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, 2012

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

Deloitte & Touche LLC
P.O. Box 500308
Saipan, MP 96950-0308
USA

Tel: +1 670 322 7337/0860/0861
Fax: +1 670 322 7340
www.deloitte.com

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, 2012 and 2011 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, 2012 and 2011, 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 June 19, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Deloitte & Touche LLC

June 19, 2013

NORTHERN MARIANAS HOUSING CORPORATION
P.O. BOX 500514, Saipan, MP 96950-0514

NMHC
EQUAL HOUSING OPPORTUNITY

Tels: (670) 234-6866
234-9447
234-7689
234-7670
Fax: (670) 234-9021
233-6870

Management's Discussion and Analysis
Year Ended September 30, 2012

The Management's 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, 2012, with selected comparative information for the fiscal years ended September 30, 2011 and 2010. 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 (DPW). 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 the 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 filed litigation against the contractor and the construction manager. Court hearings are ongoing with the latest held on September 8, 2011.

A binding mediation/arbitration was held from June 4 to June 11, 2012 and the defendants and plaintiffs (NMHC and the homeowners) were present with their expert witnesses and attorneys. The purpose of the mediation/arbitration was to attempt settlement after experts testified and, if unsuccessful, to issue a binding non-appealable decision.

On July 24, 2012, the Court ordered that damages of $694,851 be awarded to NMHC, $3,779,476 to the Castro homeowners and $513,704 to the Flores homeowners. The Castro and Flores homeowners were also awarded reasonable attorney fees and costs. Defendants were held jointly and severally liable for the awards granted to NMHC and the Castro homeowners. One defendant was solely liable for the award granted to the Flores homeowners, as they have already settled with other defendants.

Another major concern is Public Law (PL) 15-48 which was signed into law on March 13, 2007. The 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.

Rota Field Office: Tel. (670) 532-9410
Fax (670) 532-9441
Tinian Field Office: Tel. (670) 433-9213
Fax (670) 433-3690

Mortgage & Credit Division

The Mortgage & Credit Division revised the U.S. Department of Housing and Urban Development (HUD)-funded HOME Program policies and procedures and, as a result, twelve rehabilitation loans/grants and twenty-one new construction/deferred loans have been entertained and/or presented to the Board of Directors for approval in fiscal year 2012. 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.

In fiscal year 2012, the Mortgage & Credit Division successfully auctioned off twelve properties arising from the purchased loans accelerated accounts agreement with USDA RD. In addition, eight accounts were leased. The following table lists auctioned and leased properties by location and amount.

Location	Number of Properties Auctioned	Amount	Number of Properties Leased	Amount
Dandan	-	$ -	1	$ 21,936
Kagman	4	174,139	1	111,417
Koblerville	3	100,200	1	100,620
Rota	-	-	1	34,400
Sadog Tasi	1	32,419	-	-
San Jose	-	-	1	112,207
San Vicente	3	163,986	-	-
Sugar King	1	51,107	-	-
Tanapag	-	-	2	152,224
Tinian	-	-	1	86,590
TOTAL	**12**	**$ 521,851**	**8**	**$ 619,394**

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. NMHC used this grant to address the problems created by foreclosed and abandoned homes. Foreclosed homes have been acquired, rehabilitated and resold to low-income families. Through the NSP Program, NMHC 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 Dandan). The rehabilitation work was completed in December 2010 and as of September 30, 2012 all properties have been sold.

Mortgage & Credit Division, Continued

On March 14, 2011, NMHC signed an agreement with HUD to administer the NSP3 Program. The grant amounted to $300,002 and will be used to rehabilitate five properties in Kagman, one property in Tinian and one property in Rota.

NMHC also administers the U.S. Department of Veterans Affairs' Native American Direct Loan Program and the USDA's Section 504 Program. In fiscal year 2012, the Mortgage & Credit Division presented to the Board of Directors, and the Board of Directors approved, two loans of which one successfully closed within the fiscal year.

