NORTHERN MARIANAS HOUSING CORPORATION
(A DIVISION OF THE
COMMONWEALTH DEVELOPMENT AUTHORITY)

REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS
IN ACCORDANCE WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2011

NORTHERN MARIANAS HOUSING CORPORATION
(A DIVISION OF THE
COMMONWEALTH DEVELOPMENT AUTHORITY)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Northern Marianas Housing Corporation:

We have audited the accompanying statements of net assets of the Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), as of September 30, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of NMHC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NMHC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial position, changes in net assets and cash flows of NMHC. They are not intended to present the financial position, changes in net assets and cash flows of CDA in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of NMHC as of September 30, 2011 and 2010 and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2012, on our consideration of NMHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of NMHC's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLC

September 11, 2012

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Management's Discussion and Analysis
Year Ended September 30, 2011

This Management Discussion and Analysis of the Northern Marianas Housing Corporation's (NMHC) financial performance provides an overview of NMHC's financial activity for the fiscal year ended September 30, 2011, with selected comparative information for the fiscal years ended September 30, 2010 and 2009. Please read it in conjunction with the more detailed information contained within the accompanying financial statements.

NMHC is a multifaceted organization that offers direct housing loans, housing loan guarantees, rental properties, housing and community development (including low income housing tax credits) and where necessary, infrastructure development.

NMHC has finalized the closing of Tottotville and forty-five houses are fully occupied and sold to respective homeowners. With the closure of the Expansion Project, NMHC is in the process of transferring infrastructure values to the Commonwealth Utilities Corporation (CUC) and the Department of Public Works. During fiscal year 2005, homeowners filed complaints with respect to the poor workmanship in the construction of their homes and NMHC is still attempting resolution with the homeowners. The designer/construction manager and contractor for the subdivision have been contacted and all parties are addressing the areas of complaints. Mediation was also pursued; however, major issues being disputed are still unresolved by parties involved. In July 2011, an order was issued stating that both the contractor and construction manager breached their contracts and are therefore liable to NMHC. In addition, the order stated that the contractor and construction manager also violated the building safety code. NMHC settled with the forty-five homeowners and has filed litigation against the contractor and the construction manager. Court hearings are ongoing with the latest held on September 8, 2011.

Another major concern is Public Law (PL) 15-48 which Governor Benigno R. Fitial signed into law on March 13, 2007. This law repealed in its entirety, 2 CMC § 4486 and 4498, and amended 2 CMC § 4497 to eliminate the moratorium extended to NMHC on the loan made to NMHC by the Marianas Public Land Trust (MPLT). PL 15-48 imposes serious financial burdens as NMHC was required to commence payment to MPLT. During fiscal year 2008, MPLT and NMHC finalized a portfolio transfer and resolved the financial burden imposed on NMHC.

Mortgage & Credit Division

The Mortgage & Credit Division revised the HUD-funded HOME Program policies and procedures and, as a result, twelve rehabilitation loans/grants and eleven new construction loans/deferred loans have been entertained and/or presented to the Board of Directors for approval in fiscal year 2011. Existing HOME clients are also covered by the new policies and procedures as they can also be assisted through loan modifications or loan-to-grant conversions. Aside from loans for rehabilitation or new construction, NMHC also provides grants for the elderly or persons with disabilities.

In June 2008, the Agreement Between the Parties, the U.S. Department of Agriculture (USDA) Rural Development (USDA RD) and NMHC to Resolve Defaulted USDA Rural Development Loans was executed. This agreement has been established to outline the steps and mutually agreed-upon terms in liquidating defaulted USDA RD loans which NMHC agreed to act as trustee on deeds of trust securing USDA RD housing loans in the Commonwealth of the Northern Mariana Islands (CNMI). The loans and properties covered by this agreement are accelerated accounts and accounts that are expected to be accelerated in the near future. This agreement encompasses forty-eight seriously delinquent loans. As of fiscal year 2011, thirty-two accounts have been purchased by NMHC.

On July 30, 2008, PL 110-289, or the Housing and Economic Recovery Act of 2008 (HERA), created the Neighborhood Stabilization Program (NSP). NSP is a HUD program which provides emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their respective communities. NSP provides grants to every state and local community to purchase foreclosed or abandoned homes and to rehabilitate, resale, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes.

Through NSP, NMHC has secured two contracts with NMHC-approved contractors to rehabilitate (including fencing and installation of typhoon shutters) seven foreclosed properties (six in Kagman and one in Dan Dan). The rehabilitation work was completed in December 2010 and five of seven properties have been sold.

An additional new program in fiscal year 2011 is the Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Program. NMHC also administers the U.S. Department of Veterans Affairs' Native American Direct Loan Program and the USDA's Section 504 Program.

Program and Housing Division

A. Saipan Housing Choice Voucher Program (HCV Program)

In fiscal year 2011, the HCV Program utilized three hundred thirty-eight vouchers. In January 2009, the waiting list was closed due to the number of applicants on the list. Demand for the HCV Program is high due to the portability of the program and the applicant's ability to select a unit in an area of their choice.

B. Saipan Multi-Family/New Construction Program

In fiscal year 2011, Mihaville had forty-seven occupants of forty-eight units and Koblerville had thirty-two occupants of thirty-four units. Although Mihaville and Koblerville are almost at full capacity, there has been a turnover of tenants due to tenant requests to relocate and tenants being terminated for noncompliance with their lease. Both properties are well maintained and NMHC will continue its efforts to prepare for future REAC inspections.

C. Short-Term Goals

Goals for the Program and Housing Division are to a) maintain efforts to apply for additional rental vouchers by continuing to monitor HUD's Notices of Funding Availability (NOFA) and/or Super NOFAs for potential opportunities to increase its voucher count in the future; b) improve voucher management by addressing certain performance indicators to potentially increase its Section 8 Management Assessment Program rating; c) increase customer satisfaction; and d) continue planning efforts towards the development and possible implementation of the Family Self-Sufficiency Program should the severe economic conditions begin to improve in the CNMI.

