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, 2013

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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Northern Marianas Housing Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Marianas Housing Corporation as of September 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise NMHC's basic financial statements. The 2013 Financial Data Schedule of NMHC's Section 8 Housing Choice Vouchers Program on pages 29 through 37, as required by the U.S. Department of Housing and Urban Development, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 2013 Financial Data Schedule of NMHC's Section 8 Housing Choice Vouchers Program is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 Financial Data Schedule of NMHC's Section 8 Housing Choice Vouchers Program is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2014 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* in considering NMHC's internal control over financial reporting and compliance.

Deloitte & Touche LLC

June 3, 2014

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Management's Discussion and Analysis
Year Ended September 30, 2013

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, 2013, with selected comparative information for the fiscal years ended September 30, 2012 and 2011. 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.

Mortgage & Credit Division

In fiscal year 2013, the Mortgage & Credit Division processed forty-five HOME Investment Partnerships Program (HOME) loan applications which were subsequently approved by the NMHC Board of Directors. Of the forty-five approved loans, eleven were closed during the year. Moreover, of the eleven closed loans, ten HOME assisted projects were completed; specifically, six new construction/purchase and four rehabilitation projects for fiscal year 2013.

The table below further illustrates a breakdown of the type of assistance provided for the year as well as the corresponding loan and grant amounts.

Type of Assistance	2013		2012	
	Number of Loans	Amount	Number of Loans	Amount
Deferred	3	$ 161,000	6	$ 319,030
Direct	4	219,800	10	534,400
Grant	1	40,000	2	80,000
Loan and grant	3	120,000	1	40,000
TOTAL	**11**	**$ 540,800**	**19**	**$ 973,430**

Program and Housing Division (PHD)

A. Saipan Housing Choice Voucher (HCV) Program

In fiscal year 2013, the HCV Program utilized three hundred-eleven vouchers. Six vouchers were for applicants previously on the waiting list. In addition, there were eleven families who ended their participation in or were terminated from the program and nineteen portable families for the year ended September 30, 2013. 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.

Program and Housing Division (PHD), Continued

B. Saipan Multi-Family/New Construction Program

In fiscal year 2013, Mihaville had forty-seven occupants of forty-eight units and Koblerville had thirty-three occupants of thirty-four units. Although Mihaville and Koblerville are almost at full capacity, there has been a continued turnover of tenants due to lease violations. Both properties are well maintained and NMHC will continue its efforts to prepare for the Real Estate Assessment Center inspections.

C. Short-Term Goals

Goals for the PHD 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 NMHC's 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 economic conditions begin to improve in the CNMI.

Rota Field Office

A. Rota HCV Program

For fiscal year 2013, the NMHC Rota Field Office had seventeen 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 2013, seventeen of thirty housing units at the Liyo' Housing Subdivision were occupied. This figure translates to a 56.66% occupancy rate which represents a 10% decrease from fiscal year 2012.

C. Short-Term Goals

The goal of the NMHC Rota Field Office is to increase the occupancy rate at the Liyo' Housing Subdivision. To attain this goal, the NMHC Rota Field Office must continue with repairs and maintenance of the units and ultimately find a more adequate long-term solution to their deteriorating conditions. The NMHC Rota Field Office will have to provide additional amenities to the units such as basic furnishings (beds, dining tables, etc.), community gardens, playgrounds or picnic grounds and improve 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 programs.

Tinian Field Office

A. Tinian HCV Program

Since 2008, Tinian has had only one voucher holder. The waiting list for Tinian has been separated and NMHC will continue to work closely with the PHD to issue more vouchers to eligible Tinian residents interested in participating in the Section 8 HCV Program.

B. Tinian Multi-Family/New Construction Program

Tinian has twenty units which are fully leased to the end of fiscal year 2013.

C. Short-Term Goals

Goals for the NMHC 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 2013, NMHC received $251,785 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; and
- Rehabilitate/remove slum and blight (neighborhood revitalization, particularly in the villages of Garapan and Chalan Kanoa)

In fiscal year 2013, projects selected include the construction of the new Koblerville Junior High School facility (the school gymnasium will be the first facility within the campus to be built), renovation of the Kagman and Susupe fire stations, expansion of the Division of Youth Services shelter and purchase of an ambulance for the Rota fire station.

The above projects fulfill the goals listed in the Consolidated Plan which are to improve the delivery of services to the general public and to promote community health, team work and sportsmanship.

Emergency Solutions Grant (ESG)

In fiscal year 2013, NMHC received $48,743 in ESG funding which was subgranted to Karidat Social Services to manage the program. Financial assistance such as rental assistance, utility deposits and utility allowances are offered to families who are eligible under the "literally homeless" category for a period of ten months. As of fiscal year 2013, NMHC, in coordination with Karidat Social Services, was able to assist a total of ten families.

