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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, 2020 AND 2019

Deloitte & Touche LLC
Isa Drive, Capitol Hill
P.O. Box 500308
Saipan, MP 96950-0308
CNMI

Tel: (670) 322-7337/8
Fax: (670) 322-7340
www.deloitte.com

# 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, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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*, which was effective October 1, 2014. 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, 2020 and 2019. GASB Statement No. 68 requires 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. 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, 2020 and 2019, 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.

### *Emphasis-of-Matter*

Economic uncertainties as a result of the COVID-19 coronavirus pandemic may negatively impact CDA’s future financial results as described in note 14 to the financial statements.

Our opinion is not modified with respect to this matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 4 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

*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, 2020 (pages 44 through 46) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2022 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

June 3, 2022

**Management's Discussion and Analysis**
**Year Ended September 30, 2020**

The Management's Discussion and Analysis of the Commonwealth Development Authority's (CDA) financial performance provides an overview of CDA's financial activities for the fiscal year ended September 30, 2020, with selected comparative information for the fiscal years ended September 30, 2019 and 2018. Please read it in conjunction with the more detailed information contained within the accompanying financial statements.

CDA, formerly known as the Economic Development Loan Fund, was established as an autonomous public agency in 1985 through Public Law 4-49. Its overall purpose is to stimulate economic development in the Commonwealth of the Northern Mariana Islands (CNMI). Its mission statement is to provide appropriate financial and technical assistance to facilitate the start-up or expansion of private and public enterprises for their success, the benefit of the CNMI's economic welfare and the long-term sustainability of CDA. CDA's functions are carried out through the Development Banking Division (DBD) and the Development Corporation Division (DCD). Additionally, in 1994, the Northern Marianas Housing Corporation (NMHC) was included in CDA. CDA, as the financing arm of the CNMI, successfully continues its role to stimulate the CNMI's economy by financing major capital improvements and investing in its people. CDA has a Board of Directors composed of seven individuals appointed for staggered four-year terms by the Governor of the CNMI. CDA maintains its main office in Saipan and branch offices in Rota and Tinian.

**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, 2020, DCD's net loans receivable was $7,220,565, which was an increase of $26,894 or less than 1% compared to 2019. As of September 30, 2019, DCD's net loans receivable was $7,193,671, which was an increase of $681,604 or 10% compared to 2018.

DBD maintains a portfolio consisting of loans to various governmental and quasi-governmental agencies of the CNMI government.

## DBD AND DCD, CONTINUED

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, 2020, CDA received total dividend payments of $8,100,000 from CUC. DBD continues to hold preferred stock in CUC based on the conversion of debt dated September 30, 2009. See note 8 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 $7,220,565 in 2020 and $7,193,671 in 2019. These figures represent the estimated change in the provision for loan allowance and the potential recovery of value of loans and accrued interest for the respective fiscal years. Increases in fiscal years 2020 and 2019's net loans receivable was due to an increase in the number of approved microloan borrowers, the launching of a new commercial loan program of up to $250,000 and $150,000, respectively, loan consolidations and the restructuring and capitalization of accrued interest.

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

In response to the difficulties experienced by virtually all of DCD's borrowers, management has been working on solutions that can benefit both CDA and the borrowers. One such solution is the Debt-Relief Program. Qualifying borrowers are encouraged to restructure their delinquent loans at new, less-burdensome interest rates (typically 2%) and the accrued interest is set aside so that the new loan has a chance of being fully amortized if the new payment schedule is adhered to. This gives borrowers who were previously in seemingly hopeless situations new hope 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, CDA has exhausted all possible means to collect and there is no workable solution for repayment of the loan, CDA has been forced to write-off loans.

## 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 HCVP, 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.

**NMHC, CONTINUED**

**Major Programs of NMHC, Continued**

- *Section 8 Housing Assistance Payment Program (HAP):*

  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 2020, 2019 and 2018, NMHC received $1,371,555, $1,272,062 and $1,249,733, 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. For program year 2019 (FY 2020), the HOME allocation received was in the amount of $429,574.

- *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.

- *Community Development Block Grant-Disaster Recovery (CDBG-DR)*

  CDBG-DR is a flexible HUD-funded program provided as a special appropriation by Congress to states, territories, counties, and municipalities to assist with long-term recovery, disaster relief, restoration of housing and infrastructure and economic revitalization in the most distressed and impacted communities following a Presidentially-declared disaster. It allows grantees to deploy funding to carry out a wide range of recovery activities and prioritizes low- and moderate- income (LMI) persons and geographies.

- *Community Development Block Grant-COVID (CDBG-CV)*

  CDBG-CV provides grants to states, insular areas, and local governments to prevent, prepare for, and respond to the spread of COVID-19. The CNMI received a total of two CDBG-CV allocations. The CDBG-CV first allocation was used for the purchase of a mobile clinic for the Commonwealth Healthcare Corporation (CHCC). The CHCC mobile clinic is designed to complement traditional care settings and extend care to high-risk individuals who do not access care in traditional settings due to distrust of traditional health care services, perceived stigma, and financial barriers, among other reasons. The CDBG-CV second allocation was used to provide mortgage assistance to income-eligible applicants who were impacted by COVID-19. Eligible activities include public services, public facilities and improvements, housing-related activities, activities to acquire real property, economic development activities, and general administrative and planning activities.

**NMHC, CONTINUED**

**Major Programs of NMHC, Continued**

- *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. No new projects were committed in FY 2020 and the Mortgage and Credit Division only monitors and services previously issued loans.

- *Emergency Solutions Grant (ESG)*

  HUD provides funds to NMHC under the ESG Program to provide financial assistance such as rental and utility assistance for up to 10 months to families and individuals who are literally homeless and at risk of being homeless. The ESG provides funding to NMHC for administering the program such as case management services, maintaining the Homeless Management Information System database software and administrative services.

- *Emergency Solutions Grant-COVID (ESG-CV)*

  The Coronavirus Aid, Relief, and Economic Security (CARES) Act appropriated funding through the ESG Program "to prevent, prepare for, and respond to coronavirus, among individuals and families who are homeless or receiving homeless assistance and to support additional homeless assistance and homelessness prevention activities to mitigate the impacts created by coronavirus under the Emergency Solutions Grants program (42 U.S.C. 11371)." The CNMI received a total of three ESG-CV allocations. The ESG-CV first, second and third allocations were used for rapid rehousing assistance, homeless prevention assistance, housing relocation and stabilization services, homeless management information systems, and general administrative and planning activities. Income-eligible applicants will receive a total of twelve months rental assistance, financial assistance (e.g. security deposit, utility deposit, and utility assistance) for the applicable assistance period.

- *Continuum of Care (CoC)*

  NMHC, in collaboration with the CNMI's Homeless Prevention Coalition (the Coalition), applied for funding through HUD's CoC program. NMHC and the Coalition received funding in FY 2020 totaling $14,244 in planning funds.

- *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 2020 which describes the basis NMHC will use to allocate LIHTCs among qualified owners/developers. The tax credit allocated to the CNMI for 2020 was $3,217,500. The due date for the application submission is January 31, 2020.

## NMHC, CONTINUED

### Asset Management Division (AMD)

AMD handles NMHC's assets and provides technical and maintenance assistance to the HAP, HOME and CDBG programs. The goals of AMD 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. Additionally, AMD managed and implemented related repairs from damage sustained during Supertyphoon Yutu. Repair work included Mihaville and Koblerville projects, NMHC's central Saipan office, and other related repairs for satellite properties owned or managed by NMHC.

HUD helps make homes affordable through several rental assistance programs. HUD inspects these properties based on federal inspections standards set by HUD's REAC. Multifamily properties are inspected every one to three years. How often they are inspected is based on their previous inspection score. Properties that score well are inspected less often. For the last REAC inspection in September 2021, Mihaville scored 87b and Koblerville scored 84b.

## FINANCIAL HIGHLIGHTS

### Combined Statements of Net Position
### As of September 30, 2020, 2019 and 2018

| | 2020 | 2019 | $ Change | % Change | 2018 (As Restated) |
|---|---|---|---|---|---|
| Current assets | $ 21,129,015 | $ 20,744,923 | $ 384,092 | 2% | $ 24,651,346 |
| Other assets | 15,914,988 | 21,446,995 | (5,532,007) | -26% | 16,745,519 |
| Capital assets, net | 9,797,396 | 10,067,113 | (269,717) | -3% | 10,165,789 |
| Foreclosed real estate, net | 2,037,141 | 1,995,141 | 42,000 | 2% | 2,101,214 |
| Noncurrent assets | 17,374,425 | 11,708,343 | 5,666,082 | 48% | 10,606,465 |
| Total assets | $ 66,252,965 | $ 65,962,515 | $ 290,450 | 0% | $ 64,270,333 |
| Current liabilities | $ 9,147,316 | $ 9,117,169 | $ 30,147 | 0% | $ 8,998,554 |
| Noncurrent liabilities | 1,044,928 | 870,655 | 174,273 | 20% | 581,853 |
| Total liabilities | 10,192,244 | 9,987,824 | 204,420 | 2% | 9,580,407 |
| Deferred inflows of resources | 474,655 | 137,894 | 336,761 | 244% | - |
| Net investment in capital assets | 9,797,396 | 10,067,113 | (269,717) | -3% | 10,165,789 |
| Restricted | 45,788,670 | 45,769,684 | 18,986 | 0% | 44,524,137 |
| Total net position | 55,586,066 | 55,836,797 | (250,731) | -0% | 54,689,926 |
| Total liabilities, deferred inflows of resources and net position | $ 66,252,965 | $ 65,962,515 | $ 290,450 | 0% | $ 64,270,333 |