Rota Field Office

A. Rota HCV Program

At the onset of fiscal year 2011, twenty-four voucher certificates were utilized on Rota. By the end of the fiscal year, one End of Participation was processed leaving Rota with only twenty-three voucher certificates. The demand for additional vouchers still exists, especially since qualified families prefer the HCV Program over the Multi-Family/New Construction Program for a variety of reasons. The NMHC Rota Field Office received numerous inquiries from interested families wanting to apply for housing assistance under this program; however, since January 2009, a moratorium was in effect on new applications for the HCV Program due to the lack of new voucher certificates and funding availability to sustain the growing number of applicants on the waiting list. Housing assistance to prospective tenants on the waiting list is on a first-come first-serve basis. Prior to the moratorium, Rota maintained its own waiting list; however, NMHC combined the waiting lists of all three islands thereby leaving Rota applicants at a greater disadvantage since Saipan comprised the majority of applicants with a leverage for selection based on weight, preference and placement on the waiting list. As a result, many Rota HCV Program applicants withdrew their applications.

B. Rota Multi-Family/New Construction Program

The Section 8 Multi-Family New Construction Program in Rota still faces huge challenges having a low occupancy rate for several years. At the onset of the fiscal year, only eleven of thirty housing units at the Liyo' Housing Subdivision were occupied. This figure translates to a 36.67% occupancy rate. NMHC aggressively advertised the availability of housing assistance and vacant units through local media outlets and networking with local municipal government agencies. The campaign effort paid off with three new leases, raising the occupied units to fifteen and the occupancy rate to 50%. The low occupancy rate could be attributed to the following factors:

1. HCV Program

    a. The existence of the HCV Program has led to many qualified applicants for housing assistance wanting to apply for this program instead;

    b. Applicants qualified for housing assistance prefer the HCV Program because of the ability to choose a housing unit at a preferred location; and

    c. Housing units registered under the HCV Program are typically semi to fully furnished, unlike the housing units under the Multi-Family/New Construction Program.

2. Condition of the Housing Units

    a. Safety concerns have been one of the biggest reasons why the NMHC Rota Field Office struggles to occupy the vacant units under the Multi-Family/New Construction Program. The housing units at the Liyo' Housing Subdivision have undergone and continue to undergo constant repairs due to hairline and severe cracks that are formed on the walls and ceilings due to the condition of rebars which have been slowly deteriorating because of moisture. Maintaining these units is costing NMHC significant amounts of money annually for materials and labor.

Rota Field Office, Continued

B. Rota Multi-Family/New Construction Program, Continued

3. Utility Security Deposit

a. Applicants find it very difficult to afford the security deposit required by CUC in order to connect to utilities. NMHC requires a receipt of payment for utility connection prior to moving in a tenant.

Despite the problems that exists within the Multi-Family/New Construction Program, efforts to increase the occupancy rate at the Liyo' Housing Subdivision are ongoing. The Rota Field Office advertises the vacant units and informs the general public of the housing assistance available to qualified applicants. Printed advertisements and notices posted on the local television channel are some of the methods used to reach the public. Furthermore, constant repairs and maintenance are being conducted to ensure the units meet HUD's Uniform Physical Condition Standards so that NMHC may continue to provide housing assistance to families in need.

C. Short-Term Goals

The goal of the NMHC Rota Field Office is to increase the occupancy rate at the Liyo' Housing Subdivision to 100% during the next fiscal year. To attain this goal, NMHC must continue with the repairs and maintenance of the units and ultimately find a more adequate long-term solution to their deteriorating conditions. NMHC will have to provide additional amenities in the units, such as basic furnishings (beds, dining tables, etc.), community gardens, playgrounds or picnic grounds and enhance the landscape in common areas. Finally, the NMHC Rota Field Office will continue to work with the Mayor's Office and other agencies like the Department of Community & Cultural Affairs and the Northern Marianas Protection & Advocacy Systems Inc. to promote and educate the local community about the housing assistance available through our Section 8 Multi-Family/New Construction Program.

Tinian Field Office

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

1. The Tinian Multi-Family/New Construction has twenty occupied units. The units have been properly maintained to meet the Housing Quality Standards (HQS). The continuation of repairs and maintenance of the units not only meets the HQS, but also invites families to move into these units. Families are encouraged to claim ownership so that they live in a safe and decent environment.

2. The HCV Program is very limited on Tinian. Since 2008, Tinian has had only one voucher of three hundred sixty-three vouchers for the CNMI. Merging of the waiting lists of the three islands moved Tinian applicants to the bottom of the waiting list. People are still encouraged to apply and be included on the waiting list; however, most of the interested applicants' housing needs are immediate.

Tinian Field Office, Continued

B. Loans

1. The state of the economy has discouraged interested homeowners in obtaining home loans. The reduction of hours, reduction of holiday pay, ceased overtime pay and increased cost of living have hampered the living conditions of families on the island. Therefore, they hesitate to apply to either build a home or renovate a home. NMHC continues to assist those that come in and inquire or to pick up applications.

2. There is an increase in the delinquency rate of the loan portfolio due to the austerity measures imposed by the CNMI Government. NMHC needs to work with the borrowers to ensure that the revised loan payments are reasonable and affordable. The servicing of these loans needs to be consistent in order to enforce collection efforts.

C. Goals

1. The short-term goals for the Tinian Field Office are to a) continue to improve the Section 8 housing units; b) continue working with families in maintaining ownership on the units so they are maintained in safe and decent conditions and therefore meet the HQS; c) continue to ensure that the basketball court is conducive to the safety of children and youth; and d) work with borrowers in reducing the delinquency rate.

