Financial Statements and Supplementary Information

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

Years ended September 30, 2012 and 2011 with Report of Independent Auditors

Ernst & Young LLP

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

Financial Statements and
Supplementary Information

Years ended September 30, 2012 and 2011

Contents

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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, 2012 and 2011, 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, 2012 and 2011, and the results of its operations 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 7, 2013, 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.

Accounting principles generally accepted in the United States require that Management's Discussions and Analysis on page 3 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Guam Housing Corporation's financial statements. The supplementary information included in Schedules 1 through 3 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

February 7, 2013

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

Management's Discussion and Analysis

September 30, 2012

As management of the Guam Housing Corporation (GHC, 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 ended September 30, 2012. We encourage the readers to consider the information presented even as you review the financial statistics presented on the following pages.

A. About the Corporation

Guam Housing Corporation continues to make steady progress. Even with limited capital, GHC 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. GHC still faces the usual concerns of a turbulent economy; however, it is noted that there continues to be improvement in loan origination and service.

Perhaps one of the more significant achievements the Corporation has enjoyed this year is the initiation of the "Housing Trust Fund Act" and the "First-time Homeowners Assistance Program Act" Public Law (P.L). 31-166 of 05 Jan 2012)

Housing Trust Funds are the single most impressive advance in the affordable housing field in the United States over the last several decades. Because housing is the foundation of every healthy community, local and state governments are recognizing that they need to contribute public resources to adequately house their residents, and they are using Housing Trust Funds as the vehicle to do exactly that.

Housing Trust Funds are distinct funds established by city, county or state governments that receive on-going dedicated sources of public funding to support the preservation and production of affordable housing and increase opportunities for families and individuals to access decent affordable homes. Housing Trust Funds systemically shift affordable housing funding from annual budget allocations to the commitment of dedicated public revenue.

There are now 40 states with Housing Trust Funds, as well as the District of Columbia, and more than 625 city and county Housing Trust Funds in operation. They dedicate nearly $1 billion annually to help address critical housing needs throughout the country. The number of Housing Trust Funds have doubled in the last seven years.

Housing Trust Funds are extremely flexible and can be used to support innovative ways to address many types of housing needs. The model can work in virtually any situation. They have been created to serve small towns as well as the largest states in the country. These funds are also very efficient. Many Housing Trust Funds report highly successful track records addressing a wide range of critical housing needs.

A. About the Corporation, continued

Center for Community Change

GHC'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 GHC to assist working class families. GHC's clientele is diverse and includes teachers, firemen, police officers, office managers, office workers, and hotel and restaurant employees. They walk through GHC's 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 GHC seeks additional lending capital for those families who have been pre-qualified.

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

By virtue of Title 21, Chapter 75 of the Guam Code Annotated, GHC is the primary, and in most cases the only authorized lender for Chamorro Land Trust Property (CLTP) recipients seeking mortgage financing. Loan programs available to veterans, who are also recipients of the CLTP, were limited to GHC'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 CLTP, GHC and Rural Development, direct loans from Rural Development can now be extended to veterans with Chamorro Land Trust Leases.

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

A. About the Corporation, continued

Loan and Supplemental Funding Programs

Currently, GHC makes available the following programs:

I. 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 fiscal year 2008, the Board of Directors (BOD) approved and adopted a provision allowing GHC's management to adjust loan interest rates to reflect the current prevailing rate. This action emanates from P.L. 26-123 which states that the BOD may set the rate of interest. However, it cannot assess a rate of interest greater than two points over its cost of funds. The term for repayments remains at 30 years.

II. 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 ranges from 4% to 6% for a term of 30 years.

III. 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.

IV. Leveraged Loan Program

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

GHC's loan will be at the interest rates established for its regular loan program for a term of 30 years. Rural Development loans will be available at the prevailing interest rate for a term of 33 years. However, because 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.

A. About the Corporation, continued

V. First-time Homeowners Assistance Program Act

Additionally, the Corporation re-established the "First-time Homeowner Assistance Program Act", a program initially introduced by P.L. 24-180 in 1998, the funding however, was limited and had subsequently dried up. GHC knew it would do a tremendous good to revive this program while making it sustainable. However, given the circumstances of the general fund at that time, the slowdown in tourism along with the delay in the military growth GHC expected, the funding as initiated for this program, would be limited. It became quite clear GHC was correct.

In January 2012, GHC was able to revive this program with the introduction of the "Housing Trust Fund Act", P.L. 31-166 and, therefore, in June 2012 re-initiated the "First-time Homeowners Assistance Program" as re-established by P. L. 31-227.

Eligible recipients of the program are provided up to $10,000 (4% of a mortgage loan amount maximum of $250,000) to be used for down-payment assistance or closing cost.

Rental Division

GHC created Guam Rental Division 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, GHC acquired 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 GHC 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.

In February 2012, GHC implemented an increase in rent for Lada Gardens properties at $50 per unit per month.

GHC continued to increase its affordable housing inventory as P.L. 31-215 was enacted. This law provided GHC an additional 10 single family units for rent from the Department of Land Management (DLM). The Sagan Linahyan Renovation Project provided Department of Housing and Urban Development funded renovations through Guam Housing & Urban Renewal Authority (GHURA), for 10 abandoned units at a cost of approximately $650,000.00. The Renovation Project was completed in October 2012. Additionally, GHC has provided a housing unit for a community outreach program through non-profit Community Services Resources, Inc. for neighborhood revitalization.

A. About the Corporation, continued

Rental Division, continued

The Guam Rental Division (GRD) continually strives to improve in policy, performance and services. GRD 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

Through P.L. 20-225, 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 (MPC) brought suit against the 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 statement. In fiscal year 2010, an impairment loss of $5.2 million was recorded as a prior year adjustment. In fiscal year 2011, an additional impairment loss of approximately $392,000 was recorded. As of September 30, 2011, the issue of Lada Estates remained unresolved. However, aggressive efforts to put an end to the ongoing litigation were brought forward. On January 6, 2012, the courts approved the settlement between GHC and MPC. As a result of the settlement, both Land Held for Development and Accounts Payable were decreased by $10,555,000 in fiscal year 2012.

Provisions indicated in the settlement agreement stipulate the continued use of the land for affordable housing development of the proposed 399 units for lease or purchase, within a six year timeline. On March 21, 2012, P.L. 31-195 was enacted approving the transfer of the Lada Estates property from the GHC to MPC.

B. Overview of 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 23 through 59 of this report.

B. Overview of the Financial Statements, continued

A condensed summary of the Corporation's statements of net assets at September 30, 2012, 2011 and 2010 is shown below.

Statements of Net Assets
September 30, 2012, 2011 and 2010

Assets	2012	2011	2010
Cash and investments	$12,374,522	$13,462,207	$13,814,723
Loans receivable, other receivable, prepaid expenses and inventory	29,854,893	30,189,179	30,859,853
Land held for development	---	10,555,000	10,947,385
Foreclosed assets held for resale	394,364	247,691	116,359
Capital assets	6,271,046	5,771,930	5,870,251
Total assets	$48,894,825	$60,226,007	$61,608,571
Accounts payable and accrued expenses	$ 525,909	$11,130,033	$11,209,050
Notes payable	2,267,289	3,343,170	4,351,620
Deposits by borrowers and security deposit	532,262	517,190	529,134
Bonds payable	4,710,000	4,850,000	4,980,000
Loans held in trust	370,178	397,634	550,581
Total liabilities	8,405,638	20,238,027	21,620,385
Invested in capital assets, net of related debt	6,271,046	5,771,930	5,870,251
Restricted	8,694,060	9,738,655	9,535,081
Unrestricted	25,524,081	24,477,395	24,582,854
Total net assets	40,489,187	39,987,980	39,988,186
Total liabilities and net assets	$48,894,825	$60,226,007	$61,608,571

B. Overview of the Financial Statements, continued

A condensed summary of the Corporation's statements of revenues, expenditures and changes in net assets for the fiscal years ended September 30, 2012, 2011 and 2010 is shown below.