Type of Assistance	2012		2010 through 2012	
	Number of Loans	Amount	Number of Loans	Amount
Deferred	6	$ 319,030	14	$ 763,830
Direct	10	534,400	18	955,200
Grant	2	80,000	11	443,910
Loan and grant	1	40,000	12	480,000
TOTAL	**19**	**$ 973,430**	**55**	**$ 2,642,940**

Program and Housing Division

A. Saipan Housing Choice Voucher (HCV) Program

In fiscal year 2012, the HCV Program utilized three hundred, twenty-four vouchers. Nine vouchers were for applicants previously on the waiting list. In addition, there were eleven families who ended their participation, four port-out families and one port-in family for the year ended September 30, 2012. 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 2012, Mihaville had forty-four 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 continued turnover of tenants due to tenant requests to relocate. 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

For fiscal year 2012, the Rota Field Office registered only two families who ended their participation. At the end of the fiscal year, the island had eighteen families participating in the Section 8 HCV program.

B. Rota Multi-Family/New Construction Program

The NMHC Rota Multi-Family/New Construction Program is improving its leasing efforts. At the end of fiscal year 2012, twenty of thirty housing units at the Liyo' Housing Subdivision were occupied. This figure translates to a 66.66% occupancy rate which is a 50% increase from fiscal year 2011.

C. Short-Term Goals

The goal of NMHC Rota Field Office is to increase the occupancy rate at the Liyo' Housing Subdivision. 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 to the units, such as basic furnishings (beds, dining tables, etc.), community gardens, playgrounds or picnic grounds and improving lighting conditions at night to attract qualified families. Finally, the NMHC Rota Field Office will continue to work with the Mayor's Office, 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 Program has twenty occupied units; however, turnover of tenants still exists due to tenants gaining employment. Tenants prefer to move to inexpensive apartment units, despite the condition. In the past, people have been reluctant to apply to the program but with ongoing renovation and maintenance of the units, NMHC has managed to keep units occupied. People used to visualize the area as a "ghetto" but that outlook has changed.

2. There were five vouchers issued; however, only one is being utilized on Tinian as the other four were transferred to Saipan. There have been inquires as students from Tinian enrolled at Northern Marianas College relocate to Saipan. People are still encouraged to apply to the program even if there is a shortage of vouchers. This is one way for us to justify requesting for additional vouchers for Tinian. Some applicants request to be included on both waiting lists. The waiting list for this island has been separated and our office will continue to work closely with the Program and Housing Division to issue more vouchers to eligible Tinian residents interested in participating in the Section 8 HCV Program.

Tinian Field Office, Continued

B. Loans

1. The Tinian Field Office continues to work with applicants whose loans were approved but remain unclosed. There are also new applications for renovation or construction of new homes. The delay is due to the changes in the HOME Program policies and procedures and the additional requirement of environmental assessment on the properties.

2. One of the goals is to work with management and local leadership to address the needs of the new homesteaders. There were four hundred seventy-five homestead applicants that drew homestead properties in various areas around Tinian; however, the survey for these lots have not been conducted.

C. Short-Term Goals

Short-term goals for the Tinian Field Office are to a) continue to work with the Saipan office to increase the number of vouchers; b) improve the outlook of the Section 8 housing area; c) continue to work with families in maintaining ownership of the units so that safe and sanitary conditions are maintained; d) reduce renovation costs; and e) upgrade the basketball court.

Community Development Block Grant (CDBG)

In fiscal year 2012, NMHC received $1,036,852 in CDBG funding. As stated in NMHC's Annual Action Plan, community development goals include the following:

- Construct or rehabilitate facilities that will improve services delivered to the public
- Recreational facilities
- Infrastructure upgrades
- Public services
- Rehabilitate/remove slum and blight (neighborhood revitalization, particularly in the villages of Garapan and Chalan Kanoa)

In fiscal year 2012, the construction of the new Koblerville Junior High School facility was selected and the school gymnasium will be the first facility within the campus to be built.

Emergency Shelter Grant (ESG)

In fiscal year 2012, NMHC received $94,667 in ESG funding. As in previous years, the funding was used for operational costs and essential services of the Division of Youth Services (DYS) shelter and the Guma Esperansa domestic violence shelter. Guma Esperansa serves women and 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. Additionally, certain funds were subgranted to Karidat Social Services to serve households who qualify for rapid re-housing and homelessness prevention assistance.

Homeless Prevention and Rapid Re-Housing Program (HPRP)

The HPRP grant close-out date was on July 10, 2012. The CNMI assisted nearly two hundred families with rapid re-housing and homelessness prevention assistance.

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

The CDBG-R grant close-out date was on September 30, 2012. The CNMI completed a total of six projects with CDBG-R funding.

