

*Financial Statements and
Other Financial Information*

Guam Housing Corporation
(A Component Unit of the Government of Guam)

*Years ended September 30, 2011 and 2010
with Report of Independent Auditors*

Ernst & Young

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Financial Statements and
Other Financial Information

Years ended September 30, 2011 and 2010

Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis	3
Audited Financial Statements	
Statements of Net Assets	20
Statements of Revenues, Expenses and Changes in Net Assets	22
Statements of Cash Flows	23
Notes to Financial Statements.....	25
Supplemental Information	
Schedule 1 - Combining Statement of Net Assets	51
Schedule 2 - Combining Statement of Revenues, Expenses and Changes in Net Assets.....	53
Schedule 3 - Salaries, Wages and Benefits.....	54

Report of Independent Auditors

The Board of Directors
Guam Housing Corporation

We have audited the accompanying statements of net assets of the Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included 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 the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Guam Housing Corporation as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2012 on our consideration of the Guam Housing Corporation'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 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.

The Management's Discussion and Analysis on pages 3 through 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The supplementary information contained in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

February 2, 2012

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis

September 30, 2011

As Management of the Guam Housing Corporation (the Corporation), we offer the readers of the Corporation's financial statements this narrative overview and analysis of the financial activities for the fiscal year (FY) ended September 30, 2011. We encourage the readers to consider the information presented even as you review the financial statistics presented on the following pages. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto, which follow this section.

A. About the Corporation

Overview of Housing Division

The Corporation continues to make steady progress. Even with limited capital, the Corporation continues to move forward with its own lending programs as well as programs in cooperation with the United States Department of Agriculture (USDA) Rural Development and the Land Trust Initiative. The Corporation still faces the usual concerns of a turbulent economy. However, it should be noted that there continues to be improvement in loan origination and service.

The Corporation's mandate is to help individuals and families secure mortgage financing, who cannot otherwise qualify as borrowers through other means. The current conditions in Guam's real estate market, coupled with more stringent lending practices of local conventional lending institutions, has created an environment that has allowed the Corporation to assist working class families. The Corporation's clientele is diverse and includes teachers, firemen, police officers, office managers, office workers, and hotel and restaurant employees. They walk through our doors seeking financing for their first home in order to fill the basic need of housing for their families. It is for this very reason why the Corporation seeks additional lending capital for those families who have been pre-qualified.

In previous years the prospect of lending more capital to the Corporation was not entertained by its current lender due to the poor financial health of the Corporation. Prudent management has brought the Corporation back to good financial footing. Although no commitments have been made, Federal Home Loan Bank of Seattle is now open to discuss the possibilities of once again lending to the Corporation.

By virtue of Title 21, Chapter 75 of the Guam Code Annotated (GCA), the Corporation is the primary, and in most cases the only authorized lender for Chamorro Land Trust Property recipients seeking mortgage financing. Loan programs available to veterans who are also recipients of the Chamorro Land Trust were limited to the Corporation's loan program and U.S. Veteran's Administration direct loan under the Native American Loan Program. However, with the recent execution of the Memorandum of Understanding between the Chamorro Land Trust Commission, the Corporation and USDA Rural Development, direct loans from Rural Development can now be extended to veterans with Chamorro Land Trust Leases.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

A. About the Corporation, continued

Overview of Housing Division, continued

The current inventory of housing units is insufficient to meet the needs of our people. It is imperative that we as a government entity continue to work to address the housing needs of our island residents. The Corporation under its mandate is geared to accomplish this mission.

Overview of Rental Division

The Corporation created Guam Rental Corporation in 1969 to develop the 115-unit Lada Gardens subdivision in Dededo. The rental units are comprised of two, three, and four bedroom homes rented to eligible individuals and families. In 1992, the Corporation acquired two (2) additional single-family homes and developed two 12-unit apartment buildings, Guma As-Atdas, bringing the total number of rental units to 141. In 2001, as the Corporation executed its recovery program, management considered the benefits of selling the Lada Gardens subdivision. However, there has been no action on the sale to date.

Major repairs and renovations for the Guma As-Atdas buildings A and B were budgeted for FY 2008, 2009 and 2010. Building B consisting of twelve (12) apartments was renovated first. The renovation of Building B was completed in April 2009 allowing tenants to occupy the units May 2009. The renovation of Building A commenced in May 2009 and was completed in March 2010. In April 2010, tenants moved into the apartments. The BOD approved an increase in rent for the newly renovated apartments to increase revenues that were lost during the renovation period. The new rates established were \$500 for a two bedroom unit and \$600 for a three bedroom unit.

The rental division continually strives to improve in policy and performance. The rental division is currently utilizing established area guidelines to qualify tenants with respect to family size and income. This process ensures tenants have the ability to meet their monthly rental fees.

Lada Estates Affordable Housing Project

Through P.L. 20-225, forty six (46) acres of land was transferred to the Corporation from the Government of Guam with the mandate to develop affordable housing units for sale to first-time home buyers. Lada Estates, as it became known, was intended as a two-phase turnkey project. Subsequent economic conditions prevented the completion of the project. In 2004, Maeda Pacific Corporation brought suit against the Corporation. As of September 30, 2011, the issue of Lada Estates remains unresolved. However, as recent as January 6, 2012, the court approved the settlement between Maeda and GHC. At the recommendation of our independent auditors and due to the state the property is in, an adjustment was made to decrease the value of the property recorded in the financial statements. In FY 2010, an impairment loss of \$5.2 million was recorded as a prior year adjustment and in FY 2011, an additional impairment loss of approximately \$392 thousand was recorded.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

B. Using the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements are comprised of two components: 1) Corporation-wide financial statements and 2) notes to the financial statements.

The Corporation utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 Principle Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

The *Statement of Net Assets* presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Corporation's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., loan origination fees and costs, depreciation, and earned but unused vacation leave).

The *Statement of Cash Flows* provides information about the Corporation's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

The Corporation-wide financial statements report on the function of the Corporation that is principally supported by intergovernmental revenues. The Corporation's function is to help first-time homeowner individuals and families secure mortgage financing who cannot otherwise qualify as borrowers through other conventional financing means and provide and administer low-cost housing rental projects. The Corporation-wide financial statements of the Corporation can be found on pages 20 through 54 of this report.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

B. Using the Financial Statements, continued

The 2009 financial statements have been restated due to prior year adjustments made to the Land held for development, Foreclosed assets held for resale and Allowance for loan and lease losses

A condensed summary of the Corporation's statements of net assets at September 30, 2011, 2010 and 2009 is shown below.

Statements of Net Assets
Fiscal Years Ended September 30, 2011, 2010 and 2009

Assets	2011	2010	(Restated) 2009
Cash and investments	\$13,462,207	\$13,814,723	\$21,255,967
Loans receivable, other receivable, prepaid expenses and inventory	30,189,179	30,859,853	23,751,719
Land held for development	10,555,000	10,947,385	10,947,385
Foreclosed assets held for resale	247,691	116,359	545,719
Capital assets	5,771,930	5,870,251	5,835,274
Total assets	\$60,226,007	\$61,608,571	\$62,336,064
Accounts payable and accrued expenses	\$11,130,033	\$11,209,050	\$11,102,446
Notes payable	3,343,170	4,351,620	5,296,866
Deposits by borrowers and security deposit	517,190	529,134	639,462
Bonds payable	4,850,000	4,980,000	5,105,000
Loans held in trust	397,634	550,581	619,977
Total liabilities	20,238,027	21,620,385	22,763,751
Invested in capital assets, net of related debt	5,771,930	5,870,251	5,835,274
Restricted	9,738,655	9,535,081	9,860,843
Unrestricted	24,477,395	24,582,854	23,876,196
Total net assets	39,987,980	39,988,186	39,572,313
Total Liabilities and Net Assets	\$60,226,007	\$61,608,571	\$62,336,064

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

B. Using the Financial Statements, continued

A condensed summary of the Corporation's statements of revenues, expenditures and changes in net assets for the years ended September 30, 2011, 2010 and 2009 is shown below.

Statements of Revenues, Expenditures and Changes in Net Assets
Fiscal Years Ended September 30, 2011, 2010 and 2009

	<u>2011</u>	<u>2010</u>	<u>(Restated) 2009</u>
Revenues	\$ 3,177,118	\$ 3,071,404	\$ 3,150,766
Expenses	<u>3,177,324</u>	<u>2,655,531</u>	<u>2,571,433</u>
(Decrease) increase in net assets	(206)	415,873	579,333
Total net assets at beginning of year	<u>39,988,186</u>	<u>39,572,313</u>	<u>38,992,980</u>
Total net assets at end of year	<u><u>\$39,987,980</u></u>	<u><u>\$39,988,186</u></u>	<u><u>\$39,572,313</u></u>

C. Financials at a Glance

The Corporation-wide financial statements of the Corporation are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The Corporation's portfolio consists of loans originated with funds from the Direct Loan Program and the Revolving Loan Program. It is categorized in the Statements of Net Assets under Loans Receivable unrestricted and restricted. Other Receivables under the Statements of Net Assets comprises all other loans (i.e., Down Payment and Closing Cost Assistance, Hazard Mitigation, and CAHAT). Other portfolio loans are not exclusively for first time homeowners, but rather, they represent support programs that the agency has administered from time to time throughout the years.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

C. Financials at a Glance, continued

The Corporation's gross loan portfolio has decreased by \$696,533 to approximately \$31.3 million decreasing 2.18% from the prior year. Due to the lack of funds available for loans under the Direct Loan Program, which the interest rate is the prevailing rate, only three (3) loans totaling \$484,350 were originated under this program. Five (5) loans totaling \$884,072 under the Revolving Loan Program was originated this fiscal year. The Revolving Loan Program is set by P.L. 20-210 to an interest rate at six percent. This interest rate is considered high at this time and made it difficult for applicants to qualify for the loan amounts needed to purchase a house. Under the CAHAT Program seven (7) loans were originated totaling \$269,700. In addition, the corporation had an increase of loans with higher principal balance pay off and two foreclosures during this fiscal year. In FY 2011, the Corporation had twenty-five (25) payoffs amounting to \$1.18 million in comparison to the previous fiscal year of twenty-five (25) totaling \$869,000.

The Corporation continues its marketing efforts to disseminate information relative to its loan programs. We have targeted our outreach activities to include financial institutions, realtors and other agencies working with the income we are mandated to serve. As a result, the Corporation has a total of \$2.17 million of perspective loans. The applicants will continue facing challenges to find homes within their buying power and having the resources for the required closing costs.

In an attempt to further provide assistance to our clients, the Corporation entered into a partnership agreement with the USDA Rural Development to provide joint financing. With this new partnership, the Corporation will hold a first lien position with a lower risk exposure to first time homeowners. With the partnership, the Corporation and USDA Rural Development will be able to provide 100% financing

D. Loan Programs

Currently, the Corporation makes available the following loan programs.

Regular Loan Program

The residential mortgage lending program is to assist families and individuals, who are first time homeowners and are unable to obtain financing for purchase or construction through conventional lending institutions. In FY 2008, the Board of Directors (BOD) approved and adopted a provision allowing the Corporation's Management to adjust loan interest rates to reflect the current prevailing rate. This action emanates from Public Law (P.L.) 26-123 which states the BOD may set the rate of interest. However it cannot assess a rate of interest greater than 2 points over its cost of funds. The term for repayments remains at 30 years.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

D. Loan Programs, continued

Six Percent Loan Program

This is a low interest rate residential mortgage loan program to assist families and individuals who are first time homeowners and are unable to obtain financing from conventional mortgage lending institutions. The interest rate is 6% for a term of 30 years.

