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

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Development Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Commonwealth Development Authority (CDA), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Development Authority as of September 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 15 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 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. This supplementary information is the responsibility of CDA's management. 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise CDA's basic financial statements. The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows as of and for the year ended September 30, 2014 (pages 42 through 44) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 basic 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 Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CDA's internal control over financial reporting and compliance.

Deloitte & Touche LLC

June 5, 2015

COMMONWEALTH DEVELOPMENT AUTHORITY

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Management's Discussion and Analysis
Year Ended September 30, 2014

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, 2014, with selected comparative information for the fiscal years ended September 30, 2013 and 2012. 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 office 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 over the Qualifying Certificate Program (QC). The QC is a tax incentive program to encourage new investment in 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, 2014, DCD's net loans receivable was $10,366,328, which was a decrease of $254,514 or 2% compared to 2013. As of September 30, 2013, DCD's net loans receivable was $10,620,842, which was a decrease of $675,799 or 6% compared to 2012. The cause of the net decreases in fiscal years 2014 and 2013 can be attributed to repayment of loans from borrowers, and to the continuation of the loan moratorium and the write-off of delinquent loan accounts due to court judgments. Also, several loan revisions due to loan judgments, a 2% debt relief program, asset foreclosures and delinquent loan accounts contributed to increases in the allowance.

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 2.5% 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 loan allowance to 50%.

DBD AND DCD, CONTINUED

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

As stated earlier, the net value of DCD's loan portfolio after recoveries was $10,366,328 in 2014 and $10,620,842 in 2013. Total recoveries (bad debts) were $917,382 and $(43,846) in 2014 and 2013, respectively. These figures represent the estimated potential recovery/loss of value of the loans and accrued interest for the respective fiscal years. The recovery in fiscal year 2014 was due to the ongoing CDA loan moratorium, increases in collections from several delinquent loans, foreclosures via efforts of the Loan Department and a more accurate valuation of loan collaterals. 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. Qualifying 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. 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.

Mortgage and Credit Division (MCD)

In fiscal year 2014, MCD processed twenty-three HOME Investment Partnerships Program (HOME) loan applications which were subsequently approved by the NMHC Board of Directors. Of the twenty-three approved loans, MCD committed to seventeen HOME projects and was able to meet the commitment deadline for fiscal year 2014. In addition, seven approved loans were closed during the year.

The table below further illustrates a breakdown of the type of assistance provided for the year as well as the corresponding loan and grant amounts.

NMHC, CONTINUED

Mortgage and Credit Division (MCD), Continued

Type of Assistance	2014		2013	
	Number of Loans	Amount	Number of Loans	Amount
Deferred	3	$ 168,800	3	$ 161,000
Direct	2	114,000	4	219,800
Grant	1	40,000	1	40,000
Loan and grant	1	40,000	3	120,000
TOTAL	**7**	**$ 362,800**	**11**	**$ 540,800**

Program and Housing Division (PHD)

A. Saipan Housing Choice Voucher (HCV) Program

In fiscal year 2014, the HCV Program utilized two hundred seventy-seven vouchers for Saipan (including eight portable families), four vouchers for Tinian and sixteen vouchers for Rota. NMHC issued seventeen vouchers for Saipan, three vouchers for Tinian and one voucher for Rota to applicants who were previously on the waiting list. In addition, there were twenty-one families who ended their participation in or were terminated from the program for the year ended September 30, 2014. 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

At the end of fiscal year 2014, the Multi-family/New Construction Program had one hundred eight occupants of one hundred eighteen units, which is an occupancy rate of 92% as follows:

Project Sites	Occupied Units	Vacant Units	Occupancy Rate
Mihaville Estates	46	2	96%
Koblerville Estates	34	0	100%
Tinian Broadway	19	1	95%
Rota Blue Bay Homes	9	7	22%

C. Short-Term Goals

Goals for the PHD are to:

1. Attain a "high performer" Section 8 Management Assessment Program (SEMAP) rating;
2. Continue monitoring performance of staff through SEMAP and the independent audit to ensure staff accountability as well as identify areas for improvement;
3. Provide training opportunities to improve and increase staff capacity;
4. Develop new and/or enhanced quality control measures;
5. Initiate full implementation of the Family Self-Sufficiency (FSS) Program; and
6. Obtain passing Real Estate Assessment Center (REAC) scores for all Multi-family/New Construction Program project sites.

Rota Field Office

A. Rota HCV Program

For fiscal year 2014, the NMHC Rota Field Office had sixteen families participating in the Section 8 HCV Program.

NMHC, CONTINUED

Rota Field Office, Continued

B. Rota Multi-Family/New Construction Program

The NMHC Rota Multi-Family/New Construction Program is improving its leasing efforts. Of thirty Rota Blue Bay Homes Housing Subdivision (the Subdivision) units, nine were occupied, seven remain vacant and fourteen were unavailable as they are in dire need of renovation and repairs, which translates to a 30% occupancy rate.

C. Short-Term Goals

Goals for the Rota Field Office are to:

1. Fully occupy all sixteen units by March 2015;
2. Work with the Mayor's Office to repair bus shelters for the children of the Subdivision;
3. Install water gate valves in each unit;
4. Continue to partner with the 13th Rota Municipal Council to build playground equipment for the Subdivision;
5. Install a laundry facility at the Subdivision;
6. Install an information board to provide community information to the residents of the Subdivision; and
7. Develop a community area for internet access for the Subdivision's children to use.

Tinian Field Office

A. Tinian HCV Program

Since 2008, Tinian has had only one voucher holder. The waiting list for Tinian, with eleven applicants, was opened in March 2014. Five vouchers were issued to Tinian during fiscal year 2014 and one was transferred from Saipan. At the end of fiscal year 2014, three of six families moved into units while the other three families cancelled their participation in the program. Although the waiting list has closed, families continue to inquire about the program.

B. Tinian Multi-Family/New Construction Program

Tinian has twenty units which are fully leased to the end of fiscal year 2014. Our goal was to move in families as soon as units were available; however, the move out rate is low.

C. Short-Term Goals

Goals for the NMHC Tinian Field Office are to:

1. Ensure that all repairs are timely performed so units are decent, safe and meet all sanitary conditions;
2. Reduce the delinquency rate of tenants' receivables including promissory notes;
3. Work with the Office of the Mayor on the maintenance of all Community Development Block Grant (CDBG) projects and ensure project goals are met;
4. Assist individuals who are interested in the HOME Program;
5. Contact and work with borrowers in reducing their delinquency with NMHC; and
6. Reduce deficiencies in the records of tenants and borrowers.

NMHC, CONTINUED

Community Development Block Grant (CDBG)

In fiscal year 2014, NMHC received funding approval of $968,331 for CDBG. 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; and
- Rehabilitate/remove slum and blight (neighborhood revitalization, particularly in the villages of Garapan and Chalan Kanoa)

In fiscal year 2014, projects funded include renovation of the Kagman and Susupe fire stations, expansion of the Division of Youth Services shelter, purchase of fire protection and life-saving equipment and purchase of an ambulance for the Rota fire station. To date, all four projects were completed. The Koblerville gymnasium, funded through the fiscal years 2011 and 2012 grants, was ongoing as of fiscal year 2014 and is anticipated to be completed in March 2015.

The above projects fulfill the goals listed in the Consolidated Plan which are to improve the delivery of services to the general public and to promote community health, team work and sportsmanship.

Emergency Solutions Grant (ESG)

In fiscal year 2014, NMHC received funding approval of $48,743 for ESG which was subgranted to Karidat Social Services to manage the program. Financial assistance such as rental assistance, utility deposits and utility allowances are offered to families who are eligible under the "literally homeless" category for a period of ten months. As of fiscal year 2014, NMHC, in coordination with Karidat Social Services, was able to assist a total of fourteen families.

Economic Development Initiative (EDI) Program

The CNMI received $400,000 in previous years from the EDI Program funded through the U.S. Department of Housing and Urban Development (HUD). In fiscal year 2014, NMHC completed the rehabilitation of the Joeten-Kiyu Public Library roof and the Garapan Public Market, which were each funded at $200,000.

Neighborhood Stabilization Program (NSP)

The CNMI was granted $364,162 in NSP funding made possible through the Housing and Economic Recovery Act of 2008 which was designed to address foreclosures across the United States of America and the insular areas. The CNMI used the funding to purchase and rehabilitate foreclosed and abandoned residential properties/homes and provide opportunities for borrowers to own their home.

