

OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

GUAM LEGISLATURE
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February 18, 2013

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina'Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Guam Housing Corporation's (GHC) Fiscal Year (FY) 2012 audited Financial Statements, Report on Compliance and Internal Controls, Management Letter, and Letter to Those Charged with Governance. Attached are our highlights of the audit report.

For your convenience, you may also view and download the report in its entirety at www.guamopa.org.

Senseramente,

[Signature]
for Doris Flores Brooks, CPA, CGFM
Public Auditor

Office of the Speaker
Judith T. Won Pat, Ed. D.
Date: 2/19/13
Time: 8:15 AM
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RECEIPT ACKNOWLEDGED:

By: _____

Date: _____

0126

*The Auditor's Communication With Those Charged
With Governance*

Guam Housing Corporation

Year ended September 30, 2012



February 7, 2013

The Board of Directors
Guam Housing Corporation
P.O. Box 3457
Tamuning, Guam 96932

Gentlemen:

We have performed an audit of the financial statements of Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of and for the year ended September 30, 2012, 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, and have issued our report thereon dated February 7, 2013.

REQUIRED COMMUNICATIONS

Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance*, and other professional standards require the auditor to provide the Board of Directors (the Board or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Board (or those charged with governance) in overseeing the financial reporting and disclosure processes which the management of the Corporation is responsible. We summarize these required communications as follows:

Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS)

The financial statements are the responsibility of the Corporation's management. Our audit was designed 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, to obtain reasonable, rather than absolute, assurance that 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.

Auditors' Responsibilities under US GAAS, continued

Our audit 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.

The Adoption of, or a Change in Significant Accounting Policies

We determined that the Board is informed about the initial selection of, and any changes in significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

There were no changes in the Corporation's significant accounting policies during the year ended September 30, 2012. The Corporation continues to apply its accounting policies in an appropriate manner and is disposed toward high quality financial reporting and application of accounting policies.

Auditor's Judgments about the Quality of the Corporation's Accounting Principles

We discussed our judgments about the quality, not just the acceptability, of the Corporation's accounting principles as applied in its financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.

The Corporation has consistently applied accounting principles generally accepted in the United States (US GAAP) and adequately disclosed required US GAAP disclosures in the financial statements.

Sensitive Accounting Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

We determined that the Board is informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management's judgment is called upon in:

- Determining the adequacy of the recorded valuation of loans receivables, including the need for any reserve.
- Preparing budgets that are used to administer and monitor the Corporation's operations. These budgets include determining how existing financial resources will be used in the Corporation's operations.
- Determining the valuation of investments.
- Determining the impairment loss on long-lived assets.
- Determining assumptions utilized in measuring pension and other employee-related reserves and related costs for financial accounting purposes.

Significant Audit Adjustments

During our audits, we proposed a reclassifying journal entry, which the Corporation subsequently agreed to be reflected in the financial statements. (see Appendix A –*Reclassifying Journal Entry*).

Unadjusted Audit Differences Considered by Management to be Immaterial

Certain uncorrected misstatement accumulated by us (i.e. adjustment either identified by us or brought to our attention by management) was identified during the audit and pertaining to the latest period presented, which was determined by the Corporation's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole (see Appendix B – *Summary of Uncorrected Misstatement*).

Other Information in Documents Containing the Audited Financial Statements

We reviewed the Management's Discussion and Analysis and other supplementary schedules to the financial statements to ensure consistency with the audited financial statements.

Consultation with Other Accountants

There were no consultations with other accountants during the audit.

Disagreements with Management on Financial Accounting and Reporting Matters

There were no material disagreements with the Corporation's management on financial accounting and reporting matters during the audit.

Major Issues Discussed with Management Prior to Retention

There were no major accounting issues discussed with the Corporation's management prior to our retention.

Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Issues

We are not aware of any significant unusual transactions recorded by the Corporation, or of any significant accounting policies used by the Corporation related to controversial or emerging areas for which there is lack of authoritative guidance.

Serious Difficulties Encountered in Dealing with Management in Performing the Audit

There were no difficulties encountered in dealing with management in performing the audit.

Fraud and Illegal Acts

We are not aware of any matters that require communication. Furthermore, the Corporation's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2011 to February 7, 2013 (see Appendix C – *Management's Representation Letter*).

Significant Deficiencies and Material Weaknesses in Internal Control

We have identified certain significant deficiency and other control deficiencies in internal control during the course of our audit which have been included in our separately issued Compliance and Internal Control Report, and Management Letters dated February 7, 2013.

The Board of Directors
Guam Housing Corporation

Independence

We are not aware of any relationships between Ernst & Young and our related entities, and the Corporation, or any other matters that in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that we are independent with respect to the Corporation within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

The completion of our audit of the Corporation's financial statements as of and for the year ended September 30, 2012 was accomplished through the effective support and assistance of the Corporation's finance, operational and administrative personnel.

This report is intended solely for the use of the Corporation's board of directors and management, the Office of Public Accountability of Guam, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We would be happy to discuss the contents of this report and answer any questions you may have about these or any other audit related matters.

Very truly yours,

Ernst + Young LLP

Appendices

A – Reclassifying Journal Entry

B – Summary of Uncorrected Misstatement

C – Management’s Representation Letter

The Board of Directors
Guam Housing Corporation

Appendix A

GUAM HOUSING CORPORATION
YEAR END: SEPTEMBER 30, 2012
RECLASS ENTRIES
DATE: 10/1/2011 TO 9/30/2012

8/15-1

| NUMBER | DATE | NAME | ACCOUNT NO | REFERENCE AMOUNT | DEBIT | CREDIT | REFERENCE |
|---|-----------|-------------------------------|--------------|------------------|---------------------|---------------------|-----------|
| R/S 1 | 9/30/2012 | Loans receivable - restricted | 1999 Clear | LEAD | 7,244,507.00 | | |
| R/S 1 | 9/30/2012 | Loans receivable - PHS | 1999TY Clear | LEAD | | 7,244,507.00 | |
| To reclassify LOANS receivable as contra asset with PHS as restricted assets as of 9/30/2012 | | | | | | | |
| | | | | | 7,244,507.00 | 7,244,507.00 | |
| Net Income (Loss) | | | | | | 501,207.00 | |

The Board of Directors
Guam Housing Corporation

Appendix B

GUAM HOUSING CORPORATION

YEAR END SEPTEMBER 30, 2012
UNRECORDED PROPOSED ADJUSTING ENTRIES
DATE 10/01/2011 TO 9/30/2012

SAD

| NUMBER | DATE | NAME | ACCOUNT NO | REFERENCE | DEBIT | CREDIT | PROPOSED NET INCOME (LOSS) | PROPOSED AMOUNT CHG | REQUIRE |
|-------------------|-----------|--|------------|-----------|-----------|------------|-------------------------------|------------------------|---------|
| Net Income (loss) | | | | | | | | | |
| SAD 1 | 9/30/2012 | Reserve for Loan Losses | 1351 GUAM | VD0110 | | -20,308.00 | | | |
| SAD 1 | 9/30/2012 | Legal (Ref. & Serv. Rendered) | 5121 GUAM | VD0110 | 20,308.00 | | | | |
| | | To reverse the capitalized legal fees on delinquent loans. | | | | | 480,899.00 | (20,308.00) | |
| | | | | | 20,308.00 | -20,308.00 | 480,899.00 | (20,308.00) | |
| | | | | | | | 480,899.00 | (20,308.00) | |

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We believe that the effect of the unrecorded misstatement, as shown above, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.


