5,204,784	-	5,204,784	4,681,481
Direct family home loans	-	-	2,989,669	2,989,669	2,967,118
Agriculture	-	1,902,515	-	1,902,515	2,456,567
Tinian turnkey	-	-	533,589	533,589	538,326
Housing construction	-	-	485,355	485,355	465,227
Neighborhood Stabilization Program (NSP) grant	-	-	475,881	475,881	340,070
Section 8	-	-	224,844	224,844	168,615
Veterans aid	-	-	184,825	184,825	-
Home revenue bond	-	-	94,476	94,476	94,476
Housing preservation grant	-	-	24,937	24,937	26,842
Loan principal receivable	5,251,439	37,061,584	11,474,724	53,787,747	51,232,866
Less allowance for loan losses	(2,625,719)	(25,764,943)	(7,612,355)	(36,003,017)	(31,594,325)
Net loans receivable	$ 2,625,720	$ 11,296,641	$ 3,862,369	$ 17,784,730	$ 19,638,541

(4) Loans Receivable, Continued

Maturities of the above principal balances subsequent to September 30, 2012 will be as follows:

	DBD	DCD	NMHC	Total
Fully matured and others	$ -	$ 21,506,793	$ 1,129,146	$ 22,635,939
1 - 6 months	121,530	5,257,800	593,724	5,973,054
7 - 18 months	246,573	2,645,636	832,044	3,724,253
19 months - 3 years	381,144	1,455,723	1,136,092	2,972,959
After 3 years	4,502,192	6,195,632	7,783,718	18,481,542
	$ 5,251,439	$ 37,061,584	$ 11,474,724	$ 53,787,747

Allowance for Loan Losses

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

	DBD	DCD	NMHC	2012	2011
Balance - beginning of year	$ 2,743,366	$ 21,815,057	$ 7,035,902	$ 31,594,325	$ 32,702,320
(Recovery of) provision for loan losses	(117,647)	3,949,886	576,453	4,408,692	(1,089,732)
Reclassification	-	-	-	-	358,436
Write-off of loans	-	-	-	-	(376,699)
Balance - end of year	$ 2,625,719	$ 25,764,943	$ 7,612,355	$ 36,003,017	$ 31,594,325

(5) Finance Leases

DCD

Direct financing lease receivables are comprised of the following:

Finance lease receivables	$ 2,319,245
Less: unearned finance lease income	1,257,159
Finance lease receivables, net	$ 1,062,086

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 and $100 plus the outstanding lease receivable and related accrued interest. Finance lease income for the years ended September 30, 2012 and 2011 amounted to $38,459 and $23,963, respectively. Future minimum lease rentals and future minimum lease income under these arrangements as of September 30, 2012, are as follows:

Year ending September 30,	Minimum Lease Rentals	Minimum Lease Income	Net Amount
2013	$ 107,198	$ 44,356	$ 62,842
2014	107,878	45,489	62,389
2015	108,178	45,371	62,807
2016	108,178	45,371	62,807
2017	108,178	45,371	62,807
Thereafter	1,779,635	1,031,201	748,434
	$ 2,319,245	$ 1,257,159	$ 1,062,086

(5) Finance Leases, Continued

NMHC

NMHC leases certain foreclosed real estate properties for periods ranging from fifteen to thirty years bearing interest at fixed rates ranging from 2% to 6% and with options to purchase at $100 plus the outstanding lease receivable and related accrued interest. Finance lease income for the year ended September 30, 2012 amounted to $12,626. Future minimum lease rentals under these arrangements as of September 30, 2012, are as follows:

Year ending September 30,	
2013	$ 31,773
2014	31,723
2015	31,723
2016	31,723
2017	31,723
Subsequent years	681,737
	840,402
Less amount representing interest	381,496
	458,906
Less current portion	9,559
Noncurrent portion	$ 449,347

(6) 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.

