

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, 2014

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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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, 2014 and 2013, 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, 2014 and 2013, 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 2014 Financial Data Schedule of NMHC's Section 8 Housing Choice Vouchers Program on pages 28 through 32, 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 2014 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 2014 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 April 22, 2015 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

April 22, 2015



NORTHERN MARIANAS HOUSING CORPORATION

P.O. BOX 500514, Saipan, MP 96950-0514



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, 2014

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, 2014, with selected comparative information for the fiscal years ended September 30, 2013 and 2012. 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 and Credit Division (MCD)

In fiscal year 2014, MCD processed twenty-three HOME Investment Partnerships Program (HOME) loan applications which were subsequently approved by the NMHC Board of Directors. Of the twenty-three approved loans, MCD committed to seventeen HOME projects and was able to meet the commitment deadline for fiscal year 2014. In addition, seven approved loans were closed during the year.

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	2014		2013	
	Number of Loans	Amount	Number of Loans	Amount
Deferred	3	\$ 168,800	3	\$ 161,000
Direct	2	114,000	4	219,800
Grant	1	40,000	1	40,000
Loan and grant	1	40,000	3	120,000
TOTAL	7	\$ 362,800	11	\$ 540,800

Program and Housing Division (PHD)

A. Saipan Housing Choice Voucher (HCV) Program

In fiscal year 2014, the HCV Program utilized two hundred seventy-seven vouchers for Saipan (including eight portable families), four vouchers for Tinian and sixteen vouchers for Rota. NMHC issued seventeen vouchers for Saipan, three vouchers for Tinian and one voucher for Rota to applicants who were previously on the waiting list. In addition, there were twenty-one families who ended their participation in or were terminated from the program for the year ended September 30, 2014. 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.

"NMHC is an equal employment and fair housing public agency"

Program and Housing Division (PHD), Continued

B. Saipan Multi-Family/New Construction Program

At the end of fiscal year 2014, the Multi-family/New Construction Program had one hundred eight occupants of one hundred eighteen units, which is an occupancy rate of 92% as follows:

<u>Project Sites</u>	<u>Occupied Units</u>	<u>Vacant Units</u>	<u>Occupancy Rate</u>
Mihaville Estates	46	2	96%
Koblerville Estates	34	0	100%
Tinian Broadway	19	1	95%
Rota Blue Bay Homes	9	7	56%

C. Short-Term Goals

Goals for the PHD are to:

1. Attain a “high performer” Section 8 Management Assessment Program (SEMAP) rating;
2. Continue monitoring performance of staff through SEMAP and the independent audit to ensure staff accountability as well as identify areas for improvement;
3. Provide training opportunities to improve and increase staff capacity;
4. Develop new and/or enhanced quality control measures;
5. Initiate full implementation of the Family Self-Sufficiency (FSS) Program; and
6. Obtain passing Real Estate Assessment Center (REAC) scores for all Multi-family/New Construction Program project sites.

Rota Field Office

A. Rota HCV Program

For fiscal year 2014, the NMHC Rota Field Office had sixteen 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. Of thirty Rota Blue Bay Homes Housing Subdivision (the Subdivision) units, nine were occupied, seven remain vacant and fourteen were unavailable as they are in dire need of renovation and repairs, which translates to a 56.25% occupancy rate.

C. Short-Term Goals

Goals for the Rota Field Office are to:

1. Fully occupy all sixteen units by March 2015;
2. Work with the Mayor’s Office to repair bus shelters for the children of the Subdivision;
3. Install water gate valves in each unit;

Rota Field Office, Continued

C. Short-Term Goals, Continued

4. Continue to partner with the 13th Rota Municipal Council to build playground equipment for the Subdivision;
5. Install a laundry facility at the Subdivision;
6. Install an information board to provide community information to the residents of the Subdivision; and
7. Develop a community area for internet access for the Subdivision's children to use.

Tinian Field Office

A. Tinian HCV Program

Since 2008, Tinian has had only one voucher holder. The waiting list for Tinian, with eleven applicants, was opened in March 2014. Five vouchers were issued to Tinian during fiscal year 2014 and one was transferred from Saipan. At the end of fiscal year 2014, three of six families moved into units while the other three families cancelled their participation in the program. Although the waiting list has closed, families continue to inquire about the program.

B. Tinian Multi-Family/New Construction Program

Tinian has twenty units which are fully leased to the end of fiscal year 2014. Our goal was to move in families as soon as units were available; however, the move out rate is low.

C. Short-Term Goals

Goals for the NMHC Tinian Field Office are to:

1. Ensure that all repairs are timely performed so units are decent, safe and meet all sanitary conditions;
2. Reduce the delinquency rate of tenants' receivables including promissory notes;
3. Work with the Office of the Mayor on the maintenance of all Community Development Block Grant (CDBG) projects and ensure project goals are met;
4. Assist individuals who are interested in the HOME Program;
5. Contact and work with borrowers in reducing their delinquency with NMHC; and
6. Reduce deficiencies in the records of tenants and borrowers.