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 project of the Joeten-Kiyu Public Library. 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 was completed in fiscal year 2013. In fiscal year 2013, NMHC subgranted $200,000 in EDI funding to the Division of Lands and Natural Resources (DLNR) for the Garapan Public Market. NMHC currently monitors and oversees the project in coordination with DLNR and the Department of Public Works.

Neighborhood Stabilization Program (NSP)

The CNMI was granted $364,162 in NSP funding 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. The CNMI used the funding to purchase and rehabilitate foreclosed and abandoned residential properties/homes and provide opportunities for borrowers to own their home.

The CNMI signed an agreement with the U.S. Department of Housing and Urban Development on March 14, 2011 to administer the NSP3 program. The grant amounted to $300,002 and was used to rehabilitate five properties in Kagman, one property in Tinian and one property in Rota. As of September 30, 2013, all seven properties were rehabilitated and four are occupied.

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 2013. The tax credit allocated to the CNMI for 2013 was $2,590,000. As of September 30, 2013, Isa Villas was the only new applicant who was awarded a reservation letter of $2,030,626 which is equivalent to $20,306,260 of tax credits to build thirty-five single detached three and four bedroom homes.

FINANCIAL HIGHLIGHTS

Condensed Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows as of and for the year ended September 30, 2013 follow, with comparative information as of and for the years ended September 30, 2012 and 2011:

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position
As of September 30, 2013, 2012 and 2011

	2013	2012	$ Change	% Change	2011
Current assets	$ 1,254,543	$ 1,130,115	$ 124,428	11%	$ 1,730,383
Other assets	4,428,995	3,737,992	691,003	18%	2,617,558
Capital assets, net	8,733,726	8,852,444	(118,718)	-1%	9,028,386
Foreclosed real estate	622,479	757,486	(135,007)	-18%	1,707,380
Noncurrent assets	3,725,203	3,583,866	141,337	4%	2,631,596
Total assets	**$ 18,764,946**	**$ 18,061,903**	**$ 703,043**	**4%**	**$ 17,715,303**
Current liabilities	$ 4,468,882	$ 4,475,235	$ (6,353)	0%	$ 2,880,197
Noncurrent liabilities	7,212,133	6,381,855	830,278	13%	5,659,575
Total liabilities	**11,681,015**	**10,857,090**	**823,925**	**8%**	**8,539,772**
Invested in capital assets	8,733,726	8,852,444	(118,718)	-1%	10,735,766
Restricted	(1,649,795)	(1,647,631)	(2,164)	0%	(1,560,235)
Total net position	**7,083,931**	**7,204,813**	**(120,882)**	**-2%**	**9,175,531**
Total liabilities and net position	**$ 18,764,946**	**$ 18,061,903**	**$ 703,043**	**4%**	**$ 17,715,303**

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013, 2012 and 2011

	2013	2012	$ Change	% Change	2011
Operating revenues	$ 7,183,600	$ 11,115,018	$ (3,931,418)	-35%	$ 35,270,185
Bad debts	(316,225)	(1,103,034)	786,809	-71%	(772,193)
Net operating revenues	**6,867,375**	**10,011,984**	**(3,144,609)**	**-31%**	**34,497,992**
Operating expenses	7,435,554	12,145,887	(4,710,333)	-39%	34,680,348
Operating loss	**(568,179)**	**(2,133,903)**	**1,565,724**	**-73%**	**(182,356)**
Nonoperating revenues (expenses), net	447,297	163,185	284,112	174%	(2,257,953)
Change in net position	**(120,882)**	**(1,970,718)**	**1,849,836**	**-94%**	**(2,440,309)**
Net position - beginning	7,204,813	9,175,531	(1,970,718)	-21%	11,615,840
Net position - ending	**$ 7,083,931**	**$ 7,204,813**	**$ (120,882)**	**-2%**	**$ 9,175,531**

Statements of Cash Flows
Years Ended September 30, 2013, 2012 and 2011

	2013	2012	$ Change	% Change	2011
Cash flows from operating activities	$ (71,464)	$ 997,144	$ (1,068,608)	-107%	$ 704,486
Cash flows from capital and related financing activities	745,113	(498,350)	1,243,463	-250%	(1,674,754)
Cash flows from investing activities	(671,561)	(1,105,309)	433,748	-39%	819,276
Net increase (decrease) in cash and cash equivalents	**2,088**	**(606,515)**	**608,603**	**-100%**	**(150,992)**
Cash and cash equivalents at beginning of year	104,147	710,662	(606,515)	-85%	861,654
Cash and cash equivalents at end of year	**$ 106,235**	**$ 104,147**	**$ 2,088**	**2%**	**$ 710,662**

FINANCIAL HIGHLIGHTS, CONTINUED

- Total assets increased by 4% from $18,061,903 in fiscal year 2012 to $18,764,946 in fiscal year 2013 and by 2% from $17,715,303 in fiscal year 2011 to $18,061,903 in fiscal year 2012 mainly due to increases in current and other assets.

