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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, 2017 AND 2016

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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 (CNMI), which comprise the statements of net position as of September 30, 2017 and 2016, 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 audit 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 qualified audit opinion.

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Basis for Qualified Opinion

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which were effective October 1, 2014. In addition, management has not adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which were effective for fiscal years beginning after June 15, 2016, December 15, 2015 and June 16, 2016, respectively. As discussed in note 2 to the financial statements, CDA has not recorded pension expense and related net pension asset or liability, deferred inflows of resources and deferred outflows of resources as of and for the years ended September 30, 2017 and 2016. GASB Statements No. 68 and No. 71 require an employer to recognize its proportionate share of the collective pension expense, as well as the net pension asset or liability, deferred outflows of resources and deferred inflows of resources. GASB Statement No. 73 aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68, GASB Statement No. 78 addresses a practice issue regarding the scope and applicability of Statement No. 68 and GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The amount by which this departure would affect the assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position and expenses of CDA has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Development Authority as of September 30, 2017 and 2016, 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 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 therefore, is insufficient analysis of the basic financial statements.

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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, 2017 (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 November 13, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CDA's 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

November 13, 2018

Management's Discussion and Analysis
Year Ended September 30, 2017

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, 2017, with selected comparative information for the fiscal years ended September 30, 2016 and 2015. 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 No. 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 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 office was temporarily closed and reopened for business in 2018.

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, 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, 2017, DCD's net loans receivable was $10,825,271, which was a decrease of $2,186,748 or 17% compared to 2016. As of September 30, 2016, DCD's net loans receivable was $13,012,019, which was an increase of $2,160,762 or 20% compared to 2015. The cause of the net increase in fiscal year 2016 and the decrease in the allowance account can be attributed largely to repayment and pay-off of various large delinquent loans, the lifting of the loan moratorium by the CDA Board of Directors, the write-off of several delinquent loan accounts due to court judgment, several loan revisions due to loan judgments, a 2% debt-relief program, asset foreclosures and CDA's effective collection efforts.

DBD AND DCD, CONTINUED

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.

In August 2016, CDA and the Commonwealth Utilities Corporation (CUC) entered into a Settlement Agreement directing CUC to assign the payment it receives from the Public School System (PSS) Settlement Agreement and to pay the remaining difference of $478,798 to CDA. CUC further agrees to make quarterly dividend payments of $270,000 to CDA beginning on October 1, 2016. As of September 30, 2017, CDA received total dividend payments of $5,400,000 from CUC. DBD continues to hold preferred stock in CUC based on the conversion of debt dated September 30, 2009. See note 7 to the financial statements for more detailed information. The conversion has permitted CUC to move ahead with greater flexibility in obtaining financing and has given CDA the opportunity to receive funds loaned to CUC through dividends on the preferred stock, which will be recorded in the Revolving Fund for CIP projects.

As stated earlier, the net value of DCD's loan portfolio after recoveries was $10,825,271 in 2017 and $13,012,019 in 2016. Total recoveries were $422,769 and $4,836,876 in 2017 and 2016, respectively. These figures represent the estimated potential recovery of value of the loans and accrued interest for the respective fiscal years. These loan recoveries were due to repayment of various large delinquent loans, the restructuring of some loans to a 2% interest rate, extended repayment terms and capitalization of accrued interest.

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

In response to the difficulties experienced by virtually all of DCD's borrowers, management has been working on solutions that can benefit both CDA and the borrowers. One such solution is the Debt-Relief Program. Qualified borrowers are encouraged to restructure their delinquent loans at new, less-burdensome interest rates (typically 2%) and the accrued interest is set aside so that the new loan has a chance of being fully amortized if the new payment schedule is adhered to. This gives borrowers who were previously in seemingly hopeless situations new hope for 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

Major Programs of NMHC

NMHC operates the following programs:

- *Housing Choice Voucher Program (HCVP):*

  Under this Program, the U.S. Department of Housing and Urban Development (HUD) provides rental supplements to the owners of existing private housing who rent to qualifying individuals. NMHC processes all applicants for the Section 8 Housing Assistance Payments (HAP) Program, places approved applicants in housing and pays the owner of the private housing a monthly rental supplement. Under the conditions of an annual contributions contract, HUD reimburses NMHC for the rental supplements and the administrative cost of managing the program, up to a per unit limit established in the annual contributions contract.

- *Section 8 HAP Program:*

  The HAP Program is HUD-funded under which NMHC receives rental subsidies pursuant to a HAP contract to provide housing for very low-income families, low-income families, elderly and non-elderly disabled individuals. Under NMHC's HAP contract, NMHC provides 118 housing rental units for which Section 8 assistance will be provided. The Program restricts eligible families to citizens of the United States and noncitizens of the United States who have achieved certain eligible immigration status. In fiscal years 2017, 2016 and 2015, NMHC received $1,287,993, $1,305,473 and $1,346,858, respectively, under this Program.

- *HOME Investment Partnerships Program (HOME)*

  Under this Program, NMHC provides single-family housing loans and grants to eligible low-income families to construct new homes, acquire and rehabilitate homes or rehabilitate existing homes.

- *Community Development Block Grant (CDBG)*

  CDBG is a HUD-funded program provided to the Commonwealth of the Northern Mariana Islands (CNMI) as a U.S territory, to fund CNMI community projects that benefit low and moderate-income people, to prevent or eliminate slums or blight and to address the threat to health or safety. Community projects may include acquisition, relocation, demolition and rehabilitation of housing and commercial buildings, construction of public facilities and capital improvements, construction and maintenance of neighborhood centers, conversion of school buildings, public services, economic development and job creation/retention activities. CDBG funds can also be used for preservation and restoration of historic properties in low-income neighborhoods.

- *Neighborhood Stabilization Program (NSP)*

  NSP is a HUD-funded program established by the U.S. Congress to stabilize communities that have suffered from housing loan foreclosures and abandonment through the purchase and redevelopment of foreclosed and abandoned homes and residential properties.

NMHC, CONTINUED

Major Programs of NMHC, Continued

- *Emergency Solutions Grant (ESG)*

  HUD provides funds to NMHC under this Program to rehabilitate and operate emergency shelters and transitional shelters, provide essential social services and prevent homelessness.

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

  NMHC is the government agency authorized to administer 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. 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 2017 which describes the basis NMHC will use to allocate LIHTCs among qualified owners/developers. The tax credit allocated to the CNMI for 2017 was $2,710,000. The submission deadline for interested owners/developers was after September 30, 2017.

Asset Management Division

The Asset Management Division handles NMHC's assets and provides technical and maintenance assistance to the HAP, HOME and CDBG programs. The goals of the Asset Management Division are to maximize resources for the continuity of NMHC programs, expedite the process of turnaround time for vacant units, maintain full occupancy of Mihaville and Koblerville projects, ensuring units are safe, decent and sanitary, obtain high scores in Real Estate Assessment Center (REAC) inspections, develop systemic quarterly inspections minimizing maintenance costs, improve collection of tenant damage costs and provide home care counseling to tenants and consistent program requirements training to personnel.

