

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

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September 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Guam Housing Corporation:

I have audited the accompanying statements of net assets of Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of September 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Housing Corporation as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the Corporation restated its 2008 financial statements to reflect the effects of the redesignation of the Government of Guam Defined Benefit Plan from a single-employer plan to a cost-sharing multiple-employer plan, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Guam Housing Corporation's management. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental divisional information on pages 56 through 69 for the years ended September 30, 2009 and 2008 and the supplementary salary, wage and benefit information on page 70, are presented for purposes of additional analysis rather than to present the financial position and changes in net assets of the individual divisions. This additional information is the responsibility of Corporation's management. Such information has been subjected to the tests and auditing procedures applied in my audit of the basic financial statements the Guam Housing Corporation for the year ended September 30, 2009. In my opinion, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 17, 2010, on my consideration of Guam Housing Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

J. Scott Magliari & Company

Hagåtña, Guam
February 17, 2010

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
September 30, 2009

As Management of the Guam Housing 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, 2009. We encourage the readers to consider the information presented even as you review the financial statistics presented on the following pages.

FORWARD

Guam Housing Corporation (GHC) continues to make measured progress. With capital currently available for lending, GHC is moving forward with its own programs as well as programs in cooperation with the United States Department of Agriculture (USDA) Rural Development and the Land Trust Initiative. GHC continues to face its usual concerns of a turbulent economy, however it should be noted that there has been a significant improvement in loan origination.

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 more working class families. GHC's clientele is diverse and includes teachers, firemen, police officers, office managers, office workers, and hotel and restaurant employees. They walk through 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.

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

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

Our island is on the eve of a build-up of military forces which will bring economic stimulus as well as inflationary pressures on the cost of living. With the anticipated growth in population, the demand for both temporary and permanent housing will increase thereby causing an increase in real estate prices. The current inventory of housing units is insufficient to meet the needs of our people. It is imperative that we as a government entity continue to work to address the housing needs of our island residents. GHC under its mandate is geared to accomplish this mission.

GUAM HOUSING CORPORATION
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September 30, 2009

Brief overview of Guam Housing Corporation, Rental Division

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

Major repairs and renovations for the Guma As-Atdas buildings (A) and (B) were budgeted for FY 2008, 2009 & 2010. Building (B) consisting of twelve apartments was renovated first. The renovations of Building (B) were completed in April 2009 and tenants moved into the apartments since May 2009. The Board of Directors approved an increase in rent for the newly renovated apartments to increase revenues that were lost during the renovation period. The new rates established were \$500.00 for a two bedroom unit and \$600.00 for a three bedroom unit. A scope of work for major repairs and renovations for building (A) was completed and the bid package was reviewed by Government of Guam's Department of Public Works in the latter part of FY 2009. As a result of the vacancies, the rental income declined in FY 2008 and 2009.

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

Lada Estates Affordable Housing

Through Public Law 20-225, forty six (46) acres of land were transferred to the Corporation from the Government of Guam with the mandate to develop affordable housing units for sale to first-time home buyers. Lada Estates, as it became known, was intended as a two-phase turnkey project. Subsequent economic conditions prevented the completion of the project. In 2004, Maeda Pacific Corporation brought suit against the Guam Housing Corporation. As of September 30, 2009, the issue of Lada Estates remains unresolved.

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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) basic financial statements and 2) notes to the financial statements.

BASIC FINANCIAL STATEMENTS

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

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

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

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

The basic 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 basic financial statements of the Corporation can be found on pages 19 through 23 of this report.

Note: Fiscal Year 2008 and 2007 were restated due to adjustments made to the unfunded liability and retirement expense. The adjustments were made because the Department of Administration redesignated the DP Plan from a single-employer plan to a cost sharing multiple-employer plan. For more details on the redesignation see Notes 11 & 14 in the accompanying financial statements.

GUAM HOUSING CORPORATION
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Management's Discussion and Analysis
September 30, 2009

Statement of Net Assets
Fiscal Year Ended September 30, 2009, 2008 & 2007

Assets	2009	(Restated) 2008	(Restated) 2007
Cash & Investments	\$21,255,9667	\$21,743,641	\$21,016,010
Loans receivable, other receivables, prepaid exp. & inventory	21,311,192	21,649,004	21,671,873
Land held for development	16,114,338	16,114,338	16,114,338
Foreclosed assets held for resale	641,246	292,379	1,124,925
Capital Assets	<u>5,835,274</u>	<u>5,729,086</u>	<u>5,824,682</u>
Total Assets	<u>\$65,158,017</u>	<u>\$65,528,448</u>	<u>\$65,751,828</u>
Liabilities			
Accounts payable & accrued expenses	\$11,102,446	\$11,136,728	\$11,166,861
Notes payable	5,296,866	6,182,868	7,013,341
Deposits by borrowers & security deposit	639,462	500,333	517,056
Bonds payable	5,105,000	5,215,000	5,320,000
Loans held in trust	619,977	678,586	720,489
Total Liabilities	<u>\$22,763,751</u>	<u>\$23,713,515</u>	<u>\$24,737,747</u>
Total net assets	<u>\$42,394,266</u>	<u>\$41,814,933</u>	<u>\$41,014,081</u>
Total Liabilities and Net Assets	<u>\$65,158,017</u>	<u>\$65,528,448</u>	<u>\$65,751,828</u>

Statement of Revenues, Expenditures and Changes in Net Assets
Fiscal Year Ended September 30, 2009, 2008 & 2007

	2009	(Restated) 2008	(Restated) 2007
Operating Revenues	\$ 2,810,465	\$ 2,815,660	\$ 2,981,538
Operating Expenses	<u>2,571,433</u>	<u>2,672,394</u>	<u>2,586,497</u>
Income from operations	239,032	143,266	395,041
Non-operating revenues	340,301	657,586	586,853
Increase in net assets	<u>579,333</u>	<u>800,852</u>	<u>981,894</u>
Total net assets at beginning of year	<u>41,814,933</u>	<u>41,014,081</u>	<u>40,032,187</u>
Total net assets at end of year	<u>\$ 42,394,266</u>	<u>\$ 41,814,933</u>	<u>\$ 41,014,081</u>

GUAM HOUSING CORPORATION
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Management's Discussion and Analysis
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FINANCIALS AT-A-GLANCE

As you read the financials, note that loans are characterized as either being of the "GHC Portfolio" or the "Other Portfolio". The distinction is made for the sake of understanding the source of the funding. The GHC Portfolio consists of loans originated with GHC funds from the Direct Loan Program and the Revolving Loan Program. The Other Portfolio comprises all other loans (i.e., Down Payment & 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 was reduced by \$278,120 to approximately \$24.7 million falling 1.11% from the prior year. Although new loans for FY 2009 totaled \$4.45 million, (an increase of \$2.37 million from the previous year) only \$3.52 million was disbursed due to the construction process. Additionally there was an increase in loans paid off and foreclosures and a decrease in delinquency which cause the reduction in the portfolio. The following chart shows the trend of GHC's decreasing portfolio. As evident in FY 2009 & the beginning of FY 2010 new loans have increased and we are confident the anticipated population increase will act as a catalyst in Guam's economic recovery which will in turn help GHC to build a stronger portfolio.

In light of recent proposed legislative attempts to transfer GHC's funds for purposes other than mortgage loans, GHC's management preferred to place funds totaling \$2.02 million for loans, under the Direct Loan Program, which were approved and certified, under restricted cash as of September 2009. The original transfer to restricted cash was done in order to ensure the availability of funds because commitment letters have been issued to the applicants. As of February 2010, loan disbursements have surpassed the designated restricted loan funds of \$2.02 million by an additional \$1.93 million. Loan disbursements under the Direct Loan Program total \$3.95 million as of February 2010. Correspondingly, the Corporation's total loan portfolio increased to \$27.7 million as of February 2010 and representing increased loan demand as anticipated. It should also be noted that for this same period GHC has an additional \$4.2 million in loan applications that are currently in process of which \$970,000 have already been pre-approved. Though management preferred to recognize these funds as restricted, GHC was advised by its Auditor and the Office of Public Accountability that GASB Statement No. 34 requires that restricted funds are reported on basis of an external mandate imposed by a creditor, by law through constitutional provisions or enabling legislation.

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Management's Discussion and Analysis
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Loan Programs

Currently, GHC makes available the following loan programs.

I. Regular Loan Program

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

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 is 6.00% for a term of 30 years.

III. Community Affordable Housing Action Trust (CAHAT)

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

IV. Leveraged Loan Program

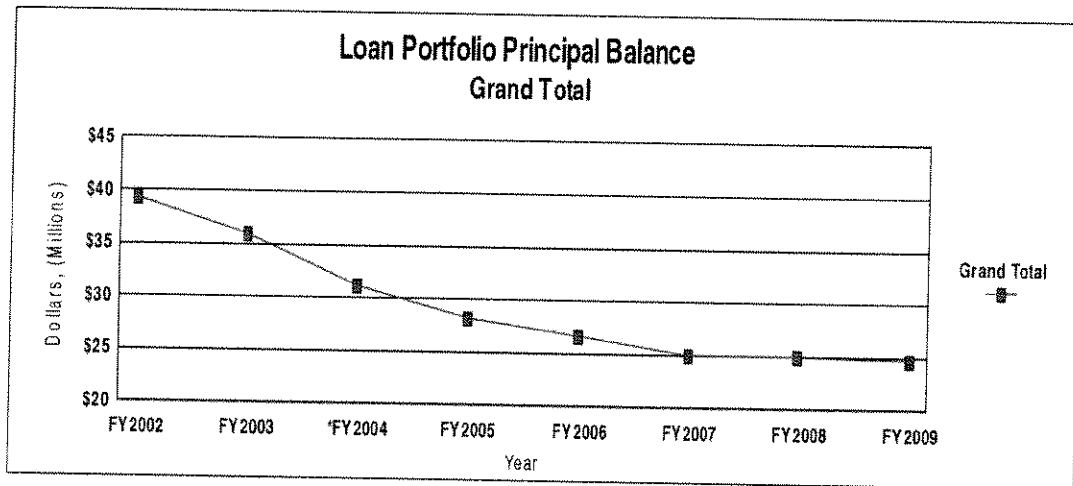
This loan program was effectuated via a Memorandum of Understanding between GHC (Government of Guam) and Rural Development, USDA on September 5, 2005. The program is a joint financing concept whereby an applicant receives two separate loans to obtain a 100% financing. GHC will provide 20% financing,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

GHC's loan will be at the interest rates established for its regular loan program for a term of thirty (30) years. Rural Development loans will be available at the prevailing interest rate for a term of thirty three (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.

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Loan Portfolio Principal Balance	<u>FY2002</u>	<u>FY2003</u>	<u>*FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
Grand Total	\$39,381,962	\$35,929,693	\$31,175,230	\$28,185,870	\$26,632,726	\$25,053,953	\$25,027,686	\$24,749,566
Total number of loans	769	702	580	533	505	470	450	439



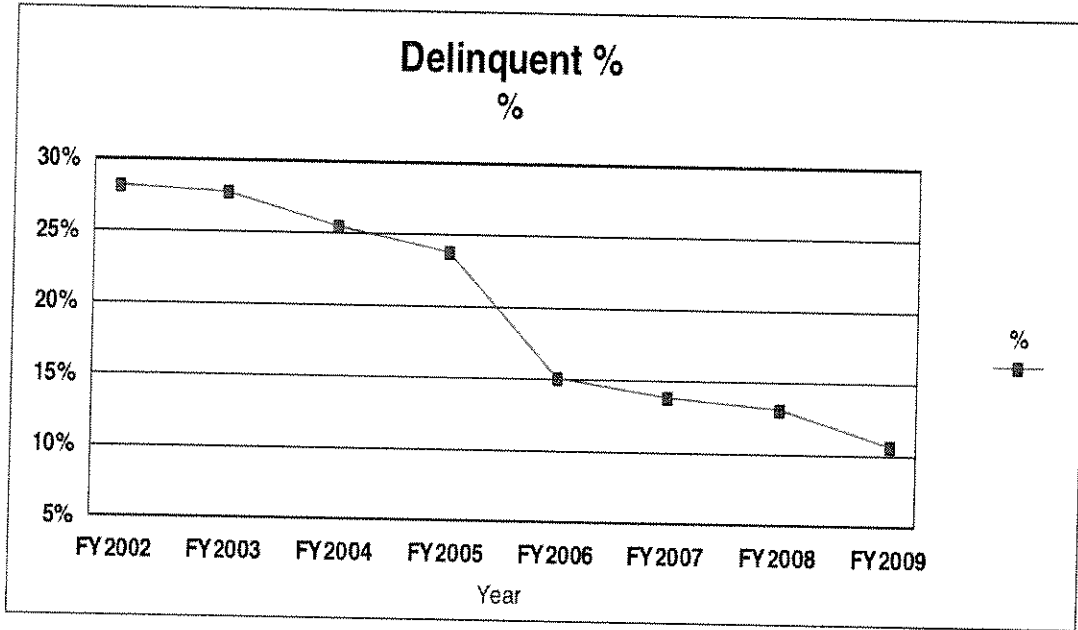
*Note: A total of 54 Sagan loans totaling \$370,240 that were converted to grants were returned to GHURA and removed from GHC's books.