Community Development Block Grant (CDBG)

In fiscal year 2014, NMHC received funding approval of \$968,331 for CDBG. 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;

Community Development Block Grant (CDBG), Continued

- Public services; and
- Rehabilitate/remove slum and blight (neighborhood revitalization, particularly in the villages of Garapan and Chalan Kanoa)

In fiscal year 2014, projects funded include renovation of the Kagman and Susupe fire stations, expansion of the Division of Youth Services shelter, purchase of fire protection and life-saving equipment and purchase of an ambulance for the Rota fire station. To date, all four projects were completed. The Koblerville gymnasium, funded through the fiscal years 2011 and 2012 grants, was ongoing as of fiscal year 2014 and is anticipated to be completed in March 2015.

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 2014, NMHC received funding approval of \$48,743 for ESG 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 2014, NMHC, in coordination with Karidat Social Services, was able to assist a total of fourteen families.

Economic Development Initiative (EDI) Program

The CNMI received \$400,000 in previous years from the EDI Program funded through the U.S. Department of Housing and Urban Development (HUD). In fiscal year 2014, NMHC completed the rehabilitation of the Joeten-Kiyu Public Library roof and the Garapan Public Market, which were each funded at \$200,000.

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 HUD on March 14, 2011 to administer the NSP3 program. The grant amounted to \$300,002 and was used to rehabilitate six properties in Kagman (one property was rehabilitated with program income from the grant), one property in Tinian and one property in Rota. As of September 30, 2014, eight properties were rehabilitated and seven 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 LIHTC Program is available to owners/developers of qualifying buildings and projects that meet certain low-income occupancy and rent restrictions.

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

Section 42 of the Internal Revenue Code provides that the CNMI prepare a Qualified Allocation Plan (QAP) to determine housing priorities and to give preference to projects serving the lowest income tenants and projects obligated to serve qualified tenants for the longest periods.

NMHC has developed a QAP for 2014 which describes the basis NMHC will use to allocate LIHTCs. The tax credit allocated to the CNMI for 2014 was \$2,525,000. As of September 30, 2014, Saipan Comfort Homes LLC was the only new applicant who was awarded a reservation letter for \$1,644,337, which is equivalent to \$16,443,310 of tax credits, to build forty 1 and 2 bedroom units.

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, 2014 follow, with comparative information as of and for the years ended September 30, 2012 and 2011:

Statements of Net Position As of September 30, 2014, 2013 and 2012

	2014	2013	\$ Change	% Change	2012
Current assets	\$ 1,889,773	\$ 1,254,543	\$ 635,230	51%	\$ 1,130,115
Other assets	4,619,902	4,428,995	190,907	4%	3,737,992
Capital assets, net	8,408,455	8,733,726	(325,271)	-4%	8,852,444
Foreclosed real estate	511,912	622,479	(110,567)	-18%	757,486
Noncurrent assets	<u>3,745,976</u>	<u>3,725,203</u>	<u>20,773</u>	1%	<u>3,583,866</u>
Total assets	\$ <u>19,176,018</u>	\$ <u>18,764,946</u>	\$ <u>411,072</u>	2%	\$ <u>18,061,903</u>
Current liabilities	\$ 5,605,634	\$ 4,468,882	\$ 1,136,752	25%	\$ 4,475,235
Noncurrent liabilities	<u>7,714,244</u>	<u>7,212,133</u>	<u>502,111</u>	7%	<u>6,381,855</u>
Total liabilities	<u>13,319,878</u>	<u>11,681,015</u>	<u>1,638,863</u>	14%	<u>10,857,090</u>
Invested in capital assets	8,408,455	8,733,726	(325,271)	-4%	8,852,444
Restricted	<u>(2,552,315)</u>	<u>(1,649,795)</u>	<u>(902,520)</u>	55%	<u>(1,647,631)</u>
Total net position	<u>5,856,140</u>	<u>7,083,931</u>	<u>(1,227,791)</u>	-17%	<u>7,204,813</u>
Total liabilities and net position	\$ <u>19,176,018</u>	\$ <u>18,764,946</u>	\$ <u>411,072</u>	2%	\$ <u>18,061,903</u>

Statements of Revenues, Expenses and Changes in Net Position Years Ended September 30, 2014, 2013 and 2012

	2014	2013	\$ Change	% Change	2012
Operating revenues	\$ 7,287,472	\$ 7,183,600	\$ 103,872	1%	\$ 11,115,018
Bad debts	<u>(188,967)</u>	<u>(316,225)</u>	<u>127,258</u>	-40%	<u>(1,103,034)</u>
Net operating revenues	<u>7,098,505</u>	<u>6,867,375</u>	<u>231,130</u>	3%	<u>10,011,984</u>
Operating expenses	<u>8,774,806</u>	<u>7,435,554</u>	<u>1,339,252</u>	18%	<u>12,145,887</u>
Operating loss	<u>(1,676,301)</u>	<u>(568,179)</u>	<u>(1,108,122)</u>	195%	<u>(2,133,903)</u>
Nonoperating revenues (expenses), net	<u>448,510</u>	<u>447,297</u>	<u>1,213</u>	0%	<u>163,185</u>
Change in net position	<u>(1,227,791)</u>	<u>(120,882)</u>	<u>(1,106,909)</u>	916%	<u>(1,970,718)</u>
Net position - beginning	<u>7,083,931</u>	<u>7,204,813</u>	<u>(120,882)</u>	-2%	<u>9,175,531</u>
Net position - ending	\$ <u>5,856,140</u>	\$ <u>7,083,931</u>	\$ <u>(1,227,791)</u>	-17%	\$ <u>7,204,813</u>

