
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, 2006 AND 2005

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

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September 30, 2006 and 2005

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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, 2006 and 2005, 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, 2006 and 2005, 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.

The Management's Discussion and Analysis on pages 3 through 12 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 schedule on page 45, for the years ended September 30, 2006 and 2005 and the supplemental divisional information on pages 46 through 59, is 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, 2006. 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 22, 2007, 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. 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 22, 2007

GUAM HOUSING CORPORATION
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Management's Discussion and Analysis
Years Ended September 30, 2006 and 2005

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 of the Corporation for the fiscal year ended September 30, 2006. We encourage readers of these financials 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, the Corporation is moving forward with its own programs and in cooperation with USDA and Land Trust Initiative. The Corporation continues to face its usual concerns of a turning economy. However, it should be noted there has been an improvement in loan collections and a decrease in foreclosures. We anticipate that the steady economic recovery will spur an increase in our loan origination activity, as interest rates, and home ownership improves.

Guam Housing Corporation's mandate is to help individuals to secure mortgage financing who can not otherwise qualify as borrowers through conventional means. Many in our target population that once would have first looked to GHC for funding, have found the conditions, i.e., low interest rates and competitive opportunities (i.e., debt consolidation, reduced loan fees, no appraisal fees) available to them through private lenders, to be the better choice. From the standpoint of our mandate, this situation is not wholly unexpected or even unsatisfactory as increased loan origination among private sector lenders can be viewed as an indication of a recovering economy. We encourage individuals to seek financing through conventional lenders wherever and whenever it is feasible for them to do so. GHC, as the government entity in this industry, is ever mindful that competition with the private sector is not an option open to us.

By virtue of Title 21, Chapter 75 of the Guam Code Annotated, GHC is the primary (and in most cases 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. Veterans Administration direct loan under the Native American Loan Program. 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.

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. The current interest rate is 7.5% for a term of 30 years. This is subject to change.

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Loan Programs, continued

II. Six Percent Loan Program

This is a low interest rate residential mortgage loan program to assist families and individuals who are first time homeowners and are unable to obtain financing from conventional mortgage lending institutions. The interest rate 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 down payment assistance program for first time homeowners for families and individuals who lack the down payment resources to purchase or construct a typhoon-resistant home. The enabling legislation is Public Law 21-99. The term of the loan is 30 years.

IV. Leveraged Loan Program

This loan program is a joint financing concept between USDA Rural Development and Guam Housing Corporation. The housing applicant receives two loans. Both lenders (USDA Rural Development and Guam Housing Corporation) make separate financial agreements and each lender remains responsible for underwriting its loans though some of the application and closing costs can be combined. This results in cost saving for the applicant and also furthers the funding resources of USDA Rural Development.

V. USDA Rural Development

For this program, the Corporation uses its interest rates for its regular loan program with a term of thirty (30) years and hold first lien positions. The USDA Rural Development loans are written for thirty-three (33) years. The USDA Rural Development loans are available as a second mortgage at the current interest rate of 5.75% which is subject to change. However, because the USDA Rural Development loans are subsidized, borrowers may pay an interest rate as low as 1% to a maximum of 5.75% depending on their income. Borrowers who are eligible for this subsidized program will be reviewed annually throughout the term of the loan.

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, bringing the total number of rental units to 141. In 2001, as GHC executed its recovery, management considered the benefits of selling the Lada Gardens. However, no action on the sale has been taken to date.

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Lada Estates Affordable Housing

Through Public Law 20-225, 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, 2006, the issue of Lada Estates remains unresolved.

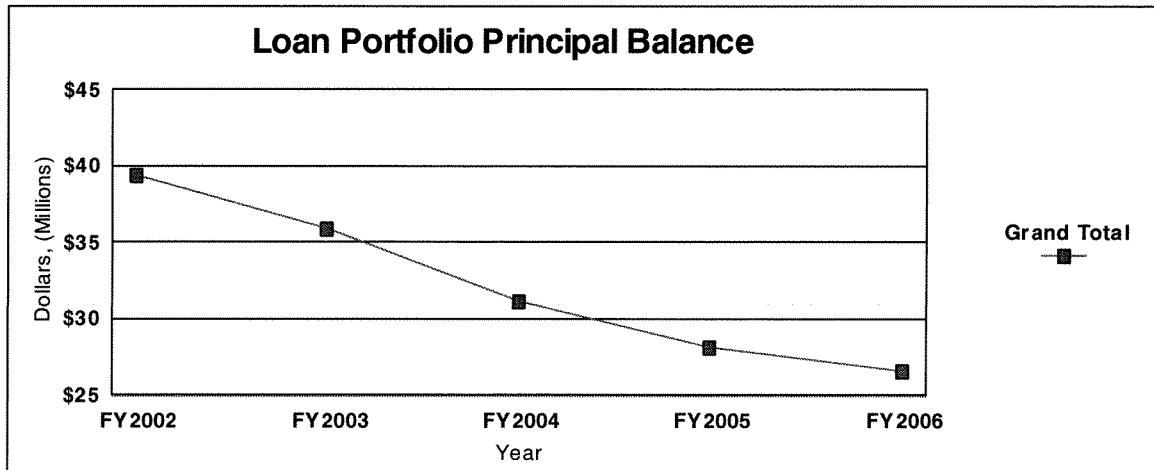
FINANCIALS AT-A-GLANCE

The GHC loan portfolio was reduced by \$1.55M to \$26.63M, decreasing 5.51% from the prior year. Loan payoffs, foreclosures, and non-performing loans contributed to a situation already complicated by a lingeringly slow economic recovery that impedes the corporation's prospects for new loans. The following chart shows the downward trend of the GHC portfolio. 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.