Statements of Revenues, Expenditures and Changes in Net Assets
Fiscal years ended September 30, 2012, 2011 and 2010

	2012	2011	2010
Revenues	$ 3,456,230	$ 3,177,118	$ 3,071,404
Expenses	2,955,023	3,177,324	2,655,531
Increase (decrease) in net assets	501,207	(206)	415,873
Total net assets at beginning of year	39,987,980	39,988,186	39,572,313
Total net assets at end of year	$40,489,187	$39,987,980	$39,988,186

C. Financials at a Glance

GHC's loan portfolio consists of loans originated with GHC funds from the Direct Loan Program and the Revolving Loan Program. It is categorized in the Statements of Net Assets under Loans receivable, net both unrestricted and restricted. Other receivables under the Statement of Net Assets comprises all other loans (i.e., Down Payment and Closing Cost, 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.

GHC's loan portfolio has decreased by $437,147 to approximately $30.8 million decreasing 1.40% 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 one (1) loan totaling $89,973 was originated under this program. Thirteen (13) loans totaling $2,280,650 under the Revolving Loan Program was originated this fiscal year. Under the CAHAT Program, four (4) loans were originated totaling $150,072. In addition, the corporation had an increase of loans that were paid off during this fiscal year. In fiscal year 2012, the Corporation had twenty-seven (27) payoffs amounting to $1.28 million in comparison to the previous fiscal year of twenty-five (25) totaling $1.19 million.

GHC continues its marketing efforts to disseminate information relative to its loan programs. The Corporation has targeted its 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 $3.42 million of prospective loans. The applicants will continue facing challenges to find homes within their buying power and having the resources for the required closing costs.

C. Financials at a Glance, continued

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, GHC will hold a first lien position with a lower risk exposure to first-time homeowners. With the partnership, GHC and USDA Rural Development will be able to provide 100% financing.

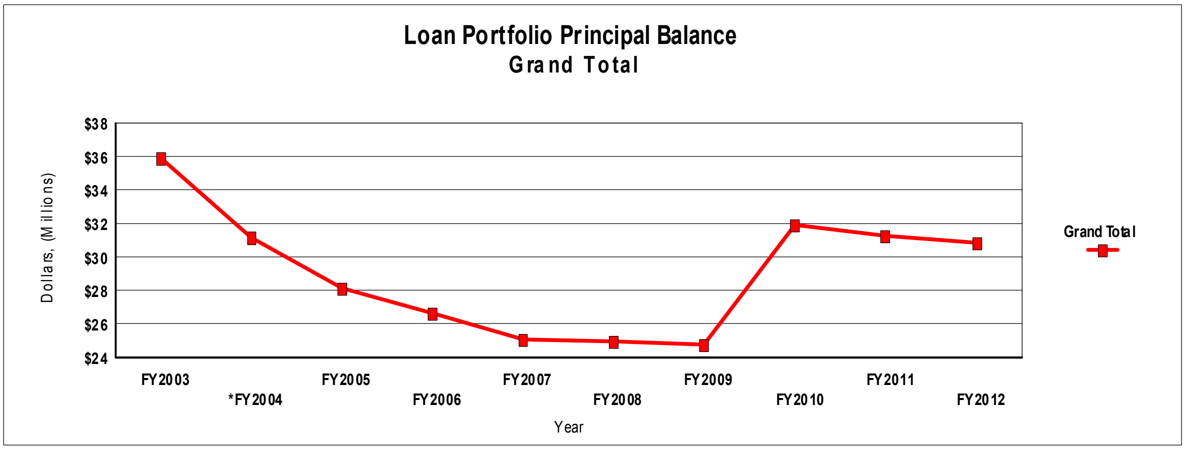
D. Financial Highlights

Loan Portfolio Principal Balance

FY2003	*FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
$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	$30,844,159

Total Number of Loans

702	580	533	505	470	450	439	477	465	454



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

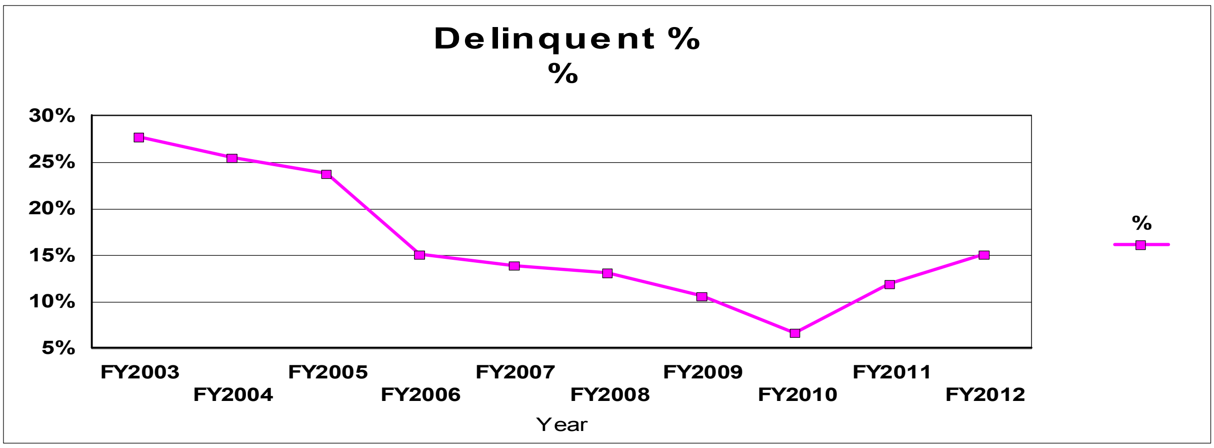
D. Financial Highlights, continued

Delinquency

Total delinquencies increased by seven (7) loans during the year, an increase of $910,148 over the previous year. Overall, loans delinquent 30 days and over increased by 3.14% from the past year to 15.11%. GHC 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.

Although GHC'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, GHC will authorize the workout. This, however, will not eliminate foreclosure should the borrower renege on the approved payment arrangement.

