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, 2009

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Northern Marianas Housing Corporation:

We have audited the accompanying statement of net assets of the Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), as of September 30, 2009 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of NMHC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of NMHC as of September 30, 2009 and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Northern Marianas Housing Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010, on our consideration of internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

October 18, 2010

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Management's Discussion and Analysis
Year Ended September 30, 2009

The Management's Discussion and Analysis of the Northern Marianas Housing Corporation (NMHC) financial performance provides an overview of NMHC's financial activity for the fiscal year ended September 30, 2009, with selected comparative information for the fiscal year ended September 30, 2008. 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 and where necessary, infrastructure development.

NMHC finalized the closing of Tottotville and forty-five houses are fully occupied and sold to respective homeowners. With the closure of the Expansion Project, NMHC is in the process of transferring infrastructure values to the Commonwealth Utilities Corporation (CUC) and the Department of Public Works. During fiscal year 2005, homeowners filed complaints with respect to the poor workmanship in the construction of their homes. The designer/construction manager and contractor for the subdivision have been contacted and all parties are addressing the areas of complaints. Mediation was also pursued; however, major issues being disputed are still unresolved by parties involved. Court hearings are ongoing with the latest held on January 5, 2010. In fiscal year 2009, NMHC settled with thirty-five of the forty-five homeowners and has filed a lawsuit against the contractor and the designer/construction manager.

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

Mortgage & Credit Division

The Mortgage & Credit Division is currently in the process of revamping the HOME Program policies and procedures so that the U.S. Department of Housing and Urban Development (HUD) regulations are properly addressed. The processing of rehabilitation and new construction loans for this specific program has been put on hold until the policies and procedures are in place and reviewed by HUD.

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

On July 30, 2008, PL 110-289, or the Housing and Economic Recovery Act of 2008 (HERA), created the Neighborhood Stabilization Program (NSP). NSP is a HUD program which provides emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their respective communities. NSP provides grants to every state and local community to purchase foreclosed or abandoned homes and to rehabilitate, resale, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes. NMHC intends to use the grant provided by this program to address the problems created by foreclosed and abandoned homes. Foreclosed homes will be acquired, rehabilitated, and resold to low income families.

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

Program and Housing Division

A. Saipan Housing Choice Voucher Program

In fiscal year 2009, the Housing Choice Voucher Program utilized 330 vouchers, fifty-three of which were given to applicants on the waiting list. In January 2009, the waiting list was closed due to the number of applicants on the list. Demand for the Housing Choice Voucher Program is high due to the portability of the program and the applicant's ability to select a unit in an area of their choice.

B. Saipan Multi-Family/New Construction Program

At the end of fiscal year 2009, Mihaville had forty-seven occupants of forty-eight units and Koblerville had thirty-two occupants of thirty-four units. Although Mihaville and Koblerville are almost at full capacity, there has been a turnover of tenants due to tenant requests to relocate. Both properties are well maintained and NMHC will continue its efforts to prepare for future REAC inspections.

C. Short-Term Goals

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

Rota Field Office

A. Rota Housing Choice Voucher Program

At the end of fiscal year 2009, twenty-five Housing Choice Vouchers (HCV) were utilized on Rota. This figure represents a five voucher decrease in the total number of vouchers utilized in the previous fiscal year, and is half of the total number of HCV (50) that were awarded by HUD to the island of Rota after Typhoon Pongsona. The demand for additional vouchers still exists, especially since qualified families prefer the HCV Program over the Multi-Family/New Construction Program for many reasons. The NMHC Rota Field Office receives numerous calls from interested families inquiring about the availability of vouchers. However, with the knowledge of the limited availability of vouchers and long waiting period, many qualified families choose not to go through the application process. Housing assistance to prospective tenants on the waiting list is on a first-come first-serve basis.