2. The long-term goals are to a) request for funding for the upgrade of the basketball court to include playground equipment and fencing for young and school-aged children who reside in the units; b) increase the awareness of the HOME program for people with developmental disabilities and to work in addressing their housing needs; c) work with management in numbering forms for both the loan application and the Section 8 Housing Assistance Program; d) streamline the application process; e) work with Board members in ensuring that residents are not shortchanged on the HCV Program because of the merging of the waiting lists; and f) address the needs of the new homesteaders.

Community Development Block Grant (CDBG)

In fiscal year 2011, NMHC received $824,363 in CDBG funding. As stated in NMHC's Five-Year Consolidated Plan, community development goals include the following:

- Construct or rehabilitate facilities that will improve services delivered to the public
- Recreational facilities
- Infrastructure upgrades
- Public services
- Rehabilitate/remove slum and blight

In fiscal year 2011, the CNMI allocated CDBG funding for the construction of a junior high public school facility to alleviate the overcrowding of the current public junior high school facility which will improve the classroom environment and, in turn, improve faculty and staff services to the students.

Emergency Shelter Grant (ESG)

NMHC received $40,642 (first allocation of fiscal year 2011) in ESG funding, which was divided equally between the Guma Esperansa and the Division of Youth Services (DYS) shelters. Guma Esperansa serves women and their children who are victims of domestic violence and human trafficking. The DYS shelter serves youths who are victims of child abuse/neglect and runaway youths. ESG funding is used to assist with the operational costs and essential services of both shelters. The second allocation (funding expected to be available in July 2012) of $22,861 will be subgranted to Karidat for rapid re-housing activities.

Homeless Prevention and Rapid Re-Housing Program (HPRP)

In fiscal year 2010, NMHC received $589,165 though the HPRP and used the funds to assist low-income individuals and families with rent and utilities to prevent such individuals and families from becoming homeless. The funds will also be used to house individuals and families who are currently homeless. As of September 30, 2011, NMHC expended more than 50% of the total funds and assisted approximately 200 families. The HPRP grant closeout is July 10, 2012.

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

NMHC received $1,374,719 through the CDBG-R Program, which were used for projects that increased economic efficiency, improved infrastructure and provided for investment in environmental protection. The following projects were funded through the CDBG-R grant:

- Grotto Bathrooms Infrastructure Improvement;
- Sinalapalo Elementary School Public Facility;
- Tinian Infiltration System Infrastructure Improvement; and
- Chalan Kanoa Kios Ku Leadership Courtyard Public Facility

As of September 30, 2011, three of the aforementioned projects were completed. The Chalan Kanoa Kios Ku Phase III Public Facility will be completed by July 3, 2012. The CDBG-R grant close out is September 30, 2012.

Neighborhood Stabilization Program (NSP)

NMHC received $364,162 through NSP, made possible through the Housing and Economic Recovery Act of 2008, which was designed to address foreclosures across the United States of America and the insular areas. NMHC used the funds to purchase and rehabilitate foreclosed and abandoned properties/homes and provided opportunities to borrowers to own their homes. As of September 30, 2011, a total of seven homes were rehabilitated.

LIHTC Program

NMHC is the agency authorized to allocate the LIHTC Program in the CNMI. The United States 1986 Tax Reform Act created the federal low-income housing tax credit under Section 42 of the Internal Revenue Code (the Code) to assist the development of low-income rental housing by providing qualified owners with credit to offset their federal tax obligations. The LIHTC Program is available to owners/developers of qualifying buildings and projects that meet certain low-income occupancy and rent restrictions.

LIHTC Program, Continued

Section 42 of the Code provides that the CNMI prepare a Qualified Allocation Plan (QAP) to determine housing priorities and to give preference to projects serving the lowest income tenants and projects obligated to serve qualified tenants for the longest periods. The QAP must incorporate selection criteria, which includes project location, housing need characteristics, sponsor characteristics, tenant populations with special needs and public housing waiting lists.

NMHC has developed a QAP for 2010 and 2011 which describes the basis that NMHC will use to allocate LIHTCs. Sandy Beach Homes LLC was awarded $26,877,000 in 1602 cash grants for the construction of a 60-unit (all 3 bedrooms) apartment building with a targeted completion date of December 2011. Blue Water Homes LLC was awarded $48,579,030 for the construction of an 80-unit (2, 3 and 4 bedrooms) apartment building.

Condensed Statements of Net Assets, Statements of Revenues, Expenses and Changes in Nets Assets and Statements of Cash Flows as of and for the year ended September 30, 2011 follow, with comparative information as of and for the years ended September 30, 2010 and 2009:

Statements of Net Assets
As of September 30, 2011, 2010 and 2009

	2011	2010	$ Change	% Change	2009
Current assets	$ 1,730,383	$ 2,183,702	$ (453,319)	-21%	$ 2,571,175
Other assets	2,617,558	3,427,656	(810,098)	-24%	3,390,606
Capital assets, net	10,735,766	11,796,240	(1,060,474)	-9%	12,111,587
Noncurrent assets	2,631,596	1,673,599	957,997	57%	1,334,126
Total assets	**$ 17,715,303**	**$ 19,081,197**	**$ (1,365,894)**	**-7%**	**$ 19,407,494**
Current liabilities	$ 2,880,197	$ 3,111,209	$ (231,012)	-7%	$ 3,021,797
Noncurrent liabilities	5,659,575	4,354,148	1,305,427	30%	4,405,399
Total liabilities	**8,539,772**	**7,465,357**	**1,074,415**	**14%**	**7,427,196**
Invested in capital assets	10,735,766	11,796,240	(1,060,474)	-9%	12,111,587
Restricted	(1,560,235)	(180,400)	(1,379,835)	765%	(131,289)
Total net assets	**9,175,531**	**11,615,840**	**(2,440,309)**	**-21%**	**11,980,298**
Total liabilities and net assets	**$ 17,715,303**	**$ 19,081,197**	**$ (1,365,894)**	**-7%**	**$ 19,407,494**