Total delinquencies decreased by 12 loans during the year, an improvement of \$644,741 over the previous year. Overall, loans delinquent 30 days and over fell by 2.55% from the past year to 10.61%. The decrease in GHC's delinquent accounts is evident in the statistical data and chart below. The decreases are the result of a concerted effort in collections and servicing.

Delinquent %	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
Percentage	28.17%	27.74%	25.51%	23.74%	15.09%	13.86%	13.15%	10.61%
Principal Balance	\$11,094,528	\$9,967,364	\$7,953,395	\$6,521,715	\$3,919,197	\$3,387,036	\$3,217,545	\$2,572,805
Total number of delinquent loans	234	216	140	108	60	54	48	36

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Thirty-Nine (39) loan payoffs were received in FY2009 totaling \$2.1 million, an increase of \$844,705 over the prior year. The payoffs can be attributed in part to mortgage holders refinancing their homes at lower interest rates than available in years past, some as high as 12%. Because these particular homeowners were no longer first time home buyers, GHC could not provide financing for this purpose. Others were delinquent account holders who sought financing through other financial institutions to prevent foreclosure by Guam Housing Corporation. The following data and chart depicts the trend in loan payoffs over the past eight (8) years.

Loans Paid in Full

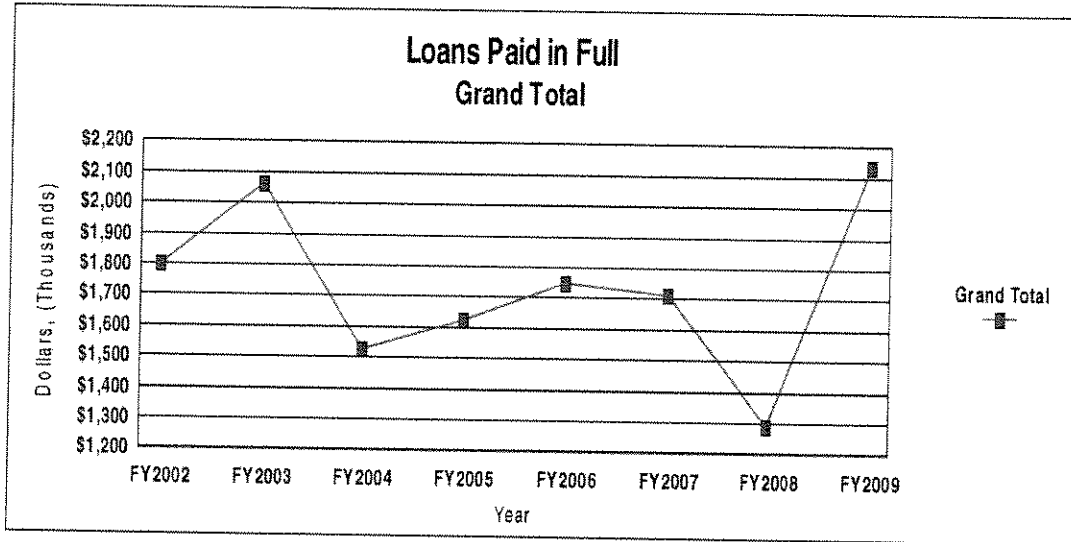
	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
Grand Total	\$1,802,486	\$2,061,421	\$1,525,515	\$1,624,036	\$1,747,437	\$1,712,039	\$1,290,394	\$2,135,099

Number of Loans

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Total	58	68	52	44	49	56	41	39

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In FY 2009, the Collection Division of GHC took a more aggressive approach on loan collections and delinquencies. The result of this effort has been better response from our borrowers. This improved communication allowed GHC to place delinquent borrowers on short-term payment plans and payroll deductions to cure account delinquencies.

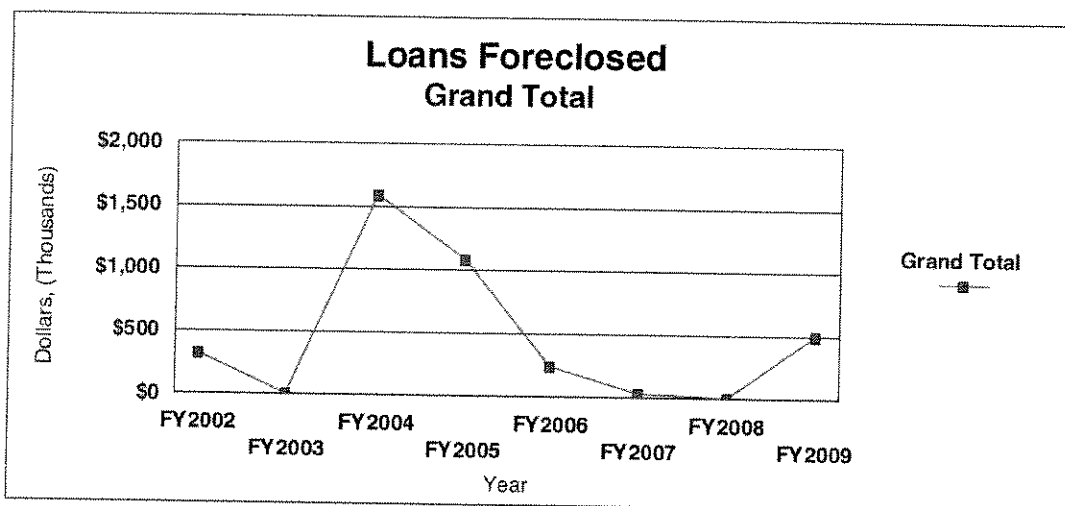
GHC has been working closely with its legal counsel to more effectively address serious delinquencies and work with the borrower to avoid foreclosure. However, after all efforts had been exhausted, foreclosure action was taken on several accounts.

Foreclosed Loans

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

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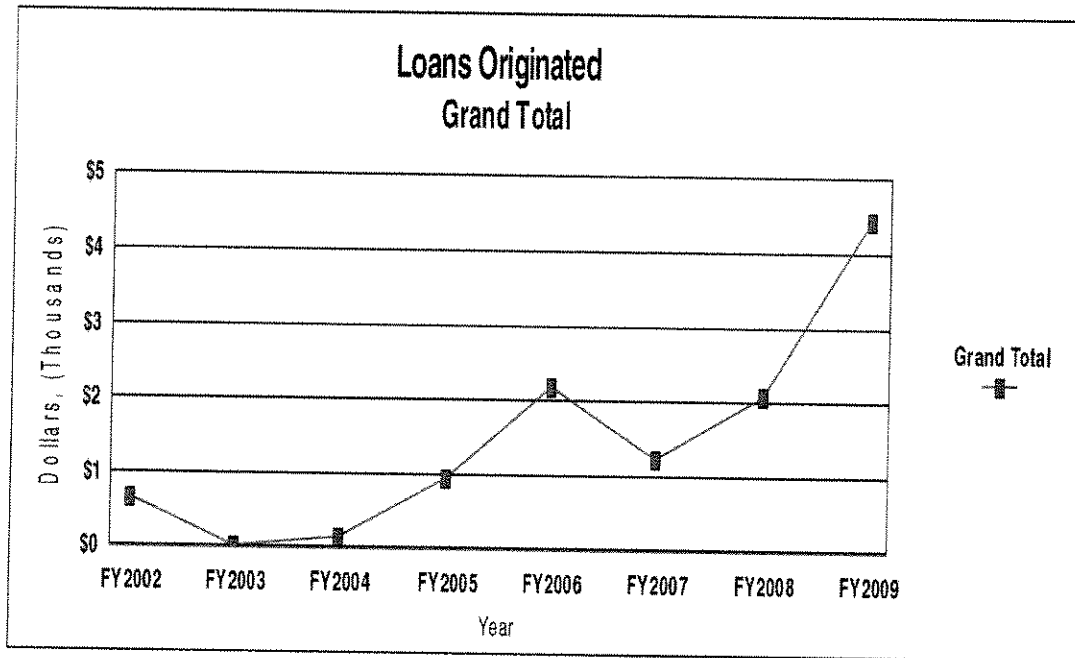
Two (2) foreclosed properties were sold in FY 2009. The overall gain on sales was \$172. Poor conditions of the units have continued to be a hindrance to their quick sale. Many of the vacated units were in serious disrepair and were thus susceptible to further damage from vandalism while vacant. Our organization is striving to sell foreclosed property more quickly upon acquisition to avert damage or vandalism to the units. In doing this we can attain the better market value in our foreclosed units.

The following data and chart shows the amount of loans originated over the past eight years. In fiscal years 2003 and 2004, GHC essentially suspended loan origination because of typhoon recovery and full implementation of the Recovery Plan. There was a decrease in fiscal year 2007 which was in part attributable to limited housing supply within the affordable housing price range for GHC's clientele. 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 prevailing rate. As a result of this policy change, GHC has been able to assist more families purchase or construct their homes in fiscal year 2009, as evident in the chart below.

Loans	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
Originated	\$651,842	\$11,237	\$141,083	\$952,782	\$2,180,928	\$1,235,210	\$2,072,972	\$4,446,132
Grand Total								
Total Number of Loans	12	1	2	11	36	17	18	40

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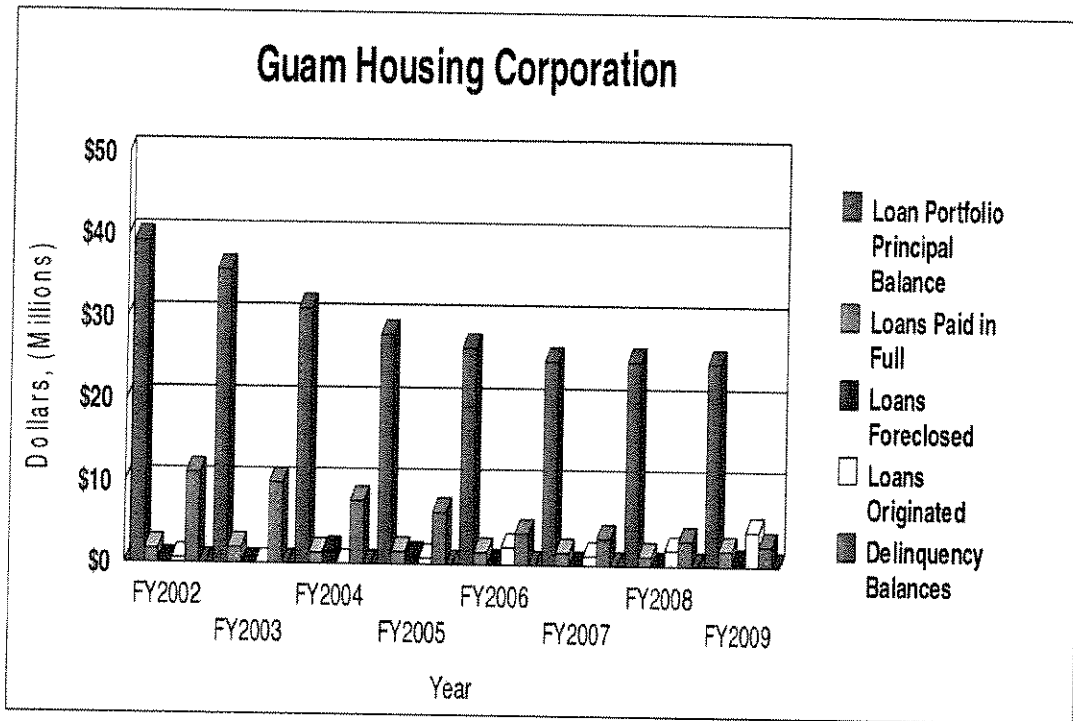


Overall Loan Portfolio

GHC Portfolio	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>
Loan Portfolio Principal Balance	\$39,381,962	\$35,929,693	\$31,175,230	\$28,185,870	\$26,632,726	\$25,053,953	\$25,027,686	\$24,749,566
Loans Paid in-full	\$ 1,802,486	\$ 2,061,421	\$ 1,525,515	\$ 1,624,036	\$ 1,747,437	\$ 1,712,039	\$ 1,290,394	\$ 2,135,099
Loans Foreclosed	\$ 326,714	\$ 0	\$ 1,589,852	\$ 1,087,763	\$ 240,849	\$ 35,047	\$ 0	\$ 500,451
Loans Originated	\$ 651,842	\$ 11,237	\$ 141,083	\$ 952,782	\$ 2,180,928	\$ 1,235,210	\$ 2,072,972	\$ 4,446,132
Delinquency Balances	\$11,094,528	\$ 9,967,364	\$ 7,953,395	\$ 6,521,715	\$ 3,919,197	\$ 3,387,036	\$ 3,217,545	\$ 2,572,805

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Management's Discussion and Analysis
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LOAN PORTFOLIO

The total loan portfolio decreased by \$278,120 or 1.11% from \$25,027,686 in FY08 to \$24,749,566 in FY09. Although GHC realized an increase in the loan origination activity over the past year it was offset by the increase in loan payoffs, foreclosures, write offs and decrease in delinquency.