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Delinquent %	27.74%	25.51%	23.74%	15.09%	13.86%	13.15%	10.61%	6.69%	11.97%	15.11%
Principal Balance	$9,967,364	$7,953,395	$6,521,751	$3,919,197	$3,387,036	$3,217,545	$2,572,805	$2,109,867	$3,697,143	$4,607,291
Total number of delinquent loans	216	140	108	60	54	48	36	33	54	61

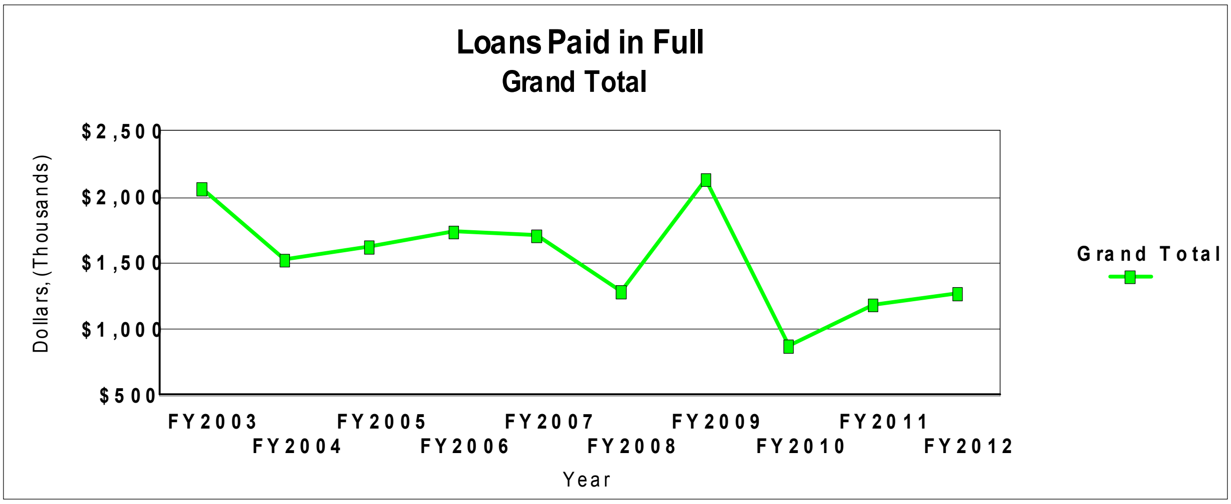


D. Financial Highlights, continued

Loans Paid in Full

Twenty-seven (27) loans were paid in full in FY 2012 totaling $1.28 million, an increase of $87,938 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, GHC 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.

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Grand Total	$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	$1,277,203
Total Number of Loans	68	52	44	49	56	41	39	25	25	27



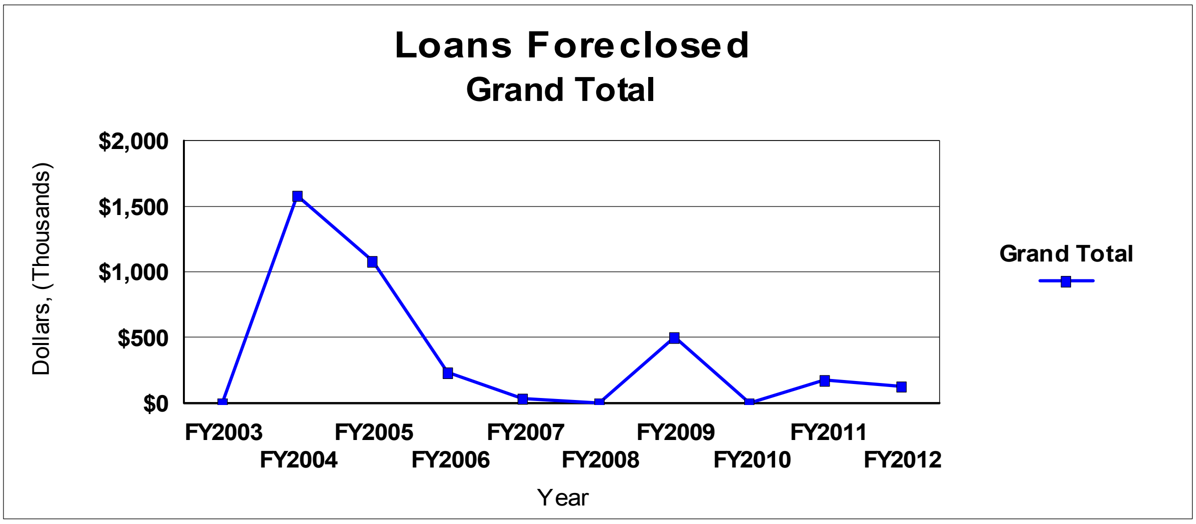
D. Financial Highlights, continued

GHC has been working closely with legal counsel to more effectively address serious delinquencies and work with the borrower to avoid foreclosure. Although GHC and legal counsel have made all efforts to cure some of these serious delinquencies, GHC did foreclose on one (1) loan in FY 2012.

Foreclosed assets held for resale increased from four (4) properties totaling $247,691 the previous fiscal year to five (5) properties totaling $394,364 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, GHC 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.

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Grand Total	$0	$1,589,852	$1,087,763	$240,849	$35,047	$0	$500,451	$0	$183,741	$132,614
Total number of loans	0	14	11	3	1	0	5	0	2	1



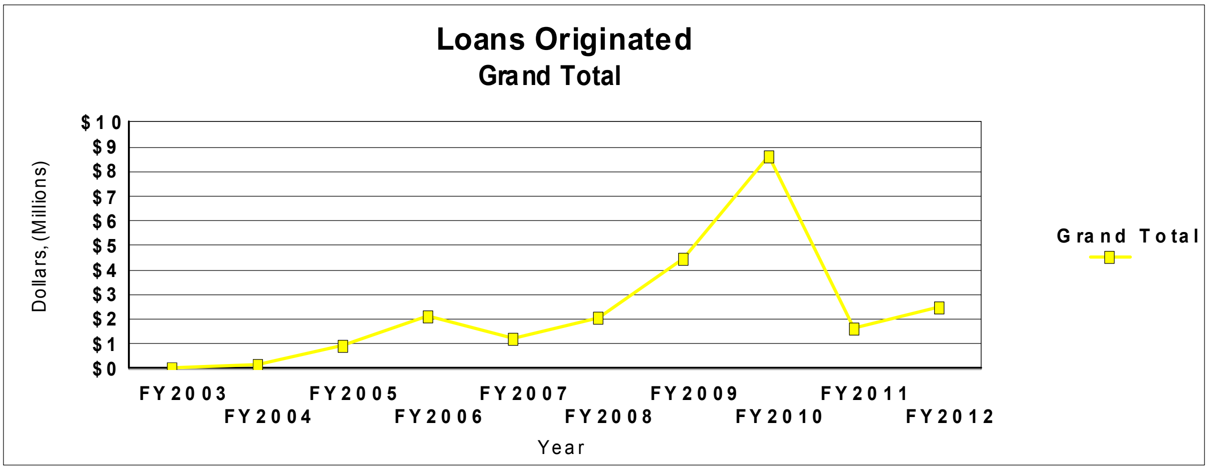
D. Financial Highlights, continued

Loans Originated

The following data and chart show the amount of loans originated since FY 2003. In fiscal years 2003 and 2004, GHC essentially suspended loan origination because of typhoon recovery and full implementation of the Recovery Plan. There was a decrease in fiscal year 2007 which was in part attributable to limited housing supply within an affordable range. In the latter part of fiscal year 2008, the BOD approved and adopted a provision allowing GHC'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 fiscal year 2012, only one (1) loan totaling $89,973 was originated under this program. Thirteen (13) loans totaling $2,280,650 under the Revolving Loan Program was originated this fiscal year. There were four (4) loans totaling $150,072 originated under the CAHAT program in fiscal year 2012.