The CNMI signed an agreement with HUD on March 14, 2011 to administer the NSP3 program. The grant amounted to $300,002 and was used to rehabilitate six properties in Kagman (one property was rehabilitated with program income from the grant), one property in Tinian and one property in Rota. As of September 30, 2014, eight properties were rehabilitated and seven are occupied.

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 LIHTC Program is available to owners/developers of qualifying buildings and projects that meet certain low-income occupancy and rent restrictions.

NMHC, CONTINUED

Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Program, Continued

Section 42 of the Internal Revenue 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.

NMHC has developed a QAP for 2014 which describes the basis NMHC will use to allocate LIHTCs. The tax credit allocated to the CNMI for 2014 was $2,525,000. As of September 30, 2014, Saipan Comfort Homes LLC was the only new applicant who was awarded a reservation letter for $1,644,337, which is equivalent to $16,443,310 of tax credits, to build forty 1 and 2 bedroom units.

FINANCIAL HIGHLIGHTS

Combined Statements of Net Position
As of September 30, 2014, 2013 and 2012

	2014	2013	$ Change	% Change	2012
Current assets	$ 10,892,241	$ 8,208,067	$ 2,684,174	33%	$ 7,792,725
Other assets	9,825,588	9,179,533	646,055	7%	8,179,493
Capital assets, net	9,294,850	9,645,235	(350,385)	-4%	9,681,058
Foreclosed real estate, net	2,324,705	1,985,553	339,152	17%	2,123,774
Noncurrent assets	12,867,057	14,047,855	(1,180,798)	-8%	14,539,198
Total assets	**$ 45,204,441**	**$ 43,066,243**	**$ 2,138,198**	**5%**	**$ 42,316,248**
Current liabilities	$ 6,485,918	$ 4,995,895	$ 1,490,023	30%	$ 4,940,041
Noncurrent liabilities	8,866,159	8,499,401	366,758	4%	7,846,055
Total liabilities	**15,352,077**	**13,495,296**	**1,856,781**	**14%**	**12,786,096**
Net investment in capital assets	9,294,850	9,645,235	(350,385)	-4%	9,681,058
Restricted	20,557,514	19,925,712	631,802	3%	19,849,094
Total net position	**29,852,364**	**29,570,947**	**281,417**	**1%**	**29,530,152**
Total liabilities and net position	**$ 45,204,441**	**$ 43,066,243**	**$ 2,138,198**	**5%**	**$ 42,316,248**

Combined Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014, 2013 and 2012

	2014	2013	$ Change	% Change	2012
Operating revenues	$ 8,569,689	$ 8,205,177	$ 364,512	4%	$ 11,966,896
Recoveries (bad debts)	965,539	(195,047)	1,160,586	-595%	(3,574,808)
Net operating revenues	**9,535,228**	**8,010,130**	**1,525,098**	**19%**	**8,392,088**
Operating expenses	9,860,923	8,529,296	1,331,627	16%	13,287,004
Operating loss	**(325,695)**	**(519,166)**	**193,471**	**-37%**	**(4,894,916)**
Total nonoperating revenues, net	607,112	585,788	21,324	4%	266,699
Income (loss) before transfers	**281,417**	**66,622**	**214,795**	**322%**	**(4,628,217)**
Transfers out for capital development grants	-	(25,827)	25,827	-100%	(201,880)
Change in net position	**281,417**	**40,795**	**240,622**	**590%**	**(4,830,097)**
Net position - beginning	29,570,947	29,530,152	40,795	0%	34,360,249
Net position - ending	**$ 29,852,364**	**$ 29,570,947**	**$ 281,417**	**1%**	**$ 29,530,152**

FINANCIAL HIGHLIGHTS, CONTINUED

Combined Statements of Cash Flows
Years Ended September 30, 2014, 2013 and 2012

	2014	2013	$ Change	% Change	2012
Cash flows from operating activities	$ 326,100	$ (140,304)	$ 466,404	-332%	$ 614,780
Cash flows from capital and related financing activities	1,610,574	1,510,797	99,777	7%	(1,655,457)
Cash flows from investing activities	(2,617,034)	(980,598)	(1,636,436)	167%	(1,286,254)
Net (decrease) increase in cash and cash equivalents	**(680,360)**	**389,895**	**(1,070,255)**	**-274%**	**(2,326,931)**
Cash and cash equivalents at beginning of year	3,080,831	2,690,936	389,895	14%	5,017,867
Cash and cash equivalents at end of year	**$ 2,400,471**	**$ 3,080,831**	**$ (680,360)**	**-22%**	**$ 2,690,936**

Condensed Statements of Revenues, Expenses and Changes in Nets Position and Statements of Cash Flows by division for the year ended September 30, 2014 follows, with comparative information for the years ended September 30, 2013 and 2012:

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014, 2013 and 2012

Development Banking Division

	2014	2013	$ Change	% Change	2012
Operating revenues:					
Interest and fees on loans	$ 121,954	$ 128,056	$ (6,102)	-5%	$ 134,524
Interest on investments	6,997	8,460	(1,463)	-17%	11,229
Other	130,135	-	130,135	100%	-
	259,086	136,516	122,570	90%	145,753
Recoveries	124,843	122,156	2,687	2%	117,646
Net operating revenues	**383,929**	**258,672**	**125,257**	**48%**	**263,399**
Operating expenses:					
Professional fees	543	24,218	(23,675)	-98%	-
Other	25,790	27,299	(1,509)	-6%	29,320
Total operating expenses	**26,333**	**51,517**	**(25,184)**	**-49%**	**29,320**
Operating income	**357,596**	**207,155**	**150,441**	**73%**	**234,079**
Nonoperating revenues (expenses):					
Other income	143,411	207,271	(63,860)	-31%	208,477
Interest expense	(49,195)	(58,571)	9,376	-16%	(68,176)
Total nonoperating revenues, net	**94,216**	**148,700**	**(54,484)**	**-37%**	**140,301**
Income before transfers	451,812	355,855	95,957	27%	374,380
Transfers out for capital development grants	-	(25,827)	25,827	-100%	(201,880)
Change in net position	**$ 451,812**	**$ 330,028**	**$ 121,784**	**37%**	**$ 172,500**

Development Corporation Division

	2014	2013	$ Change	% Change	2012
Operating revenues:					
Interest and fees on loans	$ 511,305	$ 706,316	$ (195,011)	-28%	$ 530,332
Interest on investments	54,090	4,863	49,227	1012%	8,892
Other	483,526	201,181	282,345	140%	196,221
	1,048,921	912,360	136,561	15%	735,445

FINANCIAL HIGHLIGHTS, CONTINUED

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2014, 2013 and 2012, Continued

Development Corporation Division, Continued

	2014	2013	$ Change	% Change	2012
Recoveries (bad debts)	1,029,663	6,306	1,023,357	16228%	(2,589,420)
Net operating revenues	**2,078,584**	**918,666**	**1,159,918**	**126%**	**(1,853,975)**
Operating expenses:					
Salaries and wages	511,794	402,243	109,551	27%	496,545
Employee benefits	247,188	251,298	(4,110)	-2%	267,873
Professional fees	121,690	111,087	10,603	10%	115,303
Office rent	6,593	55,926	(49,333)	-88%	106,535
Travel	33,945	29,221	4,724	16%	24,896
Depreciation	41,044	36,055	4,989	14%	18,859
Other	123,320	190,978	(67,658)	-35%	111,106
Total operating expenses	**1,085,574**	**1,076,808**	**8,766**	**1%**	**1,141,117**
Operating income (loss)	**993,010**	**(158,142)**	**1,151,152**	**-728%**	**(2,995,092)**
Nonoperating revenues (expenses):					
Other income	5,586	955	4,631	485%	(25,580)
Gain on sale of foreclosed real estate	70,800	-	70,800	100%	-
Other expense	(12,000)	(11,164)	(836)	7%	(11,207)
Total nonoperating revenues (expenses), net	**64,386**	**(10,209)**	**74,595**	**-731%**	**(36,787)**
Change in net position	**$ 1,057,396**	**$ (168,351)**	**$ 1,225,747**	**-728%**	**$ (3,031,879)**