For FY09, forty (40) loans were closed totaling \$4.45 million. A total of \$721,045 awaits loan closing. To further increase the loan origination activity, management has been aggressive in its marketing efforts. This is reflective of the total number of pre-qualification interviews conducted for the fiscal year. There were 249 pre-qualification interviews conducted. A good number of applicants are still in the process of seeking properties within their qualified price range. It appears that there may be a lack of inventory of existing homes within the \$100,000 to \$160,000 range. GHC continues its efforts to identify the issue on affordable housing supply for its targeted clientele.

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

Portfolio management continues to improve as referenced by a decreasing delinquency rate.

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DELINQUENCY

Collections have improved by 2.55% in FY09. The Collection Division is working to sustain the progress it has made in collection efforts. The Credit & Collection Committee is charged with the review of accounts for referral to legal and workout actions. We expect that the level of delinquency will continue to decrease as economic conditions improve and collection efforts remain aggressive.

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

FORECLOSURES & O.R.E.O. PROPERTIES (OTHER REAL ESTATE OWNED)

Foreclosed assets held for resale increased by \$348,867 or 119.32% from \$292,539 in FY08 to \$641,246 in FY09. The increase is attributed to the foreclosure on five homes during FY09.

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. As of September 2009, GHC had a total of six (6) O.R.E.O. Properties totaling \$641,246.

To better move these properties for sale, the GHC Board of Directors authorized management to list properties for sale with professional real estate sales persons. Outsourcing the marketing will help to extend the reach of the Corporation by utilizing the resources and contacts of real estate sales persons in the sale of our properties.

ALLOWANCE FOR LOAN LOSSES

A total of \$9,600 was the net amount charged against the allowance for loan losses in fiscal year 2009. GHC management and the Board of Directors believe that the current allowance is appropriately conservative, given the decrease in delinquency, the relative total value of the portfolio, the trending increase in property values, and the ability of homeowners to actually meet their obligations to maintain homeownership.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis
September 30, 2009

CAPITAL ASSETS

Capital Assets increased by \$106,188 or 1.9% from \$5,729,086 in FY08 to \$5,835,274 in FY09. The increase is due to the As-Atdas renovation.

DEBT SERVICE

Notes Payable decreased by \$886,002 from \$6,182,868 in FY08 to \$5,296,866 in FY09. GHC continues to honor its monthly debt service obligations to its sole creditor, the Federal Home Loan Bank of Seattle (FHLB) at an interest rate of 6.49%. As of September 30, 2009, \$5,296,866 remains due on this note which is on schedule to be fully amortized by the year 2014. For more details on the note to FHLB, see Note 9 in the accompanying notes to the financial statements.

Bonds Payable decreased by \$110,000 or 2.11% from \$5,215,000 in FY08 to \$5,105,000 in FY09. The Mortgage Revenue Bond (MRB) payments are made semi-annually on March 1st and September 1st of each year at interest rates ranging from 4.45% to 5.75%. The payment for the MRB began September 1, 1998 and matures September 1, 2031. For more details on the MRB, see Note 8 in the accompanying notes to the financial statements.

REBATE LIABILITY

The rebate liability increased by \$31,678 or 28.8% from \$110,110 in FY08 to \$141,788 in FY09. The increase was due to the increase in market value in FY09. Interest on the MRB investment in excess of 5.229417% is due to the federal government. The interest in excess of 5.229417% 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 1st of each year. The rebate liability is adjusted to the Orrick report each year. For more details on the rebate liability see Note 8 in the accompanying notes to the financial statements.

INTEREST ON LOANS RECEIVABLE

Interest earned on loans receivable decreased by \$52,426 or 3.1% in FY09. The decrease is due to the decrease in loan portfolio as mentioned above and the decrease in the weighted average interest rate from 7.385% in FY08 to 7.017% in FY09.

RENTAL INCOME

Rental income decreased in FY09 by \$4,608. Renovation to the As-Atdas buildings were on going during FY09 which caused the vacancy rate to increase from 12.79% in FY08 to 14.06% in FY09.

GUAM HOUSING CORPORATION
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Management's Discussion and Analysis
September 30, 2009

INTEREST ON INVESTMENT HELD BY BOND TRUSTEES

Interest earned on Investment Held by Bond Trustees increased by \$22,889 or 7% in FY09. The market value for these funds increased in FY09 which also caused the increase in the rebate liability.

LOAN ORIGATION FEES

Loan origination fees increased from \$52,423 in FY08 to \$81,373 in FY09. The increase is due to an increase in number of payoffs made in FY09. Loan origination fees are amortized over the life of the loan, so if a loan pays off, both loan origination fees and related costs are fully satisfied.

SALARIES

Salaries decreased by \$58,082 or 6% from \$946,730 in FY08 to \$888,648 in FY09. A couple of employees went on leave without pay, for military duty, for the first quarter of FY09 and one position was not filled during FY 09 which caused a decrease in salaries.

INTEREST EXPENSE

Interest expense decreased by \$61,628 or 8.6%. The decrease is due to the decrease in principal balance due for the note payable and the mortgage revenue bond payable.

DEPRECIATION

Depreciation expense increased \$6,732 in FY09 over the prior year. The increase is due to the As-Atdas building renovation project.

PROFESSIONAL SERVICES

Professional services increased from \$67,271 in FY08 to \$84,094 in FY09. The increase is due to an increase in legal fees because of the Lada Estates mitigation.

BAD DEBTS

Bad debts increased by \$28,935 in FY09. In FY08, tenant accounts receivable decrease from \$76,837 to 39,367, this decrease caused the allowance for doubtful accounts to decrease from 8% of gross rent to 4% gross rent. In FY08, a total of \$16,961 in tenant accounts receivable were written-off against the allowance for doubtful accounts, but since the allowance for doubtful accounts decreased, bad debts was never debited for tenant accounts receivable, instead an adjustment \$18,039 was credited to other income.

TRAVEL

Travel Expense decreased by \$10,494 in FY09. Travel expense was not budgeted for in FY09, therefore, no travel expenses were incurred for the fiscal year ending September 30, 2009.

GUAM HOUSING CORPORATION
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INTEREST INCOME ON BANK DEPOSITS

Interest income on bank deposits decreased by \$282,874 or 50.6%, from \$558,544 in FY08 to \$275,670 in FY09. The decrease in income is due to the decrease in interest rates on investments. The weighted average interest rate decreased from 3.215% in fiscal year 2008 to 1.052% in fiscal year 2009.

OTHER NON-OPERATING INCOME

Other non-operating income decreased by \$33,908 from \$99,042 in FY08 to \$65,134 in FY09. In FY08, a default judgment of \$15,778 was received, and in FY08, an adjustment to decrease the allowance for doubtful accounts due from tenants by \$18,039 was credited other income.

FUTURE EVENTS

With respect to future events that may have a financial effect, the Corporation plans to upgrade the rental units with the installation, on varying units, typhoon shutters, window upgrades, new metal exterior doors and roof insulation.

Other initiatives may include replacing existing appliances with newer energy efficient models and enhancing electrical and plumbing systems.

Though it is expected that these much needed upgrades will cost approximately \$1.9 million it is anticipated the Corporation will be able to reassess its rental rates to more accurately reflect the unit value and consequently offset at least a portion of these costs.

The improving economic conditions have had a positive influence in the mortgage industry and it looks as if the current trend will continue into the foreseeable future.

At the rate in which the Corporation is putting its lending capital to work, management is actively seeking new sources of funding including reinitiating its relationship with the Federal Home Loan Bank of Seattle. It is refreshing and encouraging to see a trend toward homeownership rather than rental.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Statements of Net Assets
September 30, 2009 and 2008

<u>ASSETS</u>	<u>2009</u>	(RESTATED) <u>2008</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 11,232,450	\$ 12,781,114
Self-insurance fund (Note 1)	1,291,117	1,171,632
Loans receivable (Notes 1, 3, 9 and 13)	3,475,980	2,105,834
Tenant accounts and other receivables, net (Note 5)	37,105	10,044
Accrued interest receivable (Note 8)	123,283	183,246
Supplies inventory	35,924	43,836
Prepaid expenses and other	<u>2,879</u>	<u>4,334</u>
Total unrestricted assets	<u>16,198,738</u>	<u>16,300,040</u>
Restricted assets:		
Cash and cash equivalents (Notes 1 and 2)	3,073,690	2,234,324
Investments (Notes 2 and 8)	5,658,710	5,556,569
Other receivables - current portion (Note 4)	<u>312,564</u>	<u>209,539</u>
Total restricted assets	<u>9,044,964</u>	<u>8,000,432</u>
Total current assets	25,243,702	24,300,472
Loans receivable (Notes 1, 3, 9 and 13)	15,875,371	17,540,682
Other receivables - noncurrent portion (note 4)	1,448,086	1,551,491
Land held for development (Notes 12 and 13)	16,114,338	16,114,338
Foreclosed assets held for resale (Note 7)	641,246	292,379
Capital assets, net (Note 6)	<u>5,835,274</u>	<u>5,729,086</u>
Total assets	<u>\$ 65,158,017</u>	<u>\$ 65,528,448</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

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

<u>LIABILITIES AND NET ASSETS</u>	<u>2009</u>	<u>(RESTATED)</u> <u>2008</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses (note 1)	\$ 68,065	\$ 117,650
Current portion of compensated absences (Note 1)	62,110	60,800
Deferred revenue	<u>116,852</u>	<u>136,963</u>
Total payable from unrestricted assets	<u>247,027</u>	<u>315,413</u>
Payable from restricted assets:		
Current portion of bonds payable (Notes 8 and 10)	125,000	110,000
Current portion of Notes payable (Notes 9 and 10)	945,246	886,002
Accrued interest payable (Notes 8 and 9)	51,574	56,671
Security deposits	48,823	48,360
Deposits by borrowers - insurance premiums and real estate taxes	590,639	451,973
Rebate liability (Note 8)	<u>141,788</u>	<u>110,110</u>
Total payable from restricted assets	<u>1,903,070</u>	<u>1,663,116</u>
Total current liabilities	<u>2,150,097</u>	<u>1,978,529</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Long-term portion of accounts payable (Notes 1 and 10)	10,555,000	10,555,000
Long-term portion of compensated absences (Notes 1 and 10)	107,057	99,534
Payable from restricted assets:		
Long-term portion of bonds payable (Notes 8 and 10)	4,980,000	5,105,000
Long-term portion of Notes payable (Notes 9 and 10)	4,351,620	5,296,866
Loans held in trust (Note 4)	<u>619,977</u>	<u>678,586</u>
Total non-current liabilities	<u>20,613,654</u>	<u>21,734,986</u>
Total liabilities	<u>22,763,751</u>	<u>23,713,515</u>
Net assets: (Note 14)		
Invested in capital assets, net of related debt	3,326,047	3,219,858
Restricted (Note 9)	24,451,006	24,255,580
Unrestricted	<u>14,617,213</u>	<u>14,339,495</u>
Total net assets	<u>42,394,266</u>	<u>41,814,933</u>
Commitments and Contingencies (Note 13)	<u>\$ 65,158,017</u>	<u>\$ 65,528,448</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

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

	2009	(RESTATED) 2008
Operating Revenues:		
Interest on loans receivable	\$ 1,649,854	\$ 1,702,280
Rental income	728,447	733,055
Interest on investments held by bond trustees	350,791	327,902
Loan origination fees	<u>81,373</u>	<u>52,423</u>
Total operating revenues	<u>2,810,465</u>	<u>2,815,660</u>
Operating Expenses:		
Salaries	888,648	946,730
Interest expense	653,662	715,290
Retirement contributions (Note 14)	252,052	258,643
Retiree supplemental, cola and health benefits	164,840	181,838
Depreciation	145,784	139,052
Professional services	84,094	67,271
Rent	72,968	72,198
Contractual services	66,155	85,939
Other	61,579	53,987
Maintenance	56,948	52,578
Loan origination costs	45,369	29,843
Employee benefits, other than retirement	34,331	42,370
Bad debts	29,351	416
Bond trustee fees	14,602	14,945
Director fees	1,050	800
Travel	-	10,494
Total operating expenses	<u>2,571,433</u>	<u>2,672,394</u>
Income from operations	<u>239,032</u>	<u>143,266</u>
Non-operating revenues (expenses):		
Interest income on bank deposits	275,670	558,544
Other income	65,134	99,042
Loss on disposal of capital assets	<u>(503)</u>	<u>-</u>
Total non-operating revenues (expenses), net	<u>340,301</u>	<u>657,586</u>
Increase in in net assets	579,333	800,852
Net assets at beginning of year (Note 14)	<u>41,814,933</u>	<u>41,014,081</u>
Net assets at end of year (Note 14)	<u>\$ 42,394,266</u>	<u>\$ 41,814,933</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