FINANCIAL HIGHLIGHTS

Combined Statements of Net Position
As of September 30, 2017, 2016 and 2015

	2017	2016	$ Change	% Change	2015
Current assets	$ 19,563,555	$ 15,400,311	$ 4,163,244	27%	$ 8,912,466
Other assets	15,150,687	11,950,852	3,199,835	27%	10,679,345
Capital assets, net	8,882,385	9,030,776	(148,391)	-2%	9,132,694
Foreclosed real estate, net	1,789,241	1,877,591	(88,350)	-5%	2,354,655
Noncurrent assets	17,810,731	20,919,713	(3,108,982)	-15%	15,568,963
Total assets	$ 63,196,599	$ 59,179,243	$ 4,017,356	7%	$ 46,648,123
Current liabilities	$ 8,446,738	$ 8,657,466	$ (210,728)	-2%	$ 7,423,294
Noncurrent liabilities	8,899,360	9,731,430	(832,070)	-9%	9,341,293
Total liabilities	17,346,098	18,388,896	(1,042,798)	-6%	16,764,587
Net investment in capital assets	8,882,385	9,030,776	(148,391)	-2%	9,132,694
Restricted	36,968,116	31,759,571	5,208,545	16%	20,750,842
Total net position	45,850,501	40,790,347	5,060,154	12%	29,883,536
Total liabilities and net position	$ 63,196,599	$ 59,179,243	$ 4,017,356	7%	$ 46,648,123

Combined Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017, 2016 and 2015

	2017	2016	$ Change	% Change	2015
Operating revenues	$ 9,502,729	$ 9,959,822	$ (457,093)	-5%	$ 8,488,002
Recoveries	1,492,752	6,545,122	(5,052,370)	-77%	807,265
Net operating revenues	10,995,481	16,504,944	(5,509,463)	-33%	9,295,267
Operating expenses	8,368,239	8,656,874	(288,635)	-3%	8,660,535
Operating income	2,627,242	7,848,070	(5,220,828)	-67%	634,732
Total nonoperating revenues, net	3,109,588	4,507,303	(1,397,715)	-31%	276,498
Income before transfers	5,736,830	12,355,373	(6,618,543)	-54%	911,230
Contributions for capital development grants	(676,676)	(1,448,562)	771,886	-53%	(880,058)
Change in net position	5,060,154	10,906,811	(5,846,657)	-54%	31,172
Net position - beginning	40,790,347	29,883,536	10,906,811	36%	29,852,364
Net position - ending	$ 45,850,501	$ 40,790,347	$ 5,060,154	12%	$ 29,883,536

Combined Statements of Cash Flows
Years Ended September 30, 2017, 2016 and 2015

	2017	2016	$ Change	% Change	2015
Cash flows from operating activities	$ 1,718,157	$ 3,042,489	$ (1,324,332)	-44%	$ 984,321
Cash flows from capital and related financing activities	1,271,164	(1,277,042)	2,548,206	-200%	(167,405)
Cash flows from investing activities	(656,594)	2,295,188	(2,951,782)	-129%	(596,539)
Net increase in cash and cash equivalents	2,332,727	4,060,635	(1,727,908)	-43%	220,377
Cash and cash equivalents at beginning of year	6,474,852	2,414,217	4,060,635	168%	2,193,840
Cash and cash equivalents at end of year	$ 8,807,579	$ 6,474,852	$ 2,332,727	36%	$ 2,414,217

Condensed Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows by division for the year ended September 30, 2017 follows, with comparative information for the years ended September 30, 2016 and 2015:

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017, 2016 and 2015

Development Banking Division

	2017	2016	$ Change	% Change	2015
Operating revenues:					
Interest and fees on loans	$ 102,552	$ 109,481	$ (6,929)	-6%	$ 115,600
Interest and dividends on investments	8,283	14,410	(6,127)	-43%	16,996
Other	1,685	72	1,613	2240%	81
	112,520	123,963	(11,443)	-9%	132,677
Recoveries	-	2,249,781	(2,249,781)	-100%	128,939
Net operating revenues	112,520	2,373,744	(2,261,224)	-95%	261,616

FINANCIAL HIGHLIGHTS, CONTINUED

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017, 2016 and 2015, Continued

Development Banking Division, Continued

	2017	2016	$ Change	% Change	2015
Operating expenses:					
Professional fees	-	-	-	0%	1,875
Other	1,102,504	25,075	1,077,429	4297%	26,436
Total operating expenses	1,102,504	25,075	1,077,429	4297%	28,311
Operating (loss) income	(989,984)	2,348,669	(3,338,653)	-142%	233,305
Nonoperating revenues (expenses):					
Dividend income	2,880,000	4,320,000	(1,440,000)	-33%	-
Other income	174,189	137,583	36,606	27%	224,944
Interest expense	(21,843)	(31,581)	9,738	-31%	(42,549)
Total nonoperating revenues, net	3,032,346	4,426,002	(1,393,656)	-31%	182,395
Income before transfers	2,042,362	6,774,671	(4,732,309)	-70%	415,700
Transfers out for capital development grants	(676,676)	(1,448,562)	771,886	-53%	(880,058)
Change in net position	$ 1,365,686	$ 5,326,109	$ (3,960,423)	-74%	$ (464,358)

Development Corporation Division

	2017	2016	$ Change	% Change	2015
Operating revenues:					
Interest and fees on loans	$ 403,484	$ 554,839	$ (151,355)	-27%	$ 624,122
Interest and dividends on investments	9,927	20,196	(10,269)	-51%	12,582
Other	1,387,094	393,252	993,842	253%	247,475
	1,800,505	968,287	832,218	86%	884,179
Recoveries	827,864	4,898,705	(4,070,841)	-83%	1,088,902
Net operating revenues	2,628,369	5,866,992	(3,238,623)	-55%	1,973,081
Operating expenses:					
Salaries and wages	551,719	496,062	55,657	11%	478,085
Employee benefits	327,727	252,952	74,775	30%	218,080
Professional fees	101,959	69,283	32,676	47%	85,456
Office rent	3,262	7,811	(4,549)	-58%	5,868
Travel	48,364	61,017	(12,653)	-21%	56,603
Depreciation	56,407	47,307	9,100	19%	42,322
Other	221,760	165,019	56,741	34%	153,627
Total operating expenses	1,311,198	1,099,451	211,747	19%	1,040,041
Operating income	1,317,171	4,767,541	(3,450,370)	-72%	933,040
Nonoperating revenues (expenses):					
Other income	1,575	1,475	100	7%	5,122
Gain on sale of foreclosed real estate	-	14,500	(14,500)	-100%	53,300
Gain on sale of capital assets	-	10,144	(10,144)	-100%	-
Other expense	(24,682)	(11,398)	(13,284)	117%	(7,987)
Total nonoperating revenues (expenses), net	(23,107)	14,721	(37,828)	-257%	50,435
Change in net position	$ 1,294,064	$ 4,782,262	$ (3,488,198)	-73%	$ 983,475

FINANCIAL HIGHLIGHTS, CONTINUED

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017, 2016 and 2015, Continued

Northern Marianas Housing Corporation

	2017	2016	$ Change	% Change	2015
Operating revenues	$ 8,692,208	$ 8,892,647	$ (200,439)	-2%	$ 7,496,936
Recoveries (bad debts)	664,888	(603,364)	1,268,252	-210%	(410,576)
Net operating revenues	9,357,096	8,289,283	1,067,813	13%	7,086,360
Operating expenses	7,057,041	7,557,423	(500,382)	-7%	7,617,973
Operating income (loss)	2,300,055	731,860	1,568,195	214%	(531,613)
Nonoperating revenues, net	100,349	66,580	33,769	51%	43,668
Change in net position	$ 2,400,404	$ 798,440	$ 1,601,964	201%	$ (487,945)

Condensed Comparative Statements of Cash Flows
Years Ended September 30, 2017, 2016 and 2015

Development Banking Division

	2017	2016	$ Change	% Change	2015
Cash flows from operating activities	$ 115,069	$ 133,978	$ (18,909)	-14%	$ 122,257
Cash flows from capital and related financing activities	(1,451,921)	(1,241,220)	(210,701)	17%	(620,305)
Cash flows from investing activities	1,336,852	1,107,242	229,610	21%	498,048
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%	$ -

Development Corporation Division

	2017	2016	$ Change	% Change	2015
Cash flows from operating activities	$ 973,205	$ 2,638,170	$ (1,664,965)	-63%	$ 712,966
Cash flows from capital and related financing activities	2,718,443	(76,640)	2,795,083	-3647%	365,788
Cash flows from investing activities	(2,000,000)	1,250,000	(3,250,000)	-260%	(750,000)
Net change in cash and cash equivalents	1,691,648	3,811,530	(2,119,882)	-56%	328,754
Cash and cash equivalents at beginning of year	5,801,214	1,989,684	3,811,530	192%	1,660,930
Cash and cash equivalents at end of year	$ 7,492,862	$ 5,801,214	$ 1,691,648	29%	$ 1,989,684

FINANCIAL HIGHLIGHTS, CONTINUED

Condensed Comparative Statements of Cash Flows
Years Ended September 30, 2017, 2016 and 2015, Continued