Northern Marianas Housing Corporation

	2014	2013	$ Change	% Change	2012
Operating revenues	$ 7,287,472	$ 7,183,600	$ 103,872	1%	$ 11,115,018
Bad debts	(188,967)	(323,509)	134,542	-42%	(1,103,034)
Net operating revenues	**7,098,505**	**6,860,091**	**238,414**	**3%**	**10,011,984**
Operating expenses	8,774,806	7,428,270	1,346,536	18%	12,145,887
Operating loss	**(1,676,301)**	**(568,179)**	**(1,108,122)**	**195%**	**(2,133,903)**
Nonoperating revenues, net	448,510	447,297	1,213	0%	163,185
Change in net position	**$ (1,227,791)**	**$ (120,882)**	**$ (1,106,909)**	**916%**	**$ (1,970,718)**

Condensed Comparative Statements of Cash Flows Years Ended September 30, 2014, 2013 and 2012

Development Banking Division

	2014	2013	$ Change	% Change	2012
Cash flows from operating activities	$ 256,832	$ 111,929	$ 144,903	129%	$ 155,006
Cash flows from capital and related financing activities	198,316	197,108	1,208	1%	25,939
Cash flows from investing activities	(455,148)	(309,037)	(146,111)	47%	(180,945)
Net change in cash and cash equivalents	-	-	-	0%	-
Cash and cash equivalents at beginning of year	-	-	-	0%	-
Cash and cash equivalents at end of year	**$ -**	**$ -**	**$ -**	**0%**	**$ -**

FINANCIAL HIGHLIGHTS, CONTINUED

Condensed Comparative Statements of Cash Flows
Years Ended September 30, 2014, 2013 and 2012, Continued

Development Corporation Division

	2014	2013	$ Change	% Change	2012
Cash flows from operating activities	$ (196,669)	$ (180,769)	$ (15,900)	9%	$ (537,370)
Cash flows from capital and related financing activities	1,089,634	568,576	521,058	92%	(1,183,046)
Cash flows from investing activities	(2,000,000)	-	(2,000,000)	100%	-
Net (decrease) increase in cash and cash equivalents	(1,107,035)	387,807	(1,494,842)	-385%	(1,720,416)
Cash and cash equivalents at beginning of year	2,974,596	2,586,789	387,807	15%	4,307,205
Cash and cash equivalents at end of year	**$ 1,867,561**	**$ 2,974,596**	**$ (1,107,035)**	**-37%**	**$ 2,586,789**

Northern Marianas Housing Corporation

	2014	2013	$ Change	% Change	2012
Cash flows from operating activities	$ 265,937	$ (71,464)	$ 337,401	-472%	$ 997,144
Cash flows from capital and related financing activities	322,624	745,113	(422,489)	-57%	(498,350)
Cash flows from investing activities	(161,886)	(671,561)	509,675	-76%	(1,105,309)
Net increase (decrease) in cash and cash equivalents	426,675	2,088	424,587	20335%	(606,515)
Cash and cash equivalents at beginning of year	106,235	104,147	2,088	2%	710,662
Cash and cash equivalents at end of year	**$ 532,910**	**$ 106,235**	**$ 426,675**	**402%**	**$ 104,147**

DCD and DBD

- In 2014, DCD had net operating revenues of $2,078,584 while DBD had $383,929. A significant part of the change in net operating revenues is loan recoveries. DCD recorded recoveries of $1,517,382 and bad debts of $487,719 in 2014 compared with recoveries of $50,152 and bad debts of $43,846 in 2013. DBD recorded recoveries of $124,843 and $122,156 in 2014 and 2013, respectively, which brought the allowance for its loans to 50% in 2014 and 2013. Interest and fees earned on loans for DCD decreased by $195,011 or 28% in fiscal year 2014 which is attributed to the loan moratorium, loan revisions due to loan judgments and the 2% Debt Relief Program. Interest and fees earned on loans for DCD in fiscal year 2013 increased by $175,984 or 33%. DBD had decreases of $6,102 or 5% in fiscal year 2014 and $6,468 or 5% in fiscal year 2013.

- In 2014, DCD recorded a $600,000 recovery due to repayments from Arctic Circle Air Co. DCD invested surplus funds in time certificates of deposit (TCDs) to take advantage of better interest rates. Related earnings on investments increased from $4,863 for the year ended September 30, 2013 to $54,090 for the year ended September 30, 2014, an increase of $49,227. DBD also invested in TCDs in fiscal year 2014 due to the continued decline of interest earned on savings deposits. Earnings on savings deposits decreased from $8,460 for the year ended September 30, 2013 to $6,997 for the year ended September 30, 2014, a decrease of $1,463 or 17%. The decrease in DBD's investments in fiscal year 2014 reflects a continued unattractive rate environment for investing funds.

FINANCIAL HIGHLIGHTS, CONTINUED

DCD and DBD, Continued

- In fiscal year 2014, operating expenses for DCD increased by $8,766 or 1% from fiscal year 2013. DBD's operating expenses in fiscal year 2014 decreased by $25,184 or 49% from fiscal year 2013. Efforts of management and staff are ongoing to reduce DCD's expenses. DBD's expenses were due to 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 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's combined change in net position increased by $1,347,531 or 833%, from 2013 to 2014. Much of this increase was due to several deficiency judgments and foreclosures on previously non-performing loans and the resulting change in the valuation allowance.

NMHC

- Total assets increased by 2% from $18,764,946 in fiscal year 2013 to $19,176,018 in fiscal year 2014 and by 4% from $18,061,903 in fiscal year 2012 to $18,764,946 in fiscal year 2013 mainly due to increases in current and other assets.

- Total liabilities increased by 14% from $11,681,015 in fiscal year 2013 to $13,319,878 in fiscal year 2014 and by 8% from $10,857,090 in fiscal year 2012 to $11,681,015 in fiscal year 2013.

- Total net position decreased by 17% from $7,083,931 in fiscal year 2013 to $5,856,140 in fiscal year 2014 and by 2% from $7,204,813 in fiscal year 2012 to $7,083,931 in fiscal year 2013.

- Net operating revenues increased by 3% from $6,860,091 in fiscal year 2013 to $7,098,505 in fiscal year 2014 and decreased by 31% from $10,011,984 in fiscal year 2012 to $6,860,091 in fiscal year 2013. The increase in fiscal year 2014 is attributable to an increase in federal housing assistance rentals and CDBG Program revenue. The decrease in fiscal year 2013 is attributable to a decrease in LIHTC Program grant revenues.

- Total operating expenses increased by 18% from $7,428,270 in fiscal year 2013 to $8,774,806 in fiscal year 2014 and decreased by 39% from $12,145,887 in fiscal year 2012 to $7,428,270 in fiscal year 2013. The increase in fiscal year 2014 is attributable to an increase in expenses incurred under the CDBG Program, the HOME program and the provision for loan guaranty. The decrease in fiscal year 2013 is primarily attributable to a decrease in expenses incurred under the LIHTC Program, CDBG program and the HPRP grant.

2014 SUBSEQUENT FINANCIAL HIGHLIGHTS

CDA's equity investment of $600,000 in Arctic Circle Air Co., which was converted to a chattel mortgage loan for $649,000 at 7% interest on March 12, 2014, was paid-off in February 2015.

In December 2014, the Board of Directors approved lifting the loan moratorium and subsequently launched the Small Business Microloan Program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2014 and 2013, CDA had $9,294,850 and $9,645,235, respectively, invested in capital assets, net of depreciation, where applicable. This represents a net decrease of $350,385 or 4%, during fiscal year 2014.

	2014	2013	2012
Property and equipment, net	$ 1,822,320	$ 2,072,705	$ 2,108,528
Land	7,472,530	7,572,530	7,572,530
	$ 9,294,850	$ 9,645,235	$ 9,681,058

See note 8 to the financial statements for more detailed information on CDA's capital assets and changes therein.

Long-Term Debt

At September 30, 2014 and 2013, CDA had $722,040 and $831,943, respectively, in long-term debt outstanding. See note 10 to the financial statements for more detailed information on CDA's long-term debt and changes therein.

ECONOMIC OUTLOOK

DBD and DCD

CDA is affected by economic forces at play globally as well as locally. The ongoing increase in tourist arrivals confirms that tourism activity in the CNMI is improving faster than anticipated, which indicates that the worst may be over and, while the future remains uncertain, there is some reason for optimism. The approval of $13.2 million in funding by the U.S. Department of Treasury, 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.

The issuance of the exclusive Saipan casino license has also significantly impacted the economic and real estate activities.