Economic Development Initiative (EDI) Program

The CNMI received $200,000 from the Economic Development Initiative, in which NMHC and the Joeten-Kiyu Public Library worked together to initiate the roof rehabilitation of the Joeten-Kiyu Public Library project. The EDI grant agreement was executed on January 1, 2011. Due to the lengthy planning process, an environmental assessment was not completed until January 12, 2012. Upon undergoing the procurement process, a contractor was selected and the notice to proceed was issued on September 4, 2012. The project duration is for twenty-six weeks. As with other HUD-funded programs, the EDI Program was created to fund economic development projects that will create jobs for low-moderate income individuals.

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

NMHC is the agency authorized to allocate the LIHTC Program in the CNMI. The 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.

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 2012. The tax credit allocated to the CNMI for 2012 was $2,895,004. The deadline to submit applications was on September 14, 2012.

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, 2012 follow, with comparative information as of and for the years ended September 30, 2011 and 2010:

Statements of Net Assets
As of September 30, 2012, 2011 and 2010

	2012	2011	$ Change	% Change	2010
Current assets	$ 1,130,115	$ 1,730,383	$ (600,268)	-35%	$ 2,183,702
Other assets	3,737,992	2,617,558	1,120,434	43%	3,427,656
Capital assets, net	9,609,930	10,735,766	(1,125,836)	-10%	11,796,240
Noncurrent assets	3,583,866	2,631,596	952,270	36%	1,673,599
Total assets	**$ 18,061,903**	**$ 17,715,303**	**$ 346,600**	**2%**	**$ 19,081,197**
Current liabilities	$ 4,475,235	$ 2,880,197	$ 1,595,038	55%	$ 3,111,209
Noncurrent liabilities	6,381,855	5,659,575	722,280	13%	4,354,148
Total liabilities	**10,857,090**	**8,539,772**	**2,317,318**	**27%**	**7,465,357**

Statements of Net Assets, Continued
As of September 30, 2012, 2011 and 2010

	2012	2011	$ Change	% Change	2010
Invested in capital assets	9,609,930	10,735,766	(1,125,836)	-10%	11,796,240
Restricted	(2,405,117)	(1,560,235)	(844,882)	54%	(180,400)
Total net assets	**7,204,813**	**9,175,531**	**(1,970,718)**	**-21%**	**11,615,840**
Total liabilities and net assets	**$ 18,061,903**	**$ 17,715,303**	**$ 346,600**	**2%**	**$ 19,081,197**

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012, 2011 and 2010

	2012	2011	$ Change	% Change	2010
Operating revenues	$ 11,115,018	$ 35,270,185	$ (24,155,167)	-68%	$ 7,351,071
Bad debts	(1,103,034)	(772,193)	(330,841)	43%	(183,566)
Net operating revenues	**10,011,984**	**34,497,992**	**(24,486,008)**	**-71%**	**7,167,505**
Operating expenses	12,145,887	34,680,348	(22,534,461)	-65%	8,051,102
Operating loss	**(2,133,903)**	**(182,356)**	**(1,951,547)**	**1070%**	**(883,597)**
Nonoperating revenues (expenses), net	163,185	(2,257,953)	2,421,138	-107%	519,139
Change in net assets	**(1,970,718)**	**(2,440,309)**	**469,591**	**-19%**	**(364,458)**
Net assets - beginning	9,175,531	11,615,840	(2,440,309)	-21%	11,980,298
Net assets - ending	**$ 7,204,813**	**$ 9,175,531**	**$ (1,970,718)**	**-21%**	**$ 11,615,840**

Statements of Cash Flows
Years Ended September 30, 2012, 2011 and 2010

	2012	2011	$ Change	% Change	2010
Cash flows from operating activities	$ 997,144	$ 704,486	$ 292,658	42%	$ (317,928)
Cash flows from capital and related financing activities	(498,350)	(1,674,754)	1,176,404	-70%	103,788
Cash flows from investing activities	(1,105,309)	819,276	(1,924,585)	-235%	(28,567)
Net decrease in cash and cash equivalents	**(606,515)**	**(150,992)**	**(455,523)**	**302%**	**(242,707)**
Cash and cash equivalents at beginning of year	710,662	861,654	(150,992)	-18%	1,104,361
Cash and cash equivalents at end of year	**$ 104,147**	**$ 710,662**	**$ (606,515)**	**-85%**	**$ 861,654**

FINANCIAL HIGHLIGHTS

- Total assets increased by 2% from $17,715,303 in fiscal year 2011 to $18,061,903 in fiscal year 2012 mainly due to increases in other and noncurrent assets and 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.