Loans Originated

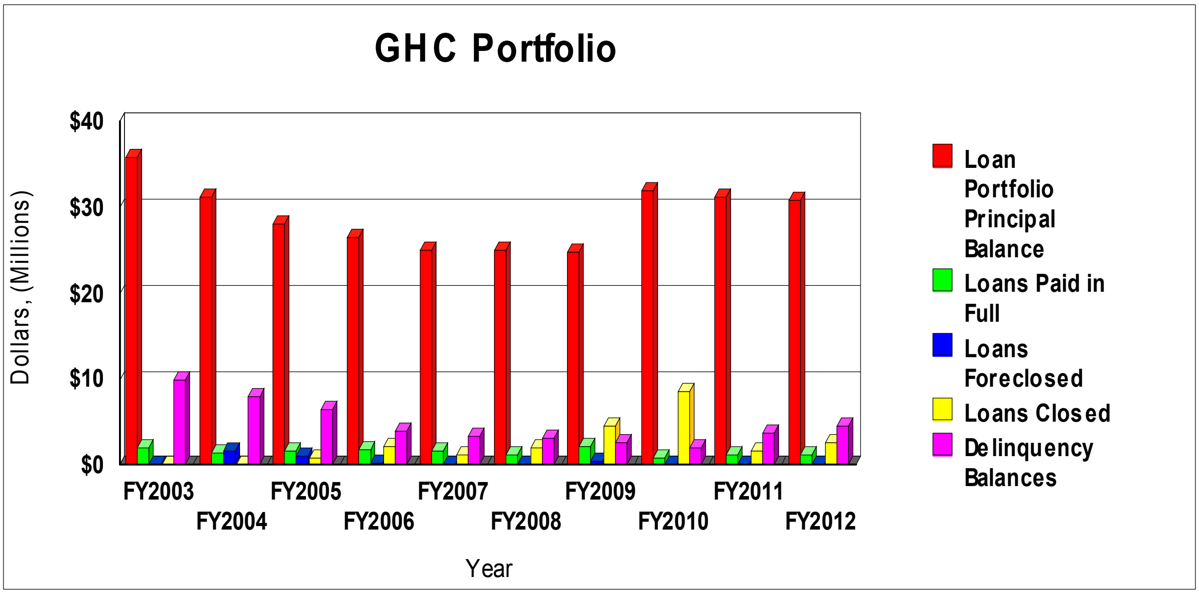
FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY 2012
Grand Total									
$11,237	$141,083	$952,782	$2,180,928	$1,235,210	$2,072,972	$4,446,132	$8,599,755	$1,638,122	$2,520,696
1	12	11	36	17	18	40	62	15	18



D. Financial Highlights, continued

Overall Loan Portfolio

	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Loan Portfolio Principal Balance	$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	$30,844,159
Loans Paid in Full	$ 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	$1,277,203
Loans Foreclosed	$ 0	$ 1,589,852	$ 1,087,763	$ 240,849	$ 35,047	$ 0	$ 500,451	$ 0	$ 183,741	$ 132,614
Loan Originated	$ 11,237	$ 141,083	$ 952,782	$ 2,180,928	$ 1,235,210	$ 2,072,972	$ 4,446,132	$ 8,599,755	$1,638,122	$2,520,696
Delinquency Balance	$ 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	$4,607,291



D. Financial Highlights, continued

Allowance for Loan and Lease Losses

A net of $19,925 of Allowance for Loan Losses was used to write off two (2) loans this fiscal year. The Allowance for Loan Losses decreased from $959,239 in FY 2011 to $939,314 in FY 2012. This is a total decrease of 2.07%. The balance remains over 3.00% of the total loan portfolio in accordance with GHC's Loan Policy.

Capital Assets

Capital Assets increased by $499,116 or 8.64% from $5,771,930 in FY 2011 to $6,271,046 in FY 2012. The increase is attributed to the nonexchange transfer of ten (10) Sagan Linahyan units from DLM to GHC. The appraised valued for the land and buildings for these ten (10) units totaled $601,000. Also, there was major renovation completed for one (1) rental unit totaling $29,288 and one (1) vehicle was purchased at the value of $10,000. These additions totaled $640,288 were offset by deprecation amounting to $141,172.

Debt Service

Notes Payable decreased by $1,075,881 from $3,343,170 in FY 2011 to $2,267,289 in FY 2012. GHC continues to honor its monthly debt service obligations to FHLB, its sole creditor, at an interest rate of 6.49%. This note is on schedule to be fully amortized by 2014. For more details on the note to FHLB, see Note 10 of the financial statements.

Bonds Payable decreased by $140,000 or 2.8% from $4,850,000 in FY 2011 to $4,710,000 in FY 2012. 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 $11,919 or 15.38% from $77,485 in FY 2011 to $65,566 in FY 2012. The decrease was due to the decrease in market value in FY 2012. 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 & Sutcliffe 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.

D. Financial Highlights, continued

Interest on Loans Receivable

Interest on Loans Receivable, net of loan origination, decreased by $173,147 or 8.94% in FY 2012. Interest collected from the Hazard Mitigation Program was in previous years recorded as a payable. In FY 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 FY 2011. Also, the total loan portfolio decreased by $437,147 and the weighted average interest rate on loans decreased from 6.28% in FY 2011 to 6.10% in FY 2012.

Interest on Investment Held by Bond Trustees

Interest on Investment Held by Bond Trustees decreased by $39,545 or 24.74% in FY 2012. The market value for these funds decreased in FY 2012 which also caused the decrease in the Rebate Liability.

Interest Income on Bank Deposits

Interest Income on Bank Deposit decreased by $1,611 or 6.74% from $23,915 in FY 2011 to $22,304 in FY 2012. The decrease in income is due to the decrease in interest rates on investments. The weighted average interest rate for TCDs decreased from 0.295% in FY 2011 to 0.293% in FY 2012.

Interest Expense

Interest Expense decreased by $74,366 or 14.33%. The decrease is due to the decrease in principal balance due for the FHLB Note and Mortgage Revenue Bonds payables.

Rental Income

Rental Income increased in FY 2012 by $29,267 or 3.53%. Effective February 2012 rental units at Lada Gardens increased by $50 per month.

Gain on Disposal of Capital Assets

No foreclosed properties were sold in FY 2012. One (1) foreclosed property was sold in FY 2011 for a gain of $52,887.

D. Financial Highlights, continued

Salaries

Salaries increased by $62,374 or 5.54% from $1,125,394 in FY 2011 to $1,187,768 in FY 2012. There were three employees hired at the later part of FY 2011. The increase is also attributed to increments and merit accruals in FY 2012.

Retirement and Medicare Contributions

Retirement and Medicare Contributions increased by $45,924 or 14.62% an increase from $314,126 in FY 2011 to $360,050 in FY 2012. The increase is due to the increase in salaries and the increase in the rate of contribution from 27.46% in FY 2011 to 28.30% in FY 2012.

Retiree Supplemental and Health Benefits

Retiree Supplemental and Health Benefits decreased by $17,751 or 9.58% from $185,347 in FY 2011 to $167,596 in FY 2012. The decrease is due to the decrease in the cost of the government's share of medical and dental insurance.

Employee Benefits Other than Retirement

Employee Benefits Other than Retirement increased by $3,143 or 6.02% from $52,129 in FY 2011 to $55,272 in FY 2012. The increase is attributed to the increase in the number of employees at the later part of FY 2011.

Rent Expense

Rent Expense increased by $19,893 in FY 2012. Effective March 2011, office space leased increased from $1.24 to $1.85 per square feet and, effective March 2012, office space leased increased from $1.85 to $2.00 per square feet. GHC's office space is 4,852 square feet.

Contractual Services Expense

Contractual Services Expense decreased by $2,446 or 2.46%. The decrease is due to the change of lease in copier machines in FY 2012.

Maintenance Expense

Maintenance Expense increased by $17,970 or 59.43% from $30,235 in FY 2011 to $48,205 in FY 2012. There were more renovations at Lada Gardens in FY 2012.