(6) Preferred Stock With Related Party, Continued

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, 2012 and 2011, 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:

Year ending September 30,	Principal Amount	Interest	Total
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	682,691	397,309	1,080,000
2018 - 2022	2,843,258	2,556,742	5,400,000
2023 - 2027	2,083,152	3,316,848	5,400,000
2028 - 2032	1,271,875	3,228,125	4,500,000
2033 - 2037	931,857	3,568,143	4,500,000
2038 - 2039	298,795	1,501,205	1,800,000
	$ 11,309,651	$ 15,690,349	$ 27,000,000

(7) Property and Equipment

Property and equipment consist of the following at September 30, 2012 and 2011:

DCD

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Deletions	Balance at September 30, 2012
Land		$ -	$ 184,348	$ -	$ 184,348
Structure and improvements	7 years	475,959	626,654	-	1,102,613
Vehicles/office equipment	3 - 5 years	93,229	2,684	-	95,913
Computer equipment	3 - 5 years	52,921	-	-	52,921
Furniture and fixtures	7 years	118,424	-	-	118,424
		740,533	813,686	-	1,554,219
Less accumulated depreciation		(706,745)	(18,860)	-	(725,605)
		$ 33,788	$ 794,826	$ -	$ 828,614

(7) Property and Equipment, Continued

DCD, Continued

	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

NMHC

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Deletions	Balance at September 30, 2012
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,490,288	$ 9,798	$ -	$ 2,500,086
Section 8 Koblerville Housing	30 years	1,949,192	5,558	-	1,954,750
Section 8 Rota Housing	30 years	1,185,932	14,552	-	1,200,484
Section 8 Tinian Housing	30 years	1,071,555	53,204	-	1,124,759
Section 8 Housing Phase II	30 years	637,704	-	-	637,704
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,935,186	83,112	-	8,018,298
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	858,231	-	-	858,231
Equipment and computers	3 - 8 years	582,974	10,966	-	593,940
Vehicles	3 years	150,477	-	-	150,477
		4,415,173	10,966	-	4,426,139
		12,350,359	94,078	-	12,444,437
Less accumulated depreciation		(10,710,155)	(270,020)	-	(10,980,175)
		$ 1,640,204	$ (175,942)	$ -	$ 1,464,262

	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

(7) Property and Equipment, Continued

NMHC, Continued

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.
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 at September 30, 2012 and 2011. NMHC recorded an impairment loss on land of $2,262,131 based on broker's opinions obtained during the year ended September 30, 2011. 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.

(8) Foreclosed Real Estate

A summary of the changes in foreclosed real estate and the related valuation allowance as of September 30, 2012 and 2011 is as follows:

	DCD		NMHC	2012	2011
	For Sale	For Lease			
Foreclosed Real Estate:					
Balance at beginning of year	$ 751,160	$ 1,956,000	$ 1,707,380	$ 4,414,540	$ 4,378,502
Additions	186,438	-	-	186,438	1,684,778
Deletions	(132,714)	-	(949,894)	(1,082,608)	(1,648,740)
	804,884	1,956,000	757,486	3,518,370	4,414,540
Valuation allowance	(295,090)	(1,099,506)	-	(1,394,596)	(1,340,086)
Balance at end of year	$ 509,794	$ 856,494	$ 757,486	$ 2,123,774	$ 3,074,454
Valuation Allowance:					
Balance at beginning of year	$ 240,580	$ 1,099,506	$ -	$ 1,340,086	$ 1,775,547
Provisions (recoveries)	83,438	-	-	83,438	(316,334)
Write-offs	(28,928)	-	-	(28,928)	(119,127)
Balance at end of year	$ 295,090	$ 1,099,506	$ -	$ 1,394,596	$ 1,340,086

(9) Note Payable to Related Party

	2012	2011
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, 2012 and 2011, CDA recorded other income of $208,476 and $208,755, respectively.	$ 980,643	$ 1,120,943

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
2013	$ 140,300	$ 58,571	$ 198,871
2014	165,500	48,610	214,110
2015	165,500	38,103	203,603
2016	173,900	27,128	201,028
2017	182,300	15,450	197,750
2018	153,143	3,662	156,805
	$ 980,643	$ 191,524	$ 1,172,167

(9) Note Payable to Related Party, Continued

Changes in notes payable for the years ended September 30, 2012 and 2011, are as follows:

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
DBD	$ 1,120,943	$ -	$ (140,300)	$ 980,643	$ 140,300

	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

(10) Contributions to the CNMI

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.

(11) 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 $-0- and $96,865 for the years ended September 30, 2012 and 2011, respectively, (b) transfers to the CNMI for capital projects of the CNMI First and Second Senatorial Districts pursuant to Public Law No. 13-56 of $78,518 and $30,176 for the years ended September 30, 2012 and 2011, respectively, and (c) transfers to the CNMI for renovations and repair of Tinian Municipal Buildings pursuant to Public Law No. 17-8 of $123,362 and $153,704 for the years ended September 30, 2012 and 2011, respectively.

