

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

REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH THE UNIFORM GUIDANCE

YEAR ENDED SEPTEMBER 30, 2016

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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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, 2016 and 2015, 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 qualified audit opinion.

Basis for Qualified Opinion

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was effective October 1, 2014. As discussed in note 2 to the financial statements, NMHC has not recorded pension expense and related revenue for the years ended September 30, 2016 and 2015. GASB Statement No. 68 requires an employer that has a special funding situation to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the CNMI primary government as a non-employer contributing entity. The effects of this departure from accounting principles generally accepted in the United States of America on the financial statements have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, 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, 2016 and 2015, and the changes in its net position and its cash flows thereof 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 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB 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 2016 Financial Data Schedule of NMHC's Section 8 Housing Choice Vouchers Program on pages 27 through 31, 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 2016 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 2016 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 January 24, 2018 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

January 24, 2018



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MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Year Ended September 30, 2016

This Management's Discussion and Analysis (MD&A) section of the Northern Marianas Housing Corporation's (NMHC) financial statements for the fiscal year ended September 30, 2016 is provided as a supplement to NMHC's financial statements for the same period, with selected comparative information for the fiscal years ended September 30, 2015 and 2014. The MD&A focuses on significant financial issues, provides an overview of NMHC's financial activities, identifies changes in NMHC's financial position and identifies individual fund issues or concerns. This section must be read in conjunction with the basic financial statements following this section.

This MD&A is presented in accordance with the Governmental Accounting Standards Board (GASB) financial reporting model as set forth in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*.

As required under accounting principles generally accepted in the United States of America, NMHC uses the accrual basis of accounting to prepare its basic financial statements. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses, including depreciation, are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of NMHC are included in the statement of net position.

I. OVERVIEW OF NMHC

Major Programs of NMHC

NMHC operates the following programs:

- *Housing Choice Voucher Program (HCVP):*

Under this Program, the U.S. Department of Housing and Urban Development (HUD) provides rental supplements to the owners of existing private housing who rent to qualifying individuals. NMHC processes all applicants for the Section 8 Housing Assistance Payments (HAP) Program, places approved applicants in housing and pays the owner of the private housing a monthly rental supplement. Under the conditions of an annual contributions contract, HUD reimburses NMHC for the rental supplements and the administrative cost of managing the program, up to a per unit limit established in the annual contributions contract.

- *Section 8 HAP Program:*

The HAP Program is HUD-funded under which NMHC receives rental subsidies pursuant to a HAP contract to provide housing for very low-income families, low-income families, elderly and non-elderly disabled individuals. Under NMHC's HAP contract, NMHC provides 118 housing rental units for which Section 8 assistance will be provided. The Program restricts eligible families to citizens of the United States and noncitizens of the United States who have achieved certain eligible immigration status. In fiscal years 2016, 2015 and 2014, NMHC received \$1,305,473, \$1,346,858 and \$1,394,877, respectively, under this Program.

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"NMHC is a fair housing agency and an equal opportunity, lender and employer"

I. OVERVIEW OF NMHC, CONTINUED

Major Programs of NMHC, Continued

- *HOME Investment Partnerships Program (HOME)*

Under this Program, NMHC provides single-family housing loans and grants to eligible low-income families to construct new homes, acquire and rehabilitate homes or rehabilitate existing homes.

- *Community Development Block Grant (CDBG)*

CDBG is a HUD-funded program provided to the Commonwealth of the Northern Mariana Islands (CNMI) as a U.S territory, to fund CNMI community projects that benefit low and moderate-income people, to prevent or eliminate slums or blight and to address the threat to health or safety. Community projects may include acquisition, relocation, demolition and rehabilitation of housing and commercial buildings, construction of public facilities and capital improvements, construction and maintenance of neighborhood centers, conversion of school buildings, public services, economic development and job creation/retention activities. CDBG funds can also be used for preservation and restoration of historic properties in low-income neighborhoods.

- *Neighborhood Stabilization Program (NSP)*

NSP is a HUD-funded program established by the U.S. Congress to stabilize communities that have suffered from housing loan foreclosures and abandonment through the purchase and redevelopment of foreclosed and abandoned homes and residential properties.

- *Emergency Solutions Grant (ESG)*

HUD provides funds to NMHC under this Program to rehabilitate and operate emergency shelters and transitional shelters, provide essential social services and prevent homelessness.

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

NMHC is the government agency authorized to administer 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. 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 2016 which describes the basis NMHC will use to allocate LIHTCs among qualified owners/developers. The tax credit allocated to the CNMI for 2016 was \$2,690,000. As of September 30, 2016, there was one new applicant; however, the applicant was awarded after the end of the fiscal year.

I. OVERVIEW OF NMHC, CONTINUED

Asset Management Division

The Asset Management Division handles NMHC's assets and provides technical and maintenance assistance to the HAP, HOME and CDBG programs. The goals of the Asset Management Division are to maximize resources for the continuity of NMHC programs, expedite the process of turnaround time for vacant units, maintain full occupancy of Mihaville and Koblerville projects, ensuring units are safe, decent and sanitary, obtain high scores in Real Estate Assessment Center (REAC) inspections, develop systemic quarterly inspections minimizing maintenance costs, improve collection of tenant damage costs and provide home care counseling to tenants and consistent program requirements training to personnel.

II. OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This MD&A is intended to provide general explanations to NMHC's basic financial statements.

The **Statement of Net Position** presents information on NMHC's assets and liabilities, with the difference between the two reported as net position. Assets and liabilities are presented in the order of liquidity and are classified as "current" (convertible to cash within one year) and "noncurrent". Over time, increases or decreases in net position may serve as useful indicators as to whether NMHC's financial health is improving or deteriorating.

The **Statement of Revenues, Expenses and Changes in Net Position** illustrates how NMHC's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported for some items that will only result in cash flows in subsequent years.

The **Statement of Cash Flows** conveys how NMHC's cash was used in and provided by its operating, noncapital financing and investing activities during the periods reported. The net of these activities is added to the beginning year cash balance to reconcile to the cash balances at September 30, 2016 and 2015. NMHC uses the direct method of presenting cash flows, which includes a reconciliation of operating activities to operating income. These statements provide answers to such questions as where did cash come from, how cash was used and what the change was in the cash balance during the year.

Notes to the Basic Financial Statements provide financial statement disclosures that are an integral part of the basic financial statements. Such disclosures are essential to a comprehensive understanding of the information provided in the basic financial statements.

III. FINANCIAL HIGHLIGHTS

- Total assets increased by 1% from \$19,349,479 in 2015 to \$19,564,761 in 2016 and from \$19,176,018 in 2014 to \$19,349,479 in 2015. Current assets of \$2,038,994 and \$1,868,269 as of September 30, 2016 and 2015, respectively, are primarily comprised of cash, current portion of loans receivable, finance lease receivables, receivables from tenants and receivables from a court-ordered settlement award from a contractor.
- Total other assets as of September 30, 2016 and 2015 was \$5,071,176 and \$4,988,680, respectively, which is an increase of 2%.

III. FINANCIAL HIGHLIGHTS, CONTINUED

- Foreclosed real estate decreased by 36% from \$687,212 in 2015 to \$441,648 in 2016. This shrinkage was due to NMHC's auction of foreclosed properties during fiscal year 2016.
- NMHC's total net position increased by 15% from \$5,368,195 in 2015 to \$6,166,635 in 2016. This increase is a result of an increase in total assets and a decrease in total liabilities. Total net position decreased by 8% from \$5,856,140 in 2014 to \$5,368,195 in 2015. Net position represents NMHC's equity after liabilities are subtracted from assets. Net position is divided into two major categories. The first category, net investment in capital assets, indicates NMHC's equity in land, buildings and improvement and machinery and equipment, net of related outstanding debt. The second category, restricted net position, has external limitations on the way in which these assets can be used.
- As of September 30, 2016, NMHC's current liabilities of \$4,412,989 exceed current assets of \$2,038,994 by \$2,373,995. This unfavorable financial condition was caused by NMHC's policy to place all Direct Family Home Loan collections in restricted reserve (in local bank accounts) over and above the escrow reserve and loan guaranty reserve required by the lender. The total amount of this reserve as of September 30, 2016 was approximately \$3.3 million.
- NMHC's operating income during fiscal year 2016 was \$731,860 and operating loss during fiscal year 2015 was \$531,613. The operating income in 2016 is primarily attributable to the recovery of a loan guaranty settlement of \$2,226,340.

IV. FINANCIAL ANALYSIS

a. *Statements of Net Position*

| | 2016 | 2015 | \$ Change | % Change | 2014 |
|------------------------------------|----------------------|----------------------|-------------------|----------|----------------------|
| Current assets | \$ 2,038,994 | \$ 1,868,269 | \$ 170,725 | 9% | \$ 1,889,773 |
| Other assets | 5,071,176 | 4,988,680 | 82,496 | 2% | 4,619,902 |
| Capital assets, net | 8,144,338 | 8,285,076 | (140,738) | -2% | 8,408,455 |
| Foreclosed real estate | 441,648 | 687,212 | (245,564) | -36% | 511,912 |
| Noncurrent assets | <u>3,868,605</u> | <u>3,520,242</u> | <u>348,363</u> | 10% | <u>3,745,976</u> |
| Total assets | \$ <u>19,564,761</u> | \$ <u>19,349,479</u> | \$ <u>215,282</u> | 1% | \$ <u>19,176,018</u> |
| Current liabilities | \$ 4,412,989 | \$ 5,658,461 | \$ (1,245,472) | -22% | \$ 5,605,634 |
| Noncurrent liabilities | <u>8,985,137</u> | <u>8,322,823</u> | <u>662,314</u> | 8% | <u>7,714,244</u> |
| Total liabilities | <u>13,398,126</u> | <u>13,981,284</u> | <u>(583,158)</u> | -4% | <u>13,319,878</u> |
| Net investment in capital assets | 8,144,338 | 8,285,076 | (140,738) | -2% | 8,408,455 |
| Restricted | <u>(1,977,703)</u> | <u>(2,916,881)</u> | <u>939,178</u> | -32% | <u>(2,552,315)</u> |
| Total net position | <u>6,166,635</u> | <u>5,368,195</u> | <u>798,440</u> | 15% | <u>5,856,140</u> |
| Total liabilities and net position | \$ <u>19,564,761</u> | \$ <u>19,349,479</u> | \$ <u>215,282</u> | 1% | \$ <u>19,176,018</u> |

