

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

32-14-1342

Office of the Speaker
Judith T. Won Pat, Ed. D.

Date: 2.24.14
Time: 8:00am
Received by: [Signature]

February 21, 2014

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) 2013 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 their entirety at www.guamopa.org.

Senseramente,

[Signature]

Doris Flores Brooks, CPA, CGFM
Public Auditor

2014 FEB 24 AM 9:51
[Signature]

GUAM LEGISLATURE
CENTRAL FILES

ACKNOWLEDGEMENT RECEIPT

Received by: UFA
Time: 2:20 PM
Date: 2/24/14

RECEIPT ACKNOWLEDGED:

By: _____

Date: _____

1342

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

Guam Housing Corporation

Year ended September 30, 2013





Building a better
working world

Ernst & Young LLP
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Tamuning, Guam 96913

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February 14, 2014

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 the Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of and for the year ended September 30, 2013, 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 14, 2014.

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) and Generally Accepted Government Auditing Standards (GAGAS)

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 and GAGAS, 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.

As part of our audit, we considered the Corporation's internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances.

As described in our engagement letter dated August 15, 2013, the objective of a financial statement audit performed in accordance with US GAAS and GAGAS is as follows:

1. To express an opinion on whether the basic financial statements of the Corporation are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
2. To provide a report on internal control over financial reporting related to the financial statements and compliance with laws, regulations and the provisions of contracts or grant agreements and other matters, noncompliance with which could have a material effect on the financial statements, as required by *Government Auditing Standards*. We will not perform sufficient procedures to render an opinion on internal control over financial reporting nor on compliance with provisions of laws, regulations, contracts or grant agreements and other matters, and therefore, we will not express such an opinion.

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.

In fiscal year 2013, the Corporation adopted Government Accounting Standards Board (GASB) Statement No. 63 GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

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 Adjustment

During our audit, we proposed an adjusting journal entry, which the Corporation subsequently agreed to be reflected in the financial statements (see Appendix A – *Adjusting Journal Entry*).

Unadjusted Audit Differences Considered by Management to be Immaterial

No uncorrected misstatements (i.e., adjustments either identified by us or brought to our attention by management) were identified during the current audit and pertaining to the latest period presented, which were determined by the Corporation's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

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

We are not aware of any consultations that management may have had with other accountants regarding any significant auditing and accounting matters during the fiscal year ended September 30, 2013.

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, 2012 to February 14, 2014 (see Appendix B – *Management's Representation Letter*).

The Board of Directors
Guam Housing Corporation

Significant Deficiencies and Material Weaknesses in Internal Control

We have identified certain deficiencies in internal control and other matters during the course of our audit which have been included in our separately issued Management Letter dated February 14, 2014.

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, 2013 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

The Board of Directors
Guam Housing Corporation

Appendices

A – Adjusting Journal Entry

B – Management’s Representation Letter

The Board of Directors
 Guam Housing Corporation

Appendix A - Adjusting Journal Entry

Guam Housing Corporation
 Year End: September 30, 2013
 Adjusting entries
 Date: 10/1/2012 To 9/30/2013

AJE-1

Number	Date	Name	Account No	Reference	Debit	Credit	Net Income (Loss)	Amount Chg	Recurrence
Net Income (Loss) Before Adjustments							(254,677.00)		
AJE01	9/30/2013	Accrued Accounts Payable (Trade)	2056S SPN	K0120	497,500.00				
AJE01	9/30/2013	Transfer of property	4125S SPN	K0120		497,500.00			
To reverse the amount payable to GHURA arising from renovation costs					497,500.00	497,500.00	(254,677.00)	0.00	
					497,500.00	497,500.00	(254,677.00)	0.00	



GUAM HOUSING CORPORATION

P.O. Box 3457, Hagåtña, Guam 96932

February 14, 2014

Ernst & Young LLP
231 Ypao Road, Suite 201
Ernst & Young Building
Tamuning, Guam 96913

In connection with your audit of the basic financial statements of the Guam Housing Corporation (the Corporation) as of September 30, 2013 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, each major fund and the aggregate remaining fund information of Guam Housing Corporation and the respective changes in financial position and cash flows, where applicable, thereof in conformity with US generally accepted accounting principles.

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 15, 2013, for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US generally accepted accounting principles (US GAAP) applied on a basis consistent with that of the preceding periods.

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

Appendix B - Management's Representation Letter, continued

Management's responsibilities, continued

- 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

There are no uncorrected misstatements relating to the current year financial statement of 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 are not aware of any significant deficiencies or 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, 2013.

Minutes and contracts

The dates of meetings of shareholders, directors, committees of directors and important management committees are as follows:

October 31, 2012	April 24, 2013	September 25, 2013
November 28, 2012	May 29, 2013	November 25, 2013
February 7, 2013	July 31, 2013	December 26, 2013
February 27, 2013	August 28, 2013	

Appendix B - Management's Representation Letter, continued

Minutes and contracts, continued

There have been no meetings of shareholders, directors, committees of directors and important management committees during the following months:

December 2012	March 2013	October 2013
January 2013	June 2013	

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 and 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*.

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 position. 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 position.

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 position date. Significant assumptions used by us in estimating the allowance for credit losses are reasonable and supportable.

Appendix B - Management's Representation Letter, continued

Loans and allowance for credit losses in the loan portfolio, continued

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.

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, including amortizable intangible assets

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 no consideration have been properly recorded and disclosed in the financial statements.

Appendix B - Management's Representation Letter, continued

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances 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.

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 position 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, 2013 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, 2013 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Appendix B - Management's Representation Letter, continued

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.

Appendix B - Management's Representation Letter, continued

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 instances of 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 and Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other than Pension, 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. We are responsible for the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information. We believe that the significant assumptions and interpretations used are reasonable.

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.

Appendix B - Management's Representation Letter, continued

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.

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

Investments, and land and other real estate held are properly valued.

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

Appendix B - Management's Representation Letter, continued

Other Representations, continued

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 14, 2014.


Subsequent to September 30, 2013, 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.

* * * *


Appendix B - Management's Representation Letter, continued

We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards* and was, therefore, designed primarily for the purpose of expressing an opinion on the basic financial statements of Guam Housing Corporation 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



Alysia Leon Guerrero, Accounting Manager



Management Letter

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

September 30, 2013





Ernst & Young LLP
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Tel: +1 671 649 3700
Fax: +1 671 649 3920
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February 14, 2014

Management and the Board of Directors
Guam Housing Corporation

In planning and performing our audit of the financial statements of the Guam Housing Corporation (the Corporation) as of and for the year ended September 30, 2013, 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:

Allowance for Loan Losses

Condition:

In accordance with its loan policy, the Corporation should maintain an allowance for loan losses (ALL) of no less than 2% of the gross loan portfolio. The Corporation has no documentation that supports the basis for the aforementioned minimum ALL policy. A majority of these delinquent loans are fully secured by a first lien position on single family residential units. However, in determining the ALL, 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.

Allowance for Loan Losses, continued

Recommendation:

We recommend that management document its basis and rationale to maintain a 2% minimum ALL 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:

The ALL was reduced in fiscal year 2013 from 3% to 2% of the loan portfolio, which remains a comfort level for the Board of Directors. Even though an analysis would show this amount could be reduced even further, the Board of Directors desires to hold firm at its current amount based on the lower quality loans the Corporation initiated.

Annual Leave

Condition:

For two of the 10 employees selected for testing, we noted that, during our review of the approved annual leave forms, certain annual leave hours taken were not recorded and the employees' annual leave balances were not updated. We were informed that these adjustments will be reflected in the fiscal year 2014.

Recommendation:

We recommend that the Corporation's management revisit its existing controls, particularly over the annual leave accrual process, to ensure the employees' annual leave hours taken are recorded.

Management's response:

Management have subsequently corrected the employees' respective leave records and have taken additional steps in monitoring time sheets and leave forms to ensure there are no further deficiencies.

First-Time Homeowner Assistance Program

Condition:

In January 2012, the Housing Trust Fund Act was signed into law as Public Law (P.L.) 31-166 which allowed eligible recipients of the program financial assistance of up to \$10,000 (4% of purchase price including down payment and closing costs amount maximum of \$250,000) to be used for down-payment assistance or closing cost.

First-Time Homeowner Assistance Program, continued

During our audit procedures on the Corporation's compliance with the P.L. 31-166 requirements, we noted the following:

- Section 4704 states that, if the applicant intends to purchase a home, the applicant must submit the certificate of title, warranty deed, policy of title insurance or other evidence of ownership by the intended seller. For one of the 15 disbursements selected for testing, the required document or evidence was not submitted by the applicant.
- Section 4704 (c) (1) states that, if the applicant intends to construct a home, the applicant must submit a certificate of title, policy of title insurance, warranty deed or other evidence of fee simple title, or lease to a Chamorro Land Trust lot, to the unimproved land intended for construction. One of the 15 disbursements selected for testing did not have the required document before the assistance was granted to the applicant.
- Section 4704 (c) (2) states that, if the applicant intends to construct a home, the applicant must submit construction plans and specifications certified by a licensed professional engineer or architect authorized to practice on Guam by the Professional Engineers, Architects, and Land Surveyors Board of Guam. Two of the 15 disbursements selected for testing did not have the required document before the assistance was granted to the applicant.
- Section 4703 (b) (6) states that the applicant or applicant's spouse must not have received earlier assistance under this Program. For one of the 15 disbursements selected for testing, there is no evidence to support that the applicant's spouse has not received assistance under this Program. It was further noted that the Affidavit submitted by the applicant did not include the spouse, therefore, it cannot be determined whether the applicant's spouse is in compliance.
- Section 4703 (c) requires the applicant to occupy the home to which the application relates as the applicant's principal place of residence within six months after the completion of the eligible transaction. For two of the 15 disbursements selected for testing, the Affidavit or Certificate of Occupancy was not submitted by the applicant.

Recommendation:

We recommend that management establish a formal policies and procedures manual in accepting and processing FTHAP assistance to ensure compliance with and consistent application of the requirements of P.L. 31-166.

First-Time Homeowner Assistance Program, continued

Management's response:

The Corporation recognizes the statute requirements, however for Sections 4704 and 4704 (c) (1), it will be difficult for the Corporation to comply with the statute at the time of eligibility. The submission of these documents would have to be at post-closing. The Corporation has since included in its closing instructions to the title company to provide the required documents. Management will also submit a proposed legislation to amend this provision of the law.

Section 4703 (b) (6) requires that both the applicant and spouse indicate that they have not received earlier assistance under this Program. Affidavits have been requested and the Corporation has amended its checklist to require the spouse to sign an affidavit.

Section 4703 (c) requires all recipients to submit an Affidavit of Occupancy. Only two grantees have yet to submit the affidavits. The Corporation will write to the grantees that they are in violation and will have to pay 10% of the grant amount if not submitted immediately.

Lease Agreements

Condition:

During our test of reasonableness of rental income, we noted that rental escalations were not documented in the tenants' files and not acknowledged by the tenants in writing.