## FINANCIAL HIGHLIGHTS, CONTINUED

### Combined Statements of Revenues, Expenses and Changes in Net Position
### Years Ended September 30, 2020, 2019 and 2018

| | 2020 | 2019 | $ Change | % Change | 2018 (As Restated) |
|---|---|---|---|---|---|
| Operating revenues | $ 8,740,167 | $ 7,653,257 | $ 1,086,910 | 14% | $ 7,324,280 |
| Recoveries (bad debts) | 243,666 | 1,318,913 | (1,075,247) | -82% | (1,580,279) |
| Net operating revenues | 8,983,833 | 8,972,170 | 11,663 | 0% | 5,744,001 |
| Operating expenses | 9,779,866 | 8,567,129 | 1,212,737 | 14% | 8,218,550 |
| Operating (loss) income | (796,033) | 405,041 | (1,201,074) | -297% | (2,474,549) |
| Total nonoperating revenues, net | 716,962 | 994,982 | (278,020) | -28% | 1,142,180 |
| (Loss) income before transfers and capital contributions | (79,071) | 1,400,023 | (1,479,094) | -106% | (1,332,369) |
| Contributions for capital development grants | (74,455) | (253,152) | 178,697 | -71% | (64,519) |
| Capital contributions | (97,205) | - | (97,205) | 100% | 1,359,489 |
| Change in net position | (250,731) | 1,146,871 | (1,397,602) | -122% | (37,399) |
| Net position - beginning, as restated | 55,836,797 | 54,689,926 | 1,146,871 | 2% | 54,727,325 |
| Net position - ending | $ 55,586,066 | $ 55,836,797 | $ (250,731) | -0% | $ 54,689,926 |

### Combined Statements of Cash Flows
### Years Ended September 30, 2020, 2019 and 2018

| | 2020 | 2019 | $ Change | % Change | 2018 (As Restated) |
|---|---|---|---|---|---|
| Cash flows from operating activities | $ (590,178) | $ (715,818) | $ 125,640 | -18% | $ 2,134,316 |
| Cash flows from capital and related financing activities | (5,520,014) | 4,052,769 | (9,572,783) | -236% | 937,517 |
| Cash flows from investing activities | 14,114,822 | (14,332,253) | 28,447,075 | -198% | 3,499,838 |
| Net increase (decrease) in cash and cash equivalents | 8,004,630 | (10,995,302) | 18,999,932 | -173% | 6,571,671 |
| Cash and cash equivalents at beginning of year | 4,383,948 | 15,379,250 | (10,995,302) | -71% | 8,807,579 |
| Cash and cash equivalents at end of year | $ 12,388,578 | $ 4,383,948 | $ 8,004,630 | 183% | $ 15,379,250 |

### Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position by Division
### Years Ended September 30, 2020, 2019 and 2018

#### *Development Banking Division*

| | 2020 | 2019 | $ Change | % Change | 2018 (As Restated) |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Interest and fees on loans | $ - | $ 56,003 | $ (56,003) | -100% | $ 95,734 |
| Interest and dividends on investments | 186,191 | 24,799 | 161,392 | 651% | 9,971 |
| Other | - | 1,234 | (1,234) | -100% | 5,808 |
| Net operating revenues | 186,191 | 82,036 | 104,155 | 127% | 111,513 |
| Other operating expenses | 145,418 | 233,829 | (88,411) | -38% | 252,291 |
| Operating income (loss) | 40,773 | (151,793) | 192,566 | -127% | (140,778) |
| Nonoperating revenues (expenses): | | | | | |
| Dividend income | 900,000 | 900,000 | - | 0% | 900,000 |
| Other income | - | 115,464 | (115,464) | -100% | 197,656 |
| Interest expense | - | (2,219) | 2,219 | -100% | (13,917) |
| Total nonoperating revenues, net | 900,000 | 1,013,245 | (113,245) | -11% | 1,083,739 |
| Income before transfers | 940,773 | 861,452 | 79,321 | 9% | 942,961 |
| Contributions for capital development grants | (74,455) | (253,152) | 178,697 | -71% | (64,519) |
| Change in net position | $ 866,318 | $ 608,300 | $ 258,018 | 42% | $ 878,442 |

## FINANCIAL HIGHLIGHTS, CONTINUED

## Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position by Division, Continued
## Years Ended September 30, 2020, 2019 and 2018

### *Development Corporation Division*

| | 2020 | 2019 | $ Change | % Change | 2018 (As Restated) |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Interest and fees on loans | $ 639,754 | $ 129,409 | $ 510,345 | 394% | $ 569,619 |
| Interest and dividends on investments | 191,365 | 74,008 | 117,357 | 159% | 46,802 |
| Other | 380,989 | 523,439 | (142,450) | -27% | 585,116 |
| | 1,212,108 | 726,856 | 485,252 | 67% | 1,201,537 |
| (Bad debts) recoveries | (52,258) | 780,755 | (833,013) | -107% | (1,813,745) |
| Net operating revenues | 1,159,850 | 1,507,611 | (347,761) | -23% | (612,208) |
| Operating expenses: | | | | | |
| Salaries and wages | 635,061 | 635,529 | (468) | -0% | 625,154 |
| Employee benefits | 351,925 | 343,763 | 8,162 | 2% | 339,366 |
| Professional fees | 59,997 | 56,586 | 3,411 | 6% | 144,630 |
| Office rent | 5,567 | 13,975 | (8,408) | -60% | 10,737 |
| Travel | 31,318 | 72,084 | (40,766) | -57% | 54,140 |
| Depreciation | 57,777 | 47,025 | 10,752 | 23% | 52,183 |
| Other | 196,524 | 224,499 | (27,975) | -12% | 216,445 |
| Total operating expenses | 1,338,169 | 1,393,461 | (55,292) | -4% | 1,442,655 |
| Operating (loss) income | (178,319) | 114,150 | (292,469) | -256% | (2,054,863) |
| Nonoperating revenues (expenses): | | | | | |
| Other income | 450 | 750 | (300) | -40% | 1,150 |
| Gain on sale of fixed assets | (10) | - | (10) | 100% | - |
| Gain on sale of foreclosed real estate | - | - | - | 0% | 3,622 |
| Other expense | (202,432) | (30,513) | (171,919) | 563% | (12,000) |
| Total nonoperating revenues (expenses), net | (201,992) | (29,763) | (172,229) | 579% | (7,228) |
| Change in net position | $ (380,311) | $ 84,387 | $ (464,698) | -551% | $ (2,062,091) |

### *Northern Marianas Housing Corporation*

| | 2020 | 2019 | $ Change | % Change | 2018 (As Restated) |
|---|---|---|---|---|---|
| Operating revenues | $ 7,341,868 | $ 6,844,365 | $ 497,503 | 7% | $ 6,011,230 |
| Recoveries | 295,924 | 538,158 | (242,234) | -45% | 233,466 |
| Net operating revenues | 7,637,792 | 7,382,523 | 255,269 | 3% | 6,244,696 |
| Operating expenses | 8,296,279 | 6,939,839 | 1,356,440 | 20% | 6,523,604 |
| Operating (loss) income | (658,487) | 442,684 | (1,101,171) | -249% | (278,908) |
| Nonoperating revenues, net | 18,954 | 11,500 | 7,454 | 65% | 65,669 |
| (Loss) income before capital contributions | (639,533) | 454,184 | (1,093,717) | -241% | (213,239) |
| Capital contributions | (97,205) | - | (97,205) | 100% | 1,359,489 |
| Change in net position | $ (736,738) | $ 454,184 | $ (1,190,922) | -262% | $ 1,146,250 |

## FINANCIAL HIGHLIGHTS, CONTINUED

## Condensed Comparative Statements of Cash Flows by Division
## Years Ended September 30, 2020, 2019 and 2018

### *Development Banking Division*

| | 2020 | 2019 | $ Change | % Change | 2018 (As Restated) |
|---|---|---|---|---|---|
| Cash flows from operating activities | $ 186,011 | $ 85,911 | $ 100,100 | 117% | $ 112,263 |
| Cash flows from capital and related financing activities | (6,142,767) | 3,134,670 | (9,277,437) | -296% | (25,365) |
| Cash flows from investing activities | 5,956,756 | (3,220,581) | 9,177,337 | -285% | (86,898) |
| 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*

| | 2020 | 2019 | $ Change | % Change | 2018 (As Restated) |
|---|---|---|---|---|---|
| Cash flows from operating activities | $ (565,442) | $ (711,660) | $ 146,218 | -21% | $ 1,565,101 |
| Cash flows from capital and related financing activities | 421,856 | 526,912 | (105,056) | -20% | 736,624 |
| Cash flows from investing activities | 8,250,000 | (10,750,000) | 19,000,000 | -177% | 3,250,000 |
| Net change in cash and cash equivalents | 8,106,414 | (10,934,748) | 19,041,162 | -174% | 5,551,725 |
| Cash and cash equivalents at beginning of year | 2,109,839 | 13,044,587 | (10,934,748) | -84% | 7,492,862 |
| Cash and cash equivalents at end of year | $ 10,216,253 | $ 2,109,839 | $ 8,106,414 | 384% | $ 13,044,587 |

### *Northern Marianas Housing Corporation*

| | 2020 | 2019 | $ Change | % Change | 2018 (As Restated) |
|---|---|---|---|---|---|
| Cash flows from operating activities | $ (210,747) | $ (90,069) | $ (120,678) | 134% | $ 456,952 |
| Cash flows from capital and related financing activities | 200,897 | 391,187 | (190,290) | -49% | 226,258 |
| Cash flows from investing activities | (91,934) | (361,672) | 269,738 | -75% | 336,736 |
| Net change in cash and cash equivalents | (101,784) | (60,554) | (41,230) | 68% | 1,019,946 |
| Cash and cash equivalents at beginning of year | 2,274,109 | 2,334,663 | (60,554) | -3% | 1,314,717 |
| Cash and cash equivalents at end of year | $ 2,172,325 | $ 2,274,109 | $ (101,784) | -4% | $ 2,334,663 |

## DCD AND DBD

- In 2020, DCD and DBD had net operating revenues of $1,159,850 and $186,191, respectively. A significant part of DCD's net operating revenues was due to interest and fees collected from loans and investment returns while DBD's net operating revenues resulted from investment returns. DCD had an addition to the allowance of $52,258 in 2020 compared to a recovery of $780,755 in 2019 and an addition to the allowance of $1,813,745 in 2018. Interest and fees earned on loans for DCD increased by $510,345 or 394% in fiscal year 2020 due to revenue received from auctions of foreclosed assets, decreased by $440,210 or 77% in fiscal year 2019 due to deferment of loan payments extended to CDA borrowers and increased by $166,135 or 41% in fiscal year 2018. DBD had no outstanding loans receivable in fiscal year 2020. Interest and fees earned on loans for DBD decreased by $39,731 or 42% in fiscal year 2019 and by $6,818 or 7% in fiscal year 2018.