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Cash Flows Years Ended September 30, 2014, 2013 and 2012

	2014	2013	\$ Change	% Change	2012
Cash flows from operating activities	\$ 265,937	\$ (71,464)	\$ 337,401	-472%	\$ 997,144
Cash flows from capital and related financing activities	322,624	745,113	(422,489)	-57%	(498,350)
Cash flows from investing activities	<u>(161,886)</u>	<u>(671,561)</u>	<u>509,675</u>	-76%	<u>(1,105,309)</u>
Net increase (decrease) in cash and cash equivalents	426,675	2,088	424,587	20335%	(606,515)
Cash and cash equivalents at beginning of year	<u>106,235</u>	<u>104,147</u>	<u>2,088</u>	2%	<u>710,662</u>
Cash and cash equivalents at end of year	\$ <u>532,910</u>	\$ <u>106,235</u>	\$ <u>426,675</u>	402%	\$ <u>104,147</u>

- Total assets increased by 2% from \$18,764,946 in fiscal year 2013 to \$19,176,018 in fiscal year 2014 and by 4% from \$18,061,903 in fiscal year 2012 to \$18,764,946 in fiscal year 2013 mainly due to increases in current and other assets.
- Total liabilities increased by 14% from \$11,681,015 in fiscal year 2013 to \$13,319,878 in fiscal year 2014 and by 8% from \$10,857,090 in fiscal year 2012 to \$11,681,015 in fiscal year 2013.
- Total net position decreased by 17% from \$7,083,931 in fiscal year 2013 to \$5,856,140 in fiscal year 2014 and by 2% from \$7,204,813 in fiscal year 2012 to \$7,083,931 in fiscal year 2013.
- Net operating revenues increased by 3% from \$6,867,375 in fiscal year 2013 to \$7,098,505 in fiscal year 2014 and decreased by 31% from \$10,011,984 in fiscal year 2012 to \$6,867,375 in fiscal year 2013. The increase in fiscal year 2014 is attributable to an increase in federal housing assistance rentals and CDBG Program revenue. The decrease in fiscal year 2013 is attributable to a decrease in LIHTC Program grant revenues.
- Total operating expenses increased by 18% from \$7,435,554 in fiscal year 2013 to \$8,774,806 in fiscal year 2014 and decreased by 39% from \$12,145,887 in fiscal year 2012 to \$7,435,554 in fiscal year 2013. The increase in fiscal year 2014 is attributable to an increase in expenses incurred under the CDBG Program, the HOME program and the provision for loan guaranty. The decrease in fiscal year 2013 is primarily attributable to a decrease in expenses incurred under the LIHTC Program, CDBG program and the HPRP grant.

CAPITAL ASSETS

At September 30, 2014, 2013 and 2012, NMHC had \$8,408,455, \$8,733,726 and \$8,852,444, respectively, invested in capital assets, net of depreciation where applicable. This represents a net decrease of \$325,271 or 4% during fiscal year 2014 and \$118,718 or 1% during fiscal year 2013.

CAPITAL ASSETS, CONTINUED

	2014	2013	2012
Property and equipment, net	\$ 1,120,273	\$ 1,345,544	\$ 1,464,262
Land	<u>7,288,182</u>	<u>7,388,182</u>	<u>7,388,182</u>
	\$ <u>8,408,455</u>	\$ <u>8,733,726</u>	\$ <u>8,852,444</u>