- Total liabilities increased by 8% from $10,857,090 in fiscal year 2012 to $11,681,015 in fiscal year 2013 and by 27% from $8,539,772 in fiscal year 2011 to $10,857,090 in fiscal year 2012.

- Total net position decreased by 2% from $7,204,813 in fiscal year 2012 to $7,083,931 in fiscal year 2013 and by 21% from $9,175,531 in fiscal year 2011 to $7,204,813 in fiscal year 2012.

- Net operating revenues decreased by 31% from $10,011,984 in fiscal year 2012 to $6,867,375 in fiscal year 2013 and by 71% from $34,497,992 in fiscal year 2011 to $10,011,984 in fiscal year 2012. The decreases in fiscal years 2013 and 2012 are attributable to decreases in LIHTC Program grant revenues.

- Total operating expenses decreased by 39% from $12,145,887 in fiscal year 2012 to $7,435,554 in fiscal year 2013 and by 65% from $34,680,348 in fiscal year 2011 to $12,145,887 in fiscal year 2012. The decreases in fiscal years 2013 and 2012 are primarily attributable to decreases in expenses incurred under the LIHTC Program, CDBG program and the HPRP grant.

CAPITAL ASSETS

At September 30, 2013, 2012 and 2011, NMHC had $9,356,205, $9,609,930 and $10,735,766, respectively, invested in capital assets, net of depreciation where applicable. This represents a net decrease of $253,725 or 3% during fiscal year 2013 and $1,125,836 or 10% during fiscal year 2012.

	2013	**2012**	**2011**
Property and equipment, net	$ 1,345,544	$ 1,464,262	$ 1,640,204
Land	7,388,182	7,388,182	7,388,182
Foreclosed real estate	622,479	757,486	1,707,380
	$ 9,356,205	$ 9,609,930	$ 10,735,766

See notes 2, 6 and 7 to the financial statements for more detailed information on NMHC's capital assets and changes therein.

ECONOMIC OUTLOOK

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 and continues to take internal measures to ensure that NMHC would not operate in a deficit. The continuing economic challenges may result in further budget reductions in fiscal year 2014 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.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in NMHC's report on the audit of financial statements, which is dated June 19, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be viewed at the Office of the Public Auditor's website at www.opacnmi.com.

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. If you have questions about this report or need additional financial information, 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 Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash and cash equivalents	$ 106,235	$ 104,147
Receivables:		
Current portion of loans receivable, net	752,571	727,850
Current portion of finance lease receivable	11,944	9,559
Rent, net of allowance for doubtful accounts of $538,756 and $735,074 at September 30, 2013 and 2012, respectively	16,834	18,768
Accrued interest, net of allowance for doubtful accounts of $539,362 and $556,167 at September 30, 2013 and 2012, respectively	362,660	266,865
Employees, net of allowance for doubtful accounts of $63,579 and $63,744 at September 30, 2013 and 2012, respectively	4,299	2,926
Total current assets	1,254,543	1,130,115
Other assets:		
Cash and cash equivalents, restricted	4,428,995	3,737,992
Noncurrent assets:		
Loans receivable, net of current portion	3,200,452	3,134,519
Finance lease receivable, net of current portion	524,751	449,347
Property and equipment, net	1,345,544	1,464,262
Land	7,388,182	7,388,182
Foreclosed real estate	622,479	757,486
Total noncurrent assets	13,081,408	13,193,796
	$ 18,764,946	$ 18,061,903
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable and accrued expenses	$ 556,940	$ 909,507
Due to grantor agency	928,219	942,938
Reserve for loan guaranty	2,983,723	2,622,790
Total current liabilities	4,468,882	4,475,235
Deferred revenues	7,212,133	6,381,855
Total liabilities	11,681,015	10,857,090
Contingencies		
Net position:		
Invested in capital assets	8,733,726	8,852,444
Restricted	(1,649,795)	(1,647,631)
Total net position	7,083,931	7,204,813
	$ 18,764,946	$ 18,061,903