Martin Berenstein, President


Alysia Leon Guerrero, Accounting Manager



GUAM HOUSING CORPORATION

February 7, 2013

Ernst & Young LLP
Ernst & Young Building
231 Ypao Road, Suite 201
Tamuning, Guam 96911

In connection with your audit of the basic financial statements of Guam Housing Corporation as of September 30, 2012 and for the year then ended, we recognize that obtaining representations concerning information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Corporation and the respective changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief.

Management's responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated August 10, 2010, for the preparation and fair presentation of the financial statements in conformity with US generally accepted accounting principles (US GAAP) applied on a basis consistent with that of the preceding periods. We believe the financial statements referred to in paragraph one above are fairly presented in conformity with US generally accepted accounting principles applied on a basis consistent with that of the preceding periods.

1

Management's responsibilities, continued

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Corporation from whom you determined it necessary to obtain audit evidence

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Ernst & Young LLP assisted in drafting the format of the financial statement footnotes and the formatting of the individual and combining financial statements and schedules that appear in the Corporation's financial statements in accordance with standards of the Governmental Accounting Standards Board. Management accepts responsibility for the various individual and combining financial statements and schedules that appear in the Guam Housing Corporation financial statements as our own and have prepared the source documents for all transactions and have maintained accounting control.

Uncorrected misstatements

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.

Internal control

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2012.

Minutes and contracts

The dates of meetings of shareholders, directors, committees of directors and important management committees from October 1, 2011 to the date of this letter are as follows:

| | | |
|-------------------|----------------|--------------------|
| October 26, 2011 | March 28, 2012 | July 25, 2012 |
| November 30, 2011 | April 25, 2012 | August 29, 2012 |
| December 20, 2011 | May 30, 2012 | September 26, 2012 |
| January 23, 2012 | June 27, 2012 | October 31, 2012 |
| February 29, 2012 | | |

We have made available to you all minutes of the meetings of shareholders, directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

Significant assumptions

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and supportable.

Risks and uncertainties

There are no risks and uncertainties related to significant estimates or current vulnerabilities due to material concentrations that have not been disclosed in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 275, *Risks and Uncertainties*.

Environmental liabilities

We have disclosed to you that there are no significant environmental matters and no disclosure relating to environmental matters is needed in the financial statements.

Ownership and pledging of assets

There are no properties capitalized under capital leases. The Corporation has satisfactory title to all assets appearing in the statements of net assets. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged except as disclosed in the financial statements. All assets to which the Corporation has satisfactory title appear in the statements of net assets.

Loans and allowance for credit losses in the loan portfolio

Appropriate provision has been made for credit losses inherent in the Corporation's loan portfolio that has been incurred as of the statement of net assets date. Significant assumptions used by us in estimating the allowance for credit losses are reasonable and supportable.

The Corporation has no loans in the financial statements that should be classified as held for sale. The Corporation has the positive intent and ability to hold for the foreseeable future or until maturity or payoff all loans that are classified as held for investment.

Loans are correctly described in the financial statements, in all material respects, and represent valid claims against the debtors indicated arising on or before the dates indicated in the financial statements. Our disclosures related to the credit quality of financing receivables and the allowance for credit losses are complete and adequate.

Inventories

Inventories, including goods that are defective, slow-moving, obsolete or unusable, are stated at amounts not in excess of their estimated net realizable values.

Financial instruments

The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

1. The extent, nature and terms of financial instruments with off-balance-sheet risk.
2. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments.
3. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

Deferred charges

We believe that all material expenditures for which recognition has been deferred to future periods are recoverable.

Long-lived assets to be held and used

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

Related party transactions

We have disclosed to you the identity of the Corporation's related parties and all the related party relationships and transactions of which we are aware.

Transactions with related parties, as defined in ASC 850, *Related Party Disclosures*, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, guarantees, non-monetary transactions and transactions for non-consideration have been properly recorded and disclosed in the financial statements.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, funds on deposit, marketable securities, and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Events of default under debt agreements

No events of default have occurred with respect to any of the Corporation's debt agreements.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with ASC 450-20, *Contingencies - Loss Contingencies*.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by ASC 450, *Contingencies*, nor are there any accruals for loss contingencies included in the statements of net assets or gain contingencies reflected in earnings that are not in conformity with the provisions of ASC 450.

Oral or written guarantees

There are no oral or written guarantees, including guarantees of the debt of others.

Purchase commitments

At September 30, 2012, the Corporation had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at that date.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2012, as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Fraud

We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Corporation's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed to you all allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Corporation.

Independence

We are not aware of any capital lease, material cooperative arrangement or other business relationship between the Corporation and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the Corporation's audit.

Conflicts of interest

There are no instances where any officer or employee of the Corporation has an interest in a company with which the Corporation does business that would be considered a "conflict of interest." Such an interest would be contrary to Corporation policy.

Pension and other postretirement benefits

We have disclosed to you all significant pension benefits promised and have made available to you all significant summary plan descriptions, benefit communications and all other relevant information, including plan changes that constitute the plan.

We have disclosed to you all significant postretirement benefits other than pensions (OPEBs) promised and have made available to you all significant summary plan descriptions, benefit communications and all other relevant information, including plan changes, that constitute the plan for each significant OPEB.

We do not plan to withdraw from the multiemployer benefit plan.

Recipients of governmental financial assistance and/or audits performed in accordance with Government Auditing Standards

We recognize that we are responsible for the Corporation's compliance with the laws, regulations, grant agreements and contracts that are applicable to it. We have identified and disclosed to your representatives all laws, regulations, grant agreements and contracts that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

There have been no noncompliance or possible noncompliance with provisions of contracts or grant agreements in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

We have a process to track the status of audit findings and recommendations.

We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

Required supplementary information

We acknowledge our responsibility for the required supplementary information on Management's Discussion and Analysis, which have been measured and presented in conformity with the guidelines established by the applicable GASB Statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Supplementary information

We are responsible for the presentation of the supplementary information in accordance with US generally accepted accounting principles. We believe the supplementary information, including its form and content, is fairly presented in accordance with US generally accepted accounting principles. There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Other Representations

We have identified and disclosed to you all provisions of laws, and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments and tax levies and refunds.

The financial statements properly classify all funds and activities.