Loan Portfolio

Principal

Balance	FY2002	FY2003	FY2004	FY2005	FY2006
Grand total	\$39,381,962	\$35,929,693	\$31,175,230	\$28,185,870	\$26,632,726



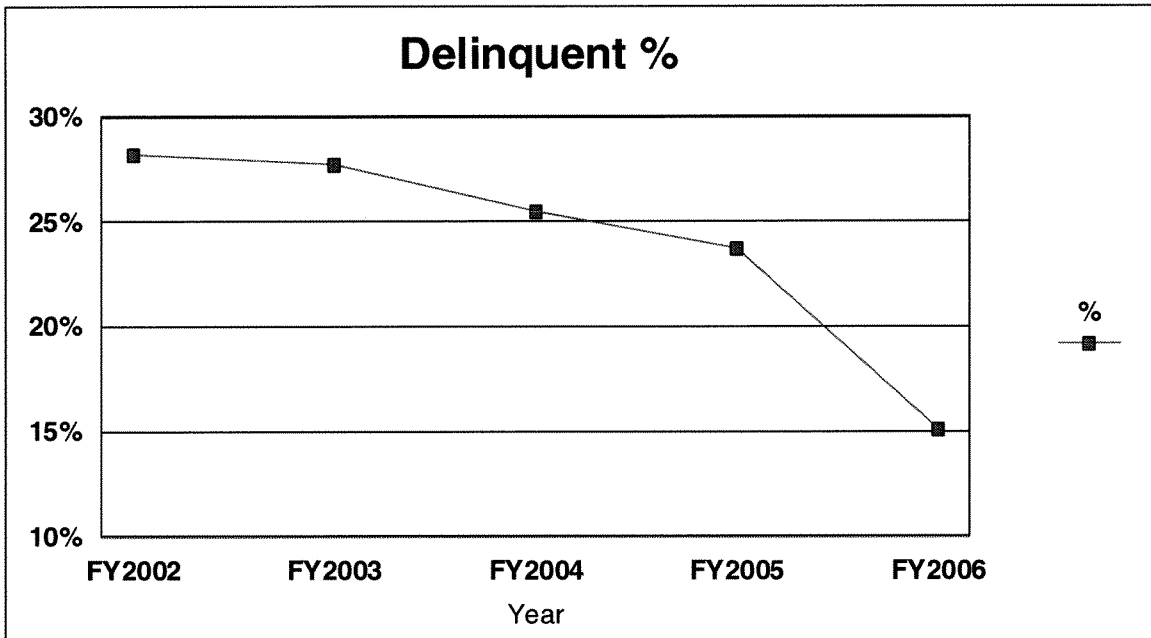
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Management's Discussion and Analysis
 Years Ended September 30, 2006 and 2005

Total delinquencies decreased by 48 loans during the year, an improvement of \$2.6M over the previous year. Overall, loans delinquent 30 days and over fell by 8.65% from the past year to 15.09%. The decrease in GHC's delinquent accounts is presented in the statistical data and chart below. The decreases are the result of a concerted effort in collections and servicing.

	FY2002	FY2003	FY2004	FY2005	FY2006
Delinquent %	28.17%	27.74%	25.51%	23.74%	15.09%
Principal Balance	\$11,094,528	\$9,967,364	\$7,953,395	\$6,521,715	\$3,919,197

Total number of loans	234	216	140	108	60
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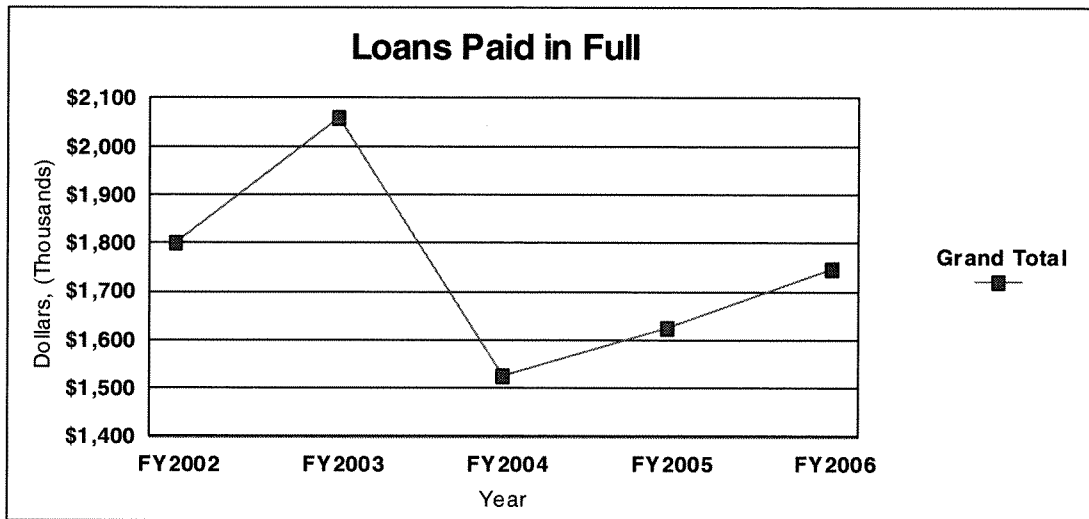
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Forty-nine (49) loan payoffs were received in FY2006 totaling \$1.7M, an increase of \$123,400 over the prior year. The payoffs can be attributed in part to mortgage holders refinancing the homes at lower interest rates than those available in years past, some as high as 12%. Because these particular home owners are no longer first time home buyers, GHC cannot provide financing for this purpose. Others were delinquent account holders who sought financing through another institution to prevent foreclosure by Guam Housing Corporation. The following data and chart depicts the trend in loan payoffs over the past five (5) years.