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Section 8 income:		
Federal housing assistance rentals	$ 4,990,898	$ 5,088,590
Tenant share	120,972	113,164
HOME Investment Partnership Program Grant	684,142	655,640
Interest and fees on loans	337,424	369,507
Neighborhood Stabilization Program (NSP) Grant	299,939	5,401
Community Development Block Grants (CDBG) Program	251,785	1,036,852
HOME Investment Partnership Grant program income	190,980	235,708
Economic Development Initiative (EDI) Program	183,844	-
Emergency Shelter Grants (ESG) Program	79,602	94,667
Housing rental	23,054	12,626
Deferred HOME loans program income	15,905	472,344
Low-Income Housing Projects in Lieu of Tax Credits (LIHTC) Program Grant	-	2,895,004
Homelessness Prevention and Rapid Re-Housing Program (HPRP) Grant	-	48,445
Other	5,055	87,070
	7,183,600	11,115,018
Bad debts	(316,225)	(1,103,034)
Net operating revenues	6,867,375	10,011,984
Operating expenses:		
Section 8 rental	3,153,059	3,226,627
HOME Investment Partnership Program Grant	684,142	655,640
NSP Grant	299,939	5,401
CDBG Program	251,785	1,036,852
HOME Investment Partnership Grant program income	190,980	235,708
EDI Program	183,844	-
ESG Program	79,602	94,667
LIHTC Program Grant	-	2,895,004
HPRP Grant	-	48,445
Operations:		
Salaries and wages	669,894	627,064
Utilities	471,376	535,388
Repairs and maintenance	421,445	586,138
Provision for loan guaranty	360,933	1,244,046
Depreciation	204,477	270,020
Professional fees	147,009	198,760
Employee benefits	107,002	204,845
Travel	59,747	111,456
Office rent	9,900	10,800
Provision for foreclosed properties	7,284	-
Other	133,136	159,026
Total operating expenses	7,435,554	12,145,887
Operating loss	(568,179)	(2,133,903)
Nonoperating revenues (expenses):		
Litigation judgment	522,838	-
Interest income	19,442	15,125
(Loss) gain on sale of foreclosed real estate	(94,983)	148,060
Total nonoperating revenues (expenses), net	447,297	163,185
Change in net position	(120,882)	(1,970,718)
Net position - beginning	7,204,813	9,175,531
Net position - ending	$ 7,083,931	$ 7,204,813

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	$ 258,433	$ 917,534
Cash payments to suppliers for goods and services	(594,202)	(1,086,660)
Cash received from customers	219,059	268,542
Cash payments to employees for services	(669,894)	(627,064)
Cash received from federal grant awards	6,666,472	11,034,835
Cash payments from federal grant awards	(5,951,332)	(9,510,043)
Net cash (used for) provided by operating activities	(71,464)	997,144
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(85,759)	(94,078)
Net proceeds from (payments of) loans receivable	283,600	(1,084,770)
Proceeds from sale of foreclosed real estate	119,417	532,438
(Loss) gain on sale of foreclosed real estate	(94,983)	148,060
Cash received from litigation judgment	522,838	-
Net cash provided by (used for) capital and related financing activities	745,113	(498,350)
Cash flows from investing activities:		
Purchase of restricted cash and cash equivalents	(691,003)	(1,120,434)
Interest received	19,442	15,125
Net cash used for investing activities	(671,561)	(1,105,309)
Net increase (decrease) in cash and cash equivalents	2,088	(606,515)
Cash and cash equivalents at beginning of year	104,147	710,662
Cash and cash equivalents at end of year	$ 106,235	$ 104,147
Reconciliation of operating loss to net cash (used for) provided by operating activities:		
Operating loss	$ (568,179)	$ (2,133,903)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities:		
Provision for loan guaranty	360,933	1,244,046
Depreciation	204,477	270,020
Bad debts	316,225	1,103,034
Provision for foreclosed properties	7,284	-
(Increase) decrease in assets:		
Receivables:		
Finance lease	(21,745)	(458,906)
Rent	77,191	(18,409)
Employees	(1,373)	60,653
Accrued interest	(78,991)	548,027
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(352,567)	(591,946)
Due from/to grantor agency	(14,719)	974,528
Net cash (used for) provided by operating activities	$ (71,464)	$ 997,144
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of loans receivable:		
Noncash increase in loans receivable	$ 830,278	$ 722,280
Noncash increase in deferred revenue	(830,278)	(722,280)
	$ -	$ -
Recognition of foreclosed properties:		
Noncash decrease in foreclosed properties	$ (8,306)	$ (417,456)
Noncash (decrease) increase in loans receivable	(47,738)	39,900
Noncash increase in finance lease receivable	56,044	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 position, except net position 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. NMHC utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

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

(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 position and cash flows, cash and cash equivalents is defined as cash held in demand deposits and savings. At September 30, 2013 and 2012, total unrestricted cash and cash equivalents were $106,235 and $104,147, respectively, and the corresponding bank balances were $145,708 and $145,358, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) and were FDIC insured. 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.

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 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 $-0- and $2,895,004 from the US Treasury, and the same amounts were disbursed to Sandy Beach Homes, during the years ended September 30, 2013 and 2012, respectively.

Deferred Revenues

Deferred revenues of NMHC represent recorded loans receivable from individuals eligible under the HOME Investment Partnership and Neighborhood Stabilization programs administered by NMHC. NMHC recorded deferred HOME loan revenue of $15,905 and $472,344 for the years ended September 30, 2013 and 2012, respectively, and deferred revenues of $7,212,133 and $6,381,855 as of September 30, 2013 and 2012, 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, 2013 and 2012 was $238,650 and $226,044, respectively.

