

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

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED SEPTEMBER 30, 2023 and 2022

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COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY

(A Component Unit of the Commonwealth
of the Northern Mariana Islands)

Years ended September 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Commonwealth Economic Development Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities of the Commonwealth Economic Development Authority (CEDA), a component unit of the CNMI government, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Commonwealth Economic Development Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Commonwealth Economic Development Authority (CEDA) as of September 30, 2023 and 2022, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CEDA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CEDA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CEDA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CEDA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

We draw attention to Note 12, which discloses the economic uncertainties that have arisen as a result of the declared outbreak of a coronavirus (COVID-19) pandemic by the World Health Organization. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 14 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CEDA's basic financial statements. The accompanying combining statements of net position and statements of revenues, expenses and changes in net position of the Development Banking Division and the Development Corporation Division are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic 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 statements of net position and statements of revenues, expenses and changes in net position of the Development Banking Division and the Development Corporation Division 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 March 6, 2026, on our consideration of the CEDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CEDA'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 the CEDA's internal control over financial reporting and compliance.

Bryan Comer & Associates

Saipan, Commonwealth of the Northern Mariana Islands
March 6, 2026



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Management's Discussion and Analysis

Years Ended September 30, 2023 and 2022

The Management's Discussion and Analysis of the Commonwealth Economic Development Authority's (CEDA) financial performance provides an overview of CEDA's financial activities for the fiscal years ended September 30, 2023 and 2022. Please read it in conjunction with the more detailed information contained within the accompanying financial statements.

CEDA, 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 CEDA. CEDA'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 CEDA. CEDA, 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. CEDA has a Board of Directors composed of seven individuals appointed for staggered four-year terms by the Governor of the CNMI. CEDA maintains its main office in Saipan and branch offices in Rota and Tinian. In June of 2021, CNMI Public Law (PL) 22-01 was passed. This law changed CDA to CEDA or the Commonwealth Economic Development Authority.

This law mandated CEDA to be the central agency within the CNMI to lead economic development. Specifically, the following organizational duties were mandated: (1) To assist in the development of the economic development plan for the Commonwealth, and control and implement that part of the plan assigned to it by law, (2) To be responsible for actively promoting the CNMI as a location for private investment, (3) To promote and encourage the CNMI and development of new businesses within the Commonwealth, as well as promote the retention and expansion of existing businesses, (4) To promote and encourage the expansion and development of market for the products of the CNMI and to encourage the establishment of commercial linkages of CNMI products within the CNMI tourism industry, and (5) To coordinate, develop, and participate in off-island investor missions to generate interest and investment in the CNMI, with emphasis on business investments from the United States of America.

DBD AND DCD

DBD generally engages in government and public sector activities while DCD engages in private sector activities. Additionally, on December 1, 2000, CEDA was given administrative authority over the Qualifying Certificate Program (QC). The QC is a tax incentive program to encourage new investment in the CNMI.

DBD AND DCD, CONTINUED

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, 2023 and 2022, DCD's net loans receivable was \$7,668,663 and \$7,839,970.

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

In August 2016, CEDA 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 CEDA. CUC further agrees to make quarterly dividend payments of \$270,000 to CEDA beginning on October 1, 2016. As of September 30, 2023 and 2022, CEDA received cumulative dividend payments of \$11,880,000 and \$10,800,000 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 CEDA 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 above, the net value of DCD's loan portfolio after recoveries was \$8,377,607 in 2023 and \$7,839,970 in 2022. 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. In July of 2021, CEDA increased its direct loan program borrowing limit from \$250,000 up to a maximum of \$450,000.

The CEDA Board of Directors has allowed management greater flexibility in pursuing solutions to the high delinquency rate among CEDA 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 CEDA 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 CEDA may potentially lose some of the accrued interest that has been set aside, the reality is that it is unlikely that this interest would have been recovered without modifying the original loan terms.

In cases where borrowers are in default, CEDA has exhausted all possible means to collect and there is no workable solution for repayment of the loan, CEDA has been forced to write-off loans.

FINANCIAL HIGHLIGHTS

Combined Statements of Net Position As of September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Current assets	\$ 13,685,913	\$ 13,559,966
Other assets	11,850,744	15,161,997
Capital assets, net	748,543	786,573
Foreclosed real estate, net	1,479,943	1,506,443
Noncurrent assets	<u>14,679,247</u>	<u>15,117,684</u>
Total assets	<u>42,444,390</u>	<u>46,132,663</u>
Current Liabilities	2,531,051	6,953,586
Noncurrent Liabilities	<u>545,370</u>	<u>560,464</u>
Total Liabilities	<u>3,076,421</u>	<u>7,514,050</u>
Deferred inflows of resources	<u>1,183,447</u>	<u>1,223,513</u>
Net position:		
Net investment in capital assets	748,543	786,573
Restricted	<u>37,435,979</u>	<u>36,608,527</u>
Total net position	<u>38,184,522</u>	<u>37,395,100</u>
Total Liabilities, deferred inflows of resources and net position	<u>\$ 42,444,390</u>	<u>\$ 46,132,663</u>

FINANCIAL HIGHLIGHTS, CONTINUED

Combined Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 1,506,427	\$ 806,234
Recoveries (bad debts)	<u>63,302</u>	<u>(18,215)</u>
Net operating revenues	1,569,729	788,019
Operating expenses	<u>1,658,150</u>	<u>1,627,687</u>
Operating (loss) income	(88,421)	(839,668)
Total nonoperating revenues, net	<u>877,843</u>	<u>888,425</u>
Income before transfers and capital contributions	789,422	48,757
Contributions for capital development grants	<u>-</u>	<u>(8,912)</u>
Change in net position	789,422	39,845
Net position - beginning	<u>37,395,100</u>	<u>37,355,255</u>
Net position - ending	<u>\$ 38,184,522</u>	<u>\$ 37,395,100</u>