## FINANCIAL HIGHLIGHTS, CONTINUED

### DCD AND DBD, CONTINUED

- DCD invested surplus funds in time certificates of deposit (TCDs) to take advantage of higher interest rates. Related earnings on investments increased from $74,008 for the year ended September 30, 2019 to $191,365 for the year ended September 30, 2020, an increase of $117,357 or 159% and from $46,802 for the year ended September 30, 2018 to $74,008 for the year ended September 30, 2019, an increase of $27,206 or 58%. DBD also invested in TCDs due to the continued decline of interest earned on savings deposits. Earnings on interest and dividends on investments increased from $24,799 for the year ended September 30, 2019 to $186,191 for the year ended September 30, 2020, an increase of $161,392 or 651% and from $9,971 for the year ended September 30, 2018 to $24,799 for the year ended September 30, 2019, an increase of $14,828 or 149%.

- In fiscal year 2020, operating expenses for DCD decreased by $55,292 or 4% from 2019. In fiscal year 2019, operating expenses for DCD decreased by $49,194 or 3% from 2018. DBD's operating expenses decreased by $88,411 or 38% from 2019 and by $18,462 or 7% from fiscal year 2018. Efforts of management and staff are ongoing to reduce DCD's expenses. DBD's expenses were due to reimbursements paid to DCD to cover shared costs.

- 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 $206,680 or 30%, from 2019 to 2020 due to zero recoveries reported in 2020 and increased by $1,876,336 or 159% from 2018 to 2019 due to several adjustments in valuation allowances.

- In fiscal years 2020 and 2019, DCD began lending up to $250,000 and $150,000, respectively, for its new direct loan program for renovations and repairs of existing rental properties.

- In fiscal year 2020, CDA's Board of Directors approved an automatic eight-month loan payment deferral for all CDA borrowers, a three-month lease payment deferral for all leases and a fifty percent discount for three months in rent from CDA's building tenants to support the relief and recovery of businesses affected by the economic impact of the COVID-19 coronavirus pandemic.

- CDA received total preferred stock dividend payments of $540,000, $1,080,000 and $1,080,000 in fiscal years 2020, 2019 and 2018, respectively. As of September 30, 2020, 2019 and 2018, CDA received total preferred stock dividend payments of $8,100,000, $7,560,000 and $6,480,000, respectively, from CUC since implementation of the Settlement Agreement.

### NMHC

- Total assets decreased by less than 1% from $22,427,674 in 2019 to $22,364,311 in 2020 and increased by 4% from $21,473,756 in 2018 to $22,427,674 in 2019. Current assets of $5,018,226, $5,019,402 and $4,928,773 as of September 30, 2020, 2019 and 2018, respectively, are primarily comprised of cash, current portion of loans receivable, finance lease receivables, and receivables from tenants.

**FINANCIAL HIGHLIGHTS, CONTINUED**

**NMHC, CONTINUED**

- Total other assets as of September 30, 2020 and 2019 were $3,375,401 and $3,264,513, respectively, which is an increase of 3% in restricted cash and cash equivalents. Total other assets as of September 30, 2019 and 2018 were $3,264,513 and $2,895,748, respectively, which is an increase of 13% in restricted cash and cash equivalents.

- Foreclosed real estate increased by 9% from $488,698 in 2019 to $530,698 in 2020. This increase was due primarily to Rural Development foreclosed units. Foreclosed real estate decreased by 18% from $594,771 in 2018 to $488,698 in 2019. This decrease was due primarily to NMHC's execution of foreclosures during fiscal year 2019.

- NMHC's total net position decreased by 4% from $$19,044,297 in 2019 to $18,307,559 in 2020 and increased by 2% from $18,590,113 in 2018 to $19,044,297 in 2019. 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, 2020, NMHC's current assets of $5,018,226 exceed current liabilities of $3,042,601 by $1,975,625. As of September 30, 2019, NMHC's current assets of $5,019,402 exceed current liabilities of $2,893,790 by $2,125,612. As of September 30, 2018, NMHC's current assets of $4,928,773 exceed current liabilities of $2,841,131 by $2,087,642.

- NMHC's operating (loss) income during fiscal years 2020, 2019 and 2018 was $(658,487), $442,684 and $(278,908), respectively.

**CAPITAL ASSETS**

At September 30, 2020, 2019 and 2018, CDA had $9,797,396, $10,067,113 and $10,165,789, respectively, net investment in capital assets. This represents a net decrease of $269,717 or 3% during fiscal year 2020 and $98,676 or 1% during fiscal year 2019.

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Depreciable capital assets, net | $ 2,324,866 | $ 1,235,094 | $ 1,333,770 |
| Non-depreciable capital assets | 7,472,530 | 8,832,019 | 8,832,019 |
| | $ 9,797,396 | $ 10,067,113 | $ 10,165,789 |

See note 9 to the financial statements for more detailed information on CDA's capital assets and changes therein.

**ECONOMIC OUTLOOK**

**DCD AND DBD**

CDA is affected by the negative economic forces at play globally as well as locally. The CNMI has long been regarded as pro-business thanks to a favorable tax climate, relatively affordable housing and a variety of incentives that encourages new business formation and development. The CNMI's economic resiliency was also tested when it was able to recover quickly from two major natural disasters. The CNMI's dependency on tourism as a main economic driver is also very vulnerable due to stiff competition from other major destinations that have bigger marketing budgets as well as the sensitivity of the tourism market from geopolitics that are at play globally. The effect of the ongoing trade war between the United States and China and the global impact of the COVID-19 coronavirus pandemic in health, economy and tourism has not spared the CNMI which brought the CNMI's economic activity to a near stand-still as countries around the world imposed tight restrictions on movement to contain the spread of virus.

CDA's 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 enhancements and diversifications and expenditure reductions. CDA 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 that will not only recover the principal balance but also will 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.

**NMHC**

Economic uncertainties as a result of the COVID-19 coronavirus pandemic may negatively impact NMHC's future financial results. See note 14 to the financial statements for more detailed information.

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 2019 was $5,953,234. 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 increase Section 8 housing assistance funding. The increase in funding impacts NMHC's operating capabilities and financial position. During 2019, NMHC received $1,272,062 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.

On September 24, 2020, Executive Order 2020-21 established NMHC as the successor agency to the former Mariana Islands Housing Authority pursuant to Public Law 20-87 and rescinded NMHC's assignment to the Commonwealth Development Authority (CDA). The operations of NMHC shall continue under the direction and control of the CDA Board of Directors until all positions of the NMHC Board of Directors are appointed and confirmed.

**PRIOR YEAR**

Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in CDA's report on the audit of financial statements, which is dated October 23, 2020. That Discussion and Analysis explains the major factors impacting the 2019 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 d.militante@developcnmi.com or Mr. Jesse S. Palacios, NMHC Corporate Director, P.O. Box 500514, Saipan, MP 96950-0514, or call (670) 234-6866/9447 or email jspalacios@nmhcgov.net.

# COMMONWEALTH DEVELOPMENT AUTHORITY

## Statements of Net Position
## September 30, 2020 and 2019

| ASSETS | 2020 | 2019 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 12,388,578 | $ 4,383,948 |
| Time certificates of deposit | 2,750,000 | 11,000,000 |
| Receivables: | | |
| Current portion of loans receivable, net | 2,508,655 | 2,247,849 |
| Current portion of finance lease receivable, net | 116,454 | 96,472 |
| Rent, net | 380,146 | 366,341 |
| Accrued interest, net of allowance for doubtful accounts of $700,083 and $721,094 as of September 30, 2020 and 2019, respectively | 141,574 | 44,450 |
| Employees | 8,086 | 7,714 |
| Dividends | 1,800,000 | 1,440,000 |
| Due from grantor - Disaster Recovery Grant | 474,655 | 137,894 |
| Other, net | 551,430 | 979,760 |
| Prepaid expenses | 9,437 | 40,495 |
| Total current assets | 21,129,015 | 20,744,923 |
| Other assets: | | |
| Cash and cash equivalents, restricted | 9,414,988 | 10,946,995 |
| Time certificates of deposit, restricted | 6,500,000 | 10,500,000 |
| Total other assets | 15,914,988 | 21,446,995 |
| Noncurrent assets: | | |
| Loans receivable, net of current portion | 9,881,871 | 9,859,561 |
| Finance lease receivable, net of current portion | 1,492,554 | 1,848,782 |
| Due from CNMI government | 6,000,000 | - |
| Depreciable capital assets, net of accumulated depreciation | 2,324,866 | 1,235,094 |
| Nondepreciable capital assets | 7,472,530 | 8,832,019 |
| Foreclosed real estate, net | 2,037,141 | 1,995,141 |
| Total noncurrent assets | 29,208,962 | 23,770,597 |
| | $ 66,252,965 | $ 65,962,515 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 1,884,323 | $ 1,752,336 |
| Unearned revenues, current portion | 13,530 | 20,378 |
| Due to grantor agency | 282,813 | 522,169 |
| Loan commitment | 4,942,800 | 5,168,923 |
| Reserve for loan guaranty | 2,023,850 | 1,653,363 |
| Total current liabilities | 9,147,316 | 9,117,169 |
| Unearned revenues, net of current portion | 1,044,928 | 870,655 |
| Total liabilities | 10,192,244 | 9,987,824 |
| Deferred inflows of resources: | | |
| Unearned revenues | 474,655 | 137,894 |
| Total deferred inflows of resources | 474,655 | 137,894 |
| Commitments and contingencies | | |
| Net position: | | |
| Net investment in capital assets | 9,797,396 | 10,067,113 |
| Restricted | 45,788,670 | 45,769,684 |
| Total net position | 55,586,066 | 55,836,797 |
| | $ 66,252,965 | $ 65,962,515 |

See accompanying notes to financial statements.