Recommendation:

We recommend that the Corporation maintain a file of all the significant provisions (e.g., terms, escalation, etc.) and periodically monitor them to ensure rent income recorded is properly supported.

Management's response:

An addendum to the lease agreements regarding the rent increase is in progress. When finalized, this will be forwarded to the Corporation's legal counsel for review. The addendum will require signatures from the tenants. Once signatures have been affixed, signed copies will be issued to the tenants, while the original addendum will remain in the tenants' files.

Guam Housing Corporation
Management Letter

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.

The Corporation's written responses to the deficiencies and other matters identified in our audit were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, 2013



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

Report on Compliance and Internal Control

Year ended September 30, 2013

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working world

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Report of Independent Auditors 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, 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, the financial statements of the Guam Housing Corporation (the Corporation), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 14, 2014.

Internal control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Guam Housing Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Guam Housing Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Guam Housing 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 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. 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

February 14, 2014

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

Schedule of Prior Year Finding and Response

Finding in the prior year Audit Report dated February 7, 2013 is as follows:

Finding No. 2012-1 Allowance for Loan Losses

Condition:

In accordance with its loan policy, the Corporation should maintain an allowance for loan losses (ALL) of no less than 3% of the gross loan portfolio. The Corporation has no documentation that supports the basis for the aforementioned minimum ALL policy. A majority of these delinquent loans are fully secured by a first lien position on single family residential units. However, in determining the ALL, 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.

Status:

Management has prepared an updated analysis with a recommendation to reduce the ALL subject to Board of Directors' (BOD) review. The analysis, which resulted in a decrease in ALL from 3% to 2%, was approved by the BOD during the February 2013 meeting.



*Financial Statements and
Supplementary Information*

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

*Years ended September 30, 2013 and 2012
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, 2013 and 2012

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Report of Independent Auditors

The Board of Directors
Guam Housing Corporation

Report on the Financial Statements

We have audited the accompanying statements of net position of the Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Guam Housing Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 23 and the schedule of Funding Progress on page 55, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Guam Housing Corporation's basic financial statements. The supplementary information included in Schedules 1 through 4 are presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information included in Schedules 1 through 4 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated February 14, 2014 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* in considering the Guam Housing Corporation's internal control over financial reporting and compliance.

Ernst + Young LLP

February 14, 2014

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

Management's Discussion and Analysis

September 30, 2013

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, 2013. We encourage the readers to consider the information presented as you review the financial statistics presented on the following pages.

A. About the Corporation

GHC 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, loan origination and service remain steady.

The "Housing Trust Fund Act" and the "First-time Homeowners Assistance Program Act" (P.L. 31-166 of 05 Jan 2012) continue to be a successful work in progress.

Housing Trust Funds remain the most impressive advance in the affordable housing field in the United States. 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 local governments that receive ongoing 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 47 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 has 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, 2013

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 borrowers are diverse and include teachers, firemen, police officers, office managers, office workers, and hotel and restaurant employees. They walk through our doors seeking financing for their first home in order to fill the basic need of housing for their families. It is for this very reason why GHC seeks additional lending capital for those families who have been pre-qualified.

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 our island residents. GHC under its mandate is geared to accomplish this mission.

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. During the October 2012 regular meeting of the Board of Directors, the current interest rate for this program was changed to 6.49%.

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

Management's Discussion and Analysis, continued

September 30, 2013

A. About the Corporation, continued

Loan and Supplemental Funding Programs, continued

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 on this program was changed to match that of the local markets with a floor of 4% and a ceiling of 6% for a term of 30 years (P.L. 31-166).

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 provides 20%, holding the first mortgage; and the Rural Development provides 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, 2013

A. About the Corporation, continued

V. First-time Homeowners Assistance Program Act

In January of 2012, GHC was able to revive this program with the introduction of the "Housing Trust Fund Act" (P.L. 31-166) and, in June 2012, re-initiated the "First-time Homeowners Assistance Program" (FTHAP) as re-established by P. L. 31-227. A provision of this law required GHC to fund the initial program with \$500,000 of its fund. In April 2013, the initial \$500,000 was either disbursed or encumbered. On June 13, 2013, in accordance with P.L. 32-036, the Department of Administration transferred to the Corporation approximately \$1.2 million for the FTHAP. During the fiscal year 2013, \$243,058 was disbursed leaving a balance of \$985,713 at September 30, 2013.

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.

The program is not restricted with GHC loans. Currently, there are ten (10) participating financial institutions and two government agencies.

Rental Division

GHC acquired 115 Lada Gardens homes in Dededo back in 1969 and are managed by the Corporation's Rental Division. The rental units are comprised of two, three, and four bedroom homes rented to eligible individuals and families. GHC also has two (2) single-family homes in Sagan Linahan and two 12-unit apartment buildings in Yigo named Guma As-Atdas.

In January 2013, the monthly rent for the Lada Gardens increased to \$650 for the 4 bedroom units, \$575 for the 3 bedroom units, and \$525 for the 2 bedrooms units.

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 Linahan Renovation Project provided Department of Housing and Urban Development funded renovations through Guam Housing and Urban Renewal Authority (GHURA), for 10 abandoned units at a cost of approximately \$650,000. The Renovation Project was completed in October 2012. Due to the source of funding for the rehabilitation of these units, the proposed tenants must meet the established income limits. 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, 2013

A. About the Corporation, continued

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 GHC. At the recommendation of our independent auditors and due to the state the property was 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 and in fiscal year 2011, an additional impairment loss of approximately \$392,000 was recorded. 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 (6) 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. Subsequent to the settlement between GHC and MPC, the ownership has changed to another developer, who has commenced the construction of some units.

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

Management's Discussion and Analysis, continued

September 30, 2013

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 *Statements of Net Position* present information on all of the Corporation's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net positions may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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 *Statements of Cash Flows* provide 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 operating, 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 24 through 59 of this report.

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

Management's Discussion and Analysis, continued

September 30, 2013

B. Overview of the Financial Statements, continued

A condensed summary of the Corporation's statements of net position at September 30, 2013, 2012 and 2011 is shown below.

Statements of Net Position
September 30, 2013, 2012 and 2011

	2013	2012	2011
Cash and investments	\$11,022,168	\$12,374,522	\$13,462,207
Loans receivable, other receivables, prepaid expenses and inventory	30,707,314	29,854,893	30,189,179
Land held for development	---	---	10,555,000
Foreclosed assets held for resale	399,949	394,364	247,691
Capital assets	6,696,232	6,271,046	5,771,930
Total assets	48,825,663	48,894,825	60,226,007
Accounts payable and accrued expenses	1,619,521	525,909	11,130,033
Notes payable	1,119,469	2,267,289	3,343,170
Deposits by borrowers and security deposits	498,970	532,262	517,190
Bonds payable	4,565,000	4,710,000	4,850,000
Loans held in trust	290,693	370,178	397,634
Total liabilities	8,093,653	8,405,638	20,238,027
Investment in capital assets, net of related debt	6,696,232	6,271,046	5,771,930
Restricted	7,521,752	8,694,060	9,738,655
Unrestricted	26,514,026	25,524,081	24,477,395
Total net position	\$40,732,010	\$40,489,187	\$39,987,980

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

Management's Discussion and Analysis, continued

September 30, 2013

Statements of Revenues, Expenditures and Changes in Net Position
Fiscal years ended September 30, 2013, 2012 and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues	\$ 3,283,457	\$ 3,456,230	\$ 3,177,118
Expenses	<u>3,040,634</u>	<u>2,955,023</u>	<u>3,177,324</u>
Change in net position	242,823	501,207	(206)
Total net position at beginning of year	<u>40,489,187</u>	<u>39,987,980</u>	<u>39,988,186</u>
Total net position at end of year	<u><u>\$40,732,010</u></u>	<u><u>\$40,489,187</u></u>	<u><u>\$39,987,980</u></u>

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 Position under Loans receivable, net both unrestricted and restricted. Other receivables under the Statements of Net Position 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 increased by \$655,237 to approximately \$31.5 million increasing 2.12% from the prior year. It was decided in October 2012 Board of Directors meeting to change the Direct Loan Program interest rate from the prevailing rate to 6.49%, based on its cost of funds. Due to the lack of funds available for loans under the Direct Loan Program and what is considered a high interest rate at this time, only six (6) loans totaling \$1.1 million were originated under this program. Seven (7) loans totaling \$1.05 million under the Revolving Loan Program was originated this fiscal year. Under the CAHAT Program, five (5) loans were originated totaling \$199,000. In fiscal year 2013, the Corporation had twenty-six (26) payoffs amounting to \$975,690 in comparison to the previous fiscal year of twenty-seven (27) totaling \$1.28 million.

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

Management's Discussion and Analysis, continued

September 30, 2013

C. Financials at a Glance, continued

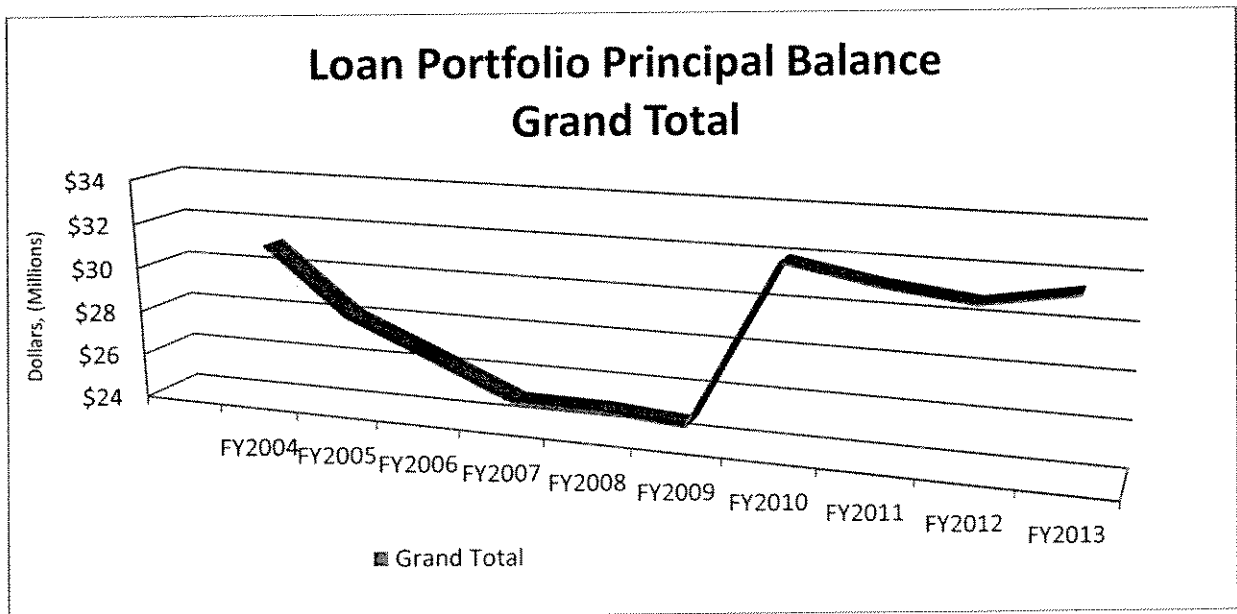
GHC continues its marketing efforts to disseminate information relative to all its authorized programs, to include the First-time Homeowner Assistance Program (FTHAP). Although GHC is limited in its lending capital, it continued to conduct pre-qualification interviews in order to determine the need for affordable housing. At the end of fiscal year 2013, 353 applicants were determined to qualify for a mortgage. The Corporation estimates it would need a total of \$18.9 million for lending capital. Of those interviewed, nine applicants pursued their loan applications. A total of \$1,287,000 is required for these nine applicants. These applicants will continue facing challenges to find homes within their buying power.