Northern Marianas Housing Corporation

	2017	2016	$ Change	% Change	2015
Cash flows from operating activities	$ 629,883	$ 270,341	$ 359,542	133%	$ 149,098
Cash flows from capital and related financing activities	4,642	40,818	(36,176)	-89%	87,112
Cash flows from investing activities	6,554	(62,054)	68,608	-111%	(344,587)
Net change in cash and cash equivalents	641,079	249,105	391,974	157%	(108,377)
Cash and cash equivalents at beginning of year	673,638	424,533	249,105	59%	532,910
Cash and cash equivalents at end of year	$ 1,314,717	$ 673,638	$ 641,079	95%	$ 424,533

DCD and DBD

- In 2017, DCD had net operating revenues of $2,628,369 while DBD had revenues of $112,520. A significant part of DCD's net operating revenues was a result of the collection of various large delinquent loans, recovery of bad debts, foreclosed real estate and revenue allocation to cover shared costs while DBD's net operating revenues resulted from loan interest payments. DCD recorded recoveries of $422,769 in 2017 compared to recoveries of $4,898,876 in 2016. DBD recorded recoveries of $-0- and $2,249,781 in 2017 and 2016, respectively, which brought the allowance for its loans to 0% in 2017 and 2016. Interest and fees earned on loans for DCD decreased by $151,355 or 27% in fiscal year 2017, which is significantly attributed to payments received being applied to loan principal. Interest and fees earned on loans for DCD in fiscal year 2016 decreased by $69,283 or 11% and DBD had a decrease of $6,929 or 6% in fiscal year 2017 compared to $6,119 or 5% in fiscal year 2016.

- DCD invested surplus funds in time certificates of deposit (TCDs) to take advantage of better interest rates. Related earnings on investments decreased from $20,196 for the year ended September 30, 2016 to $9,927 for the year ended September 30, 2017, which is a decrease of $10,269 or 51%. The decrease in DCD's investments earnings in fiscal year 2017 was due to non-reinvestment of matured TCDs in 2017. DBD also invested in TCDs due to the continued decline of interest earned on savings deposits. Earnings on interest and dividends on investments decreased from $14,410 for the year ended September 30, 2016 to $8,283 for the year ended September 30, 2017, which is a decrease of $6,127 or 43%. The decrease in DBD's investments earnings in fiscal year 2017 was due to non-reinvestment of matured TCDs as a result of increases in capital improvement projects drawdown in fiscal year 2016.

- In fiscal year 2017, operating expenses for DCD increased by $211,747 or 19% from 2016. The increase in DCD's operating expenses in fiscal year 2017 was due to the enactments of Public Law No. 19-74 relating to a 5% salary adjustment for civil service employees and Public Law No. 19-83 relating to new base salary schedule for classified civil service government employees and an increase in the government's share of employees' health insurance. In 2017, DBD's operating expenses increased by $1,077,429 from fiscal year 2016 due to the increase in revenue allocation to DCD related to CUC's preferred dividend payments. Efforts by management and staff are ongoing to reduce DCD's expenses. DBD's expenses were due to reimbursements paid to DCD to cover shared costs.

FINANCIAL HIGHLIGHTS, CONTINUED

DCD and DBD, Continued

- As reflected above, CDA management and staff were very successful in collecting various large delinquent loans thereby recovering bad debts and foreclosed real estate losses. CDA management and staff are constantly reaching out to distressed borrowers by working closely 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 decreased by $7,448,621 or 74% from 2016 to 2017 which was due to repayment and pay-off of several large delinquent loans, several deficiency judgments and foreclosures on previously non-performing loans and the resulting change in the valuation allowance.

- In fiscal year 2015, DCD reserved $750,000 for a micro loan program with a maximum loan amount of $25,000. Further, the Board of Directors changed its three bank denial letter requirement to one for loans greater than $3,000 but not to exceed $25,000.

- In fiscal year 2017, CDA received total preferred stock dividend payments of $5,400,000 from CUC.

NMHC

- Total assets increased by 2% from $19,564,761 in 2016 to $19,950,669 in 2017 and from $19,349,479 in 2015 to $19,564,761 in 2016. Current assets of $4,692,206 and $2,038,994 as of September 30, 2017 and 2016, respectively, are primarily comprised of cash, current portion of loans receivable, finance lease receivables, and receivables from tenants.

- Total other assets as of September 30, 2017 and 2016 was $3,212,643 and $5,071,176, respectively, which is a decrease of 37% in restricted cash and cash equivalents.

- Foreclosed real estate decreased by 48% from $441,648 in 2016 to $227,798 in 2017. This shrinkage was due primarily to NMHC's auction of foreclosed properties during fiscal year 2017.

- NMHC's total net position increased by 39% from $6,166,635 in 2016 to $8,567,039 in 2017. This increase is a result of an increase in total assets and a decrease in total liabilities. Total net position increased by 15% from $5,368,195 in 2015 to $6,166,635 in 2016. Net position represents NMHC's equity after liabilities are subtracted from assets. Net position is divided into two major categories. The first category, net investment in capital assets, indicates NMHC's equity in land, buildings and improvement and machinery and equipment, net of related outstanding debt. The second category, restricted net position, has external limitations on the way in which these assets can be used.

- As of September 30, 2017, NMHC's current assets of $4,692,206 exceed current liabilities of $3,050,838 by $1,641,368.

- NMHC's operating income during fiscal year 2017 and 2016 was $2,300,055 and $731,860, respectively. The increase in operating income in 2017 is primarily attributable to the recovery from reserve for loan guaranty of $1,875,755.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2017 and 2016, CDA had $8,882,385 and $9,030,776, respectively, net investment in capital assets, net of accumulated depreciation where applicable. This represents a net decrease of $148,391 or 2% during fiscal year 2017.

	2017	2016	2015
Depreciable capital assets, net of accumulated depreciation	$ 1,409,855	$ 1,558,246	$ 1,660,164
Nondepreciable capital assets	7,472,530	7,472,530	7,472,530
	$ 8,882,385	$ 9,030,776	$ 9,132,694

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

Long-Term Debt

CDA has no long-term debt at September 30, 2017. At September 30, 2016, CDA had $449,330 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

DCD and DBD

CDA is affected by economic forces at play globally as well as locally. The CNMI's economic resiliency was also tested when it was able to recover quickly from a major natural disaster. 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. On July 24, 2018, the Northern Mariana Islands U.S. Workforce Act of 2018 (the Workforce Act) was enacted extending the Commonwealth of the Northern Mariana Islands (CNMI) - Only Transitional Program (CW-1 program) through 2029 and increasing the CW-1 cap for fiscal year 2019 from 4,999 to 13,000, which will help not only to sustain but also spur more economic growth in the CNMI. Due to the current shortage in housing and a decrease in loan borrowings, CDA is actively pursuing to launch its Rent-to-Own Home program to assist in the housing shortage as well as to invest CDA funds into a less risky income-producing investment.

CDA biggest challenge in the past was funding its operations from earnings generated from its loan portfolios and investments. Management addressed this problem through a combination of revenue enhancement and expenditure reduction. CDA was very successful in collecting several large delinquent loans and continues to find innovative ways to assist existing borrowers. CDA also offers finance leases with an option to purchase on some of its properties in a move not only to recover the principal balance but also to offload its property inventory acquired from foreclosures. CDA also offers a Debt-Relief Program to bring qualified borrowers from a delinquent, non-paying status to a performing, paying status. The "price" to CDA of this program is to reduce the interest rate on these loans to 2%, which 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.

ECONOMIC OUTLOOK, CONTINUED

NMHC

NMHC's program and operating revenues are primarily provided by the U.S federal government through operating subsidies, Section 8 HAP payments and other minor grants. The operating subsidy for 2017 was $1,287,993. Based on the CNMI's annual awards and the contract with HUD, NMHC anticipates that HUD assistance programs will continue into the foreseeable future.

Nevertheless, U.S. Congress continues to reduce Section 8 housing assistance funding. The reduction in funding adversely impacts NMHC's operating capabilities and financial position. During 2017, NMHC received $1,305,473 in federal funds for its housing. Such assistance has typically come with use restrictions and generally limits NMHC's ability to encumber or leverage debt financing against HUD properties in its asset portfolio.

Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in CDA's report on the audit of financial statements, which is dated March 13, 2018. That Discussion and Analysis explains the major factors impacting the 2016 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 email to executive@cda.gov.mp or Mr. Jesse S. Palacios, NMHC Corporate Director, P.O. Box 500514, Saipan MP 96950-0514 or call (670) 234-6866/9447 or email to jspalacios@nmhcgov.net.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Net Position
September 30, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	$ 8,807,579	$ 6,474,852
Time certificates of deposit	3,500,000	1,500,000
Receivables:		
Current portion of loans receivable, net	3,029,808	2,516,240
Current portion of finance lease receivable, net	103,314	101,826
Rent, net	197,614	130,151
Accrued interest, net of allowance for doubtful accounts of $1,613,340 and $1,777,185 as of September 30, 2017 and 2016, respectively	68,003	217,907
Employees	57	-
Dividends	1,800,000	4,320,000
Other, net	2,045,465	134,262
Prepaid expenses	11,715	5,073
Total current assets	19,563,555	15,400,311
Other assets:		
Cash and cash equivalents, restricted	15,150,687	11,950,852
Noncurrent assets:		
Loans receivable, net of current portion	15,926,916	19,059,198
Finance lease receivable, net of current portion	1,883,815	1,860,515
Depreciable capital assets, net of accumulated depreciation	1,409,855	1,558,246
Nondepreciable capital assets	7,472,530	7,472,530
Foreclosed real estate, net	1,789,241	1,877,591
Total noncurrent assets	28,482,357	31,828,080
	$ 63,196,599	$ 59,179,243
LIABILITIES AND NET POSITION		
Current liabilities:		
Note payable to related party, current portion	$ 296,984	$ 262,588
Accounts payable and accrued expenses	1,604,315	963,642
Unearned revenues, current portion	27,227	13,530
Due to grantor agency	781,825	800,784
Loan commitment	4,274,500	3,279,280
Reserve for loan guaranty	1,461,887	3,337,642
Total current liabilities	8,446,738	8,657,466
Note payable to related party, net of current portion	-	186,742
Unearned revenues, net of current portion	8,899,360	9,544,688
Total liabilities	17,346,098	18,388,896
Commitments and contingencies		
Net position:		
Net investment in capital assets	8,882,385	9,030,776
Restricted	36,968,116	31,759,571
Total net position	45,850,501	40,790,347
	$ 63,196,599	$ 59,179,243

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Section 8 income:		
Federal housing assistance rentals	$ 4,332,619	$ 4,479,954
Tenant share	158,883	155,837
Recovery from reserve for loan guaranty	1,875,755	-
Community Development Block Grants (CDBG) Program	1,534,250	328,368
Interest and fees on loans	869,287	1,010,325
HOME Investment Partnership Program Grant	154,974	660,042
HOME Investment Partnership Grant program income	106,155	204,929
Emergency Shelter Grants (ESG) Program	58,393	46,776
Housing rental	35,185	21,358
Low Income Housing Tax Credit	21,396	312,045
Interest and dividends on investments	18,210	34,606
Economic Development Initiative (EDI) Program	2,950	-
Recovery from loan guaranty settlement	-	2,226,340
Neighborhood Stabilization Program (NSP) Grant	-	30,433
Other	334,672	448,809
	9,502,729	9,959,822
Recovery of loan impairment	1,087,657	6,056,708
Recovery of interest impairment	450,095	426,585
(Provision for) recovery of foreclosed real estate	(45,000)	61,829
Net operating revenues	10,995,481	16,504,944
Operating expenses:		
Section 8 rental	2,497,953	2,655,611
CDBG Program	1,534,250	328,368
HOME Investment Partnership Program Grant	154,974	660,042
HOME Investment Partnership Grant program income	106,155	204,929
ESG Program	58,393	46,776
EDI Program	2,950	-
NSP Grant	-	30,433
Operations:		
Salaries and wages	1,686,398	1,592,817
Employee benefits	588,667	421,296
Utilities	363,478	350,003
Repairs and maintenance	333,457	297,898
Professional fees	271,453	202,500
Depreciation	197,598	188,045
Travel	171,026	185,257
Supplies	71,956	97,640
Provision for foreclosed properties	60,019	-
Rent	15,884	21,736
Provision for loan guaranty	-	999,189
Reimbursement from grantor	-	69,575
Other	253,628	304,759
Total operating expenses	8,368,239	8,656,874
Operating income	2,627,242	7,848,070
Nonoperating revenues (expenses):		
Dividend income	2,880,000	4,320,000
Other income	175,764	139,058
Litigation judgment	45,828	46,138
Gain on sale of foreclosed real estate	35,500	14,500
Interest income	19,021	20,442
Gain on sale of capital assets	-	10,144
Interest expense	(21,843)	(31,581)
Other expense	(24,682)	(11,398)
Total nonoperating revenues, net	3,109,588	4,507,303
Income before transfers	5,736,830	12,355,373
Contributions for capital development grants	(676,676)	(1,448,562)
Change in net position	5,060,154	10,906,811
Net position - beginning	40,790,347	29,883,536
Net position - ending	$ 45,850,501	$ 40,790,347

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	$ 1,649,514	$ 1,631,728
Interest and dividends on investments	18,210	34,606
Cash payments to suppliers for goods and services	(495,966)	(760,575)
Cash received from customers	333,934	720,583
Cash payments to employees for services	(1,884,105)	(1,845,769)
Cash payments for federal grant reimbursement	-	(69,575)
Cash received from federal grant awards	6,170,383	5,752,276
Cash payments from federal grant awards	(5,069,033)	(4,717,038)
Cash received for loan commitment	995,220	2,296,253
Net cash provided by operating activities	1,718,157	3,042,489
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(43,628)	(86,127)
Proceeds from sale of capital assets	-	10,144
Proceeds from sale of foreclosed real estate	30,109	69,859
Net receipts of loans receivable	2,793,634	2,213,100
Net receipts of finance lease receivable	157,332	237,400
Gain on sale of foreclosed real estate	-	14,500
Interest received from litigation judgment	5,613	8,897
Transfers for capital development grants	(676,676)	(1,448,562)
Transfers for loan commitment	(995,220)	(2,296,253)
Net cash provided by (used for) capital and related financing activities	1,271,164	(1,277,042)
Cash flows from investing activities:		
(Purchase of) proceeds from restricted cash and cash equivalents and time certificates of deposit	(4,204,615)	2,274,746
Dividend received	5,400,000	-
Purchase of defaulted loans	(1,871,000)	-
Interest received	19,021	20,442
Net cash (used for) provided by investing activities	(656,594)	2,295,188
Net increase in cash and cash equivalents	2,332,727	4,060,635
Cash and cash equivalents at beginning of year	6,474,852	2,414,217
Cash and cash equivalents at end of year	$ 8,807,579	$ 6,474,852
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 2,627,242	$ 7,848,070
Adjustments to reconcile operating income to net cash provided by operating activities:		
Recovery of loan impairment	(1,087,657)	(6,056,708)
Recovery from loan guaranty settlement	-	(2,226,340)
(Recovery from) provision for loan guaranty	(1,875,755)	999,189
Provision for (recovery of) foreclosed real estate	105,019	(79,315)
Depreciation	197,598	188,045
Finance lease revenue	(60,992)	(56,700)
Other	(23,107)	5,764
(Increase) decrease in assets:		
Receivables:		
Rent	(47,709)	(80,039)
Finance lease	(56,778)	(10,483)
Employees	56,800	2,013
Other	(77,643)	36,787
Accrued interest	330,133	194,818
Prepaid expenses	(6,642)	(2,073)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	640,673	72,992
Unearned revenues	20,714	(91,558)
Loan commitment	995,220	2,296,253
Due to grantor agency	(18,959)	1,774
Net cash provided by operating activities	$ 1,718,157	$ 3,042,489

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 2017 and 2016

	2017	2016
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of loans receivable:		
Noncash (decrease) increase in loans receivable	$ (548,608)	$ 699,556
Noncash increase (decrease) in unearned revenue	548,608	(699,556)
	$ -	$ -
Recognition of foreclosed properties:		
Noncash increase (decrease) in foreclosed real estate	$ 11,278	$ (486,520)
Noncash decrease in loans receivable	(75,628)	(64,436)
Noncash increase in finance lease receivable	64,350	550,956
	$ -	$ -
Loan payable to Marianas Public Land Trust (MPLT):		
Noncash decrease in note payable to related party	$ (152,346)	$ (106,002)
Noncash interest expense	(21,843)	(31,581)
Noncash other income	174,189	137,583
	$ -	$ -

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 to assist in the development and administration of low cost residential housing in the Northern Mariana Islands. MIHA was empowered 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.