## Statements of Revenues, Expenses and Changes in Net Position
## Years Ended September 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Operating revenues: | | |
| Section 8 income: | | |
| Federal housing assistance rentals | $ 4,758,404 | $ 4,453,610 |
| Tenant share | 227,506 | 307,428 |
| Community Development Block Grants (CDBG) Program | 1,521,428 | 971,886 |
| Interest and fees on loans | 901,277 | 317,284 |
| Interest and dividends on investments | 377,556 | 98,807 |
| Recovery from provision for foreclosed properties | 129,847 | 164,165 |
| Low Income Housing Tax Credit | 94,711 | 156,041 |
| Emergency Shelter Grants (ESG) Program | 82,432 | 97,220 |
| HOME Investment Partnership Program Grant | 71,337 | 332,311 |
| Housing rental | 48,209 | 36,513 |
| HOME Investment Partnership Grant program income | 35,906 | 98,348 |
| Other | 491,554 | 619,644 |
| | 8,740,167 | 7,653,257 |
| Rrecovery of loan impairment | 243,211 | 1,384,254 |
| Recovery of (provision for) interest impairment | 455 | (65,341) |
| Net operating revenues | 8,983,833 | 8,972,170 |
| Operating expenses: | | |
| Section 8 rental | 2,674,341 | 2,482,947 |
| CDBG Program | 1,518,783 | 971,886 |
| HOME Investment Partnership Program Grant | 107,243 | 430,267 |
| ESG Program | 86,494 | 97,220 |
| Continuum of Care Program | 3,478 | - |
| HOME Investment Partnership Grant program income | - | 392 |
| Operations: | | |
| Salaries and wages | 2,004,114 | 1,811,166 |
| Employee benefits | 821,329 | 612,782 |
| Repairs and maintenance | 462,492 | 416,224 |
| Utilities | 413,714 | 340,929 |
| Provision for loan guaranty | 370,487 | 82,124 |
| Depreciation | 365,823 | 175,128 |
| Professional fees | 235,254 | 128,421 |
| Travel | 42,712 | 192,279 |
| Supplies | 41,387 | 5,031 |
| Rent | 14,403 | 23,631 |
| Other | 617,812 | 796,702 |
| Total operating expenses | 9,779,866 | 8,567,129 |
| Operating (loss) income | (796,033) | 405,041 |
| Nonoperating revenues (expenses): | | |
| Dividend income | 900,000 | 900,000 |
| Interest income | 18,954 | 7,093 |
| Other income | 450 | 116,214 |
| Gain on sale of fixed assets | (10) | - |
| Other expense | (202,432) | (30,513) |
| Litigation judgment | - | 4,407 |
| Interest expense | - | (2,219) |
| Total nonoperating revenues, net | 716,962 | 994,982 |
| (Loss) income before transfers and capital contributions | (79,071) | 1,400,023 |
| Contributions for capital development grants | (74,455) | (253,152) |
| Capital grants and contributions: | | |
| HOME Investment Partnership Program Grant | (34,318) | - |
| NSP Grant | (62,887) | - |
| Change in net position | (250,731) | 1,146,871 |
| Net position - beginning | 55,836,797 | 54,689,926 |
| Net position - ending | $ 55,586,066 | $ 55,836,797 |

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from interest and fees on loans receivable | $ 806,278 | $ 472,925 |
| Interest and dividends on investments | 377,556 | 98,807 |
| Cash payments to suppliers for goods and services | (1,570,047) | (1,111,073) |
| Cash received from customers | 451,835 | 558,099 |
| Cash payments to employees for services | (2,429,439) | (2,386,242) |
| Cash received from HCV Program CARES Act | 159,496 | - |
| Cash received from other federal grant awards | 6,230,151 | 5,949,182 |
| Cash payments from federal grant awards | (4,389,885) | (4,329,630) |
| Cash received for loan commitment | (226,123) | 32,114 |
| Net cash used for operating activities | (590,178) | (715,818) |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (96,106) | (76,452) |
| Proceeds from sale of foreclosed real estate | 28,347 | 350,738 |
| Net receipts of loans receivable | 97,845 | 3,908,410 |
| Net receipts of finance lease receivable | 298,226 | 150,948 |
| Interest received from litigation judgment | - | 4,407 |
| Transfers for capital development grants | (74,455) | (253,152) |
| Due from CNMI Government | (6,000,000) | - |
| Proceeds from sale of fixed assets | (10) | - |
| Transfers for loan commitment | 226,139 | (32,130) |
| Net cash (used for) provided by capital and related financing activities | (5,520,014) | 4,052,769 |
| Cash flows from investing activities: | | |
| Proceeds from (purchase of) restricted cash and cash equivalents and time certificates of deposit | 13,555,868 | (15,419,346) |
| Dividend received | 540,000 | 1,080,000 |
| Interest received | 18,954 | 7,093 |
| Net cash provided by (used for) investing activities | 14,114,822 | (14,332,253) |
| Net increase (decrease) in cash and cash equivalents | 8,004,630 | (10,995,302) |
| Cash and cash equivalents at beginning of year | 4,383,948 | 15,379,250 |
| Cash and cash equivalents at end of year | $ 12,388,578 | $ 4,383,948 |
| Reconciliation of operating (loss) income to net cash used for operating activities: | | |
| Operating (loss) income | $ (796,033) | $ 405,041 |
| Adjustments to reconcile operating (loss) income to net cash used for operating activities: | | |
| Provision for (recovery of) loan impairment | 52,713 | (1,384,254) |
| Recovery from doubtful accounts | (295,924) | - |
| Provision for loan guaranty | 370,487 | 82,124 |
| Recovery of foreclosed properties | (129,847) | (164,165) |
| Capital grants and contributions | (97,205) | - |
| Depreciation | 365,823 | 175,128 |
| Finance lease revenue | (29,548) | (45,002) |
| Other | (201,982) | (29,763) |
| (Increase) decrease in assets: | | |
| Receivables: | | |
| Rent | (93,725) | (122,151) |
| Finance lease | 67,568 | (116,458) |
| Employees | (372) | (7,640) |
| Other | 428,330 | 172,553 |
| Accrued interest | (95,454) | 220,982 |
| Prepaid expenses | 31,058 | (31,570) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 131,987 | 128,664 |
| Unearned revenues | 167,425 | (27,228) |
| Loan commitment | (226,123) | 32,114 |
| Due to grantor agency | (239,356) | (4,193) |
| Net cash used for operating activities | $ (590,178) | $ (715,818) |

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Statements of Cash Flows, Continued
Years Ended September 30, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| Supplemental disclosure of noncash capital and related financing activities: | | |
| Recognition of loans receivable: | | |
| Noncash increase in loans receivable | $ 43,373 | $ 447,075 |
| Noncash increase in allowance for doubtful accounts | (43,373) | - |
| Noncash increase in unearned revenues | - | (447,075) |
| | $ - | $ - |
| Recognition of foreclosed properties and finance lease: | | |
| Noncash (decrease) increase in foreclosed properties | $ (59,500) | $ 80,500 |
| Noncash increase (decrease) in loans receivable | 59,500 | (126,574) |
| Noncash increase in finance lease receivable | - | 46,074 |
| | $ - | $ - |
| Recognition of due from grantor - Disaster Recovery Grant: | | |
| Noncash increase in due from grantor - Disaster Recovery Grant | $ 336,761 | $ - |
| Noncash increase in deferred inflows of resources - unearned revenues | (336,761) | - |
| | $ - | $ - |
| Loan payable to Marianas Public Land Trust (MPLT): | | |
| Noncash decrease in note payable to related party | $ - | $ (113,245) |
| Noncash interest expense | - | (2,219) |
| Noncash other income | - | 115,464 |
| | $ - | $ - |

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. On September 24, 2020, the Governor of the CNMI signed Executive Order 2020-21 to rescind Section 407 of Executive Order 94-3, pertaining to the functions of NMHC and its assignment to CDA and allowing for NMHC to remain the successor agency to MIHA pursuant to Public Law 20-87. The operations of NMHC shall continue under the direction and control of the CDA Board of Directors until all positions of the NMHC Board of Directors are appointed and confirmed.

The purpose and functions of the two divisions and NMHC are as follows:

DBD:

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

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

## (1) Reporting Entity, Continued

DCD:

- To identify, formulate, initiate, stimulate and facilitate business and commercial enterprises, with special emphasis on agricultural and marine resources, manufacturing and processing activities, import substitution, export development and responsible use of indigenous raw materials;
- To identify, formulate, initiate, stimulate and facilitate business and commercial enterprises where a service necessary and vital to economic development is required, or where profit incentives are not sufficient to attract private sector investors; and
- To serve as the economic development loan fund agency for qualified private sector enterprises.