Community Affordable Housing Action Trust (CAHAT)

This is an interest free second mortgage program designed as a program for first time homeowners for families and individuals who lack the resources to purchase or construct a typhoon-resistant home. Enabling legislation is P.L. 21-99. Term of the loan is 30 years.

Leveraged Loan Program

This loan program was effectuated via a Memorandum of Understanding between the Corporation and USDA Rural Development on September 5, 2005. The program is a joint financing concept whereby an applicant receives two separate loans to obtain a 100% financing. The Corporation will provide 20%, holding the first mortgage; and the Rural Development will provide 80% for the second mortgage.

The Corporation's loan will be at the interest rates established for its regular loan program for a term of thirty (30) years. USDA Rural Development loans will be available at the prevailing interest rate for a term of thirty three (33) years. However, because USDA Rural Development's loan is a subsidized loan, the interest rate may be reduced depending on the borrower's income. This subsidy increases the buying power of an individual.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

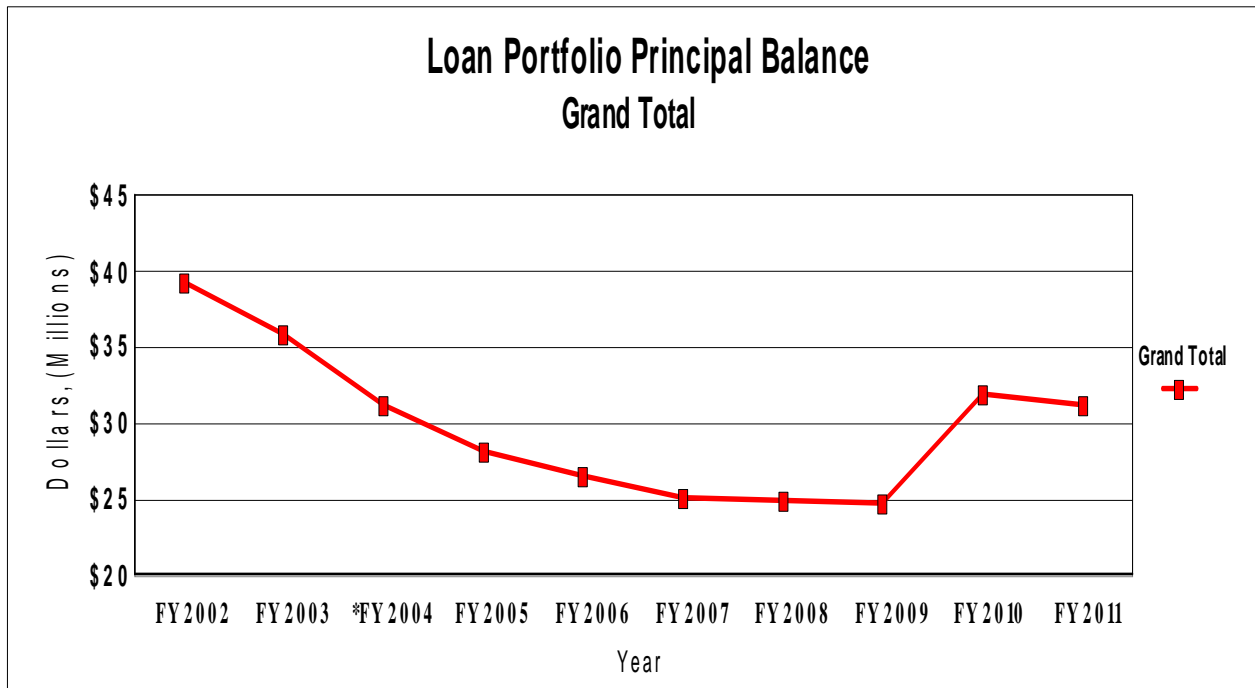
Management's Discussion and Analysis, continued

September 30, 2011

E. Financial Highlights

Loan Portfolio Principal Balance

FY2002	FY2003	*FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
\$39,381,962	\$35,929,693	\$31,175,230	\$28,185,870	\$26,632,726	\$25,053,953	\$25,027,686	\$24,749,566	\$31,977,839	\$31,281,306
Total Number of Loans									
769	702	580	533	505	470	450	439	477	465



*Note: A total of 54 Home Improvement loans/grants initiated for the FEMA Sagan Linayan Development in the amount of \$370,240 were returned to GHURA and removed from the Corporation's books.

Delinquency

Total delinquencies increased by twenty one (21) loans during the year, an increase of \$1,587,275 over the previous year. Overall, loans delinquent 30 days and over increased by 5.28% from the past year to 11.97%. The Corporation has had several borrowers come in over the last fiscal year to request for a workout plan to cure their delinquency which has resulted due to medical treatments and loss of income.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

September 30, 2011

E. Financial Highlights, continued

Delinquency, continued

Although the Corporation’s policy requires that all accounts past 90 days must be reviewed and referred to legal counsel for further proceedings, each account is reviewed by the Credit and Collection Committee to determine if a workout agreement to reduce the Corporation’s loss would be in the best interest of the Corporation rather than pursuing foreclosure. There are some cases in which the current market value of the secured property may be lower than the payoff thus the Corporation will realize a loss. If the borrower is committed and has demonstrated the ability to service the workout amount, we will authorize the workout. However, this will not eliminate foreclosure should the borrower renege on the approved payment arrangement.

Delinquent %

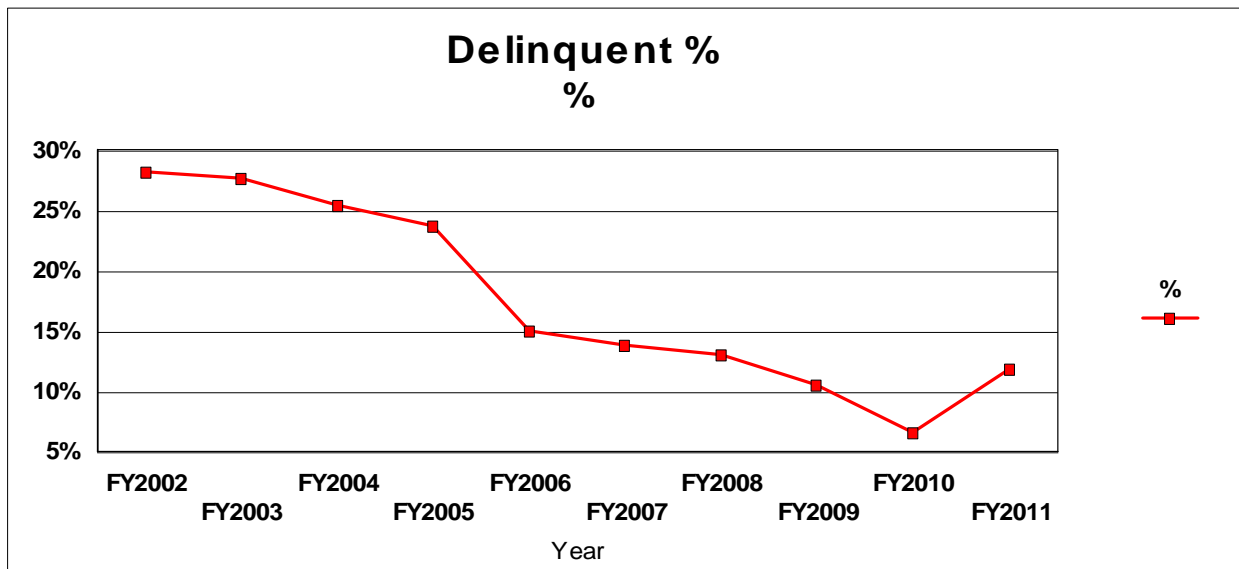
FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
28.17%	27.74%	25.51%	23.74%	15.09%	13.86%	13.15%	10.61%	6.69%	11.97%

Principal Balance

\$11,094,528	\$9,967,364	\$7,953,395	\$6,521,715	\$3,919,197	\$3,387,036	\$3,217,545	\$2,572,805	\$2,109,867	\$3,697,143
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Total number of delinquent loans

234	216	140	108	60	54	48	36	33	54
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Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

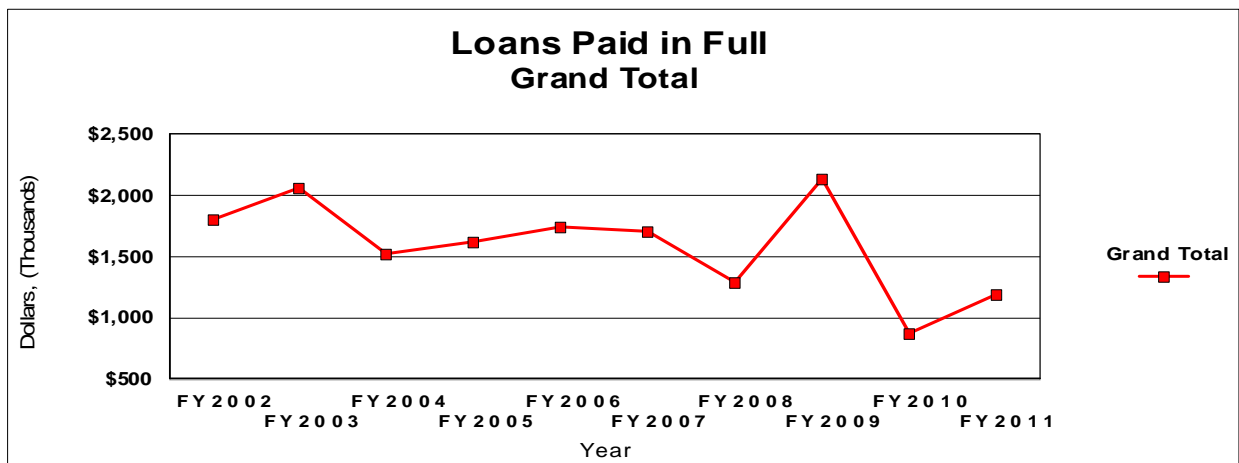
September 30, 2011

E. Financial Highlights, continued

Loans Paid in Full

Twenty five (25) loans were paid in full in FY 2011 totaling \$1.19 million, an increase of \$319,810 in comparison to the prior year. The payoffs can be attributed in part to borrowers refinancing their mortgage at lower interest rates. Because these particular homeowners were no longer first time home buyers, the Corporation could not provide financing for this purpose. Others were delinquent accounts who sought financing through other lenders. The following data and chart depicts the trend in loan payoffs over the past ten (10) years.