Litigation Judgment

On November 24, 2012, a binding and unappealable judgment was issued on a lawsuit filed against the architects, the construction manager and the contractor for deficiencies in the design and construction of homes in the Tottotville Subdivision, which awarded NMHC $694,851 in damages. Due to uncertainties, NMHC has elected to record this award upon receipt of cash. NMHC received $522,838 during the year ended September 30, 2013 and continues to pursue the remaining $190,322 (inclusive of interest of nine percent (9%) per annum).

(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 (NMIRF) 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, 16-36, 17-79 and 17-82.

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, 2013 and 2012 have yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2013 and 2012 is 72.7215% and 60.8686%, respectively, of covered payroll. NMHC's recorded DB contributions to the Fund for the years ended September 30, 2013, 2012 and 2011 were $10,355, $104,463 and $99,511, 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.

At September 30, 2013, NMHC contributed social security benefits of $49,277. In addition, all active employees voluntarily terminated membership in the DB Plan.

On August 7, 2013, the United States District Court for the Northern Mariana Islands issued an order for the preliminary approval of Civil Case No. 09-00023, Class Action Settlement (Settlement), between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement includes the creation of a Settlement Fund to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court.

As part of the Settlement, the CNMI agrees to make minimum annual payments to the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund's expected life and as determined by an independent actuary appointed by the Trustee and approved by the District Court. In addition, the Settlement authorizes NMIRF to distribute employee contributions (exclusive of interest) of $10,000,000 to former members of the DB Plan who elected to terminate their membership in accordance with Public Law 17-82 with the remainder to be distributed upon final approval of the Settlement agreement. On September 30, 2013, the United States District Court for the Northern Mariana Islands approved the Settlement agreement.

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, 2013, 2012 and 2011 were $16,899, $21,441 and $20,567, respectively, equal to the required contributions for each year.

(2) Summary of Significant Accounting Policies, Continued

Defined Contribution Plan (DC Plan), Continued

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

Net Position

NMHC's net position is classified as follows:

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

- Restricted:

  Nonexpendable - Net position subject to externally imposed stipulations that NMHC maintain them permanently. At September 30, 2013 and 2012, NMHC does not have nonexpendable net position.

  Expendable - Net position 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 position 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 position of September 30, 2013 and 2012.

New Accounting Standards

During the year ended September 30, 2013, NMHC implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, which* addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, which* improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB 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. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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 N*o. 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of NMHC.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. 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.

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 2012 balances in the accompanying financial statements have been reclassified to conform to the 2013 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, 2013 and 2012, restricted cash and cash equivalents consist of amounts held in demand deposit accounts. Of the amounts detailed below, $1,248,553 and $2,620,887 at September 30, 2013 and 2012, respectively, was FDIC insured. Accordingly, the deposits are exposed to custodial credit risk.

(3) Restricted Cash and Cash Equivalents, Continued

Restricted cash and cash equivalents:

	2013	2012
Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	$ 2,879,935	$ 2,096,359
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	200,107	199,738
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	91	100
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,305,144	1,354,485
Other depository accounts reserved for various purposes	43,718	87,310
	$ 4,428,995	$ 3,737,992

(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, 2013 and 2012 are as follows:

	2013	2012
HOME Investment Partnerships Act grant	$ 6,403,873	$ 5,831,551
Direct family home loans	2,950,771	2,989,669
Neighborhood Stabilization Program (NSP) grant	680,120	475,881
General	517,288	629,597
Housing construction	478,401	485,355
Tinian turnkey	464,373	533,589
Section 8	365,085	224,844
Home revenue bond	94,473	94,476
Housing preservation grant	19,280	24,937
Veterans aid	-	184,825
Loan principal receivable	11,973,664	11,474,724
Less allowance for loan losses	(8,020,641)	(7,612,355)
Net loans receivable	$ 3,953,023	$ 3,862,369

(4) Loans Receivable, Continued

Maturities of the above principal balances subsequent to September 30, 2013 and 2012 will be as follows:

	2013	2012
Fully matured and others	$ 1,368,123	$ 1,129,146
1 - 6 months	468,096	593,724
7 - 18 months	866,187	832,044
19 months - 3 years	1,166,863	1,136,092
After 3 years	8,104,395	7,783,718
	$ 11,973,664	$ 11,474,724

Allowance for Loan Losses

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

	2013	2012
Balance - beginning of year	$ 7,612,355	$ 7,035,902
Provision for loan losses	408,286	576,453
Balance - end of year	$ 8,020,641	$ 7,612,355

(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 years ended September 30, 2013 and 2012 amounted to $23,054 and $12,626, respectively. Future minimum lease rentals under these arrangements as of September 30, 2013, are as follows:

Year ending September 30,	Minimum Lease Rentals	Minimum Lease Income	Net 2013	Net 2012
2014	$ 39,662	$ 27,718	$ 11,944	$ 9,559
2015	38,618	26,347	12,271	9,946
2016	38,619	25,752	12,867	10,402
2017	38,331	25,124	13,207	10,881
2018	38,618	24,460	14,158	11,386
Thereafter	787,054	314,806	472,248	406,732
	$ 980,902	$ 444,207	536,695	458,906
	Less current portion		11,944	9,559
	Noncurrent portion		$ 524,751	$ 449,347

(6) Property and Equipment

Property and equipment consist of the following at September 30, 2013 and 2012:

	Estimated Useful Lives	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,500,086	$ -	$ -	$ 2,500,086
Section 8 Koblerville Housing	30 years	1,954,750	-	(700)	1,954,050
Section 8 Rota Housing	30 years	1,200,484	-	-	1,200,484
Section 8 Tinian Housing	30 years	1,124,759	2,000	(42,206)	1,084,553
Section 8 Housing Phase II	30 years	637,704	-	-	637,704
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		8,018,298	2,000	(42,906)	7,977,392
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	858,231	-	-	858,231
Equipment and computers	3 - 8 years	593,940	25,151	(63,224)	555,867
Vehicles	3 years	150,477	58,608	-	209,085
		4,426,139	83,759	(63,224)	4,446,674
		12,444,437	85,759	(106,130)	12,424,066
Less accumulated depreciation		(10,980,175)	(204,477)	106,130	(11,078,522)
		$ 1,464,262	$ (118,718)	$ -	$ 1,345,544

	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

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.

(6) Property and Equipment, Continued

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 at September 30, 2013 and 2012. 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, 2013 and 2012 is as follows:

	2013	2012
Balance at beginning of year	$ 757,486	$ 1,707,380
Additions	195,600	-
Deletions	(330,607)	(949,894)
Balance at end of year	$ 622,479	$ 757,486

(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 $4,560,653 and $3,831,390 as of September 30, 2013 and 2012, respectively. Management is of the opinion that transactions with this financial institution are of similar terms and conditions as with unrelated parties.

NMHC purchased $10,094 and $37,115 of supplies and materials from related parties during the years ended September 30, 2013 and 2012, respectively. Related liabilities of $2,044 and $-0- are included within accounts payable and accrued expenses in the accompanying Statements of Net Position. Management believes that the purchases were consummated on terms equivalent to those in arm's length transactions.

(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 $245,519 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2013. 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, 2013 and 2012, NMHC has guaranteed outstanding loans of $11,270,655 and $11,551,490, respectively, and the amount of delinquent loans related to the agreement was $7,690,598 and $7,551,519, respectively. As of September 30, 2013 and 2012, total delinquent loans with demand notices from RD were $2,757,682 and $1,769,724, respectively, for which NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of $2,983,723 and $2,662,790, respectively, in the accompanying financial statements exclusive of reserves for the remaining non-delinquent and delinquent loans without demand notices of $226,041 and $893,066, respectively.

As of September 30, 2013 and 2012, 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 $2,879,935 and $2,096,359, 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.

(9) Contingencies, Continued

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, 2013 and 2012, NMHC was contingently liable for $325,353 and $825,146, 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, 2013 and 2012 was $91 and $100, respectively, which is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2013 and 2012, total defaulted loans related to this arrangement were $173,259 and $251,180, 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, 2013 and 2012, NMHC was contingently liable to these institutions for $1,542,906 and $1,858,855, respectively. As of September 30, 2013 and 2012, the total defaulted loans related to these arrangements were $182,263 and $813,507, respectively.

NMHC is involved in various claims and lawsuits arising in the normal course of business. However, the ultimate outcome of the claims and lawsuits are unknown at the present time. Accordingly, no provision for any liability that might result has been made in the accompanying financial statements.

Public Law 9-66 requires public corporations or other autonomous agencies to pay to the Commonwealth Treasurer an amount not less than one percent of total operation budgets, and such funds will be deposited into a special account of the CNMI general fund to be solely used for the operations and activities of the Office of the Public Auditor (OPA). OPA has taken the position that operation budgets include both local and federal funding sources. NMHC has taken the position that the use of federal funds for such contributions would constitute an unallowable cost. NMHC has recorded a liability to OPA of $362,176, which includes calculated contributions dating back to 1996, but has not paid these amounts as insufficient non-federal funding exists. NMHC plans to seek a legal opinion on this issue.

(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.