B. Rota Multi-Family/New Construction Program

The NMHC Rota Multi-Family/New Construction Program has been experiencing a low occupancy rate for several years. At the end of fiscal year 2009, eleven of thirty housing units at the Liyo' Housing Subdivision were occupied. This figure translates to a 36.66% occupancy rate. The low occupancy rate could be attributed to the following factors:

1. HCV Program

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

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

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

Rota Field Office, Continued

2. Condition of the Housing Units

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

3. Utility Security Deposit

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

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

C. Short-Term Goals

The goal of the NMHC Rota Field Office is to increase the occupancy rate at the Liyo' Housing Subdivision. To attain this goal, NMHC must continue with the repairs and maintenance of the units and ultimately find a more adequate long-term solution to the deteriorating conditions. NMHC will have to provide additional amenities to clients, such as providing basic furniture (beds, dining tables, etc.), improving lighting, creating a community garden, providing a small playground or picnic grounds, etc., to attract qualified families. Finally, the NMHC Rota Field Office will continue to work with the Mayor's office and other agencies such as the Department of Community & Cultural Affairs and the Northern Marianas Protection & Advocacy Systems Inc. to promote and educate the local community about the housing assistance available through our Section 8 Program.

Tinian Field Office

A. Tinian Multi-Family/New Construction and Voucher Programs

1. The Tinian Multi-Family/New Construction Program has twenty units. All of the units are fully occupied; however, there is a turnover of tenants due to tenants obtaining employment and preferring to move into an inexpensive residence despite the condition. In the past, people have been reluctant to apply to the program, but with ongoing renovation and maintenance we have managed to keep these units occupied. In addition, people previously visualized the area as a "ghetto", but that outlook has changed.

2. There were five vouchers issued; however, only one is being utilized on Tinian and the other four were transferred to Saipan. There have been inquiries from Tinian students enrolled at the Northern Marianas College who have to relocate to Saipan. People are still encouraged to apply to the program even if there is a shortage of vouchers. This is one way for us to justify requesting for additional vouchers for Tinian. Some applicants request to be included on the waiting list for both programs.

Tinian Field Office, Continued

B. Loans

1. The Tinian Field Office continues to work with applicants whose loans have been approved but not disbursed. There are also new applications for renovation or construction of new homes. The delay was due to changes to the HOME Program policies and procedures which were approved on July 23, 2009 and the additional requirement of environmental assessment on the properties.

   One of the goals is to work with management and local leadership to address the needs of the new homesteaders. There were 475 homestead applicants that drew homestead properties in various areas around Tinian, however, the survey for these lots has not been completed.

Community Development Block Grants/Special Purpose Grants/Insular Areas (CDBG)

NMHC received $1,528,092 in CDBG funding in fiscal year 2009. As stated in the Consolidated Plan, Community Development goals include the following:

- Infrastructure upgrades to provide basic services to the community and encourage economic development;

- Create an environment that is both functional and inviting to businesses, residents, and tourists;

- Provide support for limited clientele and community needs; and

- Promote community health, team work, and sportsmanship.

Because of limited funding in fiscal year 2009, NMHC allocated the entire CDBG grant amount to the following projects:

- Tinian Shelter/Tinian Public Library Public Service
- Garapan Central Market/Susupe Sports Complex
- Tinian Amphitheater Phase I
- Rota Walkway
- Paupau MRR/NMI Japan Cultural Center
- Tinian Amphitheater Phase II
- Susupe Sports Complex
- Marianas High School Building J
- Capitol Hill 1.0 MG Reservoir Rehabilitation

The above projects fulfill the aforementioned goals of promoting community health, team work, and sportsmanship and creating an environment that is both functional and inviting to businesses, residents, and tourists. Despite challenges along the way, such as environmental issues, NMHC continues to work with the CNMI Capital Improvement Projects Office and regulatory agencies to address any set-backs with regards to environmental assessment. NMHC is still working towards fulfilling its goals as stated in the Five-Year Consolidated Plan.