<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>
Grand Total									
\$1,802,486	\$2,061,421	\$1,525,515	\$1,624,036	\$1,747,437	\$1,712,039	\$1,290,394	\$2,135,099	\$869,455	\$1,189,265
Total Number of Loans									
58	68	52	44	49	56	41	39	25	25



Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

E. Financial Highlights, continued

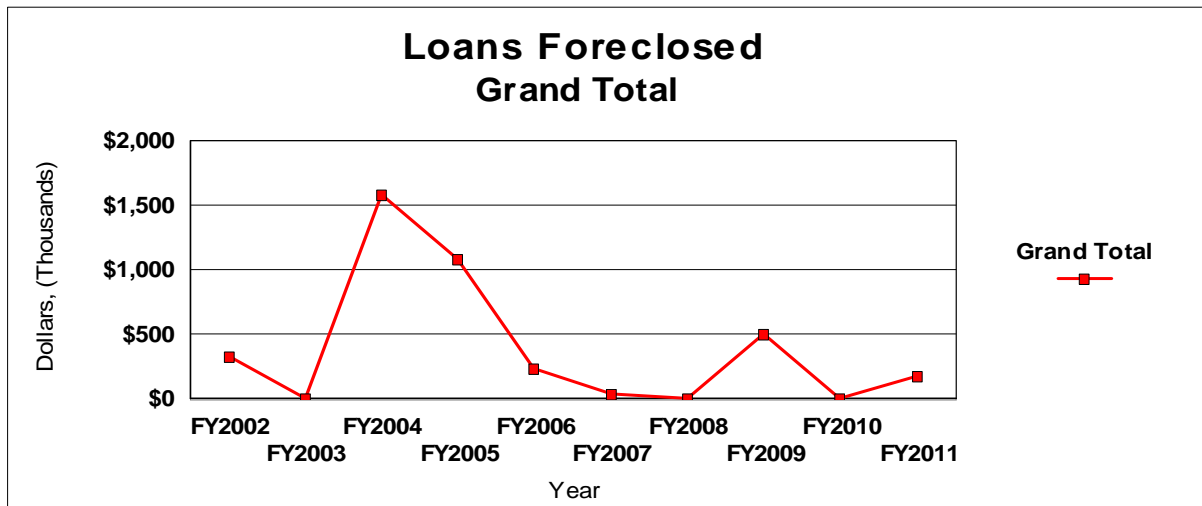
Foreclosures and Other Real Estate Owned (OREO)

The Corporation has been working closely with legal counsel to more effectively address serious delinquencies and work with the borrower to avoid foreclosure. Although, the Corporation and legal counsel has made all efforts to cure some of these serious delinquencies, the Corporation did foreclose on two (2) loans in FY 2011.

Foreclosed assets held for resale increased from three (3) properties totaling \$116,359 the previous fiscal year to four (4) properties totaling \$247,691 at the end of this fiscal year. One (1) foreclosed property was sold for a gain of \$52,887 in FY 2011.

With legal counsel firmly on track with the Collection Division on referrals for foreclosure, we fully expect that the process will continue to improve. Legal counsel has proven to be an effective partner in the Corporation's efforts to clean up on non-performing assets. Maintenance and security of these units throughout the Territory of Guam has fallen to the Rental Division, which due to its limited staff, struggles to accommodate the additional workload and concerns of vandalism, theft, and generally the deterioration of the vacant properties.

<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>
Grand Total									
\$326,714	\$0	\$1,589,852	\$1,087,763	\$240,849	\$35,047	\$0	\$500,451	\$0	\$183,741
Total number of loans									
3	0	14	11	3	1	0	5	0	2



Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

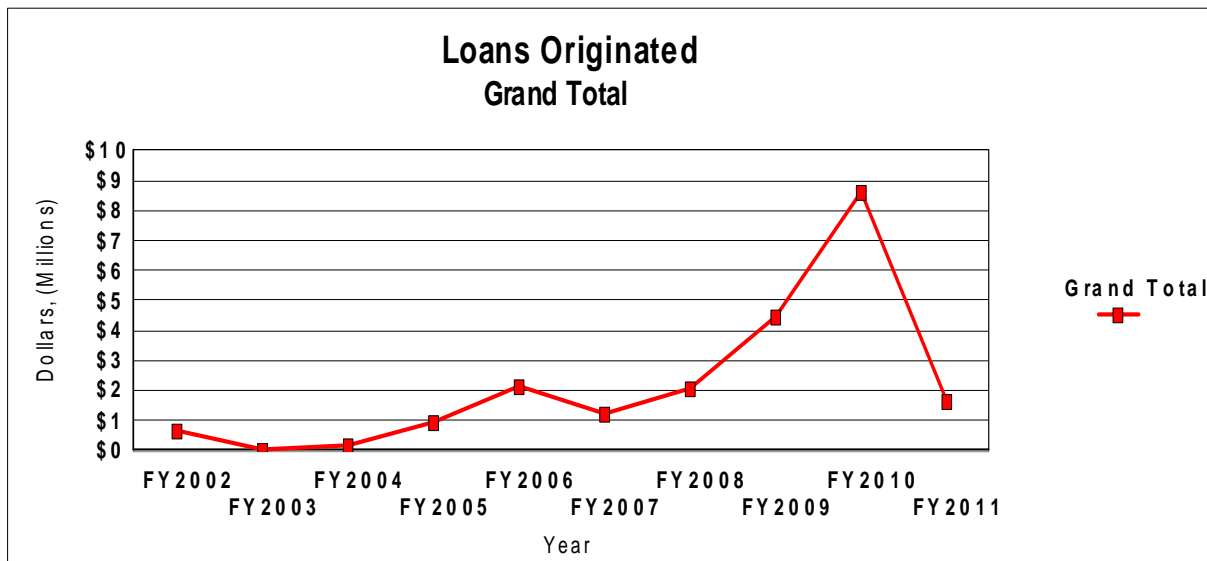
E. Financial Highlights, continued

Loans Originated

The following data and chart shows the amount of loans originated since FY 2002. In FY 2003 and 2004, the Corporation essentially suspended loan origination because of typhoon recovery and full implementation of the Recovery Plan. There was a decrease in FY 2007, which was in part attributable to limited housing supply within an affordable range. In the latter part of FY 2008, the BOD approved and adopted a provision allowing the Corporation's management to adjust loan interest rates to reflect the current market rate, resulting in being able to assist more families. This is reflected in the chart below. As mentioned earlier, due to limited funds available for loans under the Direct Loan Program in FY 2011, only three (3) loans totaling \$484,350 were originated under this program. Five (5) loans totaling \$884,072 under the Revolving Loan Program was originated this fiscal year. The Revolving Loan Program is set by P.L. 20-210 to an interest rate at six percent. This interest rate is considered high at this time and made it difficult for applicants to qualify for the loan amounts needed to purchase a house. There were seven (7) loans totaling \$269,700 originated under the CAHAT program in FY 2011.

Loans Originated

<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	
Grand Total	\$651,842	\$11,237	\$141,083	\$952,782	\$2,180,928	\$1,235,210	\$2,072,972	\$4,446,132	\$8,599,755	\$1,638,122
Total number of loans	12	1	2	11	36	17	18	40	62	15



Guam Housing Corporation
(A Component Unit of the Government of Guam)

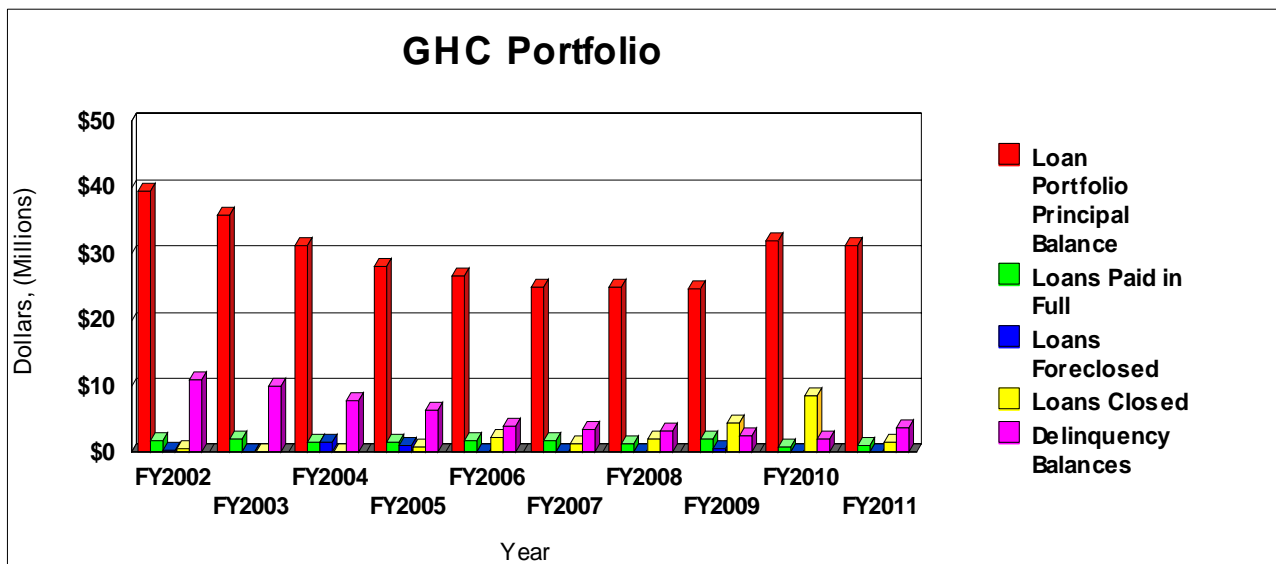
Management's Discussion and Analysis, continued

September 30, 2011

E. Financial Highlights, continued

Overall Loan Portfolio

FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Loan Portfolio Principal Balance									
\$39,381,962	\$35,929,693	\$31,175,230	\$28,185,870	\$26,632,726	\$25,053,953	\$25,027,686	\$24,749,566	\$31,977,839	\$31,281,306
Loans Paid in Full									
\$ 1,802,486	\$ 2,061,421	\$ 1,525,515	\$ 1,624,036	\$ 1,747,437	\$ 1,712,039	\$ 1,290,394	\$ 2,135,099	\$ 869,455	\$1,189,265
Loans Foreclosed									
\$ 326,714	\$ 0	\$ 1,589,852	\$ 1,087,763	\$ 240,849	\$ 35,047	\$ 0	\$ 500,451	\$ 0	\$183,741
Loan Originated									
\$ 651,842	\$ 11,237	\$ 141,083	\$ 952,782	\$ 2,180,928	\$ 1,235,210	\$ 2,072,972	\$ 4,446,132	\$ 8,599,755	\$1,638,122
Delinquency Balance									
\$11,094,528	\$ 9,967,364	\$ 7,953,395	\$ 6,521,715	\$ 3,919,197	\$ 3,387,036	\$ 3,217,545	\$ 2,572,805	\$ 2,109,867	\$3,697,143



Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

E. Financial Highlights, continued

Allowance for Loan and Lease Losses

A total of \$13,329 of Allowance for Loan and Lease Losses was used for one foreclosure this fiscal year. The Allowance for Loan Losses decreased from \$972,568 in FY 2010 to \$959,239 in FY 2011. This is a total decrease of 1.37%. The balance remains 3% of the total loan portfolio in accordance with the Corporation's Loan Policy.

Capital Assets

Capital Assets decreased by \$98,321 or 1.7% from \$5,870,251 in FY 10 to \$5,771,930 in FY 11. The decrease is due to depreciation amounting to \$137,206 offset by the purchase of a vehicle and land improvement totaling \$38,885.

Debt Service

Notes Payable decreased by \$1,008,450 from \$4,351,620 in FY 10 to \$3,343,170 in FY 11. The Corporation continues to honor its monthly debt service obligations to its sole creditor, the Federal Home Loan Bank of Seattle (FHLB) at an interest rate of 6.49%. This note is on schedule to be fully amortized by the year 2014. For more details on the note to FHLB see Note 10 of the financial statements.

Bonds Payable decreased by \$130,000 or 2.6% from \$4,980,000 in FY 10 to \$4,850,000 in FY 11. The Mortgage Revenue Bond (MRB) payments are made semi-annually on March 1 and September 1 of each year at interest rates ranging from 4.45% to 5.75%. The payment for the MRB began September 1, 1998 and matures September 1, 2031. For more details on the MRB see note 9 of the financial statements.