D. Financial Highlights, continued

Other Expense

Other Expense decreased by $9,377 or 14.50% in FY 2012. The decrease is due to the decrease in purchases of supplies and equipments in FY 2012. Also, $4,394 was expensed for Emergency Housing in FY 2011 and only $1,967 was expensed in FY 2012.

Bad Debts

Bad Debts increased by $6,604 in FY 2012 from $28,437 in FY 2011 to $35,041 in FY 2012. Total number of evictions during FY 2012 increased for both Lada Gardens and As-Atdas. The accounts of the evicted tenants have been processed and submitted to Small Claims Court.

E. Future Events

GHC will continue to accomplish its mission with limited challenges. GHC'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. GHC'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 GHC's 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.

GHC is aggressively pursuing Governor Eddie Baza Calvo's Affordable Housing Initiatives which promotes the production of 3,000 homes in 5 years. As the lead agency in Affordable Housing Coordinating Council (AHCC), GHC provides direction, the cooperation, coordination and leveraging of federal agencies, programs, and grants, with government of Guam agencies, and the participation and investment of the private industry. With these efforts, the "Guamanian Dream" of homeownership for the people of Guam has become a reality for many, and an opportunity for many more in the future.

E. Future Events, continued

GHC has established the following goals to complete in 2013:

1. On-going negotiations with FHLB and other financial institutions in "lending capital" for GHC programs (i.e.,Regular Loan Program, 6% Loan Program, CAHAT) so GHC can issue more mortgages to Guamanians.

2. Pursue and promote alternative building materials, structure, and design to lessen the cost of constructing safe, sanitary, and very affordable low cost housing.

3. On-going coordination with partnering Government of Guam agencies (DLM, Chamorro Land Trust Commission, Guam Ancestral Lands Commission) to provide available, developable land to recipients that qualify for homeownership financing and programs (Veteran's Affair, USDA, Substantially Underserved Trust Area).

4. Continued work with GHURA and federal agencies with funding sources and layering of grants and programs in development of affordable housing.

5. Statutory authority to finance the building of new homes by funding "Housing Trust Fund" for GHC programs and initiatives (i.e., First-time Homeowners Assistance Program).

6. Statute to remove barriers that impede the development of affordable housing. (i.e., amend System Development Charge to exclude "affordable housing")

7. Statutory authority to administer the Mortgage Credit Certificate program.

8. As-Atdas project – On-going Memorandum of Understanding with GHURA to construct 200 affordable homes/units for rent or homeownership. Initial investment capitalization of $2.3 million (GHC - $1 million; GHURA - $1.3 million).

9. Sagan Linahyan – Development of 59 unused lots with available infrastructure for affordable housing (rental and home ownership).

10. Active pursuit and application of "grants.gov" as source funding becomes available for development of affordable housing.

11. Resource sharing of personnel between partnering agencies for training, development, and compliance of housing funding and programs.

12. Continued support of the annual Guam Affordable Housing Symposium, its members, agencies (local and federal) and industries in the promotion and development of affordable housing for all the people of Guam and the Guamanian Dream of homeownership.

E. Future Events, continued

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

F. Contacting the Corporation's Financial Management

The Management's 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, 2012	September 30, 2011
Assets		
Unrestricted assets:		
Cash and cash equivalents *(Notes 2 and 3)*	$ 4,329,823	$ 3,833,524
Self-insurance fund *(Notes 2, 3 and 13)*	804,286	1,467,408
Loans receivable, net *(Notes 2 and 4)*	20,115,959	19,172,526
Tenants receivable, net *(Notes 2 and 6)*	40,330	53,534
Other receivables *(Notes 2 and 5)*	22,859	27,078
Accrued interest receivable *(Note 9)*	89,442	84,249
Prepaid expenses and other	153,608	48,852
Foreclosed assets held for resale *(Note 8)*	394,364	247,691
Total unrestricted assets	25,950,671	24,934,862
Restricted assets:		
Cash and cash equivalents *(Notes 2, 3 and 5)*	2,329,435	2,933,945
Investments *(Notes 2, 3 and 9)*	4,910,978	5,227,330
Loans receivable, net *(Notes 2, 4 and 10)*	7,244,507	8,577,278
Other receivables *(Notes 2 and 5)*	2,188,188	2,225,662
Land held for development *(Note 12)*	---	10,555,000
Total restricted assets	16,673,108	29,519,215
Capital assets, net *(Note 7)*	6,271,046	5,771,930
Total assets	$48,894,825	$60,226,007

See accompanying notes.

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

Statements of Net Assets, continued

	September 30, 2012	September 30, 2011
Liabilities and Net Assets		
Liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses	$ 115,020	$ 164,908
Accrued compensated absences *(Note 11)*	260,129	244,982
Deferred revenue	51,441	47,577
Total payable from unrestricted assets	426,590	457,467
Payable from restricted assets:		
Accounts payable *(Note 12)*	---	10,555,000
Bonds payable *(Note 9)*	4,710,000	4,850,000
Notes payable *(Note 10)*	2,267,289	3,343,170
Accrued interest payable *(Notes 9 and 10)*	33,753	40,081
Security deposits	59,265	50,824
Deposits by borrowers - insurance premiums and real estate taxes	472,997	466,366
Loans held in trust *(Note 5)*	370,178	397,634
Rebate liability *(Note 9)*	65,566	77,485
Total payable from restricted assets	7,979,048	19,780,560
Total liabilities	8,405,638	20,238,027
Commitments and contingencies *(Notes 12 and 13)*		
Net assets:		
Invested in capital assets, net of related debt	6,271,046	5,771,930
Restricted	8,694,060	9,738,655
Unrestricted	25,524,081	24,477,395
Total net assets	40,489,187	39,987,980
Total liabilities and net assets	$48,894,825	$60,226,007

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, 2012	Year ended September 30, 2011
Interest income:		
Loans receivable	$ 1,764,043	$ 1,937,190
Investments held by bond trustees	120,282	159,827
Interest-bearing deposits	22,304	23,915
Total interest income	1,906,629	2,120,932
Interest expense on borrowings *(Notes 9 and 10)*	444,377	518,743
Net interest income	1,462,252	1,602,189
Other income:		
Rental income	858,088	828,821
Sundry *(Note 7)*	660,760	147,367
Gain on disposal of capital and foreclosed assets	---	52,887
	2,981,100	2,631,264
Other expenses:		
Salaries	1,187,768	1,125,394
Retirement and Medicare contributions *(Note 11)*	360,050	314,126
Retiree supplemental and health benefits *(Note 11)*	167,596	185,347
Depreciation and amortization	141,172	137,206
Rent *(Note 13)*	115,119	95,226
First-time Homeowner Assistance Program *(Note 3)*	107,513	---
Contractual services	97,169	99,615
Professional services *(Note 13)*	92,629	90,332
Other	55,311	64,688
Employee benefits, other than retirement	55,272	52,129
Maintenance	48,205	30,235
Bad debts	35,041	28,437
Bond trustee fees	14,398	14,900
Director fees	2,650	1,450
Impairment loss *(Note 12)*	---	392,385
Total other expenses	2,479,893	2,631,470
Increase (decrease) in net assets	501,207	(206)
Net assets at beginning of year	39,987,980	39,988,186
Net assets at end of year	$40,489,187	$39,987,980

See accompanying notes.