CDA is slowly closing the gap in funding its ongoing operations from earnings generated by its loan portfolios and investments. Management is addressing this problem through a combination of, but not limited to, revenue enhancement and expense reduction. CDA has moved its office to a newly acquired building to save $77,000 in annual office rent. The budget for fiscal year 2015 is expected to reflect some moderate shortfalls. CDA also offers finance leases with an option to purchase some of its properties in a move not only to recover the principal balances but also to offload its property inventory acquired from foreclosures. CDA also offers a debt relief program to bring qualified borrowers to a performing and 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".

ECONOMIC OUTLOOK, CONTINUED

NMHC

As in previous years, continuing economic challenges still exist; however, 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.

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in CDA's report on the audit of financial statements, which is dated June 4, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be viewed at the Office of the Public Auditor's website at www.opacnmi.com.

CONTACTING CDA AND NMHC'S MANAGEMENT

This financial report is designed to provide a general overview of CDA's financial condition and to demonstrate its accountability for monies received. If you have questions about this report 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 96950-0514 or call (670) 234-6866/9447 or send email to jspalacios@nmhcgov.net.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Net Position
September 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	$ 2,400,471	$ 3,080,831
Time certificates of deposit	2,000,000	-
Receivables:		
Current portion of loans receivable, net	5,462,675	4,622,902
Current portion of finance lease receivable, net	76,649	78,610
Rent, net	28,948	16,834
Accrued interest, net of allowance for doubtful accounts of $1,878,918 and $1,368,165 as of September 30, 2014 and 2013, respectively	356,849	377,281
Other, net	278,268	27,438
Notes receivable	275,769	-
Prepaid expenses	12,612	4,171
Total current assets	10,892,241	8,208,067
Other assets:		
Cash and cash equivalents, restricted	7,025,588	9,179,533
Time certificates of deposits, restricted	2,800,000	-
	9,825,588	9,179,533
Noncurrent assets:		
Loans receivable, net of current portion	11,315,756	12,454,526
Finance lease receivable, net of current portion	1,551,301	1,593,329
Property and equipment, net	1,822,320	2,072,705
Land, net	7,472,530	7,572,530
Foreclosed real estate, net	2,324,705	1,985,553
Total noncurrent assets	24,486,612	25,678,643
	$ 45,204,441	$ 43,066,243
LIABILITIES AND NET POSITION		
Current liabilities:		
Current installments of note payable to related party	$ 212,697	$ 157,100
Accounts payable and accrued expenses	1,059,352	911,641
Unearned revenues	15,212	15,212
Due to grantor agency	916,690	928,219
Reserve for loan guaranty	4,281,967	2,983,723
Total current liabilities	6,485,918	4,995,895
Note payable to related party, net of current installments	509,343	674,843
Unearned revenues, net of current portion	8,356,816	7,824,558
Total liabilities	15,352,077	13,495,296
Commitments and contingencies		
Net position:		
Net investment in capital assets	9,294,850	9,645,235
Restricted	20,557,514	19,925,712
Total net position	29,852,364	29,570,947
	$ 45,204,441	$ 43,066,243

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues:		
Section 8 income:		
Federal housing assistance rentals	$ 5,019,865	$ 4,990,898
Tenant share	66,368	120,972
Community Development Block Grants (CDBG) Program	1,154,835	251,785
Interest and fees on loans	875,811	1,171,796
HOME Investment Partnership Grant program income	233,039	190,980
Economic Development Initiative (EDI) Program	196,024	183,844
HOME Investment Partnership Program Grant	155,465	684,142
Emergency Shelter Grants (ESG) Program	117,841	79,602
Neighborhood Stabilization Program (NSP) Grant	47,599	299,939
Interest and dividends on investments	61,087	13,323
Housing rental	24,461	23,054
Deferred HOME loans program income	-	15,905
Other	617,294	178,937
	8,569,689	8,205,177
Recovery of loan impairment (bad debts)	853,258	(237,915)
Recovery of investment impairment	600,000	-
(Provision for) recovery of foreclosed real estate	(487,719)	42,868
Net operating revenues	9,535,228	8,010,130
Operating expenses:		
Section 8 rental	3,063,935	3,153,059
CDBG Program	1,154,835	251,785
HOME Investment Partnership Grant program income	233,039	190,980
EDI Program	196,024	183,844
HOME Investment Partnership Program Grant	155,465	684,142
ESG Program	117,841	79,602
NSP Grant	47,599	299,939
Operations:		
Provision for loan guaranty	1,298,244	360,933
Salaries and wages	1,175,415	1,072,137
Utilities	524,450	531,393
Repairs and maintenance	516,289	432,023
Employee benefits	366,190	358,300
Depreciation	266,315	240,532
Professional fees	252,668	282,314
Travel	138,382	88,968
Rent	21,750	65,826
Other	332,482	253,519
Total operating expenses	9,860,923	8,529,296
Operating loss	(325,695)	(519,166)
Nonoperating revenues (expenses):		
Recovery	362,176	-
Other income	148,997	208,226
Gain on sale of land	66,500	-
Litigation judgment	45,828	522,838
Interest income	29,021	19,442
Gain (loss) on sale of foreclosed properties	15,785	(94,983)
Interest expense	(49,195)	(58,571)
Other expense	(12,000)	(11,164)
Total nonoperating revenues, net	607,112	585,788
Income before transfers	281,417	66,622
Transfers out for capital development grants	-	(25,827)
Change in net position	281,417	40,795
Net position - beginning	29,570,947	29,530,152
Net position - ending	$ 29,852,364	$ 29,570,947

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	$ 880,622	$ 1,087,635
Interest and dividends on investments	59,016	13,323
Cash payments to suppliers for goods and services	(406,395)	(906,319)
Cash received from customers	278,236	273,352
Cash payments to employees for services	(1,422,603)	(1,323,435)
Cash received from federal grant awards	6,913,139	6,666,472
Cash payments from federal grant awards	(6,200,238)	(5,951,332)
Cash received for loan commitment	206,631	-
Cash received from interest on notes receivable	17,692	-
Net cash provided by (used for) operating activities	326,100	(140,304)
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(15,930)	(207,001)
Proceeds from sale of property and equipment	4,985	3,692
Proceeds from sale of foreclosed real estate	70,250	119,417
Net receipts of loans receivable	828,432	1,159,866
Net receipts of notes receivable	324,231	-
Net receipts (disbursements) of finance lease receivable	115,478	(21,526)
Proceeds from sale of land	166,500	-
Gain (loss) on sale of foreclosed real estate	70,800	(40,662)
Cash received from litigation judgment	45,828	522,838
Transfers for capital development grants	-	(25,827)
Net cash provided by capital and related financing activities	1,610,574	1,510,797
Cash flows from investing activities:		
Purchase of restricted cash and cash equivalents and time certificates of deposit	(2,646,055)	(1,000,040)
Interest received	29,021	19,442
Net cash used for investing activities	(2,617,034)	(980,598)
Net (decrease) increase in cash and cash equivalents	(680,360)	389,895
Cash and cash equivalents at beginning of year	3,080,831	2,690,936
Cash and cash equivalents at end of year	$ 2,400,471	$ 3,080,831
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (325,695)	$ (519,166)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activites:		
(Recovery of loan impairment) bad debts	(853,258)	237,915
Recovery of investment impairment	(600,000)	-
Recovery	362,176	-
Provision for loan guaranty	1,298,244	360,933
Provision for (recovery of) foreclosed real estate	487,719	(42,868)
Depreciation	266,315	240,532
Gain on disposal of property and equipment	(4,985)	(1,400)
Gain on foreclosure of collateral	(195,442)	-
Finance lease revenue	(171,349)	(51,632)
Other	(6,414)	(11,164)
(Increase) decrease in assets:		
Receivables:		
Rent	(12,114)	77,191
Finance lease	11,631	(21,745)
Other	(93,361)	8,521
Accrued interest	20,432	(84,162)
Prepaid expenses	(8,441)	52
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	132,024	(266,360)
Unearned revenues	30,147	(52,232)
Due to grantor agency	(11,529)	(14,719)
Net cash provided by (used for) operating activities	$ 326,100	$ (140,304)

See accompanying notes to financial statements.