Rebate Liability

Rebate Liability decreased by \$12,919 or 14.29% from \$90,404 in FY 10 to \$77,485 in FY 11. The decrease was due to the decrease in market value in FY 11. Interest on the MRB investment in excess of 5.229417% is due to the federal government and is recorded as Rebate Liability. Analysis on the interest earned on the MRB investments are made and adjusted monthly to the Rebate Liability. An Interim Arbitrage Rebate Report is done annually by Orrick, Herrington & Sucliffe LLP as of March 1 of each year. The Rebate Liability is adjusted to the Orrick report each year. For more details on the Rebate Liability see note 9 of the financial statements.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

E. Financial Highlights, continued

Interest on Loans Receivable

Interest on loans receivable, net of loan origination, increased by \$147,979 or 8.27% in FY 2011. Interest collected from the Hazard Mitigation program was in previous years recorded as a payable. In fiscal year 2011, at the recommendation of our auditors, a legal opinion was requested and given that the funds received under this program be recorded as a grant. Total interest collected in previous fiscal years was \$49,691 and recorded as interest earned in fiscal year 2011. Also, although the total loan portfolio decreased by \$696,533 at the end of the fiscal, the average interest bearing loan portfolio during the fiscal year were \$27 million and \$29.6 million for fiscal years 2010 and 2011 respectively, an average increase of \$2.6 million during the fiscal year. The weighted average interest rate on loans decreased from 6.39% in FY 2010 to 6.28% in FY 2011.

Rental Income

Rental Income increased in FY 2011 by \$43,608. One of the buildings at the As-Atdas apartments was vacated from October 2009 to March 2010 due to renovations. The BOD approved an increase in rent for the newly renovated apartments.

Interest on Investment Held by Bond Trustees

Interest on Investment Held by Bond Trustees decreased by \$141,577 or 47% in FY 11. The market value for these funds decreased in FY 2011, which also caused the decrease in the Rebate Liability.

Salaries

Salaries increased by \$62,156 or 5.9% from \$1,063,238 in FY 10 to \$1,125,394 in FY 11. Total number of employees increased from twenty-three (23) at the end of FY 2010 to twenty-six (26) at the end of FY 2011. The increase is also attributed to the implementation of the Hay Study in FY 2011.

Retirement and Medicare Contributions

Retirement and Medicare contributions increased by \$41,725 or 15.3% an increase from \$272,401 in FY 10 to \$314,126 in FY 11. The increase is due to the increase in salaries and the increase in the rate of contribution from 26.04% in FY 10 to 27.46% in FY 11.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

E. Financial Highlights, continued

Employee Benefits Other than Retirement

Employee Benefits increased by \$15,959 or 44.1% from \$36,170 in FY 10 to \$52,129 in FY 11. The increase is attributed to the increase in the number of employees and the increase in the cost of the government's share of medical and dental insurance.

Retiree Supplemental and Health Benefits

Retiree Supplemental and Health Benefits increased by \$31,595 or 20.6% from \$153,752 in FY 10 to \$185,347 in FY 11. The increase is attributed to the increase in the number of employees and the increase in the cost of the government's share of medical and dental insurance.

Interest Expense

Interest Expense decreased by \$70,028 or 11.9%. The decrease is due to the decrease in principal balance due for the note and bond.

Contractual Expense

Contractual Expense increased by \$20,174 or 25.4%. The rental units and Lada Estates were insured for building and liability in FY 2010 for the months of March through September only. In FY 2011, the rental units and Lada Estates were insured for building and liability during the whole fiscal year. Also, there was an increase in trash removal and fuel expenses.

Rent

Rent Expense increased by \$20,718 in FY 11. Effective March 2011, office space leased increased from \$1.24 to \$1.85 per square feet.

Maintenance Expense

Maintenance Expense decreased by \$37,501 or 55.4% from \$67,736 in FY 10 to \$30,235 in FY 11. Bulk purchases of water heaters, stoves, and refrigerators were purchased to furnish the newly renovated As-Atdas building in FY 2010.

Bad Debts

Bad Debts increased by \$12,023 in FY 2011 from \$16,414 in FY 2010 to \$28,437 in FY 2011. Total number of evictions during FY 2011 increased for both Lada & As-Atdas. The accounts of the evicted tenants have been processed and submitted to Small Claims Court.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

September 30, 2011

E. Financial Highlights, continued

Other Expense

Other Expense increased by \$20,639 or 47% in FY 2011. The increase is due to the purchase of nine (9) computers, software, back Ups and one (1) printer in FY 2011. Also, \$4,394 was expensed for Emergency Housing in FY 2011, whereas there was none recorded in FY 10.

Interest Income on Bank Deposits

Interest Income on Bank deposit decreased by \$36,577 or 60.5% from \$60,492 in FY 10 to \$23,915 in FY 11. The decrease in income is due to the decrease in interest rates on investments. The weighted average interest rate for TCDs decreased from .407% in FY 2010 to .295% in FY 2011.

Gain on Disposal of Capital Assets

One (1) foreclosed property was sold in FY 2011 for a gain of \$52,887. In FY 2010 two (2) foreclosed properties were sold for an overall gain of \$1,600 and one (1) rental unit was sold for a gain of \$41,603.

F. Future Events

The Corporation under its mandate will continue to accomplish its mission with limited challenges. The Corporation's most apparent challenge is the ability to secure additional lending capital at the least possible cost. The result will translate to providing low interest rates for mortgages and higher buying power for our residents. The Corporation's management had made many strides in educating both the executive and legislative branches with respect to the "Trust Fund" initiative which will address the issue of funding various programs and projects. The result of our efforts is evident with the passage of Bill 138-31 by the legislature with a unanimous vote and signed by the Governor into law. This is obviously a step in the right direction.

The Corporation is cognizant of the lack of inventory of affordable homes. It will continue addressing this issue with its partners of the Housing Committee for possible solutions.

G. Contacting the Corporation's Financial Management

The Management Discussion and Analysis report is intended to provide information concerning known facts and conditions affecting the Corporation's operations. This financial report is designed to provide a general overview of the Corporation's finances and demonstrate its ability to manage its resources. For additional information concerning this report, please contact the President of Guam Housing Corporation, at 590 S. Marine Corps Drive, Suite 514 ITC Building, Tamuning, Guam 96931 or visit the website at www.guamhousing.org.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Statements of Net Assets

	September 30,	
	<u>2011</u>	<u>2010</u>
Assets		
Unrestricted assets:		
Cash and cash equivalents (<i>Notes 2 and 3</i>)	\$ 3,833,524	\$ 4,567,779
Self-insurance fund (<i>Notes 2, 3 and 13</i>)	1,467,408	1,382,692
Loans receivable, net (<i>Notes 2 and 4</i>)	19,172,526	18,825,479
Tenants receivable, net (<i>Notes 2 and 6</i>)	53,534	46,939
Other receivables (<i>Notes 2 and 5</i>)	27,078	29,159
Accrued interest receivable	84,249	98,444
Prepaid expenses and other	48,852	33,637
Foreclosed assets held for resale (<i>Note 8</i>)	<u>247,691</u>	<u>116,359</u>
Total unrestricted assets	<u>24,934,862</u>	<u>25,100,488</u>
Restricted assets:		
Cash and cash equivalents (<i>Notes 2, 3 and 5</i>)	2,933,945	2,370,371
Investments (<i>Notes 2, 3 and 9</i>)	5,227,330	5,493,881
Loans receivable, net (<i>Notes 2, 4 and 10</i>)	8,577,278	9,721,152
Other receivables (<i>Notes 2 and 5</i>)	2,225,662	2,105,043
Land held for development (<i>Note 12</i>)	<u>10,555,000</u>	<u>10,947,385</u>
Total restricted assets	<u>29,519,215</u>	<u>30,637,832</u>
Capital assets, net (<i>Note 7</i>)	<u>5,771,930</u>	<u>5,870,251</u>
Total assets	<u>\$60,226,007</u>	<u>\$61,608,571</u>

See accompanying notes.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Statements of Net Assets, continued

	September 30,	
	2011	2010
Liabilities and Net Assets		
Liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses	\$ 164,908	\$ 254,088
Accrued compensated absences (<i>Note 11</i>)	244,982	175,143
Deferred revenue	47,577	88,403
Total payable from unrestricted assets	457,467	517,634
Payable from restricted assets:		
Accounts payable (<i>Note 12</i>)	10,555,000	10,555,000
Bonds payable (<i>Note 9</i>)	4,850,000	4,980,000
Notes payable (<i>Note 10</i>)	3,343,170	4,351,620
Accrued interest payable (<i>Notes 9 and 10</i>)	40,081	46,012
Security deposits	50,824	50,038
Deposits by borrowers - insurance premiums and real estate taxes	466,366	479,096
Loans held in trust (<i>Note 5</i>)	397,634	550,581
Rebate liability (<i>Note 9</i>)	77,485	90,404
Total payable from restricted assets	19,780,560	21,102,751
Total liabilities	20,238,027	21,620,385
Commitments and contingencies (<i>Notes 12 and 13</i>)		
Net assets:		
Invested in capital assets, net of related debt	5,771,930	5,870,251
Restricted	9,738,655	9,535,081
Unrestricted	24,477,395	24,582,854
Total net assets	39,987,980	39,988,186
Total liabilities and net assets	\$60,226,007	\$61,608,571

See accompanying notes.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Statements of Revenues, Expenses and Changes in Net Assets

	Year ended September 30,	
	<u>2011</u>	<u>2010</u>
Interest income:		
Loans receivable	\$ 1,937,190	\$ 1,789,211
Investments held by bond trustees	159,827	301,404
Interest-bearing deposits	<u>23,915</u>	<u>60,492</u>
Total interest income	2,120,932	2,151,107
Interest expense on borrowings (<i>Notes 9 and 10</i>)	<u>518,743</u>	<u>588,771</u>
Net interest income	1,602,189	1,562,336
Other income:		
Rental income	828,821	785,213
Other income	147,367	66,276
Gain on disposal of capital and foreclosed assets	<u>52,887</u>	<u>43,203</u>
	<u>2,631,264</u>	<u>2,457,028</u>
Other expenses:		
Salaries	1,125,394	1,063,238
Impairment loss (<i>Note 12</i>)	392,385	---
Retirement and Medicare contributions (<i>Note 11</i>)	314,126	272,401
Retiree supplemental and health benefits (<i>Note 11</i>)	185,347	153,752
Depreciation and amortization	137,206	133,994
Contractual services	99,615	79,441
Rent (<i>Note 13</i>)	95,226	74,508
Professional services (<i>Note 13</i>)	90,332	84,048
Other	64,688	44,049
Employee benefits, other than retirement	52,129	36,170
Maintenance	30,235	67,736
Bad debts	28,437	16,414
Bond trustee fees	14,900	14,754
Director fees	<u>1,450</u>	<u>650</u>
Total other expenses	<u>2,631,470</u>	<u>2,041,155</u>
(Decrease) increase in net assets	(206)	415,873
Net assets at beginning of year	<u>39,988,186</u>	<u>39,572,313</u>
Net assets at end of year	<u>\$39,987,980</u>	<u>\$39,988,186</u>

See accompanying notes.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Statements of Cash Flows