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 holds 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

FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
\$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	\$31,499,395
Total Number of Loans									
580	533	505	470	450	439	477	465	454	447



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

Management's Discussion and Analysis, continued

September 30, 2013

D. Financial Highlights, continued

Delinquency

Although total delinquent loans 30 days and over increased by one (1) loan to sixty two (62) loans during the year, the total delinquent principal balance decreased by \$156,593 to \$4.45 million in fiscal year 2013. Overall, loans delinquent 30 days and over decreased from 15.11% in fiscal year 2012 to 14.25% in fiscal year 2013. Several borrowers come to GHC over the fiscal year to request for a payment plan to cure their delinquency due to medical treatments and loss of income.

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

Delinquent %

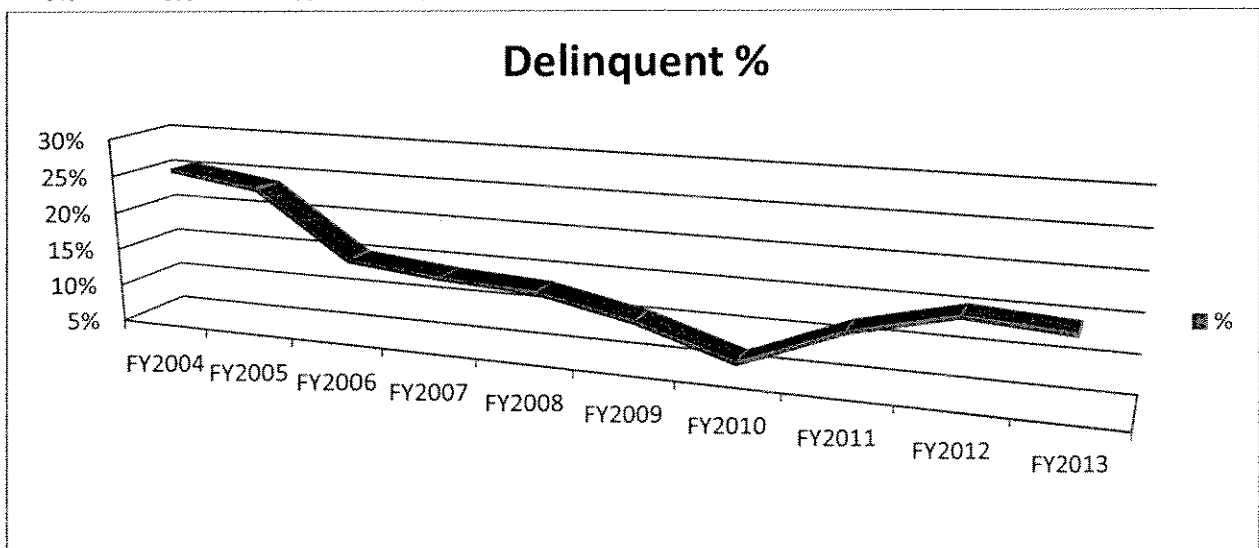
FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
25.51%	23.74%	15.09%	13.86%	13.15%	10.61%	6.69%	11.97%	15.11%	14.25%

Principal Balance

\$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	\$4,450,698
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Total Number of Loans

140	108	60	54	48	36	33	54	61	62
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Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis, continued

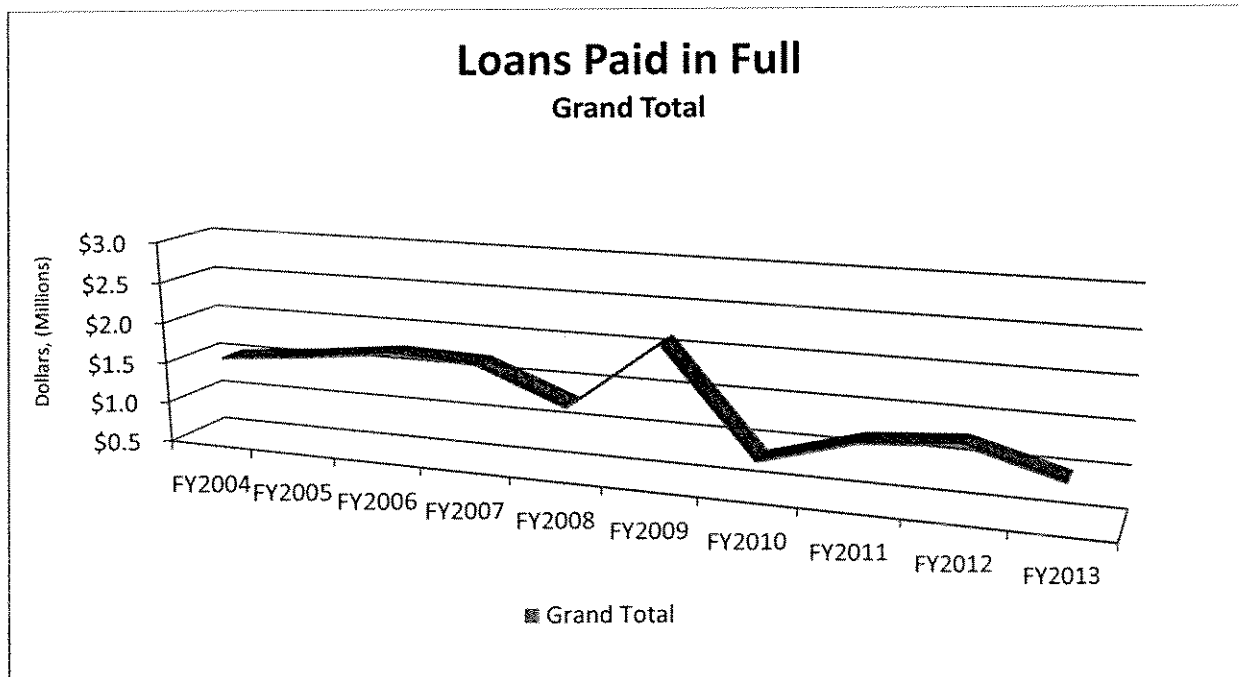
September 30, 2013

D. Financial Highlights, continued

Loans Paid in Full

Twenty-six (26) loans were paid in full in FY 2013 totaling \$975,690, a decrease of \$301,513 in comparison to 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>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>	<u>FY2013</u>
Grand Total	\$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	\$975,690
Total Number of Loans	52	44	49	56	41	39	25	25	27	26



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

Management's Discussion and Analysis, continued

September 30, 2013

D. Financial Highlights, continued

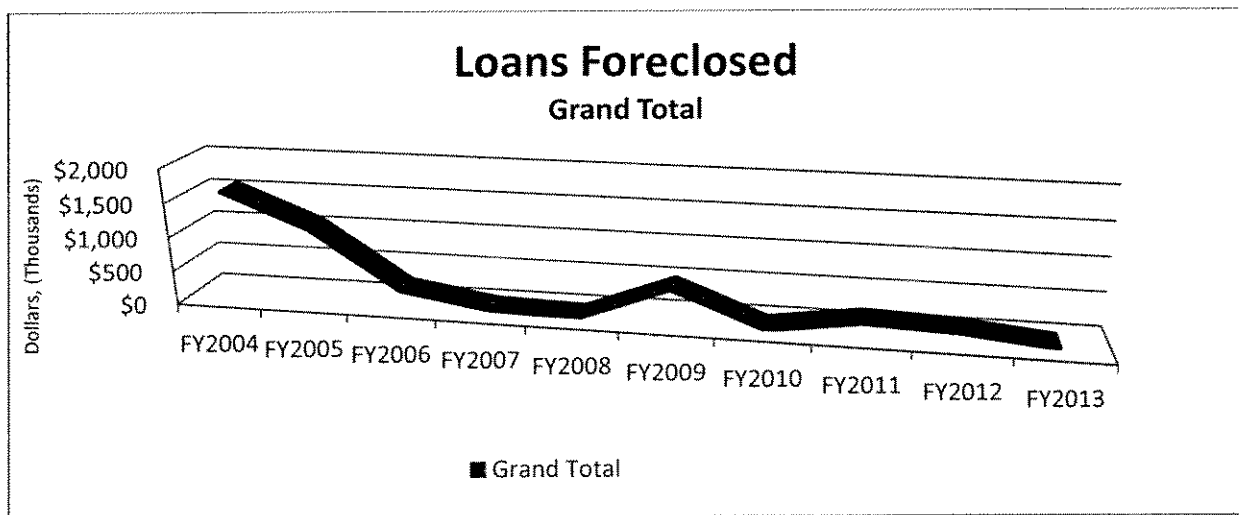
Foreclosures and Other Real Estate Owned (OREO properties)

GHC has been working closely with legal counsel to more effectively address serious delinquencies and work with the borrower to avoid foreclosure. There were no foreclosures in fiscal year 2013.

Foreclosed assets held for resale remain at five (5) properties totaling \$399,949 at the end of this fiscal year. GHC, even with the assistance of the Realtor, could not sell the properties without realizing a substantial loss thus there were no properties sold in fiscal year 2013.