Loans Paid in Full	FY2002	FY2003	FY2004	FY2005	FY2006
Grand total	\$1,802,486	\$2,061,421	\$1,525,515	\$1,624,036	\$1,747,437

Total number of loans	58	68	52	44	49
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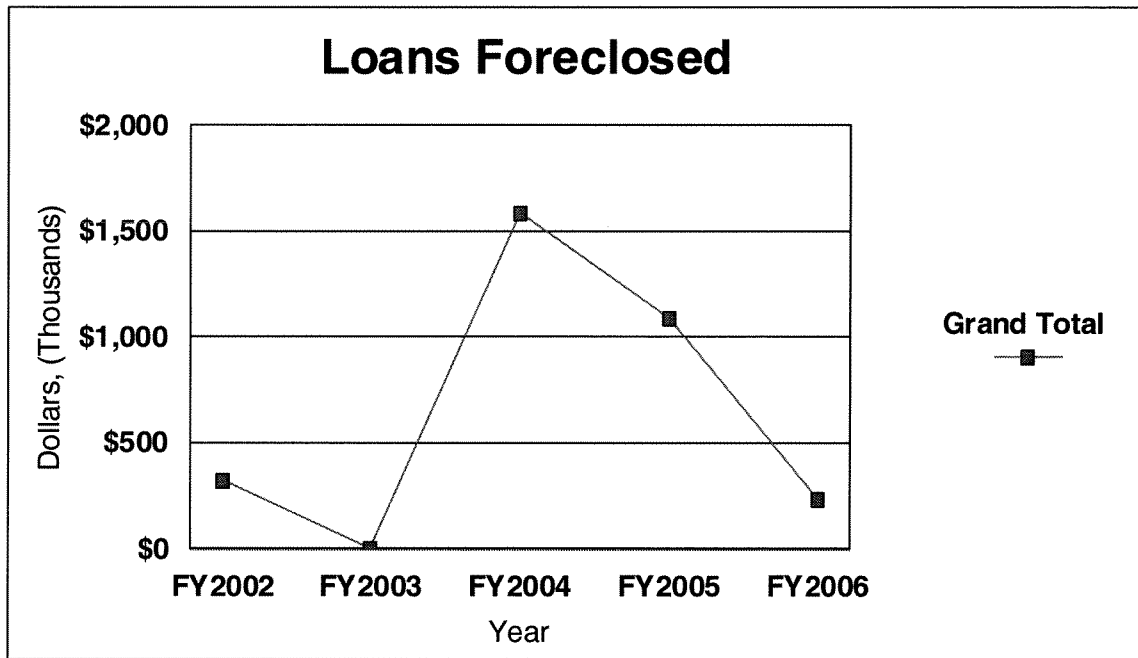
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A change in legal counsel in early 2003 resulted in more assertive legal action and loan foreclosure. The chart below shows a substantial increase in loan foreclosures in FY 2004 and annual decreases in FY 2005 & FY 2006. A total of three (3) accounts were foreclosed in FY2006, totaling \$240,849. Action taken by our legal counsel has been an invaluable help to GHC to aggressively and successfully complete foreclosure actions.

Loans Foreclosed	FY2002	FY2003	FY2004	FY2005	FY2006
Grand total	\$326,714	\$ -	\$1,589,852	\$1,087,763	\$240,849

Total number of loans	3	0	14	11	3
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Nine (9) units were sold in FY2006. Total loss on the sale was \$98,636. 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 vandals 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 sustain a better market value in our foreclosed units.

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As you read the accompanying financial statements on page 13, you will 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. The condensed financial statements for the years end September 30, 2006, 2005 and 2004 are as follows:

Statements of Net Assets

Fiscal Years Ended September 30, 2006, 2005 and 2004

<u>Assets</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cash & investments	\$ 18,696,085	\$ 16,345,436	\$ 14,095,761
Loans receivable, other receivable and other assets	23,122,029	24,703,386	27,670,049
Due from Government of Guam	2,915,000	2,915,000	2,915,000
Land held for development	13,199,338	13,199,338	13,199,338
Foreclosed assets held for resale	1,982,677	2,411,759	1,699,841
Capital assets	<u>5,967,579</u>	<u>6,113,926</u>	<u>6,275,115</u>
Total Assets	<u>\$ 65,882,708</u>	<u>\$ 65,688,845</u>	<u>\$ 65,855,104</u>
<u>Liabilities and Net Assets</u>			
Accounts payable & accrued expenses	\$ 11,358,054	\$ 11,308,640	\$ 11,457,517
Notes payable	7,791,763	8,521,398	9,205,303
Deposits by borrowers & security deposit	609,070	554,017	546,699
Bonds payable	5,420,000	5,515,000	5,605,000
Loans held in trust	<u>777,067</u>	<u>826,092</u>	<u>979,159</u>
Total Liabilities	25,955,954	26,725,147	27,793,678
Total net assets	<u>39,926,754</u>	<u>38,963,698</u>	<u>38,061,426</u>
Total liabilities and net assets	<u>\$ 65,882,708</u>	<u>\$ 65,688,845</u>	<u>\$ 65,855,104</u>

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Management's Discussion and Analysis
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Statements of Revenues, Expenditures and Changes in Net Assets
Fiscal Years Ended September 30, 2006, 2005 and 2004

	2006	2005	2004
Operating revenues	\$ 3,058,901	\$ 3,180,752	\$ 3,498,724
Operating expenses	2,523,290	2,569,394	2,970,542
Income from operations	535,611	611,358	528,182
Non-operating revenues	427,445	290,914	101,397
Increase in net assets	963,056	902,272	629,579
Total net assets at beginning of year	38,963,698	38,061,426	37,431,847
Total net assets at end of year	\$ 39,926,754	\$ 38,963,698	\$ 38,061,426

LOAN PORTFOLIO

The total loan portfolio decreased by 5.51% in FY 2006. Although the Corporation realized a slight increase in the loan origination activity, GHC still realized a number of loan payoffs. A number of these payoffs were results from workout agreements in lieu of foreclosure. As of September, 2006 30 loans were approved totaling \$2.3 million. For FY 2006, thirty-seven (37) loans were closed totaling \$2.2 million.