	Year ended September 30,	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts received from (disbursements made to) customers	\$ 3,011,412	\$(4,780,033)
Payments to suppliers	(484,491)	(158,593)
Payments to employees	(1,608,607)	(1,519,585)
Other operating receipts	<u>172,068</u>	<u>127,933</u>
Net cash provided by (used in) operating activities	<u>1,090,382</u>	<u>(6,330,278)</u>
Cash flows from investing activities:		
Decrease in investments	266,551	164,829
Interest received on cash and investments with trustees	159,827	301,404
Proceeds from sale of foreclosed assets held for resale	<u>112,203</u>	<u>430,961</u>
Cash provided by investing activities	<u>538,581</u>	<u>897,194</u>
Cash flows from noncapital financing activities:		
Repayment of bonds payable	(130,000)	(125,000)
Repayment of notes payable	(1,008,450)	(945,246)
Decrease of rebate liability	(12,919)	(51,384)
Interest paid on notes payable	(252,913)	(316,165)
Interest paid on bonds payable	(271,761)	(278,168)
Increase in self-insurance fund	<u>(84,716)</u>	<u>(91,575)</u>
Cash used in noncapital financing activities	<u>(1,760,759)</u>	<u>(1,807,538)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(38,885)	(239,081)
Proceeds from sale of capital assets	<u>---</u>	<u>111,713</u>
Net cash used in capital and related financing activities	<u>(38,885)</u>	<u>(127,368)</u>
Net decrease in cash and cash equivalents	(170,681)	(7,367,990)
Cash and cash equivalents at beginning of year	<u>6,938,150</u>	<u>14,306,140</u>
Cash and cash equivalents at end of year	\$ <u>6,767,469</u>	\$ <u>6,938,150</u>
Consisting of:		
Unrestricted	\$ 3,833,524	\$ 4,567,779
Restricted	<u>2,933,945</u>	<u>2,370,371</u>
	\$ <u>6,767,469</u>	\$ <u>6,938,150</u>

See accompanying notes.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Statements of Cash Flows, continued

	Year ended September 30,	
	<u>2011</u>	<u>2010</u>
Reconciliation of increase in net assets to net cash provided by (used in) operating activities:		
(Decrease) increase in net assets	\$(206)	\$ 415,873
Interest expense on borrowings	518,743	588,771
Interest income on investments held by bond trustees	(159,827)	(301,404)
	358,710	703,240
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Impairment loss	392,385	---
Depreciation and amortization	137,206	133,994
Bad debts	28,437	16,414
Gain on disposal of capital and foreclosed assets	(52,887)	(43,203)
Decrease (increase) in assets:		
Loans receivable, net	577,742	(6,771,168)
Tenants receivable, net	(6,595)	(9,834)
Other receivables	(118,538)	(373,552)
Accrued interest receivable	14,195	24,839
Prepaid expenses and other assets	(15,215)	5,166
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(89,180)	186,023
Accrued compensated absences	69,839	5,976
Deferred revenue	(40,826)	(29,049)
Security deposits	786	1,815
Deposits by borrowers – insurance premiums and real estate taxes	(12,730)	(111,543)
Loans held in trust	(152,947)	(69,396)
Net cash provided by (used in) operating activities	\$ <u>1,090,382</u>	\$(<u>6,330,278</u>)
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ <u>524,674</u>	\$ <u>594,333</u>

Supplemental disclosure of non-cash investing activity:

During 2011, loans and accrued interest receivable with carrying amounts of \$190,648 were converted to foreclosed assets held for resale.

See accompanying notes.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements

Years ended September 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies

Organization

Guam Housing Corporation (the Corporation), a component unit of the Government of Guam (GovGuam) was created by Public Law 8-80 to promote the general welfare of the Territory of Guam by encouraging investment in and development of low cost housing and providing low cost housing rental units. The Corporation provides for its operating needs by charging points and interest on its loans. As a governmental entity created by public law, the Corporation is not subject to taxes.

The Corporation consists of two divisions: housing division and rental division. The housing division is engaged in lending activities of the Corporation while the rental division is engaged in the rental of housing and apartment complexes known as Lada Gardens and Guam As-Atdas. During the normal course of operations, transactions have occurred between the housing and rental divisions of the Corporation. These receivables and payables are eliminated in the accompanying financial statements.

Basis of Accounting

The Corporation utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 Principle Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Net Assets

Net assets represent the residual interest in the Corporation's assets after liabilities are deducted and consist of three sections: net assets invested in capital assets, net of related debt; restricted and unrestricted. Net assets invested in capital assets, net of related debt include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Corporation's restricted assets are expendable. All other net assets are unrestricted.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

For purposes of the statements of net assets and the statements of cash flows, cash and cash equivalents is defined as cash on hand, deposits in banks and time certificates of deposit.

Loans Receivable

The Corporation is permitted to make loans for the purchase, construction, or purchase of land and construction of homes not to exceed the loan limit established by the U.S. Department of Housing and Urban Development. Loan limits are currently \$271,050 for single-unit dwellings.

The Corporation accepts loan applications only for single-unit dwellings. Determination of loan interest rates is made by the Board of Directors of the Corporation but does not exceed two percent (2%) of the cost of funds to the Corporation. In fiscal year 2008, the Board of Directors approved and adopted a provision allowing its management to adjust loan interest rates to reflect the current prevailing rate. This action arises from Public Law no. 26-123 which states that the Board of Directors may adjust the rate of interest; however, it cannot assess a rate of interest greater than two (2) points over its cost of funds.

Loans receivable are stated at principal amount outstanding less allowance for loan and lease losses and net deferred loan origination fees. Interest on receivables is accrued and credited to income based on the principal amount outstanding. The accrual of interest is discontinued when principal or interest payments are delinquent for 90 days or more, or when in the opinion of management, there is an indication that the borrower may be unable to meet payments as they come due. Upon such discontinuance, all unpaid interest is transferred to overdue receivables account. Unpaid accrued interest is not reversed. Instead, a specific allowance is provided to cover unpaid accrued interest. Principal is reduced only to the extent cash payments are received after the accrued interest is recovered. Income is subsequently recognized only to the extent cash payments are received and until, in management's opinion, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

The allowance for loan and lease losses is maintained at a level, which in management's judgment is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loans receivable including the nature of the loan portfolio, estimated value of underlying collateral, credit concentration, trends in historical loss experience, specific delinquent loans, economic conditions, and other risks inherent in the portfolio. The allowance is increased by a provision for loan and lease losses, which is charged to expense and reduced by charge-offs, net of recoveries. Because of the uncertainties inherent in the estimation process, management's estimate of credit losses in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Tenants Receivable

Tenants receivable are derived from monthly rents charged to tenants leasing rental units owned by the Corporation. The Corporation recognizes bad debts using the allowance method and are only written off after approval by management and subsequent reporting to the Board of Directors.

Loan Origination Fees and Related Costs

Loan origination and commitment fees and certain direct origination costs are accounted for in accordance with FASB Accounting Standards Codification (ASC) 310-20, *Nonrefundable Fees and Other Costs*, and are deferred and amortized on a straight-line basis generally over the contractual life of the related loans. Differences between this method and the interest method are not significant and do not otherwise materially affect the accompanying financial statements. Amortization of deferred loan fees is reported as a component of interest income on loans receivable in the accompanying statements of revenues, expense and changes in net assets.

Capital Assets

Capital assets, whether purchased or constructed, are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation and amortization of property and equipment is computed using the straight-line method over estimated useful lives of 5 to 50 years for buildings and improvement, 2 to 10 years for vehicles and office furniture and equipment, and over the length of the lease term for leasehold improvements.

The Corporation generally capitalizes all expenditures for property and equipment in excess of \$5,000 with a useful life exceeding one year. Major renewals and betterments are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of an asset are charged to expense. The cost of capital assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to other income or expenses, respectively.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Impairment of Long-lived Assets

Long-lived assets to be held and used or disposed of by the Corporation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and is primarily determined based on quoted market values.

Compensated Absences

In accordance with Public Law 27-005 and Public Law 28-068, employee vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service as follows:

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service.
2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with five (5) years of service but less than fifteen (15) years of service.
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with fifteen (15) years or more service.

The statutes reduce the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law 27-106 amended subsection (c) of 4 Guam Code Annotated §4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any excess unused leave from February 28, 2003 shall be lost. Accrued annual leave up to 320 hours is converted to pay upon termination of employment.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Environmental Costs

Liabilities for future remediation and monitoring costs are recorded when environmental assessments and/or remedial and monitoring efforts are probable and the costs can be reasonably estimated. These liabilities are not reduced by possible recoveries from third parties, and projected cash expenditures are not discounted.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Significant estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses and the valuation of foreclosed real estate properties. In connection with the determination of the estimated losses on loan and foreclosed properties, management obtains independent appraisals for collaterals.

The Corporation's loan portfolio consists of single-family residential loans in the Territory of Guam. Real estate prices in this market are also susceptible to fluctuation and speculation. Accordingly, the ultimate collectibility of a substantial portion of the Corporation's loan portfolio and the recovery of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans receivable and foreclosed real estate, further reductions in the carrying amounts of loans receivable and foreclosed assets may be necessary based on changes in local economic conditions. Because of these factors, it is reasonably possible that the estimated losses on loans receivable and foreclosed real estate may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Risk Management

The Corporation is exposed to various risks of loss; theft of, damage to, and destruction of assets; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from most of these matters.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

New Accounting Standards

During the year ended September 30, 2011, the Corporation implemented the following pronouncements:

- In December 2009, GASB issued Statement No. 57, *Other Postemployment Benefits (OPEB) Measurements by Agent Employers and Agent Multiple-Employer Plans*, which establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans and by the agent multiple-employer OPEB plans in which they participate. The provisions of this statement are effective for periods beginning after June 15, 2011.
- In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which establishes to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010.

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

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for periods beginning after December 15, 2011. The statement establishes guidance for accounting and financial reporting for service concession arrangements. The Corporation is currently evaluating the effects this statement will have on its financial statements.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, effective for periods beginning after June 15, 2012. The statement addresses reporting entity issues that have arisen since the issuance of Statement No. 14 and Statement No. 34. The Corporation is currently evaluating the effects this statement will have on its financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011. The statement incorporates into the GASB's authoritative literature certain accounting and financial guidance issued on or before November 30, 1989. The Corporation is currently evaluating the effects this statement will have on its financial statements.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for periods beginning after December 15, 2011. The statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The Corporation is currently evaluating the effects this statement will have on its financial statements.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for periods beginning after June 15, 2011. The statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The statement also sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Corporation is currently evaluating the effects this statement will have on its financial statements.

Subsequent Events

The Corporation has evaluated subsequent events through February 2, 2012, which is the date the financial statements were available to be issued.

2. Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash deposits, investments and receivables.