Emergency Shelter Grants Program (ESG)

NMHC received $52,874 in ESG grants in fiscal year 2009. As in previous years, ESG has been allocated to the Guma Esperansa shelter and the Division of Youth Services (DYS) shelter. The Guma Esperansa shelter serves women and their children who are victims of domestic violence and human trafficking. The DYS Shelter serves youths who are victims of child abuse/neglect and are runaways. ESG funding is used to assist with the operational costs and essential services of both shelters.

Statements of Net Assets
As of September 30, 2009 and 2008

	2009	2008	Change	% Change
Current assets	$ 2,571,175	$ 2,387,528	$ 183,647	8%
Other assets	3,390,606	4,743,094	(1,352,488)	-29%
Capital assets	12,111,587	12,357,349	(245,762)	-2%
Noncurrent assets	1,334,126	1,933,012	(598,886)	-31%
Total assets	**$ 19,407,494**	**$ 21,420,983**	**$ (2,013,489)**	**-9%**
Current liabilities	$ 3,021,797	$ 3,417,646	$ (395,849)	-12%
Noncurrent liabilities	4,405,399	4,514,515	(109,116)	-2%
Total liabilities	**7,427,196**	**7,932,161**	**(504,965)**	**-6%**
Invested in capital assets	12,111,587	12,357,349	(245,762)	-2%
Restricted	(131,289)	1,131,473	(1,262,762)	-112%
Total net assets	**11,980,298**	**13,488,822**	**(1,508,524)**	**-11%**
Total liabilities and net assets	**$ 19,407,494**	**$ 21,420,983**	**$ (2,013,489)**	**-9%**

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008	Change	% Change
Operating revenues	$ 7,675,423	$ 7,222,831	$ 452,592	6%
Bad debts	(279,025)	(2,399,030)	2,120,005	-88%
Net operating revenues	**7,396,398**	**4,823,801**	**2,572,597**	**53%**
Operating expenses	8,559,197	6,910,148	1,649,049	24%
Operating loss	**(1,162,799)**	**(2,086,347)**	**923,548**	**-44%**
Nonoperating revenues (expenses), net	(345,725)	2,623,076	(2,968,801)	-113%
Change in net assets	**(1,508,524)**	**536,729**	**(2,045,253)**	**-381%**
Net assets - beginning	13,488,822	12,952,093	536,729	4%
Net assets - ending	**$ 11,980,298**	**$ 13,488,822**	**$ (1,508,524)**	**-11%**

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008	Change	% Change
Cash flows from operating activities	$ (1,328,625)	$ 336,884	$ (1,665,509)	-494%
Cash flows from capital and related financing activities	(235,075)	(1,490,427)	1,255,352	-84%
Cash flows from investing activities	1,367,477	1,412,372	(44,895)	-3%
Net (decrease) increase in cash and cash equivalents	**(196,223)**	**258,829**	**(455,052)**	**-176%**
Cash and cash equivalents at beginning of year	1,300,584	1,041,755	258,829	25%
Cash and cash equivalents at end of year	**$ 1,104,361**	**$ 1,300,584**	**$ (196,223)**	**-15%**

FINANCIAL HIGHLIGHTS

- Total assets decreased by 9% from $21,420,983 in fiscal year 2008 to $19,407,494 in fiscal year 2009 mainly due to housing assistance payments (HAP) equity being utilized to fund the deficiency in revenues received from the grantor over actual HAP payments made for fiscal year 2009. In addition, all disaster vouchers from Typhoons Tingting and Chaba were converted to regular vouchers bringing the total to 363 voucher units that NMHC now administers and monitors for compliance.

- Total liabilities decreased by 6% from $7,932,161 in fiscal year 2008 to $7,427,196 in fiscal year 2009 and total net assets decreased by 11% from $13,488,822 in fiscal year 2008 to $11,980,298 in fiscal year 2009.

- Net operating revenues increased by 53% from $4,823,801 in fiscal year 2008 to $7,396,398 in fiscal year 2009. A significant component of this change is bad debts, which decreased by 88% from $2,399,030 in fiscal year 2008 to $279,025 in fiscal year 2009.