All funds that meet the quantitative criteria in GASB Statement No. 34, as amended by GASB Statement No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

Components of net positions (net investment in capital assets, restricted and unrestricted), nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.

Expenses have been appropriately classified in or allocated to functions and programs in the statements of activities, and allocations have been made on a reasonable basis.

Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments or contributions to permanent fund principal.

Provisions for uncollectible receivables have been properly identified and recorded.

Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.

Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

Other Representations, continued

Investments, derivative transactions, and land and other real estate held by endowments are properly valued.

Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.

Our policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available, determines the fund balance classifications for financial reporting purposes.

Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available is appropriately disclosed and net assets were properly recognized under the policy.

Guam Housing Corporation ability to continue as a going concern was evaluated.

The Corporation is in compliance with post issuance requirements as specified in the Internal Revenue Code, including but not limited to the areas of arbitrage and private business use, for each of its outstanding bond issues.

Subsequent events

Subsequent events have been evaluated and classified as recognized or nonrecognized through February 7, 2013.

Subsequent to September 30, 2012, no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or are of such significance in relation to Guam Housing Corporation's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the financial position, changes in financial position and, where applicable, cash flows of the Corporation.

* * * *

The Board of Directors
Guam Housing Corporation

Appendix C, continued

We understand that your audits were conducted in accordance with US generally accepted auditing standards as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and were, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the Corporation as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



Martin Benavente, President



Alysa Leon Goerrero, Accounting Manager



Management Letter

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

September 30, 2012



February 7, 2013

Management and the Board of Directors
Guam Housing Corporation

In planning and performing our audit of the financial statements of Guam Housing Corporation (the Corporation) as of and for the year ended September 30, 2012, 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, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Loan Documentation

Condition:

Our review of selected borrowers' file disclosed the following:

- ✚ Insurance policies of three borrowers had no typhoon insurance coverage and had no duly approved typhoon insurance waiver on file.
- ✚ Original loan file for one borrower is missing, therefore, was not available for our review. The Corporation created a temporary file with backup documents.

Loan Documentation, continued

Recommendation:

A periodic review of loan files should be performed and any exceptions should be remedied to minimize the Corporation's risk of loss.

Management's response:

For the insurance policies, typhoon waiver of one of the loans was submitted to the President for approval. The Corporation submitted requests to the insurance companies to include typhoon coverage for the remaining two loans. Currently, the Corporation awaits amended policies. A review will be conducted prior to the expiration of the current policies to ensure all requirements are met.

For the loan file, the aforementioned file was subpoenaed by the U.S. Attorney. A request was made, however, the file has yet to be returned. In the interim, the temporary file contains the documents necessary to service the account.

Rental Policy

Condition:

Of a sample of 25 tenants randomly selected for rental income testing, we noted the following:

- ✦ In accordance with Section 1.05 of the rental policy manual, all applicants for housing under the Corporation's rental program will be evaluated for unit assignment utilizing the family income and household composition. The gross household income may be adjusted periodically to ensure compliance with the Department of Housing and Urban Development (HUD) income limits for very-low to moderate income families. Based on our procedures performed, we noted that the Corporation does not regularly conduct re-certifications of tenant eligibility to ensure compliance with the income limits set forth by HUD.
- ✦ In accordance with Section 1.06 and 1.07 of the rental policy manual, the Federal Home Loan Bank established a grant requirement that the Corporation conduct re-certification of tenant eligibility and a verification of employment. Based on our review of the certification of tenant eligibility form, we noted that the Corporation does not regularly perform re-certifications.

Rental Policy, continued

Recommendation:

We recommend that the Corporation regularly conduct re-certifications to ensure that tenants are in compliance with eligibility requirements of the rental program.

Management's response:

The Corporation's rental units are not bound by the Department of Housing and Urban Development income limits. In this respect, this matter will be addressed to Board of Directors. The rent amounts are reviewed periodically by the Board of Directors.

The recertification of eligibility for the As-Atdas apartments is no longer a requirement as the eligibility period was over in July of 2010. We will address the removal of section 1.06 from the Rental Policy as it is no longer applicable.

Stale-dated Checks

Condition:

Based on our review of the bank reconciliations as of September 30, 2012, we noted checks totaling \$2,054 that have been outstanding for over six months.

Recommendation:

We recommend that the Corporation reverse all stale-dated checks.

Management's Response:

The stale dated checks consist of three paid-off customers. One of the customer's checks was voided in November 2012 and reissued. The other two will be reversed and further attempts will be made to verify the customer's address. If there is no success finding these customers, the amounts of the stale dated checks will be recorded as other income in fiscal year 2013.

We have separately reported in our letter dated February 7, 2013 addressed to the Corporation's Board of Directors certain matters involving internal control and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

This communication is intended solely for the information and use of the Board of Directors and management of the Guam Housing Corporation, the Office of Public Accountability, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public information.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP



Compliance and Internal Control

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

Year ended September 30, 2012



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

Reports on Compliance and Internal Control

Year ended September 30, 2012

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Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors
Guam Housing Corporation

We have audited the financial statements of Guam Housing Corporation (the Corporation) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 7, 2013. We conducted our audit 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.

Internal control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of finding and response, as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of Guam Housing Corporation, the Office of Public Accountability, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public information.

Ernst + Young LLP

February 7, 2013

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

Schedule of Finding and Response

Year ended September 30, 2012

Significant Deficiency

**Finding Number 2012-1
Allowance for Loan and Lease Losses**

Condition:

In accordance with its loan policy, the Corporation should maintain an allowance for loan and lease losses (ALLL) of no less than 3% of the gross loan portfolio. The Corporation has no documentation that supports the basis for the aforementioned minimum ALLL policy. A majority of these delinquent loans are fully secured by a first lien position on single family residential units. However, in determining the ALLL, the Corporation did not measure the loss allowance as the difference between the carrying value of the loan and the fair value of the collateral less cost to sell as required by accounting principles generally accepted in the United States.

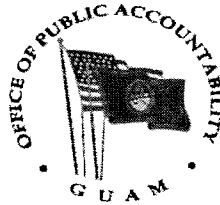
Recommendation:

We recommend that management document its basis and rationale to maintain a 3% minimum ALLL based on the gross loan portfolio. Additionally, we recommend that the Corporation consider fair value of collateral less cost to sell in determining the specific allowance to be provided on delinquent loans or loans near foreclosure.

Management's response:

Management has prepared an updated analysis with a recommendation to reduce the ALLL subject to Board of Directors' (BOD) review. This matter will be presented to next BOD meeting scheduled on February 7, 2013.