IV. FINANCIAL ANALYSIS, CONTINUED

b. *Statements of Revenues, Expenses and Changes in Net Position*

| | 2016 | 2015 | \$ Change | % Change | 2014 |
|---------------------------------------|---------------------|---------------------|-------------------|----------|---------------------|
| Operating revenues | \$ 8,892,647 | \$ 7,496,936 | \$ 1,395,711 | 19% | \$ 7,287,472 |
| Bad debts | <u>(603,364)</u> | <u>(353,998)</u> | <u>(249,366)</u> | 70% | <u>(188,967)</u> |
| Net operating revenues | 8,289,283 | 7,142,938 | 1,146,345 | 16% | 7,098,505 |
| Operating expenses | <u>7,557,423</u> | <u>7,674,551</u> | <u>(117,128)</u> | -2% | <u>8,774,806</u> |
| Operating income (loss) | 731,860 | (531,613) | 1,263,473 | -238% | (1,676,301) |
| Nonoperating revenues (expenses), net | <u>66,580</u> | <u>43,668</u> | <u>22,912</u> | 52% | <u>448,510</u> |
| Change in net position | 798,440 | (487,945) | 1,286,385 | -264% | (1,227,791) |
| Net position - beginning | <u>5,368,195</u> | <u>5,856,140</u> | <u>(487,945)</u> | -8% | <u>7,083,931</u> |
| Net position - ending | \$ <u>6,166,635</u> | \$ <u>5,368,195</u> | \$ <u>798,440</u> | 15% | \$ <u>5,856,140</u> |

c. *Statements of Cash Flows*

| | 2016 | 2015 | \$ Change | % Change | 2014 |
|----------------------------------------------------------|-------------------|-------------------|-------------------|----------|-------------------|
| Cash flows from operating activities | \$ 270,341 | \$ 149,098 | \$ 121,243 | 81% | \$ 265,937 |
| Cash flows from capital and related financing activities | 40,818 | 87,112 | (46,294) | -53% | 322,624 |
| Cash flows from investing activities | <u>(62,054)</u> | <u>(344,587)</u> | <u>282,533</u> | -82% | <u>(161,886)</u> |
| Net increase (decrease) in cash and cash equivalents | 249,105 | (108,377) | 357,482 | -330% | 426,675 |
| Cash and cash equivalents at beginning of year | <u>424,533</u> | <u>532,910</u> | <u>(108,377)</u> | -20% | <u>106,235</u> |
| Cash and cash equivalents at end of year | \$ <u>673,638</u> | \$ <u>424,533</u> | \$ <u>249,105</u> | 59% | \$ <u>532,910</u> |

d. *Capital Assets*

At September 30, 2016, 2015 and 2014, NMHC had \$8,144,338, \$8,285,076, and \$8,408,455, respectively, net investment in capital assets, net of depreciation where applicable. This represents a net decrease of \$140,738 or 2% during fiscal year 2016 and \$123,379 or 1% during fiscal year 2015.

| | 2016 | 2015 | 2014 |
|-------------------------------------------------------------|---------------------|---------------------|---------------------|
| Depreciable capital assets, net of accumulated depreciation | \$ 856,156 | \$ 996,894 | \$ 1,120,273 |
| Nondepreciable capital assets | <u>7,288,182</u> | <u>7,288,182</u> | <u>7,288,182</u> |
| | \$ <u>8,144,338</u> | \$ <u>8,285,076</u> | \$ <u>8,408,455</u> |

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

V. ECONOMIC FACTORS AFFECTING NMHC'S FUTURE

NMHC's program and operating revenues are primarily provided by the U.S federal government through operating subsidies, Section 8 HAP payments and other minor grants. The operating subsidy for 2016 was \$1,305,473. Based on the CNMI's annual awards and the contract with HUD, NMHC anticipates that HUD assistance programs will continue into the foreseeable future.

V. ECONOMIC FACTORS AFFECTING NMHC'S FUTURE, CONTINUED

Nevertheless, U.S. Congress continues to reduce Section 8 housing assistance funding. The reduction in funding adversely impacts NMHC's operating capabilities and financial position. During 2015, NMHC received \$1,346,858 in federal funds for its housing and community development programs. Such assistance has typically come with use restrictions and generally limits NMHC's ability to encumber or leverage debt financing against HUD properties in its asset portfolio.

Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in NMHC's report on the audit of financial statements, which is dated October 11, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be viewed at the Office of the Public Auditor's website at www.opacnmi.com.

VI. REQUESTS FOR INFORMATION

This financial report is designed to provide the reader with a general overview of NMHC's finances and to demonstrate NMHC's financial accountability over its resources. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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NORTHERN MARIANAS HOUSING CORPORATION