Statements of Cash Flows, Continued
Years Ended September 30, 2014 and 2013

	2014	2013
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of loans receivable:		
Noncash increase in loans receivable	$ 344,642	$ 830,278
Noncash increase in other receivables	433,238	-
Noncash increase in unearned revenue	(502,111)	(830,278)
Noncash increase in revenue	(275,769)	-
	$ -	$ -
Recognition of foreclosed properties:		
Noncash increase (decrease) in foreclosed real estate	$ 502,417	$ (8,306)
Noncash decrease in loans receivable	(631,788)	(47,738)
Noncash increase in finance lease receivable	129,371	56,044
	$ -	$ -
Loan payable to MPLT:		
Noncash decrease in note payable to related party	$ 109,903	$ 148,700
Noncash interest expense	49,195	58,571
Noncash other income	(143,411)	(207,271)
Noncash increase in interest payable	(15,687)	-
	$ -	$ -

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 position restricted for such purposes.

(1) Reporting Entity, Continued

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;
- 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 position, except net investment 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 position, except net investment 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. CDA utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(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 position. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net position. 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 position and of 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, 2014 and 2013, total cash and cash equivalents and time certificates of deposit were $14,226,059 and $12,260,364, respectively, and the corresponding bank balances were $8,067,655 and $12,339,707, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $500,000 were FDIC insured as of September 30, 2014 and 2013. CNMI law does not require component units to collateralize their bank accounts and thus CDA's deposits in excess of FDIC insurance are uncollateralized.

Prepaid Expenses

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

Property and Equipment

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

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

(2) Summary of Significant Accounting Policies, Continued

Land

Land is recorded at fair market value at the date of acquisition. Valuations are periodically performed by management and adjustments are made to reflect the land at the lower of the carrying amount or fair market value. The carrying amount of the land is evaluated on an annual basis to determine impairment by estimating the recoverable value. Recoverable value is based on management's historical knowledge and changes in market conditions from the time of valuation. An impairment loss is recognized in the period in which it arises.

Foreclosed Real Estate

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

Loans Receivable, Interest Receivable and Allowance for Loan Losses

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

Finance Lease Receivables

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

(2) Summary of Significant Accounting Policies, Continued

Restricted Cash and Cash Equivalents and Time Certificates of Deposit

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

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

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

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 performing loans. DCD recognizes interest income on nonperforming loans based on management's assessment of collectability. 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.

Unearned Revenues

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. Unearned revenue of DCD represents prepaid lease income on foreclosed real estate held for lease of $657,784 and $627,637 as of September 30, 2014 and 2013, respectively. Amounts to be recognized over the terms of the leases are as follows:

(2) Summary of Significant Accounting Policies, Continued

Unearned Revenues, Continued

Year ending September 30,	Lease Recognition
2015	$ 15,212
2016	15,213
2017	15,213
2018	15,213
2019	15,212
2020 - 2024	69,921
2025 - 2029	67,650
2030 - 2034	67,650
2035 - 2039	67,650
2040 - 2044	67,650
2045 - 2049	67,650
2050 - 2054	61,240
2055 - 2059	57,010
2060 - 2061	55,300
	$ 657,784

Unearned revenues of NMHC represent recorded loans receivable from individuals eligible under the HOME Investment Partnership and Neighborhood Stabilization programs administered by NMHC. NMHC recorded unearned HOME loan revenue of $-0- and $15,905 for the years ended September 30, 2014 and 2013, respectively, and unearned revenues of $7,714,244 and $7,212,133 as of September 30, 2014 and 2013, 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, 2014 and 2013 was approximately $327,059 and $318,822, respectively.

Recovery

Public Law 9-66 requires public corporations or other autonomous agencies to pay to the Commonwealth Treasurer an amount not less than one percent of total operation budgets, and such funds will be deposited into a special account of the CNMI general fund to be solely used for the operations and activities of the Office of the Public Auditor (OPA). OPA had taken the position that operation budgets include both local and federal funding sources. On December 25, 2014, OPA and NMHC agreed to exempt NMHC from paying the 1% OPA fee as funds received by NMHC are not locally generated and, therefore, are not subject to Public Law 9-66. NMHC recognized a recovery of $362,176 during the year ended September 30, 2014.

(2) Summary of Significant Accounting Policies, Continued

Litigation Judgment

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. NMHC recorded litigation judgment revenue of $45,828 and $522,838 during the years ended September 30, 2014 and 2013, respectively, and recorded receivables of $157,469 and $-0- (inclusive of interest of nine percent (9%) per annum) as of September 30, 2014 and 2013, respectively.

Retirement Plan

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

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. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. All but four active CDA employees voluntarily terminated membership in the DB Plan and CDA and NMHC contributed $162,338 and $179,910 to the DB Plan during the years ended September 30, 2014 and 2013, respectively.

At September 30, 2014 and 2013, CDA and NMHC contributed social security benefits of $87,613 and $74,025, respectively.

(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 and NMHC are required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CDA and NMHC's recorded DC contributions for the years ended September 30, 2014, 2013 and 2012 were $24,409, $21,127 and $27,764, 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 Position

CDA's net position is classified as follows:

- Net investment in capital assets; capital assets, net of accumulated depreciation.
- Restricted:

  Nonexpendable - Net position subject to externally imposed stipulations that CDA maintain them permanently. At September 30, 2014 and 2013, CDA does not have nonexpendable net position.

  Expendable - Net position 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 net investments in capital assets, to be restricted for economic development.

- Unrestricted; Net position that is not subject to externally imposed stipulations. As CDA considers all assets, except net investments in capital assets, to be restricted for economic development, CDA does not have unrestricted net position of September 30, 2014 and 2013.

New Accounting Standards

During the year ended September 30, 2014, CDA implemented the following pronouncements:

- GASB 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 implementation of this statement 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. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Statement 68 will require CDA to recognize a net pension liability based on the percentage of the actuarial present value of projected benefit payments allocated to CDA by the Northern Mariana Islands Settlement Fund (the Settlement Fund). The Settlement Fund has not communicated amounts to CDA which may be material and will be recorded on October 1, 2014. The implementation of this statement may have a material effect on the financial statements of CDA and may require a restatement disclosure upon implementation.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of CDA.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68,* which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

(2) Summary of Significant Accounting Policies, Continued

Off-Balance Sheet Financial Instruments

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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.

At September 30, 2014 and 2013, restricted cash and cash equivalents and time certificates of deposit amounting to $5,205,686 and $4,750,538, respectively, consist of amounts held in demand deposit accounts. These amounts 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, 2014 and 2013, restricted cash and cash equivalents consist of amounts held in demand deposit accounts which are maintained in financial institutions subject to FDIC. CNMI law does not require component units to collateralize their bank accounts and thus NMHC's deposits in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

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

NMHC, Continued

Restricted cash and cash equivalents:

	2014	2013
Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	$ 3,237,677	$ 2,879,935
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	200,348	200,107
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	91	91
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,134,808	1,305,144
Other depository accounts reserved for various purposes	46,978	43,718
	$ 4,619,902	$ 4,428,995

(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, 2014 and 2013, 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.

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.

(4) Loans Receivable, Continued

DCD, Continued

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

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, 2014 and 2013 (with combining information as of September 30, 2014), are as follows:

	DBD	DCD	NMHC	2014	2013
General	$ -	$ 30,798,349	$ 503,508	$ 31,301,857	$ 30,800,101
HOME Investment Partnerships Act grant			6,559,042	6,559,042	6,403,873
Marine	-	5,839,826	-	5,839,826	6,280,171
Capital development loan receivable from related party	4,757,440	-	-	4,757,440	5,007,126
Direct family home loans	-	-	2,809,173	2,809,173	2,950,771
Agriculture	-	1,511,706	-	1,511,706	1,982,285
Neighborhood Stabilization Program (NSP) grant	-	-	863,506	863,506	680,120
Housing construction	-	-	465,017	465,017	478,401
Tinian turnkey	-	-	457,470	457,470	464,373
Section 8	-	-	371,127	371,127	365,085
Home revenue bond	-	-	61,249	61,249	94,473
Housing preservation grant	-	-	17,410	17,410	19,280
Veterans aid	-	-	10,800	10,800	-
Loan principal receivable	4,757,440	38,149,881	12,118,302	55,025,623	55,526,059
Less allowance for loan losses	(2,378,720)	(27,783,553)	(8,084,919)	(38,247,192)	(38,448,631)
Net loans receivable	$ 2,378,720	$ 10,366,328	$ 4,033,383	$ 16,778,431	$ 17,077,428

Maturities of the above principal balances subsequent to September 30, 2014 will be as follows:

	DBD	DCD	NMHC	Total
Fully matured and others	$ -	$ 26,276,390	$ 1,179,168	$ 27,455,558
1 - 6 months	127,653	3,089,323	870,539	4,087,515
7 - 18 months	258,851	2,340,015	840,506	3,439,372
19 months - 3 years	400,655	869,182	1,230,665	2,500,502
After 3 years	3,970,281	5,574,971	7,997,424	17,542,676
	$ 4,757,440	$ 38,149,881	$ 12,118,302	$ 55,025,623

(4) Loans Receivable, Continued

Allowance for Loan Losses

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

	DBD	DCD	NMHC	2014	2013
Balance - beginning of year	$ 2,503,563	$ 27,924,427	$ 8,020,641	$ 38,448,631	$ 36,003,017
(Recovery of) provision for loan losses	(124,843)	(917,382)	123,770	(918,455)	425,948
Effect of summary judgments	-	1,200,518	-	1,200,518	3,960,557
Write-off of loans	-	(424,010)	(59,492)	(483,502)	(1,940,891)
Balance - end of year	$ 2,378,720	$ 27,783,553	$ 8,084,919	$ 38,247,192	$ 38,448,631

During the years ended September 30, 2014 and 2013, CDA increased loans receivable and the allowance for loan losses by $1,200,518 and $3,960,557, respectively, based on summary judgments issued by the courts.