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

	<u>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>	<u>FY2013</u>
Principal Balance	\$1,589,852	\$1,087,763	\$240,849	\$35,047	\$ -	\$500,451	\$ -	\$183,741	\$132,614	\$ -
Total Number of Loans	14	11	3	1	0	5	0	2	1	0



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

Management's Discussion and Analysis, continued

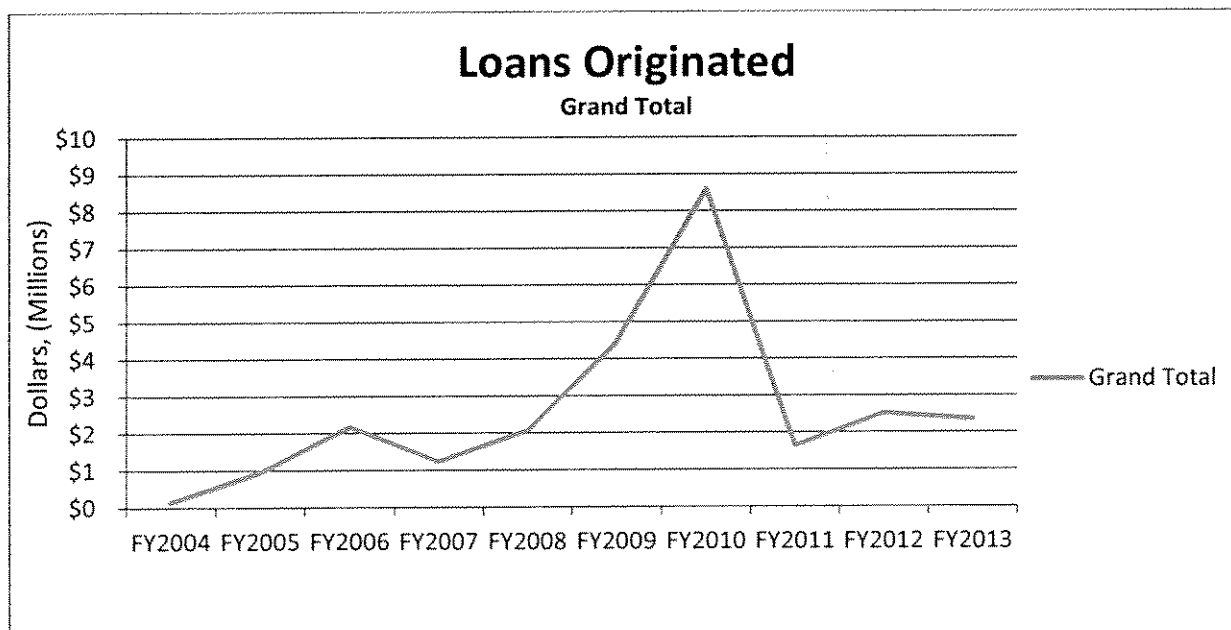
September 30, 2013

D. Financial Highlights, continued

Loans Originated

The following data and chart shows the amount of loans originated since fiscal 2004. In fiscal year 2004, GHC 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 Board 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 2013 and the change of interest rate from the current market rate to 6.49%, only six (6) loans totaling \$1.1 million was originated under this program. Seven (7) loans totaling \$1.05 million under the Revolving Loan Program was originated this fiscal year. There were five (5) loans totaling \$199,000 originated under the CAHAT program in fiscal year 2013.

	<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>FY 2012</u>	<u>FY 2013</u>
Original Principal Balance	\$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	\$2,354,936
Total Number of Loans	2	11	36	17	18	40	62	15	18	18



Guam Housing Corporation
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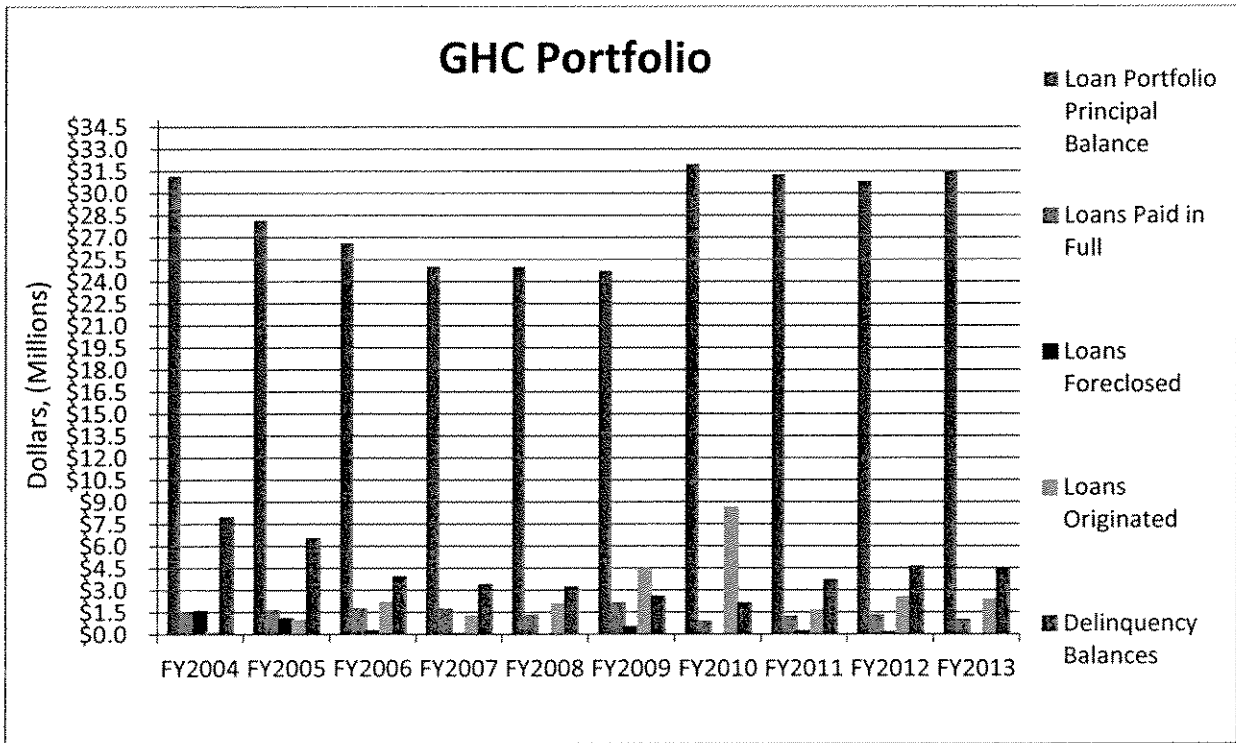
Management's Discussion and Analysis, continued

September 30, 2013

D. Financial Highlights, continued

Overall Loan Portfolio

FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Loan Portfolio Principal Balance									
\$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	\$31,499,395
Loans Paid in Full									
\$ 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	\$ 975,690
Loans Foreclosed									
\$ 1,589,852	\$ 1,087,763	\$ 240,849	\$ 35,047	\$ -	\$ 500,451	\$ -	\$ 183,741	\$ 132,614	\$ -
Loan Originated									
\$ 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	\$ 2,354,936
Delinquency Balance									
\$ 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	\$ 4,450,698



Guam Housing Corporation
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Management's Discussion and Analysis, continued

September 30, 2013

D. Financial Highlights, continued

Allowance for Loan Losses (ALL)

During the February 7, 2013 board meeting, the Board of Directors made an adjustment to the policy for the ALL. The Board reduced the ALL from 3% to 2% of the total gross loan portfolio. As a result, the ALL was reduced by \$309,326 to \$629,988 in fiscal year 2013.

Allowance for Legal Uncollectible

In fiscal year 2013, an Allowance for Legal Uncollectible was established totaling \$29,685. The establishment of the Allowance reduced Unrestricted Other Receivable from \$22,859 in fiscal year 2012 to \$142 in FY 2013.

Capital Assets

Capital Assets increased by \$425,186 or 6.78% from \$6,271,046 in fiscal year 2012 to \$6,696,232 in fiscal year 2013. In fiscal year 2013, GHURA, using federal money, had the ten (10) Sagan Linahyan units renovated which increased the value by \$497,500. Also, there were a couple of Lada Garden units being renovated during fiscal year 2013 totaling \$66,676 and two (2) 20-foot Containers were purchased at the value of \$11,400. These additions totaled \$575,576 and were offset by depreciation amounting to \$149,711 and the disposal of assets totaling \$679.

Restricted Accounts Payables

On June 13, 2013, in accordance with P.L.32-036, the Department of Administration transferred to GHC \$1.2 million for the FTHAP. Due to the conditions of the transfer, the amount received was placed under a restricted payable. During fiscal year 2013, \$243,058 was disbursed to thirty-four (34) first-time homeowners. The balance at the end of fiscal year 2013 was \$985,713.

Debt Service

Notes Payable decreased by \$1,147,820 from \$2,267,289 in fiscal year 2012 to \$1,119,469 in fiscal year 2013. GHC continues to honor its monthly debt service obligations to its sole creditor, FHLB at an interest rate of 6.49% per annum. This note is on schedule to be fully amortized by the end of fiscal year 2014. For more details on the note payable to FHLB see Note 10 of the financial statements.

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

Management's Discussion and Analysis, continued

September 30, 2013

D. Financial Highlights, continued

Debt Service, continued

Bonds Payable decreased by \$145,000 or 3.08% from \$4,710,000 in fiscal year 2012 to \$4,565,000 in fiscal year 2013. 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% per annum. 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 increased by \$1,872 or 2.85% from \$65,566 in fiscal year 2012 to \$67,438 in fiscal year 2013. Interest on the MRB investment in excess of 5.229417% is due to the federal government and is recorded as Rebate Liability. Analysis on the interest earned on the MRB investments are made and adjusted monthly to the Rebate Liability. An Interim Arbitrage Rebate Report is done annually by Orrick, Herrington & Sucliffe LLP as of March 1 of each year. The Rebate Liability is adjusted to the Orrick report each year. The increase in fiscal year 2013 is due to the balance based on the Orrick report. For more details on the Rebate Liability see Note 9 of the financial statements.

Interest on Loans Receivable

Interest on Loans Receivable, net of loan origination, decreased by \$61,272 or 3.47% in fiscal year 2013. The weighted average interest rate on loans decreased from 6.10% in fiscal year 2012 to 5.85% in fiscal year 2013.

Interest on Investment Held by Bond Trustees

Interest on Investment Held by Bond Trustees decreased by \$44,214 or 36.76% in fiscal year 2013. The market value for these funds decreased in fiscal year 2013.

Interest Income on Bank Deposit

Interest Income on Bank Deposit decreased by \$6,638 or 29.76% from \$22,304 in fiscal year 2012 to \$15,666 in fiscal year 2013. The decrease in income is due to the decrease in cash. The total amount of cash and cash equivalents at the end of fiscal years 2013 and 2012 were \$6,948,391 and \$7,963,712, respectively.

Interest Expense

Interest Expense decreased by \$79,925 or 17.99%. The decrease is due to the decrease in principal balance of the notes and bonds payable.

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

Management's Discussion and Analysis, continued

September 30, 2013

D. Financial Highlights, continued

Rental Income

Rental Income increased in fiscal year 2013 by \$59,263 or 6.91%. Effective January 2013, Lada Garden's two (2) and three (3) bedroom monthly rental units increased by \$25 and the 4 bedrooms increased by \$50. Also some of the Sagan Linahyan units began to be rented out in fiscal year 2013.

Reversal of Loan Losses

In fiscal year 2013, the ALL reserve was lowered from 3% to 2% of the total loan portfolio. An adjustment of \$279,641 was credited to Reversal of Loan Losses due to the decrease of the ALL reserve by \$309,326 less the establishment of the Allowance for Legal Uncollectible of \$29,685.

Other Income

Other Income decreased by \$111,820 or 16.92% from \$660,760 in fiscal year 2012 to \$548,940 in fiscal year 2013. In fiscal year 2012, ten (10) Sagan Linahyan units were transferred to GHC from DLM. The appraised value of \$601,000 was recorded under Other Income. In fiscal year 2013, the ten (10) Sagan units were renovated by GHURA which increased the appraised value of the buildings by \$497,500. This increase was also recorded under Other Income.