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 176 pre-qualification interviews conducted. Of these, only 30 pursued the loan processing.

Despite management's efforts in its marketing activities, it appears that current statutory requirements may be a deterrent in increasing its loan origination activities. Currently, the Corporation is mandated to provide assistance to those applicants who are unable to obtain financing through conventional means. A good 75% of these applicants who were interviewed did not return for reasons such as not being able to obtain a rejection as other 100% financing is now available from the banks through a guaranteed loan program from the USDA Rural Development or simply just not having the funds for a preliminary interview with the banks. The Corporation is exploring alternatives to increase its loan activities by possibly amending its current mandate.

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LOAN PORTFOLIO, continued

Another obstacle is the interest rate charged to applicants. The statutory requirement in establishing interest rate is to charge the cost of funds plus up to two percent. The current rate is now at 7.5% which is much higher than banks. The current interest rate elsewhere may be as low as 5.875%. Management will provide recommendation to the Board of Directors for a proposed resolution to amend the current statute.

A good number of applicants still in process are seeking properties within the price range they are qualified for. It appears that there may be a lack of inventory of existing homes within the \$100,000 to \$160,000.00. 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.

Collections continued to improve steadily throughout the fiscal year. Management is optimistic that the delinquency rate will continue to improve to be comparable to the banking industry or slightly higher than industry standards.

DELINQUENCY

Collections have improved by 8.65% in FY2006. Regrettably, this \$2.6 million improvement is itself overshadowed by the decline of the total portfolio. The Loan 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 policy requires that all accounts past 90 days must be reviewed and referred to legal counsel for further proceedings, each account is reviewed by the Credit and Collection Committee to determine if a workout agreement to reduce the Corporation's loss would be in the best interest of the Corporation rather than pursuing foreclosure. There are some cases in which the current market value of the secured property may be lower than the payoff thus the Corporation will realize a loss. If the borrower is committed and has demonstrated the ability to service the workout amount, we will authorize the workout. This, however, will not eliminate foreclosure should the borrower renege on the approved payment arrangement.

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Years Ended September 30, 2006 and 2005

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

The Corporation foreclosed on three (3) homes during the year ended September 30, 2006. With legal counsel firmly on track with the Loan Division on referrals for foreclosure, we fully expect that the process will continue to improve. Current 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 2006, the Corporation had a total of twenty (20) OREO properties.

These units foreclosed in FY2006 were collectively in quite poor condition and proved far more difficult to sell than anticipated. To better move these properties for sale, the Guam Housing Corporation 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 \$117,923 charged against the allowance for loan losses in the current fiscal year. Loan receivable recoveries from previous years totaled \$140,385 for year ended September 30, 2006. Management and the Board believes 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.

DEBT SERVICE

GHC continues to honor its debt service obligations to its sole creditor, the Federal Home Loan Bank of Seattle. As of September 30, 2006, \$7,791,763 remains due on this note which is on schedule to be fully amortized by the year 2014.

GOVERNMENT REORGANIZATION AND STREAMLINING

Reorganization of the government is the subject of much discussion and planning in the current administration. In the future, it is expected that major steps will be taken to combine agencies, departments and divisions of the government of Guam that provide like services and functions.

GUAM HOUSING CORPORATION
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Statements of Net Assets
September 30, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents (notes 1 and 2)	\$ 2,777,806	\$ 3,060,918
Loans receivable (notes 1, 3, 9 and 12)	3,100,013	3,683,004
Tenant accounts receivable and other receivables, net (note 6)	12,329	27,783
Accrued interest receivable (notes 3 and 12)	229,430	204,972
Supplies inventory	35,492	35,863
Prepaid expenses and other	<u>9,892</u>	<u>20,590</u>
Total unrestricted assets	<u>6,164,962</u>	<u>7,033,130</u>
Restricted assets:		
Cash and cash equivalents (notes 1 and 2)	9,269,701	6,580,607
Self-insurance fund (notes 1 and 2)	906,118	796,603
Investments (notes 2, and 8)	5,742,460	5,907,308
Other receivables-current portion (notes 4 and 12)	<u>107,882</u>	<u>149,292</u>
Total restricted assets	<u>16,026,161</u>	<u>13,433,810</u>
Total current assets	22,191,123	20,466,940
Loans receivable (notes 1, 3, 9 and 12)	17,609,455	18,473,518
Other receivables -noncurrent portion (notes 4 and 12)	2,017,536	2,108,364
Due from Government of Guam and other agencies (notes 5 and 14)	2,915,000	2,915,000
Land held for development (note 12)	13,199,338	13,199,338
Foreclosed assets held for resale (note 7)	1,982,677	2,411,759
Capital assets, net (note 6)	<u>5,967,579</u>	<u>6,113,926</u>
Total assets	<u>\$ 65,882,708</u>	<u>\$ 65,688,845</u>

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

GUAM HOUSING CORPORATION
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Statements of Net Assets, Continued
September 30, 2006 and 2005