Combined Statements of Cash Flows Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities	\$ (4,597,853)	\$ (589,982)
Cash flows from capital and related financing activities	4,746,427	(149,159)
Cash flows from investing activities	<u>(150,938)</u>	<u>(2,775,835)</u>
Net decrease in cash and cash equivalents	(2,364)	(3,514,976)
Cash and cash equivalents at beginning of year	<u>1,184,474</u>	<u>4,699,450</u>
Cash and cash equivalents at end of year	<u>\$ 1,182,110</u>	<u>\$ 1,184,474</u>

FINANCIAL HIGHLIGHTS, CONTINUED

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position by Division Years Ended September 30, 2023 and 2022

Development Banking Division

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Interest and dividends on investmnets	<u>\$ 269,233</u>	<u>\$ 944</u>
Net operating revenues	269,233	944
Other operating expenses	<u>217,188</u>	<u>216,180</u>
Operating income (loss)	<u>52,045</u>	<u>(215,236)</u>
Nonoperating revenues (expenses):		
Dividend income	<u>900,000</u>	<u>900,000</u>
Total nonoperating revenues, net	<u>900,000</u>	<u>900,000</u>
Income before transfers	952,045	684,764
Contributions for capital development grants	<u>-</u>	<u>(8,912)</u>
Change in net position	<u>\$ 952,045</u>	<u>\$ 675,852</u>

FINANCIAL HIGHLIGHTS, CONTINUED

Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position by Division

Years Ended September 30, 2023 and 2022

Development Corporation Division

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Interest and fees on loans	\$ 308,726	\$ 322,378
Interest and dividends on investments	347,408	1,465
Other	<u>581,060</u>	<u>481,447</u>
	1,237,194	805,290
(Bad debts) recoveries	<u>63,302</u>	<u>(18,215)</u>
Net operating revenues	<u>1,300,496</u>	<u>787,075</u>
Operating expenses:		
Salaries and wages	745,641	687,758
Employee benefits	279,056	327,721
Travel	89,659	71,715
Repairs and maintenance	65,187	46,514
Professional fees	63,285	75,912
Depreciation	49,494	50,952
Utilities	31,754	38,921
Office rent	16,842	17,206
Other	<u>100,044</u>	<u>94,808</u>
Total operating expenses	<u>1,440,962</u>	<u>1,411,507</u>
Operating loss	<u>(140,466)</u>	<u>(624,432)</u>
Nonoperating revenues (expenses):		
Other income	525	425
Other expenses	<u>(22,682)</u>	<u>(12,000)</u>
Total non operating revenues (expenses), net	<u>(22,157)</u>	<u>(11,575)</u>
Change in net position	<u>\$ (162,623)</u>	<u>\$ (636,007)</u>

FINANCIAL HIGHLIGHTS, CONTINUED

Condensed Comparative Statements of Cash Flows by Division Years Ended September 30, 2023 and 2022

Development Banking Division

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities	\$269,233	\$ 944
Cash flows from capital and related financing activities	(163,147)	(225,109)
Cash flows from investing activities	<u>(106,086)</u>	<u>224,165</u>
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>

Development Corporation Division

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities	\$ (4,867,086)	\$ (590,926)
Cash flows from capital and related financing activities	4,909,574	75,950
Cash flows from investing activities	<u>(44,852)</u>	<u>(3,000,000)</u>
Net change in cash and cash equivalents	(2,364)	(3,514,976)
Cash and cash equivalents at beginning of year	<u>1,184,474</u>	<u>4,699,450</u>
Cash and cash equivalents at end of year	<u>\$ 1,182,110</u>	<u>\$ 1,184,474</u>

FINANCIAL HIGHLIGHTS, CONTINUED

DCD AND DBD

- In 2023, DCD and DBD had net operating revenues of \$1,300,496 and \$269,233, 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 a recovery of \$63,302 and an additional allowance of \$18,215 in 2023 and 2022, respectively. Interest and fees earned on loans for DCD decreased by \$13,652 in fiscal year 2023 due to lower revenue received from loans and increased by \$50,806 in fiscal year 2022. DBD had no outstanding loans receivable in fiscal year 2023 and 2022.
- DCD invested surplus funds in time certificates of deposit (TCDs) to take advantage of higher interest rates. Related earnings on investments increased from \$1,465 for the year ended September 30, 2022 to \$347,408 for the year ended September 30, 2023, due to CEDA DCD reinvesting investments earnings as opposed to drawing it down as income. 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 \$944 for the year ended September 30, 2022 to \$269,233 for the year ended September 30, 2023.
- In fiscal year 2023, operating expenses for DCD increased by \$29,455 or 2% from 2022. In fiscal year 2022, operating expenses for DCD increased by \$163,962 or 13% from 2021. In fiscal year 2021, operating expenses for DCD decreased by \$90,624 or 6% from 2020. DBD's operating expenses increased by \$1,008 or .04% from 2022 and decreased by \$110,109 or 34% from fiscal year 2021. 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.
- CEDA 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 increased by \$789,442 from 2023 to 2022 and DBD and DCD's combined change in net position decreased by \$78,225 from 2022 to 2021.

FINANCIAL HIGHLIGHTS, CONTINUED

DCD AND DBD, CONTINUED

- In fiscal years 2023 and 2022, DCD began lending up to \$450,000 and \$250,000, respectively, for its new direct loan program for renovations and repairs of existing rental properties.
- CEDA received preferred stock dividend payments of \$1,080,000 and \$1,080,000 in fiscal years 2023 and 2022, respectively. As of September 30, 2023 and 2022, CEDA received cumulative preferred stock dividend payments of \$11,880,000 and \$10,800,000, respectively, from CUC since implementation of the Settlement Agreement.

CAPITAL ASSETS

At September 30, 2023 and 2022, CEDA had \$748,543 and \$786,573, respectively, of net investment in capital assets. This represents a net decrease of \$38,030 or 5% during fiscal year 2023 and of \$23,793 or 3% during fiscal year 2022.

	<u>2023</u>	<u>2022</u>
Depreciable capital assets, net	\$ 564,195	\$ 602,225
Non-depreciable capital assets	<u>184,348</u>	<u>184,348</u>
	<u>\$ 748,543</u>	<u>\$ 786,573</u>

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

ECONOMIC OUTLOOK

DCD AND DBD

CEDA continues to face economic challenges driven by both global and local negative forces. Historically, the CNMI has been regarded as pro-business due to its favorable tax climate, relatively affordable housing, and various incentives that encourage new business formation and development. Its economic resilience has been demonstrated by its relatively quick recovery from two major natural disasters.