Guam Housing Corporation FY 2012 Financial Highlights

February 11, 2013

The Guam Housing Corporation (GHC) ended fiscal year (FY) 2012 with an increase in net assets of \$501 thousand (K), which was mainly attributed to the transfer of ten abandoned properties in Sagan Lintahyan from the Department of Land Management (DLM) as per Public Law (P.L.) 31-215. GHC received an unqualified (clean) opinion from independent auditors, Ernst & Young LLP, however, there was one recurring significant deficiency related to its allowance for loan and lease losses (ALLL) and three recurring internal control deficiencies relative to loan documentation, rental policy, and stale-dated checks.

Revenues Increase by \$350K

GHC's revenues increased by \$350K (going from \$2.6 million (M) in FY 2011 to \$3M in FY 2012) from sundry and rental income. Sundry income dramatically increased by \$513K, from \$147K in 2011 to \$661K in 2012. According to PL 31-215, ten abandoned properties located within the Sagan Lintahyan Subdivision were transferred from the DLM to GHC for the purposes of rehabilitating the lots to provide affordable rental housing. The donated land and its improvements were recorded based on the appraised value of \$601K and is recorded as sundry income. Rental income nominally increased in FY 2012 by \$29K, from \$829K in 2011 to \$858K in 2012 as a result of increases in rent at Lada Gardens. These rates increased by \$50 per month effective February 2012.

Expenditures Decrease by \$152K

During FY 2011, GHC recorded impairment loss of \$392K on the Lada Estates project. In January 2012, the impairment loss was cleared when the Superior Court of Guam approved the Settlement Agreement between GHC and Maeda Pacific Corporation (MPC). As a result, the \$10.6M owed to MPC in settlement was cleared.

GHC's total operating expenses decreased by \$152K from \$2.6M in 2011 to \$2.5M in 2012. While it appears expenses decreased, there were increases in expenses, such as salaries and Retirement and Medicare contributions. The largest increase in GHC's operating expense is the reestablished First-Time Homeowner Assistance Program (FTHAP) totaling \$108K. Salaries increased by \$62K from \$1.1M in FY 2011 to \$1.2M in FY 2012 due to three new employees and increments and merit accruals in FY 2012. With increase in salaries, the rate of contribution for Retirement and Medicare increased by \$46K from \$314K in FY 2011 to \$360K in FY 2012.

GHC's Loan Portfolio Declines

GHC's loan portfolio, which consists of loans from the Direct Loan Program and Revolving Loan Program, decreased by \$437K, going from \$31.3M in FY 2011 to \$30.8M in FY 2012. GHC originated 18 loans totaling \$2.5M in FY 2012 compare to the 15 loans originated totaling \$1.6M in FY 2011. Due to the lack of funds available for loans under the Direct Loan Program,

only one loan totaling \$90K was originated under this program in FY 2012. Thirteen loans were originated totaling \$2.3M under the Revolving Loan Program. Under the Community Affordable Housing Action Trust (CAHAT) Program, four loans were originated totaling \$150K. Additionally, GHC had 27 loan payoffs amounting to \$1.3M in FY 2012 in comparison to 25 loan payoffs totaling \$1.2M in FY 2011.

Delinquency Rate and Foreclosures

GHC experienced 61 delinquent loans with a principal balance of \$4.6M in FY 2012, an increase of seven loans and \$910K over the previous year. Accordingly, GHC has an overall delinquency rate of 15%, which is considered high for the industry. In FY 2012, GHC foreclosed on one loan totaling \$133K. Foreclosed assets held for resale increased from four properties totaling \$248K in FY 2011 to five properties totaling \$394K at the end of FY 2012. One foreclosed property was sold for a gain of \$53K in FY 2011.

Compliance Report and Management Letter

One recurring significant deficiency was identified in the Report on Compliance with Laws and Regulations related to GHC's ALLL of no less than 3% of the gross loan portfolio. According to the auditors, the Corporation has no documentation that supports the ALLL policy.

Independent auditors also issued a separate management letter identifying three recurring deficiencies in internal control relative to loan documentation (no typhoon insurance coverage, no duly approved typhoon insurance waiver on file, and one missing original loan file), rental policy (no regular re-certifications conducted to ensure tenants compliance with eligibility requirements of the rental program), and stale-dated checks.

New Initiatives and Current Challenges

In FY 2012, GHC re-established the FTHAP as per P.L. 31-227 and the Housing Trust Fund Act as per P.L. 31-166. The FTHAP provides first-time homeowners up to \$10K to be used for down-payment assistance or closing cost. The Housing Trust Fund Act is to support the affordability and accessibility of housing for the residents of Guam, and to finance support services that assist low-income households in obtaining and maintaining affordable housing. One of the authorized programs the Housing Trust Fund funds is the FTHAP. However, there are challenges to the Housing Trust Fund, such as learning how to fund itself and create new programs instead of borrowing.

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 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 their efforts is evident with the passage of P.L. 31-166.

For a more detailed commentary, refer to the Management Discussion and Analysis in the audit report. Visit GHC's website at www.guamhousing.org or OPA's website at www.guamopa.org to view the reports in their entirety.

*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*



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

Financial Statements and
Supplementary Information

Years ended September 30, 2012 and 2011

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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 inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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 | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---|-------------------------|-------------------------|-------------------------|
| 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 | <u>6,271,046</u> | <u>5,771,930</u> | <u>5,870,251</u> |
| Total assets | <u>\$48,894,825</u> | <u>\$60,226,007</u> | <u>\$61,608,571</u> |
| 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 | <u>8,405,638</u> | <u>20,238,027</u> | <u>21,620,385</u> |
| 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 | <u>40,489,187</u> | <u>39,987,980</u> | <u>39,988,186</u> |
| Total liabilities and net assets | <u>\$48,894,825</u> | <u>\$60,226,007</u> | <u>\$61,608,571</u> |

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

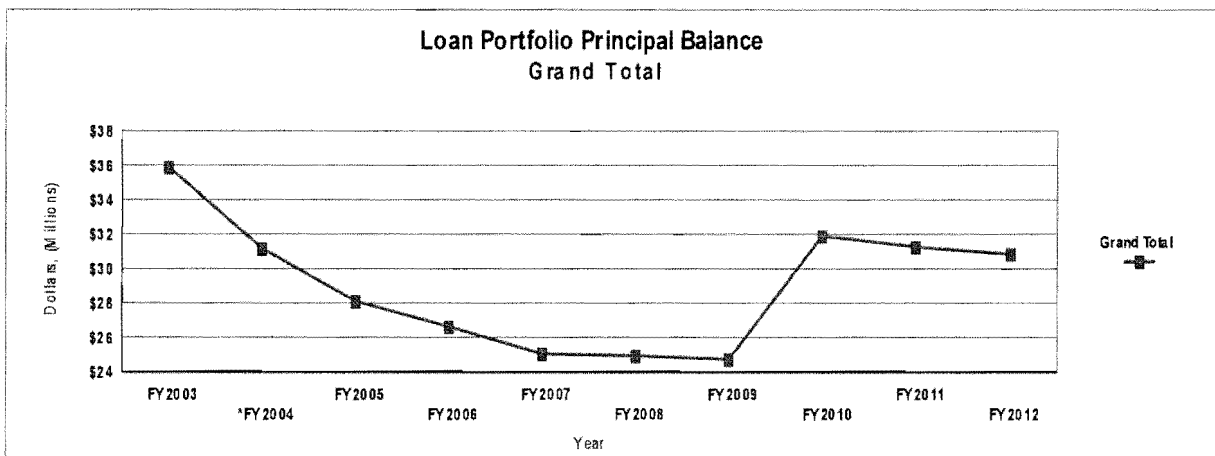
D. Financial Highlights

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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