<u>LIABILITIES AND NET ASSETS</u>	<u>2006</u>	<u>2005</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses (note 1)	\$ 322,056	\$ 291,382
Deferred rental income	1,900	2,860
Current portion of accrued annual leave (note 1)	<u>55,409</u>	<u>54,992</u>
Total payable from unrestricted assets	<u>379,365</u>	<u>349,234</u>
Payable from restricted assets:		
Current portion of bonds payable (notes 8 and 10)	100,000	95,000
Current portion of notes payable (note 9)	778,422	729,635
Accrued interest payable (note 9)	66,145	70,404
Security deposits	56,504	48,654
Deposits by borrowers - insurance premiums and real estate taxes	552,566	505,363
Rebate liability (note 8)	<u>133,092</u>	<u>74,999</u>
Total payable from restricted assets	<u>1,686,729</u>	<u>1,524,055</u>
Total current liabilities	<u>2,066,094</u>	<u>1,873,289</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 accrued annual and sick leave (note 1)	119,019	104,122
Accrued unfunded liability to retirement fund (note 11)	105,433	154,881
Payable from restricted assets:		
Long-term portion of bonds payable (notes 8 and 10)	5,320,000	5,420,000
Long-term portion of notes payable (notes 9 and 10)	7,013,341	7,791,763
Loans held in trust (note 4)	<u>777,067</u>	<u>826,092</u>
Total non-current liabilities	<u>23,889,860</u>	<u>24,851,858</u>
Total liabilities	<u>25,955,954</u>	<u>26,725,147</u>
Net assets:		
Invested in capital assets, net of related debt	3,458,351	3,604,697
Restricted (note 9)	24,114,220	24,038,311
Unrestricted	<u>12,354,183</u>	<u>11,320,690</u>
Total net assets	<u>39,926,754</u>	<u>38,963,698</u>
Commitments and Contingencies (note 13)	<u>\$ 65,882,708</u>	<u>\$ 65,688,845</u>

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

GUAM HOUSING CORPORATION
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Statements of Revenues, Expenditures and Changes in Net Assets
Year Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Interest on loans receivable	\$ 2,046,435	\$ 2,082,875
Rental income	772,178	789,942
Interest on investments held by bond trustees	170,604	219,059
Loan origination fees	62,447	86,271
Other	<u>7,237</u>	<u>2,605</u>
Total operating revenues	<u>3,058,901</u>	<u>3,180,752</u>
Operating Expenses:		
Salaries	870,933	888,359
Interest expense	825,703	875,354
Retirement contributions	207,639	166,864
Depreciation	164,168	168,564
Bad debts	43,659	105,647
Rent	72,198	72,198
Contractual services	74,167	70,693
Professional services	62,307	60,796
Other	67,515	26,297
Employee benefits, other than retirement	53,621	44,739
Loan origination costs	34,247	48,396
Maintenance	31,274	25,603
Bond trustee fees	<u>15,859</u>	<u>15,884</u>
Total operating expenses	<u>2,523,290</u>	<u>2,569,394</u>
Income from operations	<u>535,611</u>	<u>611,358</u>
Non-operating revenues (expenses):		
Interest income on bank deposits	336,123	157,534
Other income	92,970	133,380
Loss on disposal of fixed assets	<u>(1,648)</u>	<u>-</u>
Total non-operating expenses	<u>427,445</u>	<u>290,914</u>
Increase in net assets	963,056	902,272
Net assets at beginning of year	<u>38,963,698</u>	<u>38,061,426</u>
Net assets at end of year	<u>\$ 39,926,754</u>	<u>\$ 38,963,698</u>

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

GUAM HOUSING CORPORATION
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Statements of Cash Flows
Year Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts received from customers	\$ 4,171,837	\$ 4,956,000
Payments to suppliers	(618,827)	(547,143)
Payments to employees	(870,933)	(872,686)
Other operating receipts	<u>69,684</u>	<u>305,330</u>
Net cash provided by operating activities	<u>2,751,761</u>	<u>3,841,501</u>
Cash flows from investing activities:		
Decrease in investments	164,848	173,738
Interest received on cash and investments with trustees	170,604	219,059
Interest income on bank deposits	336,123	157,534
Other income	<u>92,970</u>	<u>133,380</u>
Net cash provided by investing activities	<u>764,545</u>	<u>683,711</u>
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(95,000)	(90,000)
Repayment of notes payable	(729,635)	(946,578)
Repayment of rebate liability	(58,093)	(12,676)
Interest paid on notes payable	(527,852)	(679,209)
Increase in self-insurance fund	(109,515)	(153,746)
Proceeds from sale of assets held for resale	727,091	-
Interest paid on bonds	(297,851)	(302,336)
Acquisition of capital assets	<u>(19,469)</u>	<u>(5,933)</u>
Net cash used for financing activities	<u>(1,110,324)</u>	<u>(2,190,478)</u>
Net increase in cash and cash equivalents	2,405,982	2,334,734
Cash and cash equivalents at beginning of year	<u>9,641,525</u>	<u>7,306,791</u>
Cash and cash equivalents at end of year	<u>\$ 12,047,507</u>	<u>\$ 9,641,525</u>
Cash and cash equivalents	\$ 2,777,806	\$ 3,060,918
Restricted cash and cash equivalents	<u>9,269,701</u>	<u>6,580,607</u>
Total cash and cash equivalents, end of year	<u>\$ 12,047,507</u>	<u>\$ 9,641,525</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, 2006 and 2005

	2006	2005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 535,611	\$ 611,358
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	43,659	105,647
Depreciation	164,168	168,564
Amortization of discount on loan due from Rental Division	(18,710)	(30,000)
(Gain) loss on disposal of fixed assets	1,648	-
Loss on sale of properties held for resale	98,636	13,584
(Increase) decrease in assets:		
Loans receivable	1,353,229	3,728,756
Tenant accounts and other receivables	(29,853)	24,332
Accrued interest receivable	(24,458)	(3,978)
Other receivables	141,409	382,260
Foreclosed assets held for resale	429,082	(711,918)
Supplies inventory	371	179
Prepaid expenses and other	10,698	(11,181)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	21,503	(204,436)
Accrued annual and sick leave	15,314	(5,748)
Accrued pension cost	(49,448)	(89,248)
Accrued interest payable	(4,259)	(3,588)
Deposits by borrowers	47,203	(839)
Security deposits	7,850	8,157
Deferred rental income	(960)	-
Rebate liability	58,093	12,667
Loans held in trust	(49,025)	(153,067)
Net cash provided by operating activities	\$ 2,751,761	\$ 3,841,501
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ 829,963	\$ 879,219
Loans foreclosed and transferred to assets held for resale during the year	\$ 240,849	\$ 711,080

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, 2006 and 2005

(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 46 through 59.