However, the CNMI's heavy dependence on tourism as its primary economic driver makes it particularly vulnerable. The region faces strong competition from larger destinations with significantly bigger marketing budgets, as well as sensitivity to global geopolitical dynamics. The ongoing trade tensions between the United States and China, along with the global health and economic impacts of the COVID-19 pandemic, severely disrupted the CNMI's economy. The economic activity in the CNMI slowed to a near standstill.

CEDA's biggest challenge in the past was funding its operations from earnings generated from its loan portfolios and investments. This approach proved difficult because revenue generated through traditional loan interest and investment returns was often insufficient to fully support ongoing administrative and operational costs. To address this shortfall, management implemented a combination of revenue enhancements, diversified financial strategies, and expenditure reductions to reduce reliance on unpredictable earnings and improve long-term financial sustainability.

CEDA continues to find innovative ways to assist existing borrowers. CEDA offers finance leases on certain properties with an option to purchase. This strategy helps recover principal balances over time while also reducing excess property inventory acquired through foreclosures. CEDA also offers a Debt-Relief Program aimed at assisting eligible delinquent borrowers in moving from non-payment to a performing loan status. This program reduces interest rates on qualifying loans to 2%. While the lowered rate results in minimal income for CEDA, management believes it motivates borrowers to restart regular payments by making their loan obligations more affordable and protecting their collateral. Additionally, the Loan Deferment Program allows borrowers to defer payments once for up to four months during challenging economic times. The goal is that once borrowers regain performing status and consistently make payments, the resulting increase in cash flow will gradually enhance CEDA's financial position.

Lastly, CEDA received funding from the SSBCI (State Small Business Credit Initiative) 2.0 program. This bank-driven effort partners CEDA with local banks to increase access to capital for businesses, promoting sustained economic development through collaborative support.

CONTACTING CEDA MANAGEMENT

This financial report is designed to provide a general overview of CEDA'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. Derek T. Sasamoto, CEDA Executive Director, P.O. Box 502149, Saipan, MP 96950-2149, or call (670) 234-6245 or email d.sasamoto@developcnmi.com.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(fka: Commonwealth Development Authority)

Statements of Net Position
Years Ended September 30, 2023 and 2022

	<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
Current assets:			
Cash and cash equivalents	\$	1,182,110	1,184,474
Time certificates of deposit		10,794,852	10,750,000
Receivables:			
Current portion of loans receivable, net		620,399	395,220
Current portion of foreclosed assets notes receivable, net		46,956	77,891
Current portion of lease receivable, net		46,943	34,764
Rent, net		59,126	40,126
Accrued interest, net of allowance for doubtful accounts of \$654,775 and \$645,521 as of September 30, 2023 and 2022, respectively		146,391	117,260
Dividends		720,000	900,000
Other, net		<u>69,136</u>	<u>60,231</u>
Total current assets		<u>13,685,913</u>	<u>13,559,966</u>
Other assets:			
Cash and cash equivalents, restricted		3,081,975	6,661,997
Time certificate of deposit, restricted		<u>8,768,769</u>	<u>8,500,000</u>
Total other assets		<u>11,850,744</u>	<u>15,161,997</u>
Noncurrent assets:			
Loans receivable, net of current portion		7,048,264	7,444,750
Foreclosed assets notes receivable, net of current portion		530,499	525,507
Lease receivable, net of current portion		1,100,484	1,147,427
Due from CNMI government		6,000,000	6,000,000
Depreciable capital assets, net of accumulated depreciation		564,195	602,225
Nondepreciable capital assets		184,348	184,348
Foreclosed real estate, net		<u>1,479,943</u>	<u>1,506,443</u>
Total noncurrent assets		<u>16,907,733</u>	<u>17,410,700</u>
	\$	<u>42,444,390</u>	<u>46,132,663</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$	1,406,192	1,331,388
Unearned revenues, current portion		15,094	15,094
Loan commitments		<u>1,109,765</u>	<u>5,607,104</u>
Total current liabilities		2,531,051	6,953,586
Unearned revenues, net of current portion		<u>545,370</u>	<u>560,464</u>
Total liabilities		<u>3,076,421</u>	<u>7,514,050</u>
Deferred inflows of resources:			
Deferred inflows- Leases		<u>1,183,447</u>	<u>1,223,513</u>
Commitments and contingencies			
Net position:			
Net investment in capital assets		748,543	786,573
Restricted		<u>37,435,979</u>	<u>36,608,527</u>
Total net position		<u>38,184,522</u>	<u>37,395,100</u>
	\$	<u>42,444,390</u>	<u>46,132,663</u>

See accompanying notes to financial statements.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(fka: Commonwealth Development Authority)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Interest and fees on loans	\$ 308,726	322,378
Interest and dividends on investments	616,641	2,409
Other	<u>581,060</u>	<u>481,447</u>
	1,506,427	806,234
Recovery of loan impairment	63,302	2,403
Recovery of (provision for) interest impairment	<u>-</u>	<u>(20,618)</u>
Net operating revenues	<u>1,569,729</u>	<u>788,019</u>
Operating expenses:		
Salaries and wages	745,641	687,758
Employee benefits	279,056	327,721
Travel	89,659	71,715
Repairs and maintenance	65,187	46,514
Professional fees	63,285	75,912
Depreciation	49,494	50,952
Utilities	31,754	38,921
Rent	16,842	17,206
Other	<u>317,232</u>	<u>310,988</u>
Total operating expenses	<u>1,658,150</u>	<u>1,627,687</u>
Operating loss	<u>(88,421)</u>	<u>(839,668)</u>
Nonoperating revenues (expenses):		
Dividend income	900,000	900,000
Other income	525	425
Other expense	<u>(22,682)</u>	<u>(12,000)</u>
Nonoperating revenues, net	<u>877,843</u>	<u>888,425</u>
Income before transfers and capital contributions	789,422	48,757
Contributions for capital development grants	<u>-</u>	<u>(8,912)</u>
Change in net position	789,422	39,845
Net position - beginning	<u>37,395,100</u>	<u>37,355,255</u>
Net position - ending	\$ <u>38,184,522</u>	<u>37,395,100</u>