Statements of Net Position
September 30, 2016 and 2015

| <u>ASSETS</u> | <u>2016</u> | <u>2015</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 673,638 | \$ 424,533 |
| Receivables: | | |
| Current portion of loans receivable, net | 974,205 | 961,015 |
| Current portion of finance lease receivable, net of allowance for doubtful accounts of \$19,341 and \$0- at September 30, 2016 and 2015, respectively | 10,823 | 16,021 |
| Rent, net of allowance for doubtful accounts of \$564,747 and \$555,640 at September 30, 2016 and 2015, respectively | 109,682 | 4,245 |
| Accrued interest, net of allowance for doubtful accounts of \$542,926 and \$510,144 at September 30, 2016 and 2015, respectively | 192,631 | 347,653 |
| Employees, net of allowance for doubtful accounts of \$56,857 and \$58,870 at September 30, 2016 and 2015, respectively | - | - |
| Other receivables | <u>78,015</u> | <u>114,802</u> |
| Total current assets | <u>2,038,994</u> | <u>1,868,269</u> |
| Other assets: | | |
| Cash and cash equivalents, restricted | <u>5,071,176</u> | <u>4,988,680</u> |
| Noncurrent assets: | | |
| Loans receivable, net of current portion | 3,348,788 | 2,975,441 |
| Finance lease receivable, net of current portion | 519,817 | 544,801 |
| Depreciable capital assets, net of accumulated depreciation | 856,156 | 996,894 |
| Nondepreciable capital assets | 7,288,182 | 7,288,182 |
| Foreclosed real estate | <u>441,648</u> | <u>687,212</u> |
| Total noncurrent assets | <u>12,454,591</u> | <u>12,492,530</u> |
| | <u>\$ 19,564,761</u> | <u>\$ 19,349,479</u> |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 274,563 | \$ 294,658 |
| Due to grantor agency | 800,784 | 799,010 |
| Reserve for loan guaranty | <u>3,337,642</u> | <u>4,564,793</u> |
| Total current liabilities | 4,412,989 | 5,658,461 |
| Unearned revenues | <u>8,985,137</u> | <u>8,322,823</u> |
| Total liabilities | <u>13,398,126</u> | <u>13,981,284</u> |
| Contingencies | | |
| Net position: | | |
| Net investment in capital assets | 8,144,338 | 8,285,076 |
| Restricted | <u>(1,977,703)</u> | <u>(2,916,881)</u> |
| Total net position | <u>6,166,635</u> | <u>5,368,195</u> |
| | <u>\$ 19,564,761</u> | <u>\$ 19,349,479</u> |

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------------------|---------------------|---------------------|
| Operating revenues: | | |
| Section 8 income: | | |
| Federal housing assistance rentals | \$ 4,479,954 | \$ 4,788,251 |
| Tenant share | 155,837 | 30,933 |
| Recovery from loan guaranty settlement | 2,226,340 | - |
| HOME Investment Partnership Program Grant | 660,042 | 803,016 |
| Interest and fees on loans | 346,005 | 279,735 |
| Community Development Block Grants (CDBG) Program | 328,368 | 1,069,977 |
| Low Income Housing Tax Credit | 312,045 | 168,338 |
| HOME Investment Partnership Grant program income | 204,929 | 225,796 |
| Emergency Shelter Grants (ESG) Program | 46,776 | 55,914 |
| Neighborhood Stabilization Program (NSP) Grant | 30,433 | 3,865 |
| Housing rental | 21,358 | 22,166 |
| Economic Development Initiative (EDI) Program | - | 17,104 |
| Other | 80,560 | 31,841 |
| | <u>8,892,647</u> | <u>7,496,936</u> |
| Bad debts | <u>(603,364)</u> | <u>(353,998)</u> |
| Net operating revenues | <u>8,289,283</u> | <u>7,142,938</u> |
| Operating expenses: | | |
| Section 8 rental | 2,655,611 | 2,829,346 |
| HOME Investment Partnership Program Grant | 660,042 | 803,016 |
| CDBG Program | 328,368 | 1,069,977 |
| HOME Investment Partnership Grant program income | 204,929 | 225,796 |
| ESG Program | 46,776 | 55,914 |
| NSP Grant | 30,433 | 3,865 |
| EDI Program | - | 17,104 |
| Operations: | | |
| Salaries and wages | 1,096,755 | 754,002 |
| Provision for loan guaranty | 999,189 | 282,826 |
| Utilities | 329,936 | 440,611 |
| Repairs and maintenance | 279,567 | 404,694 |
| Employee benefits | 168,344 | 145,670 |
| Depreciation | 140,738 | 150,374 |
| Professional fees | 133,217 | 111,742 |
| Travel | 124,240 | 115,633 |
| Supplies | 97,640 | 70,488 |
| Reimbursement to grantor | 69,575 | - |
| Office rent | 13,925 | 14,913 |
| Provision for foreclosed properties | - | 56,578 |
| Other | 178,138 | 122,002 |
| Total operating expenses | <u>7,557,423</u> | <u>7,674,551</u> |
| Operating income (loss) | <u>731,860</u> | <u>(531,613)</u> |
| Nonoperating revenues (expenses): | | |
| Litigation judgment | 46,138 | 55,923 |
| Interest income | 20,442 | 24,191 |
| Loss on sale of foreclosed real estate | - | (36,446) |
| Total nonoperating revenues (expenses), net | <u>66,580</u> | <u>43,668</u> |
| Change in net position | 798,440 | (487,945) |
| Net position - beginning | <u>5,368,195</u> | <u>5,856,140</u> |
| Net position - ending | <u>\$ 6,166,635</u> | <u>\$ 5,368,195</u> |