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, 2006 and 2005

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

New Accounting Standards

During fiscal year 2005, the Corporation implemented the following pronouncements:

- GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate, GASB Statement No. 40 requires certain disclosures of investment that have fair values that are highly sensitive to changes in interest rates.
 - GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly.
 - GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, improves the understandability and usefulness of statistical section information and further adds information from the new financial reporting model for State and Local governments required by GASB Statement No. 34.
 - GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
 - GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations.
-
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefits/Expenses and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statements No. 27 and No. 45 for recognition of pension and other postemployment benefits expense/expenditures and liabilities by cost-sharing employers.

The implementation of the above pronouncements did not have a material impact on the accompanying financial statements

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

Notes to Financial Statements
September 30, 2006 and 2005

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

Accounting Standards Not Yet Implemented

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting for other postemployment benefit plans by State and Local governments. The provisions of GASB Statement No. 43 are effective for reporting periods beginning after December 15, 2007.

In June 2004, GASB issued Statement No. 45, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of State and Local governmental employers.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intr-Entity Transfer of Assets and Future Revenues*. This Statement establishes the criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting components. The provisions of this Statement are effective for periods beginning after December 15, 2006.

The Corporation does not believe that the implementation of these Statements will have a material effect on its financial statements.

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.

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

Notes to Financial Statements
September 30, 2006 and 2005

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

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.

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.

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.

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

Notes to Financial Statements
September 30, 2006 and 2005

(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.

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.

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.

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

Notes to Financial Statements
September 30, 2006 and 2005

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

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. 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.

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, 2006 and 2005, the Corporation has cash deposits in bank accounts that exceed federal depository insurance limits totaling \$4,774,499 and \$4,645,012, 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 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.

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

Notes to Financial Statements
September 30, 2006 and 2005

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

Compensated Absences, continued

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, 2006 and 2005, accrued annual leave totaled \$86,545 and \$78,684, 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, 2006 and 2005, unused sick leave of the members under the DCRS plan totaled \$175,766 and \$160,859, of which 50% or \$87,883 and \$80,429, respectively, was accrued in the accompanying the financial statements.

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 34, the reporting of contributed capital and retained earnings have completely changed. As stated in paragraph 98, 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, 2006 and 2005, 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.

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

Notes to Financial Statements
September 30, 2006 and 2005

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

Reclassifications

Certain account balances in the 2005 financial statements have been reclassified to correspond with the 2006 presentation.

(2) Cash and Investments

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, 2006 and 2005, investments and cash held by the trustees for the Corporation, in these funds and accounts are as follows:

	<u>2006</u>	<u>2005</u>
Program Fund	\$ -	\$ 888
Escrow Fund	16,630	15,974
Capitalized Interest Fund	239	230
Revenue Fund	<u>5,349,670</u>	<u>5,514,295</u>
	<u>\$ 5,366,539</u>	<u>\$ 5,531,387</u>

Unrestricted and restricted cash and cash equivalents insured by the Federal Deposit Insurance Corporation (FDIC) totaled \$7,273,007 and \$4,996,513 as of September 30, 2006 and 2005, respectively, with the remaining balances being uninsured which totaled \$4,774,499 and \$4,645,012, respectively.

Cash and cash equivalents and investments at September 30, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Cash on hand and due from banks	\$ 4,143,619	\$ 4,109,550
Certificates of deposits	3,888,249	3,782,140
Money market funds	345,418	126,780
U. S. Treasury bills	2,739,340	787,593
Cash with Federal Home Loan Bank	<u>930,880</u>	<u>835,462</u>
	<u>\$ 12,047,506</u>	<u>\$ 9,641,525</u>

Of the above cash and cash equivalents and investments, \$9,269,701 and \$6,580,607 was restricted for at September 30, 2006 and 2005, respectively.

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

Notes to Financial Statements
September 30, 2006 and 2005

(2) Cash and Investments, continued

The deposits and investment policies of the Corporation are governed by 5 GCA 21, *Investments and Deposits* in conjunction with the applicable the 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.

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.

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

Notes to Financial Statements
September 30, 2006 and 2005

(2) Cash and Investments, continued

A. Cash, continued

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, 2006, the carrying amount of the Corporation's total cash and cash equivalents was \$12,953,625 with a corresponding bank balance was \$13,446,962 is 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, 2006, bank deposits in the amount of \$100,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk.

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, 2006 and 2005. Investments are stated at amortized cost and accrued interest under a separate balance sheet caption. The carrying value of restricted assets and cash at September 30, 2006 and 2005 are as follows:

	2006	2005
Money Market/Trust Fund	\$ 5,366,539	\$ 5,531,387
U.S. Treasury Notes	375,921	375,921
	\$ 5,742,460	\$ 5,907,308

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

Notes to Financial Statements
September 30, 2006 and 2005

(2) Cash and Investments, continued

The market value of restricted investments and cash at September 30, 2006 and 2005 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 #3.

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.