See accompanying notes to financial statements.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY

(fka: Commonwealth Development Authority)

Statements of Cash Flows

Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	\$ 278,264	270,274
Interest and dividends on investments	616,641	2,409
Cash payments to suppliers for goods and services	(46,857)	(223,583)
Cash received from customers	1,331	3,838
Cash payments to employees for services	(949,893)	(817,173)
Cash received (returned) for loan commitment	<u>(4,497,339)</u>	<u>174,253</u>
Net cash used for operating activities	<u>(4,597,853)</u>	<u>(589,982)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(11,464)	(27,159)
Net collections (issuance) of loans receivable	234,609	(80,724)
Net collections of foreclosed assets notes receivable	25,943	141,889
Transfers for capital development grants	-	(8,912)
Transfers for loan commitment	<u>4,497,339</u>	<u>(174,253)</u>
Net cash used for capital and related financing activities	<u>4,746,427</u>	<u>(149,159)</u>
Cash flows from investing activities:		
Purchase of restricted cash and cash equivalents and time certificates of deposits	(1,230,938)	(3,855,835)
Dividends received	<u>1,080,000</u>	<u>1,080,000</u>
Net cash used for investing activities	<u>(150,938)</u>	<u>(2,775,835)</u>
Net decrease in cash and cash equivalents	(2,364)	(3,514,976)
Cash and cash equivalents at beginning of year	<u>1,184,474</u>	<u>4,699,450</u>
Cash and cash equivalents at end of year	\$ <u>1,182,110</u>	<u>1,184,474</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (88,421)	(839,668)
Adjustment to reconcile operating loss to net cash used for operating activities:		
Recovery of loan impairment	(63,302)	(2,403)
Provision for interest impairment	-	20,618
Depreciation	49,494	50,952
Lease revenue	21,198	(28,002)
Other	(22,157)	(11,575)
(Increase) decrease in assets:		
Receivables:		
Rent	(19,000)	12,794
Accrued interest	(29,131)	(52,104)
Other	(8,905)	(4,537)
Prepaid expense	-	9,069
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	74,804	95,714
Unearned revenues	(15,094)	(15,093)
Loan commitment	<u>(4,497,339)</u>	<u>174,253</u>
Net cash used for operating activities	\$ <u>(4,597,853)</u>	<u>(589,982)</u>

See accompanying notes to financial statements.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements
September 30, 2023 and 2022

(1) Reporting Entity

The Commonwealth Economic Development Authority (CEDA), formerly the Commonwealth Development Authority, 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, 5-27 and 22-01. CEDA is affiliated with all other component units of the CNMI Government. CEDA's existence is to be perpetual and it shall have all the rights and privileges of a corporation. The purpose of CEDA is to stimulate the economic development of the CNMI.

The purpose and functions of the two divisions 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 CEDA as capital contributions;
- To disseminate modern practices and techniques of financing, management and business administration in order to raise the levels of efficiency and productivity in all sectors; and
- To serve as the Northern Marianas development bank identified in Article IX, Section 6(c) of the Constitution.

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

DCD:

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

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements
September 30, 2023 and 2022

(1) Reporting Entity, continued

- 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 CEDA serves as the disbursing agent as well as performs loan documentation preparation. The loans are not reflected in the accompanying financial statements.

(2) Summary of Significant Accounting Policies

The accounting policies of CEDA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. CEDA 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.

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 in 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, CEDA 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, 2023 and 2022, total cash and cash equivalents and time certificates of deposit were \$23,827,706 and \$27,096,471, respectively, and the corresponding bank balances were \$23,759,169 and \$26,800,018, 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, 2023 and 2022.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents and Time Certificates of Deposit, continued

CNMI law does not require component units to collateralize their bank accounts and thus CEDA's deposits in excess of FDIC insurance are uncollateralized.

Prepaid Expenses

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

Capital Assets

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

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

Land

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

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.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

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.

Foreclosed Assets Notes Receivable

Foreclosed assets notes receivables are carried at the aggregate of future payments to be collected less unearned income. Unearned income is amortized on a straight-line basis over the note term.

Restricted Cash and Cash Equivalents and Time Certificates of Deposit

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

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

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Revenue Recognition

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

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

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 coverage and funds for loans approved and not yet disbursed at year end. Loan commitment funds as of September 30, 2023 and 2022 were \$988,264 and \$5,364,383 respectively. In addition, DCD recorded SSBCI Loan Participation Program funds received from a financial institution of \$121,501 and \$242,721 as of September 30, 2023 and 2022, respectively.

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 income on foreclosed real estate held for lease of \$560,464 and \$575,558 as of September 30, 2023 and 2022, respectively. Amounts to be recognized over the terms of the leases are as follows:

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Unearned Revenues, continued

<u>Year ending September 30,</u>	<u>Lease Recognition</u>
2024	15,094
2025	15,094
2026	15,094
2027	15,094
2028	15,094
2029 - 2033	75,740
2034 - 2038	75,740
2039 - 2043	75,740
2044 - 2048	75,740
2049 - 2053	71,194
2054 - 2058	64,830
2059 - 2063	27,562
2064 - 2068	7,280
2069 - 2073	7,280
2074 - 2078	3,888
	<u>\$ 560,464</u>

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, 2023 and 2022 approximated \$122,837 and \$116,815 , respectively.

Retirement Plan

CEDA 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). CEDA also contributes to a defined contribution plan (DC Plan).

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Retirement Plan, continued

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title I 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 CEDA employees voluntarily terminated membership in the DB Plan and CEDA contributed \$174,402 and \$171,647 to the DB Plan during the years ended September 30, 2023 and 2022, respectively.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CEDA is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CEDA recorded DC contributions for the years ended September 30, 2023 and 2022 of \$12,163 and \$10,678, 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.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Net Position

CEDA'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 CEDA maintain them permanently. At September 30, 2023 and 2022, CEDA does not have nonexpendable net position.