Delinquent %

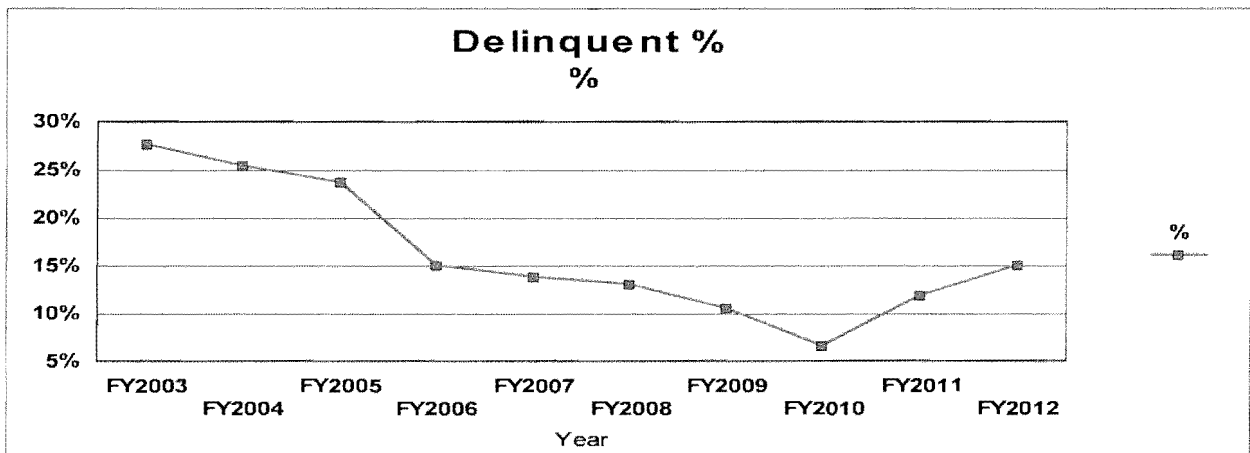
| FY2003 | FY2004 | FY2005 | FY2006 | FY2007 | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 27.74% | 25.51% | 23.74% | 15.09% | 13.86% | 13.15% | 10.61% | 6.69% | 11.97% | 15.11% |

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 |
|-----|-----|-----|----|----|----|----|----|----|----|



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

Management's Discussion and Analysis, continued

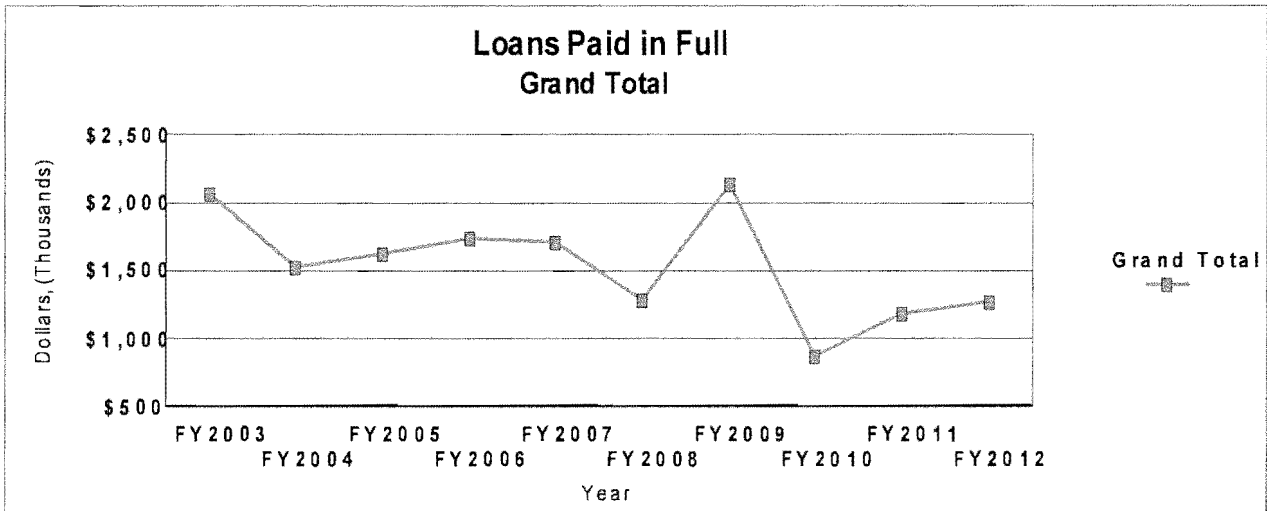
September 30, 2012

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.

| <u>FY2003</u> | <u>FY2004</u> | <u>FY2005</u> | <u>FY2006</u> | <u>FY2007</u> | <u>FY2008</u> | <u>FY2009</u> | <u>FY2010</u> | <u>FY2011</u> | <u>FY2012</u> |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 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 |



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

Management's Discussion and Analysis, continued

September 30, 2012

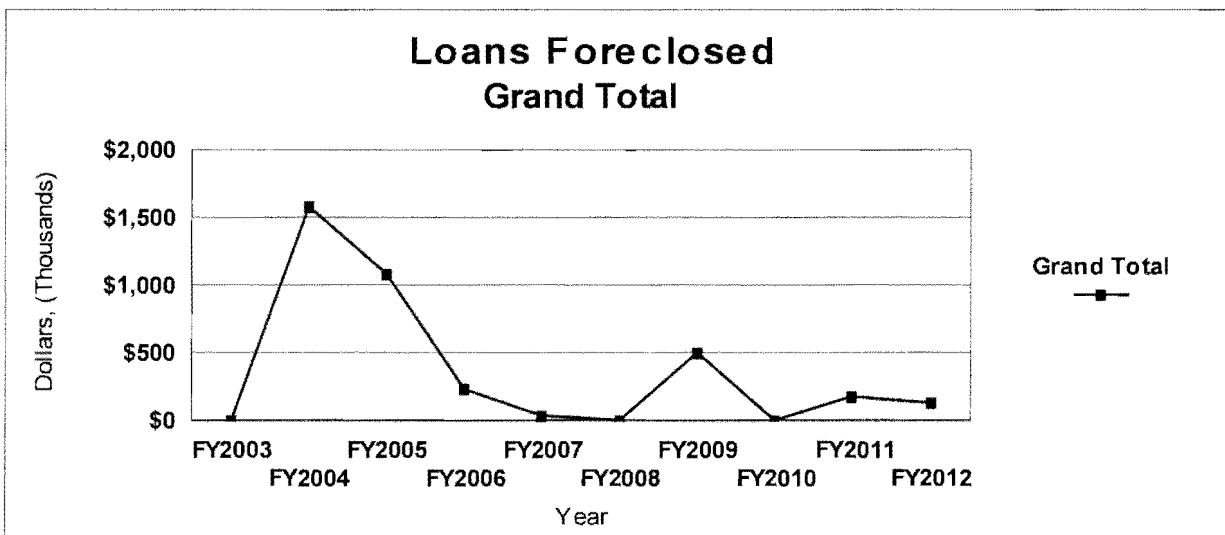
D. Financial Highlights, continued

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.