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, 2006 and 2005, the restricted investments for this fund totaled \$375,921, respectively.

At September 30, 2006, 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	\$ 375,921	\$ -	\$ -	\$ -	\$ 375,921
Federal Home Loan Mortgage Corporation	Aaa	-	-	-	4,742,041	4,742,041
Blackrock Liquidity T-Fund	Aaa	<u>624,498</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>624,498</u>
		<u>\$1,000,419</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,742,041</u>	<u>\$5,742,460</u>

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

Notes to Financial Statements
September 30, 2006 and 2005

(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 representing five percent (5%) or more of total investments of the Corporation. As of September 30, 2006, the Corporation's investment in Federal Home Loan Mortgage Corporation represented 83% of its total investments.

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.

(3) Loans Receivable

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

	2006	2005
Due in varying monthly installments and interest rates with maturities to 2024, including loans in process of \$350,536 in 2006.	\$ 24,517,059	\$ 25,956,770
Less net deferred loan origination fees	(222,898)	(238,016)
Less allowance for loan loss	(3,584,693)	(3,562,232)
	20,709,468	22,156,522
Less current portion	(3,100,013)	(3,683,004)
	<u>\$ 17,609,455</u>	<u>\$ 18,473,518</u>

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

	2006	2005
Balance at beginning of year	\$ 3,562,232	\$ 3,568,904
Additions to provision for loan loss	-	-
Loans charged-off	(117,924)	(72,371)
Recoveries of loans previously charged-off	140,385	65,699
Balance at end of year	<u>\$ 3,584,693</u>	<u>\$ 3,562,232</u>

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

Notes to Financial Statements
September 30, 2006 and 2005

(3) Loans Receivable, continued

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 \$494,751 and \$703,308 at September 30, 2006 and 2005, 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 \$2,300,693 and \$4,280,973 at September 30, 2006 and 2005, 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, 2006 and 2005, other receivables due from borrowers for loans consisted of the following:

	2006	2005
CAHAT	\$ 1,306,562	\$ 1,373,344
Down-payment and Closing Assistance Program	646,897	695,583
Hazard Mitigation Program	32,817	34,823
	1,986,276	2,103,750
Other receivables	139,142	153,906
	2,125,418	2,257,656
Less current portion of due from borrowers for loans	(107,882)	(149,292)
Other receivables-noncurrent	\$ 2,017,536	\$ 2,108,364

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

Notes to Financial Statements
September 30, 2006 and 2005

(4) Other Receivables, continued

Correspondingly, the liability recorded by the Corporation for the loans held in-trust at September 30, 2006 and 2005 totaled \$777,067 and \$826,092, respectively, and consisted of the following:

	2006	2005
Down-payment and Closing Assistance Program	\$ 668,867	\$ 717,892
Hazard Mitigation Program	108,200	108,200
	\$ 777,067	\$ 826,092

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 are as follows:

	2006	2005
Tenant accounts	\$ 75,298	\$ 90,434
Other	2,031	2,349
	77,329	92,783
Allowance for uncollectible accounts	(65,000)	(65,000)
Tenant accounts and other receivables	\$ 12,329	\$ 27,783

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2006 and 2005

(6) Capital Assets

Capital assets consist of property and equipment as summarized below:

	<u>Balance</u> <u>09/30/05</u>	<u>Additions</u>	<u>Transfers</u> <u>Disposals</u>	<u>Net Book</u> <u>Value</u> <u>09/30/06</u>
Land and land improvements	\$ 2,556,886	\$ -	\$ -	\$ 2,556,886
Buildings and improvements	5,521,014	-	-	5,521,014
Office furniture and equipment	648,300	4,474	(48,132)	604,642
Vehicles	119,662	14,995	-	134,657
Leasehold improvements	<u>238,946</u>	<u>-</u>	<u>-</u>	<u>238,946</u>
	9,084,808	19,469	(48,132)	9,056,145
Less: accumulated depreciation	<u>(2,970,884)</u>	<u>(164,168)</u>	<u>(46,486)</u>	<u>(3,088,566)</u>
Capital assets, net	<u>\$ 6,113,924</u>	<u>\$ (144,699)</u>	<u>\$ (1,646)</u>	<u>\$ 5,967,579</u>

(7) Foreclosed Assets Held for Resale

Foreclosed assets held for resale represents twenty (20) 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, 2006 and 2005, 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, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Foreclosed assets held for resale at beginning of year	\$ 2,411,759	\$ 1,699,841
Foreclosures made during the year	374,477	1,114,946
Foreclosed assets sold during the year	(825,727)	(426,775)
Other costs and adjustments	<u>22,168</u>	<u>23,747</u>
Balance at end of year	<u>\$ 1,982,677</u>	<u>\$ 2,411,759</u>

GUAM HOUSING CORPORATION
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Notes to Financial Statements
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(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, 2006 and 2005, consist of the following:

	2006	2005
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.	\$ 855,000	\$ 950,000
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

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2006 and 2005

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

	2006	2005
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 \$119,511 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
	5,420,000	5,515,000
Less current portion of bonds payable	100,000	95,000
	\$ 5,320,000	\$ 5,420,000

The accrued interest expense on the above bonds totaled \$24,571 and \$24,939 at September 30, 2006 and 2005, respectively. Total interest expense on the bonds totaled \$297,851 and \$301,995, net of amortized bond premium at September 30, 2006 and 2005. Accrued interest income earned on bonds totaled approximately \$17,152 and \$23,745 as of September 30, 2006 and 2005, 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, 2006 and 2005, the rebate liability totaled \$133,092 and \$74,999, respectively.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2006 and 2005

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

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%

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, 2006:

<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

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2006 and 2005

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

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, 2006:

<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	\$ 119,511

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, 2006:

<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	\$ 194,200

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

The Corporation had expended Bond proceeds and originated loans totaling \$6,249,012 as of September 30, 2006 and 2005, respectively, for which the Trustee 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.