Salaries

Salaries increased by \$100,366 or 8.45% from \$1,187,768 in fiscal year 2012 to \$1,288,134 in fiscal year 2013. Merit awards were paid out to former employees totaling \$29,066. The increase is also attributed to increments and merit earned in fiscal year 2013 and less annual leave taken in fiscal year 2013 compared to fiscal year 2012.

Retirement and Medicare Contributions

Retirement and Medicare contributions increased by \$31,585 or 8.77% an increase from \$360,050 in fiscal year 2012 to \$391,635 in fiscal year 2013. The increase is due to the increase in salaries and the increase in the rate of contribution from 28.30% in fiscal year 2012 to 30.09% in fiscal year 2013.

Retiree Supplemental and Health Benefits

Retiree Supplemental and Health Benefits decreased by \$3,679 or 2.20% from \$167,596 in fiscal year 2012 to \$163,917 in fiscal year 2013. The decrease is due to one retiree changing insurance from a Class 2 to a Class 1 in fiscal year 2013.

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

Management's Discussion and Analysis, continued

September 30, 2013

D. Financial Highlights, continued

Employee Benefits Other Than Retirement

Employee Benefits increased by \$3,746 or 6.78% from \$55,272 in fiscal year 2012 to \$59,018 in fiscal year 2013. The increase is attributed to the increase in the number of employees opting for medical insurance in fiscal year 2013.

Rent Expense

Rent Expense increased by \$4,913 in fiscal year 2013. The increase is due to GHC reserving five (5) additional parking spaces effective October 2012 despite the decrease in office space effective August 19, 2013. Office space leased by GHC went from 4,852 sq. ft. to 4,156 sq. ft.

Contractual Expense

Contractual Expense increased by \$6,963 or 7.17%. The increase is due to the increase in fuel, building and liability insurance in fiscal year 2013.

Professional Services

Professional Services increased by \$67,091 or 72.43% from \$92,629 in fiscal year 2012 to \$159,720 in fiscal year 2013. GHURA was given \$100,000 last fiscal year to conduct a Housing Study to see if it is feasible to build more apartment or housing units at the As Atdas site. As of September 2013, \$83,438 was expended by GHURA for the Housing Study. Legal expense decreased by \$13,063 in fiscal year 2013.

Maintenance Expense

Maintenance Expense decreased by \$5,617 or 11.65% from \$48,205 in fiscal year 2012 to \$42,588 in fiscal year 2013. Due to the major renovations in fiscal year 2013, materials purchased were capitalized.

FTHAP Expense

FTHAP Expense increased by \$249,593 from \$107,513 in fiscal year 2012 to \$357,106 in fiscal year 2013. P.L. 31-166 was signed into law requiring GHC to fund the initial seed for the FTHAP. The \$357,106 was disbursed using GHC's operating funds for fifty (50) first-time homeowners.

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

Management's Discussion and Analysis, continued

September 30, 2013

D. Financial Highlights, continued

Bad Debts

Bad Debts decreased by \$1,148 in fiscal year 2013 from \$35,041 in fiscal year 2012 to \$33,893 in fiscal year 2013. The rental balance due for evicted tenants in fiscal year 2013 was less than the rental balance due for evicted tenants in fiscal year 2012. The accounts of the evicted tenants have been processed and submitted to Small Claims Court.

Other Expense

Other Expense decreased by \$8,687 or 15.71% in fiscal year 2013. The decrease is due to the decrease in travel expenses in fiscal year 2013.

E. Future Events

GHC continues to meet its mission with limited challenges. GHC's most apparent challenge is the ability to secure lending capital at affordable rates. GHC has made many strides in educating both the executive and legislative branches with respect to the "Trust Fund" initiative which addresses the funding of various programs and projects. The result of GHC's efforts is once again evident with the passage of Bill 79-32 by the legislature with a unanimous vote and signed by the Governor into law. This is another step forward.

GHC continues its pursuit of Governor Eddie Baza Calvo's Affordable Housing Initiatives. As the lead agency in the Affordable Housing Coordinating Council (AHCC), GHC provides direction, 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.

GHC has established the following goals to complete in 2014:

1. Pursue and promote alternative building materials, structure, and design to lessen the cost of constructing safe, sanitary, and very affordable, low cost housing.
2. Ongoing coordination with partnering Government of Guam agencies (DLM, CLTC, GALC) to provide available and developable land to recipients that qualify for homeownership financing and programs (VA, USDA, SUTA).
3. Continued work with GHURA and federal agencies with funding sources and layering of grants and programs in development of affordable housing.

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

Management's Discussion and Analysis, continued

September 30, 2013

E. Future Events, continued

4. Statutory authority to finance the building of new homes by funding "Housing Trust Fund" for GHC programs and initiatives (i.e., FTHAP and CAHAT loan program).
5. Sagan Linahyan – Development of 59 unused lots with available infrastructure for affordable housing (rental and home ownership).
6. 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.

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 Position

	September 30,	
	<u>2013</u>	<u>2012</u>
Assets		
Unrestricted assets:		
Cash and cash equivalents <i>(Notes 2 and 3)</i>	\$ 3,417,784	\$ 4,329,823
Self-insurance fund <i>(Notes 2, 3 and 12)</i>	889,644	804,286
Loans receivable, net <i>(Notes 2 and 4)</i>	22,145,492	20,115,959
Tenants receivable, net <i>(Notes 2 and 6)</i>	40,197	40,330
Other receivables <i>(Notes 2 and 5)</i>	142	22,859
Accrued interest receivable <i>(Note 9)</i>	77,549	89,442
Prepaid expenses and other	82,624	153,608
Foreclosed assets held for resale <i>(Note 8)</i>	<u>399,949</u>	<u>394,364</u>
Total unrestricted assets	<u>27,053,381</u>	<u>25,950,671</u>
Restricted assets:		
Cash and cash equivalents <i>(Notes 2 and 3)</i>	2,140,716	2,329,435
Investments <i>(Notes 2, 3 and 9)</i>	4,574,024	4,910,978
Loans receivable, net <i>(Notes 2, 4 and 10)</i>	6,175,793	7,244,507
Other receivables <i>(Notes 2 and 5)</i>	<u>2,185,517</u>	<u>2,188,188</u>
Total restricted assets	<u>15,076,050</u>	<u>16,673,108</u>
Capital assets, net <i>(Note 7)</i>	<u>6,696,232</u>	<u>6,271,046</u>
Total assets	<u>48,825,663</u>	<u>48,894,825</u>

See accompanying notes.

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

Statements of Net Position, continued

	September 30,	
	<u>2013</u>	<u>2012</u>
Liabilities		
Payable from unrestricted assets:		
Accounts payable and accrued expenses	194,488	115,020
Accrued compensated absences <i>(Note 11)</i>	302,158	260,129
Unearned revenue	<u>42,709</u>	<u>51,441</u>
Total payable from unrestricted assets	<u>539,355</u>	<u>426,590</u>
Payable from restricted assets:		
Accounts payable <i>(Note 3)</i>	985,713	---
Bonds payable <i>(Note 9)</i>	4,565,000	4,710,000
Notes payable <i>(Note 10)</i>	1,119,469	2,267,289
Accrued interest payable <i>(Notes 9 and 10)</i>	27,015	33,753
Security deposits	61,713	59,265
Deposits by borrowers - insurance premiums and real estate taxes	437,257	472,997
Loans held in trust <i>(Note 5)</i>	290,693	370,178
Rebate liability <i>(Note 9)</i>	<u>67,438</u>	<u>65,566</u>
Total payable from restricted assets	<u>7,554,298</u>	<u>7,979,048</u>
Total liabilities	<u>8,093,653</u>	<u>8,405,638</u>
Commitments and contingencies <i>(Note 12)</i>		
Net position		
Investment in capital assets, net of related debt	6,696,232	6,271,046
Restricted	7,521,752	8,694,060
Unrestricted	<u>26,514,026</u>	<u>25,524,081</u>
Total net position	<u>\$40,732,010</u>	<u>\$40,489,187</u>

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30,	
	<u>2013</u>	<u>2012</u>
Interest income:		
Loans receivable	\$ 1,702,771	\$ 1,764,043
Investments held by bond trustees	76,068	120,282
Interest-bearing deposits	<u>15,666</u>	<u>22,304</u>
Total interest income	1,794,505	1,906,629
Interest expense on borrowings <i>(Notes 9 and 10)</i>	<u>364,452</u>	<u>444,377</u>
Net interest income	1,430,053	1,462,252
Reversal of loan losses <i>(Note 4)</i>	<u>279,641</u>	<u>---</u>
Net interest income after reversal of loan losses	1,709,694	1,462,252
Other income:		
Rental income	917,351	858,088
Sundry <i>(Note 7)</i>	<u>548,940</u>	<u>660,760</u>
	<u>3,175,985</u>	<u>2,981,100</u>
Other expenses:		
Salaries <i>(Note 12)</i>	1,288,134	1,187,768
Retirement and Medicare contributions <i>(Notes 11 and 12)</i>	391,635	360,050
First-time Homeowner Assistance Program <i>(Note 3)</i>	357,106	107,513
Retiree supplemental and health benefits <i>(Note 11)</i>	163,917	167,596
Professional services <i>(Note 12)</i>	159,720	92,629
Depreciation and amortization <i>(Note 7)</i>	149,711	141,172
Rent <i>(Note 12)</i>	120,032	115,119
Contractual services	104,132	97,169
Employee benefits, other than retirement	59,018	55,272
Other	46,624	55,311
Maintenance	42,588	48,205
Bad debts	33,893	35,041
Bond trustee fees	14,602	14,398
Director fees	<u>2,050</u>	<u>2,650</u>
Total other expenses	<u>2,933,162</u>	<u>2,479,893</u>
Change in net position	242,823	501,207
Net position at beginning of year	<u>40,489,187</u>	<u>39,987,980</u>
Net position at end of year	<u>\$40,732,010</u>	<u>\$40,489,187</u>

See accompanying notes.