Real Estate Assessment Center

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Balance Sheet

Income Statement

PHA Information

PHA Code:	TQ901 Fiscal Year End Date:09/30/2013
PHA Name:	Northern Marianas Housing Coproration
Submission Type:	Audited/A-133
Program Name:	Housing Choice Vouchers
Select Entity:	Program List

Balance Sheet

Line Item #	Description	Value	Details
Assets	**Current Assets Cash:**		
111	Cash - Unrestricted	$ 1117727	-
112	Cash - Restricted - Modernization and Development	$	-
113	Cash - Other Restricted	$ 187417	-
114	Cash - Tenant Security Deposits	$	-
115	Cash - Restricted for Payment of Current Liabilities	$	-
100	**Total Cash**	$ 1305144	-
	Receivables:		
121	Accounts Receivable - PHA Projects	$ 58	-
122	Accounts Receivable - HUD Other Projects	$	-
124	Accounts Receivable - Other Government	$	-
125	Accounts Receivable - Miscellaneous	$	-
126	Accounts Receivable - Tenants	$	-
126.1	Allowance for Doubtful Accounts -Tenants	$	-
126.2	Allowance for Doubtful Accounts - Other	$ 0	-
127	Notes, Loans, & Mortgages Receivable - Current	$	-
128	Fraud Recovery	$ 28292	-
128.1	Allowance for Doubtful Accounts - Fraud	$ -11608	-

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129	Accrued Interest Receivable	$	-
120	**Total Receivables, Net of Allowances for Doubtful Accounts**	$ 16742	-
131	Investments - Unrestricted	$	-
132	Investments - Restricted	$	-
135	Investments - Restricted for Payment of Current Liability	$	-
142	Prepaid Expenses and Other Assets	$	-
143	Inventories	$	-
143.1	Allowance for Obsolete Inventories	$	-
144	Inter Program Due From	$	-
145	Assets Held for Sale	$	-
150	**Total Current Assets**	$ 1321886	-
	NonCurrent Assets		
	Fixed Assets:		
161	Land	$	-
162	Buildings	$	-
163	Furniture, Equipment & Machinery - Dwellings	$ 44488	-
164	Furniture, Equipment & Machinery - Administration	$ 25800	-
165	Leasehold Improvements	$	-
166	Accumulated Depreciation	$ -24262	-
167	Construction in Progress	$	-
168	Infrastructure	$	-
160	**Total Capital Assets, Net of Accumulated Depreciation**	$ 46026	-
171	Notes, Loans and Mortgages Receivable - Non-Current	$	-
172	Notes, Loans, & Mortgages Receivable - Non Current - Past Due	$	-
173	Grants Receivable - Non Current	$	-
174	Other Assets	$	-
176	Investments in Joint Ventures	$	-

See Accompanying Independent Auditors' Report.

180	**Total Non-Current Assets**	$ 46026	-
190	**Total Assets:**	$ 1367912	-
Liabilities and Equity	**Liabilites**		
	Current Liabilities:		
311	Bank Overdraft	$	-
312	Accounts Payable <= 90 Days	$	-
313	Accounts Payable >90 Days Past Due	$ 330	-
321	Accrued Wage/Payroll Taxes Payable	$	-
322	Accrued Compensated Absences - Current Portion	$	-
324	Accrued Contingency Liability	$	-
325	Accrued Interest Payable	$	-
331	Accounts Payable - HUD PHA Programs	$	-
332	Account Payable - PHA Projects	$	-
333	Accounts Payable - Other Government	$ 176412	-
341	Tenant Security Deposits	$	-
342	Deferred Revenues	$ 16743	-
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	$	-
344	Current Portion of Long-term Debt - Operating Borrowings	$	-
345	Other Current Liabilities	$	-
346	Accrued Liabilities - Other	$	-
347	Inter Program - Due To	$	-
348	Loan Liability - Current	$	-
310	**Total Current Liabilities**	$ 193485	-
	NonCurrent Liabilities:		
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	$	-
352	Long-term Debt, Net of Current - Operating Borrowings	$	-
353	Non-current Liabilities - Other	$	-

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354	Accrued Compensated Absences - Non Current	$	-
355	Loan Liability - Non Current	$	-
356	FASB 5 Liabilities	$	-
357	Accrued Pension and OPEB Liabilities	$	-
350	**Total Non-Current Liabilities**	$ 0	-
300	**Total Liabilities**	$ 193485	-
Equity	**Equity**		
508.1	Invested In Capital Assets, Net of Related Debt	$ 46026	-
511.1	Restricted Net Assets	$ 187417	-
512.1	Unrestricted Net Assets	$ 940984	-
513	**Total Equity/Net Assets**	$ 1174427	-
600	**Total Liabilities and Equity/Net Assets**	$ 1367912	-

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Balance Sheet

Income Statement

PHA Information	
PHA Code:	TQ901 Fiscal Year End Date:09/30/2013
PHA Name:	Northern Marianas Housing Coproration
Submission Type:	Audited/A-133
Program Name:	Housing Choice Vouchers
Select Entity:	Program List