- Total liabilities increased by 27% from $8,539,772 in fiscal year 2011 to $10,857,090 in fiscal year 2012 and by 14% from $7,465,357 in fiscal year 2010 to $8,539,772 in fiscal year 2011.

FINANCIAL HIGHLIGHTS, CONTINUED

- Total net assets decreased by 21% from $9,175,531 in fiscal year 2011 to $7,204,813 in fiscal year 2012 and from $11,615,840 in fiscal year 2010 to $9,175,531 in fiscal year 2011.

- Net operating revenues decreased by 71% from $34,497,992 in fiscal year 2011 to $10,011,984 in fiscal year 2012 and increased by 381% from $7,167,505 in fiscal year 2010 to $34,497,992 in fiscal year 2011. The decrease in fiscal year 2012 is attributable to the decrease in LIHTC Program grant revenues. The increase in fiscal year 2011 is attributable to the receipt of the LIHTC Program grant.

- Total operating expenses decreased by 65% from $34,680,348 in fiscal year 2011 to $12,145,887 in fiscal year 2012 and increased by 331% from $8,051,102 in fiscal year 2010 to $34,680,348 in fiscal year 2011. The decrease in fiscal year 2012 is primarily attributable to decreases in expenses incurred under the LIHTC Program, CDBG program and the HPRP and NSP grants. The increase in fiscal year 2011 is primarily attributable to expenses incurred under the LIHTC Program grant.

CAPITAL ASSETS

At September 30, 2012 and 2011, NMHC had $9,609,930 and $10,735,766, respectively, invested in capital assets, net of depreciation where applicable. This represents a net decrease of $1,125,836 or 10% during fiscal year 2012 and $1,060,474 or 9% during fiscal year 2011.

	2012	**2011**	**2010**
Property and equipment, net	$ 1,464,262	$ 1,640,204	$ 1,591,885
Land	7,388,182	7,388,182	9,650,313
Foreclosed real estate	757,486	1,707,380	554,042
	$ 9,609,930	$ 10,735,766	$ 11,796,240

See notes 2 and 6 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 2012 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; however, tourism overall appears to be on the rebound and is 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 2013 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.

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, 2011 is set forth in the report on the audit of NMHC's financial statements which is dated September 11, 2012. That Discussion and Analysis explains the major factors impacting the 2011 financial statements. If you have questions about this report or need additional financial information, please contact Mr. Jesse S. Palacios, NMHC 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, 2012 and 2011

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	$ 104,147	$ 710,662
Receivables:		
Current portion of loans receivable, net	727,850	685,613
Current portion of finance lease receivable	9,559	-
Rent, net of allowance for doubtful accounts of $735,074 and $593,869 at September 30, 2012 and 2011, respectively	18,768	141,564
Accrued interest, net of allowance for doubtful accounts of $556,167 and $1,273,684 at September 30, 2012 and 2011, respectively	266,865	97,375
Employees, net of allowance for doubtful accounts of $63,744 and $-0- at September 30, 2012 and 2011, respectively	2,926	63,579
Due from grantor agency	-	31,590
Total current assets	1,130,115	1,730,383
Other assets:		
Cash and cash equivalents, restricted	3,737,992	2,617,558
Noncurrent assets:		
Loans receivable, net of current portion	3,134,519	2,631,596
Finance lease receivable, net of current portion	449,347	-
Property and equipment, net	1,464,262	1,640,204
Land	7,388,182	7,388,182
Foreclosed real estate	757,486	1,707,380
Total noncurrent assets	13,193,796	13,367,362
	$ 18,061,903	$ 17,715,303
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 909,507	$ 1,501,453
Due to grantor agency	942,938	-
Reserve for loan guaranty	2,622,790	1,378,744
Total current liabilities	4,475,235	2,880,197
Deferred revenues	6,381,855	5,659,575
Total liabilities	10,857,090	8,539,772
Contingencies		
Net assets:		
Invested in capital assets	9,609,930	10,735,766
Restricted	(2,405,117)	(1,560,235)
Total net assets	7,204,813	9,175,531
	$ 18,061,903	$ 17,715,303