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Cash received from interest and fees on loans receivable | \$ 468,245 | \$ 268,598 |
| Cash payments to suppliers for goods and services | (554,223) | (238,149) |
| Cash received from customers | 487,411 | 331,349 |
| Cash payments to employees for services | (1,096,755) | (754,002) |
| Cash payments to grantor for federal grant reimbursement | (69,575) | - |
| Cash received from federal grant awards | 5,752,276 | 6,846,243 |
| Cash payments from federal grant awards | <u>(4,717,038)</u> | <u>(6,304,941)</u> |
| Net cash provided by operating activities | <u>270,341</u> | <u>149,098</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | - | (26,995) |
| Net proceeds from loans receivable | 4,435 | 11,751 |
| Proceeds from sale of foreclosed real estate | 27,486 | 89,100 |
| Interest received from litigation judgment | <u>8,897</u> | <u>13,256</u> |
| Net cash provided by capital and related financing activities | <u>40,818</u> | <u>87,112</u> |
| Cash flows from investing activities: | | |
| Purchase of restricted cash and cash equivalents | (82,496) | (368,778) |
| Interest received | <u>20,442</u> | <u>24,191</u> |
| Net cash used for investing activities | <u>(62,054)</u> | <u>(344,587)</u> |
| Net increase (decrease) in cash and cash equivalents | 249,105 | (108,377) |
| Cash and cash equivalents at beginning of year | <u>424,533</u> | <u>532,910</u> |
| Cash and cash equivalents at end of year | <u>\$ 673,638</u> | <u>\$ 424,533</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating income (loss) | \$ 731,860 | \$ (531,613) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Recovery from loan guaranty settlement | (2,226,340) | - |
| Provision for loan guaranty | 999,189 | 282,826 |
| Depreciation | 140,738 | 150,374 |
| Bad debts | 603,364 | 353,998 |
| Provision for foreclosed properties | (17,486) | 56,578 |
| (Increase) decrease in assets: | | |
| Receivables: | | |
| Finance lease | 10,841 | 9,813 |
| Rent | (114,544) | 24,703 |
| Employees | 2,013 | 888 |
| Accrued interest | 122,240 | (11,137) |
| Other | 36,787 | 42,667 |
| Decrease in liabilities: | | |
| Accounts payable and accrued expenses | (20,095) | (112,319) |
| Due to grantor agency | <u>1,774</u> | <u>(117,680)</u> |
| Net cash provided by operating activities | <u>\$ 270,341</u> | <u>\$ 149,098</u> |
| Supplemental disclosure of noncash capital and related financing activities: | | |
| Recognition of loans receivable: | | |
| Noncash increase in loans receivable | \$ 699,556 | \$ 651,246 |
| Noncash increase in unearned revenue | <u>(699,556)</u> | <u>(651,246)</u> |
| | <u>\$ -</u> | <u>\$ -</u> |
| Recognition of foreclosed properties: | | |
| Noncash (decrease) increase in foreclosed properties | \$ (235,564) | \$ 357,424 |
| Noncash increase (decrease) in loans receivable | 235,564 | (382,424) |
| Noncash increase in finance lease receivable | <u>-</u> | <u>25,000</u> |
| | <u>\$ -</u> | <u>\$ -</u> |

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(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 to assist in the development and administration of low cost residential housing in the Northern Mariana Islands. MIHA was empowered 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.
- To provide grant funding through the Community Development Block Grants/Special Purpose Grants/Insular Area program for community planning and development projects that will benefit low-moderate income communities.

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, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

GASB Statement No. 40 addresses common deposit risks related to credit risk and concentration of credit risk. GASB Statement No. 40 also requires disclosure of formal policies related to deposit risks. 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, 2016 and 2015, total unrestricted cash and cash equivalents were \$673,638 and \$424,533, respectively, and the corresponding bank balances were \$697,389 and \$471,039, 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.

Capital Assets

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

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

Land

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

Foreclosed Real Estate

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

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Loans Receivable, Interest Receivable and Allowance for Loan Losses

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

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, administrative fee, federal grants and interest on investments.

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

Administrative fee revenue represents 75% of the 5% tax credit reserved for approved applicants of the Low Income Housing Tax Credit (LIHTC). NMHC is the government agency authorized to administer 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. NMHC recorded LIHTC administrative fee revenue of \$312,045 and \$168,338 as of September 30, 2016 and 2015, respectively.

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.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Unearned Revenues

Unearned revenues represent recorded loans receivable from individuals eligible under the HOME Investment Partnership and Neighborhood Stabilization programs administered by NMHC. NMHC recorded unearned revenues of \$8,985,137 and \$8,322,823 as of September 30, 2016 and 2015, respectively, which 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, 2016 and 2015 was \$410,560 and \$304,660, 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. NMHC recorded litigation judgment revenue of \$46,138 and \$55,923 during the years ended September 30, 2016 and 2015, respectively, and recorded receivables of \$78,015 and \$114,802 (inclusive of interest of nine percent (9%) per annum) as of September 30, 2016 and 2015, respectively.

Retirement Plan

NMHC contributed to the Northern Mariana Islands Retirement Fund's (NMIRF) defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan established and now administered by the CNMI. On September 30, 2013, the DB Plan was transferred to the Northern Mariana Islands Settlement Fund (NMISF). NMHC also contributes to a defined contribution plan (DC Plan).

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.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. All active NMHC employees voluntarily terminated membership in the DB Plan.