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

ECONOMIC OUTLOOK

As in previous years, continuing economic challenges still exist; however, 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, 2013 is set forth in NMHC’s report on the audit of financial statements, which is dated June 3, 2014. That Discussion and Analysis explains the major factors impacting the 2013 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, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 532,910	\$ 106,235
Receivables:		
Current portion of loans receivable, net	819,492	752,571
Current portion of finance lease receivable	13,550	11,944
Rent, net of allowance for doubtful accounts of \$541,463 and \$538,756 at September 30, 2014 and 2013, respectively	28,948	16,834
Accrued interest, net of allowance for doubtful accounts of \$576,179 and \$539,362 at September 30, 2014 and 2013, respectively	336,516	362,660
Employees, net of allowance for doubtful accounts of \$63,579 at September 30, 2014 and 2013	888	4,299
Other receivables	157,469	-
Total current assets	<u>1,889,773</u>	<u>1,254,543</u>
Other assets:		
Cash and cash equivalents, restricted	<u>4,619,902</u>	<u>4,428,995</u>
Noncurrent assets:		
Loans receivable, net of current portion	3,213,891	3,200,452
Finance lease receivable, net of current portion	532,085	524,751
Property and equipment, net	1,120,273	1,345,544
Land	7,288,182	7,388,182
Foreclosed real estate	511,912	622,479
Total noncurrent assets	<u>12,666,343</u>	<u>13,081,408</u>
	<u>\$ 19,176,018</u>	<u>\$ 18,764,946</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 406,977	\$ 556,940
Due to grantor agency	916,690	928,219
Reserve for loan guaranty	4,281,967	2,983,723
Total current liabilities	5,605,634	4,468,882
Unearned revenues	7,714,244	7,212,133
Total liabilities	<u>13,319,878</u>	<u>11,681,015</u>
Contingencies		
Net position:		
Invested in capital assets	8,408,455	8,733,726
Restricted	(2,552,315)	(1,649,795)
Total net position	<u>5,856,140</u>	<u>7,083,931</u>
	<u>\$ 19,176,018</u>	<u>\$ 18,764,946</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Section 8 income:		
Federal housing assistance rentals	\$ 5,019,865	\$ 4,990,898
Tenant share	66,368	120,972
Community Development Block Grants (CDBG) Program	1,154,835	251,785
Interest and fees on loans	242,552	337,424
HOME Investment Partnership Grant program income	233,039	190,980
Economic Development Initiative (EDI) Program	196,024	183,844
HOME Investment Partnership Program Grant	155,465	684,142
Emergency Shelter Grants (ESG) Program	117,841	79,602
Neighborhood Stabilization Program (NSP) Grant	47,599	299,939
Housing rental	24,461	23,054
Deferred HOME loans program income	-	15,905
Other	29,423	5,055
	<u>7,287,472</u>	<u>7,183,600</u>
Bad debts	<u>(188,967)</u>	<u>(316,225)</u>
Net operating revenues	<u>7,098,505</u>	<u>6,867,375</u>
Operating expenses:		
Section 8 rental	3,063,935	3,153,059
CDBG Program	1,154,835	251,785
HOME Investment Partnership Grant program income	233,039	190,980
EDI Program	196,024	183,844
HOME Investment Partnership Program Grant	155,465	684,142
ESG Program	117,841	79,602
NSP Grant	47,599	299,939
Operations:		
Provision for loan guaranty	1,298,244	360,933
Salaries and wages	663,621	669,894
Repairs and maintenance	499,649	421,445
Utilities	492,615	471,376
Depreciation	225,271	204,477
Professional fees	130,435	147,009
Employee benefits	119,002	107,002
Travel	104,437	59,747
Office rent	15,157	9,900
Provision for foreclosed properties	-	7,284
Other	257,637	133,136
Total operating expenses	<u>8,774,806</u>	<u>7,435,554</u>
Operating loss	<u>(1,676,301)</u>	<u>(568,179)</u>
Nonoperating revenues (expenses):		
Recovery	362,176	-
Gain on sale of land	66,500	-
Litigation judgment	45,828	522,838
Interest income	29,021	19,442
Loss on sale of foreclosed real estate	<u>(55,015)</u>	<u>(94,983)</u>
Total nonoperating revenues (expenses), net	<u>448,510</u>	<u>447,297</u>
Change in net position	<u>(1,227,791)</u>	<u>(120,882)</u>
Net position - beginning	<u>7,083,931</u>	<u>7,204,813</u>
Net position - ending	<u>\$ 5,856,140</u>	<u>\$ 7,083,931</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statements of Cash Flows Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	\$ 268,696	\$ 258,433
Cash payments to suppliers for goods and services	(175,219)	(594,202)
Cash received from customers	123,180	219,059
Cash payments to employees for services	(663,621)	(669,894)
Cash received from federal grant awards	6,913,139	6,666,472
Cash payments from federal grant awards	<u>(6,200,238)</u>	<u>(5,951,332)</u>
Net cash provided by (used for) operating activities	<u>265,937</u>	<u>(71,464)</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	-	(85,759)
Net proceeds from loans receivable	40,046	283,600
Proceeds from sale of land	166,500	-
Proceeds from sale of foreclosed real estate	70,250	119,417
Loss on sale of foreclosed real estate	-	(94,983)
Cash received from litigation judgment	<u>45,828</u>	<u>522,838</u>
Net cash provided by capital and related financing activities	<u>322,624</u>	<u>745,113</u>
Cash flows from investing activities:		
Purchase of restricted cash and cash equivalents	(190,907)	(691,003)
Interest received	<u>29,021</u>	<u>19,442</u>
Net cash used for investing activities	<u>(161,886)</u>	<u>(671,561)</u>
Net increase in cash and cash equivalents	426,675	2,088
Cash and cash equivalents at beginning of year	<u>106,235</u>	<u>104,147</u>
Cash and cash equivalents at end of year	<u>\$ 532,910</u>	<u>\$ 106,235</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	\$ (1,676,301)	\$ (568,179)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Provision for loan guaranty	1,298,244	360,933
Recovery	362,176	-
Depreciation	225,271	204,477
Bad debts	188,967	316,225
Provision for foreclosed properties	-	7,284
(Increase) decrease in assets:		
Receivables:		
Finance lease	11,631	(21,745)
Rent	(12,114)	77,191
Employees	3,411	(1,373)
Accrued interest	26,144	(78,991)
Decrease in liabilities:		
Accounts payable and accrued expenses	(149,963)	(352,567)
Due from/to grantor agency	<u>(11,529)</u>	<u>(14,719)</u>
Net cash provided by (used for) operating activities	<u>\$ 265,937</u>	<u>\$ (71,464)</u>
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of loans receivable:		
Noncash increase in loans receivable	\$ 344,642	\$ 830,278
Noncash increase in other receivables	157,469	-
Noncash increase in unearned revenue	<u>(502,111)</u>	<u>(830,278)</u>
	<u>\$ -</u>	<u>\$ -</u>
Recognition of foreclosed properties:		
Noncash increase (decrease) in foreclosed properties	\$ 14,698	\$ (8,306)
Noncash decrease in loans receivable	(35,269)	(47,738)
Noncash increase in finance lease receivable	<u>20,571</u>	<u>56,044</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(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.