Income Statement

Line Item #	Description	Value	Details
70300	Net Tenant Rental Revenue	$	-
70400	Tenant Revenue - Other	$	-
70500	**Total Tenant Revenue**	$ 0	-
70600	HUD PHA Operating Grants	$ 3619197	[Details]
70610	Capital Grants	$	-
70800	Other Government Grants	$	-
71100	Investment Income - Unrestricted	$	[Details]
71200	Mortgage Interest Income	$	-
71300	Proceeds from Disposition of Assets Held for Sale	$	-
71310	Cost of Sale of Assets	$	-
71400	Fraud Recovery	$ 4402	[Details]
71500	Other Revenue	$ 10810	-
71600	Gain or Loss on Sale of Capital Assets	$	-
72000	Investment Income - Restricted	$	[Details]
70000	**Total Revenue:**	$ 3634409	-
	Expenses		
	Administrative:		
91100	Administrative Salaries	$ 147723	-

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91200	Auditing Fees	$ 12949	-
91300	Management Fee	$	-
91310	Book-keeping Fee	$	-
91400	Advertising and Marketing	$	-
91500	Employee Benefit contributions - Administrative	$ 25861	-
91600	Office Expenses	$	-
91700	Legal Expense	$	-
91800	Travel	$ 14422	-
91810	Allocated Overhead	$	-
91900	Other	$ 10503	-
91000	**Total Operating - Administrative**	$ 211458	-
92000	Asset Management Fee	$	-
	Tenant Services		
92100	Tenant Services - Salaries	$	-
92200	Relocation Costs	$	-
92300	Employee Benefit Contributions - Tenant Services	$	-
92400	Tenant Services - Other	$	-
92500	**Total Tenant Services**	$ 0	-
	Utilities		
93100	Water	$	-
93200	Electricity	$	-
93300	Gas	$	-
93400	Fuel	$	-
93500	Labor	$	-
93600	Sewer	$	-
93700	Employee Benefit Contributions - Utilities	$	-
93800	Other Utilities Expense	$	-

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93000	**Total Utilities**	$ 0	-
	Ordinary Maintenance and Operations:		
94100	Ordinary Maintenance and Operations - Labor	$	-
94200	Ordinary Maintenance and Operations - Materials and Other	$	-
94300	Ordinary Maintenance and Operations Contracts	$	-
94500	Employee Benefit Contributions - Ordinary Maintenance	$	-
94000	**Total Maintenance**	$ 0	-
95100	Protective Services - Labor	$	-
95200	Protective Services - Other Contract Costs	$	-
95300	Protective Services - Other	$	-
95500	Employee Benefit Contributions - Protective Services	$	-
95000	**Total Protective Services**	$ 0	-
96110	Property Insurance	$	-
96120	Liability Insurance	$	-
96130	Workmen's Compensation	$	-
96140	All Other Insurance	$	-
96100	**Total insurance Premiums**	$ 0	-
	General Expenses:		
96200	Other General Expenses	$	-
96210	Compensated Absences	$	-
96300	Payments in Lieu of Taxes	$	-
96400	Bad debt - Tenant Rents	$ 7689	-
96500	Bad debt - Mortgages	$	-
96600	Bad debt - Other	$	-
96800	Severance Expense	$	-
96000	**Total Other General Expenses**	$ 7689	-
96710	Interest of Mortgage (or Bonds) Payable	$	-

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96720	Interest on Notes Payable (Short and Long Term)	$	-
96730	Amortization of Bond Issue Costs	$	-
96700	**Total Interest Expense and Amortization Cost**	$ 0	-
96900	**Total Operating Expenses**	$ 219147	-
97000	**Excess of Operating Revenue over Operating Expenses**	$ 3415262	-
97100	Extraordinary Maintenance	$	-
97200	Casualty Losses - Non-capitalized	$	-
97300	Housing Assistance Payments	$ 3399943	[Details]
97350	HAP Portability-In	$ 7796	-
97400	Depreciation Expense	$ 8808	-
97500	Fraud Losses	$	-
97800	Dwelling Units Rent Expense	$	-
90000	**Total Expenses**	$ 3635694	-
10010	Operating Transfer In	$	-
10020	Operating transfer Out	$	-
10030	Operating Transfers from/to Primary Government	$	-
10040	Operating Transfers from/to Component Unit	$	-
10070	Extraordinary Items, Net Gain/Loss	$	-
10080	Special Items (Net Gain/Loss)	$	-
10093	Transfers between Program and Project - In	$	-
10094	Transfers between Project and Program - Out	$	-
10100	**Total Other financing Sources (Uses)**	$ 0	-
10000	**Excess (Deficiency) of Total Revenue Over (Under) Total Expenses**	$ -1285	-
	Memo Account Information:		
*11020	Required Annual Debt Principal Payments	$ 0	-
*11030	Beginning Equity	$ 1186522	—
11040			[Details]

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	Prior Period Adjustments, Equity Transfers and Correction of Errors	$ -10810	
*11170	Administrative Fee Equity	$ 987010	[Details]
*11180	Housing Assistance Payments Equity	$ 187417	[Details]
*11190	Unit Months Available	4356	[Details]
*11210	Number of Unit Months Leased	3774	-

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