As such, DCD considers all its net position, except net investment in capital assets, to be restricted for such purposes. 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, 2020 and 2019, total cash and cash equivalents and time certificates of deposit were $31,053,566 and $36,830,943, respectively, and the corresponding bank balances were $30,037,979 and $37,046,056, 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, 2020 and 2019. CNMI law does not require component units to collateralize their bank accounts and thus CDA's deposits in excess of FDIC insurance are uncollateralized. However, NMHC elects to collateralize deposits with U.S. government obligations at the rate of 100%.

### 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.

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

### Land

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

### Foreclosed Real Estate

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

### Loans Receivable, Interest Receivable and Allowance for Loan Losses

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

### Finance Lease Receivables

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

### 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.

(2) Summary of Significant Accounting Policies, Continued

Restricted Cash and Cash Equivalents and Time Certificates of Deposit

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

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

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

Revenue Recognition

Operating revenues include all direct revenues such as interest and fees on loans, 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 both performing and nonperforming 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 $94,711 and $156,041 as of September 30, 2020 and 2019, 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.

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

### Unearned Revenues

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. Unearned revenue includes the following major components. Unearned revenue of DCD represents prepaid lease income on foreclosed real estate held for lease of $518,962 and $539,340 as of September 30, 2020 and 2019, respectively. Amounts to be recognized over the terms of the leases are as follows:

| Year ending September 30, | Lease Recognition |
|---|---|
| 2021 | $ 13,530 |
| 2022 | 13,530 |
| 2023 | 13,530 |
| 2024 | 13,530 |
| 2025 | 13,530 |
| 2026 - 2030 | 67,650 |
| 2031 - 2035 | 67,650 |
| 2036 - 2040 | 67,650 |
| 2041 - 2045 | 67,650 |
| 2046 - 2050 | 67,650 |
| 2051 - 2055 | 59,113 |
| 2056 - 2060 | 53,949 |
| | $ 518,962 |

Unearned revenues are recognized when resource is received prior to being earned and relates to Housing Choice Voucher CARES Act funding from HUD of $159,496 as of September 30, 2020, which pertains to federal award money received before the qualifying expenditure is made, and recorded capital asset under the Community Development Block Grant program administered by NMHC of $380,000 and $351,693 as of September 30, 2020 and 2019, respectively.

### 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, 2020 and 2019 were $4,784,299 and $5,041,693, respectively. In addition, DCD recorded SSBCI Loan Participation Program funds received from a financial institution of $158,501 and $127,230 as of September 30, 2020 and 2019, 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, 2020 and 2019 approximated $610,689 and $465,438, respectively.

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

### Deferred Inflows of Resources

Deferred inflows of resources represent unavailable revenue from the Community Development Block Grant Disaster Recovery (CDBG-DR) program, which is revenue that does not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. NMHC recorded deferred inflows of resources of $474,655 and $137,894 as of September 30, 2020 and 2019, respectively.

### 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 $162,323 and $181,883 to the DB Plan during the years ended September 30, 2020 and 2019, respectively.

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

### Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CDA and NMHC are required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CDA and NMHC's recorded DC contributions for the years ended September 30, 2020 and 2019 were $24,889 and $29,239, respectively, equal to the required contributions for each year. Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

### Net Position

CDA's net position is classified as follows:

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

- Restricted:

  Nonexpendable - Net position subject to externally imposed stipulations that CDA maintain them permanently. At September 30, 2020 and 2019, 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. NMHC's restricted expendable net position pertains to HUD and local funds.

- 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, 2020 and 2019.

### 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, 2020 and 2019 as amounts were not available.

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

### New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No.'s 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 are effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

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

### New Accounting Standards, Continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

### 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.

### Reclassification

Certain 2019 balances in the accompanying financial statements have been reclassified to conform to the 2020 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, 2020 and 2019, restricted cash and cash equivalents and time certificates of deposit amounting to $7,714,267 and $13,131,023, 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, 2020 and 2019, restricted cash and cash equivalents for the SSBCI loan program were $4,825,320 and $5,051,459, 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, 2020 and 2019, 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; however, NMHC elects to collateralize restricted deposits of $3,375,401 and $3,261,012 with U.S. government obligations at the rate of 100% at September 30, 2020 and 2019, respectively.

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

### NMHC, Continued

Restricted cash and cash equivalents:

| | 2020 | 2019 |
|---|---|---|
| Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA RD loans | $ 1,365,803 | $ 1,364,310 |
| Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with HUD | 230,797 | 230,625 |
| Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan | 104 | 181 |
| Checking account maintained for Section 8 Housing Choice Vouchers Program expenses | 652,131 | 722,949 |
| Other depository accounts reserved for various purposes | 1,126,566 | 946,448 |
| | $ 3,375,401 | $ 3,264,513 |

## (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, 2020 and 2019, 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. On May 15, 2019, CDA received $3,507,651 from CPA as full payment of the note receivable.

### 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, 2020 and 2019 (with combining information as of September 30, 2020), are as follows:

| | DBD | DCD | NMHC | 2020 | 2019 |
|---|---|---|---|---|---|
| General | $ - | $ 25,648,464 | $ 478,773 | $ 26,127,237 | $ 26,143,377 |
| HOME Investment Partnerships Act grant | - | - | 7,459,514 | 7,459,514 | 7,576,321 |
| Marine | - | 4,385,149 | - | 4,385,149 | 5,183,656 |
| Direct family home loans | - | - | 3,152,794 | 3,152,794 | 2,965,359 |
| Agriculture | - | 1,175,203 | - | 1,175,203 | 1,203,321 |
| NSP grant | - | - | 981,383 | 981,383 | 991,647 |
| Section 8 | - | - | 436,908 | 436,908 | 450,717 |
| Tinian turnkey | - | - | 400,659 | 400,659 | 420,219 |
| Housing construction | - | - | 247,202 | 247,202 | 254,790 |
| Banking division | - | 121,307 | - | 121,307 | - |
| Housing preservation grant | - | - | 87,542 | 87,542 | 87,542 |
| Veterans Aid | - | - | - | - | 145,388 |
| Loan principal receivable | - | 31,330,123 | 13,244,775 | 44,574,898 | 45,422,337 |
| Less allowance for loan losses | - | (24,109,558) | (8,074,814) | (32,184,372) | (33,314,927) |
| Net loans receivable | $ - | $ 7,220,565 | $ 5,169,961 | $ 12,390,526 | $ 12,107,410 |

NMHC delinquent loans referred to legal counsel for collection totaled $1,759,987 and $1,757,620 as of September 30, 2020 and 2019, respectively.

Maturities of the above principal balances subsequent to September 30, 2020 will be as follows:

## (4) Loans Receivable, Continued

| | DBD | DCD | NMHC | Total |
|---|---|---|---|---|
| Fully matured and others | $ - | $ 22,475,711 | $ 1,931,502 | $ 24,407,213 |
| 1 - 6 months | - | 594,028 | 751,301 | 1,345,329 |
| 7 - 18 months | - | 944,502 | 1,012,378 | 1,956,880 |
| 19 months - 3 years | - | 469,242 | 1,011,668 | 1,480,910 |
| After 3 years | - | 6,846,640 | 8,537,926 | 15,384,566 |
| | $ - | $ 31,330,123 | $ 13,244,775 | $ 44,574,898 |

Allowance for Loan Losses

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

| | DBD | DCD | NMHC | 2020 | 2019 |
|---|---|---|---|---|---|
| Balance - beginning of year | $ - | $ 24,909,312 | $ 8,405,615 | $ 33,314,927 | $ 35,176,196 |
| Provision for (recovery from) loan losses | - | 52,713 | (330,801) | (278,088) | (1,355,136) |
| Effect of summary judgments | - | - | - | - | 79,817 |
| Write-off of loans | - | (852,467) | - | (852,467) | (585,950) |
| Balance - end of year | $ - | $ 24,109,558 | $ 8,074,814 | $ 32,184,372 | $ 33,314,927 |

## (5) Due from Grantor - Disaster Recovery Grant

On October 24, through 25, 2018, the CNMI was devastated by Super Typhoon Yutu. During the year ended September 30, 2019, NMHC is developing a CNMI's Action Plan for the CDBG-DR program application to be submitted to HUD. CDBG-DR program provides funds to be used for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure, housing, and economic revitalization. NMHC recorded a receivable from grantor and deferred inflows of resources/unearned revenue of $474,655 and $137,894 as of September 30, 2020 and 2019, respectively, for administrative expenses incurred.

## (6) Other Receivables

NMHC

Significant balances included in other receivables as of September 30, 2020 and 2019 are generally as follows:

| | 2020 | 2019 |
|---|---|---|
| Defaulted loans | $ 473,900 | $ 895,300 |
| Other | 21,425 | 4,145 |
| | $ 495,325 | $ 899,445 |

## (6) Other Receivables, Continued

### NMHC, Continued

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.