For the years ended September 30, 2016, 2015 and 2014, NMHC contributed to the U.S. Social Security system benefits of \$77,292, \$61,342 and \$55,752, respectively.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. 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, 2016, 2015 and 2014 were \$15,650, \$14,358 and \$18,086, respectively, equal to the required contributions for each year.

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

Net Position

NMHC's net position is classified as follows:

- Net investment in capital assets; capital assets, net of accumulated depreciation.
- Restricted:
 - Nonexpendable - Net position subject to externally imposed stipulations that NMHC maintain them permanently. At September 30, 2016 and 2015, 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 net investment 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 net investment in capital assets, to be restricted for economic development, NMHC does not have unrestricted net position of September 30, 2016 and 2015.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* and in November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revised and established new financial reporting requirements for most governments that provided their employees with pension benefits through plans that are administered through trusts. Management has determined that the CNMI is legally responsible for making contributions to NMISF as a non-employer entity and that net pension obligations are allocated in total to the CNMI. Management acknowledges the requirement to recognize revenue in an amount equal to the non-employer contributing entities' (CNMI) total proportionate share of the collective pension expense that is associated with NMHC. NMHC has not recorded related revenues and pension expense for the years ended September 30, 2016 and 2015 as amounts were not available.

New Accounting Standards

During the year ended September 30, 2016, NMHC implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. 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, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, 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 2015 balances in the accompanying financial statements have been reclassified to conform to the 2016 presentation.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(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, 2016 and 2015, 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>2016</u> | <u>2015</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to U.S. Department of Agriculture Rural Development (USDA RD) loans | \$ 3,315,917 | \$ 3,541,127 |
| Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with HUD | 199,633 | 200,588 |
| Savings account maintained as a guarantee of housing loans made by a CNMI savings and loan | 61 | 61 |
| Checking account maintained for Section 8 Housing Choice Vouchers Program expenses | 994,476 | 979,235 |
| Other depository accounts reserved for various purposes | <u>561,089</u> | <u>267,669</u> |
| | <u>\$ 5,071,176</u> | <u>\$ 4,988,680</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.

Major classifications of economic development loans as of September 30, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------------------|---------------------|---------------------|
| HOME Investment Partnerships Act grant | \$ 7,943,466 | \$ 6,994,992 |
| Direct family home loans | 2,492,580 | 2,628,212 |
| Neighborhood Stabilization Program (NSP) grant | 1,078,914 | 972,329 |
| Housing construction | 498,024 | 451,188 |
| Tinian turnkey | 471,983 | 450,564 |
| General | 413,275 | 473,727 |
| Section 8 | 387,973 | 378,427 |
| Home revenue bond | 61,247 | 64,424 |
| Housing preservation grant | <u>13,773</u> | <u>16,687</u> |
| Loan principal receivable | 13,361,235 | 12,430,550 |
| Less allowance for loan losses | <u>(9,038,242)</u> | <u>(8,494,094)</u> |
| Net loans receivable | <u>\$ 4,322,993</u> | <u>\$ 3,936,456</u> |

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(4) Loans Receivable, Continued

Maturities of the above principal balances subsequent to September 30, 2016 and 2015 will be as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------|----------------------|----------------------|
| Fully matured and others | \$ 1,547,948 | \$ 1,495,440 |
| 1 - 6 months | 529,920 | 639,877 |
| 7 - 18 months | 933,142 | 899,377 |
| 19 months - 3 years | 1,238,005 | 1,220,405 |
| After 3 years | <u>9,112,220</u> | <u>8,175,451</u> |
| | <u>\$ 13,361,235</u> | <u>\$ 12,430,550</u> |

Allowance for Loan Losses

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

| | <u>2016</u> | <u>2015</u> |
|-----------------------------|---------------------|---------------------|
| Balance - beginning of year | \$ 8,494,094 | \$ 8,084,919 |
| Provision for loan losses | <u>544,148</u> | <u>409,175</u> |
| Balance - end of year | <u>\$ 9,038,242</u> | <u>\$ 8,494,094</u> |

(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, 2016 and 2015 amounted to \$21,358 and \$22,166, respectively. Future minimum lease rentals under these arrangements as of September 30, 2016 and 2015, are as follows:

| <u>Year ending September 30,</u> | <u>Minimum Lease Rentals</u> | <u>Minimum Lease Income</u> | <u>Net</u> | |
|--------------------------------------|----------------------------------|---------------------------------|-----------------------------------------|-------------------|
| | | | <u>2016</u> | <u>2015</u> |
| 2016 | \$ - | \$ - | \$ - | \$ 16,021 |
| 2017 | 38,228 | 27,405 | 10,823 | 14,385 |
| 2018 | 39,875 | 27,117 | 12,758 | 15,078 |
| 2019 | 39,875 | 26,520 | 13,355 | 15,810 |
| 2020 | 39,875 | 25,929 | 13,946 | 16,582 |
| 2021 | 39,875 | 25,215 | 14,660 | - |
| Thereafter | <u>764,339</u> | <u>279,900</u> | <u>484,439</u> | <u>482,946</u> |
| | <u>\$ 962,067</u> | <u>\$ 412,086</u> | 549,981 | 560,822 |
| | | | Less current portion | (10,823) |
| | | | Less allowance for doubtful accounts | (16,021) |
| | | | <u>(19,341)</u> | <u>-</u> |
| | | | Noncurrent portion | <u>\$ 519,817</u> |
| | | | | <u>\$ 544,801</u> |