Expendable - Net position whose use by CEDA is subject to externally imposed stipulations that can be fulfilled by actions of CEDA pursuant to those stipulations or that expire by the passage of time. As described in note 1, CEDA considers all net position, except net investments in capital assets, to be restricted for economic development.

- Unrestricted

Net position that is not subject to externally imposed stipulations. As CEDA considers all net position, except net investments in capital assets, to be restricted for economic development, CEDA does not have unrestricted net position of September 30, 2023 and 2022.

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 NMISF. 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 CEDA. CEDA has not recorded related revenues and pension expense for the years ended September 30, 2023 and 2022 as amounts were not available.

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Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Leases

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition is accounted for under GASB Statement No. 87 unless explicitly excluded.

A contract that transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain termination options but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised is reported as a financed purchase of the underlying asset or sale of the asset by CEDA.

CEDA accounts for the lease and non-lease components of a lease as separate contracts. If a lease involves multiple underlying assets, CEDA, in certain cases, accounts for each underlying asset as a separate lease contract. To allocate the contract price to different components, CEDA uses contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract are accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria are considered part of the same lease contract and are evaluated in accordance with the guidance for contracts with multiple components.

The lease term is defined as the period during which a lessee has a non-cancelable right-to-use (RTU) an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option
- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option
- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Leases, continued

The lease term is reassessed only if one or more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
- An event specified in the lease contract that requires an extension or termination of the lease takes place.

An amendment to a lease contract is considered a lease modification unless the CEDA's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. CEDA accounts for lease termination by reducing the carrying values of the lease liability and lease asset or the lease receivable and deferred inflows of resources, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease is accounted for by remeasuring the lease liability and adjusting the related lease asset or remeasuring the lease receivable and adjusting the related deferred inflows of resources.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Short-term lease payments are recognized as outflows of resources or inflows of resources based on the payment provisions of the lease contract.

Lessee Accounting

CEDA recognizes a lease liability and a RTU asset at the commencement of the lease term unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability is measured at the present value of payments expected to be made during the lease term less any lease incentives. The RTU asset is measured at the amount of the initial measurement of the lease liability, including any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

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Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Lessee Accounting, continued

The future lease payments are discounted using the interest rate the lessor charges CEDA, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined, an estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) will be used.

CEDA reduces the lease liability as payments are made and recognizes an outflow of resources for interest on the liability. CEDA amortizes the RTU asset using the straight-line method over the shorter of the lease term or the useful life of the underlying asset.

Variable payments based on future performance of CEDA or usage of the underlying asset should not be included in the measurement of the lease liability but are recognized as outflows of resources in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the lease liability.

Lessor Accounting

As a lessor, CEDA recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term for leases that meet the criteria under GASB Statement No. 87, *Leases*. A lease receivable is not recognized for short-term leases or leases that transfer ownership of the underlying asset.

The lease receivable is measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the same amount as the lease receivable, adjusted for any lease payments received at or before the commencement of the lease term that relate to future periods.

CEDA recognizes interest revenue on the lease receivable and an inflow of resources from the deferred inflow of resources on a straight-line basis over the term of the lease. The lease receivable is reduced as payments are received.

The future lease payments are discounted using the interest rate the lease contract charges the lessee, which may be the rate implicit in the lease. If the rate cannot be readily determined, an estimate based on CEDA's lending practices may be used.

Variable payments based on future performance or usage are not included in the measurement of the lease receivable but are recognized as inflows of resources in the period in which the payment is received. Any portion of those variable payments that is fixed in substance is included in the measurement of the lease receivable.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements
September 30, 2023 and 2022

(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 Nos. 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 had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 is effective for the fiscal year ended September 30, 2022.

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 had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 is effective for the fiscal year ending September 30, 2022.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
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Notes to Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

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 implementation of this statement had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 is effective for the 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 had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 is effective for the fiscal year ended September 30, 2022.

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(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 implementation of this statement had a material effect on the financial statements. GASB Statement No. 94 is effective for the 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 implementation of this statement, had a material effect on the financial statements. GASB Statement No. 96 is effective for the 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 implementation of this statement had a material effect on the financial statements. GASB Statement No. 97 is effective for the fiscal year ending September 30, 2022.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances of comprehensive annual financial reports and its acronym in generally accepted accounting principles for states and local governments.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

This Statement was developed in response to concerns raised by the stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on the commitment to promoting inclusiveness. This Statement was effective for the fiscal years ending after December 15, 2021. Management does not believe that the implementation of this statement had a material effect on the financial statements.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence the of specific transition provisions in the new pronouncement.

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Management is evaluating whether implementation of this statement will have a material impact on the financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences - including parental leave, military leave, and jury duty leave - not be recognized until the leave commences. This Statement also requires that liability for specific types of compensated absences not be recognized until the leave is used.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in the liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

Off-Balance Sheet Financial Instruments

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

Estimates

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

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(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 CEDA.

At September 30, 2023 and 2022, restricted cash and cash equivalents and time certificates of deposit amounting to \$10,861,421 and \$9,675,335, 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 CEDA as the disbursing agent deposited with commercial lending institutions held in the name of CEDA. At September 30, 2023 and 2022, restricted cash and cash equivalents for the SSBCI loan program were \$989,323 and \$5,486,662, respectively, maintained in financial institutions subject to FDIC.

(4) Loans Receivable

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.

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, CEDA initiated a "Debt Relief Program" (the Program) to address increasing delinquent loans.

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(4) Loans Receivable, continued

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.