| <u>FY2003</u> | <u>FY2004</u> | <u>FY2005</u> | <u>FY2006</u> | <u>FY2007</u> | <u>FY2008</u> | <u>FY2009</u> | <u>FY2010</u> | <u>FY2011</u> | <u>FY2012</u> |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 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 |



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

Management's Discussion and Analysis, continued

September 30, 2012

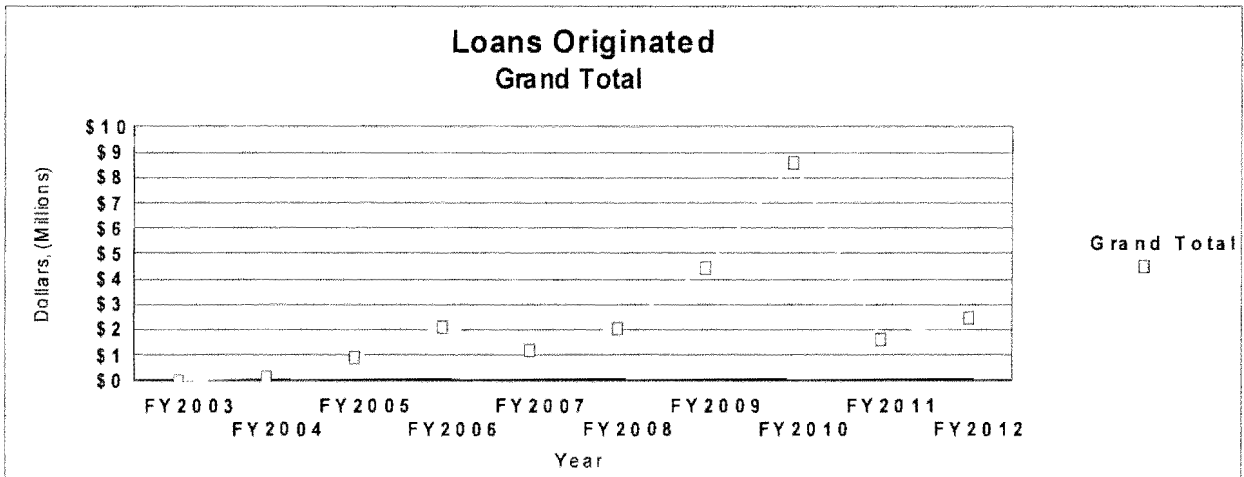
D. Financial Highlights, continued

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

| <u>FY2003</u> | <u>FY2004</u> | <u>FY2005</u> | <u>FY2006</u> | <u>FY2007</u> | <u>FY2008</u> | <u>FY2009</u> | <u>FY2010</u> | <u>FY2011</u> | <u>FY2012</u> | |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|
| 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 |



Guam Housing Corporation
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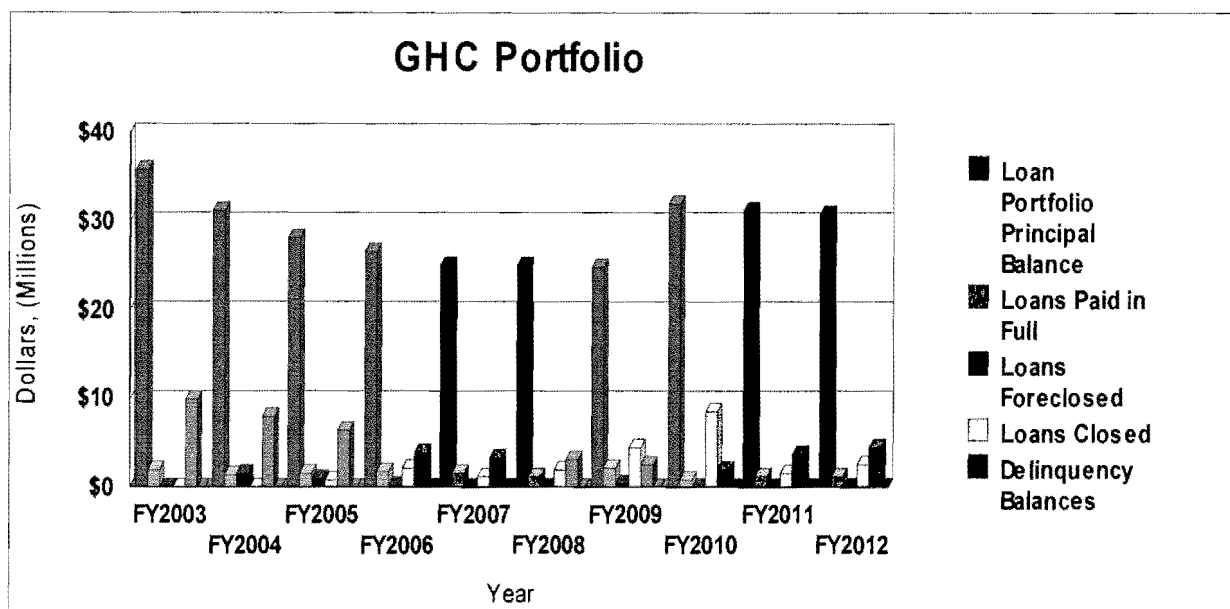
Management's Discussion and Analysis, continued

September 30, 2012

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 |



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

Management's Discussion and Analysis, continued

September 30, 2012

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 value 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 depreciation 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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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.

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

Management's Discussion and Analysis, continued

September 30, 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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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 Affairs, 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-At-das 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.

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

Management's Discussion and Analysis, continued

September 30, 2012

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

See accompanying notes.