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011, 2010 and 2009

	2011	2010	$ Change	% Change	2009
Operating revenues	$ 35,270,185	$ 7,351,071	$ 27,919,114	380%	$ 7,675,423
Bad debts	(772,193)	(183,566)	(588,627)	321%	(279,025)
Net operating revenues	**34,497,992**	**7,167,505**	**27,330,487**	**381%**	**7,396,398**
Operating expenses	34,680,348	8,051,102	26,629,246	331%	8,559,197
Operating loss	**(182,356)**	**(883,597)**	**701,241**	**-79%**	**(1,162,799)**
Nonoperating revenues (expenses), net	(2,257,953)	519,139	(2,777,092)	-535%	(345,725)
Change in net assets	**(2,440,309)**	**(364,458)**	**(2,075,851)**	**570%**	**(1,508,524)**
Net assets - beginning	11,615,840	11,980,298	(364,458)	-3%	13,488,822
Net assets - ending	**$ 9,175,531**	**$ 11,615,840**	**$ (2,440,309)**	**-21%**	**$ 11,980,298**

Statements of Cash Flows
Years Ended September 30, 2011, 2010 and 2009

	2011	2010	$ Change	% Change	2009
Cash flows from operating activities	$ 704,486	$ (317,928)	$ 1,022,414	-322%	$ (1,328,625)
Cash flows from capital and related financing activities	(1,674,754)	103,788	(1,778,542)	-1714%	(235,075)
Cash flows from investing activities	819,276	(28,567)	847,843	-2968%	1,367,477
Net decrease in cash and cash equivalents	**(150,992)**	**(242,707)**	**91,715**	**-38%**	**(196,223)**
Cash and cash equivalents at beginning of year	861,654	1,104,361	(242,707)	-22%	1,300,584
Cash and cash equivalents at end of year	**$ 710,662**	**$ 861,654**	**$ (150,992)**	**-18%**	**$ 1,104,361**

FINANCIAL HIGHLIGHTS

- Total assets decreased by 7% from $19,081,197 in fiscal year 2010 to $17,715,303 in fiscal year 2011 mainly due to recording the impairment loss on land of $2,262,131 and by 2% from $19,407,494 in fiscal year 2009 to $19,081,197 in fiscal year 2010 mainly due to housing assistance payment (HAP) equity being utilized to fund the deficiency in revenues received from the grantor over actual HAP payments made for fiscal year 2009. In addition, all disaster vouchers from Typhoons Tingting and Chaba were converted to regular vouchers bringing the total to 363 voucher units that NMHC now administers and monitors for compliance.

- Total liabilities increased by 14% from $7,465,357 in fiscal year 2010 to $8,539,772 in fiscal year 2011 and by 1% from $7,427,196 in fiscal year 2009 to $7,465,357 in fiscal year 2010.

- Total net assets decreased by 21% from $11,615,840 in fiscal year 2010 to $9,175,531 in fiscal year 2011 and by 3% from $11,980,298 in fiscal year 2009 to $11,615,840 in fiscal year 2010.

- Net operating revenues increased by 381% from $7,167,505 in fiscal year 2010 to $34,497,992 in fiscal year 2011 and decreased by 3% from $7,396,398 in fiscal year 2009 to $7,167,505 in fiscal year 2010. The increase in fiscal year 2011 is primarily attributable to the receipt of the LIHTC Program grant. The decrease in fiscal year 2010 is primarily attributable to the decrease in CDBG grant revenues offset by the new HPRP and HOME grants.

- Total operating expenses increased by 331% from $8,051,102 in fiscal year 2010 to $34,680,348 in fiscal year 2011 and decreased by 6% from $8,559,197 in fiscal year 2009 to $8,051,102 in fiscal year 2010. The increase in fiscal year 2011 is primarily attributable to expenses incurred under the LIHTC Program grant. The decrease is primarily attributable to decreases in repairs and maintenance, the provision for loan guaranty, travel, CDBG Program and ESG Program grant expenses.

CAPITAL ASSETS

At September 30, 2011 and 2010, NMHC had $10,735,766 and $11,796,240, respectively, invested in capital assets, net of depreciation where applicable. This represents a net decrease of $1,060,474 or 9% during fiscal year 2011 and $315,347 or 3% during fiscal year 2010.

	2011	**2010**	**2009**
Property and equipment, net	$ 1,640,204	$ 1,591,885	$ 1,935,160
Land	7,388,182	9,650,313	9,747,313
Foreclosed real estate	1,707,380	554,042	429,114
	$ 10,735,766	$ 11,796,240	$ 12,111,587

See notes 2 and 5 to the financial statements for more detailed information on NMHC's capital assets and changes therein.

ECONOMIC OUTLOOK

The CNMI's economic outlook continues to be uncertain. Austerity measures continue to be in effect government-wide in fiscal year 2011 to compensate for decreased revenues. The tourism and garment industries, which played material roles in driving the CNMI's economy have been in decline for a number of years. A series of unfortunate events hindered the return of tourist arrival levels to that enjoyed in the 1990s and the industry and the economy continue to suffer as a result. Tourism overall appears to be on the rebound and partially stabilized. The garment industry has declined almost entirely compounding the CNMI's economic woes. While several efforts are underway to look at alternative industries to revive the economy, no immediate appreciable growth is anticipated in the foreseeable future.