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

	<u>2009</u>	<u>(RESTATED)</u> <u>2008</u>
Cash flows from operating activities:		
Receipts received from customers	\$ 2,205,688	\$ 2,579,467
Payments to suppliers	(727,644)	(887,429)
Payments to employees	(1,019,420)	(946,730)
Other operating receipts	91,473	62,849
Net cash provided by operating activities	<u>550,097</u>	<u>808,157</u>
Cash flows from noncapital financing activities:		
Repayment of bonds payable	(110,000)	(105,000)
Repayment of notes payable	(886,002)	(830,473)
Repayment of rebate liability	31,678	5,176
Interest paid on notes payable	(370,401)	(431,358)
Interest paid on bonds	(283,261)	(288,898)
Increase in self-insurance fund	(119,485)	(136,080)
Net cash used in noncapital financing activities	<u>(1,737,471)</u>	<u>(1,786,633)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(275,627)	(43,457)
Purchase of property held for resale	(347,437)	-
Net cash used in capital and related financing activities	<u>(623,064)</u>	<u>(43,457)</u>
Cash flows from investing activities:		
Increase (decrease) in investments	102,141	(72,422)
Interest received on cash and investments with trustees	353,095	327,902
Interest income on bank deposits	305,696	498,836
Proceeds from sale of foreclosed assets held for resale	275,074	832,546
Other income	65,134	99,042
Net cash provided by investing activities	<u>1,101,140</u>	<u>1,685,904</u>
Net increase in cash and cash equivalents	(709,298)	663,971
Cash and cash equivalents at beginning of year	<u>15,015,438</u>	<u>14,351,467</u>
Cash and cash equivalents at end of year	<u>\$ 14,306,140</u>	<u>\$ 15,015,438</u>
Cash and cash equivalents	\$ 11,232,450	\$ 12,781,114
Restricted cash and cash equivalents	<u>3,073,690</u>	<u>2,234,324</u>
Total cash and cash equivalents, end of year	<u>\$ 14,306,140</u>	<u>\$ 15,015,438</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Statements of Cash Flows, Continued
Year Ended September 30, 2009 and 2008

	2009	(RESTATED) 2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 239,032	\$ 143,266
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Bad debts	29,351	416
Depreciation	145,784	139,062
(Gain) loss on sale of properties held for resale	(172)	103,232
(Gain) loss on disposal of capital assets	503	-
(Increase) decrease in assets:		
Loans receivable	395,579	(526,762)
Tenant accounts and other receivables	27,128	2,295
Accrued interest receivable	59,963	78,597
Other receivables	380	59,344
Foreclosed assets held for resale	(348,867)	832,546
Supplies inventory	7,912	5,410
Prepaid expenses and other	1,455	16,784
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(103,774)	41,906
Accrued compensated absences	8,833	(16,914)
Accrued interest payable	(5,097)	(4,962)
Deposits by borrowers	138,666	(13,709)
Security deposits	(2,325)	(3,014)
Deferred revenue	(17,323)	(12,613)
Rebate liability	31,678	5,176
Loans held in trust	(58,609)	(41,903)
Net cash provided by operating activities	\$ 550,097	\$ 808,157
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ 653,662	\$ 720,256
Loans foreclosed and transferred to assets held for resale during the year	\$ 346,859	\$ -

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2009 and 2008

(1) Purpose and Summary of Significant Accounting Policies

Purpose

Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, 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. Pursuant to the authority granted to the Corporation under Public Law 8-80, the Guam Rental Corporation (GRC) was created as separate reporting entity to promote the general welfare of the inhabitants of the Territory of Guam by encouraging and engaging in the development of low-cost rental housing. GRC was principally engaged in the ownership and rental of housing complexes known as Lada Gardens and Guma As-Atdas. Lease terms are initially for one month and continue indefinitely for successive terms of one month each, unless automatically terminated under specified terms of the lease agreement. Effective November 26, 2003, the Corporation dissolved GRC as a separate entity and integrated the rental management functions into its financial activities as a rental division.

For comparative purposes for the Guam Housing Corporation, management has elected to include supplementary information to present the financial position, results of operations and changes in cash flows with the inclusion of Rental Division and is presented on pages 56 through 69.

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.

The financial statements of the Corporation have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applied to governmental units. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Guam Housing Corporation has implemented GASB 20 and elected to apply all FASB Statements and Interpretations issued after November 30, 1989.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2009 and 2008

(1) Purpose and Summary of Significant Accounting Policies, continued

New Accounting Standards

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement addresses whether and when intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software should be considered capital assets for financial reporting purposes. This Statement is not effective until June 30, 2010. The Corporation has not determined its effect on the financial statements.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting amounts in similar entities that exist to invest resources for the purpose of generating income. The provisions of this Statement are effective for periods beginning after June 15, 2008. The implementation of this Statement did not have a material effect on the accompanying financial statements of the Corporation.

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

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

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

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2009 and 2008

(1) Purpose and Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement is to improve financial reporting by contributing to the GASB efforts to codify all generally accepted accounting principles (GAAP) for State and Local governments so that they derive from a single source.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for State and Local governments, and addresses three issues from the AICPA's literature – related party transactions, going concern considerations and subsequent events.

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides accounting and financial reporting guidance for governments that have petitioned for protection for creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This statement is effective beginning after June 15, 2009 with retroactive application for all periods presented during which a government was in bankruptcy.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. In accordance with the accrual method, revenues are recognized when they are earned and expenses are recognized when they are incurred. The Corporation's revenues are primarily derived from fees and interest charged on loans and rental fees charged to tenants. Financing and investing related transactions are reported as non-operating revenues. All expenses related to operating the Corporation are reported as operating expenses.

Estimates

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

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2009 and 2008

(1) Purpose and Summary of Significant Accounting Policies, continued

Estimates, continued

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

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

While management uses available information to recognize losses on loans and foreclosed real estate, further reductions in the carrying amounts of loans 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 and foreclosed real estate may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Budgets

Budgets are adopted for applicable Divisions on a basis consistent with generally accepted accounting principles. The Corporation is not legally required to adopt budgets for its Divisions.

The Corporation's governing body, the Board of Directors, adopts budgets on a division level basis. These budgets are submitted by the Corporation's President, and approved by resolutions of the Board of Directors. The Corporation is segmented into divisions. These organizational units, individually and collectively, are expressed financially by program or fund source and budgets are developed annually for 12 month terms, which begin October 1st and ends September 30th of fiscal each year.

Throughout the fiscal year, the Corporation monitors and evaluates expenditures rates and patterns. Additionally, timely notice is given to executive management regarding forthcoming changes in objectives or other conditions that may cause significant variations from approved budget defined plans. The Corporation's Board of Directors may authorize amendments to the budget based on the availability of financial resources. Formal budget revisions are authorized in the same manner as original budget submissions. During 2009, several budget revisions were necessary and the final budgets to actual amounts were not provided for financial statement presentation.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2009 and 2008

(1) Purpose and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

For purposes of the balance sheets and the statements of cash flows, certificates of deposit with original maturities of three months or less are considered to be cash and cash equivalents.

Lending Policies

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 \$200,165 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 the two percent (2%) of the cost of funds to the Corporation. In fiscal year 2008, the Board of Directors approved and adopted a provision allowing its management to adjust loan interest rates to reflect the current prevailing rate. This action emanate from Public Law #26-123 which states that the Board of Directors may adjust the rate of interest; however, it cannot assess a rate of interest greater than two (2) points over its cost of funds.

Loans and Accrued Interest Receivable

It is the Corporation's policy to cease the accrual of interest on delinquent loans after 90 days past due and when in the opinion of management, the past due condition is an indication of possible uncollectibility.

Receivable – Tenants

Tenant receivables 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
September 30, 2009 and 2008

(1) Purpose and Summary of Significant Accounting Policies, continued

Loans and Allowance for Loan Losses

Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees. The allowance for loan 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 collectibility of the loan portfolio, including the nature of the portfolio, credit concentration, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Because of the uncertainties inherent in the estimation process, management's estimate of credit losses inherent 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.

Inventories

Inventories of materials and merchandise are determined by physical count and are valued at the lower of cost or market.

Capital Assets

The Corporation generally capitalizes all expenditures for property and equipment in excess of \$5,000 with a useful life of one year or more. Major renewals and betterments are charged to the property accounts, while maintenance and repairs which do not improve or extend the life of an asset are charged to expense. Donated capital assets are recorded at fair market value at the date of donation. Depreciation of property and equipment is computed using the straight-line method over estimated useful lives of 2 to 10 years for vehicles and office furniture and equipment, and over the length of the lease term for leasehold improvements.

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 operation's checking account. To the extent future losses exceed the fund, they will be charged to current operations. No losses have been incurred as a result of management's risk management practices.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2009 and 2008

(1) Purpose and Summary of Significant Accounting Policies, continued

Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash, investments and loans receivable. At September 30, 2009 and 2008, the Corporation has cash deposits in bank accounts that exceed federal depository insurance limits totaling \$3,190,252 and \$3,077,242, respectively. The Corporation has not experienced any losses in such accounts.

Substantially all of the Corporation's loans receivables are due from borrowers residing in the Territory of Guam. The Corporation maintains an allowance for loan losses based on management's evaluation of potential uncollectibility.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Accumulation of such vacation credits was limited to 480 hours at fiscal year end. All such vacation credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave from 480 to 320 hours.

Any annual leave earned in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 was credited to the employee's sick leave. Pursuant to Public Law 27-106, 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.

At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. As of September 30, 2009 and 2008, accrued annual leave totaled \$84,405 and \$79,084, respectively. Pursuant to Public Law 26-86, employees under the Defined Contribution Retirement System (DCRS), upon their retirement will be paid by their employer a lump sum payment of their unused sick leave hours up to fifty percent. At September 30, 2009 and 2008, unused sick leave of the members under the DCRS plan totaled \$169,526 and \$162,500, of which 50% or \$84,763 and \$81,250, respectively, was accrued in the accompanying the financial statements.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(1) Purpose and Summary of Significant Accounting Policies, continued

Loan Origination Fees and Related Costs

Loan fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized in income or expense using the straight-line method over the contractual life of the loans. Differences between this method and the interest method required by Financial Accounting Standard No. 91 are not significant and do not materially affect the accompanying financial statements.

Net Assets

With the implementation of GASB Statement No. 34, the reporting of contributed capital and retained earnings have completely changed. As stated in paragraph 98 of GASB Statement No. 34, governments are now required to report proprietary fund net assets or fund equity in three components which are as follows: Invested in capital assets, net of related debt, Restricted and Unrestricted. "Retained earnings", "contributed capital" and "designations" should no longer be used on the face of the proprietary fund financial statements, even as a subcomponent of one of the required net assets components. Also, capital contributions are no longer reported as direct additions to fund equity but are reported in the all-inclusive statement of revenues, and changes in net assets.

At September 30, 2009 and 2008, the Guam Housing Corporation classified and included contributions to Retained Earnings in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Risk of Loss

The Corporation is self-insured as to property and equipment. Losses are recorded in the fiscal year realized.

Reclassification

Certain account balances in the 2008 financial statements have been reclassified to correspond with the 2009 presentation.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(2) Cash and Investments

Cash and cash equivalents and investments at September 30, 2009 and 2008 consist of the following:

	2009	2008
Cash on hand and due from banks	\$ 3,540,081	\$ 2,707,565
Certificates of deposits	11,352,407	11,698,381
Money market funds	6,055,598	6,210,013
Cash with Federal Home Loan Bank	307,881	1,127,680
	<u>\$21,255,967</u>	<u>\$21,743,639</u>

Of the above cash and cash equivalents and investments, the Corporation designated \$2,024,071 for mortgage loans certified and committed for loan disbursement as of September 30, 2009. Additionally, the Corporation has restricted cash and investments totaling \$8,732,400 and \$7,790,893 at September 30, 2009 and 2008, respectively, as follows:

	2009	2008
Restricted Cash:		
Revolving Loan Fund	\$ 1,287,756	\$ 857,251
Community Affordable Housing Action Trust	728,957	650,753
Trust fund and borrower's deposit	798,305	662,708
Building Renovation Contract	193,958	-
Tenant security deposits	64,714	63,612
Total restricted cash	<u>3,073,690</u>	<u>2,234,324</u>
Restricted Investments:		
Investments and cash with Bond Trustees	5,158,710	5,180,648
Foreclosure Protection Fund	500,000	375,921
Total restricted investments	<u>5,658,710</u>	<u>5,556,569</u>
Total Restricted Cash and Investments	<u>\$ 8,732,400</u>	<u>\$ 7,790,893</u>

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

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(2) Cash and Investments, continued

The Mortgage Revenue Bond Indenture requires the establishment of special funds and accounts to be held and administered by the Corporation's trustees for the accounting of the monies. At September 30, 2009 and 2008, investments and cash held by the trustees for the Corporation, in these funds and accounts are as follows:

	2009	2008
Escrow Fund	\$ -	\$ 17,892
Capitalized Interest Fund	257	257
Revenue Fund	5,158,453	5,162,500
	\$ 5,158,710	\$ 5,180,649

Unrestricted and restricted cash and cash equivalents insured by the Federal Deposit Insurance Corporation (FDIC) totaled \$11,115,888 and \$11,938,197 as of September 30, 2009 and 2008, respectively, with the remaining balances being uninsured which totaled \$3,190,252 and \$3,077,242, respectively. The Corporation maintains its cash and equivalents in over one hundred financial institutions insured by FDIC to mitigate risk of loss.