The Corporation maintains cash in bank accounts, which at times may exceed federal depository insurance limits. At September 30, 2011 and 2010, \$250,000 of the Corporation's deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

Substantially all of the Corporation's receivables are due from borrowers and tenants residing in the Territory of Guam. The Corporation maintains an allowance for loan and lease losses based on management's evaluation of potential uncollectibility. Concentration of credit risk with respect to receivables is limited due to the large number of customers comprising the Corporation's customer base.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

3. Cash and Cash Equivalents, Self-Insurance Fund and Investments

Cash and cash equivalents, self insurance fund, and investments at September 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Cash on hand and due from banks	\$ 4,189,840	\$ 4,887,107
Certificates of deposits	4,033,790	3,611,314
Money market funds	<u>5,238,577</u>	<u>5,316,302</u>
	<u>\$13,462,207</u>	<u>\$13,814,723</u>

Additionally, certain of the above cash and cash equivalents, and investments at September 30, 2011 and 2010 are restricted as follows:

	<u>2011</u>	<u>2010</u>
Restricted Cash and Cash Equivalents:		
Revolving Loan Fund	\$2,117,250	\$1,517,528
Trust fund and borrower's deposits	427,308	434,763
Community Affordable Housing Action Trust (CAHAT)	183,853	351,827
Hazard Mitigation Program	138,376	---
Tenant security deposits	<u>67,158</u>	<u>66,253</u>
Total restricted cash and cash equivalents	<u>2,933,945</u>	<u>2,370,371</u>
Restricted Investments:		
Investments and cash with Bond Trustees	4,727,330	4,993,881
Foreclosure Protection Fund	<u>500,000</u>	<u>500,000</u>
Total restricted investments	<u>5,227,330</u>	<u>5,493,881</u>
Total restricted cash and cash equivalents and investments	<u>\$8,161,275</u>	<u>\$7,864,252</u>

The restricted cash and investments are restricted for specific uses from enabling Public Law 26-123 and 12 GCA Chapter 4 §4209 for revolving loan fund and related trust funds and the CAHAT, respectively, the Mortgage Revenue Bonds and self-imposed restrictions on tenant security deposits for the Corporation's rental units.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

3. Cash and Cash Equivalents, Self-Insurance Fund and Investments, continued

The Mortgage Revenue Bond Indenture requires the establishment of special funds and accounts to be held and administered by the Corporation's trustees for the accounting of the bond proceeds. At September 30, 2011 and 2010, investments and cash held by the trustees, in trust for the Corporation, in these funds and accounts are as follows:

	<u>2011</u>	<u>2010</u>
Revenue Fund	\$4,727,072	\$4,993,623
Capitalized Interest Fund	<u>258</u>	<u>258</u>
	<u>\$4,727,330</u>	<u>\$4,993,881</u>

The deposits and investment policies of the Corporation are governed by 5 GCA 21, *Investments and Deposits*, in conjunction with the applicable mortgage revenue bond indenture. Legally authorized investments include securities issued or guaranteed by the U.S. Treasury or agencies of the United States government; demand and time deposits in or certificates of, or bankers' acceptances issued by, any eligible financial institution; corporate debt obligations, including commercial paper; certain money market funds; state and local government securities, including municipal bonds; and repurchase and investment agreements. With the exception of investments in U.S. government securities, where explicitly guaranteed by the United States government, all other investments must be rated Aa1/P-1 by Moody's.

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

- Category 1 Investments that are insured or registered, or securities held by the Corporation or its agent in the Corporation's name;
- Category 2 Investments that are uninsured and unregistered for which securities are held by the counterparty's trust department or agent in the Corporation's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the Corporation's name.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, amended GASB Statement No. 3 to, in effect, eliminate disclosure for deposits falling into categories 1 and 2 and provides for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

3. Cash and Cash Equivalents, Self-Insurance Fund and Investments, continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. In compliance with the bond indenture, the Corporation minimized the interest rate risk, by limiting maturity of investments. The Corporation's investment securities have maturities of 5 years or less. This reduces the impact of interest rate movements seen with longer maturity investments.

Concentration of risk for investments is the risk of loss attributable to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in one issuer that represents five percent (5%) or more of total investments for the Corporation. In compliance with the mortgage revenue bond indenture, the Corporation minimized credit risk loss by limiting investments to the safest types of securities.

The Bank of New York Mellon manages the Corporation's investments investing in U.S. Securities, U.S. Government Agencies, Money Market Funds and Certificates of Deposits insured by the Federal Deposit Insurance Corporation. The U.S. Securities are low risk investments as they are guaranteed by the full faith and credit of the U.S. government. While U.S. Government Agencies are not guaranteed, they are backed by the U.S. government and are recognized as low risk investments as well. All investment securities are within the requirement of the mortgage revenue bond indenture. As of September 30, 2011 and 2010, the Corporation's investments in the Federal Home Loan Mortgage Corporation represented 54% and 59%, respectively, and the Blackrock Liquidity T-Funds represented 37% and 32%, respectively, of its total investments.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Corporation will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. Based on negotiated trust and custody contracts, all of these investments were held in the Corporation's name by the Corporation's custodial financial institutions at September 30, 2011 and 2010.

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

3. Cash and Cash Equivalents, Self-Insurance Fund and Investments, continued

The Corporation's bond trustees hold the Corporation's restricted investments and cash at September 30, 2011 and 2010. Investments are stated at fair market value. The amortized cost and fair value of restricted investments at September 30, 2011 and 2010 are summarized as follows:

	2011		
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Fair Value</u>
Short-term investments	\$ 1,910,626	\$ ---	\$1,910,626
Money Market	2,574,799	241,905	2,816,704
Certificate of deposit	<u>500,000</u>	<u>---</u>	<u>500,000</u>
	<u>\$4,985,425</u>	<u>\$241,905</u>	<u>\$5,227,330</u>
	2010		
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Fair Value</u>
Short-term investments	\$1,748,893	\$ ---	\$1,748,893
Money Market	2,994,291	250,697	3,244,988
Certificate of deposit	<u>500,000</u>	<u>---</u>	<u>500,000</u>
	<u>\$5,243,184</u>	<u>\$250,697</u>	<u>\$5,493,881</u>

The bond funds have been classified as Category 2 investments and the bond reserve funds have been classified as Category 1 investments in accordance with GASB Statement No. 3.

At September 30, 2011 and 2010, the Corporation's investment in debt securities is as follows:

	Moody's Credit Rating	2011				
		Investment Maturities (In Years)				Total
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater than 10</u>	
Certificate of deposit	Aaa	\$ 500,000	---	---	---	\$ 500,000
Federal Home Loan Mortgage Corporation	Aaa	---	---	---	2,816,704	2,816,704
Blackrock Liquidity T-Fund	Aaa	<u>1,910,626</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>1,910,626</u>
		<u>\$2,410,626</u>	<u>---</u>	<u>---</u>	<u>2,816,704</u>	<u>\$5,227,330</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

3. Cash and Cash Equivalents, Self-Insurance Fund and Investments, continued

	Moody's Credit Rating	2010				Total
		Investment Maturities (In Years)				
		<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater than 10</u>	
Certificate of deposit	Aaa	\$ 500,000	---	---	---	\$ 500,000
Federal Home Loan Mortgage Corporation	Aaa	---	---	---	3,244,988	3,244,988
Blackrock Liquidity T-Fund	Aaa	<u>1,748,893</u>	---	---	---	<u>1,748,893</u>
		<u>\$2,248,893</u>	---	---	<u>3,244,988</u>	<u>\$5,493,881</u>

The Corporation also maintains restricted investments for its Foreclosure Protection Fund. The Foreclosure Protection Fund is used by the Corporation to protect the interest of Guam's CAHAT program as holder of the second mortgage and is used exclusively for the purpose of paying off the first mortgage upon foreclosure. As of September 30, 2011 and 2010, the restricted investments for this fund totaled \$500,000.

4. Loans Receivable

At September 30, 2011 and 2010, loans receivable, collateralized by first mortgages on real estate, are as follows:

	<u>2011</u>	<u>2010</u>
Unrestricted	\$20,478,366	\$20,151,644
Restricted	<u>8,577,278</u>	<u>9,721,152</u>
	29,055,644	29,872,796
Less: Deferred loan origination fees, net	(346,601)	(353,597)
Allowance for loan and lease losses	<u>(959,239)</u>	<u>(972,568)</u>
	<u>\$27,749,804</u>	<u>\$28,546,631</u>

Movements in the allowance for loan and lease losses for the years ended September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$972,568	\$971,956
Write-off during the year	(13,329)	---
Recoveries of loans previously charged-off	---	<u>612</u>
Balance at end of year	<u>\$959,239</u>	<u>\$972,568</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

4. Loans Receivable, continued

The restricted portion of the total loans outstanding is assigned as collateral on notes payable (see Note 10). Loans to employees totaled \$583,829 and \$591,604 at September 30, 2011 and 2010, respectively. These loans meet the same criteria as all real estate loans made to non-related individuals by the Corporation. At September 30, 2011 and 2010, loans and other receivables in arrears three months or more or held with the attorney for collection totaled \$1,915,496 and \$1,085,789, respectively.

5. Other Receivables

In 2002, the Corporation elected to record a receivable and the corresponding liability for loans under the CAHAT, Hazard Mitigation, Down Payment and Closing Cost Assistance (DPCCA) and the Sagan Linayan Project programs. These programs are interest-free loans solely to assist first-time homeowners for purposes of retrofitting for typhoon resistant homes. The Foreclosure Protection Fund is restricted for the purpose of protecting the interest of CAHAT loans.

As of September 30, 2011 and 2010, other receivables due from borrowers for the aforementioned loans consisted of the following:

	<u>2011</u>	<u>2010</u>
CAHAT	\$1,745,159	\$1,641,450
DPCCA	459,975	440,259
Hazard Mitigation Program	<u>20,528</u>	<u>23,334</u>
	2,225,662	2,105,043
Other receivables	<u>27,078</u>	<u>29,159</u>
	<u>\$2,252,740</u>	<u>\$2,134,202</u>

The Corporation recorded a corresponding liability which is reported as loans held in trust in the accompanying statements of net assets as follows:

	<u>2011</u>	<u>2010</u>
DPCCA Program	\$397,634	\$442,381
Hazard Mitigation Program	<u>---</u>	<u>108,200</u>
	<u>\$397,634</u>	<u>\$550,581</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

5. Other Receivables, continued

The DPCCA program was funded by the Guam Housing and Urban Renewal Authority (GHURA) with monies received from the U.S. Department of Housing and Urban Development. The CAHAT and Foreclosure Protection Fund programs were funded by appropriations received from the GovGuam through Public Law 21-99. The DPCCA program, which was administered by the Corporation under a Sub-recipient Agreement with GHURA, was terminated on October 23, 2003. The repayments received by the Corporation from its borrowers are program income of GHURA and is remitted monthly.

The Hazard Mitigation Program was funded with monies received from the Federal Emergency Management Agency in 1995 for victims of Typhoon Omar. The loan program is intended as a revolving loan program and the qualifying criteria of the program provide that subsequent typhoons are eligible under this program. During 2011, the Corporation transferred the total loan principal and interest repayments received from its borrowers under the program from loans held in trust to restricted cash in the accompanying 2011 statement of net assets.

6. Tenants Receivable

At September 30, 2011 and 2010, tenants receivable, net is summarized as follows:

	<u>2011</u>	<u>2010</u>
Tenant accounts	\$88,070	\$81,237
Other	<u>120</u>	<u>70</u>
	88,190	81,307
Allowance for doubtful accounts	<u>(34,656)</u>	<u>(34,368)</u>
	<u>\$53,534</u>	<u>\$46,939</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

7. Capital Assets

A summary of changes in net capital assets, consisting of property and equipment for the year ended September 30, 2011 is as follows:

	Beginning Balance October 1, <u>2010</u>	Transfers and <u>Additions</u>	Transfers and <u>Disposals</u>	Ending Balance September 30, <u>2011</u>
Capital assets depreciated and amortized:				
Buildings and improvements	\$5,905,396	\$ 4,990	\$ ---	\$5,910,386
Office furniture and equipment	341,692	---	(19,470)	322,222
Vehicles	122,567	33,895	(31,321)	125,141
Land improvements	47,659	---	---	47,659
Leasehold improvements	<u>29,445</u>	<u>---</u>	<u>---</u>	<u>29,445</u>
Total capital assets depreciated and amortized	6,446,759	38,885	(50,791)	6,434,853
Less: accumulated depreciation and amortization	<u>(3,085,735)</u>	<u>(137,206)</u>	<u>50,791</u>	<u>(3,172,150)</u>
Net capital assets depreciated and amortized	3,361,024	(98,321)	---	3,262,703
Capital asset not depreciated and amortized - land	<u>2,509,227</u>	<u>---</u>	<u>---</u>	<u>2,509,227</u>
	<u>\$5,870,251</u>	<u>\$ (98,321)</u>	<u>\$ ---</u>	<u>\$ 5,771,930</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