As a result of the dwindling resources available for NMHC, the budget of federal funds will also be affected and is expected to decrease until recovery. As such, NMHC continues to apply the cost reduction approach to lower the deficit for every fiscal year. NMHC continues to take internal measures to ensure that this would not result in a deficit. The continuing economic challenges may result in further budget reductions in fiscal year 2012 but NMHC has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

NMHC received an NSP3 grant in the amount of $300,001 in fiscal year 2011, which will address housing foreclosures in the CNMI. NMHC plans to rehabilitate up to eight homes, inclusive of homes on the islands of Tinian and Rota, in order to sell those homes to HOME-eligible low-moderate income households.

CONTACTING NMHC'S MANAGEMENT

This financial report is designed to provide a general overview of NMHC's financial condition and to demonstrate its accountability for monies received. The Management's Discussion and Analysis for the year ended September 30, 2010 is set forth in the report on the audit of NMHC's financial statements which is dated October 5, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements. If you have questions about this report or need additional financial information, please contact Mr. Jesse S. Palacios, NMHC Acting Corporate Director, P.O. Box 500514, Saipan, MP 96950-0514, or call (670) 234-6866/9447 or send email to jspalacios@nmhc.gov.mp.

NORTHERN MARIANAS HOUSING CORPORATION

Statements of Net Assets
September 30, 2011 and 2010

ASSETS	2011	2010
Current assets:		
Cash and cash equivalents	$ 710,662	$ 861,654
Receivables:		
Current portion of loans receivable, net	685,613	616,179
Rent, net of allowance for doubtful accounts of $593,869 and $593,830 at September 30, 2011 and 2010, respectively	141,564	108,114
Accrued interest, net of allowance for doubtful accounts of $1,273,684 and $897,024 at September 30, 2011 and 2010, respectively	97,375	529,953
Employees	63,579	67,802
Due from grantor agency	31,590	-
Total current assets	1,730,383	2,183,702
Other assets:		
Cash and cash equivalents, restricted	2,617,558	3,427,656
Noncurrent assets:		
Loans receivable, net of current portion	2,631,596	1,673,599
Property and equipment, net	1,640,204	1,591,885
Land	7,388,182	9,650,313
Foreclosed real estate	1,707,380	554,042
Total noncurrent assets	13,367,362	13,469,839
	$ 17,715,303	$ 19,081,197
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,501,453	$ 521,292
Due to grantor agency	-	565,261
Reserve for loan guaranty	1,378,744	2,024,656
Total current liabilities	2,880,197	3,111,209
Deferred revenues	5,659,575	4,354,148
Total liabilities	8,539,772	7,465,357
Contingencies		
Net assets:		
Invested in capital assets	10,735,766	11,796,240
Restricted	(1,560,235)	(180,400)
Total net assets	9,175,531	11,615,840
	$ 17,715,303	$ 19,081,197

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

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

	2011	2010
Operating revenues:		
Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Program Grant	$ 23,981,996	$ -
Section 8 income:		
Federal housing assistance rentals	5,053,009	5,088,251
Tenant share	110,468	126,008
Community Development Block Grants (CDBG) Program	3,864,549	369,231
HOME Investment Partnership Program Grant	638,281	171,381
Recovery from loan guaranty	645,912	-
HOME Investment Partnership Grant program income	443,069	432,926
Interest and fees on loans	248,654	413,562
Neighborhood Stabilization Program (NSP) Grant	132,621	224,416
Homelessness Prevention and Rapid Re-Housing Program (HPRP) Grant	88,528	451,828
Emergency Shelter Grants (ESG) Program	49,061	43,554
Other	14,037	29,914
	35,270,185	7,351,071
Bad debts	(772,193)	(183,566)
Net operating revenues	34,497,992	7,167,505
Operating expenses:		
LIHTC Program Grant	23,981,996	-
CDBG Program	3,864,549	369,318
Section 8 rental	3,324,558	3,422,919
HOME Investment Partnership Program Grant	638,281	171,381
HOME Investment Partnership Grant program income	443,069	432,926
NSP Grant	132,621	224,416
HPRP Grant	88,528	451,828
ESG Program	49,061	43,554
Operations:		
Salaries and wages	555,536	582,260
Repairs and maintenance	423,405	514,082
Depreciation	350,599	369,940
Utilities	335,387	344,484
Employee benefits	143,394	170,458
Professional fees	133,213	146,406
Travel	43,331	63,882
Office rent	12,000	7,200
Provision for loan guaranty	-	422,749
Provision for foreclosed properties	-	149,736
Other	160,820	163,563
Total operating expenses	34,680,348	8,051,102
Operating loss	(182,356)	(883,597)
Nonoperating revenues (expenses):		
Interest income	9,178	8,483
Impairment loss on land	(2,262,131)	-
Loss on sale of foreclosed properties	(5,000)	-
Other income	-	510,656
Total nonoperating revenues (expenses), net	(2,257,953)	519,139
Change in net assets	(2,440,309)	(364,458)
Net assets - beginning	11,615,840	11,980,298
Net assets - ending	$ 9,175,531	$ 11,615,840