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.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

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, 2014 and 2013, total unrestricted cash and cash equivalents were \$532,910 and \$106,235, respectively, and the corresponding bank balances were \$605,237 and \$145,708, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC). 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.

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.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Land

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

Foreclosed Real Estate

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

Loans Receivable, Interest Receivable and Allowance for Loan Losses

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

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.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(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 is 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.

Unearned Revenues

Unearned revenues of NMHC represent recorded loans receivable from individuals eligible under the HOME Investment Partnership and Neighborhood Stabilization programs administered by NMHC. NMHC recorded unearned HOME loan revenue of \$-0- and \$15,905 for the years ended September 30, 2014 and 2013, respectively, and unearned revenues of \$7,714,244 and \$7,212,133 as of September 30, 2014 and 2013, 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, 2014 and 2013 was \$235,432 and \$238,650, respectively.

Recovery

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 had taken the position that operation budgets include both local and federal funding sources. On December 25, 2014, OPA and NMHC agreed to exempt NMHC from paying the 1% OPA fee as funds received by NMHC are not locally generated and, therefore, are not subject to Public Law 9-66. NMHC recognized a recovery of \$362,176 during the year ended September 30, 2014.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

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. NMHC recorded litigation judgment revenue of \$45,828 and \$522,838 during the years ended September 30, 2014 and 2013, respectively, and recorded receivables of \$157,469 and \$-0- (inclusive of interest of nine percent (9%) per annum) as of September 30, 2014 and 2013, respectively.

Retirement Plan

NMHC contributed 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.

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

For the years ended September 30, 2014 and 2013, NMHC contributed social security benefits of \$55,752 and \$49,277, respectively. In addition, all active employees voluntarily terminated membership in the DB Plan at September 30, 2013.

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, 2014, 2013 and 2012 were \$18,086, \$16,899 and \$21,441, respectively, equal to the required contributions for each year.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013, 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 is 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, 2014 and 2013.

New Accounting Standards

During the year ended September 30, 2014, NMHC implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Statement 68 will require NMHC to recognize a net pension liability based on the percentage of the actuarial present value of projected benefit payments allocated to NMHC by the Northern Mariana Islands Settlement Fund (the Settlement Fund). The Settlement Fund has not communicated amounts to NMHC which may be material and will be recorded on October 1, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of NMHC.

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 November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

Off-Balance Sheet Financial Instruments

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

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(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.

(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, 2014 and 2013, restricted cash and cash equivalents consist of amounts held in demand deposit accounts which are maintained in financial institutions subject to FDIC. CNMI law does not require component units to collateralize their bank accounts and thus NMHC's deposits in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents:

	<u>2014</u>	<u>2013</u>
Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	\$ 3,237,677	\$ 2,879,935
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	200,348	200,107
Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan	91	91
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	1,134,808	1,305,144
Other depository accounts reserved for various purposes	<u>46,978</u>	<u>43,718</u>
	<u>\$ 4,619,902</u>	<u>\$ 4,428,995</u>

(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.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(4) Loans Receivable, Continued

Major classifications of economic development loans as of September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
HOME Investment Partnerships Act grant	\$ 6,559,042	\$ 6,403,873
Direct family home loans	2,809,173	2,950,771
Neighborhood Stabilization Program (NSP) grant	863,506	680,120
General	503,508	517,288
Housing construction	465,017	478,401
Tinian turnkey	457,470	464,373
Section 8	371,127	365,085
Home revenue bond	61,249	94,473
Housing preservation grant	17,410	19,280
Veterans aid	<u>10,800</u>	<u>-</u>
Loan principal receivable	12,118,302	11,973,664
Less allowance for loan losses	<u>(8,084,919)</u>	<u>(8,020,641)</u>
Net loans receivable	\$ <u>4,033,383</u>	\$ <u>3,953,023</u>

Maturities of the above principal balances subsequent to September 30, 2014 and 2013 will be as follows:

	<u>2014</u>	<u>2013</u>
Fully matured and others	\$ 1,179,168	\$ 1,368,123
1 - 6 months	870,539	468,096
7 - 18 months	840,506	866,187
19 months - 3 years	1,230,665	1,166,863
After 3 years	<u>7,997,424</u>	<u>8,104,395</u>
	\$ <u>12,118,302</u>	\$ <u>11,973,664</u>

Allowance for Loan Losses

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

	<u>2014</u>	<u>2013</u>
Balance - beginning of year	\$ 8,020,641	\$ 7,612,355
Provision for loan losses	123,770	408,286
Write-off of loans	<u>(59,492)</u>	<u>-</u>
Balance - end of year	\$ <u>8,084,919</u>	\$ <u>8,020,641</u>