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 are explicitly guaranteed by the United States government, all other investments must be rate Aa1/P-1 by Moody's.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(2) Cash and Investments, continued

A. Cash

GASB Statement No. 3 requires government entities to categorize deposit to give an indication of the level of credit risk assumed by the entity at year-end based on the following categories:

- | | |
|------------|--|
| Category 1 | Deposits that are federally insured or collateralized with securities held by the Corporation or its agent in the Corporation's name; |
| Category 2 | Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Corporation's name; or |
| Category 3 | Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in Corporation's name and non-collateralized deposits. |

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

For credit risk in the case of deposits, there is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. At of September 30, 2009 and 2008, the carrying amount of the Corporation's total cash and cash equivalents was \$14,306,140 and \$15,015,438, respectively, with a corresponding bank balance was \$11,111,390 and \$11,979,458, respectively are insured by the Federal Deposit Insurance Corporation or fully collateralized by securities held by a trustee in the name of the financial institution. As of September 30, 2009 and 2008, bank deposits in the amount of \$250,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk.

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Notes to Financial Statements
September 30, 2009 and 2008

(2) Cash and Investments, continued

B. Investments:

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

- Category 1 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 the 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 Corporation's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 and provided 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.

The Corporation's bond trustees hold the Corporation's restricted investments and cash at September 30, 2009 and 2008. Investments are stated at amortized cost and accrued interest under a separate balance sheet caption. The carrying value of restricted investments at September 30, 2009 and 2008 are as follows:

	2009	2008
Money Market/Trust Fund	\$ 5,158,710	\$ 5,180,648
U.S. Treasury Notes	500,000	375,921
	\$ 5,658,710	\$ 5,556,569

The market value of restricted investments and cash at September 30, 2009 and 2008 approximates its carrying value.

The bond funds have been classified as Category 3 investments and the bond reserve funds have been classified as Category 1 investments in accordance with Government Accounting Standards Board (GASB) Statement No. 3.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(2) Cash and Investments, continued

Credit risk for investments is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Pursuant to the bond indenture, the Corporation minimized credit risk losses by limiting its investments to the low risk types of securities. The Bank of New York Trust Company, N.A. manages various special funds and invests securities in U.S. Treasuries, U.S. Agencies and Money Market Funds. The U.S. Treasuries are backed by the full faith and credit of the U.S. Government. While Agencies do have the same backing, they are implied to have the backing of the U.S. Government. All investment securities are within the requirement of the bond indenture.

Custodial risks for investments is the risk that in the event of failure of the counterparty to the transaction, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2009 and 2008, the Corporation's investments were insured or registered, or securities held by the Corporation or its agent in the Corporation's name. Therefore, the investments are not exposed to custodial risks.

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

Interest rate risk is the risk that changes in interest rates will adversely affect their fair value of debt instruments. The Corporation investment policy limits its investments maturities by restricting investments to U.S. government securities and FDIC insured certificates of deposits and money market funds. The Corporation's policy is to select investments of varied maturities to mitigate risk.

At September 30, 2009, the Corporation's investment in debt securities is as follows:

	Moody's Credit Rating	Investment Maturities (In Years)				Total
		Less than 1	1 to 5	6 to 10	Greater than 10	
U.S. Treasury Notes	Aaa	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
Federal Home Loan Mortgage Corporation	Aaa	-	-	-	3,595,190	3,595,190
Blackrock Liquidity T-Fund	Aaa	<u>1,563,520</u>	-	-	-	<u>1,563,520</u>
		<u>\$2,063,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,113,013</u>	<u>\$5,658,710</u>

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(2) Cash and Investments, continued

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 in to the safest types of securities. The Bank of New York Mellon manages the Corporation's investments investing in U.S. Securities, U.S. Government Agencies, Money Market Funds and Certificates of Deposits insured by the Federal Deposit Insurance Corporation. The U.S. Securities are extremely 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 risks investments as well. All such investment securities are within the requirement of the mortgage revenue bond indenture. As of September 30, 2009, the Corporation's investment in Federal Home Loan Mortgage Corporation and the Blackrock Liquidity T-Funds represented 64% and 28%, respectively, of its total investments.

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 Community Affordable Housing Action Trust (CAHAT) program as the second mortgage and is used exclusively for the purpose of paying off the first mortgage on foreclosure. As of September 30, 2009 and 2008, the restricted investments for this fund totaled \$500,000 and \$375,921 respectively.

(3) Loans Receivable

Loans receivable, collateralized by first mortgages on real estate, consist of the following:

	2009	2008
Due in varying monthly installments and interest rates with maturities to 2024, including loans in process of \$1,189,089 in 2009.	\$ 23,003,696	\$ 23,286,080
Less net deferred loan origination fees	(239,863)	(217,482)
Less allowance for loan loss	(3,412,482)	(3,422,082)
	19,351,351	19,646,516
Less current portion	(3,475,980)	(2,105,834)
	\$ 15,875,371	\$ 17,540,682

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(3) Loans Receivable, continued

A summary of the activity in the allowance for loan losses is as follows:

	2009	2008
Balance at beginning of year	\$ 3,422,082	\$ 3,527,864
Additions to provision for loan loss	-	-
Loans charged-off	(105,865)	(105,782)
Recoveries of loans previously charged-off	96,265	-
Balance at end of year	\$ 3,412,482	\$ 3,422,082

A significant portion of the total loans outstanding is assigned as collateral on notes payable (see Note 9). Included in outstanding loans are loans to employees of \$404,866 and \$245,072 at September 30, 2009 and 2008, respectively. These loans meet the same criteria as all real estate loans made to non-related individuals by the Corporation. Loans in arrears three months or more or held with the attorney for collection totaled \$1,327,690 and \$1,613,696 at September 30, 2009 and 2008, respectively.

(4) Other Receivables

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

As of September 30, 2009 and 2008, other receivables due from borrowers for loans consisted of the following:

	2009	2008
CAHAT	\$ 1,164,106	\$ 1,039,626
Down-payment and Closing Assistance Program	498,896	552,556
Hazard Mitigation Program	26,020	28,425
	1,689,022	1,620,607
Other receivables	71,628	140,423
	1,760,650	1,761,030
Less current portion of due from borrowers	(312,564)	(209,539)
Other receivables-noncurrent	\$ 1,448,086	\$ 1,551,491

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(4) Other Receivables, continued

Correspondingly, the liability recorded by the Corporation for the loans held in-trust at September 30, 2009 and 2008 totaled \$619,877 and \$678,586 respectively, and consisted of the following:

	2009	2008
Down-payment and Closing Assistance Program	\$ 511,777	\$ 570,386
Hazard Mitigation Program	108,200	108,200
	\$ 619,977	\$ 678,586

The Down Payment and Closing Assistance (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 Hazard Mitigation Program was funded with monies received from the Federal Emergency Management Agency in 1995. The CAHAT and Foreclosure Protection Fund programs were funded by appropriations received from the Government of Guam in Public Law 21-99. The DPCCA program which was administered by the Corporation under a Sub-recipient Agreement with GHURA, was terminated October 23, 2003. The repayments received by the Corporation from its borrowers are program income of GHURA and is remitted monthly.

(5) Tenant Receivables

A summary of tenant receivables is as follows:

	2009	2008
Tenant accounts	\$ 51,916	\$ 39,367
Other	16,533	677
	68,449	40,044
Allowance for uncollectible accounts	(31,344)	(30,000)
Tenant accounts and other receivables	\$ 37,105	\$ 10,044

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(6) Capital Assets

Capital assets consist of property and equipment as of September 30, 2009 and 2008 is as follows:

	<u>Balance</u> <u>09/30/08</u>	<u>Additions</u>	<u>Transfers</u> <u>Disposals</u>	<u>Net Book</u> <u>Value</u> <u>09/30/09</u>
Land and land improvements	\$ 2,556,886	\$ -	\$ -	\$ 2,556,886
Buildings and improvements	5,528,638	252,062	-	5,780,700
Office furniture and equipment	586,171	414	(244,893)	341,692
Vehicles	162,599	-	(28,062)	134,537
Leasehold improvements	<u>238,946</u>	<u>-</u>	<u>(209,501)</u>	<u>29,445</u>
	9,073,240	252,476	(482,456)	8,843,260
Less: accumulated depreciation	<u>(3,344,154)</u>	<u>(145,785)</u>	<u>481,953</u>	<u>(3,007,986)</u>
Capital assets, net	<u>\$ 5,729,086</u>	<u>\$ 106,691</u>	<u>\$ (503)</u>	<u>\$ 5,835,274</u>

	<u>Balance</u> <u>09/30/07</u>	<u>Additions</u>	<u>Transfers</u> <u>Disposals</u>	<u>Net Book</u> <u>Value</u> <u>09/30/08</u>
Land and land improvements	\$ 2,556,886	\$ -	\$ -	\$ 2,556,886
Buildings and improvements	5,528,638	-	-	5,528,638
Office furniture and equipment	586,171	-	-	586,171
Vehicles	119,142	43,457	-	162,599
Leasehold improvements	<u>238,946</u>	<u>-</u>	<u>-</u>	<u>238,946</u>
	9,029,783	43,457	-	9,073,240
Less: accumulated depreciation	<u>(3,205,101)</u>	<u>(139,053)</u>	<u>-</u>	<u>(3,344,154)</u>
Capital assets, net	<u>\$ 5,824,682</u>	<u>\$ (95,596)</u>	<u>\$ -</u>	<u>\$ 5,729,086</u>

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(7) Foreclosed Assets Held for Resale

Foreclosed assets held for resale represents six (6) buildings acquired by GHC due to the borrowers' default on their mortgages. The buildings are not subject to depreciation because they represent foreclosed properties held for resale.

At September 30, 2009 and 2008, the Corporation has assessed the recoverability of the carrying value of its properties held for sale and believe that such reflect the amounts by which the carrying values of these foreclosed assets held for sale equate to the estimated fair values determined by their estimated future discounted cash flows and recent valuation of an independent appraisal.

A summary of the activity in the foreclosed assets held for resale as of September 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Foreclosed assets held for resale at beginning of year	\$ 292,379	\$ 1,124,925
Foreclosures made during the year	623,941	-
Foreclosed assets sold during the year	(277,708)	(834,408)
Other costs and adjustments	<u>2,634</u>	<u>1,862</u>
Balance at end of year	<u>\$ 641,246</u>	<u>\$ 292,379</u>

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(8) Long-Term Mortgage Revenue Bonds Payable

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. Interest on the bonds is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 1998 at various rates noted below. Revenue bonds payable as of September 30, 2009 and 2008, consist of the following:

	2009	2008
Single Family Mortgage Revenue Bonds 1998 Series A, with varying interest rates (4.45% - 5.25%) payable semi-annually on March 1 and September 1, principal payments due in varying semi-annually installments with \$45,000 due in March 2004, and increasing to \$75,000 by September 2013.	\$ 540,000	\$ 650,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$74,931 due in March 2014, and increasing to \$95,420 by September 2018.	850,000	850,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$108,434 due in March 2019, and increasing to \$119,510 by September 2021.	685,000	685,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$114,064 due in March 2022, and increasing to \$194,200 by September 2031.	3,030,000	3,030,000
	5,105,000	5,215,000
Less current portion of bonds payable	125,000	110,000
	\$ 4,980,000	\$ 5,105,000

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(8) Long-Term Mortgage Revenue Bonds Payable, continued

The accrued interest expense on the above bonds totaled \$23,306 and \$23,755 at September 30, 2009 and 2008, respectively. Total interest expense on the bonds totaled \$283,261 and \$288,478, net of amortized bond premium at September 30, 2009 and 2008. Accrued interest income earned on bonds totaled approximately \$12,423 and \$14,727 as of September 30, 2009 and 2008, respectively.

The Corporation is required to calculate rebatable arbitrage as of the last day of any Bond year pursuant to the provisions of the U.S. Department Treasury Regulation Section 1.148. The arbitrage provisions require the Corporation to rebate excess arbitrage earnings from bond proceeds to the federal government. As provided for by the bond indenture, this amount has been recorded as "Rebate Liability" for the benefit of the federal government and will be paid as required by applicable regulations. As of September 30, 2009 and 2008, the rebate liability totaled \$141,788 and \$110,110, respectively.