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

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

	2011	2010
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	$ 304,572	$ 223,555
Cash payments to suppliers for goods and services	(10,735)	(227,006)
Cash received from customers	95,240	112,064
Cash payments to employees for services	(555,536)	(582,260)
Cash received from federal grant awards	33,654,263	6,563,053
Cash payments from federal grant awards	(32,783,318)	(6,407,334)
Net cash provided by (used for) operating activities	704,486	(317,928)
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(398,918)	(26,665)
Acquisition of foreclosed real estate	(1,326,216)	-
Net proceeds from loans receivable	50,380	22,453
Proceeds from sale of land	-	108,000
Net cash (used for) provided by capital and related financing activities	(1,674,754)	103,788
Cash flows from investing activities:		
Net proceeds from (payments of) restricted cash and cash equivalents	810,098	(37,050)
Interest received	9,178	8,483
Net cash provided by (used for) investing activities	819,276	(28,567)
Net decrease in cash and cash equivalents	(150,992)	(242,707)
Cash and cash equivalents at beginning of year	861,654	1,104,361
Cash and cash equivalents at end of year	$ 710,662	$ 861,654
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (182,356)	$ (883,597)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Provision for loan guaranty	(645,912)	422,749
Depreciation	350,599	369,940
Bad debts	772,193	183,566
Provision for foreclosed properties	-	149,736
Gain on sale of land	-	(11,000)
(Increase) decrease in assets:		
Receivables:		
Rent	(33,489)	(51,103)
Employees	4,223	18,245
Accrued interest	55,918	(190,007)
Prepaid expenses	-	6,881
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	980,161	(114,804)
Due from/to grantor agency	(596,851)	(218,534)
Net cash used for operating activities	$ 704,486	$ (317,928)
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of foreclosed properties:		
Noncash (decrease) increase in foreclosed properties	$ (167,878)	$ 274,664
Noncash increase (decrease) in loans receivable	167,878	(274,664)
	$ -	$ -
Write-off of due to CDA:		
Noncash decrease in due to CDA	$ -	$ (510,656)
Noncash increase in nonoperating other income	-	510,656
	$ -	$ -

See accompanying notes to financial statements.

(1) Reporting Entity

The Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), formerly the Mariana Islands Housing Authority (MIHA), was established under Public Law 5-37 to assist in the development and administration of low cost residential housing in the Northern Mariana Islands. In 1977, Public Law 5-37 was succeeded by Public Law 5-67, which empowered MIHA to provide low cost residential housing and employment through the construction, maintenance, and repair of such housing. On October 20, 1994, Executive Order 94-3 became effective which abolished MIHA and all of its functions, assets and liabilities were transferred to CDA. CDA established NMHC as a division to account for the operations, assets and liabilities of MIHA. NMHC is governed by a seven member Board of Directors appointed by the Board of Directors of CDA. The purpose and functions of NMHC are as follows:

- To administer direct loans to qualified individuals for housing construction;
- To participate as guarantor or trustee in housing loan programs;
- To develop and construct rental housing;
- To construct and/or administer various other Federal and local residential and housing projects; and
- To participate in projects subsidized by the U.S. Department of Housing and Urban Development (HUD). Upon completion of the projects, the residential units are rented to qualifying families and individuals.

As such, NMHC considers all its net assets, except net assets invested in capital assets, to be restricted for such purposes.

(2) Summary of Significant Accounting Policies

The accounting policies of NMHC conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. NMHC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statements of net assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

(2) Summary of Significant Accounting Policies, Continued

Budgets

In accordance with Public Law 3-68, the Planning and Budgeting Act of 1983, NMHC submits an annual budget to the CNMI Office of the Governor.

Cash and Cash Equivalents

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by NMHC or its agent in NMHC's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in NMHC's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in NMHC's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, NMHC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. NMHC does not have a deposit policy for custodial credit risk.

For purposes of the statements of net assets and cash flows, cash and cash equivalents is defined as cash held in demand deposits and savings. At September 30, 2011 and 2010, total unrestricted cash and cash equivalents were $710,662 and $861,654, respectively, and the corresponding bank balances were $794,248 and $1,032,480, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $336,550 and $294,377 were FDIC insured as of September 30, 2011 and 2010, respectively. CNMI law does not require component units to collateralize their bank accounts and thus NMHC's deposits in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

Prepaid Expenses

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

Property and Equipment

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

(2) Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

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. Foreclosed real estate amounted to $1,707,380 and $554,042 at September 30, 2011 and 2010, respectively.

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.

Restricted Cash and Cash Equivalents

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

Revenue Recognition

Operating revenues include all direct revenues such as interest and fees on loans, federal grants and interest on investments.

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition, Continued

Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Interest on loans is accrued and credited to income based on the principal amount outstanding for both performing and nonperforming loans. Due to current confines of NMHC's system, interest on nonperforming loans remains to be accrued and credited to income. However, a bad debt expense is recognized for the amount of interest deemed uncollectible. NMHC are currently working to be able to prospectively cease recognition of interest income on nonperforming loans.

Federal grant revenues are recognized when allowable expenses are incurred.

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

On October 4, 2010, NMHC received a $26.877 million grant from the U.S. Department of Treasury (US Treasury) for Low-Income Housing Projects in Lieu of Tax Credits for 2009. This grant is authorized under Section 1602 of the American Recovery and Reinvestment Tax Act of 2009. On October 15, 2010, NMHC entered into a Section 1602 Exchange Fund Agreement with Sandy Beach Homes LLC to finance the construction of a qualified low-income housing project known as Sandy Beach Homes consisting of sixty (60) three-bedroom units, which will be income-restricted and rent-restricted pursuant to Section 42 of the Internal Revenue Code. NMHC received federal funds of $23,981,996 from the US Treasury and the same amount was disbursed to Sandy Beach Homes during the year ended September 30, 2011.

Deferred Revenues

Deferred revenues of NMHC represent recorded loans receivable from individuals eligible under the HOME Investment Partnership program administered by NMHC. Recognition of revenue through the use of these funds has not been determined and deferred revenues of $5,659,575 and $4,354,148 as of September 30, 2011 and 2010, respectively, have been presented as long-term in the accompanying financial statements.

Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Accumulated sick pay benefits as of September 30, 2011 and 2010 was $195,111 and $201,131, respectively.