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013 amounted to \$24,461 and \$23,054, respectively. Future minimum lease rentals under these arrangements as of September 30, 2014, are as follows:

<u>Year ending September 30,</u>	<u>Minimum Lease Rentals</u>	<u>Minimum Lease Income</u>	<u>Net</u>	
			<u>2014</u>	<u>2013</u>
2014	\$ -	\$ -	\$ -	\$ 11,944
2015	43,577	30,027	13,550	12,271
2016	39,539	26,152	13,387	12,867
2017	39,539	25,514	14,025	13,207
2018	39,826	24,840	14,986	14,158
2019	41,707	26,297	15,410	-
Thereafter	<u>768,028</u>	<u>293,751</u>	<u>474,277</u>	<u>472,248</u>
	\$ <u>972,216</u>	\$ <u>426,581</u>	545,635	536,695
		Less current portion	<u>13,550</u>	<u>11,944</u>
		Noncurrent portion	\$ <u>532,085</u>	\$ <u>524,751</u>

(6) Property and Equipment

Property and equipment consist of the following at September 30, 2014 and 2013:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2014</u>
Residential Housing					
Development Projects:					
Section 8 Mihaville Housing	30 years	\$ 2,500,086	\$ -	\$ -	\$ 2,500,086
Section 8 Koblerville Housing	30 years	1,954,050	-	-	1,954,050
Section 8 Rota Housing	30 years	1,200,484	-	-	1,200,484
Section 8 Tinian Housing	30 years	1,084,553	-	-	1,084,553
Section 8 Housing Phase II	30 years	637,704	-	-	637,704
Section 8 Housing Phase I	30 years	<u>600,515</u>	<u>-</u>	<u>-</u>	<u>600,515</u>
		<u>7,977,392</u>	<u>-</u>	<u>-</u>	<u>7,977,392</u>
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	555,867	-	(5,788)	550,079
Vehicles	3 years	<u>209,085</u>	<u>-</u>	<u>(20,250)</u>	<u>188,835</u>
		<u>4,446,674</u>	<u>-</u>	<u>(26,038)</u>	<u>4,420,636</u>
		12,424,066	-	(26,038)	12,398,028
Less accumulated depreciation		<u>(11,078,522)</u>	<u>(225,271)</u>	<u>26,038</u>	<u>(11,277,755)</u>
		\$ <u>1,345,544</u>	\$ <u>(225,271)</u>	\$ <u>-</u>	\$ <u>1,120,273</u>

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(6) Property and Equipment, Continued

	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	<u>600,515</u>	<u>-</u>	<u>-</u>	<u>600,515</u>
		<u>8,018,298</u>	<u>2,000</u>	<u>(42,906)</u>	<u>7,977,392</u>
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	<u>150,477</u>	<u>58,608</u>	<u>-</u>	<u>209,085</u>
		<u>4,426,139</u>	<u>83,759</u>	<u>(63,224)</u>	<u>4,446,674</u>
		12,444,437	85,759	(106,130)	12,424,066
Less accumulated depreciation		<u>(10,980,175)</u>	<u>(204,477)</u>	<u>106,130</u>	<u>(11,078,522)</u>
		\$ <u>1,464,262</u>	\$ <u>(118,718)</u>	\$ <u>-</u>	\$ <u>1,345,544</u>

NMHC also holds title to approximately 335,542 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 071 D 01, containing an area of 37,145 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.
8. Lot 014 D 01, containing an area of 39,816 square meters, more or less, and the improvements thereon, located at Garapan, Saipan, CNMI.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(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 \$7,288,182 and \$7,388,182 at September 30, 2014 and 2013, respectively. 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.

On March 30, 2014 and May 7, 2014, NMHC sold Lot Nos. 003 D 22 and 003 D16, respectively, for a sum total of \$166,500, resulting in a gain on sale of land of \$66,500.

(7) Foreclosed Real Estate

A summary of the changes in foreclosed real estate as of September 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 622,479	\$ 757,486
Additions	75,000	195,600
Deletions	<u>(185,567)</u>	<u>(330,607)</u>
Balance at end of year	\$ <u>511,912</u>	\$ <u>622,479</u>

(8) Related Party Transactions

NMHC maintains depository accounts in FDIC insured financial institutions. The former 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 \$5,204,734 and \$4,560,653 as of September 30, 2014 and 2013, respectively. Management is of the opinion that transactions with this financial institution are of similar terms and conditions as with unrelated parties.

NMHC purchased \$6,536 and \$10,094 of supplies and materials from related parties during the years ended September 30, 2014 and 2013, respectively. Related liabilities of \$951 and \$2,044 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.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements September 30, 2014 and 2013

(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 \$193,914 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2014. 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, 2014 and 2013, NMHC has guaranteed outstanding loans of \$11,279,779 and \$11,270,655, respectively, and the amount of delinquent loans related to the agreement was \$5,334,532 and \$7,690,598, respectively. As of September 30, 2014 and 2013, total delinquent loans with demand notices from RD were \$4,104,170 and \$2,757,682, respectively, for which NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of \$4,281,967 and \$2,983,723, respectively, in the accompanying financial statements exclusive of reserves for the remaining non-delinquent and delinquent loans without demand notices of \$177,798 and \$226,041, respectively.