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

Statements of Cash Flows

	Year ended September 30,	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Receipts received from customers	\$1,446,800	\$2,740,587
Payments to suppliers	(322,644)	(563,077)
Payments to employees	(1,862,725)	(1,758,189)
Other operating receipts	<u>1,055,267</u>	<u>90,505</u>
Net cash provided by operating activities	<u>316,698</u>	<u>509,826</u>
Cash flows from investing activities:		
Decrease in investments	336,954	316,352
Interest received on cash and investments with trustees	76,068	120,282
Improvements in foreclosed assets held for resale	<u>(5,585)</u>	<u>---</u>
Net cash provided by investing activities	<u>407,437</u>	<u>436,634</u>
Cash flows from noncapital financing activities:		
Repayment of bonds payable	(145,000)	(140,000)
Repayment of notes payable	(1,147,820)	(1,075,881)
Increase (decrease) of rebate liability	1,872	(11,919)
Interest paid on bonds payable	(257,671)	(264,967)
Interest paid on notes payable	(113,519)	(185,738)
(Increase) decrease in self-insurance fund	<u>(85,358)</u>	<u>663,122</u>
Net cash used in noncapital financing activities	<u>(1,747,496)</u>	<u>(1,015,383)</u>
Cash flows from capital and related financing activity - acquisition of capital assets	<u>(77,397)</u>	<u>(39,288)</u>
Net decrease in cash and cash equivalents	<u>(1,100,758)</u>	<u>(108,211)</u>
Cash and cash equivalents at beginning of year	<u>6,659,258</u>	<u>6,767,469</u>
Cash and cash equivalents at end of year	<u>\$5,558,500</u>	<u>\$6,659,258</u>
Consisting of:		
Unrestricted	\$3,417,784	\$4,329,823
Restricted	<u>2,140,716</u>	<u>2,329,435</u>
	<u>\$5,558,500</u>	<u>\$6,659,258</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>2013</u>	<u>2012</u>
Reconciliation of change in net position to net cash provided by operating activities:		
Change in net position	\$ 242,823	\$ 501,207
Interest expense on borrowings	364,452	444,377
Nonexchange transfer of property	(497,500)	(601,000)
Interest income on investments held by bond trustees	(76,068)	(120,282)
	33,707	224,302
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	149,711	141,172
Bad debts	33,893	35,041
Reversal of loan losses	(279,641)	---
(Increase) decrease in assets:		
Loans receivable, net	(681,178)	242,665
Tenants receivable, net	(33,760)	(21,837)
Other receivables	25,388	41,693
Accrued interest receivable	11,893	(5,193)
Prepaid expenses and other assets	70,984	(104,756)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	1,065,181	(49,888)
Accrued compensated absences	42,029	15,147
Unearned revenue	(8,732)	3,864
Security deposits	2,448	8,441
Deposits by borrowers - insurance premiums and real estate taxes	(35,740)	6,631
Loans held in trust	(79,485)	(27,456)
Net cash provided by operating activities	<u>\$ 316,698</u>	<u>\$509,826</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest expense during the year	<u>\$ 371,190</u>	<u>\$450,705</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, loans and accrued interest receivable with carrying amount of \$144,806 were converted to foreclosed assets held for resale.

In 2012, in accordance with P.L. 31-215, ten (10) abandoned properties located within the Sagan Lintahyan Subdivision in Dededo were transferred from the DLM to the Corporation for purpose of providing affordable rental housing. The fair value of the aforementioned land and its improvements totaled \$601,000.

In 2013, the fair value of the ten (10) properties located within the Sagan Lintahyan Subdivision in Dededo increased by \$497,500 due to renovations paid by GHURA and was recorded as an addition to Capital assets.

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

Notes to Financial Statements

Years ended September 30, 2013 and 2012

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, Guma As-Atdas and Sagan Lintahyan. 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 Position

Net position represents the residual of all other elements presented in the statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net position is presented in three components: net investment in capital assets, net of related debt, restricted and 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

Net Position, continued

Net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Cash and Cash Equivalents

For purposes of the statements of net position 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. During the October 2012 regular meeting of the Board of Directors, the current interest rate for the Regular Loan Program was changed to 6.49%. 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.

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

Loans Receivable, continued

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) and reversal of allowance. 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.

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.

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

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 position.

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 capital assets 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 capital assets in excess of \$5,000 with a useful life exceeding one year. Major renewals and betterments are charged to the capital assets, 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.

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.

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

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.

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.

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

Estimates, continued

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.

Recently Adopted Accounting Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflow of resources. Deferred outflows is defined as the consumption of net assets by the government that is applicable to a future reporting period and deferred inflows is defined as the acquisition of net assets by the government that is applicable to a future reporting period. GASB Statement No. 63 also amends the net asset reporting requirement by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for the periods beginning after December 15, 2011. The Corporation's adoption of GASB Statement No. 63 in 2013 resulted in a change in the presentation of the balance sheets to what is now referred to as the statements of net position and the term "net assets" was changed to "net position" throughout the 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

Upcoming Accounting Pronouncements

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.

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.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

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

Upcoming Accounting Pronouncements, continued

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date, an amendment of GASB Statement No. 68*. The provisions of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

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

Subsequent Events

The Corporation has evaluated subsequent events through February 14, 2014, 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, 2013 and 2012, \$250,000 of the Corporation's deposits in each bank is covered by federal depository insurance, with the remainder being uninsured and uncollateralized.

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

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

Notes to Financial Statements, continued

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

Cash and cash equivalents, self insurance fund, and investments at September 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Cash on hand and due from banks	\$ 4,770,228	\$ 5,819,068
Certificates of deposits	2,110,085	1,893,934
Money market funds	<u>4,141,855</u>	<u>4,661,520</u>
	<u>\$11,022,168</u>	<u>\$12,374,522</u>

Additionally, certain of the above cash and cash equivalents, and investments at September 30, 2013 and 2012 are restricted as follows:

	<u>2013</u>	<u>2012</u>
Restricted Cash and Cash Equivalents:		
First-time Homeowner Assistance Program (FTHAP)	\$1,021,080	\$ 391,931
Revolving Loan Fund	422,613	1,103,584
Trust fund and borrower's deposits	398,079	434,102
Hazard Mitigation Program	146,465	142,430
Tenant security deposits	84,669	75,700
Community Affordable Housing Action Trust (CAHAT)	<u>67,810</u>	<u>181,688</u>
Total restricted cash and cash equivalents	<u>2,140,716</u>	<u>2,329,435</u>
Restricted Investments:		
Investments and cash with Bond Trustees	4,073,777	4,410,810
Foreclosure Protection Fund	<u>500,247</u>	<u>500,168</u>
Total restricted investments	<u>4,574,024</u>	<u>4,910,978</u>
Total restricted cash, cash equivalents and investments	<u>\$6,714,740</u>	<u>\$7,240,413</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, FTHAP and the CAHAT, respectively, the Mortgage Revenue Bonds and self-imposed restrictions on tenant security deposits for the Corporation's rental units.

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

Notes to Financial Statements, continued

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

In accordance with Public Law 31-227 signed into law on June 15, 2012, the Corporation established the FTHAP, which provides assistance of 4% of eligible loans up to \$250,000 based on program eligibility requirements. The Corporation financed the initial \$500,000 to fund the FTHAP.

In June 2013, the GovGuam, through the Department of Administration, transferred funds totaling \$1,228,771 to be administered by the Corporation for the FTHAP. The pass-through fund, which is recorded as a liability upon receipt, is reduced by the amount paid to qualifying applicants. As of September 30, 2013, the remaining balance of the fund amounted to \$985,713 and is reported as a component of restricted cash and restricted accounts payable in the accompanying 2013 statement of net position.

At September 30, 2013 and 2012, total funds available for the FTHAP amounted to \$1,021,080 and \$391,931, respectively, and are reported as a component of restricted cash and cash equivalents in the accompanying statements of net position. For the years ended September 30, 2013 and 2012, the Corporation provided assistance related to the program totaling \$357,106 and \$107,513, respectively, and is reflected as First-time Homeowner Assistance Program in the accompanying statements of revenues, expenses and changes in net position.

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, 2013 and 2012, investments and cash held by the trustees, in trust for the Corporation, in these funds and accounts are as follows:

	<u>2013</u>	<u>2012</u>
Revenue Fund	\$4,073,520	\$4,410,553
Capitalized Interest Fund	<u>257</u>	<u>257</u>
	<u>\$4,073,777</u>	<u>\$4,410,810</u>

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

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

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)*, in effect, eliminates 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.

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 by 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, 2013 and 2012, the Corporation's investments in the Federal Home Loan Mortgage Corporation represented 47%, and the Blackrock Liquidity T-Funds represented 42% of its total investments.

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

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, 2013 and 2012.

The Corporation's bond trustees hold the Corporation's restricted investments and cash at September 30, 2013 and 2012. Investments are stated at fair market value. The amortized cost and fair value of restricted investments at September 30, 2013 and 2012 are summarized as follows:

	2013		
	Amortized Cost	Gross Unrealized Gains	Fair Value
Collateralized mortgage obligation	\$1,967,992	\$175,766	\$2,143,758
Short-term investments	1,930,019	---	1,930,019
Certificate of deposit	<u>500,247</u>	<u>---</u>	<u>500,247</u>
	<u>\$4,398,258</u>	<u>\$175,766</u>	<u>\$4,574,024</u>
	2012		
	Amortized Cost	Gross Unrealized Gains	Fair Value
Collateralized mortgage obligation	\$2,117,084	\$213,267	\$2,330,351
Short-term investments	2,080,459	---	2,080,459
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>

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.

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

At September 30, 2013 and 2012, the Corporation's investment in debt securities is as follows:

	Moody's Credit Rating	2013				Total
		Investment Maturities (In Years)				
		Less than 1	1 to 5	6 to 10	Greater than 10	
Certificate of deposit	A2/B2	\$ 500,247	---	---	---	\$ 500,247
Federal Home Loan Mortgage Corporation	Aaa	---	---	---	2,143,758	2,143,758
Blackrock Liquidity T-Fund	Aaa	<u>1,930,019</u>	---	---	---	<u>1,930,019</u>
		<u>\$2,430,266</u>	---	---	<u>2,143,758</u>	<u>\$4,574,024</u>

	Moody's Credit Rating	2012				Total
		Investment Maturities (In Years)				
		Less than 1	1 to 5	6 to 10	Greater than 10	
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>2,080,459</u>
		<u>\$2,580,627</u>	---	---	<u>2,330,351</u>	<u>\$4,910,978</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, 2013 and 2012, the restricted investments for this fund totaled \$500,247 and \$500,168, respectively.

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

Notes to Financial Statements, continued

4. Loans Receivable

At September 30, 2013 and 2012, loans receivable, collateralized by first mortgages on real estate, are as follows:

	<u>2013</u>	<u>2012</u>
Unrestricted	\$23,138,085	\$21,411,464
Restricted	<u>6,175,793</u>	<u>7,244,507</u>
	29,313,878	28,655,971
Less: Deferred loan origination fees, net	(362,605)	(356,191)
Allowance for loan and lease losses	<u>(629,988)</u>	<u>(939,314)</u>
	<u>\$28,321,285</u>	<u>\$27,360,466</u>

Movements in the allowance for loan and lease losses for the years ended September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$939,314	\$959,239
Provision	29,685	---
Reversal of allowance during the year	(309,326)	---
Write-off during the year	<u>(29,685)</u>	<u>(19,925)</u>
Balance at end of year	<u>\$629,988</u>	<u>\$939,314</u>

The restricted portion of the total loans outstanding is assigned as collateral on notes payable to Federal Home Loan Bank of Seattle (FHLB) (see Note 10). Loans to employees totaled \$546,551 and \$565,694 at September 30, 2013 and 2012, respectively. These loans meet the same criteria as all real estate loans made to non-related individuals by the Corporation. At September 30, 2013 and 2012, loans and other receivables in arrears three months or more or held with the attorney for collection totaled \$2,404,720 and \$1,777,479, 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.