Retirement Plan

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

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. NMHC has complied with GASB 45 by recording OPEB expense based on the statutorial determined contribution rate of the Fund. NMHC's OPEB liability is incorporated into the contribution amount. It is the understanding of the management of NMHC that the statutorial determined contribution rate of the Fund incorporates both the pension liability and the OPEB liability. GASB 45 also requires detailed disclosure of information related to the OPEB plan and NMHC management was unable to obtain this information from the Fund financial report. NMHC management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of NMHC that the Fund is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2 and 16-36.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal years ended September 30, 2011 and 2010 have yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 60.8686% of covered payroll based on an actuarial valuation as of October 1, 2009 issued in May 2011. The established statutory rate at September 30, 2011 and 2010 is 37.3909% of covered payroll. NMHC's recorded DB contributions to the Fund for the years ended September 30, 2011, 2010 and 2009 were $99,511, $136,828 and $129,661, respectively, equal to the required statutory contributions for each year.

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. NMHC is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. NMHC's recorded DC contributions for the years ended September 30, 2011, 2010 and 2009 were $20,567, $16,958 and $13,603, respectively, equal to the required contributions for each year.

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

(2) Summary of Significant Accounting Policies, Continued

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required NMHC to establish net asset categories as follows:

- Invested in capital assets; capital assets, net of accumulated depreciation.

- Restricted:

  Nonexpendable - Net assets subject to externally imposed stipulations that NMHC maintain them permanently. At September 30, 2011 and 2010, NMHC does not have nonexpendable net assets.

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

- Unrestricted; net assets that are not subject to externally imposed stipulations. As NMHC considers all assets, except investments in capital assets, to be restricted for economic development, NMHC does not have unrestricted net assets of September 30, 2011 and 2010.

New Accounting Standards

During fiscal year 2011, NMHC implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, which* addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus, which* is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity, and No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

Off-Balance Sheet Financial Instruments

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

Estimates

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

(3) Restricted Cash and Cash Equivalents

NMHC maintains depository accounts with financial institutions in the CNMI which are restricted for various purposes, as detailed below. At September 30, 2011 and 2010, restricted cash and cash equivalents consist of amounts held in demand deposit accounts. Of the amounts detailed below, $1,511,358 and $278,298 at September 30, 2011 and 2010, respectively, was FDIC insured. Accordingly, the deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents:

	2011	2010
Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	$ 1,096,538	$ 2,169,557
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	199,509	197,480
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	100	13,211

(3) Restricted Cash and Cash Equivalents, Continued

	2011	2010
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,275,439	880,916
Other depository accounts reserved for various purposes	45,972	166,492
	$ 2,617,558	$ 3,427,656

(4) Loans Receivable

NMHC makes loans for the specific purpose of providing residents of the Northern Mariana Islands with approved low-cost housing. The loans have terms from ten to thirty-three years in duration at interest rates of 4.5% to 12%. Loans are restricted to ninety percent (90%) of the appraised value of the property or the purchase price, whichever is lower. For construction loans, the purchase price of the property is defined as the value of the land plus the estimated cost of construction.

Major classifications of economic development loans as of September 30, 2011 and 2010 are as follows:

	2011	2010
HOME Investment Partnerships Act grant	$ 5,114,057	$ 4,146,238
Direct family home loans	2,967,118	2,909,690
General	638,380	634,543
Tinian turnkey	538,326	496,769
Housing construction	465,227	454,739
Neighborhood Stabilization Program (NSP) grant	340,070	-
Section 8	168,615	163,177
Home revenue bond	94,476	94,791
Housing preservation grant	26,842	30,239
Loan principal receivable	10,353,111	8,930,186
Less allowance for loan losses	(7,035,902)	(6,640,408)
Net loans receivable	$ 3,317,209	$ 2,289,778

Maturities of the above principal balances subsequent to September 30, 2011 and 2010 will be as follows:

	2011	2010
Fully matured and others	$ 307,654	$ 492,000
1 - 6 months	228,286	72,468
7 - 18 months	270,663	101,542
19 months - 3 years	309,124	138,731
After 3 years	2,201,482	1,485,037
	$ 3,317,209	$ 2,289,778

(4) Loans Receivable, Continued

Allowance for Loan Losses

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

	2011	2010
Balance - beginning of year	$ 6,640,408	$ 6,565,884
Provision for loan losses	395,494	74,524
Balance - end of year	$ 7,035,902	$ 6,640,408

(5) Property and Equipment

Property and equipment consist of the following at September 30, 2011 and 2010:

	Estimated Useful Lives	Balance at October 1, 2010	Additions	Deletions	Balance at September 30, 2011
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,488,338	$ 1,950	$ -	$ 2,490,288
Section 8 Koblerville Housing	30 years	1,947,367	1,825	-	1,949,192
Section 8 Rota Housing	30 years	1,184,097	1,835	-	1,185,932
Section 8 Tinian Housing	30 years	1,071,528	27	-	1,071,555
Section 8 Housing Phase II	30 years	636,829	875	-	637,704
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,928,674	6,512	-	7,935,186
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	478,231	380,000	-	858,231
Equipment and computers	3 - 8 years	570,568	12,406	-	582,974
Vehicles	3 years	150,477	-	-	150,477
		4,022,767	392,406	-	4,415,173
		11,951,441	398,918	-	12,350,359
Less accumulated depreciation		(10,359,556)	(350,599)	-	(10,710,155)
		$ 1,591,885	$ 48,319	$ -	$ 1,640,204

	Estimated Useful Lives	Balance at October 1, 2009	Additions	Deletions	Balance at September 30, 2010
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,480,870	$ 7,468	$ -	$ 2,488,338
Section 8 Koblerville Housing	30 years	1,944,074	3,293	-	1,947,367
Section 8 Rota Housing	30 years	1,176,787	7,310	-	1,184,097
Section 8 Tinian Housing	30 years	1,070,025	1,503	-	1,071,528
Section 8 Housing Phase II	30 years	635,929	900	-	636,829
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,908,200	20,474	-	7,928,674
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	478,231	-	-	478,231
Equipment and computers	3 - 8 years	564,377	6,191	-	570,568
Vehicles	3 years	150,477	-	-	150,477
		4,016,576	6,191	-	4,022,767
		11,924,776	26,665	-	11,951,441
Less accumulated depreciation		(9,989,616)	(369,940)	-	(10,359,556)
		$ 1,935,160	$ (343,275)	$ -	$ 1,591,885

(5) Property and Equipment, Continued

NMHC also holds title to approximately 338,000 square meters of land as follows:

1. Lot 014 R 01, containing an area of 31,407 square meters, more or less, and the improvements thereon, located at As Liyo, Rota, CNMI.