7. Capital Assets, continued

A summary of changes in capital assets, consisting of property and equipment for the year ended September 30, 2010 is as follows:

	Beginning Balance October 1, <u>2009</u>	Transfers and <u>Additions</u>	Transfers and <u>Disposals</u>	Ending Balance September 30, <u>2010</u>
Capital assets depreciated and amortized:				
Buildings and improvements	\$5,780,700	\$239,081	\$(114,385)	\$5,905,396
Office furniture and equipment	341,692	---	---	341,692
Vehicles	134,537	---	(11,970)	122,567
Land improvements	47,659	---	---	47,659
Leasehold improvements	<u>29,445</u>	<u>---</u>	<u>---</u>	<u>29,445</u>
Total capital assets depreciated and amortized	6,334,033	239,081	(126,355)	6,446,759
Less: accumulated depreciation and amortization	<u>(3,007,986)</u>	<u>(133,994)</u>	<u>56,245</u>	<u>(3,085,735)</u>
Net capital assets depreciated and amortized	3,326,047	105,087	(70,110)	3,361,024
Capital asset not depreciated and amortized - land	<u>2,509,227</u>	<u>---</u>	<u>---</u>	<u>2,509,227</u>
	<u>\$5,835,274</u>	<u>\$105,087</u>	<u>\$(70,110)</u>	<u>\$ 5,870,251</u>

8. Foreclosed Assets Held for Resale

A summary of the activities in the foreclosed assets held for resale as of September 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Foreclosed assets held for resale at beginning of year	\$116,359	\$545,720
Foreclosures made during the year	173,850	---
Foreclosed assets sold during the year	(45,675)	(430,988)
Other costs and adjustments	<u>3,157</u>	<u>1,627</u>
	<u>\$247,691</u>	<u>\$116,359</u>

Foreclosed assets held for resale represents three residential units acquired by the Corporation due to the borrowers' default on their mortgages.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

9. Mortgage Revenue Bonds Payable

Revenue bonds payable at September 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rates of 4.45% to 5.25% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2013. Semi-annual principal installments totaling from \$65,000 to \$75,000	\$ 285,000	\$ 415,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2018. Semi-annual principal installments totaling from \$74,931 to \$95,420	850,000	850,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2021. Semi-annual principal installments totaling from \$108,434 to \$119,510	685,000	685,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2031. Semi-annual principal installments totaling from \$114,054 to \$194,021	<u>3,030,000</u>	<u>3,030,000</u>
	<u>\$4,850,000</u>	<u>\$4,980,000</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

9. Mortgage Revenue Bonds Payable, continued

On April 15, 1998, the Corporation issued \$50,000,000 (Guaranteed Mortgage-Backed Securities Program) 1998 Series A tax-exempt Single Family Mortgage Revenue Bonds. The bonds were issued for the purpose of providing money to engage in a home-financing program within the territory of Guam. Principal installments and interest due on the bonds are payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 1998 at various rates indicated in the preceding paragraph.

At September 30, 2011 and 2010, the accrued interest expense on the above bonds totaled \$22,232 and \$22,785, respectively, which is reported as a component of accrued interest payable in the accompanying statements of net assets. For the years ended September 30, 2011 and 2010, interest expense, net of amortized bond premium incurred on the aforementioned bonds totaled \$271,208 and \$277,647, respectively, which is reported as a component of interest expense on borrowings in the accompanying statements of revenues, expenses and changes in net assets. Accrued interest income earned on the bonds totaled approximately \$9,553 and \$11,032 as of September 30, 2011 and 2010, respectively.

The Corporation is required to calculate rebatable arbitrage as of the last day of any Bond year pursuant to the provisions of the U.S. Department Treasury Regulation Section 1.148. The arbitrage provisions require the Corporation to rebate excess arbitrage earnings from bond proceeds to the federal government. As provided for by the bond indenture, this amount has been recorded as "Rebate Liability" for the benefit of the federal government and will be paid as required by applicable regulations. As of September 30, 2011 and 2010, the rebate liability totaled \$77,485 and \$90,404, respectively, as reported in the accompanying statements of net assets. The bonds are limited obligations of the Corporation payable from the revenues and other assets pledged for the payment thereof and are not a lien or charge upon the funds of the Corporation, except to the extent of the pledge and assignment set forth in the Indenture and in the bonds. The bonds do not constitute indebtedness or a loan of credit of the GovGuam or the United States of America, within the meaning of the Organic Act of Guam or statutory provisions. Neither the faith and credit nor the taxing power of the GovGuam is pledged to the payment of the principal of, or interest on the bonds. The Corporation has no taxing authority. The bonds are not debts, liabilities or obligations of the GovGuam and the GovGuam is not liable for the payment should the Corporation default on the loan.

The bonds maturing on September 1, 2031 are not subject to optional redemption prior to maturity. The bonds maturing after September 1, 2008 but on or before September 1, 2021 are subject to redemption on any date on or after September 1, 2008, at the option of the Corporation, in whole, or in part from such maturities as are determined by the Corporation, from any source of available monies, at the redemption prices of 100%.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

9. Mortgage Revenue Bonds Payable, continued

Scheduled future maturities of mortgage revenue bonds maturing on September 1, 2018 are summarized as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
March 1, 2014	\$74,931	September 1, 2016	\$85,468
September 1, 2014	\$77,273	March 1, 2017	\$88,395
March 1, 2015	\$79,614	September 1, 2017	\$90,737
September 1, 2015	\$81,371	March 1, 2018	\$93,079
March 1, 2016	\$83,712	September 1, 2018	\$95,420

Scheduled future maturities of mortgage revenue bonds maturing on September 1, 2021 are summarized as follows:

<u>Date</u>	<u>Principal Amount</u>
March 1, 2019	\$108,434
September 1, 2019	\$110,183
March 1, 2020	\$113,681
September 1, 2020	\$115,430
March 1, 2021	\$117,762
September 1, 2021	\$119,510

Scheduled future maturities of mortgage revenue bonds maturing on September 1, 2031 are summarized as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
March 1, 2022	\$114,064	March 1, 2027	\$150,915
September 1, 2022	\$117,573	September 1, 2027	\$156,180
March 1, 2023	\$120,498	March 1, 2028	\$159,689
September 1, 2023	\$124,008	September 1, 2028	\$165,539
March 1, 2024	\$127,517	March 1, 2029	\$170,218
September 1, 2024	\$131,612	September 1, 2029	\$174,898
March 1, 2025	\$135,122	March 1, 2030	\$180,162
September 1, 2025	\$139,216	September 1, 2030	\$186,012
March 1, 2026	\$143,311	March 1, 2031	\$191,275
September 1, 2026	\$147,990	September 1, 2031	\$194,201

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

9. Mortgage Revenue Bonds Payable, continued

The Bond Indenture contains certain restrictive covenants, including restrictions on the use of bond funds. Management of the Corporation is of the opinion that the Corporation was in compliance with all significant covenants of the mortgage revenue bonds as of September 30, 2011.

Future bond principal and mandatory sinking fund installments payable by the Corporation to the bond trustees are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2012	\$ 140,000	\$ 264,968	\$ 404,968
2013	145,000	257,643	402,643
2014	152,204	249,891	402,095
2015	160,985	241,622	402,607
2016	169,180	232,900	402,080
2017 to 2021	1,052,631	1,017,693	2,070,324
2022 to 2026	1,300,911	711,682	2,012,593
2027 to 2031	<u>1,729,089</u>	<u>285,134</u>	<u>2,014,223</u>
	<u>\$4,850,000</u>	<u>\$3,261,533</u>	<u>\$8,111,533</u>

10. Notes Payable

At September 30, 2011 and 2010, the Corporation has notes payable to Federal Home Loan Bank of Seattle (FHLB) totaling \$3,343,170 and \$4,351,620, respectively, with interest of 6.490% per annum, and matures in August 2014. Monthly principal installments and accrued interest are due at varying amounts. At September 30, 2011 and 2010, accrued interest payable on this note totaled \$17,849 and \$23,227, respectively, and is reported as a component of accrued interest payable in the accompanying statements of net assets. For the years ended September 30, 2011 and 2010, interest expense incurred on the aforementioned notes totaled \$247,535 and \$311,124, respectively, and is reported as a component of interest expense on borrowings in the accompanying statements of revenues, expenses and changes in net assets.

Under the note agreements with FHLB, the borrowings are collateralized by proceeds received from mortgage loans made by the Corporation. As of September 30, 2011 and 2010, the Corporation has pledged loans totaling \$8,577,278 and \$9,721,152, respectively, as security to the aforementioned borrowings.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

10. Notes Payable, continued

Scheduled future maturities of notes payable to FHLB are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2012	\$1,075,881	\$185,770	\$1,261,651
2013	1,147,820	113,309	1,261,129
2014	<u>1,119,469</u>	<u>36,553</u>	<u>1,156,022</u>
	<u>\$3,343,170</u>	<u>\$335,632</u>	<u>\$3,678,802</u>

11. Employee Benefits and Others

Employee Retirement Plan

Employees of the Corporation hired before September 30, 1995 are under the GovGuam Employees' Retirement System, a defined benefit pension plan (DB Plan). Employees hired after September 30, 1995, are members of the new Defined Contribution Retirement System (DCRS). Until December 31, 1999, and for several limited periods after December 31, 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Otherwise, these employees remained under the old plan.

The DB Plan and the DCRS are administered by the Government of Guam Retirement Fund (GGRF), to which the Corporation contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

DB Plan

The DB Plan is a cost-sharing multiple-employer plan. A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

Plan members of the DB Plan are required to contribute a certain percentage of their annual covered salary. The contribution requirements of the plan members and the Corporation are established and may be amended by the GGRF.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

11. Employee Benefits and Others, continued

DB Plan, continued

Statutory contribution rates for employer and employee contributions were 27.46% and 9.50%, respectively, for the year ended September 30, 2011, 26.04% and 9.50%, respectively, for the year ended September 30, 2010, 25.20% and 9.50%, respectively, for the year ended September 30, 2009. Actuarial contribution rate was 28.06%, 29.31% and 26.02% for the years ended September 30, 2011, 2010 and 2009, respectively.

During the years ended September 30, 2011, 2010 and 2009, contributions made, which were equal to the required contribution for those years, amounted to \$71,312, \$61,334 and \$53,880, respectively.

DCRS

Contributions into the DCRS, by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2011 and 2010 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan. Members of the DCRS who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

For the years ended September 30, 2011, 2010 and 2009 contributions made under the DCRS amounted to \$221,786, \$188,371 and \$186,089, respectively.

Accrued Sick Leave

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. As of September 30, 2011 and 2010, the Corporation has accrued an estimated liability of \$141,121 and \$86,800, respectively, which is reported as a component of accrued compensated absences in the accompanying statements of net assets. However, this amount is an estimate and actual payout could differ from the estimate.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

11. Employee Benefits and Other, continued

Other Post-Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain post-retirement healthcare benefits to retirees who are members of the GGRF. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

12. Land Held for Development

In accordance with Public Law 20-225, 46 acres of land were transferred from GovGuam to the Corporation to develop affordable housing units for sale to first-time homeowners known as Lada Estates Project (Lada Estates). The recorded cost of the 46 acres was \$392,385 at the time of transfer. Lada Estates was intended as a two-phase turnkey project which was substantially completed on July 24, 1998. Subsequent economic conditions prevented the completion of the project and the Corporation has halted further development as of September 30, 2002.