(5) Notes Receivable

On November 15, 2011, CDA entered into an agreement to unconditionally guaranty a loan of Arctic Circle Air Co. (Arctic Circle) with Independence Bank. The agreement provides that CDA purchase 600,000 shares of Arctic Circle class A common stock, no par value, at an aggregate purchase price of $600,000. The agreement further provides that the investment be secured by a pledge agreement which requires CDA to transfer $600,000 to an escrow account, in Arctic Circle's name, with Independence Bank.

On November 21, 2012, CDA and Arctic Circle amended the stock purchase agreement to convert the total number of shares from 600,000 shares of class A common stock to (i) 94,600 shares of class B common stock, at a purchase price of $94,600 and (ii) 505,400 shares of preferred stock, at a purchase price of $505,400. The investment was 100% allowed for as of September 30, 2013.

On March 12, 2014, CDA and Arctic Circle entered into an agreement to convert shares of Arctic Circle into a note, and established monthly repayments inclusive of 7% interest commencing on the date of the note. The note was secured by a chattel mortgage loan for $649,000. As of September 31, 2014, the note receivable balance was $275,769.

(6) Finance Leases

DCD

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, 2014 and 2013 amounted to $47,211 and $51,633, respectively. Future minimum lease rentals and future minimum lease income under these arrangements as of September 30, 2014, are as follows:

(6) Finance Leases, Continued

DCD, Continued

Year ending September 30,	Minimum Lease Rentals	Minimum Lease Income	Net 2014	Net 2013
2014	$ -	$ -	$ -	$ 66,666
2015	108,831	45,732	63,099	65,847
2016	108,831	45,732	63,099	65,747
2017	108,831	45,732	63,099	65,747
2018	108,831	45,732	63,099	65,747
2019	112,992	45,660	67,332	-
Thereafter	1,787,841	1,025,254	762,587	805,490
	$ 2,336,157	$ 1,253,842	1,082,315	1,135,244
	Less current portion		63,099	66,666
	Noncurrent portion		$ 1,019,216	$ 1,068,578

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 years ended September 30, 2014 and 2013 amounted to $24,461 and $23,054, respectively. Future minimum lease rentals under these arrangements as of September 30, 2014, are as follows:

Year ending September 30,	Minimum Lease Rentals	Minimum Lease Income	Net 2014	Net 2013
2014	$ -	$ -	$ -	$ 11,944
2015	43,577	30,027	13,550	12,271
2016	39,539	26,152	13,387	12,867
2017	39,539	25,514	14,025	13,207
2018	39,826	24,840	14,986	14,158
2019	41,707	26,297	15,410	-
Thereafter	768,028	293,751	474,277	472,248
	$ 972,216	$ 426,581	545,635	536,695
	Less current portion		13,550	11,944
	Noncurrent portion		$ 532,085	$ 524,751

(7) Investments

A Memorandum of Agreement (MOA) was established between CDA and the 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.

(7) Investments, Continued

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 were to be paid to CDA beginning October 1, 2012 but were not received. The Agreement cancels and discharges the indebtedness of CUC to CDA of $61,568,750 in principal and $138,670,797 in accrued interest, including related late charges and any other charges owed by CUC on the capital development loans.

CUC issued to CDA forty-five shares of preferred stock with a par value of $1,000,000 per share for a total aggregate value of $45,000,000 dated September 28, 2009. The preferred stock yields guaranteed dividends at two percent per annum payable quarterly in advance. The dividends of the preferred stock are cumulative from and after October 1, 2009 and bear no interest. CDA has taken the position that the value of the preferred stock represents the net present value of the future stream of dividend payments required by CUC and not the face value of the stock itself. At September 30, 2014 and 2013, 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. In accordance with the Agreement, CDA was to receive dividends of $4,500,000 during the year ended September 30, 2014, which were factored into the recorded investment. Such dividends were not received justifying the 100% valuation allowance.

Minimum 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) under the original agreement 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

(8) Property and Equipment

Property and equipment consist of the following at September 30, 2014 and 2013:

DCD

	Estimated Useful Lives	Balance at October 1, 2013	Additions	Deletions	Balance at September 30, 2014
Land, net		$ 184,348	$ -	$ -	$ 184,348
Structure and improvements	7 years	702,213	-	-	702,213
Vehicles/office equipment	3 - 5 years	110,857	7,385	-	118,242
Computer equipment	3 - 5 years	40,244	7,810	-	48,054
Furniture and fixtures	7 years	114,741	735	(15,671)	99,805
		1,152,403	15,930	(15,671)	1,152,662
Less accumulated depreciation		(240,894)	(41,044)	15,671	(266,267)
		$ 911,509	$ (25,114)	$ -	$ 886,395

	Estimated Useful Lives	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Land, net		$ 184,348	$ -	$ -	$ 184,348
Structure and improvements	7 years	1,102,613	75,559	(475,959)	702,213
Vehicles/office equipment	3 - 5 years	95,913	29,737	(14,793)	110,857
Computer equipment	3 - 5 years	52,921	15,946	(28,623)	40,244
Furniture and fixtures	7 years	118,424	-	(3,683)	114,741
		1,554,219	121,242	(523,058)	1,152,403
Less accumulated depreciation		(725,605)	(36,055)	520,766	(240,894)
		$ 828,614	$ 85,187	$ (2,292)	$ 911,509

NMHC

	Estimated Useful Lives	Balance at October 1, 2013	Additions	Deletions	Balance at September 30, 2014
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,500,086	$ -	$ -	$ 2,500,086
Section 8 Koblerville Housing	30 years	1,954,050	-	-	1,954,050
Section 8 Rota Housing	30 years	1,200,484	-	-	1,200,484
Section 8 Tinian Housing	30 years	1,084,553	-	-	1,084,553
Section 8 Housing Phase II	30 years	637,704	-	-	637,704
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,977,392	-	-	7,977,392
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	555,867	-	(5,788)	550,079
Vehicles	3 years	209,085	-	(20,250)	188,835
		4,446,674	-	(26,038)	4,420,636
		12,424,066	-	(26,038)	12,398,028
Less accumulated depreciation		(11,078,522)	(225,271)	26,038	(11,277,755)
		$ 1,345,544	$ (225,271)	$ -	$ 1,120,273

(8) Property and Equipment, Continued

NMHC, Continued

	Estimated Useful Lives	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,500,086	$ -	$ -	$ 2,500,086
Section 8 Koblerville Housing	30 years	1,954,750	-	(700)	1,954,050
Section 8 Rota Housing	30 years	1,200,484	-	-	1,200,484
Section 8 Tinian Housing	30 years	1,124,759	2,000	(42,206)	1,084,553
Section 8 Housing Phase II	30 years	637,704	-	-	637,704
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		8,018,298	2,000	(42,906)	7,977,392
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	593,940	25,151	(63,224)	555,867
Vehicles	3 years	150,477	58,608	-	209,085
		4,426,139	83,759	(63,224)	4,446,674
		12,444,437	85,759	(106,130)	12,424,066
Less accumulated depreciation		(10,980,175)	(204,477)	106,130	(11,078,522)
		$ 1,464,262	$ (118,718)	$ -	$ 1,345,544

NMHC also holds title to approximately 335,542 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 071 D 01, containing an area of 37,145 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.
8. Lot 014 D 01, containing an area of 39,816 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

(8) Property and Equipment, Continued

NMHC, Continued

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 $7,288,182 and $7,388,182 at September 30, 2014 and 2013, respectively, which is net of impairment loss valuation allowance 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.