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(6) Capital Assets

Depreciable capital assets consist of the following at September 30, 2016 and 2015:

| | <u>Estimated Useful Lives</u> | Balance at October <u>1, 2015</u> | <u>Additions</u> | <u>Deletions</u> | Balance at September <u>30, 2016</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 | 550,079 | - | - | 550,079 |
| Vehicles | 3 years | <u>215,830</u> | <u>-</u> | <u>-</u> | <u>215,830</u> |
| | | <u>4,447,631</u> | <u>-</u> | <u>-</u> | <u>4,447,631</u> |
| | | 12,425,023 | - | - | 12,425,023 |
| Less accumulated depreciation | | <u>(11,428,129)</u> | <u>(140,738)</u> | <u>-</u> | <u>(11,568,867)</u> |
| | | <u>\$ 996,894</u> | <u>\$ (140,738)</u> | <u>\$ -</u> | <u>\$ 856,156</u> |
| | | | | | |
| | <u>Estimated Useful Lives</u> | Balance at October <u>1, 2014</u> | <u>Additions</u> | <u>Deletions</u> | Balance at September <u>30, 2015</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 | 550,079 | - | - | 550,079 |
| Vehicles | 3 years | <u>188,835</u> | <u>26,995</u> | <u>-</u> | <u>215,830</u> |
| | | <u>4,420,636</u> | <u>26,995</u> | <u>-</u> | <u>4,447,631</u> |
| | | 12,398,028 | 26,995 | - | 12,425,023 |
| Less accumulated depreciation | | <u>(11,277,755)</u> | <u>(150,374)</u> | <u>-</u> | <u>(11,428,129)</u> |
| | | <u>\$ 1,120,273</u> | <u>\$ (123,379)</u> | <u>\$ -</u> | <u>\$ 996,894</u> |

Nondepreciable capital assets consist of the following titles to approximately 335,542 square meters of land:

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.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(6) Capital Assets, 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 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.

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 at September 30, 2016 and 2015. 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, 2016 and 2015 is as follows:

| | <u>2016</u> | <u>2015</u> |
|------------------------------|-------------------|-------------------|
| Balance at beginning of year | \$ 687,212 | \$ 511,912 |
| Additions | 59,200 | 366,100 |
| Deletions | <u>(304,764)</u> | <u>(190,800)</u> |
| Balance at end of year | \$ <u>441,648</u> | \$ <u>687,212</u> |

(8) Related Party Transactions

NMHC maintains depository accounts in FDIC insured financial institutions. The former Chairperson of the Board of NMHC (term expired on December 31, 2014) is currently the Vice President/Regional Manager of one of these financial institutions. NMHC's deposits in this financial institution amounted to \$5,752,814 and \$5,472,041 as of September 30, 2016 and 2015, respectively. Management is of the opinion that transactions with this financial institution are of similar terms and conditions as with unrelated parties.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(9) Contingencies

NMHC participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$1,324,665 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2016. 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 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, 2016 and 2015, NMHC has guaranteed outstanding loans of \$10,516,586 and \$10,592,730, respectively, and the amount of delinquent loans related to the agreement was \$6,662,734 and \$5,699,223, respectively. As of September 30, 2016 and 2015, total delinquent loans with demand notices from RD were \$4,187,162 and \$3,932,646, respectively, for which NMHC recorded liabilities incorporated in a "reserve for loan guaranty" of \$3,337,642 and \$4,564,793, respectively, in the accompanying financial statements exclusive of reserves for the remaining non-delinquent and delinquent loans without demand notices of \$1,426,449 and \$632,147, respectively. As of September 30, 2016 and 2015, 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 \$3,315,917 and \$3,541,127, 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, 2016 and 2015, NMHC was contingently liable for \$168,228 and \$183,236, 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, 2016 and 2015 was \$61, which is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2016 and 2015, total defaulted loans related to this arrangement were \$-0- and \$101,041, 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, 2016 and 2015, NMHC was contingently liable to these institutions for \$324,927 and \$651,436, respectively. As of September 30, 2016 and 2015, the total defaulted loans related to these arrangements were \$62,357 and \$275,777, respectively.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Financial Statements
September 30, 2016 and 2015

(9) Contingencies, Continued

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.

(11) Subsequent Event

On October 18, 2016, NMHC entered into a settlement agreement with USDA RD for \$1,871,100 to pay all forty-eight seriously delinquent accounts in full with a principal amount of \$4,097,440, which was paid on October 24, 2016. NMHC recognized the forgiven reserved amount of \$2,226,340 as a recovery from loan guaranty settlement for the year ended September 30, 2016.