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

Statements of Cash Flows

	Year ended September 30, 2012	2011
Cash flows from operating activities:		
Receipts received from customers	$2,740,587	$3,011,412
Payments to suppliers	(563,077)	(484,491)
Payments to employees	(1,758,189)	(1,608,607)
Other operating receipts	90,505	172,068
Net cash provided by operating activities	509,826	1,090,382
Cash flows from investing activities:		
Decrease in investments	316,352	266,551
Interest received on cash and investments with trustees	120,282	159,827
Proceeds from sale of foreclosed assets held for resale	---	112,203
Cash provided by investing activities	436,634	538,581
Cash flows from noncapital financing activities:		
Repayment of bonds payable	(140,000)	(130,000)
Repayment of notes payable	(1,075,881)	(1,008,450)
Decrease of rebate liability	(11,919)	(12,919)
Interest paid on bonds payable	(264,967)	(271,761)
Interest paid on notes payable	(185,738)	(252,913)
Decrease (increase) in self-insurance fund	663,122	(84,716)
Net cash used in noncapital financing activities	(1,015,383)	(1,760,759)
Cash flows from capital and related financing activity -		
Acquisition of capital assets	(39,288)	(38,885)
Net decrease in cash and cash equivalents	(108,211)	(170,681)
Cash and cash equivalents at beginning of year	6,767,469	6,938,150
Cash and cash equivalents at end of year	$6,659,258	$6,767,469
Consisting of:		
Unrestricted	$4,329,823	$3,833,524
Restricted	2,329,435	2,933,945
	$6,659,258	$ 6,767,469

See accompanying notes.

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

Statements of Cash Flows, continued

	Year ended September 30, 2012	2011
Reconciliation of increase (decrease) in net assets to net cash provided by operating activities:		
Increase (decrease) in net assets	$ 501,207	$(206)
Interest expense on borrowings	444,377	518,743
Nonexchange transfer of property	(601,000)	---
Interest income on investments held by bond trustees	(120,282)	(159,827)
	224,302	358,710
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	141,172	137,206
Bad debts	35,041	28,437
Impairment loss	---	392,385
Gain on disposal of capital and foreclosed assets	---	(52,887)
Decrease (increase) in assets:		
Loans receivable, net	242,665	577,742
Tenants receivable, net	(21,837)	(6,595)
Other receivables	41,693	(118,538)
Accrued interest receivable	(5,193)	14,195
Prepaid expenses and other assets	(104,756)	(15,215)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(49,888)	(89,180)
Accrued compensated absences	15,147	69,839
Deferred revenue	3,864	(40,826)
Security deposits	8,441	786
Deposits by borrowers - insurance premiums and real estate taxes	6,631	(12,730)
Loans held in trust	(27,456)	(152,947)
Net cash provided by operating activities	$ 509,826	$ 1,090,382
Supplemental disclosure of cash flow information:		
Cash paid for interest expense during the year	$ 450,705	$ 524,674

See accompanying notes.

Statements of Cash Flows, continued

Supplemental disclosure of non-cash investing and capital activities:

During 2012 and 2011, loans and accrued interest receivable with carrying amounts of $144,806 and $173,850, respectively, were converted to foreclosed assets held for resale.

In 2012, in accordance with Public Law 31-215, 10 abandoned properties located within the Sagan Linahyan Subdivision in Dededo, Guam were transferred from the Department of Land Management to the Corporation for purpose of providing affordable rental housing. The fair value of the aforementioned land and its improvements totaled $601,000.

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 in 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 Guma 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.

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 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.

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 effective 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, expenses 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.

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.

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 collectability 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.

1. Organization and Summary of Significant Accounting Policies, continued

New Accounting Standards

During the year ended September 30, 2012, the Corporation implemented the following pronouncements:

- 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.

- 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.

- 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.

- 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.

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

1. Organization and Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straightline basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, effective for periods beginning after June 15, 2013. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans, that are administered through trusts or equivalent arrangements that meet certain criteria.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. This Statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

The Corporation is currently evaluating the effects the above statements will have on its financial statements.

1. Organization and Summary of Significant Accounting Policies, continued

Subsequent Events

The Corporation has evaluated subsequent events through February 7, 2013, 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, 2012 and 2011, $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.

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

Cash and cash equivalents, self insurance fund, and investments at September 30, 2012 and 2011 consist of the following:

	2012	2011
Cash on hand and due from banks	$ 5,819,068	$ 4,189,840
Certificates of deposits	1,893,934	4,033,790
Money market funds	4,661,520	5,238,577
	$12,374,522	$13,462,207

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

Additionally, certain of the above cash and cash equivalents, and investments at September 30, 2012 and 2011 are restricted as follows:

	2012	2011
Restricted Cash and Cash Equivalents:		
Revolving Loan Fund	$1,103,584	$2,117,250
Trust fund and borrower's deposits	434,102	427,308
First-time Homeowner Assistance Program	391,931	---
Community Affordable Housing Action Trust (CAHAT)	181,688	183,853
Hazard Mitigation Program	142,430	138,376
Tenant security deposits	75,700	67,158
Total restricted cash and cash equivalents	2,329,435	2,933,945
Restricted Investments:		
Investments and cash with Bond Trustees	4,410,810	4,727,330
Foreclosure Protection Fund	500,168	500,000
Total restricted investments	4,910,978	5,227,330
Total restricted cash, cash equivalents and investments	$7,240,413	$8,161,275

The restricted cash, cash equivalents and investments are restricted for specific uses from enabling Public Law 26-123, Public Law 31-166 and 12 GCA Chapter 4 §4209 for revolving loan fund and related trust funds, First-time Homeowner Assistance Program and the CAHAT, respectively, the Mortgage Revenue Bonds and self-imposed restrictions on tenant security deposits for the Corporation's rental units.

In accordance with Public Law 31-227 signed into law on June 15, 2012, the Corporation established the First-time Homeowner Assistance Program, which provides assistance of 4% of eligible loans up to $250,000 based on program eligibility requirements. At September 30, 2012, total funds available under the program amounted to $391,931 and is reported as a component of restricted cash and cash equivalents in the accompanying 2012 statement of net assets. For the year ended September 30, 2012, the Corporation provided assistance related to the program totaling approximately $107,513 and is reflected as First-time Homeowner assistance program in the accompanying 2012 statement of revenues, expenses and changes in net assets.

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, 2012 and 2011, investments and cash held by the trustees, in trust for the Corporation, in these funds and accounts are as follows:

	2012	2011
Revenue Fund	$4,410,553	$4,727,072
Capitalized Interest Fund	257	258
	$4,410,810	$4,727,330

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 Aal/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.

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. A majority of 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, 2012 and 2011, the Corporation's investments in the Federal Home Loan Mortgage Corporation represented 47% and 54%, respectively, and the Blackrock Liquidity T-Funds represented 42% and 37%, 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, 2012 and 2011.