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 Government of Guam 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 Government of Guam 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 Government of Guam and the Government of Guam 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 (expressed as percentages of the principal amount) set forth below, plus accrued interest thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
September 1, 2008 through August 31, 2009	101.0%
September 1, 2009 through August 31, 2010	100.5%
September 1, 2010 and thereafter	100.0%

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(8) Long-Term Mortgage Revenue Bonds Payable, continued

The bonds maturing on September 1, 2018 are subject to mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest thereon to the date fixed for redemption, from sinking fund installments which are required to be made in amounts sufficient to redeem on the dates specified below the respective principal amount of such bonds specified as follows:

As of September 30, 2009:

<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

The bonds maturing on September 1, 2021 are subject to mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest thereon to the date fixed for redemption, from sinking fund installments which are required to be made in amounts sufficient to redeem on the dates specified below the respective principal amount of such bonds specified as follows:

As of September 30, 2009:

<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

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Notes to Financial Statements
September 30, 2009 and 2008

(8) Long-Term Mortgage Revenue Bonds Payable, continued

The bonds maturing on September 1, 2031 are subject to mandatory redemption prior to maturity at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest thereon to the date fixed for redemption, from sinking fund installments which are required to be made in amounts sufficient to redeem on the dates specified below the respective principal amount of such bonds specified as follows:

As of September 30, 2009:

<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

The Corporation had expended Bond proceeds and originated loans totaling \$6,249,012 as of September 30, 2009 and 2008, respectively, for which the Trustee and had fully disbursed from the Program Fund for the acquisition of Mortgage-Backed Securities.

Pursuant to Article IV, Section 4.02(A)(1) of the bond indenture, the Bonds were subject to special mandatory redemption as a whole, or in part, on November 1, 2001 in an amount equal to the amount transferred from the Program Fund to the Redemption Fund (and amounts transferred from the Escrow Fund and the Capitalized Interest Account in connection therewith), at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. In addition, pursuant to Article V, Section 5.02(B), on any date prior to October 1, 2001 specified by the Corporation, the Trustee must transfer amounts on deposit in the Program Fund that the Corporation certifies will not be used to acquire Mortgage-Backed Securities to the Redemption Fund to be applied to the redemption of the Bonds. During 2002, the Trustee exercised and processed that special mandatory redemption and recalled \$44,155,000, due to non-origination of loans.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(8) Long-Term Mortgage Revenue Bonds Payable, continued

The Bond Indenture contains certain restrictive covenants, including restrictions on the use of bond funds. Management of the Corporation is of the opinion that the Corporation was in compliance with all significant covenants mortgage revenue bonds, as of September 30, 2009 and 2008.

As of September 30, 2009, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2010	\$ 125,000	\$ 278,168	\$ 403,168
2011	130,000	271,760	401,760
2012	140,000	264,968	404,968
2013	145,000	257,643	402,643
2014	152,204	249,891	402,095
2015 through 2019	916,413	1,116,133	2,032,546
2020 through 2024	1,201,655	847,651	2,049,306
2025 through 2029	1,543,078	470,542	2,013,620
2030 through 2031	<u>751,650</u>	<u>54,706</u>	<u>806,356</u>
	<u>\$ 5,105,000</u>	<u>\$ 3,811,462</u>	<u>\$ 8,916,462</u>

(9) Notes Payable

Notes payable consists of the following:

	<u>2009</u>	<u>2008</u>
Federal Home Loan Bank of Seattle, 6.490%, interest payable monthly up to August 2003, thereafter interest and principal payable monthly in varying amounts, due August 2014	\$ 5,296,866	\$ 6,182,868
Less current portion	<u>945,246</u>	<u>886,002</u>
	<u>\$ 4,351,620</u>	<u>\$ 5,296,866</u>

Under the note agreements with the Federal Home Loan Bank of Seattle, the borrowings are collateralized by proceeds received from mortgage loans made by the Corporation. As of September 30, 2009 and 2008, the Corporation has pledged as security for these loans approximately \$10,844,854 and \$13,347,886 of related outstanding mortgage loans, respectively.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(9) Notes Payable, continued, Continued

In September 2002, the Corporation and the Federal Home Loan Bank of Seattle mutually agreed to consolidate the remaining five notes of the Corporation's notes that totaled \$9,897,916 into one single note due in monthly installments starting September 2003 through August 2014.

The Corporation has complied with the covenants of its loan agreements with the financial institutions which provide for, among other requirements, collateral loan ratios, monthly delinquency reports on all loans and periodic submissions of financial statements.

The Corporation defaulted on its Government of Guam loan agreement. In April 2001, pursuant to Section 6 of Guam Public Law 20-210, the Corporation was declared in default on its Government of Guam Revolving Loan Fund ("the Fund") note payable to the Government of Guam that totaled \$13,650,013 as of September 30, 2001. The Corporation had not made monthly payments to the Fund since November 1999, and as such, exceeded the 90-day period after such payments become due for making such payments, which approximated \$517,000 as of September 30, 2001. Pursuant to in Section 6 of Guam Public Law 20-210, those amounts payable to the Fund were deferred for the period covering November 1999 to January 2004.

In August 2002, the Government of Guam, under Public Law 26-123, passed legislation to forgive the note payable and accrued interest payable of \$13,650,013 and \$517,402, respectively.

The annual payments on notes payable subsequent to September 30, 2009 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2010	\$ 945,245	\$ 316,124	\$ 1,261,369
2011	1,008,451	252,913	1,261,364
2012	1,075,881	186,040	1,261,921
2013	1,147,820	113,612	1,261,432
2014	1,119,469	36,876	1,156,345
2015	-	-	-
	<u>\$ 5,296,866</u>	<u>\$ 905,565</u>	<u>\$ 6,202,431</u>

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(10) Noncurrent Liabilities

Noncurrent liability activity at September 30, 2009 and 2008 are as follows:

	(Restated) Balance <u>10/01/08</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>9/30/09</u>	Amounts Due within <u>One Year</u>	<u>Noncurrent</u>
Long-term portion of accounts payable	\$10,555,000	\$ -	\$ -	\$ 10,555,000	\$ -	\$ 10,555,000
Bonds payable	5,215,000	-	(110,000)	5,105,000	125,000	4,980,000
Note payable	6,182,868	-	(886,002)	5,296,866	945,246	4,351,620
Accrued annual leave and 50% accrued sick leave of employees under DC Retirement Plan	160,334	97,087	(88,254)	169,167	62,110	107,057
Loans held in trust	<u>678,586</u>	<u>-</u>	<u>(58,610)</u>	<u>619,976</u>	<u>-</u>	<u>619,976</u>
	<u>\$ 22,791,788</u>	<u>\$ 97,087</u>	<u>(\$ 1,142,866)</u>	<u>\$ 21,746,009</u>	<u>\$ 1,132,356</u>	<u>\$ 20,613,653</u>

	(Restated) Balance <u>10/01/07</u>	<u>Increases</u>	<u>Decreases</u>	(Restated) Balance <u>9/30/08</u>	Amounts Due within <u>One Year</u>	<u>Noncurrent</u>
Long-term portion of accounts payable	\$10,555,000	\$ -	\$ -	\$ 10,555,000	\$ -	\$ 10,555,000
Bonds payable	5,320,000	-	(105,000)	5,215,000	110,000	5,105,000
Note payable	7,013,341	-	(830,473)	6,182,868	886,002	5,296,866
Accrued annual leave and 50% accrued sick leave of employees under DC Retirement Plan	177,248	113,703	(130,617)	160,334	60,800	99,534
Loans held in trust	<u>720,489</u>	<u>-</u>	<u>(41,903)</u>	<u>678,586</u>	<u>-</u>	<u>678,586</u>
	<u>\$ 23,786,078</u>	<u>\$ 113,703</u>	<u>(\$ 1,107,993)</u>	<u>\$ 22,791,788</u>	<u>\$ 1,056,802</u>	<u>\$ 21,734,986</u>

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(11) *Employees' Retirement Plan and Other*

Employee Retirement Plan

Plan Description:

The Corporation participates in the Government of Guam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the Government of Guam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of the Government of Guam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of Government of Guam, which includes the Corporation, have the option of becoming members of the DB Plan prior to the operative date. All employees of Government of Guam, including employees of Government of Guam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group. Until December 31, 1999, those employees who were 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. Requirements of both plans are established by Title 4 Guam Code Annotated, Chapter 8, Articles 1 and 2.

The Defined Benefit Plan (DB) 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.

The DB Plan was originally designated as a single-employer plan but was redesignated by Government of Guam's Department of Administration as a cost-sharing multiple-employer plan, effective October 1, 2008. The redesignation was based on the determination as outlined under GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, that all risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the separate employers. 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.

As more fully discussed in Note 14, the redesignation from a single employer plan to a cost-sharing multiple-employer plan resulted in a prior period adjustment relating to the accrued unfunded liability to the Retirement Fund and the related cost recognized in prior years.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(11) Employees' Retirement Plan, Continued

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 29.31% and 9.50%, respectively, for the year ended September 30, 2009 and 26.02% and 9.50%, respectively, for the year ended September 30, 2008.

Annual Pension Cost and Net Pension Obligation:

Prior to the redesignation of the DB Plan as a cost-sharing multiple-employer plan, the Corporation's annual pension cost and net pension obligation to the DB Plan for the years ended September 30, 2008 and 2007 were as follows:

	2008	2007
Annual Required Contribution	\$ 222,053	\$ 195,282
Interest on Net Pension Obligation	86,380	-
Adjustment to Annual Required Contribution	(46,962)	-
Annual pension cost	261,471	195,282
Contributions made	245,364	223,800
Change in Net Pension Obligation	16,107	(28,518)
Net Pension Obligation, beginning of year	76,915	105,433
Net Pension Obligation, end of year	\$ 93,022	\$ 76,915

The Annual Required Contribution for the years ended September 30, 2008 and 2007 was determined as part of the September 2006 actuarial valuations using the "entry age normal" actuarial cost method. The actuarial assumptions include the following:

Interest rate and rate of return	7.0%
Payroll increases	3.5%
Salary increases	4.0% - 8.5%

The assumptions did not include cost-of-living adjustments, which have been funded by the Corporation when granted through annual legislation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

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Notes to Financial Statements
September 30, 2009 and 2008

(11) Employees' Retirement Plan, Continued

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Contributions in 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, 2009 and 2008 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 in the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

For the years ended September 30, 2009 and 2008, retirement expense contribution including amounts paid for retiree supplemental COLA and health benefits was \$416,892 and \$440,481, respectively. At September 30, 2009 and 2008, the accrued unfunded liability to the retirement fund was \$97,869 and \$93,022, respectively.

Other Post Employment Benefits

The Government of Guam (GovGuam), through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the Government of Guam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage.

Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

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Notes to Financial Statements
September 30, 2009 and 2008

(12) Related Party Transactions

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

The Lada Estates units were to be sold at the cost of construction, plus 2% and \$3 per square meter for the house lot. The donated land initially recorded at \$2.10 per square meter increased by the cost of the development incurred. At September 30, 2009 and 2008, the Lada Estates project reported in the statements of net assets as Land Held for Development consists of the following:

Cost of the Land	\$ 392,385
Capitalized improvement for off-site and on-site infrastructure	10,555,000
Capitalized expenditures related to the development of Lada Estates Project	<u>5,166,953</u>
	<u>\$16,114,338</u>

The Corporation has a contingent receivable due from the Government of Guam totaling \$2,915,000 for the Government of Guam's off-site infrastructure costs incurred from Phase I of the Lada Estates Affordable Housing Project and which in prior years was reported as such in GHC's financial statements pursuant to Guam Public Law 25-116, Section 6 ("Price"). Public Law 25-116, Section 6 provides that "*The costs of the off-site infrastructure and off-site access roads shall be the responsibility of the Government of Guam*". The Government of Guam, Department of Administration ("DOA"), however, has not recorded the above-referenced liability in the Government's General Fund records. Additionally, there is also on-going litigation which was commenced by the contractor relating specifically to this liability associated with the Lada Estates Project against the Corporation and the Government of Guam. In the interim, the management of the Corporation has opted to reclassify this amount under the category of Land Held for Development until such time that the pending litigation is resolved. Upon ultimate adjudication by the Court, the receivable will either remain as part of Land Held for Development or be restated as receivable due from the Government of Guam.

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Notes to Financial Statements
September 30, 2009 and 2008

(13) Commitments and Contingencies

Commitments

As of September 30, 2009 and 2008, the Corporation has a total of \$2,098,440 and \$629,239, respectively, in loan commitments.

On February 2003, the Corporation entered into a Memorandum of Understanding (MOU) with Guam Economic Development and Commerce Authority (GEDCA), an autonomous agency of the Government of Guam to provide support services to the Corporation. Such services were for network and computer administration for a fee of \$21,696 per annum. At September 30, 2009 and 2008, rent paid to GEDCA totaled \$72,198 and \$72,198 respectively.

The Corporation sub-leases office space from GEDCA under its operating lease which expires February 28, 2011. The future minimum annual lease payments for this rental commitment under this operating lease are as follows:

Years ending September 30:

2010	\$ 72,198
2011	<u>30,082</u>
	<u>\$ 102,280</u>

Contingencies

The Corporation has recorded a liability payable to a contractor for \$10,555,000 associated with the Lada Estates Affordable Housing Subdivision Project Phase I for the design, build and finance of the off-site infrastructure and access roads for the project. The project was a turnkey project and was substantially completed July 24, 1998. Pursuant to the terms of the contract the Corporation believes that the liability may not be payable to the contractor. Additionally, the contractor is claiming accrued interest of \$8,383,776 and \$7,750,476 is due on the outstanding liability as of September 30, 2009 and 2008, respectively.