DCD:

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

(1) Reporting Entity, Continued

DCD, Continued:

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

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

As such, DCD considers all its net position, except net investment in capital assets, to be restricted for such purposes. DCD also administers the State Small Business Credit Initiative (SSBCI) loan program funded by the U.S. Department of Treasury through the CNMI and CDA serves as the disbursing agent as well as performs loan documentation preparation. The loans are not reflected in the accompanying financial statements.

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;

- 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; and

- To provide grant funding through the Community Development Block Grants/Special Purpose Grants/Insular Area program for community planning and development projects that will benefit low-moderate income communities.

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, 2017 and 2016, total cash and cash equivalents and time certificates of deposit were $27,458,266 and $19,925,704, respectively, and the corresponding bank balances were $27,484,243 and $18,425,192, 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, 2017 and 2016. 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.

Capital Assets

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

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

Land

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

(2) Summary of Significant Accounting Policies, Continued

Foreclosed Real Estate

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

Loans Receivable, Interest Receivable and Allowance for Loan Losses

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

Finance Lease Receivables

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

Other Receivable

U.S. Department of Agriculture Rural Development (USDA RD) defaulted loans receivable is recorded at its purchase price or the real property's fair value less cost to sell. Other receivables are stated at the amount of unpaid balances.

Restricted Cash and Cash Equivalents and Time Certificates of Deposit

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

(2) Summary of Significant Accounting Policies, Continued

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

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

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

Revenue Recognition

Operating revenues include all direct revenues such as interest and fees on loans, administrative fee, 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.

Administrative fee revenue represents 75% of the 5% tax credit reserved for approved applicants of the Low Income Housing Tax Credit (LIHTC). NMHC is the government agency authorized to administer 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 recorded LIHTC administrative fee revenue of $21,396 and $312,045 as of September 30, 2017 and 2016, respectively.

Federal grant revenues are recognized when allowable expenses are incurred.

Non-operating revenues primarily result from capital and financing activities and from forgiveness of debt.

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 $593,795 and $573,081 as of September 30, 2017 and 2016, 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
2018	$ 14,830
2019	14,830
2020	14,830
2021	14,830
2022	14,830
2023 - 2027	74,150
2028 - 2032	74,150
2033 - 2037	74,150
2038 - 2042	74,150
2043 - 2047	67,650
2048 - 2052	65,496
2053 - 2057	57,010
2058 - 2062	32,889
	$ 593,795

Unearned revenues represent recorded loans receivable from individuals eligible under the HOME Investment Partnership and Neighborhood Stabilization programs administered by NMHC. NMHC recorded unearned revenues of $8,332,792 and $8,985,137 as of September 30, 2017 and 2016, respectively, which have been presented as long-term in the accompanying financial statements.

Loan Commitments

Loan commitments are funds received from the CNMI for the SSBCI cash collateral support program deposited in a financial institution subject to FDIC and funds for loans approved and not yet disbursed at year end. Loan commitment funds as of September 30, 2017 and 2016 were $4,274,500 and $3,279,280, respectively.

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, 2017 and 2016 approximated $439,583 and $434,296, respectively.

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. Due to uncertainties, NMHC has elected to record this award upon receipt of cash. NMHC received $522,838 in 2013 and continued to pursue the remaining $190,322. NMHC recorded litigation judgment revenue of $45,828 and $46,138 during the years ended September 30, 2017 and 2016, respectively, and recorded related receivables of $37,345 and $77,560 (inclusive of interest of nine percent (9%) per annum) as of September 30, 2017 and 2016, respectively.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

CDA contributed to the Northern Mariana Islands Retirement Fund's (NMIRF) defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan established and now administered by the CNMI. On September 30, 2013, the DB Plan was transferred to the Northern Mariana Islands Settlement Fund (NMISF). CDA also contributes to a defined contribution plan (DC Plan).

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 contributed $181,826, $155,328 and $153,991 to the DB Plan during the years ended September 30, 2017, 2016 and 2015, respectively.

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, 2017, 2016 and 2015 were $21,261, $19,173 and $19,622, respectively, equal to the required contributions for each year.

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

(2) Summary of Significant Accounting Policies, Continued

Net 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, 2017 and 2016, 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, 2017 and 2016.

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* and 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 revised and established new financial reporting requirements for most governments that provided their employees with pension benefits through plans that are administered through trusts. Management has determined that the CNMI is legally responsible for making contributions to NMISF as a non-employer entity and that net pension obligations are allocated in total to the CNMI. Management acknowledges the requirement to recognize revenue in an amount equal to the non-employer contributing entities' (CNMI) total proportionate share of the collective pension expense that is associated with CDA. CDA has not recorded related revenues and pension expense for the years ended September 30, 2017 and 2016 as amounts were not available.

New Accounting Standards

During the year ended September 30, 2017, CDA did not implement the following pronouncements as the CNMI did not record the effects of GASB Statements No. 68 and No. 71 as of and for the year ended September 30, 2017 as amounts are not available:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

During the year ended September 30, 2017, CDA implemented the following pronouncements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

Off-Balance Sheet Financial Instruments

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

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Reclassifications

Certain 2016 balances in the accompanying financial statements have been reclassified to conform to the 2017 presentation.

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

DBD

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

At September 30, 2017 and 2016, restricted cash and cash equivalents and time certificates of deposit amounting to $7,663,544 and $3,600,396, 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.

DCD

Restricted cash and cash equivalents represent funds for the SSBCI loan program maintained by CDA as the disbursing agent deposited with commercial lending institutions held in the name of CDA. At September 30, 2017 and 2016, restricted cash and cash equivalents for the SSBCI loan program were $4,274,500 and $3,279,280, respectively, maintained in financial institutions subject to FDIC.

NMHC

NMHC maintains depository accounts with financial institutions in the CNMI which are restricted for various purposes, as detailed below. At September 30, 2017 and 2016, 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:

	2017	2016
Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA RD loans	$ 1,448,451	$ 3,315,917
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with HUD	199,872	199,633
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	336	61
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,057,016	994,476
Other depository accounts reserved for various purposes	506,968	561,089
	$ 3,212,643	$ 5,071,176

(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, 2017 and 2016, 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 a maturity date of June 15, 2030. Proceeds were 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 Mariana 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 Mariana Islands.

(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, 2017 and 2016 (with combining information as of September 30, 2017), are as follows:

	DBD	DCD	NMHC	2017	2016
General	$ -	$ 27,766,636	$ 393,208	$ 28,159,844	$ 30,567,172
HOME Investment Partnerships Act grant	-	-	7,469,730	7,469,730	7,943,466
Marine	-	5,369,068	-	5,369,068	5,395,909
Capital development loan receivable from related party	3,971,019	-	-	3,971,019	4,240,426
Direct family home loans	-	-	2,383,615	2,383,615	2,492,580
Agriculture	-	1,236,840	-	1,236,840	1,252,344
NSP grant	-	-	1,053,767	1,053,767	1,078,914
Housing construction	-	-	371,486	371,486	498,024
Tinian turnkey	-	-	474,984	474,984	471,983
Section 8	-	-	398,350	398,350	387,973
Home revenue bond	-	-	-	-	61,247
Housing preservation grant	-	-	89,541	89,541	13,773
Veterans Aid	-	-	187,608	187,608	-
Loan principal receivable	3,971,019	34,372,544	12,822,289	51,165,852	54,403,811
Less allowance for loan losses	-	(23,547,273)	(8,661,855)	(32,209,128)	(32,828,373)
Net loans receivable	$ 3,971,019	$ 10,825,271	$ 4,160,434	$ 18,956,724	$ 21,575,438

Maturities of the above principal balances subsequent to September 30, 2017 will be as follows:

	DBD	DCD	NMHC	Total
Fully matured and others	$ -	$ 23,127,404	$ 1,947,583	$ 25,074,987
1 - 6 months	137,463	498,525	652,052	1,288,040
7 - 18 months	279,308	1,688,979	900,547	2,868,834
19 months - 3 years	431,719	967,749	1,167,624	2,567,092
After 3 years	3,122,529	8,089,887	8,154,483	19,366,899
	$ 3,971,019	$ 34,372,544	$ 12,822,289	$ 51,165,852

(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	2017	2016
Balance - beginning of year	$ -	$ 23,790,131	$ 9,038,242	$ 32,828,373	$ 39,041,849
Recovery from loan losses	-	(422,769)	(376,387)	(799,156)	(6,115,924)
Effect of summary judgments	-	179,911	-	179,911	13,160
Write-off of loans	-	-	-	-	(110,712)
Balance - end of year	$ -	$ 23,547,273	$ 8,661,855	$ 32,209,128	$ 32,828,373

During the years ended September 30, 2017 and 2016, CDA increased loans receivable and the allowance for loan losses by $179,911 and $13,160, respectively, based on summary judgments issued by the courts.