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, 2012 and 2011. Investments are stated at fair market value. The amortized cost and fair value of restricted investments at September 30, 2012 and 2011 are summarized as follows:

	2012		
	Amortized Cost	Gross Unrealized Gains	Fair Value
Short-term investments	$2,080,459	$ ---	$2,080,459
Money market	2,117,084	213,267	2,330,351
Certificate of deposit	500,168	---	500,168
	$4,697,711	$213,267	$4,910,978

	2011		
	Amortized Cost	Gross Unrealized Gains	Fair Value
Short-term investments	$1,910,626	$ ---	$1,910,626
Money market	2,574,799	241,905	2,816,704
Certificate of deposit	500,000	---	500,000
	$4,985,425	$241,905	$5,227,330

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, 2012 and 2011, the Corporation's investment in debt securities is as follows:

		2012				
	Moody's Credit Rating	Investment Maturities (In Years)				
		Less than 1	1 to 5	6 to 10	Greater than 10	Total
Certificate of deposit	Aaa	$ 500,168	---	---	---	$ 500,168
Federal Home Loan Mortgage Corporation	Aaa	---	---	---	2,330,351	2,330,351
Blackrock Liquidity T-Fund	Aaa	2,080,459	---	---	---	2,080,459
		$2,580,627	---	---	2,330,351	$4,910,978

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

		2011				
	Moody's Credit Rating	Investment Maturities (In Years) Less than 1	1 to 5	6 to 10	Greater than 10	Total
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	1,910,626	---	---	---	1,910,626
		$2,410,626	---	---	2,816,704	$5,227,330

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, 2012 and 2011, the restricted investments for this fund totaled $500,168 and $500,000, respectively.

4. Loans Receivable

At September 30, 2012 and 2011, loans receivable, collateralized by first mortgages on real estate, are as follows:

	2012	2011
Unrestricted	$21,411,464	$20,478,366
Restricted	7,244,507	8,577,278
	28,655,971	29,055,644
Less: Deferred loan origination fees, net	(356,191)	(346,601)
Allowance for loan and lease losses	(939,314)	(959,239)
	$27,360,466	$27,749,804

Movements in the allowance for loan and lease losses for the years ended September 30, 2012 and 2011 are as follows:

	2012	2011
Balance at beginning of year	$959,239	$972,568
Write-off during the year	(19,925)	(13,329)
Balance at end of year	$939,314	$959,239

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 $565,694 and $583,829 at September 30, 2012 and 2011, respectively. These loans meet the same criteria as all real estate loans made to non-related individuals by the Corporation. At September 30, 2012 and 2011, loans and other receivables in arrears three months or more or held with the attorney for collection totaled $1,659,153 and $1,915,496, 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 Linahyan Project programs. Except for the Hazard Mitigation Program, 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, 2012 and 2011, other receivables due from borrowers for the aforementioned loans consisted of the following:

	2012	2011
CAHAT	$1,757,930	$1,745,159
DPCCA	412,630	459,975
Hazard Mitigation Program	17,628	20,528
	2,188,188	2,225,662
Other receivables	22,859	27,078
	$2,211,047	$2,252,740

The Corporation recorded a corresponding liability on the DPCCA Program totaling $370,178 and $397,634 as of September 30, 2012 and 2011, respectively, which is reported as loans held in trust in the accompanying statements of net assets.

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.

5. Other Receivables, continued

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 and cash equivalents in the accompanying 2011 statement of net assets.

6. Tenants Receivable

At September 30, 2012 and 2011, tenants receivable, net is summarized as follows:

	2012	2011
Tenant accounts	$ 77,746	$88,070
Other	---	120
	77,746	88,190
Allowance for doubtful accounts	(37,416)	(34,656)
	$ 40,330	$53,534

7. Capital Assets

A summary of changes in net capital assets, consisting of property and equipment for the years ended September 30, 2012 and 2011 is as follows:

	2012			
	Beginning Balance October 1, 2011	Transfers and Additions	Transfers and Disposals	Ending Balance September 30, 2012
Capital assets depreciated and amortized:				
Buildings and improvements	$5,910,386	$194,598	$ ---	$ 6,104,984
Office furniture and equipment	322,222	---	(23,926)	298,296
Vehicles	125,141	10,000	---	135,141
Land improvements	47,659	10,690	---	58,349
Leasehold improvements	29,445	---	---	29,445
Total capital assets depreciated and amortized	6,434,853	215,288	(23,926)	6,626,215
Less accumulated depreciation and amortization	(3,172,150)	(141,172)	23,926	(3,289,396)
Net capital assets depreciated and amortized	3,262,703	74,116	---	3,336,819
Capital asset not depreciated and amortized - land	2,509,227	425,000	---	2,934,227
	$5,771,930	$499,116	$ ---	$ 6,271,046

In accordance with Public Law 31-215, 10 abandoned properties located within the Sagan Linahyan Subdivision in Dededo, Guam were transferred from the Department of Land Management, a component unit of the Government of Guam, to the Corporation for purposes of rehabilitating the lots to provide affordable rental housing. The Corporation accounted for the assets transferred in accordance GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which applies to nonexchange transactions involving financial and capital resources and provides that governments recognize assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. The Corporation recognized the assets and revenues, as all applicable eligibility requirements, including time requirements, were met.

7. Capital Assets, continued

The donated land and its improvements was recorded based on the appraised value of $601,000, and is recorded as a component of capital assets, net and sundry income in the accompanying 2012 statement of net assets and statement of revenues, expenses and changes in net assets, respectively.

GHURA paid for cost of renovations to the subdivision from funds received under the Community Development Block Grant from the U.S. Department of Housing and Urban Development. The 10 abandoned house lots were rehabilitated for use as affordable rental housing for eligible and qualified low and moderate income individuals and families.

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

	2011			
	Beginning Balance October 1, 2010	Transfers and Additions	Transfers and Disposals	Ending Balance September 30, 2011
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	29,445	---	---	29,445
Total capital assets depreciated and amortized	6,446,759	38,885	(50,791)	6,434,853
Less accumulated depreciation and amortization	(3,085,735)	(137,206)	50,791	(3,172,150)
Net capital assets depreciated and amortized	3,361,024	(98,321)	---	3,262,703
Capital asset not depreciated and amortized - land	2,509,227	---	---	2,509,227
	$5,870,251	$(98,321)	$ ---	$5,771,930

8. Foreclosed Assets Held for Resale

A summary of the activities in the foreclosed assets held for resale as of September 30, 2012 and 2011 is as follows:

	2012	2011
Foreclosed assets held for resale at beginning of year	$247,691	$116,359
Foreclosures made during the year	144,806	173,850
Other costs and adjustments	1,867	3,157
Foreclosed assets sold during the year	---	(45,675)
	$394,364	$247,691

At September 30, 2012 and 2011, foreclosed assets held for resale represents five and four residential units, respectively, acquired by the Corporation due to the borrowers' default on their mortgages.

9. Mortgage Revenue Bonds Payable

Revenue bonds payable at September 30, 2012 and 2011 consists of the following:

	2012	2011
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	$ 145,000	$ 285,000
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 $114,064 to $194,201	3,030,000	3,030,000
	$4,710,000	$4,850,000

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, 2012 and 2011, the accrued interest expense on the above bonds totaled $21,626 and $22,232, respectively, which is reported as a component of accrued interest payable in the accompanying statements of net assets. For the years ended September 30, 2012 and 2011, interest expense, net of amortized bond premium incurred on the aforementioned bonds totaled $264,361 and $271,208, 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 $9,968 and $9,553 as of September 30, 2012 and 2011, respectively, which is reported as a component of accrued interest receivable in the accompanying statements of net assets.

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, 2012 and 2011, the rebate liability totaled $65,566 and $77,485, 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%.

9. Mortgage Revenue Bonds Payable, continued

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

Date	Principal Amount	Date	Principal Amount
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:

Date	Principal Amount
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:

Date	Principal Amount	Date	Principal Amount
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

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 is in compliance with all significant covenants of the mortgage revenue bonds as of September 30, 2012.