The Corporation is disputing both the liability and the accrued interest and its legal counsel believes that the contractor's claim may not be payable pursuant to the terms of the contract and under Guam Law. Therefore, it is not possible to determine the ultimate outcome of this matter and hence, no provision for any liability that may result from the accrued interest claimed by the contractor has been made in the accompanying financial statements.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(13) Commitments and Contingencies, continued

Contingencies

The Corporation has four (4) pending claims for approximately \$423,549 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.

Environmental Remediation

The Corporation owns forty six (46) acres of land known as Lada Estates Affordable Housing Subdivision. This property has experienced recurring illegal dumping of trash and refuse. Management recognizes this problem within the property and along the secondary roadways outlining the property may pose a potential negative impact on the environment.

The management of the Corporation has consulted with the Guam Environmental Protection Agency (GEPA) on potential environmental hazards. GEPA has offered to assist GHC in these environmental remediation matters and the Corporation is in the process of obtaining cost estimates for proper remediation and securing the property to help prevent future illegal dumping. Management is assessing the total cost of the cleanup and remediation. As of September 30, 2009, the Corporation has not recorded a provision for this liability in the accompanying financial statements. The Corporation believes, however, that any liability it may incur would not have material adverse affect on its financial condition or its results of operations.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2009 and 2008

(14) Prior Period Adjustment

In prior years, the Corporation DB Plan was accounted for as a single-employer plan. As more fully discussed in Note 11, effective October 1, 2008 the Government of Guam's Department of Administration redesignated the DB plan as a cost-sharing multiple-employer plan. Under the cost-sharing multiple-employer plan, the Corporation will recognize annual pension expense equal to its contractually required contributions to the DB Plan. Pension liabilities or assets will result from the difference between the contributions required and contributions made. The redesignation resulted in a reversal of the previously reported unfunded pension liability and related cost which totaled \$93,022 and \$16,103, respectively, as of and for the year ended September 30, 2008. The impact on the correction on the Corporation's net assets as of October 1, 2007 and the results of its operations for the year ended September 30, 2008, is as follows:

	<u>2008</u>	<u>2007</u>
	<u>Net Assets</u>	<u>Interest in Net Assets</u>
Net assets as of September 30, 2007, as previously reported	\$ 40,937,166	
Reversal of unfunded pension liability as of September 30, 2007	<u>76,915</u>	
Net assets as of September 30, 2007, as restated	41,014,081	
Increase in net assets for the year ended September 30, 2008, previously reported	784,745	\$ 784,745
Reversal of accrued pension expense for the year ended September 30, 2008	<u>16,107</u>	<u>16,107</u>
Net assets as of September 30, 2008, as restated	<u>\$ 41,814,933</u>	
Increase in net assets for the year ended September 30, 2008, as restated		<u>\$ 800,852</u>

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Net Assets
September 30, 2009

	ASSETS			Combined Total
	Housing	Rental	Eliminations	
Current Assets:				
Unrestricted assets:				
Cash and cash equivalents	\$ 9,859,316	\$ 1,373,134	\$ -	\$ 11,232,450
Self-insurance fund	-	1,291,117	-	1,291,117
Loans receivable	3,475,980	-	-	3,475,980
Tenant accounts receivable and other receivables	16,175	20,930	-	37,105
Accrued interest receivable	118,325	4,958	-	123,283
Supplies inventory	-	35,924	-	35,924
Prepaid expenses and other	2,879	-	-	2,879
Total unrestricted assets	<u>13,472,675</u>	<u>2,726,063</u>	<u>-</u>	<u>16,198,738</u>
Restricted assets:				
Cash and cash equivalents	2,815,018	258,672	-	3,073,690
Investments	5,658,710	-	-	5,658,710
Other receivables - current portion	312,564	-	-	312,564
Total restricted assets	<u>8,786,292</u>	<u>258,672</u>	<u>-</u>	<u>9,044,964</u>
Total current assets	<u>22,258,967</u>	<u>2,984,735</u>	<u>-</u>	<u>25,243,702</u>
Loans receivable	15,875,371	-	-	15,875,371
Other receivables - noncurrent portion	1,448,086	-	-	1,448,086
Land held for development	16,114,338	-	-	16,114,338
Foreclosed assets held for resale	641,246	-	-	641,246
Capital assets, net	18,818	5,816,456	-	5,835,274
Total assets	<u>\$ 56,356,826</u>	<u>\$ 8,801,191</u>	<u>\$ -</u>	<u>\$ 65,158,017</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Net Assets, Continued
September 30, 2009

	<u>Housing</u>	<u>Rental</u>	<u>Eliminations</u>	<u>Combined Total</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Payable from unrestricted assets:				
Accounts payable and accrued expenses	\$ 52,763	\$ 15,302	\$ -	\$ 68,065
Current portion of compensated absences	44,845	17,265	-	62,110
Deferred revenue	116,149	703	-	116,852
Total payable from unrestricted assets	213,757	33,270	-	247,027
Payable from restricted assets:				
Current portion of bonds payable	125,000	-	-	125,000
Current portion of notes payable	945,246	-	-	945,246
Accrued interest payable	51,574	-	-	51,574
Security deposits	-	48,823	-	48,823
Deposits by borrowers - insurance premiums and real estate taxes	590,639	-	-	590,639
Rebate liability	141,788	-	-	141,788
Total payable from restricted assets	1,854,247	48,823	-	1,903,070
Total current liabilities	2,068,004	82,093	-	2,150,097
Non-current liabilities:				
Payable from unrestricted assets:				
Long-term portion of accounts payable	10,555,000	-	-	10,555,000
Long-term portion of compensated absences	65,694	41,363	-	107,057
Payable from restricted assets:				
Bonds payable	4,980,000	-	-	4,980,000
Long-term portion of notes payable	4,351,620	-	-	4,351,620
Loans held in trust	619,977	-	-	619,977
Total non-current liabilities	20,572,291	41,363	-	20,613,654
Total liabilities	22,640,295	123,456	-	22,763,751
Net assets:				
Invested in capital assets, net of related debt	18,818	3,307,229	-	3,326,047
Restricted	21,828,641	2,622,365	-	24,451,006
Unrestricted	11,869,072	2,748,141	-	14,617,213
Total net assets	33,716,531	8,677,735	-	42,394,266
Commitments and Contingencies	\$ 56,356,826	\$ 8,801,191	\$ -	\$ 65,158,017

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

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

	Housing	Rental	Eliminations	Combined Total
Operating Revenues:				
Interest on loans receivable	\$ 1,649,854	\$ -	\$ -	\$ 1,649,854
Interest on investments held by bond trustees	350,791	-	-	350,791
Loan origination fees	81,373	-	-	81,373
Rental income	10,100	\$ 718,347	-	728,447
Total operating revenues	2,092,118	718,347	-	2,810,465
Operating Expenses:				
Salaries	644,896	243,752	-	888,648
Interest expense	653,662	-	-	653,662
Retirement contributions	186,996	65,056	-	252,052
Retiree supplemental, COLA and health benefits	113,142	51,698	-	164,840
Depreciation	22,335	123,449	-	145,784
Professional services	76,536	7,558	-	84,094
Rent	72,968	-	-	72,968
Contractual services	43,516	22,639	-	66,155
Other	29,141	32,438	-	61,579
Maintenance	-	56,948	-	56,948
Loan origination costs	45,369	-	-	45,369
Employee benefits, other than retirement	20,313	14,018	-	34,331
Bad debts	6,702	22,649	-	29,351
Bond trustee fees	14,602	-	-	14,602
Director fees	1,050	-	-	1,050
Travel	-	-	-	-
Total operating expenses	1,931,228	640,205	-	2,571,433
Income from operations	160,890	78,142	-	239,032
Non-operating Revenues (Expenses):				
Interest income on bank deposits	222,767	52,903	-	275,670
Other income	44,497	20,637	-	65,134
Loss on disposal of fixed assets	-	(503)	-	(503)
Total non-operating revenues (expenses), net	267,264	73,037	-	340,301
Increase in net assets	428,154	151,179	-	579,333
Net assets at beginning of year	33,288,377	8,526,556	-	41,814,933
Net assets at end of year	\$ 33,716,531	\$ 8,677,735	\$ -	\$ 42,394,266

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Cash Flows
Year Ended September 30, 2009

	Housing	Rental	Eliminations	Combined Total
Cash flows from operating activities:				
Receipts received from customers	\$ 1,547,604	\$ 658,084	\$ -	\$ 2,205,688
Payments to suppliers	(608,061)	(119,583)	-	(727,644)
Payments to employees	(644,896)	(374,524)	-	(1,019,420)
Other operating receipts	91,473	-	-	91,473
Net cash provided by operating activities	<u>386,120</u>	<u>163,977</u>	-	<u>550,097</u>
Cash flows from noncapital financing activities:				
Repayment of bonds payable	(110,000)	-	-	(110,000)
Repayment of notes payable	(886,002)	-	-	(886,002)
Repayment of rebate liability	31,678	-	-	31,678
Interest paid on notes payable	(370,401)	-	-	(370,401)
Interest paid on bonds	(283,261)	-	-	(283,261)
Increase in self-insurance fund	-	(119,485)	-	(119,485)
Net cash used in noncapital financing activities	<u>(1,617,986)</u>	<u>(119,485)</u>	-	<u>(1,737,471)</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	(275,627)	-	(275,627)
Purchase of property held for resale	(347,437)	-	-	(347,437)
Net cash used in capital and related financing activities	<u>(347,437)</u>	<u>(275,627)</u>	-	<u>(623,064)</u>
Cash flows from investing activities:				
Decrease in investments	102,141	-	-	102,141
Interest received on cash and investments with trustees	353,095	-	-	353,095
Interest income on bank deposits	252,793	52,903	-	305,696
Proceeds from sale of foreclosed assets held for resale	275,074	-	-	275,074
Other income	44,497	20,637	-	65,134
Net cash provided by investing activities	<u>1,027,600</u>	<u>73,540</u>	-	<u>1,101,140</u>
Net increase (decrease) in cash and cash equivalents	(551,703)	(157,595)	-	(709,298)
Cash and cash equivalents at beginning of year	13,226,037	1,789,401	-	15,015,438
Cash and cash equivalents at end of year	<u>\$ 12,674,334</u>	<u>\$ 1,631,806</u>	<u>\$ -</u>	<u>\$ 14,306,140</u>
Cash and cash equivalents	\$ 9,859,316	\$ 1,373,134	\$ -	\$ 11,232,450
Restricted cash and cash equivalents	2,815,018	258,672	-	3,073,690
Total cash and cash equivalents, end of year	<u>\$ 12,674,334</u>	<u>\$ 1,631,806</u>	<u>\$ -</u>	<u>\$ 14,306,140</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Cash Flows, Continued
Year Ended September 30, 2009

	Housing	Rental	Eliminations	Combined Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 160,890	\$ 78,142	\$ -	\$ 239,032
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:				
Bad debts	6,702	22,649	-	29,351
Depreciation	22,335	123,449	-	145,784
(Gain) loss on sale of properties held for resale	(172)	-	-	(172)
(Gain) loss on disposal of fixed assets	-	503	-	503
(Increase) decrease in assets:				
Loans receivable	395,579	-	-	395,579
Tenant accounts and other receivables	38,014	(10,886)	-	27,128
Accrued interest receivable	49,851	10,112	-	59,963
Other receivables	380	-	-	380
Foreclosed assets held for resale	(348,867)	-	-	(348,867)
Supplies inventory	-	7,912	-	7,912
Prepaid expenses and other	1,455	-	-	1,455
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	(29,529)	(74,245)	-	(103,774)
Accrued compensated absences	630	8,203	-	8,833
Accrued interest payable	(5,097)	-	-	(5,097)
Deposits by borrowers	138,666	-	-	138,666
Security deposits	-	(2,325)	-	(2,325)
Deferred revenues	(17,786)	463	-	(17,323)
Rebate liability	31,678	-	-	31,678
Loans held in trust	(58,609)	-	-	(58,609)
Net cash provided by operating activities	<u>\$ 386,120</u>	<u>\$ 163,977</u>	<u>\$ -</u>	<u>\$ 550,097</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Net Assets (Housing Division)
September 30, 2009 and 2008