Northern Marianas Housing Corporation (TQ901)
Saipan, MP

Program Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2016

| | 14.871 Housing Choice Vouchers | Total |
|----------------------------------------------------------------|-----------------------------------|-------------|
| 111 Cash - Unrestricted | \$891,343 | \$891,343 |
| 112 Cash - Restricted - Modernization and Development | | |
| 113 Cash - Other Restricted | \$103,133 | \$103,133 |
| 114 Cash - Tenant Security Deposits | | |
| 115 Cash - Restricted for Payment of Current Liabilities | | |
| 100 Total Cash | \$994,476 | \$994,476 |
| 121 Accounts Receivable - PHA Projects | | |
| 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 | | |
| 127 Notes, Loans, & Mortgages Receivable - Current | | |
| 128 Fraud Recovery | \$42,216 | \$42,216 |
| 128.1 Allowance for Doubtful Accounts - Fraud | -\$14,259 | -\$14,259 |
| 129 Accrued Interest Receivable | | |
| 120 Total Receivables, Net of Allowances for Doubtful Accounts | \$27,957 | \$27,957 |
| 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 | \$1,022,433 | \$1,022,433 |
| 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 | -\$60,254 | -\$60,254 |
| 167 Construction in Progress | | |
| 168 Infrastructure | | |
| 160 Total Capital Assets, Net of Accumulated Depreciation | \$10,034 | \$10,034 |
| 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 | \$10,034 | \$10,034 |
| 200 Deferred Outflow of Resources | | |
| 290 Total Assets and Deferred Outflow of Resources | \$1,032,467 | \$1,032,467 |

See Accompanying Independent Auditors' Report.

Northern Marianas Housing Coproration (TQ901)
Saipan, MP

Program Balance Sheet Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2016

| | 14,871 Housing Choice Vouchers | Total |
|-------------------------------------------------------------------|-----------------------------------|-------------|
| 311 Bank Overdraft | | |
| 312 Accounts Payable <= 90 Days | | |
| 313 Accounts Payable >90 Days Past Due | | |
| 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 | \$11,806 | \$11,806 |
| 341 Tenant Security Deposits | | |
| 342 Unearned Revenue | | |
| 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 | \$11,806 | \$11,806 |
| 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 | \$11,806 | \$11,806 |
| 400 Deferred Inflow of Resources | \$0 | \$0 |
| 508.4 Net Investment in Capital Assets | \$10,034 | \$10,034 |
| 511.4 Restricted Net Position | \$103,133 | \$103,133 |
| 512.4 Unrestricted Net Position | \$907,494 | \$907,494 |
| 513 Total Equity - Net Assets / Position | \$1,020,661 | \$1,020,661 |
| 600 Total Liabilities, Deferred Inflows of Resources and Equity - | \$1,032,467 | \$1,032,467 |

See Accompanying Independent Auditors' Report.

Northern Marianas Housing Corporation (TQ901)
Saipan, MP

Program Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2016

| | 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 | \$3,174,481 | \$3,174,481 |
| 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 | \$3,400 | \$3,400 |
| 71500 Other Revenue | \$13,577 | \$13,577 |
| 71600 Gain or Loss on Sale of Capital Assets | | |
| 72000 Investment Income - Restricted | | |
| 70000 Total Revenue | \$3,191,458 | \$3,191,458 |
| 91100 Administrative Salaries | \$243,873 | \$243,873 |
| 91200 Auditing Fees | \$25,000 | \$25,000 |
| 91300 Management Fee | | |
| 91310 Book-keeping Fee | | |
| 91400 Advertising and Marketing | | |
| 91500 Employee Benefit contributions - Administrative | \$38,255 | \$38,255 |
| 91600 Office Expenses | \$79 | \$79 |
| 91700 Legal Expense | | |
| 91800 Travel | \$2,758 | \$2,758 |
| 91810 Allocated Overhead | | |
| 91900 Other | \$1,618 | \$1,618 |
| 91000 Total Operating - Administrative | \$311,583 | \$311,583 |
| 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/Single Audit

Fiscal Year End: 09/30/2016

| | 14,871 Housing Choice Vouchers | Total |
|-------------------------------------------------------------|-----------------------------------|-------------|
| 70300 Net Tenant Rental Revenue | | |
| 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 | | |
| 96500 Bad debt - Mortgages | | |
| 96600 Bad debt - Other | | |
| 96800 Severance Expense | | |
| 96000 Total Other General Expenses | \$0 | \$0 |
| 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 | \$311,583 | \$311,583 |
| 97000 Excess of Operating Revenue over Operating Expenses | \$2,879,875 | \$2,879,875 |
| 97100 Extraordinary Maintenance | | |
| 97200 Casualty Losses - Non-capitalized | | |
| 97300 Housing Assistance Payments | \$2,862,897 | \$2,862,897 |
| 97350 HAP Portability-In | | |
| 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 | \$3,186,477 | \$3,186,477 |

See Accompanying Independent Auditors' Report.

Northern Marianas Housing Corporation (TQ901)
Saipan, MP

Program Revenue and Expense Summary

Submission Type: Audited/Single Audit

Fiscal Year End: 09/30/2016

| | 14,871 Housing Choice Vouchers | Total |
|-----------------------------------------------------------------|-----------------------------------|-------------|
| 70300 Net Tenant Rental Revenue | | |
| 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 | \$4,981 | \$4,981 |
| 11020 Required Annual Debt Principal Payments | \$0 | \$0 |
| 11030 Beginning Equity | \$1,022,598 | \$1,022,598 |
| 11040 Prior Period Adjustments, Equity Transfers and Correction | -\$6,918 | -\$6,918 |
| 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 | \$917,528 | \$917,528 |
| 11180 Housing Assistance Payments Equity | \$103,133 | \$103,133 |
| 11190 Unit Months Available | 4356 | 4356 |
| 11210 Number of Unit Months Leased | 3613 | 3613 |
| 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.