As of September 30, 2014 and 2013, 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 \$3,237,677 and \$2,879,935, 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, 2014 and 2013, NMHC was contingently liable for \$298,864 and \$325,353, 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, 2014 and 2013 was \$91, which is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2014 and 2013, total defaulted loans related to this arrangement were \$136,986 and \$173,259, respectively.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2014 and 2013

(9) Contingencies, Continued

NMHC also has similar arrangements with other financial institutions whereby NMHC guarantees a varying percentage of loans issued by the banks for housing construction. At September 30, 2014 and 2013, NMHC was contingently liable to these institutions for \$1,427,680 and \$1,542,906, respectively. As of September 30, 2014 and 2013, the total defaulted loans related to these arrangements were \$233,248 and \$182,263, 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.

(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.

Northern Marianas Housing Coproration (TQ901)
Saipan, MP
Program Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	14.871 Housing Choice Vouchers	Total
111 Cash - Unrestricted	\$936,359	\$936,359
112 Cash - Restricted - Modernization and Development		
113 Cash - Other Restricted	\$198,450	\$198,450
114 Cash - Tenant Security Deposits		
115 Cash - Restricted for Payment of Current Liabilities		
100 Total Cash	\$1,134,809	\$1,134,809
121 Accounts Receivable - PHA Projects	\$43	\$43
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	\$0
127 Notes, Loans, & Mortgages Receivable - Current		
128 Fraud Recovery	\$32,408	\$32,408
128.1 Allowance for Doubtful Accounts - Fraud	-\$14,259	-\$14,259
129 Accrued Interest Receivable		
120 Total Receivables, Net of Allowances for Doubtful Accounts	\$18,192	\$18,192
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	\$1,153,001	\$1,153,001
161 Land		
162 Buildings		
163 Furniture, Equipment & Machinery - Dwellings	\$44,488	\$44,488
164 Furniture, Equipment & Machinery - Administration	\$25,800	\$25,800
165 Leasehold Improvements		
166 Accumulated Depreciation	-\$36,260	-\$36,260
167 Construction in Progress		
168 Infrastructure		
160 Total Capital Assets, Net of Accumulated Depreciation	\$34,028	\$34,028
171 Notes, Loans and Mortgages Receivable - Non-Current		
172 Notes, Loans, & Mortgages Receivable - Non Current - Past		
173 Grants Receivable - Non Current		
174 Other Assets		
176 Investments in Joint Ventures		
180 Total Non-Current Assets	\$34,028	\$34,028
200 Deferred Outflow of Resources		
290 Total Assets and Deferred Outflow of Resources	\$1,187,029	\$1,187,029

See Accompanying Independent Auditors' Report.

Northern Marianas Housing Coproration (TQ901)
Saipan, MP
Program Balance Sheet Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	14.871 Housing Choice Vouchers	Total
311 Bank Overdraft		
312 Accounts Payable <= 90 Days		
313 Accounts Payable >90 Days Past Due	\$330	\$330
321 Accrued Wage/Payroll Taxes Payable	\$7,365	\$7,365
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		
341 Tenant Security Deposits		
342 Unearned Revenue	\$8,755	\$8,755
343 Current Portion of Long-term Debt - Capital		
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	\$16,450	\$16,450
351 Long-term Debt, Net of Current - Capital Projects/Mortgage		
352 Long-term Debt, Net of Current - Operating Borrowings		
353 Non-current Liabilities - Other		
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	\$0
300 Total Liabilities	\$16,450	\$16,450
400 Deferred Inflow of Resources		
508.4 Net Investment in Capital Assets	\$34,028	\$34,028
511.4 Restricted Net Position	\$198,450	\$198,450
512.4 Unrestricted Net Position	\$938,101	\$938,101
513 Total Equity - Net Assets / Position	\$1,170,579	\$1,170,579
600 Total Liabilities, Deferred Inflows of Resources and Equity -	\$1,187,029	\$1,187,029

See Accompanying Independent Auditors' Report.

Northern Marianas Housing Coproration (TQ901)
Saipan, MP
Program Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	14.871 Housing Choice Vouchers	Total
70300 Net Tenant Rental Revenue		
70400 Tenant Revenue - Other		
70500 Total Tenant Revenue	\$0	\$0
70600 HUD PHA Operating Grants	\$3,624,988	\$3,624,988
70610 Capital Grants		
70710 Management Fee		
70720 Asset Management Fee		
70730 Book Keeping Fee		
70740 Front Line Service Fee		
70750 Other Fees		
70700 Total Fee Revenue		
70800 Other Government Grants		
71100 Investment Income - Unrestricted		
71200 Mortgage Interest Income		
71300 Proceeds from Disposition of Assets Held for Sale		
71310 Cost of Sale of Assets		
71400 Fraud Recovery	\$3,154	\$3,154
71500 Other Revenue	\$18,841	\$18,841
71600 Gain or Loss on Sale of Capital Assets		
72000 Investment Income - Restricted	\$335	\$335
70000 Total Revenue	\$3,647,318	\$3,647,318
91100 Administrative Salaries	\$192,759	\$192,759
91200 Auditing Fees	\$20,043	\$20,043
91300 Management Fee		
91310 Book-keeping Fee		
91400 Advertising and Marketing		
91500 Employee Benefit contributions - Administrative	\$31,216	\$31,216
91600 Office Expenses	\$10,902	\$10,902
91700 Legal Expense	\$4,115	\$4,115
91800 Travel	\$27,213	\$27,213
91810 Allocated Overhead		
91900 Other	\$5,964	\$5,964
91000 Total Operating - Administrative	\$292,212	\$292,212
92000 Asset Management Fee		
92100 Tenant Services - Salaries		
92200 Relocation Costs		
92300 Employee Benefit Contributions - Tenant Services		
92400 Tenant Services - Other		
92500 Total Tenant Services	\$0	\$0
93100 Water		
93200 Electricity		
93300 Gas		
93400 Fuel		
93500 Labor		
93600 Sewer		