<u>ASSETS</u>	<u>2009</u>	<u>(RESTATED)</u> <u>2008</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 9,859,316	\$ 11,055,325
Loans receivable	3,475,980	2,105,834
Accrued interest receivable	118,325	168,176
Tenant accounts and other receivables	16,175	54,189
Prepaid expenses and other	<u>2,879</u>	<u>4,334</u>
Total unrestricted assets	<u>13,472,675</u>	<u>13,387,858</u>
Restricted assets:		
Cash and cash equivalents	2,815,018	2,170,712
Investments	5,658,710	5,556,569
Other receivables - current portion	<u>312,564</u>	<u>209,539</u>
Total restricted assets	<u>8,786,292</u>	<u>7,936,820</u>
Total current assets	22,258,967	21,324,678
Loans receivable	15,875,371	17,540,682
Other receivables - noncurrent portion	1,448,086	1,551,491
Land held for development	16,114,338	16,114,338
Foreclosed assets held for resale	641,246	292,379
Capital assets, net	<u>18,818</u>	<u>41,153</u>
Total assets	<u>\$ 56,356,826</u>	<u>\$ 56,864,721</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Net Assets (Housing Division), Continued
September 30, 2009 and 2008

<u>LIABILITIES AND NET ASSETS</u>	<u>2009</u>	(RESTATED) <u>2008</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses	\$ 52,763	\$ 82,292
Current portion of accrued annual leave	44,845	46,438
Deferred revenue	<u>116,149</u>	<u>133,935</u>
Total payable from unrestricted assets	<u>213,757</u>	<u>262,665</u>
Payable from restricted assets:		
Current portion of bonds payable	125,000	110,000
Current portion of notes payable	945,246	886,002
Accrued interest payable	51,574	56,671
Deposits by borrowers - insurance premiums and real estate taxes	590,639	451,973
Rebate liability	<u>141,788</u>	<u>110,110</u>
Total payable from restricted assets	<u>1,854,247</u>	<u>1,614,756</u>
Total current liabilities	<u>2,068,004</u>	<u>1,877,421</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Long-term portion of accounts payable	10,555,000	10,555,000
Long-term portion of accrued annual and sick leave	65,694	63,471
Payable from restricted assets:		
Bonds payable	4,980,000	5,105,000
Long-term portion of notes payable	4,351,620	5,296,866
Loans held in trust	<u>619,977</u>	<u>678,586</u>
Total non-current liabilities	<u>20,572,291</u>	<u>21,698,923</u>
Total liabilities	<u>22,640,295</u>	<u>23,576,344</u>
Net assets:		
Invested in capital assets, net of related debt	18,818	41,153
Restricted	21,828,641	21,452,308
Unrestricted	<u>11,869,072</u>	<u>11,794,916</u>
Total net assets	<u>33,716,531</u>	<u>33,288,377</u>
Commitments and Contingencies	<u>\$ 56,356,826</u>	<u>\$ 56,864,721</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

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

	<u>2009</u>	<u>(RESTATED)</u> <u>2008</u>
Operating Revenues:		
Interest on loans receivable	\$ 1,649,854	\$ 1,702,280
Interest on investments held by bond trustees	350,791	327,902
Loan origination fees	81,373	52,423
Rental income	<u>10,100</u>	<u>10,425</u>
Total operating revenues	<u>2,092,118</u>	<u>2,093,030</u>
Operating Expenses:		
Interest expense	653,662	715,290
Salaries	644,896	719,650
Retirement contributions	186,996	196,900
Retiree supplemental, Cola and health benefits	113,142	127,649
Professional services	76,536	58,051
Rent	72,968	72,198
Loan origination costs	45,369	29,843
Contractual services	43,516	43,603
Other	29,141	35,945
Depreciation	22,335	21,862
Employee benefits, other than retirement	20,313	31,210
Bond trustee fees	14,602	14,945
Bad debts	6,702	416
Director fees	1,050	800
Travel	<u>-</u>	<u>10,494</u>
Total operating expenses	<u>1,931,228</u>	<u>2,078,856</u>
Income from operations	<u>160,890</u>	<u>14,174</u>
Non-operating Revenues (Expenses):		
Interest income on bank deposits	222,767	461,503
Other income	<u>44,497</u>	<u>54,879</u>
Total non-operating expenses	<u>267,264</u>	<u>516,382</u>
Increase in in net assets	428,154	530,556
Total net assets at beginning of year	<u>33,288,377</u>	<u>32,757,821</u>
Total net assets at end of year	<u>\$ 33,716,531</u>	<u>\$ 33,288,377</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Cash Flows (Housing Division)
Years Ended September 30, 2009 and 2008

	<u>2009</u>	(RESTATED) <u>2008</u>
Cash flows from operating activities:		
Receipts received from customers	\$ 1,547,604	\$ 1,859,506
Payments to suppliers	(608,061)	(714,778)
Payments to employees	(644,896)	(719,650)
Other operating receipts	91,473	62,849
Net cash provided by operating activities	<u>386,120</u>	<u>487,927</u>
Cash flows from noncapital financing activities:		
Repayment of bonds payable	(110,000)	(105,000)
Repayment of notes payable	(886,002)	(830,473)
Increase in rebate liability	31,678	5,176
Interest paid on notes payable	(370,401)	(431,358)
Interest paid on bonds	(283,261)	(288,898)
Net cash used in noncapital financing activities	<u>(1,617,986)</u>	<u>(1,650,553)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	-	(22,658)
Purchase of property of property held for resale	(347,437)	-
Net cash used for capital and related financing activities	<u>(347,437)</u>	<u>(22,658)</u>
Cash flows from investing activities:		
Increase (decrease) in investments	102,141	(72,422)
Interest received on cash and investments with trustees	353,095	327,902
Interest income on bank deposits	252,793	401,795
Proceeds from sale of foreclosed assets	275,074	832,546
Other income	44,497	54,879
Net cash provided by investing activities	<u>1,027,600</u>	<u>1,544,700</u>
Net increase in cash and cash equivalents	(551,703)	359,416
Cash and cash equivalents at beginning of year	<u>13,226,037</u>	<u>12,866,621</u>
Cash and cash equivalents at end of year	<u>\$ 12,674,334</u>	<u>\$ 13,226,037</u>
Cash and cash equivalents	\$ 9,859,316	\$ 11,055,325
Restricted cash and cash equivalents	<u>2,815,018</u>	<u>2,170,712</u>
Total cash and cash equivalents, end of year	<u>\$ 12,674,334</u>	<u>\$ 13,226,037</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Cash Flows (Housing Division)
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>(RESTATED)</u> <u>2008</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 160,890	\$ 14,174
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:		
Depreciation	22,335	21,872
Bad debts	6,702	416
Loss (gain) on sale of properties held for resale	(172)	103,232
Loss (gain) on disposal of fixed assets	-	-
(Increase) decrease in assets:		
Loans receivable	395,579	(526,762)
Accrued interest receivable	49,851	67,762
Other receivables	38,394	59,344
Foreclosed assets held for resale	(348,867)	832,546
Prepaid expenses and other	1,455	16
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(29,529)	(5,929)
Accrued compensated absences	630	(9,522)
Deferred revenues	(17,786)	(13,824)
Accrued interest payable	(5,097)	(4,962)
Deposits by borrowers	138,666	(13,709)
Rebate liability	31,678	5,176
Loans held in trust	(58,609)	(41,903)
Net cash provided by operating activities	<u>\$ 386,120</u>	<u>\$ 487,927</u>
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	<u>\$ 653,662</u>	<u>\$ 720,256</u>
Loans foreclosed and transferred to assets held for resale during the year	<u>\$ 346,859</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Balance Sheets (Rental Division)
September 30, 2009 and 2008

<u>ASSETS</u>	<u>2009</u>	<u>(RESTATED)</u> <u>2008</u>
Current assets:		
Unrestricted cash and cash equivalents	\$ 1,373,134	\$ 1,725,789
Restricted cash and cash equivalents	258,672	63,612
Self-insurance fund	1,291,117	1,171,632
Tenant accounts and other receivables, net	20,930	10,044
Accrued interest receivable	4,958	15,070
Supplies inventory	<u>35,924</u>	<u>43,836</u>
Total current assets	2,984,735	3,029,983
Capital assets, net	<u>5,816,456</u>	<u>5,687,933</u>
	<u>\$ 8,801,191</u>	<u>\$ 8,717,916</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable and accrued expenses	\$ 15,302	\$ 89,547
Current portion of compensated absences	17,265	14,362
Security deposits	48,823	48,360
Deferred revenue	<u>703</u>	<u>3,028</u>
Total current liabilities	<u>82,093</u>	<u>155,297</u>
Non-current liabilities:		
Long-term portion of compensated absences	<u>41,363</u>	<u>36,063</u>
Total long-term liabilities	<u>41,363</u>	<u>36,063</u>
Total liabilities	<u>123,456</u>	<u>191,360</u>
Net assets:		
Invested in capital assets, net of related debt	3,307,229	3,178,705
Restricted	2,622,365	2,803,272
Unrestricted	<u>2,748,141</u>	<u>2,544,579</u>
Total net assets	<u>8,677,735</u>	<u>8,526,556</u>
Commitments and contingencies	<u>\$ 8,801,191</u>	<u>\$ 8,717,916</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Statement of Revenues, Expenses and Changes in Net Assets (Rental Division)
Years Ended September 30, 2009 and 2008

	<u>2009</u>	(RESTATED) <u>2008</u>
Revenues:		
Tenant rental income	\$ 718,347	\$ 722,630
Total revenues	<u>718,347</u>	<u>722,630</u>
Operating expenses:		
Salaries and benefits, other than retirement	243,752	227,080
Depreciation and amortization	123,449	117,190
Retirement contributions	65,056	61,743
Maintenance	56,948	52,578
Retiree supplemental, COLA and health benefits	51,698	54,189
Other	32,438	18,042
Bad debts	22,649	-
Contractual services	22,639	42,336
Employee benefits, other than retirement	14,018	11,160
Professional services	<u>7,558</u>	<u>9,220</u>
Total operating expenses	<u>640,205</u>	<u>593,538</u>
Income from operations	<u>78,142</u>	<u>129,092</u>
Non-operating revenues (expenses):		
Interest income on bank accounts	52,903	97,041
Other income	20,637	44,163
Loss on disposal of assets	<u>(503)</u>	<u>-</u>
Total non-operating revenues	<u>73,037</u>	<u>141,204</u>
Increase in net assets	151,179	270,296
Net assets at beginning of year	<u>8,526,556</u>	<u>8,256,260</u>
Net assets at end of year	<u>\$ 8,677,735</u>	<u>\$ 8,526,556</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Cash Flows (Rental Division)
Years Ended September 30, 2009 and 2008

	<u>2009</u>	(RESTATED) <u>2008</u>
Cash flows from operating activities:		
Receipts received from customers	\$ 658,084	\$ 719,961
Payments to suppliers	(119,583)	(172,651)
Payments to employees	(374,524)	(227,080)
Net cash provided by operating activities	<u>163,977</u>	<u>320,230</u>
Cash flows from noncapital financing activities:		
Increase in self-insurance fund	(119,485)	(136,080)
Net cash used in noncapital financing activities	<u>(119,485)</u>	<u>(136,080)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(275,627)	(20,799)
Net cash used in capital and related financing activities	<u>(275,627)</u>	<u>(20,799)</u>
Cash flows from investing activities:		
Other nonoperating receipts	20,637	44,163
Interest income on bank deposits	52,903	97,041
Net cash provided by investing activities	<u>73,540</u>	<u>141,204</u>
Net increase (decrease) in cash and cash equivalents	(157,595)	304,555
Cash and cash equivalents at beginning of year	<u>1,789,401</u>	<u>1,484,846</u>
Cash and cash equivalents at end of year	<u>\$ 1,631,806</u>	<u>\$ 1,789,401</u>
Cash and cash equivalents	\$ 1,373,134	\$ 1,725,789
Restricted cash and cash equivalents	258,672	63,612
Total cash and cash equivalents, end of year	<u>\$ 1,631,806</u>	<u>\$ 1,789,401</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Cash Flows (Rental Division)
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>(RESTATED)</u> <u>2008</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 78,142	\$ 129,092
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Bad debts	22,649	-
Depreciation	123,449	117,190
Loss on disposal of capital assets	503	-
(Increase) decrease in assets:		
Tenant accounts and other receivables, net	(10,886)	2,295
Accrued interest receivable	10,112	10,835
Supplies inventory	7,912	5,410
Prepaid expenses and other	-	16,768
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(74,245)	47,835
Accrued compensated absences	8,203	(7,392)
Deferred rental income	(2,325)	1,211
Security deposits	463	(3,014)
Net cash provided by operating activities	<u>\$ 163,977</u>	<u>\$ 320,230</u>

The accompanying notes are an integral part of these financial statements.

GUAM HOUSING CORPORATION
(A Component Unit of the Government of Guam)

Supplemental Information

Salaries, Wages and Benefits
Years ended September 30, 2009 and 2008

	2009	(Restated) <u>2008</u>
Salaries, wages and benefits:		
Salaries	\$ 888,648	\$ 946,730
Retirement benefits	252,052	258,643
Retiree supplemental, cola and health benefits	164,840	181,838
Benefits other than retirement	<u>34,331</u>	<u>42,370</u>
Total salaries, wages and benefits	<u>\$1,339,871</u>	<u>\$1,429,581</u>
Employees at end of year	24	23

See accompanying independent auditor's report.