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

Statements of Net Assets, continued

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

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Assets

| | Year ended September 30, | |
|---|-----------------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| Interest income: | | |
| Loans receivable | \$ 1,764,043 | \$ 1,937,190 |
| Investments held by bond trustees | 120,282 | 159,827 |
| Interest-bearing deposits | <u>22,304</u> | <u>23,915</u> |
| Total interest income | 1,906,629 | 2,120,932 |
| Interest expense on borrowings <i>(Notes 9 and 10)</i> | <u>444,377</u> | <u>518,743</u> |
| Net interest income | 1,462,252 | 1,602,189 |
| Other income: | | |
| Rental income | 858,088 | 828,821 |
| Sundry <i>(Note 7)</i> | 660,760 | 147,367 |
| Gain on disposal of capital and foreclosed assets | <u>---</u> | <u>52,887</u> |
| | <u>2,981,100</u> | <u>2,631,264</u> |
| Other expenses: | | |
| Salaries | 1,187,768 | 1,125,394 |
| Retirement and Medicare contributions <i>(Note 11)</i> | 360,050 | 314,126 |
| Retiree supplemental and health benefits <i>(Note 11)</i> | 167,596 | 185,347 |
| Depreciation and amortization | 141,172 | 137,206 |
| Rent <i>(Note 13)</i> | 115,119 | 95,226 |
| First-time Homeowner Assistance Program <i>(Note 3)</i> | 107,513 | --- |
| Contractual services | 97,169 | 99,615 |
| Professional services <i>(Note 13)</i> | 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 <i>(Note 12)</i> | <u>---</u> | <u>392,385</u> |
| Total other expenses | <u>2,479,893</u> | <u>2,631,470</u> |
| Increase (decrease) in net assets | 501,207 | (206) |
| Net assets at beginning of year | <u>39,987,980</u> | <u>39,988,186</u> |
| Net assets at end of year | <u>\$40,489,187</u> | <u>\$39,987,980</u> |

See accompanying notes.

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

Statements of Cash Flows

| | Year ended September 30, | |
|---|-----------------------------|--------------------|
| | <u>2012</u> | <u>2011</u> |
| 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 | <u>90,505</u> | <u>172,068</u> |
| Net cash provided by operating activities | <u>509,826</u> | <u>1,090,382</u> |
| 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 | <u>---</u> | <u>112,203</u> |
| Cash provided by investing activities | <u>436,634</u> | <u>538,581</u> |
| 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 | <u>663,122</u> | <u>(84,716)</u> |
| Net cash used in noncapital financing activities | <u>(1,015,383)</u> | <u>(1,760,759)</u> |
| Cash flows from capital and related financing activity - | | |
| Acquisition of capital assets | <u>(39,288)</u> | <u>(38,885)</u> |
| Net decrease in cash and cash equivalents | <u>(108,211)</u> | <u>(170,681)</u> |
| Cash and cash equivalents at beginning of year | <u>6,767,469</u> | <u>6,938,150</u> |
| Cash and cash equivalents at end of year | <u>\$6,659,258</u> | <u>\$6,767,469</u> |
| Consisting of: | | |
| Unrestricted | \$4,329,823 | \$3,833,524 |
| Restricted | <u>2,329,435</u> | <u>2,933,945</u> |
| | <u>\$6,659,258</u> | <u>\$6,767,469</u> |

See accompanying notes.

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

Statements of Cash Flows, continued

| | Year ended September 30, | |
|--|-----------------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| 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 | <u>(120,282)</u> | <u>(159,827)</u> |
| | 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 | <u>(27,456)</u> | <u>(152,947)</u> |
| Net cash provided by operating activities | <u>\$ 509,826</u> | <u>\$ 1,090,382</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest expense during the year | <u>\$ 450,705</u> | <u>\$ 524,674</u> |

See accompanying notes.

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

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.

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

Notes to Financial Statements

Years ended September 30, 2012 and 2011

1. Organization and Summary of Significant Accounting Policies

Organization

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

The Corporation consists of two divisions: housing division and rental division. The housing division is engaged in lending activities of the Corporation while the rental division is engaged in the rental of housing and apartment complexes known as Lada Gardens and 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.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

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

Loans Receivable

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

The Corporation accepts loan applications only for single-unit dwellings. Determination of loan interest rates is made by the Board of Directors of the Corporation but does not exceed two percent (2%) of the cost of funds to the Corporation. In fiscal year 2008, the Board of Directors approved and adopted a provision allowing its management to adjust loan interest rates to reflect the current prevailing rate. This action arises from Public Law 26-123 which states that the Board of Directors may adjust the rate of interest; however, it cannot assess a rate of interest greater than two (2) points over its cost of funds.

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

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

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Tenants Receivable

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

Loan Origination Fees and Related Costs

Loan origination and commitment fees and certain direct origination costs are accounted for in accordance with FASB Accounting Standards Codification (ASC) 310-20, *Nonrefundable Fees and Other Costs*, and are deferred and amortized on a straight-line basis generally over the contractual life of the related loans. Differences between this method and the 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.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Impairment of Long-lived Assets

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

Investments

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

Compensated Absences

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

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

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

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Environmental Costs

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

Estimates

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

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

The Corporation's loan portfolio consists of single-family residential loans in the Territory of Guam. Real estate prices in this market are also susceptible to fluctuation and speculation. Accordingly, the ultimate 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.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

New Accounting Standards

During the year ended September 30, 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.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In 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.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

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:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|---------------------|---------------------|
| 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 | <u>4,661,520</u> | <u>5,238,577</u> |
| | <u>\$12,374,522</u> | <u>\$13,462,207</u> |

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

Notes to Financial Statements, continued

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

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

| | <u>2012</u> | <u>2011</u> |
|---|--------------------|--------------------|
| 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 | <u>75,700</u> | <u>67,158</u> |
| Total restricted cash and cash equivalents | <u>2,329,435</u> | <u>2,933,945</u> |
| Restricted Investments: | | |
| Investments and cash with Bond Trustees | 4,410,810 | 4,727,330 |
| Foreclosure Protection Fund | <u>500,168</u> | <u>500,000</u> |
| Total restricted investments | <u>4,910,978</u> | <u>5,227,330</u> |
| Total restricted cash, cash equivalents and investments | <u>\$7,240,413</u> | <u>\$8,161,275</u> |

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.

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

Notes to Financial Statements, continued

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

The Mortgage Revenue Bond Indenture requires the establishment of special funds and accounts to be held and administered by the Corporation's trustees for the accounting of the bond proceeds. At September 30, 2012 and 2011, investments and cash held by the trustees, in trust for the Corporation, in these funds and accounts are as follows:

| | <u>2012</u> | <u>2011</u> |
|---------------------------|--------------------|--------------------|
| Revenue Fund | \$4,410,553 | \$4,727,072 |
| Capitalized Interest Fund | <u>257</u> | <u>258</u> |
| | <u>\$4,410,810</u> | <u>\$4,727,330</u> |

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

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

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

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

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

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

Notes to Financial Statements, continued

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. In compliance with the bond indenture, the Corporation minimized the interest rate risk, by limiting maturity of investments. 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.