On March 30, 2014 and May 7, 2014, NMHC sold Lot Nos. 003 D 22 and 003 D16, respectively, for a sum total of $166,500, resulting in a gain on sale of land of $66,500.

(9) Foreclosed Real Estate

A summary of the changes in foreclosed real estate and the related valuation allowance as of September 30, 2014 and 2013 is as follows:

	DCD		NMHC	2014	2013
	For Sale	For Lease			
Foreclosed Real Estate:					
Balance at beginning of year	$ 883,598	$ 1,898,000	$ 622,479	$ 3,404,077	$ 3,518,370
Additions	975,438	-	75,000	1,050,438	338,600
Deletions	(26,000)	(100,000)	(185,567)	(311,567)	(452,893)
	1,833,036	1,798,000	511,912	4,142,948	3,404,077
Valuation allowance	(837,237)	(981,006)	-	(1,818,243)	(1,418,524)
Balance at end of year	$ 995,799	$ 816,994	$ 511,912	$ 2,324,705	$ 1,985,553
Valuation Allowance:					
Balance at beginning of year	$ 362,518	$ 1,056,006	$ -	$ 1,418,524	$ 1,394,596
Provisions	487,719	-	-	487,719	71,500
Write-offs/transfers	(13,000)	(75,000)	-	(88,000)	(47,572)
Balance at end of year	$ 837,237	$ 981,006	$ -	$ 1,818,243	$ 1,418,524

(10) Note Payable to Related Party

	2014	2013
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, 2014 and 2013, CDA recorded other income of $143,411 and $207,271, respectively.	$ 722,040	$ 831,943

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
2015	$ 212,697	$ 49,823	$ 262,520
2016	173,900	27,128	201,028
2017	182,300	15,450	197,750
2018	153,143	3,662	156,805
	$ 722,040	$ 96,063	$ 818,103

Changes in notes payable for the years ended September 30, 2014 and 2013, are as follows:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due Within One Year
DBD	$ 831,943	$ -	$ (109,903)	$ 722,040	$ 212,697

	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
DBD	$ 980,643	$ -	$ (148,700)	$ 831,943	$ 157,100

(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".

(11) Transfers for Capital Development Grants, Continued

Transfers for capital development grants consist of (a) transfers to the CNMI for capital projects of the CNMI First and Second Senatorial Districts pursuant to Public Law No. 13-56 of $-0- for the years ended September 30, 2014 and 2013, and (b) transfers to the CNMI for renovations and repair of Tinian Municipal Buildings pursuant to Public Law No. 17-8 of $-0- and $25,827 for the years ended September 30, 2014 and 2013, respectively.

(12) Related Party Transactions

CDA maintains depository accounts in FDIC insured financial institutions. A former 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 $8,043,981 and $12,339,707 as of September 30, 2014 and 2013, respectively. Management is of the opinion that transactions with this financial institution are of similar terms and conditions as with unrelated parties.

NMHC purchased $6,536 and $10,094 of supplies and materials from related parties during the years ended September 30, 2014 and 2013, respectively. Related liabilities of $951 and $2,044 are included within accounts payable and accrued expenses in the accompanying Statements of Net Position. Management believes that the purchases were consummated on terms equivalent to those in arm's length transactions.

(13) Commitments and Contingencies

Commitments

CDA leases certain foreclosed real estate properties for periods ranging from one to fifty-five years. CDA also leases commercial space in its building for one to two year periods with monthly leases of $100 to $600 per unit. Total lease income for the years ended September 30, 2014 and 2013 amounted to $109,671 and $144,571, respectively. Minimum future lease income for all leases is as follows:

Year ending September 30,	Minimum Lease Income Due
2015	$ 126,900
2016	78,260
2017	67,068
2018	66,492
2019	66,492
Thereafter	2,833,262
	$ 3,238,474

CDA leases its office space and equipment in Rota for an annual rental of $6,668. Total minimum future rentals are $6,468 under this operating lease for the year ending September 30, 2015.

(13) Commitments and Contingencies, Continued

Contingencies

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 $193,914 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2014. 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, 2014 and 2013, NMHC has guaranteed outstanding loans of $11,279,779 and $11,270,655, respectively, and the amount of delinquent loans related to the agreement was $5,334,532 and $7,690,598, respectively. As of September 30, 2014 and 2013, total delinquent loans with demand notices from RD were $4,104,170 and $2,757,682, respectively, for which NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of $4,104,170 and $2,983,723, respectively, in the accompanying financial statements exclusive of reserves for the remaining non-delinquent and delinquent loans without demand notices of $177,797 and $226,041, respectively.

As of September 30, 2014 and 2013, 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 $3,237,677 and $2,879,935, 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.

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, 2014 and 2013, NMHC was contingently liable for $298,864 and $325,353, 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, 2014 and 2013 was $91 and, respectively, which is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2014 and 2013, total defaulted loans related to this arrangement were $136,986 and $173,259, respectively.

(13) Commitments and Contingencies, Continued

Contingencies, Continued

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, 2014 and 2013, NMHC was contingently liable to these institutions for $1,427,680 and $1,542,906, respectively. As of September 30, 2014 and 2013, the total defaulted loans related to these arrangements were $233,248 and $182,263, respectively.

NMHC is involved in various claims and lawsuits arising in the normal course of business. However, the ultimate outcome of the claims and lawsuits are unknown at the present time. Accordingly, no provision for any liability that might result has been made in the accompanying financial statements.

(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.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Net Position
September 30, 2014

ASSETS	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Elimination Entries	Total
Current assets:					
Cash and cash equivalents	$ -	$ 1,867,561	$ 532,910	$ -	$ 2,400,471
Time certificates of deposit	-	2,000,000	-	-	2,000,000
Receivables:					
Current portion of loans receivable, net	255,962	4,387,221	819,492	-	5,462,675
Current portion of finance lease receivable, net	-	63,099	13,550	-	76,649
Rent, net	-	-	28,948	-	28,948
Accrued interest, net	8,914	11,419	336,516	-	356,849
Other, net	-	119,911	158,357	-	278,268
Note receivable	-	275,769	-	-	275,769
Prepaid expenses	-	12,612	-	-	12,612
Total current assets	264,876	8,737,592	1,889,773	-	10,892,241
Other assets:					
Cash and cash equivalents, restricted	2,405,686	-	4,619,902	-	7,025,588
Time certificates of deposits, restricted	2,800,000	-	-	-	2,800,000
	5,205,686	-	4,619,902	-	9,825,588
Noncurrent assets:					
Loans receivable, net of current portion	2,122,758	5,979,107	3,213,891	-	11,315,756
Finance lease receivable, net of current portion	-	1,019,216	532,085	-	1,551,301
Due from other funds	-	2,188	-	(2,188)	-
Property and equipment, net	-	702,047	1,120,273	-	1,822,320
Land, net	-	184,348	7,288,182	-	7,472,530
Foreclosed real estate, net	-	1,812,793	511,912	-	2,324,705
Total noncurrent assets	2,122,758	9,699,699	12,666,343	(2,188)	24,486,612
	$ 7,593,320	$ 18,437,291	$ 19,176,018	$ (2,188)	$ 45,204,441
LIABILITIES AND NET POSITION					
Current liabilities:					
Current installments of notes payable to related party	$ 212,697	$ -	$ -	$ -	$ 212,697
Accounts payable and accrued expenses	15,687	636,688	406,977	-	1,059,352
Unearned revenues	-	15,212	-	-	15,212
Due to grantor agency	-	-	916,690	-	916,690
Reserve for loan guaranty	-	-	4,281,967	-	4,281,967
Total current liabilities	228,384	651,900	5,605,634	-	6,485,918
Notes payable to related party, net of current installments	509,343	-	-	-	509,343
Due to other funds	2,188	-	-	(2,188)	-
Unearned revenues, net of current portion	-	642,572	7,714,244	-	8,356,816
Total liabilities	739,915	1,294,472	13,319,878	(2,188)	15,352,077
Net position:					
Net investment in capital assets	-	886,395	8,408,455	-	9,294,850
Restricted	6,853,405	16,256,424	(2,552,315)	-	20,557,514
Total net position	6,853,405	17,142,819	5,856,140	-	29,852,364
	$ 7,593,320	$ 18,437,291	$ 19,176,018	$ (2,188)	$ 45,204,441