## (7) 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, 2020 and 2019 amounted to $29,548 and $45,002, respectively. Future minimum lease rentals and future minimum lease income under these arrangements as of September 30, 2020, are as follows:

| Year ending September 30, | Minimum Lease Rentals | Minimum Lease Income | Net 2020 | Net 2019 |
|---|---|---|---|---|
| 2020 | $ - | $ - | $ - | $ 78,945 |
| 2021 | 140,936 | 36,825 | 104,111 | 109,876 |
| 2022 | 108,171 | 36,011 | 72,160 | 77,925 |
| 2023 | 108,171 | 36,011 | 72,160 | 77,925 |
| 2024 | 111,723 | 35,783 | 75,940 | 81,705 |
| 2025 | 111,025 | 35,119 | 75,906 | - |
| Thereafter | 630,228 | 209,414 | 420,814 | 663,393 |
| | $ 1,210,254 | $ 389,163 | 821,091 | 1,089,769 |
| | Less current portion | | (104,111) | (78,945) |
| | Noncurrent portion | | $ 716,980 | $ 1,010,824 |

### 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, 2020 and 2019 amounted to $48,209 and $36,513, respectively. Future minimum lease rentals under these arrangements as of September 30, 2020 and 2019, are as follows:

## (7) Finance Leases, Continued

### NMHC, Continued

| Year ending September 30, | Minimum Lease Rentals | Minimum Lease Income | Net 2020 | Net 2019 |
|---|---|---|---|---|
| 2020 | $ - | $ - | $ - | $ 17,527 |
| 2021 | 54,014 | 41,671 | 12,343 | 22,619 |
| 2022 | 62,272 | 41,979 | 20,293 | 23,905 |
| 2023 | 64,302 | 40,874 | 23,428 | 25,422 |
| 2024 | 65,220 | 39,702 | 25,518 | 26,810 |
| 2025 | 62,236 | 37,717 | 24,519 | - |
| Thereafter | 1,065,183 | 383,367 | 681,816 | 739,202 |
| | $ 1,373,227 | $ 585,310 | 787,917 | 855,485 |
| Less current portion | | | (12,343) | (17,527) |
| Noncurrent portion | | | $ 775,574 | $ 837,958 |

## (8) 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, 2020 and 2019, 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.

## (8) 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, 2020 and 2019. At September 30, 2020 and 2019, CDA recorded dividends receivable of $1,800,000 and $1,440,000, respectively, for deferred dividends earned for the first three years after issuance of the preferred stock which is being amortized over a fifteen-year period. Due to uncertainties of COVID-19, CDA granted CUC's request for a temporary payment deferment of quarterly dividends for the third and fourth quarters of fiscal year 2020 for a total deferment of $540,000. Subsequently, $360,000, $90,000 and $90,000 were collected in October 2020, November 2020 and December 2020, respectively.

## (9) Capital Assets

Capital assets consist of the following at September 30, 2020 and 2019:

### DCD

| | Estimated Useful Lives | Balance at October 1, 2019 | Additions | Deletions | Balance at September 30, 2020 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land, net | | $ 184,348 | $ - | $ - | $ 184,348 |
| Capital assets being depreciated: | | | | | |
| Structure and improvements | 7 years | 761,302 | - | - | 761,302 |
| Vehicles/office equipment | 3 - 5 years | 210,415 | 23,895 | - | 234,310 |
| Computer equipment | 3 - 5 years | 76,048 | - | (6,644) | 69,404 |
| Furniture and fixtures | 7 years | 104,655 | 1,455 | - | 106,110 |
| Rent to Own Home (RTOH) | 10 years | - | 65,864 | - | 65,864 |
| | | 1,152,420 | 91,214 | (6,644) | 1,236,990 |
| Less accumulated depreciation | | (509,626) | (57,777) | 6,634 | (560,769) |
| Total capital assets being depreciated | | 642,794 | 33,437 | (10) | 676,221 |
| Total capital assets, net | | $ 827,142 | $ 33,437 | $ (10) | $ 860,569 |

## (9) Capital Assets, Continued

### DCD, Continued

| | Estimated Useful Lives | Balance at October 1, 2018 | Additions | Deletions | Balance at September 30, 2019 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land, net | | $ 184,348 | $ - | $ - | $ 184,348 |
| Capital assets being depreciated: | | | | | |
| Structure and improvements | 7 years | 722,539 | 38,763 | - | 761,302 |
| Vehicles/office equipment | 3 - 5 years | 200,480 | 9,935 | - | 210,415 |
| Computer equipment | 3 - 5 years | 60,562 | 15,486 | - | 76,048 |
| Furniture and fixtures | 7 years | 104,655 | - | - | 104,655 |
| | | 1,088,236 | 64,184 | - | 1,152,420 |
| Less accumulated depreciation | | (462,601) | (47,025) | - | (509,626) |
| Total capital assets being depreciated | | 625,635 | 17,159 | - | 642,794 |
| Total capital assets, net | | $ 809,983 | $ 17,159 | $ - | $ 827,142 |

### NMHC

| | Estimated Useful Lives | Balance at October 1, 2019 | Additions | Transfers/ Deletions | Balance at September 30, 2020 |
|---|---|---|---|---|---|
| Nondepreciable capital assets: | | | | | |
| Land | | $ 7,288,182 | $ - | $ - | $ 7,288,182 |
| Construction in progress | | 1,359,489 | - | (1,359,489) | - |
| Total nondepreciable capital assets | | 8,647,671 | - | (1,359,489) | 7,288,182 |
| Depreciable capital assets: | | | | | |
| Residential Housing Development Projects: | | | | | |
| Section 8 Mihaville Housing | 30 years | 2,369,469 | - | - | 2,369,469 |
| Section 8 Koblerville Housing | 30 years | 1,889,127 | - | - | 1,889,127 |
| Section 8 Rota Housing | 30 years | 1,120,747 | - | - | 1,120,747 |
| Section 8 Tinian Housing | 30 years | 1,001,408 | - | - | 1,001,408 |
| Section 8 Housing Phase II | 30 years | 631,243 | - | - | 631,243 |
| Section 8 Housing Phase I | 30 years | 600,515 | - | - | 600,515 |
| | | 7,612,509 | - | - | 7,612,509 |
| Other: | | | | | |
| Koblerville infrastructure | 30 years | 2,214,991 | - | - | 2,214,991 |
| Tinian infrastructure | 30 years | 608,500 | - | - | 608,500 |
| Building and improvements | 20 years | 870,024 | - | - | 870,024 |
| Equipment and computers | 3 - 8 years | 102,521 | 1,364,391 | - | 1,466,912 |
| Vehicles | 3 years | 262,555 | - | - | 262,555 |
| | | 4,058,591 | 1,364,391 | - | 5,422,982 |
| | | 11,671,100 | 1,364,391 | - | 13,035,491 |
| Less accumulated depreciation | | (11,078,800) | (308,046) | - | (11,386,846) |
| Total depreciable capital assets | | 592,300 | 1,056,345 | - | 1,648,645 |
| | | $ 9,239,971 | $ 1,056,345 | $ (1,359,489) | $ 8,936,827 |

## (9) Capital Assets, Continued

### NMHC, Continued

| | Estimated Useful Lives | Balance at October 1, 2018 | Additions | Transfers/ Deletions | Balance at September 30, 2019 |
|---|---|---|---|---|---|
| Nondepreciable capital assets: | | | | | |
| Land | | $ 7,288,182 | $ - | $ - | $ 7,288,182 |
| Construction in progress | | 1,359,489 | - | - | 1,359,489 |
| Total nondepreciable capital assets | | 8,647,671 | - | - | 8,647,671 |
| Depreciable capital assets: | | | | | |
| Residential Housing Development Projects: | | | | | |
| Section 8 Mihaville Housing | 30 years | 2,369,469 | - | - | 2,369,469 |
| Section 8 Koblerville Housing | 30 years | 1,889,127 | - | - | 1,889,127 |
| Section 8 Rota Housing | 30 years | 1,120,747 | - | - | 1,120,747 |
| Section 8 Tinian Housing | 30 years | 1,001,408 | - | - | 1,001,408 |
| Section 8 Housing Phase II | 30 years | 631,243 | - | - | 631,243 |
| Section 8 Housing Phase I | 30 years | 600,515 | - | - | 600,515 |
| | | 7,612,509 | - | - | 7,612,509 |
| Other: | | | | | |
| Koblerville infrastructure | 30 years | 2,214,991 | - | - | 2,214,991 |
| Tinian infrastructure | 30 years | 608,500 | - | - | 608,500 |
| Building and improvements | 20 years | 870,024 | - | - | 870,024 |
| Equipment and computers | 3 - 8 years | 101,188 | 1,333 | - | 102,521 |
| Vehicles | 3 years | 251,620 | 10,935 | - | 262,555 |
| | | 4,046,323 | 12,268 | - | 4,058,591 |
| | | 11,658,832 | 12,268 | - | 11,671,100 |
| Less accumulated depreciation | | (10,950,697) | (128,103) | - | (11,078,800) |
| Total depreciable capital assets | | 708,135 | (115,835) | - | 592,300 |
| | | $ 9,355,806 | $ (115,835) | $ - | $ 9,239,971 |

Construction in progress consists of costs incurred for a low-income solar project, which includes installation of solar arrays on low-income houses managed by NMHC. The project is donated by a third-party contractor through a USDA RD grant.

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.

## (9) Capital Assets, Continued

### NMHC, Continued

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, 2020 and 2019. 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.