- Total operating expenses increased by 24% from $6,910,148 in fiscal year 2008 to $8,559,197 in fiscal year 2009. The increase is primarily attributable to the provision for loan guaranty and increases in Section 8 rental expenses, repairs and maintenance, salaries and wages, utilities, travel and ESG Program Grant expenses.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2009 and 2008, NMHC had $12,111,587 and $12,357,349, respectively, invested in capital assets, net of depreciation where applicable. This represents a net decrease of $245,762 or 2% during fiscal year 2009.

	2009	2008
Property and equipment, net	$ 1,935,160	$ 2,277,922
Land	9,747,313	9,650,313
Foreclosed real estate	429,114	429,114
	$ 12,111,587	$ 12,357,349

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

Long-Term Debt

At September 30, 2009 and 2008, NMHC had $510,656 in long-term debt outstanding. See note 5 to the financial statements for more detailed information on NMHC's long-term debt and changes therein.

ECONOMIC OUTLOOK

NMHC's CDBG grant allocation was reduced by $506,421 for FY 2009 resulting in a CDBG administrative loss of $101,284. This is due to a HUD funding reduction. NMHC has a five-year plan for all community planning and development programs and is committed to its current allocations. NMHC will lower expenses following the cost reduction approach in the future. With regards to the Section 8 Multifamily project on Rota, the revenue will decrease due to the thirty-three percent occupancy rate, which resulted in applicants relocating to the U.S. mainland to look for better opportunities and make additional income for their families. This will result in another decrease of revenue in the amount of $215,000.

ECONOMIC OUTLOOK, CONTINUED

The CNMI's economic outlook continues to be uncertain. Austerity measures continue to be in effect government wide in fiscal year 2010 to compensate for decreased revenues. The tourism industry and the garment industry, which played material roles in driving the CNMI's economy, have been in decline for a number of years. A series of unfortunate events hindered the return of tourist arrival levels to that enjoyed in the 1990's and thus the industry and the economy continue to suffer. Tourism overall appears to be on the rebound and partially stabilized. The garment industry has declined almost entirely, compounding the CNMI's economic woes. While several efforts are underway to look at alternative industries to revive the economy no immediate appreciable growth is anticipated in the foreseeable future.

As a result of the dwindling resources available for NMHC, the budget of federal funds will also be affected and is expected to decrease until recovery. As such, NMHC continues to apply the cost reduction approach to lower the deficit for every fiscal year. NMHC continues to take internal measures to ensure that this would not result in a deficit. The continuing economic challenges may result in further budget reductions in fiscal year 2011 but NMHC has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

CONTACTING NMHC'S MANAGEMENT

This financial report is designed to provide a general overview of NMHC's financial condition and to demonstrate its accountability for monies received. The Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the report on the audit of the Commonwealth Development Authority's financial statements which is dated May 7, 2010. That Discussion and Analysis explains the major factors impacting NMHC's 2008 financial statements. If you have questions about this report or need additional financial information, please contact Mr. Joshua T. Sasamoto, NMHC Corporate Director, P.O. Box 500514, Saipan, MP 96950-0514, or call (670) 234-6866/9447 or send email to jtsasamoto@nmhc.gov.mp.

NORTHERN MARIANAS HOUSING CORPORATION

Statement of Net Assets
September 30, 2009

ASSETS		
Current assets:		
Cash and cash equivalents	$	1,104,361
Receivables:		
Loans, net		873,469
Rent, net		89,142
Accrued interest, net of allowance for doubtful accounts of $825,695		411,275
Other		86,047
Prepaid expenses		6,881
Total current assets		2,571,175
Other assets:		
Cash and cash equivalents, restricted		3,390,606
Noncurrent assets:		
Loans receivable, net		1,334,126
Property and equipment, net		1,935,160
Land		9,747,313
Foreclosed real estate		429,114
Total noncurrent assets		13,445,713
	$	19,407,494
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$	636,095
Due to grantor agency		783,795
Reserve for loan guaranty		1,601,907
Total current liabilities		3,021,797
Deferred revenues		3,894,743
Due to CDA		510,656
Total liabilities		7,427,196
Contingencies		
Net assets:		
Invested in capital assets		12,111,587
Restricted		(131,289)
Total net assets		11,980,298
	$	19,407,494