See Accompanying Independent Auditors' Report.

Northern Marianas Housing Coproration (TQ901)
Saipan, MP
Program Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	14.871 Housing Choice Vouchers	Total
93700 Employee Benefit Contributions - Utilities		
93800 Other Utilities Expense		
93000 Total Utilities	\$0	\$0
94100 Ordinary Maintenance and Operations - Labor		
94200 Ordinary Maintenance and Operations - Materials and		
94300 Ordinary Maintenance and Operations Contracts		
94500 Employee Benefit Contributions - Ordinary Maintenance		
94000 Total Maintenance	\$0	\$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	\$0
96110 Property Insurance		
96120 Liability Insurance		
96130 Workmen's Compensation		
96140 All Other Insurance		
96100 Total insurance Premiums	\$0	\$0
96200 Other General Expenses		
96210 Compensated Absences		
96300 Payments in Lieu of Taxes		
96400 Bad debt - Tenant Rents	\$2,652	\$2,652
96500 Bad debt - Mortgages		
96600 Bad debt - Other		
96800 Severance Expense		
96000 Total Other General Expenses	\$2,652	\$2,652
96710 Interest of Mortgage (or Bonds) Payable		
96720 Interest on Notes Payable (Short and Long Term)		
96730 Amortization of Bond Issue Costs		
96700 Total Interest Expense and Amortization Cost	\$0	\$0
96900 Total Operating Expenses	\$294,864	\$294,864
97000 Excess of Operating Revenue over Operating Expenses	\$3,352,454	\$3,352,454
97100 Extraordinary Maintenance		
97200 Casualty Losses - Non-capitalized		
97300 Housing Assistance Payments	\$3,323,320	\$3,323,320
97350 HAP Portability-In	\$9,456	\$9,456
97400 Depreciation Expense	\$11,997	\$11,997
97500 Fraud Losses		
97600 Capital Outlays - Governmental Funds		
97700 Debt Principal Payment - Governmental Funds		
97800 Dwelling Units Rent Expense		
90000 Total Expenses	\$3,639,637	\$3,639,637

See Accompanying Independent Auditors' Report.

Northern Marianas Housing Coproration (TQ901)
Saipan, MP
Program Revenue and Expense Summary

Submission Type: Audited/A-133

Fiscal Year End: 09/30/2014

	14.871 Housing Choice Vouchers	Total
10010 Operating Transfer In		
10020 Operating transfer Out		
10030 Operating Transfers from/to Primary Government		
10040 Operating Transfers from/to Component Unit		
10050 Proceeds from Notes, Loans and Bonds		
10060 Proceeds from Property Sales		
10070 Extraordinary Items, Net Gain/Loss		
10080 Special Items (Net Gain/Loss)		
10091 Inter Project Excess Cash Transfer In		
10092 Inter Project Excess Cash Transfer Out		
10093 Transfers between Program and Project - In		
10094 Transfers between Project and Program - Out		
10100 Total Other financing Sources (Uses)	\$0	\$0
10000 Excess (Deficiency) of Total Revenue Over (Under) Total	\$7,681	\$7,681
11020 Required Annual Debt Principal Payments	\$0	\$0
11030 Beginning Equity	\$1,174,427	\$1,174,427
11040 Prior Period Adjustments, Equity Transfers and Correction	-\$11,529	-\$11,529
11050 Changes in Compensated Absence Balance		
11060 Changes in Contingent Liability Balance		
11070 Changes in Unrecognized Pension Transition Liability		
11080 Changes in Special Term/Severance Benefits Liability		
11090 Changes in Allowance for Doubtful Accounts - Dwelling		
11100 Changes in Allowance for Doubtful Accounts - Other		
11170 Administrative Fee Equity	\$972,129	\$972,129
11180 Housing Assistance Payments Equity	\$198,450	\$198,450
11190 Unit Months Available	4356	4356
11210 Number of Unit Months Leased	3576	3576
11270 Excess Cash		
11610 Land Purchases		
11620 Building Purchases		
11630 Furniture & Equipment - Dwelling Purchases		
11640 Furniture & Equipment - Administrative Purchases		
11650 Leasehold Improvements Purchases		
11660 Infrastructure Purchases		
13510 CFFP Debt Service Payments		
13901 Replacement Housing Factor Funds		

See Accompanying Independent Auditors' Report.