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

Notes to Financial Statements, continued

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

The Corporation's bond trustees hold the Corporation's restricted investments and cash at September 30, 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 | <u>500,168</u> | <u>---</u> | <u>500,168</u> |
| | <u>\$4,697,711</u> | <u>\$213,267</u> | <u>\$4,910,978</u> |
| | 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 | <u>500,000</u> | <u>---</u> | <u>500,000</u> |
| | <u>\$4,985,425</u> | <u>\$241,905</u> | <u>\$5,227,330</u> |

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

At September 30, 2012 and 2011, the Corporation's investment in debt securities is as follows:

| | Moody's Credit Rating | 2012 | | | | |
|---|-----------------------------|----------------------------------|------------|------------|--------------------|--------------------|
| | | 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 | <u>2,080,459</u> | <u>---</u> | <u>---</u> | <u>---</u> | <u>2,080,459</u> |
| | | <u>\$2,580,627</u> | <u>---</u> | <u>---</u> | <u>2,330,351</u> | <u>\$4,910,978</u> |

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

Notes to Financial Statements, continued

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

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

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

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

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

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

Guam Housing Corporation
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Notes to Financial Statements, continued

4. Loans Receivable, continued

The restricted portion of the total loans outstanding is assigned as collateral on notes payable (see Note 10). Loans to employees totaled \$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:

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

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.

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Notes to Financial Statements, continued

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:

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

Guam Housing Corporation
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Notes to Financial Statements, continued

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, <u>2011</u> | Transfers and <u>Additions</u> | Transfers and <u>Disposals</u> | Ending Balance September 30, <u>2012</u> |
| 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 | <u>29,445</u> | <u>---</u> | <u>---</u> | <u>29,445</u> |
| Total capital assets depreciated and amortized | 6,434,853 | 215,288 | (23,926) | 6,626,215 |
| Less accumulated depreciation and amortization | <u>(3,172,150)</u> | <u>(141,172)</u> | <u>23,926</u> | <u>(3,289,396)</u> |
| Net capital assets depreciated and amortized | 3,262,703 | 74,116 | --- | 3,336,819 |
| Capital asset not depreciated and amortized - land | <u>2,509,227</u> | <u>425,000</u> | <u>---</u> | <u>2,934,227</u> |
| | <u>\$5,771,930</u> | <u>\$499,116</u> | <u>\$ ---</u> | <u>\$ 6,271,046</u> |

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.

Guam Housing Corporation
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Notes to Financial Statements, continued

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

Guam Housing Corporation
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Notes to Financial Statements, continued

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:

| | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|
| 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 | <u>---</u> | <u>(45,675)</u> |
| | <u>\$394,364</u> | <u>\$247,691</u> |

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:

| | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rates of 4.45% to 5.25% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2013. Semi-annual principal installments totaling from \$65,000 to \$75,000 | \$ 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 | <u>3,030,000</u> | <u>3,030,000</u> |
| | <u>\$4,710,000</u> | <u>\$4,850,000</u> |

Guam Housing Corporation
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Notes to Financial Statements, continued

9. Mortgage Revenue Bonds Payable, continued

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

At September 30, 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%.

Guam Housing Corporation
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Notes to Financial Statements, continued

9. Mortgage Revenue Bonds Payable, continued

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

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

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

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

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

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

Guam Housing Corporation
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Notes to Financial Statements, continued

9. Mortgage Revenue Bonds Payable, continued

The Bond Indenture contains certain restrictive covenants, including restrictions on the use of bond funds. Management of the Corporation is of the opinion that the Corporation 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:

| <u>Year ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|----------------------------------|--------------------|--------------------|---------------------|
| 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 | <u>1,421,994</u> | <u>190,050</u> | <u>1,612,044</u> |
| | <u>\$4,710,000</u> | <u>\$2,996,565</u> | <u>\$7,706,565</u> |

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.

Guam Housing Corporation
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Notes to Financial Statements, continued

10. Notes Payable, continued

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

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

11. Employee Benefits and Others

Employee Retirement Plan

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

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

DB Plan

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

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

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Notes to Financial Statements, continued

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.

Guam Housing Corporation
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Notes to Financial Statements, continued

11. Employee Benefits and Other, continued

Other Post-Employment Benefits

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

12. Land Held for Development

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

Guam Housing Corporation
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Notes to Financial Statements, continued

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.

Guam Housing Corporation
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Notes to Financial Statements, continued

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 30, 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 non 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:

| <u>Year ending September 30,</u> | |
|----------------------------------|------------------|
| 2013 | \$116,000 |
| 2014 | <u>49,000</u> |
| | <u>\$165,000</u> |

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.

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

Notes to Financial Statements, continued

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

| | <u>Housing</u> | <u>Rental</u> | <u>Combined Total</u> |
|-----------------------------------|----------------------|---------------------|---------------------------|
| 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 | <u>22,659,879</u> | <u>3,290,792</u> | <u>25,950,671</u> |
| 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 | <u>2,188,188</u> | <u>---</u> | <u>2,188,188</u> |
| Total restricted assets | <u>16,597,408</u> | <u>75,700</u> | <u>16,673,108</u> |
| Capital assets, net | <u>4,531</u> | <u>6,266,515</u> | <u>6,271,046</u> |
| Total assets | <u>\$ 39,261,818</u> | <u>\$ 9,633,007</u> | <u>\$ 48,894,825</u> |

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

| | <u>Housing</u> | <u>Rental</u> | <u>Combined Total</u> |
|--|----------------------|---------------------|---------------------------|
| Interest income: | | | |
| Loans receivable | \$ 1,764,043 | \$ --- | \$ 1,764,043 |
| Investments held by bond trustees | 120,282 | --- | 120,282 |
| Interest-bearing deposits | <u>13,263</u> | <u>9,041</u> | <u>22,304</u> |
| Total interest income | 1,897,588 | 9,041 | 1,906,629 |
| Interest expense on borrowings | <u>444,377</u> | <u>---</u> | <u>444,377</u> |
| Net interest income | 1,453,211 | 9,041 | 1,462,252 |
| Other income: | | | |
| Rental income | 7,698 | 850,390 | 858,088 |
| Sundry | <u>55,330</u> | <u>605,430</u> | <u>660,760</u> |
| | <u>1,516,239</u> | <u>1,464,861</u> | <u>2,981,100</u> |
| 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 Assistance 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 | <u>2,650</u> | <u>---</u> | <u>2,650</u> |
| Total other expenses | <u>1,477,445</u> | <u>1,002,448</u> | <u>2,479,893</u> |
| Increase in net assets | 38,794 | 462,413 | 501,207 |
| Net assets at beginning of year | <u>31,056,604</u> | <u>8,931,376</u> | <u>39,987,980</u> |
| Net assets at end of year | <u>\$ 31,095,398</u> | <u>\$ 9,393,789</u> | <u>\$ 40,489,187</u> |

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

Salaries, Wages and Benefits

Years ended September 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| 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 | <u>55,272</u> | <u>52,129</u> |
| Total salaries, wages and benefits | <u>\$ 1,770,686</u> | <u>\$ 1,676,996</u> |
| Employees at end of year | 26 | 26 |