## (10) Foreclosed Real Estate

A summary of the changes in foreclosed real estate and the related valuation allowance as of September 30, 2020 and 2019 is as follows:

| | DCD | | NMHC | 2020 | 2019 |
|---|---|---|---|---|---|
| | For Sale | For Lease | | | |
| Foreclosed Real Estate: | | | | | |
| Balance at beginning of year | $ 1,016,460 | $ 2,038,876 | $ 488,698 | $ 3,544,034 | $ 3,650,107 |
| Additions | - | 12,000 | 101,500 | 113,500 | 189,500 |
| Deletions | - | - | (59,500) | (59,500) | (295,573) |
| Reclassifications | (12,000) | - | - | (12,000) | - |
| | 1,004,460 | 2,050,876 | 530,698 | 3,586,034 | 3,544,034 |
| Valuation allowance | (485,230) | (1,063,663) | - | (1,548,893) | (1,548,893) |
| Balance at end of year | $ 519,230 | $ 987,213 | $ 530,698 | $ 2,037,141 | $ 1,995,141 |
| Valuation Allowance: | | | | | |
| Balance at beginning of year | $ 491,230 | $ 1,057,663 | $ - | $ 1,548,893 | $ 1,548,893 |
| Write-offs/transfers | (6,000) | 6,000 | - | - | - |
| Balance at end of year | $ 485,230 | $ 1,063,663 | $ - | $ 1,548,893 | $ 1,548,893 |

## (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 $32,041 and $147,369 for the years ended September 30, 2020 and 2019, respectively, (b) transfers to the CNMI for road paving projects in Kagman III, Phase I, II and III pursuant to Saipan Local Law No. 19-15 of $-0- and $36,376 for the years ended September 30, 2020 and 2019, respectively, (c) transfers to the CNMI for capital projects pursuant to Saipan Local Law No. 20-01 of $26,245 and $92,827 for the years ended September 30, 2020 and 2019, respectively, (d) transfers to the CNMI for capital projects pursuant to Tinian Local Law No. 19-04 of $16,169 and $-0- for the years ended September 30, 2020 and 2019, respectively, and (e) to correct fiscal year 2018 transfers to the CNMI for capital projects pursuant to Rota Local Law No. 19-12 of $(23,420) for the year ended September 30, 2019.

## (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, 2020 and 2019 amounted to $183,476 and $229,171, respectively. Minimum future lease income for all leases is as follows:

| Year ending September 30, | Minimum Lease Income Due |
|---|---|
| 2021 | $ 163,175 |
| 2022 | 96,445 |
| 2023 | 92,545 |
| 2024 | 92,545 |
| 2025 | 92,545 |
| Thereafter | 2,800,244 |
| | $ 3,337,499 |

CDA leases its office space and equipment in Rota for an annual rental of $6,000. Total minimum future rental is $3,500 under this operating lease for the year ending September 30, 2020.

(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 $571,753 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2020 and is comprised of questioned costs of $422,705 for fiscal year 2020 and $149,048 for fiscal year 2019. 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, 2020 and 2019, NMHC has guaranteed outstanding loans of $5,260,950 and $5,323,173, respectively, and the amount of delinquent loans related to the agreement was $2,712,013 and $2,073,063, respectively. As of September 30, 2020 and 2019, total delinquent loans with demand notices from RD were $-0-. As of September 30, 2020 and 2019, NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of $2,023,850 and $1,653,363, respectively, in the accompanying financial statements inclusive of reserves for the remaining non-delinquent and delinquent loans without demand notices of $1,989,963 and $1,619,476, respectively.

NMHC entered into a loan agreement and related loan purchase agreement with a savings and loan in the CNMI whereby the savings and loan will make available up to $6,000,000 for housing loans. Under the agreements, NMHC is responsible for administering the loan purchase program and the savings and loan agrees to purchase qualified loans from NMHC. NMHC guarantees the first 25% of the principal balance plus interest on each loan sold to the savings and loan. As of September 30, 2020 and 2019, NMHC was contingently liable for $294,321 and $391,440, 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, 2020 and 2019 was $104 and $181, respectively, which is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2020 and 2019, total defaulted loans related to this arrangement were $61,112.

NMHC also has similar arrangements with other financial institutions whereby NMHC guarantees a varying percentage of loans issued by the banks for housing construction. At September 30, 2020 and 2019, NMHC was contingently liable to these institutions for $199,868 and $238,928, respectively. As of September 30, 2020 and 2019, the total defaulted loans related to these arrangements were $-0-.

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.

## (14) COVID-19 Pandemic

Economic uncertainties have arisen as a result of the COVID-19 coronavirus pandemic, which are likely to negatively impact CDA and NMHC's financial results. To prevent the spread of the COVID-19 coronavirus, the CNMI temporarily suspended commercial air travel to the CNMI effective April 6, 2020. Although this suspension is temporary, there is considerable uncertainty on its duration, which negatively impacted businesses in the CNMI and resulted in employee furloughs both in private and public sectors.

CDA has implemented a payment deferral assistance program beginning March 2020 until October 31, 2020. No action is required by the borrowers and the deferred loan payments will be added to the end of the loan. Interest will accrue with rates ranging from 2% to 9% and averaging at 6%. CDA expects this matter to negatively impact its future financial results; however, the related financial impact cannot be reasonably estimated at this time.

To assist their loan borrowers, NMHC has implemented a payment deferral assistance program beginning March 1, 2020 until May 31, 2020, which was extended on June 1, 2020 until further notice. Under the program, interest will not accrue during the period. NMHC expects this matter to negatively impact its future financial results; however, the related financial impact cannot be reasonably estimated at this time. Other financial impacts could occur though such potential impact is unknown at this time.

In April 2020, CDA transferred DBD funds of $6,000,000 to the CNMI Government in connection with the Governor's Executive Order 2020-005 in response to mitigation of COVID-19. The funds are derived from CDA's CIP revolving loan fund and are intended and reserved for CIP future project expenditures. CDA anticipates that these funds will be reimbursed as soon as conditions improve in the CNMI as it is important that CDA continues its mandate to fund future capital improvement projects.

## (15) Subsequent Event

On June 7, 2021, the Governor of the CNMI signed Public Law No. 22-01 that renames the Commonwealth Development Authority as the Commonwealth Economic Development Authority or CEDA.

In fiscal year 2021, all positions of the NMHC Board of Directors have been appointed and confirmed and therefore, operations of NMHC are no longer under the direction and control of the CDA Board of Directors. Future CDA financial statements will no longer incorporate NMHC.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Net Position
September 30, 2020

| ASSETS | Development Banking Division | Development Corporation Division | Northern Marianas Housing Corporation | Elimination Entries | Total |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and cash equivalents | $ - | $ 10,216,253 | $ 2,172,325 | $ - | $ 12,388,578 |
| Time certificates of deposit | - | 2,750,000 | - | - | 2,750,000 |
| Receivables: | | | | | |
| Current portion of loans receivable, net | - | 1,066,279 | 1,442,376 | - | 2,508,655 |
| Current portion of finance lease receivable, net | - | 104,111 | 12,343 | - | 116,454 |
| Rent, net | - | 50,857 | 329,289 | - | 380,146 |
| Accrued interest, net | - | 57,747 | 83,827 | - | 141,574 |
| Dividends | 1,800,000 | - | - | - | 1,800,000 |
| Due from grantor - Disaster Recovery Grant | - | - | 474,655 | - | 474,655 |
| Employees | - | - | 8,086 | - | 8,086 |
| Other, net | - | 56,105 | 495,325 | - | 551,430 |
| Prepaid expenses | - | 9,437 | - | - | 9,437 |
| Total current assets | 1,800,000 | 14,310,789 | 5,018,226 | - | 21,129,015 |
| Other assets: | | | | | |
| Cash and cash equivalents, restricted | 1,214,267 | 4,825,320 | 3,375,401 | - | 9,414,988 |
| Time certificates of deposit, restricted | 6,500,000 | - | - | - | 6,500,000 |
| Total other assets | 7,714,267 | 4,825,320 | 3,375,401 | - | 15,914,988 |
| Noncurrent assets: | | | | | |
| Loans receivable, net of current portion | - | 6,154,286 | 3,727,585 | - | 9,881,871 |
| Finance lease receivable, net of current portion | - | 716,980 | 775,574 | - | 1,492,554 |
| Due from CNMI government | 6,000,000 | - | - | - | 6,000,000 |
| Due from other funds | - | 80,365 | - | (80,365) | - |
| Depreciable capital assets, net of accumulated depreciation | - | 676,221 | 1,648,645 | - | 2,324,866 |
| Nondepreciable capital assets | - | 184,348 | 7,288,182 | - | 7,472,530 |
| Foreclosed real estate, net | - | 1,506,443 | 530,698 | - | 2,037,141 |
| Total noncurrent assets | 6,000,000 | 9,318,643 | 13,970,684 | (80,365) | 29,208,962 |
| | $ 15,514,267 | $ 28,454,752 | $ 22,364,311 | $ (80,365) | $ 66,252,965 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | $ - | $ 1,148,385 | $ 735,938 | $ - | $ 1,884,323 |
| Due to grantor agency | - | - | 282,813 | - | 282,813 |
| Unearned revenues, current portion | - | 13,530 | - | - | 13,530 |
| Loan commitment | - | 4,942,800 | - | - | 4,942,800 |
| Reserve for loan guaranty | - | - | 2,023,850 | - | 2,023,850 |
| Total current liabilities | - | 6,104,715 | 3,042,601 | - | 9,147,316 |
| Due to other funds | 80,365 | - | - | (80,365) | - |
| Unearned revenues, net of current portion | - | 505,432 | 539,496 | - | 1,044,928 |
| Total liabilities | 80,365 | 6,610,147 | 3,582,097 | (80,365) | 10,192,244 |
| Deferred inflows of resources: | | | | | |
| Unearned revenues | - | - | 474,655 | - | 474,655 |
| Total deferred inflows of resources | - | - | 474,655 | - | 474,655 |
| Net position: | | | | | |
| Net investment in capital assets | - | 860,569 | 8,936,827 | - | 9,797,396 |
| Restricted | 15,433,902 | 20,984,036 | 9,370,732 | - | 45,788,670 |
| Total net position | 15,433,902 | 21,844,605 | 18,307,559 | - | 55,586,066 |
| | $ 15,514,267 | $ 28,454,752 | $ 22,364,311 | $ (80,365) | $ 66,252,965 |