(5) Other Receivables

NMHC

Significant balances included in other receivables as of September 30, 2017 and 2016 are generally as follows:

	2017	2016
Defaulted loans	$ 1,871,000	$ 4,104,170
Financial institution	121,226	121,226
Tottotville	37,345	77,560
Other	10,542	455
	2,040,213	4,303,411
Less allowance for doubtful accounts	-	(4,225,396)
Net receivables	$ 2,040,213	$ 78,015

Allowance for Doubtful Accounts

An analysis of the change in the above allowance for doubtful accounts is as follows:

	2017	2016
Balance - beginning of year	$ 4,225,396	$ 4,225,396
Write-offs	(4,104,170)	-
Recovery	(121,226)	-
Balance - end of year	$ -	$ 4,225,396

On October 18, 2016, NMHC entered into a settlement agreement with USDA RD for $1,871,000 to pay forty-eight seriously delinquent accounts in full with a principal amount of $4,097,440, which was paid on October 24, 2016. USDA RD assigned and transferred all interest under the delinquent loans and real estate deeds of trust. NMHC wrote-off other loans receivable and the attendant allowance for doubtful accounts of $4,104,170 as of September 30, 2017. NMHC recorded USDA RD defaulted loans receivable of $1,871,000 as of September 30, 2017 to recognize purchased loans at the lower of each loan's purchase price or the real property's fair value less costs to sell. To recover costs and gain additional revenue, NMHC intends to sell each real property under a deed of trust to third parties and thus has recorded the amounts as current other receivables.

(5) Other Receivables, Continued

NMHC, Continued

On March 14, 2017, a binding and unappealable judgment per Civil Case No. 11-0324 was issued on a lawsuit against a financial institution for a dispute as to a loan purchase agreement, which awarded NMHC $121,226 in damages, which is included in the accompanying 2017 financial statements as a recovery of loan impairment.

(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, 2017 and 2016 amounted to $60,993 and $56,700, respectively. Future minimum lease rentals and future minimum lease income under these arrangements as of September 30, 2017, are as follows:

Year ending September 30,	Minimum Lease Rentals	Minimum Lease Income	Net 2017	Net 2016
2017	$ -	$ -	$ -	$ 91,003
2018	145,426	57,817	87,609	91,003
2019	149,587	57,744	91,843	95,237
2020	147,353	56,944	90,409	93,803
2021	172,118	55,153	116,965	120,358
2022	141,353	54,991	86,362	-
Thereafter	1,750,530	968,857	781,673	940,297
	$ 2,506,367	$ 1,251,506	1,254,861	1,431,701
	Less current portion		87,604	91,003
	Noncurrent portion		$ 1,167,257	$ 1,340,698

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, 2017 and 2016 amounted to $35,185 and $21,358, respectively. Future minimum lease rentals under these arrangements as of September 30, 2017 and 2016, are as follows:

(6) Finance Leases

NMHC, Continued

Year ending September 30,	Minimum Lease Rentals	Minimum Lease Income	Net 2017	Net 2016
2017	$ -	$ -	$ -	$ 10,823
2018	53,843	38,133	15,710	12,758
2019	58,142	37,668	20,474	13,355
2020	58,263	36,694	21,569	13,946
2021	58,248	35,455	22,793	14,660
2022	58,248	34,249	23,999	-
Thereafter	983,267	336,203	647,064	484,439
	$ 1,270,011	$ 518,402	751,609	549,981
	Less current portion		(15,710)	(10,823)
	Less allowance for doubtful accounts		(19,341)	(19,341)
	Noncurrent portion		$ 716,558	$ 519,817

(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.

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, 2017 and 2016, 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.

(7) Investments, Continued

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

On August 17, 2016, CDA entered into an agreement with CUC for the total amount of unpaid dividend payments owed by CUC to CDA and agreed to a dividend of $4,320,000 for the year ended September 30, 2016. The agreement states that CUC will make quarterly dividend payments beginning October 1, 2016, as required by the preferred stock agreement, with a payment to CDA of $270,000 which represents the full amount of the quarterly dividend due. In 2015, CDA has determined that, prospectively, dividend income will be recognized upon collection; however, changes in circumstances in CUC's cash flows resulted in collections of dividends receivable as of September 30, 2017 and 2016. At September 30, 2017, CDA recorded dividends receivable of $1,800,000 for deferred dividends earned for the first three years after issuance of the preferred stock which is being amortized over a fifteen-year period.

(8) Capital Assets

Capital assets consist of the following at September 30, 2017 and 2016:

DCD

	Estimated Useful Lives	Balance at October 1, 2016	Additions	Deletions	Balance at September 30, 2017
Capital assets not being depreciated:					
Land, net		$ 184,348	$ -	$ -	$ 184,348
Capital assets being depreciated:					
Structure and improvements	7 years	706,463	4,561	-	711,024
Vehicles/office equipment	3 - 5 years	195,155	3,277	-	198,432
Computer equipment	3 - 5 years	49,828	-	-	49,828
Furniture and fixtures	7 years	104,655	-	-	104,655
		1,056,101	7,838	-	1,063,939
Less accumulated depreciation		(354,011)	(56,407)	-	(410,418)
Total capital assets being depreciated		702,090	(48,569)	-	653,521
Total capital assets, net		$ 886,438	$ (48,569)	$ -	$ 837,869

(8) Capital Assets, Continued

DCD, Continued

	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
Capital assets not being depreciated:					
Land, net		$ 184,348	$ -	$ -	$ 184,348
Capital assets being depreciated:					
Structure and improvements	7 years	702,213	4,250	-	706,463
Vehicles/office equipment	3 - 5 years	120,738	76,302	(1,885)	195,155
Computer equipment	3 - 5 years	49,103	725	-	49,828
Furniture and fixtures	7 years	99,805	4,850	-	104,655
		971,859	86,127	(1,885)	1,056,101
Less accumulated depreciation		(308,589)	(47,307)	1,885	(354,011)
Total capital assets being depreciated		663,270	38,820	-	702,090
Total capital assets, net		$ 847,618	$ 38,820	$ -	$ 886,438

NMHC

	Estimated Useful Lives	Balance at October 1, 2016	Additions	Deletions	Balance at September 30, 2017
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,500,086	$ -	$ (127,930)	$ 2,372,156
Section 8 Koblerville Housing	30 years	1,954,050	-	(64,197)	1,889,853
Section 8 Rota Housing	30 years	1,200,484	-	(76,117)	1,124,367
Section 8 Tinian Housing	30 years	1,084,553	-	(79,914)	1,004,639
Section 8 Housing Phase II	30 years	637,704	-	(6,461)	631,243
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,977,392	-	(354,619)	7,622,773
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	550,079	-	(515,093)	34,986
Vehicles	3 years	215,830	35,790	-	251,620
		4,447,631	35,790	(515,093)	3,968,328
		12,425,023	35,790	(869,712)	11,591,101
Less accumulated depreciation		(11,568,867)	(141,191)	875,291	(10,834,767)
		$ 856,156	$ (105,401)	$ 5,579	$ 756,334

	Estimated Useful Lives	Balance at October 1, 2015	Additions	Deletions	Balance at September 30, 2016
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	550,079	-	-	550,079
Vehicles	3 years	215,830	-	-	215,830
		4,447,631	-	-	4,447,631
		12,425,023	-	-	12,425,023
Less accumulated depreciation		(11,428,129)	(140,738)	-	(11,568,867)
		$ 996,894	$ (140,738)	$ -	$ 856,156

(8) Capital Assets, Continued

NMHC, Continued

NMHC's nondepreciable capital assets consist of the following titles to approximately 335,542 square meters of land:

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.