(12) 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 $10,960,933 and $11,972,963 as of September 30, 2012 and 2011, respectively. Management is of the opinion that transactions with this financial institution are of similar terms and conditions as with unrelated parties.

(13) 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, 2013 with monthly rentals of $1,646. Total lease income for the years ended September 30, 2012 and 2011 amounted to $102,935 and $81,367, respectively. Minimum future lease income for all leases is as follows:

Year ending September 30,	Minimum Lease Income Due
2013	$ 90,959
2014	75,632
2015	80,576
2016	78,376
2017	73,976
Thereafter	3,011,647
	$ 3,411,166

Under a lease agreement beginning April 30, 2003 and originally expiring on September 30, 2020, CDA leases office space in Saipan. In fiscal year 2012, the lease was not renewed and will expire in March 2013. 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 expired on February 28, 2012. Rental expense for these leases for each of the years ended September 30, 2012 and 2011 is $103,450 and $102,750, respectively. Total minimum future rentals are $51,000 under these operating leases for the year ending September 30, 2013.

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, 2012, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.

(13) Commitments and Contingencies, Continued

Contingencies, Continued

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 $1,756,668 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2012. 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, 2012 and 2011, NMHC has guaranteed outstanding loans of $11,551,490 and $11,615,302, respectively, and the amount of delinquent loans related to the agreement was $7,551,519 and $5,687,054, respectively. As of September 30, 2012 and 2011, total delinquent loans with demand notices from RD were $1,769,724 and $397,331, respectively, for which NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of $2,662,790 and $1,378,744, 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. During the year ended September 30, 2011, NMHC paid $1,326,216 to RD and recorded foreclosed properties based on the lower of cost or market value, recorded a decrease in the reserve for loan guaranty, recorded a recovery from loan guaranty of $1,326,216, and later reduced the recovery for loan guaranty 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, 2012 and 2011, 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 $2,096,359 and $1,096,538, 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.

(13) 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, 2012 and 2011, NMHC was contingently liable for $825,146 and $868,640, respectively, of the balance of loans purchased by the savings and loan. In addition, NMHC is required to maintain an account at the savings and loan equal to the lesser of 5% of all loans sold to the savings and loan or $100,000. The balance in the account at September 30, 2012 and 2011 was $100 which is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2012 and 2011, the total defaulted loans related to this arrangement were $251,180 and $208,322, respectively.

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, 2012 and 2011, NMHC was contingently liable to these institutions for $1,858,855 and $1,938,744, respectively. As of September 30, 2012 and 2011, the total defaulted loans related to these arrangements were $813,507 and $313,159, respectively.

(14) 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.

(15) Subsequent Event

On November 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, 2012

ASSETS	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Elimination Entries	Total
Current assets:					
Cash and cash equivalents	$ -	$ 2,586,789	$ 104,147	$ -	$ 2,690,936
Receivables:					
Current portion of loans receivable, net	243,538	3,722,735	727,850	-	4,694,123
Current portion of finance lease receivable	-	62,842	9,559	-	72,401
Rent, net	-	-	18,768	-	18,768
Accrued interest, net	6,834	2,616	266,865	-	276,315
Other, net	-	33,033	2,926	-	35,959
Prepaid expenses	-	4,223	-	-	4,223
Total current assets	250,372	6,412,238	1,130,115	-	7,792,725
Other assets:					
Cash and cash equivalents, restricted	4,441,501	-	3,737,992	-	8,179,493
Noncurrent assets:					
Loans receivable, net of current portion	2,382,182	7,573,906	3,134,519	-	13,090,607
Finance lease, net of current portion	-	999,244	449,347	-	1,448,591
Due from other funds	-	21,847	-	(21,847)	-
Property and equipment, net	-	644,266	1,464,262	-	2,108,528
Land	-	184,348	7,388,182	-	7,572,530
Foreclosed real estate, net	-	1,366,288	757,486	-	2,123,774
Total noncurrent assets	2,382,182	10,789,899	13,193,796	(21,847)	26,344,030
	$ 7,074,055	$ 17,202,137	$ 18,061,903	$ (21,847)	$ 42,316,248
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current installment of notes payable to related party	$ 140,300	$ -	$ -	$ -	$ 140,300
Accounts payable and accrued expenses	-	268,494	909,507	-	1,178,001
Due to grantor agency	-	-	942,938	-	942,938
Deferred revenues	-	56,012	-	-	56,012
Reserve for loan guaranty	-	-	2,622,790	-	2,622,790
Total current liabilities	140,300	324,506	4,475,235	-	4,940,041
Notes payable to related party, net of current installments	840,343	-	-	-	840,343
Due to other funds	21,847	-	-	(21,847)	-
Deferred revenues, net of current portion	-	623,857	6,381,855	-	7,005,712
Total liabilities	1,002,490	948,363	10,857,090	(21,847)	12,786,096
Net assets:					
Invested in capital assets	-	828,614	8,852,444	-	9,681,058
Restricted	6,071,565	15,425,160	(1,647,631)	-	19,849,094
Total net assets	6,071,565	16,253,774	7,204,813	-	29,530,152
	$ 7,074,055	$ 17,202,137	$ 18,061,903	$ (21,847)	$ 42,316,248