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Section 8 income:		
Federal housing assistance rentals	$ 5,088,590	$ 5,053,009
Tenant share	113,164	110,468
Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Program Grant	2,895,004	23,981,996
Community Development Block Grants (CDBG) Program	1,036,852	3,864,549
HOME Investment Partnership Program Grant	655,640	638,281
Deferred HOME loans program income	472,344	5,179
Interest and fees on loans	369,507	248,654
HOME Investment Partnership Grant program income	235,708	443,069
Emergency Shelter Grants (ESG) Program	94,667	49,061
Homelessness Prevention and Rapid Re-Housing Program (HPRP) Grant	48,445	88,528
Housing rental	12,626	-
Neighborhood Stabilization Program (NSP) Grant	5,401	132,621
Recovery from loan guaranty	-	645,912
Other	87,070	8,858
	11,115,018	35,270,185
Bad debts	(1,103,034)	(772,193)
Net operating revenues	10,011,984	34,497,992
Operating expenses:		
LIHTC Program Grant	2,895,004	23,981,996
Section 8 rental	3,226,627	3,324,558
CDBG Program	1,036,852	3,864,549
HOME Investment Partnership Program Grant	655,640	638,281
HOME Investment Partnership Grant program income	235,708	443,069
ESG Program	94,667	49,061
HPRP Grant	48,445	88,528
NSP Grant	5,401	132,621
Operations:		
Provision for loan guaranty	1,244,046	-
Salaries and wages	627,064	555,536
Repairs and maintenance	586,138	423,405
Utilities	535,388	335,387
Depreciation	270,020	350,599
Employee benefits	204,845	143,394
Professional fees	198,760	133,213
Travel	111,456	43,331
Office rent	10,800	12,000
Other	159,026	160,820
Total operating expenses	12,145,887	34,680,348
Operating loss	(2,133,903)	(182,356)
Nonoperating revenues (expenses):		
Interest income	15,125	9,178
Impairment loss on land	-	(2,262,131)
Gain (loss) on sale of foreclosed real estate	148,060	(5,000)
Total nonoperating revenues (expenses), net	163,185	(2,257,953)
Change in net assets	(1,970,718)	(2,440,309)
Net assets - beginning	9,175,531	11,615,840
Net assets - ending	$ 7,204,813	$ 9,175,531

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	$ 917,534	$ 304,572
Cash payments to suppliers for goods and services	(1,086,660)	(10,735)
Cash received from customers	268,542	95,240
Cash payments to employees for services	(627,064)	(555,536)
Cash received from federal grant awards	11,034,835	33,654,263
Cash payments from federal grant awards	(9,510,043)	(32,783,318)
Net cash provided by operating activities	997,144	704,486
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(94,078)	(398,918)
Acquisition of foreclosed real estate	-	(1,321,216)
Net (payments of) proceeds from loans receivable	(1,084,770)	50,380
Proceeds from sale of foreclosed real estate	532,438	-
Gain (loss) on sale of foreclosed real estate	148,060	(5,000)
Net cash used for capital and related financing activities	(498,350)	(1,674,754)
Cash flows from investing activities:		
Net (payments of) proceeds from restricted cash and cash equivalents	(1,120,434)	810,098
Interest received	15,125	9,178
Net cash (used for) provided by investing activities	(1,105,309)	819,276
Net decrease in cash and cash equivalents	(606,515)	(150,992)
Cash and cash equivalents at beginning of year	710,662	861,654
Cash and cash equivalents at end of year	$ 104,147	$ 710,662
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (2,133,903)	$ (182,356)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Provision for (recovery of) loan guaranty	1,244,046	(645,912)
Depreciation	270,020	350,599
Bad debts	1,103,034	772,193
(Increase) decrease in assets:		
Receivables:		
Finance lease	(458,906)	-
Rent	(18,409)	(33,489)
Employees	60,653	4,223
Accrued interest	548,027	55,918
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(591,946)	980,161
Due from/to grantor agency	974,528	(596,851)
Net cash provided by operating activities	$ 997,144	$ 704,486
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of foreclosed properties:		
Noncash decrease in foreclosed properties	$ (417,456)	$ (167,878)
Noncash increase in loans receivable	39,900	167,878
Noncash increase in finance lease receivable	377,556	-
	$ -	$ -

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, 2012 and 2011, total unrestricted cash and cash equivalents were $104,147 and $710,662, respectively, and the corresponding bank balances were $145,358 and $794,248, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $145,358 and $336,550 were FDIC insured as of September 30, 2012 and 2011, 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.