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

Notes to Financial Statements, continued

5. Other Receivables, continued

As of September 30, 2013 and 2012, other receivables due from borrowers for the aforementioned loans consisted of the following:

	<u>2013</u>	<u>2012</u>
CAHAT	\$1,890,615	\$1,811,825
DPCCA	280,351	358,735
Hazard Mitigation Program	<u>14,551</u>	<u>17,628</u>
	2,185,517	2,188,188
Other receivables	<u>142</u>	<u>22,859</u>
	<u>\$2,185,659</u>	<u>\$2,211,047</u>

The Corporation recorded a corresponding liability on the DPCCA Program totaling \$290,693 and \$370,178 as of September 30, 2013 and 2012, respectively, which is reported as loans held in trust in the accompanying statements of net position.

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.

6. Tenants Receivable

At September 30, 2013 and 2012, tenants receivable, net is summarized as follows:

	<u>2013</u>	<u>2012</u>
Tenant accounts	\$ 79,150	\$77,746
Other	<u>971</u>	<u>---</u>
	80,121	77,746
Allowance for doubtful accounts	<u>(39,924)</u>	<u>(37,416)</u>
	<u>\$ 40,197</u>	<u>\$40,330</u>

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

Notes to Financial Statements, continued

7. Capital Assets

A summary of changes in net capital assets, consisting of property and equipment for the year ended September 30, 2013 is as follows:

	2013			
	Beginning Balance October 1, <u>2012</u>	Transfers and <u>Additions</u>	Transfers and <u>Disposals</u>	Ending Balance September 30, <u>2013</u>
Capital assets depreciated and amortized:				
Buildings and improvements	\$6,104,984	\$564,176	\$(679)	\$6,668,481
Office furniture and equipment	298,296	11,400	---	309,696
Vehicles	135,141	---	---	135,141
Land improvements	58,349	---	---	58,349
Leasehold improvements	<u>29,445</u>	<u>---</u>	<u>---</u>	<u>29,445</u>
Total capital assets depreciated and amortized	6,626,215	575,576	(679)	7,201,112
Less accumulated depreciation and amortization	<u>(3,289,396)</u>	<u>(149,711)</u>	<u>---</u>	<u>(3,439,107)</u>
Net capital assets depreciated and amortized	3,336,819	425,865	(679)	3,762,005
Capital asset not depreciated and amortized - land	<u>2,934,227</u>	<u>---</u>	<u>---</u>	<u>2,934,227</u>
	<u>\$6,271,046</u>	<u>\$425,865</u>	<u>\$(679)</u>	<u>\$6,696,232</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 GovGuam, to the Corporation for purposes of rehabilitating the lots to provide affordable rental housing. The Corporation accounted for the assets transferred in accordance with 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

At September 30, 2012, 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 position and statement of revenues, expenses and changes in net position, 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. Upon completion of GHURA's renovation in 2013, the appraised value of the 10 rehabilitated house lots increased by \$497,500 and is recorded as a component of capital assets, net and sundry income in the accompanying 2013 statement of net position and statement of revenues, expenses and changes in net position, respectively.

A summary of changes in capital assets, consisting of property and equipment for the year ended September 30, 2012 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>

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, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Foreclosed assets held for resale at beginning of year	\$394,364	\$247,691
Other costs and adjustments	5,585	1,867
Foreclosures made during the year	<u>---</u>	<u>144,806</u>
	<u>\$399,949</u>	<u>\$394,364</u>

At September 30, 2013 and 2012, foreclosed assets held for resale represent five residential units acquired by the Corporation due to the borrowers' default on their mortgages.

9. Mortgage Revenue Bonds Payable

Revenue bonds payable at September 30, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2018. Semi-annual principal installments totaling from \$74,931 to \$95,420	\$ 850,000	\$ 850,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2021. Semi-annual principal installments totaling from \$108,434 to \$119,510	685,000	685,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2031. Semi-annual principal installments totaling from \$114,064 to \$194,201	3,030,000	3,030,000
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 matured on September 1, 2013. Semi-annual principal installments totaling from \$65,000 to \$75,000	<u>---</u>	<u>145,000</u>
	<u>\$4,565,000</u>	<u>\$4,710,000</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, 2013 and 2012, the accrued interest expense on the above bonds totaled \$20,991 and \$21,626, respectively, which is reported as a component of accrued interest payable in the accompanying statements of net position. For the years ended September 30, 2013 and 2012, interest expense, net of amortized bond premium incurred on the aforementioned bonds totaled \$257,036 and \$264,361, respectively, which is reported as a component of interest expense on borrowings in the accompanying statements of revenues, expenses and changes in net position.

Accrued interest income earned on the bonds totaled \$9,266 and \$9,968 as of September 30, 2013 and 2012, respectively, which is reported as a component of accrued interest receivable in the accompanying statements of net position.

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, 2013 and 2012, the rebate liability totaled \$67,438 and \$65,566, respectively, as reported in the accompanying statements of net position. 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, 2013.

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>
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	188,499	214,015	402,514
2019 to 2023	1,161,143	908,342	2,069,485
2024 to 2028	1,457,091	555,552	2,012,643
2029 to 2031	<u>1,096,766</u>	<u>112,876</u>	<u>1,209,642</u>
	<u>\$4,565,000</u>	<u>\$2,738,922</u>	<u>\$7,303,922</u>

10. Notes Payable

At September 30, 2013 and 2012, the Corporation has notes payable to FHLB totaling \$1,119,469 and \$2,267,289, 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, 2013 and 2012, accrued interest payable on this note totaled \$6,024 and \$12,127, respectively, and is reported as a component of accrued interest payable in the accompanying statements of net position. For the years ended September 30, 2013 and 2012, interest expense incurred on the aforementioned notes totaled \$107,416 and \$180,016, respectively, and is reported as a component of interest expense on borrowings in the accompanying statements of revenues, expenses and changes in net position.

Under the note agreements with FHLB, the borrowings are collateralized by proceeds received from mortgage loans made by the Corporation. As of September 30, 2013 and 2012, the Corporation has pledged loans totaling \$6,175,793 and \$7,244,507, respectively, as security to the aforementioned borrowings.

Guam Housing Corporation
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Notes to Financial Statements, continued

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.

Statutory contribution rates for employer and employee contributions were 30.09% and 9.50%, respectively, for the year ended September 30, 2013, 28.30% and 9.50%, respectively, for the year ended September 30, 2012, and 27.46% and 9.50%, respectively, for the year ended September 30, 2011. Actuarial contribution rate was 30.76%, 30.09% and 28.06% for the years ended September 30, 2013, 2012 and 2011, respectively.

During the years ended September 30, 2013, 2012 and 2011, contributions made, which were equal to the required contribution for those years, amounted to \$85,894, \$77,561 and \$71,312, respectively.

Guam Housing Corporation
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Notes to Financial Statements, continued

11. Employee Benefits and Others, continued

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, 2013 and 2012 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, 2013, 2012 and 2011 contributions made under the DCRS amounted to \$280,006, \$250,786 and \$221,786, 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, 2013 and 2012, the Corporation has accrued an estimated liability of \$185,866 and \$166,093, respectively, which is reported as a component of accrued compensated absences in the accompanying statements of net position. However, this amount is an estimate and actual payout could differ from the estimate.

Other Post-Employment Benefits

The 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, the GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The GovGuam shares in the cost of these plans, with the 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, the GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare.

Guam Housing Corporation
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Notes to Financial Statements, continued

11. Employee Benefits and Other, continued

Other Post-Employment Benefits, continued

For the life insurance plan, the 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 the 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.

During the years ended September 30, 2013, 2012 and 2011, the Corporation's required contributions to this Plan totaled approximately \$121,439, \$126,018 and \$147,806, respectively.

12. Commitments and Contingencies

Commitments

As of September 30, 2013, the Corporation has loan commitments totaling \$618,940.

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. Beginning August 2013, GEDA no longer provided support services to the Corporation. For the years ended September 30, 2013 and 2012, the service fee on the aforementioned agreement totaled \$17,618 and 21,696, respectively, which is reported as a component of professional services in the accompanying statements of revenues, expenses and changes in net position.

The Corporation leases office space from GEDA under an operating lease which expires on February 28, 2014. For the years ended September 30, 2013 and 2012, rental expense totaling \$114,472 and \$112,809, 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 position.

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. In 2013, the case was partially settled and the Corporation paid merit bonuses to the resigned classified employees totaling \$32,365 which is reported as a component of salaries and retirement and medicare contributions in the accompanying 2013 statement of revenues, expenses and changes in net position.

Guam Housing Corporation
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Notes to Financial Statements, continued

12. Commitments and Contingencies, continued

Litigation, continued

The Corporation has claims under legal procedures for approximately \$1.7 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.

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, 2013 and 2012, the self-insurance fund totaled \$889,644 and \$804,286, respectively, as reported in the accompanying statements of net position.

Supplementary Information

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

Schedule of Funding Progress and Actuarial Accrued Liability – Post
Employment Benefits Other than Pension (Unaudited)

The Government of Guam (GovGuam) maintains a cost-sharing multiple employer defined benefit plan to provide certain other post-retirement healthcare benefits (OPEB) to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The Guam Housing Corporation is a participating employer of the Plan.

The Schedule of Funding Progress presents OPEB valuations as of fiscal years ended September 30, 2011, 2009, and 2007 for GovGuam’s Post Employment Benefits other than Pensions. The schedule provides, as a whole for the GovGuam, information trends about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
October 1, 2007	\$ ---	\$1,635,223,000	\$1,635,223,000	0.0%	\$466,346,000	350.6%
October 1, 2009	\$ ---	\$1,852,558,000	\$1,852,558,000	0.0%	\$466,346,000	397.2%
October 1, 2011	\$ ---	\$2,088,331,000	\$2,088,331,000	0.0%	\$466,346,000	447.8%

The aforementioned actuarial accrued liability presents GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, results of the OPEB valuation as a whole for the GovGuam. The actuarial accrued liability, as of September 30, 2011, attributed to the Guam Housing Corporation, totals \$3,190,000.