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2009

Operating revenues:	
Interest and fees on loans	$ 509,769
Section 8 income:	
Federal housing assistance rentals	4,964,888
Tenant share	81,547
CDBG Program Grant	1,528,092
ESG Program Grant	52,874
Other	538,253
	7,675,423
Bad debts	(279,025)
Net operating revenues	7,396,398
Operating expenses:	
Section 8 rental	3,406,966
CDBG Program Grant	1,528,092
Repairs and maintenance	931,540
Provision for loan guaranty	772,280
Salaries and wages	581,556
Depreciation	395,638
Utilities	293,563
Employee benefits	184,001
Professional fees	140,101
Travel	98,191
ESG Program Grant	52,435
Office rent	4,239
Other	170,595
Total operating expenses	8,559,197
Operating loss	(1,162,799)
Nonoperating revenues (expenses):	
Interest income	14,989
Settlement expense	(286,062)
Interest expense	(540)
Other expense	(74,112)
Total nonoperating revenues (expenses), net	(345,725)
Change in net assets	(1,508,524)
Net assets - beginning	13,488,822
Net assets - ending	$ 11,980,298

See accompanying notes to financial statements.

NORTHERN MARIANAS HOUSING CORPORATION

Statement of Cash Flows
Year Ended September 30, 2009

Cash flows from operating activities:	
Cash received from interest and fees on loans receivable	$ 133,334
Cash payments to suppliers for goods and services	(710,515)
Cash received from customers	543,970
Cash payments to employees for services	(581,556)
Cash received from federal grant awards	5,573,592
Cash payments from federal grant awards	(6,287,450)
Net cash used for operating activities	(1,328,625)
Cash flows from capital and related financing activities:	
Acquisition of property and equipment	(52,876)
Acquisition of land	(97,000)
Net proceeds from loans receivable	275,515
Interest paid on notes payable	(540)
Payments to homeowners	(286,062)
Payments for loan guarantees	(74,112)
Net cash used for capital and related financing activities	(235,075)
Cash flows from investing activities:	
Net proceeds from restricted cash and cash equivalents	1,352,488
Interest received	14,989
Net cash provided by investing activities	1,367,477
Net decrease in cash and cash equivalents	(196,223)
Cash and cash equivalents at beginning of year	1,300,584
Cash and cash equivalents at end of year	$ 1,104,361
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (1,162,799)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Bad debts	279,025
Provision for loan guaranty	772,280
Depreciation	395,638
(Increase) decrease in assets:	
Receivables:	
Rent	(81,589)
Other	5,760
Accrued interest	(376,435)
Prepaid expenses	7,624
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(195,867)
Due to grantor agency	(972,262)
Net cash provided by operating activities	$ (1,328,625)

See accompanying notes to financial statements.

(1) Reporting Entity

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

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

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

As of and for the year ended September 30, 2008, NMHC's financial statements were included with those of CDA. For the year ended September 30, 2009, NMHC has elected to issue stand alone financial statements.

(2) Summary of Significant Accounting Policies

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

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

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

Budgets

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

Cash and Cash Equivalents

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

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

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

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

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

For purposes of the statements of net assets and cash flows, cash and cash equivalents is defined as cash held in demand deposits and savings. At September 30, 2009, total unrestricted cash and cash equivalents were $1,104,361 and the corresponding bank balances were $1,658,538 which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $305,127 were FDIC insured as of September 30, 2009. 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.

(2) Summary of Significant Accounting Policies, Continued

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.