Major classifications of economic development loans as of September 30, 2023 and 2022 are as follows:

	<u>DBD</u>	<u>DCD</u>	<u>2023</u>	<u>2022</u>
General	\$ -	\$ 25,679,884	\$ 25,679,884	\$ 26,372,317
Marine		4,038,771	4,038,771	4,030,413
Agriculture	-	1,044,336	1,044,336	1,049,433
Banking Division	-	-	-	-
Loan principal receivable	-	30,762,991	30,762,991	31,452,163
Less allowance for loan losses	-	<u>(23,094,328)</u>	<u>(23,094,328)</u>	<u>(23,612,193)</u>
Net loan receivable	\$ -	<u>\$ 7,668,663</u>	<u>\$ 7,668,663</u>	<u>\$ 7,839,970</u>

Maturities of the above principal balances subsequent to September 30, 2023 will be as follows:

	<u>DBD</u>	<u>DCD</u>	<u>Total</u>
Fully matured and others	\$ -	\$ 22,313,070	\$ 22,313,070
1 - 6 months	-	267,733	267,733
7 - 18 months	-	806,134	806,134
19 months - 3 years	-	134,319	134,319
After 3 years	-	<u>7,241,736</u>	<u>7,241,736</u>
	<u>\$ -</u>	<u>\$ 30,762,992</u>	<u>\$ 30,762,992</u>

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(4) Loans Receivable, continued

Allowance for Loan Losses

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

	DBD	DCD	Total
Balance - beginning of year	\$ -	\$ 23,612,193	\$ 23,612,193
Provision for (recovery from)			
Loan losses	-	16,012	16,012
Write-off loans	-	(533,876)	(533,876)
	\$ -	\$ 23,094,329	\$ 23,094,329

(5) Foreclosed Asset Leases

CEDA leased certain foreclosed real estate properties for periods ranging from ten to twenty-five years under what were previously direct finance leases. With the implementation of GASB Statement 87, these arrangements are now treated as sales of the underlying properties. 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 receivable and related accrued interest. Income for the years ended September 30, 2023 and 2022 amounted to \$34,734 and \$35,333, respectively and is included in other operating revenues. Future minimum payments and future minimum income under these arrangements as of September 30, 2023, are as follows:

<u>Year ending</u> <u>September 30</u>	<u>Minimum</u> <u>Lease Rentals</u>	<u>Minimum</u> <u>Lease Income</u>	<u>Net</u>	
			<u>2023</u>	<u>2022</u>
2023	\$ -	\$ -	\$ -	77,891
2024	85,600	38,644	46,956	79,540
2025	76,133	34,215	41,918	78,737
2026	80,303	30,358	49,945	68,842
2027	73,331	26,552	46,779	57,590
2028	66,418	23,401	43,017	-
Thereafter	416,318	67,478	348,840	240,798
	\$ 798,103	\$ 220,648	577,455	603,398
			(46,956)	(77,891)
			\$ 530,499	\$ 525,507

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(6) Investments

A Memorandum of Agreement (MOA) was established between CEDA 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 CEDA and CUC as required by the MOA.

On May 7, 2009, CUC and CEDA 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 CEDA 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 CEDA 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, CEDA 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 CEDA beginning October 1, 2012 but were not received. The Agreement cancels and discharges the indebtedness of CUC to CEDA 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 CEDA 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. CEDA 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, 2023 and 2022, CEDA 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.

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:

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(6) Investments, continued

<u>Year ending September 30</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
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
	<u>\$ 11,309,651</u>	<u>\$15,690,349</u>	<u>\$27,000,000</u>

On August 17, 2016, CEDA entered into an agreement with CUC for the total amount of unpaid dividend payments owed by CUC to CEDA 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 CEDA of \$270,000 which represents the full amount of the quarterly dividend due. In 2015, CEDA 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, 2023 and 2022. At September 30, 2023 and 2022, CEDA recorded dividends receivable of \$720,000 and \$900,000, 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.

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(7) Capital Assets

Capital assets consist of the following at September 30, 2023 and 2022:

DCD

	Estimated useful lives	Balance at October 1, 2022	Additions	Deletions	Balance at September 30, 2023
Capital assets not being depreciated:					
Land, net		\$ 184,348	\$ -	\$ -	\$ 184,348
Capital assets being depreciated:					
Structure and improvements	7 years	\$ 774,985	\$ 1,599	\$ -	\$ 776,584
Vehicles/office equipment	3-5 years	244,907	848	-	245,755
Computer equipment	3-5 years	78,800	6,319	-	85,119
Furniture and fixtures	7 years	110,526	2,698	-	113,224
Rent to Own Home (RTOH)	10 years	65,863	-	-	65,863
		1,275,081	11,464	-	1,286,545
Less: accumulated depreciation		(672,856)	(49,494)	-	(722,350)
Total capital assets being depreciated		602,225	(38,030)	-	564,195
Total capital assets, net		\$ 786,573	\$ (38,030)	\$ -	\$ 748,543

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(7) Capital Assets, continued

	Estimated useful lives	Balance at October 1, 2021	Additions	Deletions	Balance at September 30, 2022
Capital assets not being depreciated:					
Land, net		\$ 184,348	\$ -	\$ -	\$ 184,348
Capital assets being depreciated:					
Structure and improvements	7 years	\$ 761,934	\$ 13,051	\$ -	\$ 774,985
Vehicles/office equipment	3-5 years	239,433	5,474	-	244,907
Computer equipment	3-5 years	70,700	8,100	-	78,800
Furniture and fixtures	7 years	109,992	534	-	110,526
Rent to Own Home (RTOH)	10 years	65,863	-	-	65,863
		<u>1,247,922</u>	<u>27,159</u>	<u>-</u>	<u>1,275,081</u>
Less: accumulated depreciation		<u>(621,904)</u>	<u>(50,952)</u>	<u>-</u>	<u>(672,856)</u>
Total capital assets being depreciated		<u>626,018</u>	<u>(23,793)</u>	<u>-</u>	<u>602,225</u>
Total capital assets, net		<u>\$ 810,366</u>	<u>\$ (23,793)</u>	<u>\$ -</u>	<u>\$ 786,573</u>

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(8) Foreclosed Real Estate

A summary of the changes in foreclosed real estate and the related valuation allowance as of September 30, 2023 is as follows:

	DCD		2023	2022
	For Sale	For Lease		
Foreclosed Real Estate:				
Balance at beginning of year	\$ 1,004,460	\$ 2,050,876	\$ 3,055,336	\$ 3,055,336
Additions	-	-	-	-
Deletions	-	-	-	-
Reclassifications	-	(35,000)	(35,000)	-
	1,004,460	2,015,876	3,020,336	3,055,336
Valuation allowance	(485,230)	(1,055,163)	(1,540,393)	(1,548,893)
Balance at end of year	<u>\$ 519,230</u>	<u>\$ 960,713</u>	<u>\$ 1,479,943</u>	<u>\$ 1,506,443</u>

(9) 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 \$-0- and \$8,912 for the years ended September 30, 2023 and 2022, 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- for the years ended September 30, 2023 and 2022, respectively, (c) transfers to the CNMI for capital projects pursuant to Saipan Local Law No. 20-01 of \$-0- for the years ended September 30, 2023 and 2022, respectively, (d) transfers to the CNMI for capital projects pursuant to Tinian Local Law No. 19-04 of \$-0- for the years ended September 30, 2023 and 2022.

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(10) Commitments and Contingencies

Commitments

CEDA leases certain foreclosed real estate properties for periods ranging from one to fifty-five years. CEDA 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, 2023 and 2022 amounted to \$223,812 and \$207,891, respectively. Minimum future lease income for all leases is as follows:

<u>Year ending September 30,</u>	<u>Minimum Lease Income Due</u>
2024	\$ 94,109
2025	90,945
2026	90,313
2027	90,313
2028	90,313
Thereafter	2,568,759
	<hr/> <u>\$ 3,024,752</u>

CEDA 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 as of September 30, 2023.

(11) Risk Management

CEDA 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. CEDA 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.

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(12) COVID-19 Pandemic

Economic uncertainties have arisen as a result of the COVID-19 coronavirus pandemic, which continuously negatively affects CEDA financial results. Globally, the world economy pace of recovery remains slow and uneven which poses significant challenges for businesses and employees in the CNMI both in private and public sectors.

CEDA 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%. CEDA expects this matter to negatively impact its future financial results; however, the related financial impact cannot be reasonably estimated at this time.

In April 2020, CEDA 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 DCD's CIP revolving loan fund and are intended and reserved for CIP future project expenditures. CEDA anticipates that these funds will be reimbursed as soon as conditions improve in the CNMI as it is important that CEDA continues its mandate to fund future capital improvement projects.

(13) Reclassifications

Certain reclassifications have been made to the 2022 financial statement amounts for comparative purposes. Such reclassifications had no effect on previously reported net assets.

(14) Subsequent Events

The American Rescue Plan Act of 2021 amended the Small Business Jobs Act of 2010, as codified at 12 U.S.C. § 5701 et seq., to reauthorize the State Small Business Credit Initiative (SSBCI) and appropriate \$10 billion to participating jurisdictions in response to the economic effects of the COVID-19 pandemic. On July 16, 2024, CNMI was approved for a potential allocation of \$57,057,763 from the U.S. Department of the Treasury under the SSBCI program, which is being administered by CEDA. As of the date of the audit report, CEDA had received \$18,734,528 under the program, and as of September 30, 2025, had segregated and allocated a total of \$877,135 for loan guarantees, cash collateral supports, and loan participations.

(15) Date of Management's Review

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through March 6, 2026, which is the date the financial statements were available to be issued. CEDA has determined that none of the events occurring after the date of the statement of net position substantially affects the amounts, presentation, and disclosure of the accompanying financial statements other than as disclosed in footnote 14 above.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(fka: Commonwealth Development Authority)
Combining Statement of Net Position
September 30, 2023

<u>ASSETS</u>	Development Banking Division	Development Corporation Division	Elimination Entries	Total
Current assets:				
Cash and cash equivalents	\$ -	\$ 1,182,110	\$ -	\$ 1,182,110
Time certificates of deposit	-	10,794,852	-	10,794,852
Receivables:				
Current portion of loans receivable, net	-	620,399	-	620,399
Current portion of foreclosed assets notes receivable, net	-	46,956	-	46,956
Current portion of lease receivable, net	-	46,943	-	46,943
Rent, net	-	59,126	-	59,126
Accrued interest, net	-	146,391	-	146,391
Dividends	720,000	-	-	720,000
Other, net	-	69,136	-	69,136
Prepaid expenses	-	-	-	-
Total current assets	720,000	12,965,913	-	13,685,913
Other assets:				
Cash and cash equivalents, restricted	2,092,652	989,323	-	3,081,975
Time certificates of deposit, restricted	8,768,769	-	-	8,768,769
Total other assets	10,861,421	989,323	-	11,850,744
Noncurrent assets:				
Loans receivable, net of current portion	-	7,048,264	-	7,048,264
Foreclosed assets notes receivable, net of current portion	-	530,499	-	530,499
Lease receivable, net of current portion	-	1,100,484	-	1,100,484
Due from CNMI government	6,000,000	-	-	6,000,000
Due from other funds	-	54,055	(54,055)	-
Depreciable capital assets, net of accumulated depreciation	-	564,195	-	564,195
Nondepreciable capital assets	-	184,348	-	184,348
Foreclosed real estate, net	-	1,479,943	-	1,479,943
Total noncurrent assets	6,000,000	10,961,788	(54,055)	16,907,733
	<u>\$ 17,581,421</u>	<u>\$ 24,917,024</u>	<u>\$ (54,055)</u>	<u>\$ 42,444,390</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>				
Current liabilities:				
Accounts payable and accrued expenses	\$ -	\$ 1,406,192	\$ -	\$ 1,406,192
Unearned revenues, current portion	-	15,094	-	15,094
Loan commitment	-	1,109,765	-	1,109,765
Total current liabilities	-	2,531,051	-	2,531,051
Due to other funds	54,055	-	(54,055)	-
Unearned revenues, net of current portion	-	545,370	-	545,370
Total liabilities	54,055	3,076,421	(54,055)	3,076,421
Deferred inflows of resources:				
Deferred inflows- leases	-	1,183,447	-	1,183,447
Net position:				
Net investment in capital assets	-	748,543	-	748,543
Restricted	17,527,366	19,908,613	-	37,435,979
Total net position	17,527,366	20,657,156	-	38,184,522
	<u>\$ 17,581,421</u>	<u>\$ 24,917,024</u>	<u>\$ (54,055)</u>	<u>\$ 42,444,390</u>

See Independent Auditor's Report.