The Lada Estates units were to be sold at the cost of construction, plus 2% and \$3 per square meter for the house lot. The donated land initially recorded at \$2.10 per square meter increased as the cost of the development incurred. At September 30, 2011 and 2010, Lada Estates is reported in the statements of net assets as land held for development and consists of the following:

	<u>2011</u>	<u>2010</u>
Cost of land	\$ ---	\$ 392,385
Capitalized improvement for off-site and on-site infrastructure	<u>10,555,000</u>	<u>10,555,000</u>
	<u>\$10,555,000</u>	<u>\$10,947,385</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

12. Land Held for Development, continued

On January 27, 2004, the contractor filed a lawsuit against the Corporation and GovGuam for breach of contract arising out of the planning, design, and construction of the on-site and off-site infrastructure of Lada Estates. The contractor seeks for monetary compensation and damages for the construction of on-site and off-site infrastructure of Lada Estates totaling \$10.55 million (\$7.6 million for on-site infrastructure and against the Corporation and \$2.9 million for off-site infrastructure and against GovGuam) plus accrued interest and costs. The Corporation has recorded a liability payable to the contractor of \$10.55 million, which is reported as accounts payable from restricted assets in the accompanying statements of net assets. The contractor is claiming accrued interest of \$9.65 million due on the outstanding liability as of September 30, 2011. It is not possible to determine the ultimate outcome on accrued interest claimed by the contractor, and therefore, no provision has been recorded in the accompanying financial statements for the accrued interest.

The Corporation has a contingent receivable due from GovGuam totaling \$2.9 million for GovGuam's off-site infrastructure costs and which in prior years was reported as such in the Corporation's financial statements pursuant to Guam Public Law 25-116, Section 6 (Price). Public Law 25-116, Section 6 provides that "the costs of the off-site infrastructure and off-site access roads shall be the responsibility of GovGuam". The Department of Administration (DOA) of GovGuam, however, has not recorded the above-referenced liability in the Government's General Fund records. Management of the Corporation has opted to reclassify this amount under the category of land held for development until such time that the pending litigation is resolved. Upon ultimate adjudication by the Court, the receivable will either remain as part of land held for development or be restated as receivable due from the GovGuam.

During the year ended September 30, 2011, the Corporation recorded impairment loss of approximately \$392,000 on the Lada Estates project. The impairment loss is based on the expectation that the Superior Court of Guam will approve a proposed settlement by the Contractor to relinquish all claims against the Corporation in exchange for rights to the Lada Estates property. The impairment loss being calculated as the difference between recorded amounts owed to the Contractor versus the net book value of the Lada Estates project.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

12. Land Held for Development, continued

On January 6, 2012, the Superior Court of Guam approved the Settlement Agreement between the Corporation and the contractor. The Corporation and the contractor agreed to convey the subject property to the contractor through a grant deed. The contractor agrees to give up its rights and claims to collect the \$7.6 million for on-site infrastructure of Lada Estates, including all penalties and interest. However, the contractor reserves the right to continue with the lawsuit only against GovGuam to collect the \$2.9 million for the off-site improvements. The contractor agrees to build and sell affordable houses on the property within six years from the date of execution of the deed in accordance with the applicable laws. Once the homes are constructed, the contractor shall convey clear and marketable title to the subsequent owner. In the event the contractor does not fully comply with the conditions of the deed, the subject property shall automatically revert back to the Corporation six years from the execution of the deed.

Subsequent to September 30, 2011, the Corporation will offset the \$10.55 million recorded liability against the recorded \$10.55 million land held for development.

13. Commitments and Contingencies

Commitments

As of September 30, 2011, the Corporation has loan commitments totaling \$708,481.

In February 2003, the Corporation entered into a Memorandum of Understanding (MOU) with the Guam Economic Development Authority (GEDA), an autonomous agency of the GovGuam to provide network and computer administration support services of the Corporation. For each of the years ended September 30, 2011 and 2010, the service fee on the aforementioned agreement totaled \$21,696 which is reported as a component of professional services in the accompanying statements of revenues, expenses and changes in net assets. Additionally, for the years ended September 30, 2011 and 2010, rental expense totaling \$92,916 and \$72,198, respectively, was paid to GEDA which is reported as a component of rent expense in the accompanying statements of revenues, expenses and changes in net assets.

The Corporation sub-leases office space from GEDA under an operating lease which expires February 28, 2012. At September 30, 2011, the remaining future minimum annual lease payments for the operating lease totaled \$44,881.

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

13. Commitments and Contingencies, continued

Litigation

During 2010, a class lawsuit was filed against the Corporation, DOA and the GovGuam to compel the aforementioned autonomous agencies and entities to issue merit bonuses to those resigned classified employees receiving superior performance rating pursuant to the Uniform Position Classification and Salary Administration Act of 1991. The case is still pending in the Superior Court of Guam and the outcome of this case is undeterminable.

The Corporation has claims under legal procedures for approximately \$912,818 in which foreclosure, litigation or bankruptcy is involved. These claims are at various stages and the ultimate outcome is uncertain. Therefore, no additional provision for any potential liability that may result from these claims has been made in the accompanying financial statements.

Self-Insurance

The Corporation self-insures for all risks to Lada Gardens and Guma As-Atdas. A separate restricted cash account was established to fund any damages that may arise in the future, to be increased on a monthly basis by the weighted-average yield of the Corporation's checking account. Excess of losses over the fund is recognized in the year realized. At September 30, 2011 and 2010, the self-insurance fund totaled \$1,467,408 and \$1,382,692, respectively, as reported in the accompanying statements of net assets.

Environmental Remediation

Lada Estates has experienced recurring illegal dumping of trash and refuse. Management recognizes this problem within the property and along the secondary roadways outlining the property which may pose a potential negative impact on the environment.

The management of the Corporation has consulted with the Guam Environmental Protection Agency (GEPA) on potential environmental hazards. GEPA has offered to assist the Corporation in these environmental remediation matters and the Corporation is in the process of obtaining cost estimates for proper remediation and securing the property to help prevent future illegal dumping. Management is assessing the total cost of the cleanup and remediation. As of September 30, 2011, the Corporation has not recorded a provision for this liability in the accompanying financial statements.

Other Financial Information

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Combining Statement of Net Assets

September 30, 2011

	<u>Housing</u>	<u>Rental</u>	<u>Combined Total</u>
Assets			
Unrestricted assets:			
Cash and cash equivalents	\$ 2,123,671	\$ 1,709,853	\$ 3,833,524
Self-insurance fund	---	1,467,408	1,467,408
Loans receivable, net	19,172,526	---	19,172,526
Tenants receivable, net	---	53,534	53,534
Other receivables	27,078	---	27,078
Accrued interest receivable	81,120	3,129	84,249
Prepaid expenses and other	4,110	44,742	48,852
Foreclosed assets held for resale	247,691	---	247,691
	<u>21,656,196</u>	<u>3,278,666</u>	<u>24,934,862</u>
Total unrestricted assets			
Restricted assets:			
Cash and cash equivalents	2,866,787	67,158	2,933,945
Investments	5,227,330	---	5,227,330
Loans receivable, net	8,577,278	---	8,577,278
Other receivables	2,225,662	---	2,225,662
Land held for development	10,555,000	---	10,555,000
	<u>29,452,057</u>	<u>67,158</u>	<u>29,519,215</u>
Total restricted assets			
Capital assets, net	<u>9,063</u>	<u>5,762,867</u>	<u>5,771,930</u>
Total assets	<u>\$ 51,117,316</u>	<u>\$ 9,108,691</u>	<u>\$ 60,226,007</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Combining Statement of Net Assets, continued

September 30, 2011

	<u>Housing</u>	<u>Rental</u>	<u>Combined Total</u>
Liabilities And Net Assets			
Liabilities:			
Payable from unrestricted assets:			
Accounts payable and accrued expenses	\$ 125,702	\$ 39,206	\$ 164,908
Accrued compensated absences	158,166	86,816	244,982
Deferred revenue	<u>47,108</u>	<u>469</u>	<u>47,577</u>
Total payable from unrestricted assets	<u>330,976</u>	<u>126,491</u>	<u>457,467</u>
Payable from restricted assets:			
Accounts payable	10,555,000	---	10,555,000
Bonds payable	4,850,000	---	4,850,000
Notes payable	3,343,170	---	3,343,170
Accrued interest payable	40,081	---	40,081
Security deposits	---	50,824	50,824
Deposits by borrowers - insurance premiums and real estate taxes	466,366	---	466,366
Loans held in trust	397,634	---	397,634
Rebate liability	<u>77,485</u>	<u>---</u>	<u>77,485</u>
Total payable from restricted assets	<u>19,729,736</u>	<u>50,824</u>	<u>19,780,560</u>
Total liabilities	<u>20,060,712</u>	<u>177,315</u>	<u>20,238,027</u>
Net assets:			
Invested in capital assets, net of related debt	9,063	5,762,867	5,771,930
Restricted	9,722,321	16,334	9,738,655
Unrestricted	<u>21,325,220</u>	<u>3,152,175</u>	<u>24,477,395</u>
Total net assets	<u>31,056,604</u>	<u>8,931,376</u>	<u>39,987,980</u>
Total liabilities and net assets	<u>\$ 51,117,316</u>	<u>\$ 9,108,691</u>	<u>\$ 60,226,007</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Combining Statement of Revenues, Expenses and Changes in Net Assets

Year ended September 30, 2011

	<u>Housing</u>	<u>Rental</u>	<u>Combined Total</u>
Interest income:			
Loans receivable	\$ 1,937,190	\$ ---	\$ 1,937,190
Investments held by bond trustees	159,827	---	159,827
Interest-bearing deposits	<u>14,600</u>	<u>9,315</u>	<u>23,915</u>
Total interest income	2,111,617	9,315	2,120,932
Interest expense on borrowings	<u>518,743</u>	<u>---</u>	<u>518,743</u>
Net interest income	1,592,874	9,315	1,602,189
Other income:			
Rental income	7,265	821,556	828,821
Other income	140,632	6,735	147,367
Gain on disposal of capital and foreclosed assets	<u>52,887</u>	<u>---</u>	<u>52,887</u>
	<u>1,793,658</u>	<u>837,606</u>	<u>2,631,264</u>
Other expenses:			
Salaries	815,493	309,901	1,125,394
Impairment loss	392,385	---	392,385
Retirement and Medicare contributions	228,250	85,876	314,126
Retiree supplemental and health benefits	115,713	69,634	185,347
Depreciation and amortization	4,667	132,539	137,206
Contractual services	50,117	49,498	99,615
Rent	95,226	---	95,226
Professional services	79,634	10,698	90,332
Other	42,596	22,092	64,688
Employee benefits, other than retirement	33,007	19,122	52,129
Maintenance	---	30,235	30,235
Bad debts	3,489	24,948	28,437
Bond trustee fees	14,900	---	14,900
Director fees	<u>1,450</u>	<u>---</u>	<u>1,450</u>
Total other expenses	<u>1,876,927</u>	<u>754,543</u>	<u>2,631,470</u>
(Decrease) increase in net assets	(83,269)	83,063	(206)
Net assets at beginning of year	<u>31,139,873</u>	<u>8,848,313</u>	<u>39,988,186</u>
Net assets at end of year	<u>\$ 31,056,604</u>	<u>\$ 8,931,376</u>	<u>\$ 39,987,980</u>

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Salaries, Wages and Benefits

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Salaries, wages and benefits:		
Salaries	\$ 1,125,394	\$ 1,063,238
Retirement and Medicare contributions	314,126	272,401
Retiree supplemental and health benefits	185,347	153,752
Benefits other than retirement	<u>52,129</u>	<u>36,170</u>
Total salaries, wages and benefits	<u>\$ 1,676,996</u>	<u>\$ 1,525,561</u>
Employees at end of year	26	23