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2014

	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Elimination Entries	Total
Operating revenues:					
Section 8 income:					
Federal housing assistance rentals	$ -	$ -	$ 5,019,865	$ -	$ 5,019,865
Tenant share	-	-	66,368	-	66,368
Interest and fees on loans	121,954	511,305	242,552	-	875,811
HOME Investment Partnership Program Grant	-	-	155,465	-	155,465
NSP Grant	-	-	47,599	-	47,599
CDBG Program	-	-	1,154,835	-	1,154,835
HOME Investment Partnership Grant program income	-	-	233,039	-	233,039
EDI Program	-	-	196,024	-	196,024
ESG Program	-	-	117,841	-	117,841
Housing rental	-	-	24,461	-	24,461
Interest and dividends on investments	6,997	54,090		-	61,087
Other	130,135	483,526	29,423	(25,790)	617,294
	259,086	1,048,921	7,287,472	(25,790)	8,569,689
Recovery of loan impairment (bad debts)	124,843	917,382	(188,967)	-	853,258
Provision for foreclosed real estate	-	(487,719)	-	-	(487,719)
Recovery of investment impairment	-	600,000	-	-	600,000
Net operating revenues	383,929	2,078,584	7,098,505	(25,790)	9,535,228
Operating expenses:					
Section 8 rental	-	-	3,063,935	-	3,063,935
HOME Investment Partnership Program Grant	-	-	155,465	-	155,465
NSP Grant	-	-	47,599	-	47,599
CDBG Program	-	-	1,154,835	-	1,154,835
HOME Investment Partnership Grant program income	-	-	233,039	-	233,039
EDI Program	-	-	196,024	-	196,024
ESG Program	-	-	117,841	-	117,841
Operations:					
Salaries and wages	-	511,794	663,621	-	1,175,415
Utilities	-	31,835	492,615	-	524,450
Repairs and maintenance	-	16,640	499,649	-	516,289
Provision for loan guaranty	-	-	1,298,244	-	1,298,244
Employee benefits	-	247,188	119,002	-	366,190
Professional fees	543	121,690	130,435	-	252,668
Depreciation	-	41,044	225,271	-	266,315
Travel	-	33,945	104,437	-	138,382
Rent	-	6,593	15,157	-	21,750
Other	25,790	74,845	257,637	(25,790)	332,482
Total operating expenses	26,333	1,085,574	8,774,806	(25,790)	9,860,923
Operating income (loss)	357,596	993,010	(1,676,301)	-	(325,695)
Nonoperating revenues (expenses):					
Recovery	-	-	362,176	-	362,176
Gain on sale of land	-	-	66,500	-	66,500
Litigation judgment	-	-	45,828	-	45,828
Other income	143,411	5,586	-	-	148,997
Gain (loss) on sale of foreclosed real estate	-	70,800	(55,015)	-	15,785
Interest income	-	-	29,021	-	29,021
Interest expense	(49,195)	-	-	-	(49,195)
Other expense	-	(12,000)	-	-	(12,000)
Total nonoperating revenues, net	94,216	64,386	448,510	-	607,112
Change in net position	451,812	1,057,396	(1,227,791)	-	281,417
Net position - beginning	6,401,593	16,085,423	7,083,931	-	29,570,947
Net position - ending	$ 6,853,405	$ 17,142,819	$ 5,856,140	$ -	$ 29,852,364

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2014

	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	$ 122,314	$ 489,612	$ 268,696	$ -	$ 880,622
Interest and dividends on investments	4,926	54,090	-	-	59,016
Cash payments to suppliers for goods and services	(543)	(230,633)	(175,219)	-	(406,395)
Cash received from customers	130,135	24,921	123,180	-	278,236
Cash payments to employees for services	-	(758,982)	(663,621)	-	(1,422,603)
Cash received from federal grant awards	-	-	6,913,139	-	6,913,139
Cash payments from federal grant awards	-	-	(6,200,238)	-	(6,200,238)
Cash received for loan commitment	-	206,631	-	-	206,631
Cash received from interest on notes receivable	-	17,692	-	-	17,692
Net cash provided by (used for) operating activities	256,832	(196,669)	265,937	-	326,100
Cash flows from capital and related financing activities:					
Net interdivisional transactions	(51,370)	51,370	-	-	-
Acquisition of property and equipment	-	(15,930)	-	-	(15,930)
Proceeds from sale of property and equipment	-	4,985	-	-	4,985
Net receipts of loans receivable	249,686	538,700	40,046	-	828,432
Net receipts of notes receivable	-	324,231	-	-	324,231
Net receipts of finance lease receivable	-	115,478	-	-	115,478
Proceeds from sale of land	-	-	166,500	-	166,500
Proceeds from sale of foreclosed real estate	-	-	70,250	-	70,250
Gain on sale of foreclosed real estate	-	70,800	-	-	70,800
Cash received from litigation judgment	-	-	45,828	-	45,828
Net cash provided by capital and related financing activities	198,316	1,089,634	322,624	-	1,610,574
Cash flows from investing activities:					
Purchase of restricted cash and cash equivalents and time certificates of deposit	(455,148)	(2,000,000)	(190,907)	-	(2,646,055)
Interest received	-	-	29,021	-	29,021
Net cash used for investing activities	(455,148)	(2,000,000)	(161,886)	-	(2,617,034)
Net (decrease) increase in cash and cash equivalents	-	(1,107,035)	426,675	-	(680,360)
Cash and cash equivalents at beginning of year	-	2,974,596	106,235	-	3,080,831
Cash and cash equivalents at end of year	$ -	$ 1,867,561	$ 532,910	$ -	$ 2,400,471
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	$ 357,596	$ 993,010	$ (1,676,301)	$ -	$ (325,695)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
(Recovery of loan impairment) bad debts	(124,843)	(917,382)	188,967	-	(853,258)
Gain on foreclosure of collateral	-	(195,442)	-	-	(195,442)
Recovery of investment impairment	-	(600,000)	-	-	(600,000)
Recovery	-	-	362,176	-	362,176
Provision for loan guaranty	-	-	1,298,244	-	1,298,244
Provision for foreclosed real estate	-	487,719	-	-	487,719
Expenses allocated from DCD to DBD	25,790	(25,790)	-	-	-
Depreciation	-	41,044	225,271	-	266,315
Gain on disposal of property and equipment	-	(4,985)	-	-	(4,985)
Finance lease revenue	-	(171,349)	-	-	(171,349)
Other	-	(6,414)	-	-	(6,414)
(Increase) decrease in assets:					
Receivables:					
Rent	-	-	(12,114)	-	(12,114)
Finance lease	-	-	11,631	-	11,631
Other	-	(96,772)	3,411	-	(93,361)
Accrued interest	(1,711)	(4,001)	26,144	-	20,432
Prepaid expenses	-	(8,441)	-	-	(8,441)
Increase (decrease) in liabilities:					
Accounts payable and accrued expenses	-	281,987	(149,963)	-	132,024
Unearned revenues	-	30,147	-	-	30,147
Due to grantor agency	-	-	(11,529)	-	(11,529)
Net cash provided by (used for) operating activities	$ 256,832	$ (196,669)	$ 265,937	$ -	$ 326,100
Supplemental disclosure of noncash capital and related financing activities:					
Recognition of loans receivable:					
Noncash increase in loans receivable	$ -	$ -	$ 344,642	$ -	$ 344,642
Noncash increase in other receivables	-	275,769	157,469	-	433,238
Noncash increase in unearned revenue	-	-	(502,111)	-	(502,111)
Noncash increase in revenue	-	(275,769)	-	-	(275,769)
	$ -	$ -	$ -	$ -	$ -
Recognition of foreclosed properties:					
Noncash increase in foreclosed real estate	$ -	$ 487,719	$ 14,698	$ -	$ 502,417
Noncash decrease in loans receivable	-	(596,519)	(35,269)	-	(631,788)
Noncash increase in finance lease receivable	-	108,800	20,571	-	129,371
	$ -	$ -	$ -	$ -	$ -
Loan payable to MPLT:					
Noncash decrease in note payable to related party	$ 109,903	$ -	$ -	$ -	$ 109,903
Noncash interest expense	49,195	-	-	-	49,195
Noncash other income	(143,411)	-	-	-	(143,411)
Noncash increase in interest payable	(15,687)	-	-	-	(15,687)
	$ -	$ -	$ -	$ -	$ -

See Accompanying Independent Auditors' Report.