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

Year ending September 30,	Principal	Interest	Debt Service
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	179,132	223,724	402,856
2018 to 2022	1,105,136	964,915	2,070,051
2023 to 2027	1,376,369	635,820	2,012,189
2028 to 2031	1,421,994	190,050	1,612,044
	$4,710,000	$2,996,565	$7,706,565

10. Notes Payable

At September 30, 2012 and 2011, the Corporation has notes payable to Federal Home Loan Bank of Seattle (FHLB) totaling $2,267,289 and $3,343,170, respectively, with interest of 6.49% per annum, and matures in August 2014. Monthly principal installments and accrued interest are due at varying amounts. At September 30, 2012 and 2011, accrued interest payable on this note totaled $12,127 and $17,849, respectively, and is reported as a component of accrued interest payable in the accompanying statements of net assets. For the years ended September 30, 2012 and 2011, interest expense incurred on the aforementioned notes totaled $180,016 and $247,535, 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, 2012 and 2011, the Corporation has pledged loans totaling $7,244,507 and $8,577,278, respectively, as security to the aforementioned borrowings.

10. Notes Payable, continued

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

Year ending September 30,	Principal	Interest	Debt Service
2013	$1,147,820	$113,309	$1,261,129
2014	1,119,469	36,553	1,156,022
	$2,267,289	$149,862	$2,417,151

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.

11. Employee Benefits and Others, continued

DB Plan, continued

Statutory contribution rates for employer and employee contributions were 28.30% and 9.50%, respectively, for the year ended September 30, 2012, 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. Actuarial contribution rate was 30.09%, 28.06% and 29.31% for the years ended September 30, 2012, 2011 and 2010, respectively.

During the years ended September 30, 2012, 2011 and 2010, contributions made, which were equal to the required contribution for those years, amounted to $77,561, $71,312 and $61,334, 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, 2012 and 2011 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, 2012, 2011 and 2010 contributions made under the DCRS amounted to $250,786, $221,786 and $188,371, 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, 2012 and 2011, the Corporation has accrued an estimated liability of $166,093 and $141,121, 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.

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 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, capitalized improvement for off-site and on-site infrastructure of Lada Estates totaling $10.55 million is reported in the 2011 statement of net assets as land held for development.

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 2011 statement of net assets. The contractor is claiming accrued interest of $9.65 million due on the outstanding liability as of September 30, 2011.

12. Land Held for Development, continued

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.

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.

As of September 30, 2012, the Corporation 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, 2012, the Corporation has loan commitments totaling $2,706,694.

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 for the Corporation. For each of the years ended September 20, 2012 and 2011, 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.

The Corporation leases office space from GEDA under a n operating lease which expires on February 28, 2014. For the years ended September 30, 2012 and 2011, rental expense totaling $112,809 and $92,916, 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 future minimum lease payments for the aforementioned operating lease are as follows:

Year ending September 30,	
2013	$116,000
2014	49,000
	$165,000

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 $1.5 million 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.

13. Commitments and Contingencies, continued

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, 2012 and 2011, the self-insurance fund totaled $804,286 and $1,467,408, respectively, as reported in the accompanying statements of net assets.

Supplementary Information

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

Combining Statement of Net Assets

September 30, 2012

	Housing	Rental	Combined Total
Assets			
Unrestricted assets:			
Cash and cash equivalents	$ 2,784,719	$ 1,545,104	$ 4,329,823
Self-insurance fund	---	804,286	804,286
Loans receivable, net	20,115,959	---	20,115,959
Tenants receivable, net	---	40,330	40,330
Other receivables	22,859	---	22,859
Accrued interest receivable	88,412	1,030	89,442
Prepaid expenses and other	3,566	150,042	153,608
Foreclosed assets held for resale	394,364	---	394,364
Intercompany	(750,000)	750,000	---
Total unrestricted assets	22,659,879	3,290,792	25,950,671
Restricted assets:			
Cash and cash equivalents	2,253,735	75,700	2,329,435
Investments	4,910,978	---	4,910,978
Loans receivable, net	7,244,507	---	7,244,507
Other receivables	2,188,188	---	2,188,188
Total restricted assets	16,597,408	75,700	16,673,108
Capital assets, net	4,531	6,266,515	6,271,046
Total assets	$ 39,261,818	$ 9,633,007	$ 48,894,825

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

Combining Statement of Net Assets, continued

September 30, 2012

	Housing	Rental	Combined Total
Liabilities and Net Assets			
Liabilities:			
Payable from unrestricted assets:			
Accounts payable and accrued expenses	$ 65,710	$ 49,310	$ 115,020
Accrued compensated absences	133,689	126,440	260,129
Deferred revenue	47,238	4,203	51,441
Total payable from unrestricted assets	246,637	179,953	426,590
Payable from restricted assets:			
Bonds payable	4,710,000	---	4,710,000
Notes payable	2,267,289	---	2,267,289
Accrued interest payable	33,753	---	33,753
Security deposits	---	59,265	59,265
Deposits by borrowers - insurance premiums and real estate taxes	472,997	---	472,997
Loans held in trust	370,178	---	370,178
Rebate liability	65,566	---	65,566
Total payable from restricted assets	7,919,783	59,265	7,979,048
Total liabilities	8,166,420	239,218	8,405,638
Net assets:			
Invested in capital assets, net of related debt	4,531	6,266,515	6,271,046
Restricted	8,677,625	16,435	8,694,060
Unrestricted	22,413,242	3,110,839	25,524,081
Total net assets	31,095,398	9,393,789	40,489,187
Total liabilities and net assets	$ 39,261,818	$ 9,633,007	$ 48,894,825

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, 2012

	Housing	Rental	Combined Total
Interest income:			
Loans receivable	$ 1,764,043	$ ---	$ 1,764,043
Investments held by bond trustees	120,282	---	120,282
Interest-bearing deposits	13,263	9,041	22,304
Total interest income	1,897,588	9,041	1,906,629
Interest expense on borrowings	444,377	---	444,377
Net interest income	1,453,211	9,041	1,462,252
Other income:			
Rental income	7,698	850,390	858,088
Sundry	55,330	605,430	660,760
	1,516,239	1,464,861	2,981,100
Other expenses:			
Salaries	712,795	474,973	1,187,768
Retirement and Medicare contributions	226,648	133,402	360,050
Retiree supplemental and health benefits	108,835	58,761	167,596
Depreciation and amortization	4,532	136,640	141,172
Rent	115,119	---	115,119
First-time Homeowner Assitance Program	107,513	---	107,513
Contractual services	46,218	50,951	97,169
Professional services	74,808	17,821	92,629
Other	31,239	24,072	55,311
Employee benefits, other than retirement	32,690	22,582	55,272
Maintenance	---	48,205	48,205
Bad debts	---	35,041	35,041
Bond trustee fees	14,398	---	14,398
Director fees	2,650	---	2,650
Total other expenses	1,477,445	1,002,448	2,479,893
Increase in net assets	38,794	462,413	501,207
Net assets at beginning of year	31,056,604	8,931,376	39,987,980
Net assets at end of year	$ 31,095,398	$ 9,393,789	$ 40,489,187

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

Salaries, Wages and Benefits

Years ended September 30, 2012 and 2011

	2012	2011
Salaries, wages and benefits:		
Salaries	$ 1,187,768	$ 1,125,394
Retirement and Medicare contributions	360,050	314,126
Retiree supplemental and health benefits	167,596	185,347
Benefits other than retirement	55,272	52,129
Total salaries, wages and benefits	$ 1,770,686	$ 1,676,996
Employees at end of year	26	26