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.

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition

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

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

Federal grant revenues are recognized when allowable expenses are incurred.

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 $2,895,004 and $23,981,996 from the US Treasury, and the same amounts were disbursed to Sandy Beach Homes, during the years ended September 30, 2012 and 2011, respectively.

Deferred Revenues

Deferred revenues of NMHC represent recorded loans receivable from individuals eligible under the HOME Investment Partnership program administered by NMHC. NMHC recorded deferred HOME loan revenue of $472,344 and $5,179 for the years ended September 30, 2012 and 2011, respectively, and deferred revenues of $6,381,855 and $5,659,575 as of September 30, 2012 and 2011, 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, 2012 and 2011 was $226,044 and $195,111, respectively.

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2012 and 2011 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, 2012 and 2011 is 37.3909% of covered payroll. NMHC's recorded DB contributions to the Fund for the years ended September 30, 2012, 2011 and 2010 were $104,463, $99,511 and $136,828, respectively, equal to the required statutory contributions for each year.

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan (DB 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 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.

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, 2012, 2011 and 2010 were $21,441, $20,567 and $16,958, respectively, equal to the required contributions for each year.

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

Net 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, 2012 and 2011, 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.

(2) Summary of Significant Accounting Policies, Continued

New Assets, Continued

- 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, 2012 and 2011.

New Accounting Standards

During the year ended September 30, 2012, NMHC implemented the following pronouncements:

- GASB 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 the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB 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 implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 has not yet determined the effect of implementation of this statement on the financial statements of NMHC.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of NMHC.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of NMHC.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements 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.

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

Reclassifications

Certain 2011 balances in the accompanying financial statements have been reclassified to conform to the 2012 presentation.

(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, 2012 and 2011, restricted cash and cash equivalents consist of amounts held in demand deposit accounts. Of the amounts detailed below, $2,620,887 and $1,511,358 at September 30, 2012 and 2011, respectively, was FDIC insured. Accordingly, the deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents:

	2012	2011
Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	$ 2,096,359	$ 1,096,538
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	199,738	199,509
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	100	100
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,354,485	1,275,439
Other depository accounts reserved for various purposes	87,310	45,972
	$ 3,737,992	$ 2,617,558

(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, 2012 and 2011 are as follows:

	2012	2011
HOME Investment Partnerships Act grant	$ 5,831,551	$ 5,114,057
Direct family home loans	2,989,669	2,967,118
General	629,597	638,380
Tinian turnkey	533,589	538,326
Housing construction	485,355	465,227
Neighborhood Stabilization Program (NSP) grant	475,881	340,070
Section 8	224,844	168,615
Veterans aid	184,825	-
Home revenue bond	94,476	94,476
Housing preservation grant	24,937	26,842
Loan principal receivable	11,474,724	10,353,111
Less allowance for loan losses	(7,612,355)	(7,035,902)
Net loans receivable	$ 3,862,369	$ 3,317,209

Maturities of the above principal balances subsequent to September 30, 2012 and 2011 will be as follows:

	2012	2011
Fully matured and others	$ 1,129,146	$ 960,196
1 - 6 months	593,724	712,488
7 - 18 months	832,044	844,747
19 months - 3 years	1,136,092	964,784
After 3 years	7,783,718	6,870,896
	$ 11,474,724	$ 10,353,111

Allowance for Loan Losses

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

	2012	2011
Balance - beginning of year	$ 7,035,902	$ 6,640,408
Provision for loan losses	576,453	395,494
Balance - end of year	$ 7,612,355	$ 7,035,902

(5) Finance Leases

NMHC leases certain foreclosed real estate properties for periods ranging from fifteen to thirty years bearing interest at fixed rates ranging from 2% to 6% and with options to purchase at $100 plus the outstanding lease receivable and related accrued interest. Finance lease income for the year ended September 30, 2012 amounted to $12,626. Future minimum lease rentals under these arrangements as of September 30, 2012, are as follows:

Year ending September 30,	
2013	$ 31,773
2014	31,723
2015	31,723
2016	31,723
2017	31,723
Subsequent years	681,737
	840,402
Less amount representing interest	381,496
	458,906
Less current portion	9,559
Noncurrent portion	$ 449,347

(6) Property and Equipment

Property and equipment consist of the following at September 30, 2012 and 2011:

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Deletions	Balance at September 30, 2012
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,490,288	$ 9,798	$ -	$ 2,500,086
Section 8 Koblerville Housing	30 years	1,949,192	5,558	-	1,954,750
Section 8 Rota Housing	30 years	1,185,932	14,552	-	1,200,484
Section 8 Tinian Housing	30 years	1,071,555	53,204	-	1,124,759
Section 8 Housing Phase II	30 years	637,704	-	-	637,704
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,935,186	83,112	-	8,018,298
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	858,231	-	-	858,231
Equipment and computers	3 - 8 years	582,974	10,966	-	593,940
Vehicles	3 years	150,477	-	-	150,477
		4,415,173	10,966	-	4,426,139
		12,350,359	94,078	-	12,444,437
Less accumulated depreciation		(10,710,155)	(270,020)	-	(10,980,175)
		$ 1,640,204	$ (175,942)	$ -	$ 1,464,262

(6) Property and Equipment, Continued

	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

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.

(6) Property and Equipment, Continued

The above land was acquired at no cost and was originally held for development of low income rental housing or resale to low income families for construction of housing. The land is recorded on NMHC's financial statements at estimated fair value of $7,388,182 at September 30, 2012 and 2011. NMHC recorded an impairment loss on land of $2,262,131 based on broker's opinions obtained during the year ended September 30, 2011. Public Law 6-34 provides NMHC, subject to certain terms and conditions, the authority to lease for commercial development certain land situated in the North Garapan Subdivision Annex No. 2. NMHC is currently in the process of promoting the development of the abovementioned land to allow NMHC to meet its future commitments.

(7) Foreclosed Real Estate

A summary of the changes in foreclosed real estate as of September 30, 2012 and 2011 is as follows:

	2012	2011
Balance at beginning of year	$ 1,707,380	$ 554,042
Additions	-	1,418,078
Deletions	(949,894)	(264,740)
Balance at end of year	$ 757,486	$ 1,707,380

(8) Related Party Transactions

NMHC maintains depository accounts in FDIC insured financial institutions. The Chairperson of the Board of NMHC is currently the Vice President/Regional Manager of one of these financial institutions. NMHC's deposits in this financial institution amounted to $3,831,390 and $3,040,634 as of September 30, 2012 and 2011, respectively. Management is of the opinion that transactions with this financial institution are of similar terms and conditions as with unrelated parties.

(9) 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 $1,756,668 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2012. 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.

(9) Contingencies, Continued

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, 2012 and 2011, NMHC has guaranteed outstanding loans of $11,551,490 and $11,615,302, respectively, and the amount of delinquent loans related to the agreement was $7,551,519 and $5,687,054, respectively. As of September 30, 2012 and 2011, total delinquent loans with demand notices from RD were $1,769,724 and $397,331, respectively, for which NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of $2,662,790 and $1,378,744, 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. During the year ended September 30, 2011, NMHC paid $1,326,216 to RD and recorded foreclosed properties based on the lower of cost or market value, recorded a decrease in the reserve for loan guaranty, recorded a recovery from loan guaranty of $1,326,216, and later reduced the recovery for loan guaranty 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, 2012 and 2011, 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 $2,096,359 and $1,096,538, 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, 2012 and 2011, NMHC was contingently liable for $825,146 and $868,640, respectively, of the balance of loans purchased by the savings and loan. In addition, NMHC is required to maintain an account at the savings and loan equal to the lesser of 5% of all loans sold to the savings and loan or $100,000. The balance in the account at September 30, 2012 and 2011 was $100 which is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2012 and 2011, the total defaulted loans related to this arrangement were $251,180 and $208,322, respectively.

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, 2012 and 2011, NMHC was contingently liable to these institutions for $1,858,855 and $1,938,744, respectively. As of September 30, 2012 and 2011, the total defaulted loans related to these arrangements were $813,507 and $313,159, respectively.

(10) 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.

(11) Subsequent Event

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