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 at September 30, 2017 and 2016. NMHC recorded an impairment loss on land of $2,262,131 based on broker's opinions obtained during the year ended September 30, 2011. Public Law 6-34 provides NMHC, subject to certain terms and conditions, the authority to lease for commercial development certain land situated in the North Garapan Subdivision Annex No. 2. NMHC is currently in the process of promoting the development of the abovementioned land to allow NMHC to meet its future commitments.

(9) Foreclosed Real Estate

A summary of the changes in foreclosed real estate and the related valuation allowance as of September 30, 2017 and 2016 is as follows:

	DCD		NMHC	2017	2016
	For Sale	For Lease			
Foreclosed Real Estate:					
Balance at beginning of year	$ 1,135,460	$ 1,778,876	$ 441,648	$ 3,355,984	$ 4,002,548
Additions	251,000	300,000	38,350	589,350	394,200
Deletions	(300,000)	-	(252,200)	(552,200)	(1,040,764)
	1,086,460	2,078,876	227,798	3,393,134	3,355,984
Valuation allowance	(526,230)	(1,077,663)	-	(1,603,893)	(1,478,393)
Balance at end of year	$ 560,230	$ 1,001,213	$ 227,798	$ 1,789,241	$ 1,877,591

(9) Foreclosed Real Estate, Continued

	DCD For Sale	DCD For Lease	NMHC	2017	2016
Valuation Allowance:					
Balance at beginning of year	$ 550,730	$ 927,663	$ -	$ 1,478,393	$ 1,647,893
Provisions	125,500	150,000	-	275,500	158,500
Write-offs/transfers	(150,000)	-	-	(150,000)	(328,000)
Balance at end of year	$ 526,230	$ 1,077,663	$ -	$ 1,603,893	$ 1,478,393

(10) Note Payable to Related Party

	2017	2016
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, 2017 and 2016, CDA recorded other income of $174,189 and $137,583, respectively.	$ 296,984	$ 449,330

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
2018	$ 296,984	$ 10,655	$ 307,639

Changes in notes payable for the years ended September 30, 2017 and 2016, are as follows:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
DBD	$ 449,330	$ -	$ (152,346)	$ 296,984	$ 296,984

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
DBD	$ 555,332	$ -	$ (106,002)	$ 449,330	$ 262,588

(11) Contributions 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 "contributions for capital development grants".

Contributions for capital development grants consist of (a) transfers to the CNMI for capital projects of the CNMI Third Senatorial Districts pursuant to Saipan Local Law No. 18-17 of $468,034 and $738,191 for the years ended September 30, 2017 and 2016, respectively, (b) transfers to the CNMI for renovations and repair of Tinian municipal buildings pursuant to Public Law No. 17-8 of $49,425 and $418,674 for the years ended September 30, 2017 and 2016, respectively, (c) transfers to the CNMI for road paving projects in Kagman III, Phase I and II pursuant to Saipan Local Law No. 19-5 of $137,137 and $-0- for the years ended September 30, 2017 and 2016, respectively, and (d) transfers to the CNMI for capital projects pursuant to Tinian Local Law No. 19-04 of $22,080 and $-0-, respectively.

(12) 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, 2017 and 2016 amounted to $202,815 and $276,397, respectively. Minimum future lease income for all leases is as follows:

Year ending September 30,	Minimum Lease Income Due
2018	$ 144,350
2019	108,900
2020	76,745
2021	71,845
2022	70,945
Thereafter	2,901,605
	$ 3,374,390

CDA leases its office space and equipment in Rota for an annual rental of $7,811. Total minimum future rental is $7,968 under this operating lease for the year ending September 30, 2018.

(12) 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 $1,636,368 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2017. 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 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, 2017 and 2016, NMHC has guaranteed outstanding loans of $6,289,524 and $10,516,586, respectively, and the amount of delinquent loans related to the agreement was $1,534,424 and $6,662,734, respectively. As of September 30, 2017 and 2016, total delinquent loans with demand notices from RD were $-0- and $4,187,162, respectively, for which NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of $1,461,887 and $3,337,642, respectively, in the accompanying financial statements exclusive of reserves for the remaining non-delinquent and delinquent loans without demand notices of $1,534,424 and $1,426,449, respectively. NMHC recognized the forgiven reserved amount of $2,226,340 as a recovery from loan guaranty settlement for the year ended September 30, 2016. Refer to Note 5 for more information covering the settlement agreement.

NMHC entered into a loan and a related loan purchase with a CNMI savings and loan 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, 2017 and 2016, NMHC was contingently liable for $567,251 and $168,228, 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, 2017 and 2016 was $336 and $61, respectively, which is included in "restricted cash and cash equivalents" in the accompanying financial statements plus financial institution receivable of $121,226. As of September 30, 2017 and 2016, total defaulted loans related to this arrangement were $-0-.

NMHC also has similar arrangements with other financial institutions whereby NMHC guarantees a varying percentage of loans issued by banks for housing construction. At September 30, 2017 and 2016, NMHC was contingently liable to these institutions for $321,669 and $324,927, respectively. As of September 30, 2017 and 2016, the total defaulted loans related to these arrangements were $-0- and $62,357, 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.

(13) 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, 2017

ASSETS	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Elimination Entries	Total
Current assets:					
Cash and cash equivalents	$ -	7,492,862	$ 1,314,717	$ -	$ 8,807,579
Time certificates of deposit	-	3,500,000	-	-	3,500,000
Receivables:					
Current portion of loans receivable, net	275,870	1,650,452	1,103,486	-	3,029,808
Current portion of finance lease receivable, net	-	87,604	15,710	-	103,314
Rent, net	-	34,292	163,322	-	197,614
Accrued interest, net	4,895	8,407	54,701	-	68,003
Dividends	1,800,000	-	-	-	1,800,000
Employees	-	-	57	-	57
Other, net	-	5,252	2,040,213	-	2,045,465
Prepaid expenses	-	11,715	-	-	11,715
Total current assets	2,080,765	12,790,584	4,692,206	-	19,563,555
Other assets:					
Cash and cash equivalents, restricted	7,663,544	4,274,500	3,212,643	-	15,150,687
Noncurrent assets:					
Loans receivable, net of current portion	3,695,149	9,174,819	3,056,948	-	15,926,916
Finance lease receivable, net of current portion	-	1,167,257	716,558	-	1,883,815
Due from other funds	-	61,632	-	(61,632)	-
Depreciable capital assets, net of accumulated depreciation	-	653,521	756,334	-	1,409,855
Nondepreciable capital assets	-	184,348	7,288,182	-	7,472,530
Foreclosed real estate, net	-	1,561,443	227,798	-	1,789,241
Total noncurrent assets	3,695,149	12,803,020	12,045,820	(61,632)	28,482,357
	$ 13,439,458	$ 29,868,104	$ 19,950,669	$ (61,632)	$ 63,196,599
LIABILITIES AND NET POSITION					
Current liabilities:					
Note payable to related party, current portion	$ 296,984	$ -	$ -	$ -	$ 296,984
Accounts payable and accrued expenses	-	797,189	807,126	-	1,604,315
Due to grantor agency	-	-	781,825	-	781,825
Unearned revenues, current portion	-	27,227	-	-	27,227
Loan commitment	-	4,274,500	-	-	4,274,500
Reserve for loan guaranty	-	-	1,461,887	-	1,461,887
Total current liabilities	296,984	5,098,916	3,050,838	-	8,446,738
Due to other funds	61,632	-	-	(61,632)	-
Unearned revenues, net of current portion	-	566,568	8,332,792	-	8,899,360
Total liabilities	358,616	5,665,484	11,383,630	(61,632)	17,346,098
Net position:					
Net investment in capital assets	-	837,869	8,044,516	-	8,882,385
Restricted	13,080,842	23,364,751	522,523	-	36,968,116
Total net position	13,080,842	24,202,620	8,567,039	-	45,850,501
	$ 13,439,458	$ 29,868,104	$ 19,950,669	$ (61,632)	$ 63,196,599