2. Lot 021 T 03, containing an area of 143,623 square meters, more or less, located at San Jose, Tinian, CNMI.

3. Lot 021 T 01, containing an area of 26,250 square meters, more or less, and the improvements thereon, located at San Jose, Tinian, CNMI.

4. Lot 005 I 001, containing an area of 40,554 square meters, more or less, and the improvements thereon, located at Koblerville, Saipan, CNMI.

5. Lot 014 D 75, containing an area of 10,923 square meters, more or less, located at Garapan, Saipan, CNMI.

6. Lot 003 D 27, and a portion of Lot 014 D 75, collectively containing an area of 5,824 square meters, more or less, located at Garapan, Saipan, CNMI.

7. Lot 003 D 22, containing an area of 1,022 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

8. Lot 003 D 16, containing an area of 1,022 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

9. Lot 071 D 01, containing an area of 37,145 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

10. Lot 014 D 01, containing an area of 39,816 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

The above land was acquired at no cost and was originally held for development of low income rental housing or resale to low income families for construction of housing. The land is recorded on NMHC's financial statements at estimated fair value of $7,388,182 and $9,650,313 at September 30, 2011 and 2010, respectively. NMHC recorded an impairment loss on land of $2,262,131 and $-0- based on broker's opinions obtained during the years ended September 30, 2011 and 2010, respectively. Public Law 6-34 provides NMHC, subject to certain terms and conditions, the authority to lease for commercial development certain land situated in the North Garapan Subdivision Annex No. 2. NMHC is currently in the process of promoting the development of the abovementioned land to allow NMHC to meet its future commitments.

(6) Contingencies

NMHC participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $1,769,272 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2011. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

NMHC has entered into an agreement with the USDA Rural Development (RD) whereby NMHC assists borrowers in obtaining RD financing for housing construction. The agreement requires NMHC to guarantee any deficiency in foreclosure proceeds should borrowers default on RD loans. As of September 30, 2011 and 2010, NMHC has guaranteed outstanding loans of $11,615,302 and $11,888,084, respectively, and the amount of delinquent loans related to the agreement was $5,687,054 and $5,419,055, respectively. As of September 30, 2011 and 2010, total delinquent loans with demand notices from RD were $397,331 and $1,326,216, respectively, for which NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of $1,378,744 and $2,024,656, respectively, in the accompanying financial statements.

In June 2008, NMHC entered into an agreement with RD to resolve forty-eight seriously delinquent guaranteed loans totaling $3,126,371. The agreement was established to outline steps and terms to liquidate defaulted RD loans. On November 2, 2010, NMHC entered into a settlement agreement with RD to settle thirty-two of the forty-eight guaranteed loans. NMHC paid $1,326,216 to RD and recorded foreclosed properties based on the lower of cost or market value and recorded a decrease in the reserve for loan guaranty and a recovery from loan guaranty of $1,326,216. The recovery for loan guaranty was later reduced by $680,304 based on potential additional delinquencies. Any eventual payout related to the remaining sixteen guaranteed loans cannot be presently determined.

As of September 30, 2011 and 2010, total restricted cash and cash equivalents which serve as escrow accounts for RD loans or will pay amounts due to RD pursuant to the agreement amounted to $1,096,538 and $2,169,557, respectively. This amount is included in "restricted cash and cash equivalents" in the accompanying financial statements. NMHC may not have sufficient liquid assets to meet its RD agreement guarantee if RD accelerates demand notices on additional delinquent loans. The amount of potential obligations arising from this matter cannot presently be determined.

NMHC entered into a loan agreement and related loan purchase agreement with a savings and loan in the CNMI whereby the savings and loan will make available up to $6,000,000 for housing loans. Under the agreements, NMHC is responsible for administering the loan purchase program and the savings and loan agrees to purchase qualified loans from NMHC. NMHC guarantees the first 25% of the principal balance plus interest on each loan sold to the savings and loan. As of September 30, 2011 and 2010, NMHC was contingently liable for $868,640 of the balance of loans purchased by the savings and loan. In addition, NMHC is required to maintain an account at the savings and loan equal to the lesser of 5% of all loans sold to the savings and loan or $100,000. The balance in the account at September 30, 2011 and 2010 was $100 and $13,211, respectively, which is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2011 and 2010, the total defaulted loans related to this arrangement were $208,322.

(6) Contingencies, Continued

NMHC also has similar arrangements with other financial institutions whereby NMHC guarantees a varying percentage of loans issued by the banks for housing construction. At September 30, 2011 and 2010, NMHC was contingently liable to these institutions for $1,938,744 and $2,392,896, respectively. As of September 30, 2011 and 2010, the total defaulted loans related to these arrangements were $313,159 and $371,635, respectively.

(7) Risk Management

NMHC 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. NMHC 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.

(8) Subsequent Events

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. Authorization of participation has not been obtained from the U.S. Government. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On July 24, 2012, a binding and unappealable judgment was issued on a lawsuit filed against the architects, the construction manager and the contractor for deficiencies in the design and construction of homes in the Tottotville Subdivision, which awarded NMHC $694,851 in damages. Due to uncertainties, NMHC has elected to record this award upon receipt of cash.