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(fka: Commonwealth Development Authority)
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2023

	Development Banking Division	Development Corporation Division	Elimination Entries	Total
Operating revenues:				
Interest and fees on loans	\$ -	\$ 308,726	\$ -	\$ 308,726
Interest and dividends on investments	269,233	347,408	-	616,641
Other	-	581,060	-	581,060
	<u>269,233</u>	<u>1,237,194</u>	<u>-</u>	<u>1,506,427</u>
Recovery of loan impairment	-	63,302	-	63,302
Provision for interest impairment	-	-	-	-
Net operating revenues	<u>269,233</u>	<u>1,300,496</u>	<u>-</u>	<u>1,569,729</u>
Operating expenses:				
Salaries and wages	-	745,641	-	745,641
Employee benefits	-	279,056	-	279,056
Travel	-	89,659	-	89,659
Repairs and maintenance	-	65,187	-	65,187
Professional fees	-	63,285	-	63,285
Depreciation	-	49,494	-	49,494
Utilities	-	31,754	-	31,754
Rent	-	16,842	-	16,842
Other	217,188	100,044	-	317,232
Total operating expenses	<u>217,188</u>	<u>1,440,962</u>	<u>-</u>	<u>1,658,150</u>
Operating loss	<u>52,045</u>	<u>(140,466)</u>	<u>-</u>	<u>(88,421)</u>
Nonoperating revenues (expenses):				
Dividend income	900,000	-	-	900,000
Other income	-	525	-	525
Other expense	-	(22,682)	-	(22,682)
Total nonoperating revenues, net	<u>900,000</u>	<u>(22,157)</u>	<u>-</u>	<u>877,843</u>
Change in net position	<u>952,045</u>	<u>(162,623)</u>	<u>-</u>	<u>789,422</u>
Net position - beginning	<u>16,575,321</u>	<u>20,819,779</u>	<u>-</u>	<u>37,395,100</u>
Net position - ending	<u>\$ 17,527,366</u>	<u>\$ 20,657,156</u>	<u>\$ -</u>	<u>\$ 38,184,522</u>

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY
(fka: Commonwealth Development Authority)
Combining Statement of Cash Flows
Year Ended September 30, 2023

	Development Banking Division	Development Corporation Division	Elimination Entries	Total
Cash flows from operating activities:				
Cash received from interest and fees on loans receivable	\$ -	\$ 278,264	\$ -	\$ 278,264
Interest and dividends on investments	269,233	347,408	-	616,641
Cash payments to suppliers for goods and services	-	(46,857)	-	(46,857)
Cash received from customers	-	1,331	-	1,331
Cash payments to employees for services	-	(949,893)	-	(949,893)
Cash received (returned) for loan commitment	-	(4,497,339)	-	(4,497,339)
Net cash provided by (used for) operating activities	<u>269,233</u>	<u>(4,867,086)</u>	<u>-</u>	<u>(4,597,853)</u>
Cash flows from capital and related financing activities:				
Net interdivisional transactions	(163,147)	163,147	-	-
Acquisition of capital assets	-	(11,464)	-	(11,464)
Net collections of loans receivable	-	234,609	-	234,609
Net collections of foreclosed assets notes receivable	-	25,943	-	25,943
Transfers for loan commitment	-	4,497,339	-	4,497,339
Net cash used for capital and related financing activities	<u>(163,147)</u>	<u>4,909,574</u>	<u>-</u>	<u>4,746,427</u>
Cash flows from investing activities:				
Purchase of restricted cash and cash equivalents and time certificates of deposit	(1,186,086)	(44,852)	-	(1,230,938)
Dividend received	1,080,000	-	-	1,080,000
Interest received	-	-	-	-
Net cash provided by (used for) investing activities	<u>(106,086)</u>	<u>(44,852)</u>	<u>-</u>	<u>(150,938)</u>
Net increase (decrease) in cash and cash equivalents	-	(2,364)	-	(2,364)
Cash and cash equivalents at beginning of year	-	1,184,474	-	1,184,474
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 1,182,110</u>	<u>\$ -</u>	<u>\$ 1,182,110</u>
Reconciliation of operating loss to net cash used for operating activities:				
Operating loss	\$ 52,045	\$ (140,466)	\$ -	\$ (88,421)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Recovery for loan impairment	-	(63,302)	-	(63,302)
Expenses allocated from DCD to DBD	217,188	(217,188)	-	-
Depreciation	-	49,494	-	49,494
Lease revenue	-	21,198	-	21,198
Other	-	(22,157)	-	(22,157)
(Increase) decrease in assets:				
Receivables:				
Rent	-	(19,000)	-	(19,000)
Accrued interest	-	(29,131)	-	(29,131)
Other	-	(8,905)	-	(8,905)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	-	74,804	-	74,804
Unearned revenues	-	(15,094)	-	(15,094)
Loan commitment	-	(4,497,339)	-	(4,497,339)
Net cash provided by (used for) operating activities	<u>\$ 269,233</u>	<u>\$ (4,867,086)</u>	<u>\$ -</u>	<u>\$ (4,597,853)</u>

See Independent Auditor's Report.



BURGER · COMER & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Commonwealth Economic Development Authority

We have audited, in accordance with the 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, the financial statements of the governmental activities of the Commonwealth Economic Development Authority (CEDA), a component unit of the Commonwealth of the Northern Mariana Islands Government, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise CEDA's basic financial statements and have issued our report thereon dated March 6, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CEDA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CEDA's internal control. Accordingly, we do not express an opinion on the effectiveness of CEDA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether CEDA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burger Comer & Associates

Saipan, MP
March 6, 2026

COMMONWEALTH ECONOMIC DEVELOPMENT AUTHORITY

Unresolved Prior Year Findings
Year Ended September 30, 2023

There are no unresolved findings from prior year audits of CEDA.