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2012

	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Elimination Entries	Total
Operating revenues:					
Section 8 income:					
Federal housing assistance rentals	$ -	$ -	$ 5,088,590	$ -	$ 5,088,590
Tenant share	-	-	113,164	-	113,164
LIHTC Program Grant	-	-	2,895,004	-	2,895,004
Interest and fees on loans	134,524	530,332	369,507	-	1,034,363
CDBG Program	-	-	1,036,852	-	1,036,852
HOME Investment Partnership Program Grant	-	-	655,640	-	655,640
Deferred HOME loans program income	-	-	472,344	-	472,344
HOME Investment Partnership Grant program income	-	-	235,708	-	235,708
ESG Program	-	-	94,667	-	94,667
HPRP Grant	-	-	48,445	-	48,445
Interest on investments	11,229	8,892	-	-	20,121
Housing rental	-	-	12,626	-	12,626
NSP Grant	-	-	5,401	-	5,401
Other	-	196,221	87,070	(29,320)	253,971
	145,753	735,445	11,115,018	(29,320)	11,966,896
Recovery of loan impairment (bad debts)	117,646	(2,609,625)	(1,103,034)	-	(3,595,013)
Recovery of foreclosed real estate	-	20,205	-	-	20,205
Net operating revenues	263,399	(1,853,975)	10,011,984	(29,320)	8,392,088
Operating expenses:					
Section 8 rental	-	-	3,226,627	-	3,226,627
LIHTC Program Grant	-	-	2,895,004	-	2,895,004
CDBG Program	-	-	1,036,852	-	1,036,852
HOME Investment Partnership Program Grant	-	-	655,640	-	655,640
HOME Investment Partnership Grant program income	-	-	235,708	-	235,708
ESG Program	-	-	94,667	-	94,667
HPRP Grant	-	-	48,445	-	48,445
NSP Grant	-	-	5,401	-	5,401
Operations:					
Provision for loan guaranty	-	-	1,244,046	-	1,244,046
Salaries and wages	-	496,545	627,064	-	1,123,609
Repairs and maintenance	-	2,278	586,138	-	588,416
Utilities	-	25,803	535,388	-	561,191
Employee benefits	-	267,873	204,845	-	472,718
Professional fees	-	115,303	198,760	-	314,063
Depreciation	-	18,859	270,020	-	288,879
Travel	-	24,896	111,456	-	136,352
Rent	-	106,535	10,800	-	117,335
Other	29,320	83,025	159,026	(29,320)	242,051
Total operating expenses	29,320	1,141,117	12,145,887	(29,320)	13,287,004
Operating income (loss)	234,079	(2,995,092)	(2,133,903)	-	(4,894,916)
Nonoperating revenues (expenses):					
Other income	208,477	(25,580)	-	-	182,897
Gain on sale of foreclosed real estate	-	-	148,060	-	148,060
Interest income	-	-	15,125	-	15,125
Interest expense	(68,176)	-	-	-	(68,176)
Other expense	-	(11,207)	-	-	(11,207)
Total nonoperating revenues (expenses), net	140,301	(36,787)	163,185	-	266,699
Income (loss) before transfers	374,380	(3,031,879)	(1,970,718)	-	(4,628,217)
Transfers out for capital development grants	(201,880)	-	-	-	(201,880)
Change in net assets	172,500	(3,031,879)	(1,970,718)	-	(4,830,097)
Net assets - beginning	5,899,065	19,285,653	9,175,531	-	34,360,249
Net assets - ending	$ 6,071,565	$ 16,253,774	$ 7,204,813	$ -	$ 29,530,152