Land

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

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure less estimated selling costs establishing a new cost basis. Valuations are periodically performed by management and adjustments are made to reflect the real estate at the lower of the carrying amount or fair value less estimated costs to sell. Operating expenses or income, reductions in estimated values, and gains or losses on disposition of such properties are charged to current operations. Foreclosed real estate amounted to $429,114 at September 30, 2009.

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.

(2) Summary of Significant Accounting Policies, Continued

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.

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

Federal grant revenues are recognized when allowable expenses are incurred.

Non-operating revenues result from capital and financing activities.

Deferred Revenues

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. Deferred revenues include prepaid lease income on foreclosed real estate held for lease and recorded loan receivables from individuals eligible under the HOME Investment Partnerships program administered by NMHC.

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, 2009 was $158,917.

Retirement Plan

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

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

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

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

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

Defined Benefit Plan (DB Plan)

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. NMHC is required to contribute at an actuarially determined rate. The actuarially determined contribution rate for the fiscal year ended September 30, 2008 is 29.9665% of covered payroll based on an actuarial valuation as of October 1, 2007 issued in December 2008. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 has not been determined. The established statutory rate at September 30, 2009 is 36.6667% of covered payroll.

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. The DC Plan by its nature is fully funded on a current basis from employer and member contributions.

NMHC's contributions to the Fund for the years ended September 30, 2009, 2008 and 2007 were $143,264, $132,635 and $203,783, respectively, which were equal to the required contributions for each year.

(2) Summary of Significant Accounting Policies, Continued

Net Assets

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

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

- Restricted:

  Nonexpendable - Net assets subject to externally imposed stipulations that NMHC maintain them permanently. At September 30, 2009 NMHC does not have nonexpendable net assets.

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

- Unrestricted; net assets that are not subject to externally imposed stipulations. As NMHC considers all assets, except investments in capital assets, to be restricted for economic development, NMHC does not have unrestricted net assets of September 30, 2009.

New Accounting Standards

During fiscal year 2009, NMHC implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of NMHC.

(2) Summary of Significant Accounting Policies, Continued

Off-Balance Sheet Financial Instruments

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

Estimates

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

(3) Restricted Cash and Cash Equivalents

NMHC maintains depository accounts with financial institutions in the CNMI which are restricted for various purposes, as detailed below. At September 30, 2009 restricted cash and cash equivalents consist of amounts held in demand deposit accounts. Of the amounts detailed below, $287,255 at September 30, 2009 was FDIC insured. Accordingly, the deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents:

Escrow and savings accounts maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	$ 2,163,848
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	197,214
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	26,430
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	832,543
Other depository accounts reserved for various purposes	170,571
	$ 3,390,606

(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, 2009 are as follows:

General	$ 753,345
Direct family home loans	3,122,978
HOME Investment Partnerships Act grant	3,632,866
Housing construction	453,397
Tinian turnkey	531,440
Home revenue bond	80,370
Section 8	166,063
Housing preservation grant	33,020
Loan principal receivable	8,773,479
Less allowance for loan losses	(6,565,884)
Net loans receivable	$ 2,207,595

Maturities of the above principal balances subsequent to September 30, 2009 will be as follows:

Fully matured and others	$ 537,815
1 - 6 months	65,275
7 - 18 months	117,431
19 months - 3 years	143,733
After 3 years	1,343,341
	$ 2,207,595

Allowance for Loan Losses

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

Balance - beginning of year	$ 6,218,333
Provision for loan losses	347,551
Balance - end of year	$ 6,565,884

(5) Due from CDA

Due from CDA resulted from loans made by CDA to the former MIHA. The year end balances are summarized as follows:

Housing construction loan. On February 3, 1999, CNMI Public Law 11-57 authorized NMHC to write off the portion of this loan not considered recoverable through sale of housing construction units. Interest has therefore been suspended pending sales of the units.	$ 456,611
Operating expenses	54,045
	$ 510,656

(6) Property and Equipment

Property and equipment consist of the following at September 30, 2009:

	Estimated Useful Lives	Balance at October 1, 2008	Additions	Deletions	Balance at September 30, 2009
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	$ 2,467,456	$ 13,414	$ -	$ 2,480,870
Section 8 Koblerville Housing	30 years	1,937,998	6,076	-	1,944,074
Section 8 Rota Housing	30 years	1,176,787	-	-	1,176,787
Section 8 Tinian Housing	30 years	1,065,154	4,871	-	1,070,025
Section 8 Housing Phase II	30 years	635,929	-	-	635,929
Section 8 Housing Phase I	30 years	600,515	-	-	600,515
		7,883,839	24,361	-	7,908,200
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	478,231	-	-	478,231
Equipment and computers	3 - 8 years	535,862	28,515	-	564,377
Vehicles	3 years	150,477	-	-	150,477
		3,988,061	28,515	-	4,016,576
		11,871,900	52,876	-	11,924,776
Less accumulated depreciation		(9,593,978)	(395,638)	-	(9,989,616)
		$ 2,277,922	$ (342,762)	$ -	$ 1,935,160

NMHC also holds title to approximately 339,000 square meters of land acquired at no cost which 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 $9,747,313 at September 30, 2009. 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) Settlement Expense

In November and December 2006, thirty-five homeowners filed a lawsuit against NMHC, architects, the construction manager and the contractor for deficiencies in the design and construction of homes in the Tottotville Subdivision. On February 25, 2009, NMHC entered into settlement agreements with the thirty-five homeowners for $6,200 each to remove NMHC from the lawsuit. NMHC paid a total of $286,062 of settlement fees including legal and professional fees which is recorded as settlement expense in the accompanying statements of revenues, expenses and changes in net assets.

(8) 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 $1,179,101 have been set forth in NMHC's Single Audit Report for the year ended September 30, 2009. 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) (formerly the U.S. Farmers Home Administration or FmHA) 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 the RD loans. As security under the agreement, NMHC is required to maintain an escrow account of $286,436. Beginning September 30, 1993, the amount in the escrow account will be reduced each year by the product of $1,500 multiplied by the number of loans paid in full for that particular year, or 4% of the total outstanding balance, whichever is less. As of September 30, 2009 NMHC has guaranteed outstanding loans of approximately $14,779,148. As of September 30, 2009 the balance in the escrow account was $259,793. This amount is included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2009 the amount of defaulted loans related to the agreement was $5,893,782. Of the total defaulted loans, the amount with demand notices from RD was $1,260,205 at September 30, 2009 for which NMHC recorded a liability included in "provision for loan guaranty" in the accompanying financial statements. NMHC management cannot presently determine if an additional liability for the remaining defaulted loans of $4,633,577 at September 30, 2009 may be incurred and, accordingly, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.

In June 2008, NMHC entered into an agreement with RD to resolve defaulted RD loans. The agreement has been established to outline the steps and mutually agreed-upon terms in liquidating defaulted RD loans. The agreement encompasses forty-eight seriously delinquent guaranteed loans totaling $3,126,371. However, this number may decline if any accounts cure before the related auction dates. On June 5, 2008, NMHC's Board of Directors approved a resolution to restrict $1,521,923 of NMHC's funds for the purpose of paying any amount due and payable to RD pursuant to the agreement. The eventual outcome of this matter cannot be presently determined and, accordingly, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.

(8) Contingencies, Continued

As of September 30, 2009, the total funds deposited in savings accounts which are reserved for RD loans amounted to $1,904,055. This amount is included in the "restricted cash and cash equivalents" in the accompanying financial statements.

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, 2009, NMHC was contingently liable for $1,102,655 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, 2009 was $26,430 which is included in "restricted cash and cash equivalents" in the accompanying financial statements.

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, 2009 NMHC was contingently liable to these institutions for $2,463,509. As of September 30, 2009 the total defaulted loans related to these arrangements was $-0-.

(9) 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.