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

## Combining Statement of Revenues, Expenses and Changes in Net Position
## Year Ended September 30, 2020

| | Development Banking Division | Development Corporation Division | Northern Marianas Housing Corporation | Elimination Entries | Total |
|---|---|---|---|---|---|
| Operating revenues: | | | | | |
| Section 8 income: | | | | | |
| Federal housing assistance rentals | $ - | $ - | $ 4,758,404 | $ - | $ 4,758,404 |
| Tenant share | - | - | 227,506 | - | 227,506 |
| CDBG Program | - | - | 1,521,428 | - | 1,521,428 |
| Interest and fees on loans | - | 639,754 | 261,523 | - | 901,277 |
| Interest and dividends on investments | 186,191 | 191,365 | - | - | 377,556 |
| Recovery from provision for foreclosed properties | - | - | 129,847 | - | 129,847 |
| Low Income Housing Tax Credit | - | - | 94,711 | - | 94,711 |
| ESG Program | - | - | 82,432 | - | 82,432 |
| HOME Investment Partnership Program Grant | - | - | 71,337 | - | 71,337 |
| Housing rental | - | - | 48,209 | - | 48,209 |
| HOME Investment Partnership Grant program income | - | - | 35,906 | - | 35,906 |
| Other | - | 380,989 | 110,565 | - | 491,554 |
| | 186,191 | 1,212,108 | 7,341,868 | - | 8,740,167 |
| (Provision for) recovery of loan impairment | - | (52,713) | 295,924 | - | 243,211 |
| Recovery of interest impairment | - | 455 | - | - | 455 |
| Net operating revenues | 186,191 | 1,159,850 | 7,637,792 | - | 8,983,833 |
| Operating expenses: | | | | | |
| Section 8 rental | - | - | 2,674,341 | - | 2,674,341 |
| CDBG Program | - | - | 1,518,783 | - | 1,518,783 |
| HOME Investment Partnership Program Grant | - | - | 107,243 | - | 107,243 |
| ESG Program | - | - | 86,494 | - | 86,494 |
| Continuum of Care Program | - | - | 3,478 | - | 3,478 |
| Operations: | | | | | |
| Salaries and wages | - | 635,061 | 1,369,053 | - | 2,004,114 |
| Employee benefits | - | 351,925 | 469,404 | - | 821,329 |
| Repairs and maintenance | - | 19,873 | 442,619 | - | 462,492 |
| Utilities | - | 38,328 | 375,386 | - | 413,714 |
| Provision for loan guaranty | - | - | 370,487 | - | 370,487 |
| Depreciation | - | 57,777 | 308,046 | - | 365,823 |
| Professional fees | - | 59,997 | 175,257 | - | 235,254 |
| Travel | - | 31,318 | 11,394 | - | 42,712 |
| Supplies | - | - | 41,387 | - | 41,387 |
| Rent | - | 5,567 | 8,836 | - | 14,403 |
| Other | 145,418 | 138,323 | 334,071 | - | 617,812 |
| Total operating expenses | 145,418 | 1,338,169 | 8,296,279 | - | 9,779,866 |
| Operating income (loss) | 40,773 | (178,319) | (658,487) | - | (796,033) |
| Nonoperating revenues (expenses): | | | | | |
| Dividend income | 900,000 | - | - | - | 900,000 |
| Interest income | - | - | 18,954 | - | 18,954 |
| Other income | - | 450 | - | - | 450 |
| Gain on sale of fixed assets | - | (10) | - | - | (10) |
| Other expense | - | (202,432) | - | - | (202,432) |
| Total nonoperating revenues, net | 900,000 | (201,992) | 18,954 | - | 716,962 |
| Income (loss) before transfers and capital contributions | 940,773 | (380,311) | (639,533) | - | (79,071) |
| Contributions for capital development grants | (74,455) | - | - | - | (74,455) |
| Capital grants and contributions: | | | | | |
| HOME Investment Partnership Program Grant | - | - | (34,318) | - | (34,318) |
| NSP Grant | - | - | (62,887) | - | (62,887) |
| Change in net position | 866,318 | (380,311) | (736,738) | - | (250,731) |
| Net position - beginning | 14,567,584 | 22,224,916 | 19,044,297 | - | 55,836,797 |
| Net position - ending | $ 15,433,902 | $ 21,844,605 | $ 18,307,559 | $ - | $ 55,586,066 |

See Accompanying Independent Auditors' Report.

# COMMONWEALTH DEVELOPMENT AUTHORITY

## Combining Statement of Cash Flows
## Year Ended September 30, 2020

| | 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 | $ - | $ 594,890 | $ 211,388 | $ - | $ 806,278 |
| Interest and dividends on investments | 186,191 | 191,365 | - | - | 377,556 |
| Cash payments to suppliers for goods and services | (180) | (268,860) | (1,301,007) | - | (1,570,047) |
| Cash received from customers | - | (1,227) | 453,062 | - | 451,835 |
| Cash payments to employees for services | - | (855,487) | (1,573,952) | - | (2,429,439) |
| Cash received from HCV Program CARES Act | - | - | 159,496 | - | 159,496 |
| Cash received from other federal grant awards | - | - | 6,230,151 | - | 6,230,151 |
| Cash payments from federal grant awards | - | - | (4,389,885) | - | (4,389,885) |
| Cash received for loan commitment | - | (226,123) | - | - | (226,123) |
| Net cash provided by (used for) operating activities | 186,011 | (565,442) | (210,747) | - | (590,178) |
| Cash flows from capital and related financing activities: | | | | | |
| Net interdivisional transactions | (68,312) | 68,312 | - | - | - |
| Acquisition of capital assets | - | (91,204) | (4,902) | - | (96,106) |
| Net (disbursements) receipts of loans receivable | - | (79,607) | 177,452 | - | 97,845 |
| Net receipts of finance lease receivable | - | 298,226 | - | - | 298,226 |
| Proceeds from sale of foreclosed real estate | - | - | 28,347 | - | 28,347 |
| Transfers for capital development grants | (74,455) | - | - | - | (74,455) |
| Due from CNMI Government | (6,000,000) | - | - | - | (6,000,000) |
| Proceeds from sale of fixed assets | - | (10) | - | - | (10) |
| Transfers for loan commitment | - | 226,139 | - | - | 226,139 |
| Net cash (used for) provided by capital and related financing activities | (6,142,767) | 421,856 | 200,897 | - | (5,520,014) |
| Cash flows from investing activities: | | | | | |
| Proceeds from (purchase of) restricted cash and cash equivalents and time certificates of deposit | 5,416,756 | 8,250,000 | (110,888) | - | 13,555,868 |
| Dividend received | 540,000 | - | - | - | 540,000 |
| Interest received | - | - | 18,954 | - | 18,954 |
| Net cash provided by (used for) investing activities | 5,956,756 | 8,250,000 | (91,934) | - | 14,114,822 |
| Net increase (decrease) in cash and cash equivalents | - | 8,106,414 | (101,784) | - | 8,004,630 |
| Cash and cash equivalents at beginning of year | - | 2,109,839 | 2,274,109 | - | 4,383,948 |
| Cash and cash equivalents at end of year | $ - | $ 10,216,253 | $ 2,172,325 | $ - | $ 12,388,578 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | | |
| Operating income (loss) | $ 40,773 | $ (178,319) | $ (658,487) | $ - | $ (796,033) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | | |
| Provision for loan impairment | - | 52,713 | - | - | 52,713 |
| Provision for loan guaranty | - | - | 370,487 | - | 370,487 |
| Recovery from doubtful accounts | - | - | (295,924) | - | (295,924) |
| Recovery of foreclosed properties | - | - | (129,847) | - | (129,847) |
| Capital grants and contributions | - | - | (97,205) | - | (97,205) |
| Expenses allocated from DCD to DBD | 145,238 | (145,238) | - | - | - |
| Depreciation | - | 57,777 | 308,046 | - | 365,823 |
| Finance lease revenue | - | (29,548) | - | - | (29,548) |
| Other | - | (201,982) | - | - | (201,982) |
| (Increase) decrease in assets: | | | | | |
| Receivables: | | | | | |
| Rent | - | 1,400 | (95,125) | - | (93,725) |
| Finance lease | - | - | 67,568 | - | 67,568 |
| Employees | - | - | (372) | - | (372) |
| Accrued interest | - | (45,319) | (50,135) | - | (95,454) |
| Other | - | 24,210 | 404,120 | - | 428,330 |
| Prepaid expenses | - | 31,058 | - | - | 31,058 |
| Increase (decrease) in liabilities: | | | | | |
| Accounts payable and accrued expenses | - | 114,307 | 17,680 | - | 131,987 |
| Unearned revenues | - | (20,378) | 187,803 | - | 167,425 |
| Loan commitment | - | (226,123) | - | - | (226,123) |
| Due to grantor agency | - | - | (239,356) | - | (239,356) |
| Net cash provided by (used for) operating activities | $ 186,011 | $ (565,442) | $ (210,747) | $ - | $ (590,178) |
| Supplemental disclosure of noncash capital and related financing activities: | | | | | |
| Recognition of loans receivable: | | | | | |
| Noncash increase in loans receivable | $ - | $ - | $ 43,373 | $ - | $ 43,373 |
| Noncash increase in allowance for doubtful accounts | - | - | (43,373) | - | (43,373) |
| | $ - | $ - | $ - | $ - | $ - |
| Recognition of foreclosed properties and finance lease: | | | | | |
| Noncash decrease in foreclosed properties | $ - | $ - | $ (59,500) | $ - | $ (59,500) |
| Noncash increase in loans receivable | - | - | 59,500 | - | 59,500 |
| | $ - | $ - | $ - | $ - | $ - |
| Recognition of due from grantor - Disaster Recovery Grant: | | | | | |
| Noncash increase in due from grantor - Disaster Recovery Grant | $ - | $ - | $ 336,761 | $ - | $ 336,761 |
| Noncash increase in deferred inflows of resources - unearned revenues | - | - | (336,761) | - | (336,761) |
| | $ - | $ - | $ - | $ - | $ - |

See Accompanying Independent Auditors' Report.