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2012

	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	$ 136,709	$ 462,977	$ 917,534	$ -	$ 1,517,220
Interest and dividends on investments	18,297	8,892	-	-	27,189
Cash payments to suppliers for goods and services	-	(261,143)	(1,086,660)	-	(1,347,803)
Cash received from customers	-	16,322	268,542	-	284,864
Cash payments to employees for services	-	(764,418)	(627,064)	-	(1,391,482)
Cash received from federal grant awards	-	-	11,034,835	-	11,034,835
Cash payments from federal grant awards	-	-	(9,510,043)	-	(9,510,043)
Net cash provided by (used for) operating activities	155,006	(537,370)	997,144	-	614,780
Cash flows from capital and related financing activities:					
Net interdivisional transactions	(7,473)	7,473	-	-	-
Acquisition of property and equipment	-	(35,017)	(94,078)	-	(129,095)
Acquisition of foreclosed real estate	-	31,883	-	-	31,883
Net receipts (disbursements) of loans receivable	235,292	(1,187,385)	(1,084,770)	-	(2,036,863)
Proceeds from sale of foreclosed real estate	-	-	532,438	-	532,438
Gain on sale of foreclosed real estate	-	-	148,060	-	148,060
Transfers for capital development grants	(201,880)	-	-	-	(201,880)
Net cash provided by (used for) capital and related financing activities	25,939	(1,183,046)	(498,350)	-	(1,655,457)
Cash flows from investing activities:					
Purchase of restricted cash and cash equivalents and time certificates of deposit	(180,945)	-	(1,120,434)	-	(1,301,379)
Interest received	-	-	15,125	-	15,125
Net cash used for investing activities	(180,945)	-	(1,105,309)	-	(1,286,254)
Net decrease in cash and cash equivalents	-	(1,720,416)	(606,515)	-	(2,326,931)
Cash and cash equivalents at beginning of year	-	4,307,205	710,662	-	5,017,867
Cash and cash equivalents at end of year	$ -	$ 2,586,789	$ 104,147	$ -	$ 2,690,936
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ 234,079	$ (2,995,092)	$ (2,133,903)	$ -	$ (4,894,916)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
(Recovery of loan impairment) bad debts	(117,646)	2,609,625	1,103,034	-	3,595,013
Recovery of foreclosed real estate	-	(20,205)	-	-	(20,205)
Provision for loan guaranty	-	-	1,244,046	-	1,244,046
Expenses allocated from DCD to DBD	29,320	(29,320)	-	-	-
Depreciation	-	18,859	270,020	-	288,879
Loss on disposal of property and equipment	-	1,117	-	-	1,117
(Increase) decrease in assets:					
Receivables:					
Rent	-	-	(18,409)	-	(18,409)
Finance lease	-	-	(458,906)	-	(458,906)
Other	-	(100,825)	60,653	-	(40,172)
Accrued interest	9,253	(67,355)	548,027	-	489,925
Prepaid expenses	-	(3,822)	-	-	(3,822)
Increase (decrease) in liabilities:					
Accounts payable and accrued expenses	-	97,054	(591,946)	-	(494,892)
Deferred revenues	-	(47,406)	-	-	(47,406)
Due from/to grantor agency	-	-	974,528	-	974,528
Net cash provided by (used for) operating activities	$ 155,006	$ (537,370)	$ 997,144	$ -	$ 614,780
Supplemental disclosure of noncash capital and related financing activities:					
Recognition of foreclosed properties:					
Noncash decrease in foreclosed real estate	$ -	$ (811,000)	$ -	$ -	$ (811,000)
Noncash increase in property and equipment	-	811,000	-	-	811,000
	$ -	$ -	$ -	$ -	$ -
Noncash increase (decrease) in foreclosed real estate	$ -	$ 132,714	$ (417,456)	$ -	$ (284,742)
Noncash (decrease) increase in loans receivable	-	(132,714)	39,900	-	(92,814)
Noncash increase in finance lease receivable	-	-	377,556	-	377,556
	$ -	$ -	$ -	$ -	$ -
Loan payable to MPLT:					
Noncash decrease in note payable to related party	$ 140,300	$ -	$ -	$ -	$ 140,300
Noncash interest expense	68,176	-	-	-	68,176
Noncash other income	(208,476)	-	-	-	(208,476)
	$ -	$ -	$ -	$ -	$ -

See Accompanying Independent Auditors' Report.