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2017

	Development Banking Division	Development Corporation Division	Northern Marianas Housing Corporation	Elimination Entries	Total
Operating revenues:					
Section 8 income:					
Federal housing assistance rentals	$ -	$ -	$ 4,332,619	$ -	$ 4,332,619
Tenant share	-	-	158,883	-	158,883
Recovery from reserve for loan guaranty	-	-	1,875,755	-	1,875,755
CDBG Program	-	-	1,534,250	-	1,534,250
Interest and fees on loans	102,552	403,484	363,251	-	869,287
HOME Investment Partnership Program Grant	-	-	154,974	-	154,974
HOME Investment Partnership Grant program income	-	-	106,155	-	106,155
ESG Program	-	-	58,393	-	58,393
Housing rental	-	-	35,185	-	35,185
Low Income Housing Tax Credit	-	-	21,396	-	21,396
Interest and dividends on investments	8,283	9,927	-	-	18,210
EDI Program	-	-	2,950	-	2,950
Other	1,685	1,387,094	48,397	(1,102,504)	334,672
	112,520	1,800,505	8,692,208	(1,102,504)	9,502,729
Recovery of loan impairment	-	422,769	664,888	-	1,087,657
Recovery of interest impairment	-	450,095	-	-	450,095
Provision for foreclosed real estate	-	(45,000)	-	-	(45,000)
Net operating revenues	112,520	2,628,369	9,357,096	(1,102,504)	10,995,481
Operating expenses:					
Section 8 rental	-	-	2,497,953	-	2,497,953
CDBG Program	-	-	1,534,250	-	1,534,250
HOME Investment Partnership Program Grant	-	-	154,974	-	154,974
HOME Investment Partnership Grant program income	-	-	106,155	-	106,155
ESG Program	-	-	58,393	-	58,393
EDI Program	-	-	2,950	-	2,950
Operations:					
Salaries and wages	-	551,719	1,134,679	-	1,686,398
Employee benefits	-	327,727	260,940	-	588,667
Utilities	-	92,152	271,326	-	363,478
Repairs and maintenance	-	13,741	319,716	-	333,457
Professional fees	-	101,959	169,494	-	271,453
Depreciation	-	56,407	141,191	-	197,598
Travel	-	48,364	122,662	-	171,026
Supplies	-	-	71,956	-	71,956
Provision for foreclosed properties	-	-	60,019	-	60,019
Rent	-	3,262	12,622	-	15,884
Other	1,102,504	115,867	137,761	(1,102,504)	253,628
Total operating expenses	1,102,504	1,311,198	7,057,041	(1,102,504)	8,368,239
Operating (loss) income	(989,984)	1,317,171	2,300,055	-	2,627,242
Nonoperating revenues (expenses):					
Dividend income	2,880,000	-	-	-	2,880,000
Other income	174,189	1,575	-	-	175,764
Litigation judgment	-	-	45,828	-	45,828
Gain on sale of foreclosed real estate	-	-	35,500	-	35,500
Interest income	-	-	19,021	-	19,021
Interest expense	(21,843)	-	-	-	(21,843)
Other expense	-	(24,682)	-	-	(24,682)
Total nonoperating revenues, net	3,032,346	(23,107)	100,349	-	3,109,588
Income before transfers	2,042,362	1,294,064	2,400,404	-	5,736,830
Contributions for capital development grants	(676,676)	-	-	-	(676,676)
Change in net position	1,365,686	1,294,064	2,400,404	-	5,060,154
Net position - beginning	11,715,156	22,908,556	6,166,635	-	40,790,347
Net position - ending	$ 13,080,842	$ 24,202,620	$ 8,567,039	$ -	$ 45,850,501

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2017

	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	105,101	863,004	$ 681,409	$ -	$ 1,649,514
Interest and dividends on investments	8,283	9,927	-	-	18,210
Cash payments to suppliers for goods and services	-	(376,410)	(119,556)	-	(495,966)
Cash received from customers	1,685	230,890	101,359	-	333,934
Cash payments to employees for services	-	(749,426)	(1,134,679)	-	(1,884,105)
Cash received from federal grant awards	-	-	6,170,383	-	6,170,383
Cash payments from federal grant awards	-	-	(5,069,033)	-	(5,069,033)
Cash received for loan commitment	-	995,220	-	-	995,220
Net cash provided by operating activities	115,069	973,205	629,883	-	1,718,157
Cash flows from capital and related financing activities:					
Net interdivisional transactions	(1,044,652)	1,044,652	-	-	-
Acquisition of capital assets	-	(7,838)	(35,790)	-	(43,628)
Net receipts of loans receivable	269,407	2,519,517	4,710	-	2,793,634
Net receipts of finance lease receivable	-	157,332	-	-	157,332
Proceeds from sale of foreclosed real estate	-	-	30,109	-	30,109
Interest received from litigation judgment	-	-	5,613	-	5,613
Transfers for capital development grants	(676,676)	-	-	-	(676,676)
Transfers for loan commitment	-	(995,220)	-	-	(995,220)
Net cash (used for) provided by capital and related financing activities	(1,451,921)	2,718,443	4,642	-	1,271,164
Cash flows from investing activities:					
Proceeds from (purchase of) restricted cash and cash equivalents and time certificates of deposit	(4,063,148)	(2,000,000)	1,858,533	-	(4,204,615)
Dividend received	5,400,000	-	-	-	5,400,000
Purchase of defaulted loans	-	-	(1,871,000)	-	(1,871,000)
Interest received	-	-	19,021	-	19,021
Net cash provided by (used for) investing activities	1,336,852	(2,000,000)	6,554	-	(656,594)
Net increase in cash and cash equivalents	-	1,691,648	641,079	-	2,332,727
Cash and cash equivalents at beginning of year	-	5,801,214	673,638	-	6,474,852
Cash and cash equivalents at end of year	$ -	$ 7,492,862	$ 1,314,717	$ -	$ 8,807,579
Reconciliation of operating (loss) income to net cash provided by operating activities:					
Operating (loss) income	$ (989,984)	$ 1,317,171	$ 2,300,055	$ -	$ 2,627,242
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:					
Recovery of loan impairment	-	(422,769)	(664,888)	-	(1,087,657)
Recovery from loan guaranty	-	-	(1,875,755)	-	(1,875,755)
Provision for foreclosed real estate	-	45,000	60,019	-	105,019
Expenses allocated from DCD to DBD	1,102,504	(1,102,504)	-	-	-
Depreciation	-	56,407	141,191	-	197,598
Finance lease revenue	-	(60,992)	-	-	(60,992)
Other	-	(23,107)	-	-	(23,107)
(Increase) decrease in assets:					
Receivables:					
Rent	-	16,702	(64,411)	-	(47,709)
Finance lease	-	-	(56,778)	-	(56,778)
Employees	-	-	56,800	-	56,800
Accrued interest	2,549	9,425	318,159	-	330,133
Other	-	20,470	(98,113)	-	(77,643)
Prepaid expenses	-	(6,642)	-	-	(6,642)
Increase (decrease) in liabilities:					
Accounts payable and accrued expenses	-	108,110	532,563	-	640,673
Unearned revenues	-	20,714	-	-	20,714
Loan commitment	-	995,220	-	-	995,220
Due to grantor agency	-	-	(18,959)	-	(18,959)
Net cash provided by operating activities	$ 115,069	$ 973,205	$ 629,883	$ -	$ 1,718,157
Supplemental disclosure of noncash capital and related financing activities:					
Recognition of loans receivable:					
Noncash decrease in loans receivable	$ -	$ -	$ (548,608)	$ -	$ (548,608)
Noncash decrease in unearned revenues	-	-	548,608	-	548,608
	$ -	$ -	$ -	$ -	$ -
Recognition of foreclosed properties:					
Noncash increase (decrease) in foreclosed real estate	$ -	170,500	$ (159,222)	$ -	$ 11,278
Noncash (decrease) increase in loans receivable	-	(90,000)	14,372	-	(75,628)
Noncash (decrease) increase in finance lease receivable	-	(80,500)	144,850	-	64,350
	$ -	$ -	$ -	$ -	$ -
Loan payable to MPLT:					
Noncash decrease in note payable to related party	$ (152,346)	$ -	$ -	$ -	$ (152,346)
Noncash interest expense	(21,843)	-	-	-	(21,843)
Noncash other income	174,189	-	-	-	174,189
	$ -	$ -	$ -	$ -	$ -

See Accompanying Independent Auditors' Report.