Guam Housing Corporation
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Combining Statement of Net Position

September 30, 2013

	<u>Housing</u>	<u>Rental</u>	<u>Combined Total</u>
Assets			
Unrestricted assets:			
Cash and cash equivalents	\$ 1,980,656	\$ 1,437,128	\$ 3,417,784
Self-insurance fund	---	889,644	889,644
Loans receivable, net	22,145,492	---	22,145,492
Tenants receivable, net	---	40,197	40,197
Other receivables	142	---	142
Accrued interest receivable	76,499	1,050	77,549
Prepaid expenses and other	3,434	79,190	82,624
Foreclosed assets held for resale	399,949	---	399,949
Interdivision	(750,000)	750,000	---
Total unrestricted assets	<u>23,856,172</u>	<u>3,197,209</u>	<u>27,053,381</u>
Restricted assets:			
Cash and cash equivalents	2,056,047	84,669	2,140,716
Investments	4,574,024	---	4,574,024
Loans receivable, net	6,175,793	---	6,175,793
Other receivables	2,185,517	---	2,185,517
Total restricted assets	<u>14,991,381</u>	<u>84,669</u>	<u>15,076,050</u>
Capital assets, net	<u>---</u>	<u>6,696,232</u>	<u>6,696,232</u>
Total assets	<u>38,847,553</u>	<u>9,978,110</u>	<u>48,825,663</u>

Guam Housing Corporation
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Combining Statement of Net Position, continued

September 30, 2013

	<u>Housing</u>	<u>Rental</u>	<u>Combined Total</u>
Liabilities			
Payable from unrestricted assets:			
Accounts payable and accrued expenses	76,154	118,334	194,488
Accrued compensated absences	158,891	143,267	302,158
Unearned revenue	<u>40,957</u>	<u>1,752</u>	<u>42,709</u>
Total payable from unrestricted assets	<u>276,002</u>	<u>263,353</u>	<u>539,355</u>
Payable from restricted assets:			
Accounts payable	985,713	---	985,713
Bonds payable	4,565,000	---	4,565,000
Notes payable	1,119,469	---	1,119,469
Accrued interest payable	27,015	---	27,015
Security deposits	900	60,813	61,713
Deposits by borrowers - insurance premiums and real estate taxes	437,257	---	437,257
Loans held in trust	290,693	---	290,693
Rebate liability	<u>67,438</u>	<u>---</u>	<u>67,438</u>
Total payable from restricted assets	<u>7,493,485</u>	<u>60,813</u>	<u>7,554,298</u>
Total liabilities	<u>7,769,487</u>	<u>324,166</u>	<u>8,093,653</u>
Net position			
Invested in capital assets, net of related debt	---	6,696,232	6,696,232
Restricted	7,497,896	23,856	7,521,752
Unrestricted	<u>23,580,170</u>	<u>2,933,856</u>	<u>26,514,026</u>
Total net position	<u>\$ 31,078,066</u>	<u>\$ 9,653,944</u>	<u>\$ 40,732,010</u>

Guam Housing Corporation
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Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2013

	<u>Housing</u>	<u>Rental</u>	<u>Combined Total</u>
Interest income:			
Loans receivable	\$ 1,702,771	\$ ---	\$ 1,702,771
Investments held by bond trustees	76,068	---	76,068
Interest-bearing deposits	<u>9,697</u>	<u>5,969</u>	<u>15,666</u>
Total interest income	1,788,536	5,969	1,794,505
Interest expense on borrowings	<u>364,452</u>	<u>---</u>	<u>364,452</u>
Net interest income	1,424,084	5,969	1,430,053
Reversal of loan losses	<u>279,641</u>	<u>---</u>	<u>279,641</u>
Net interest income after reversal of loan losses	1,703,725	5,969	1,709,694
Other income:			
Rental income	7,530	909,821	917,351
Sundry	<u>40,700</u>	<u>508,240</u>	<u>548,940</u>
	<u>1,751,955</u>	<u>1,424,030</u>	<u>3,175,985</u>
Other expenses:			
Salaries	773,906	514,228	1,288,134
Retirement and Medicare contributions	232,982	158,653	391,635
First-time Homeowner Assistance Program	357,106	---	357,106
Retiree supplemental and health benefits	102,799	61,118	163,917
Professional services	58,826	100,894	159,720
Depreciation and amortization	4,531	145,180	149,711
Rent	120,032	---	120,032
Contractual services	45,751	58,381	104,132
Employee benefits, other than retirement	33,671	25,347	59,018
Other	23,031	23,593	46,624
Maintenance	---	42,588	42,588
Bad debts	---	33,893	33,893
Bond trustee fees	14,602	---	14,602
Director fees	<u>2,050</u>	<u>---</u>	<u>2,050</u>
Total other expenses	<u>1,769,287</u>	<u>1,163,875</u>	<u>2,933,162</u>
Change in net position	(17,332)	260,155	242,823
Net position at beginning of year	<u>31,095,398</u>	<u>9,393,789</u>	<u>40,489,187</u>
Net position at end of year	<u>\$ 31,078,066</u>	<u>\$ 9,653,944</u>	<u>\$ 40,732,010</u>

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

Salaries, Wages and Benefits

Years ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries, wages and benefits:		
Salaries	\$ 1,288,134	\$ 1,187,768
Retirement and Medicare contributions	391,635	360,050
Retiree supplemental and health benefits	163,917	167,596
Benefits other than retirement	<u>59,018</u>	<u>55,272</u>
Total salaries, wages and benefits	<u>\$ 1,902,704</u>	<u>\$ 1,770,686</u>
Employees at end of year	25	26

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

First-time Homeowner Assistance Program

Years ended September 30, 2013 and 2012

<u>Source of Fund</u>	2013			
	<u>Number of Grantees</u>	<u>Total Fund Allocated</u>	<u>Total Amount Disbursed</u>	<u>Balance at September 30, 2013</u>
Guam Housing Corporation	50	\$ 392,487	\$357,106	\$ 35,381
Department of Administration	34	1,228,771	243,058	985,713
Total	84	\$1,621,258	\$600,164	\$1,021,094

<u>Source of Fund</u>	2012			
	<u>Number of Grantees</u>	<u>Total Fund Allocated</u>	<u>Total Amount Disbursed</u>	<u>Balance at September 30, 2012</u>
Guam Housing Corporation	15	\$500,000	\$107,513	\$392,487



Guam Housing Corporation FY 2013 Financial Highlights

February 20, 2014

The Guam Housing Corporation (GHC) ended fiscal year (FY) 2013 with an increase in net position (net income) of \$243 thousand (K) compared to \$501K in FY 2012. GHC received an unqualified (clean) opinion from independent auditors, Ernst & Young LLP. No material weaknesses and significant deficiencies were identified in the Report on Internal Control over Financial Reporting and Compliance, which GHC management is to be applauded for. However, the Management Letter noted four deficiencies relative to allowance for loan losses, annual leave, the First-Time Homeowner Assistance Program (FTHAP), and lease agreements.

Revenues Increased by \$195K

GHC's revenues increased by \$195K (going from \$3 million (M) in FY 2012 to \$3.2M in FY 2013) due to reversal of loan losses and offset by rental income. In FY 2013, the allowance for loan losses was reduced to 2% from 3% of the total loan portfolio, which resulted to an adjustment of \$280K. Rental income increased by \$59K from \$858K in FY 2012 to \$917K in FY 2013 due to the rental of Sagan Linahyan units and the increase in rates for the Lada Garden's rental units. Although GHC revenues increased, there was an overall decrease in interest income of \$32K due to the payoffs of loans with higher interest rates.

Expenditures Increased by \$453K

GHC's total operating expenses increased by \$453K from \$2.5M in 2012 to \$2.9M in 2013. The two largest increases in GHC's operating expense is the FTHAP and professional services. FTHAP expense increased by \$250K from \$107K in FY 2012 to \$357K in FY 2013 due to Public Law (P.L.) 31-166, which offers grants to first-time homeowners up to \$10K to be used for down-payment assistance or closing cost. In FY 2013, 50 first-time homeowners received an average of \$7K, which is slightly larger from FY 2012 with 15 grantees. Professional services increased by \$67K or 72% from \$93K in FY 2012 to \$160K in FY 2013. GHC partnered with the Guam Housing and Urban Renewal Authority to conduct a Housing Study to see if it is feasible to build more apartment or housing units at the As Atdas site. As of September 2013, \$83K was expended. Further, Salaries and Retirement Contributions increased due to increments and \$32K in merit bonuses paid to resigned classified employees who received superior performance rating pursuant to the Uniform Position Classification and Salary Administration Act of 1991.

GHC's Loan Portfolio Increased

GHC's loan portfolio, which includes loans from the Direct Loan Program, Revolving Loan Program, and Community Affordable Housing Action Trust (CAHAT) Program, increased by \$655K, going from \$30.8M in FY 2012 to \$31.5M in FY 2013. There were 18 loans originated totaling \$2.4M in FY 2013 similar to the 18 loans originated of \$2.5M in FY 2012. In October 2012, the Board of Directors decided to change the Direct Loan Program interest rate from the prevailing rate to 6.49% based on its cost of funds. Due to the lack of funds available for loans under the Direct Loan Program and what is considered a high interest rate at this time, only six loans totaling \$1.1M were originated under this program in FY 2013. Seven loans were originated

totaling \$1.1M under the Revolving Loan Program. Under the CAHAT Program, five loans were originated totaling \$199K. Additionally, GHC had 26 loan payoffs amounting to \$976K in FY 2013 in comparison to 27 loan payoffs totaling \$1.3M in FY 2012, which is a \$302K decrease. The payoffs is attributed to borrowers refinancing their mortgage at lower interest rates and delinquent accounts who sought financing through other lenders.

Delinquency Rate and Foreclosures

GHC experienced 62 delinquent loans with a principal balance of \$4.5M in FY 2013, an increase of one loan, but a \$157K decrease in the total delinquent principal balance over the previous year. Accordingly, GHC has an overall delinquency rate of 14% in FY 2013, which decreased from 15% in FY 2012. However, 14% is still considered high in the industry. Several borrowers have requested for a payment plan to cure their delinquency due to medical treatment and loss of income. In FY 2013, GHC had no foreclosures. This resulted from GHC's efforts with legal counsel to effectively address serious delinquencies and work with the borrower to avoid foreclosure. Foreclosed assets held for resale remains at five properties totaling \$400K. With the assistance of a realtor, GHC did not sell any foreclosed properties as it would have resulted into a substantial loss. Thus, no properties were sold in FY 2013.

Compliance Report and Management Letter

No material weaknesses or significant deficiencies were identified in the Report on Internal Control over Financial Reporting and Compliance. However, a Management Letter identified four deficiencies in internal control relative to the allowance for loan losses policy, the annual leave accrual process, consistent application of FTHAP requirements, and lease agreements. No documentation was found to support GHC's allowance for loan losses of no less than 2% of the gross loan portfolio. Certain annual leave hours taken were not recorded and the employees' annual leave balances were not updated. Based on P.L. 31-166 requirements, documentation, such as evidence of ownership, construction plans, and Affidavit or Certificate of Occupancy, were not found before the FTHAP assistance was granted to the applicant. Lease agreements with rental escalations were not documented in the tenants' files and not acknowledged by the tenants in writing.

Government Accounting Statements

The Government Accounting Standards Board (GASB) has issued several statements to be implemented in the next few years. GASB Statement Nos. 67 and 68 related to the *Financial Reporting for Pensions* will result in significant statements as GHC will be required to report its pro rata share of the Government of Guam's (GovGuam) unfunded pension liability, which as of FY 2012 is \$1.5 billion (B). Adoption of GASB 67 and 68 will come in FY 2015.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires GHC to present supplementary information on post-employment benefits (OPEB) unlike the pension liability which will be recorded on the financial statements. As of FY 2011, GHC's pro rata share of GovGuam's OPEB actuarial accrued liability of \$2.1B is \$3.2M.

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.