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, 2006 and 2005.

As of September 30, 2006, 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>
2007	\$ 100,000	\$ 293,660	\$ 393,660
2008	105,000	288,897	393,897
2009	110,000	283,710	393,710
2010	125,000	278,168	403,168
2011	130,000	271,760	401,760
2012 through 2016	767,369	1,247,024	2,014,393
2017 through 2021	1,052,631	1,017,693	2,070,324
2022 through 2026	1,300,911	711,682	2,012,593
2027 through 2031	<u>1,729,089</u>	<u>285,134</u>	<u>2,014,223</u>
	<u>\$ 5,420,000</u>	<u>\$ 4,677,728</u>	<u>\$ 10,097,728</u>

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2006 and 2005

(9) Notes Payable

Notes payable consists of the following:

	2006	2005
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	\$ 7,791,763	\$ 8,521,398
Less current portion	778,422	729,635
	\$ 7,013,341	\$ 7,791,763

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, 2006 and 2005, the Corporation has pledged as security for these loans approximately \$16,673,900 and \$18,683,624 of related outstanding mortgage loans, respectively.

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.

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Notes to Financial Statements
September 30, 2006 and 2005

(9) Notes Payable, continued, Continued

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, 2006 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2007	\$ 778,422	\$ 482,909	\$ 1,261,331
2008	830,473	432,101	1,262,574
2009	886,002	375,383	1,261,385
2010	945,246	316,124	1,261,370
2011	1,008,450	252,913	1,261,363
2012 through 2014	<u>3,343,170</u>	<u>336,529</u>	<u>3,679,699</u>
	<u>\$ 7,791,763</u>	<u>\$ 2,195,959</u>	<u>\$ 9,987,722</u>

(10) Noncurrent Liabilities

Noncurrent liability activity at September 30, 2006 was as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>	
	<u>10/01/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>9/30/06</u>	<u>Due within</u>	<u>Noncurrent</u>
					<u>One Year</u>	
Long-term portion of accounts payable	\$10,555,000	\$ -	\$ -	\$ 10,555,000	\$ -	\$ 10,555,000
Bonds payable	5,515,000	-	(95,000)	5,420,000	100,000	5,320,000
Note payable	8,521,398	-	(729,635)	7,791,763	778,422	7,013,341
Accrued Unfunded liability to retirement fund	154,881	-	(49,448)	105,433	-	105,433
Accrued annual leave and 50% accrued sick leave of employees under DC Retirement Plan	159,113	99,432	(84,117)	174,428	55,409	119,019
Loans held in trust	<u>826,092</u>	<u>-</u>	<u>(49,025)</u>	<u>777,067</u>	<u>-</u>	<u>777,067</u>
	<u>\$ 25,731,484</u>	<u>\$ 99,432</u>	<u>(\$ 1,007,225)</u>	<u>\$ 24,823,691</u>	<u>\$ 933,831</u>	<u>\$ 23,889,860</u>

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2006 and 2005

(11) Employees' Retirement Plan

Employees of the Corporation hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995 are members of the Government of Guam's Defined Contribution Retirement System (DCRS). 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, to which the Corporation contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation performed as of September 30, 2004, 2003 and 2002, the annual actuarially required contribution rates have been determined as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Normal Cost (as % of expected Defined Benefit Plan payroll)	17.83%	18.30%	17.66%
Unfunded liability costs, as % of total payroll (DB and DC)	<u>21.36%</u>	<u>19.93%</u>	<u>16.23%</u>
	39.19%	38.23%	33.89%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Government contribution as % of DB Plan payroll	<u>29.69%</u>	<u>28.73%</u>	<u>24.39%</u>
Government required contribution, as % of total payroll (DB and DCRS)	<u>26.00%</u>	<u>24.89%</u>	<u>20.81%</u>

Statutory contribution rates for employer and employee contributions were 21.81% and 9.5%, respectively, of qualifying payroll for the fiscal years ended September 30, 2006. For the years ended September 30, 2005 and 2004, statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively.

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Notes to Financial Statements
September 30, 2006 and 2005

(11) Employees' Retirement Plan, Continued

The plan utilized the actuarial cost method termed "entry age normal". Significant assumptions are as follows:

	2004 <u>Actuarial Valuation</u>	2003 <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.5%
Payroll increases	3.5%	4.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuation performed as of September 30, 2004 and 2003, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Corporation as a separate sponsor, the accrued liability at September 30, 2006 and 2005 may be materially different than that recorded in the accompanying financial statements.

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, 2006 and 2005, 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.

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.

For the years ended September 30, 2006 and 2005, retirement expense contribution was \$207,639 and \$166,864, respectively. At September 30, 2006 and 2005, the accrued unfunded liability to the retirement fund was \$105,433 and \$154,881, respectively.

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Notes to Financial Statements
September 30, 2006 and 2005

(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, 2006 and 2005, 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	7,640,000
Capitalized expenditures related to the development of Lada Estates Project	<u>5,166,953</u>
	<u>\$13,199,338</u>

The Corporation has recorded a receivable due from the Government of Guam totaling \$2,915,000. Pursuant to the Guam Public Law 25-116, the Government of Guam is obligated pay its share of the cost 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; however, the Government of Guam has not recorded the related liability for that amount.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2006 and 2005

(13) Commitments and Contingencies

Commitments

As of September 30, 2006 and 2005, the Corporation has a total of \$894,202 and \$81,754, 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 \$47,281 per annum. At September 30, 2006 and 2005, rent paid to GEDCA totaled \$72,198 for each respective year.

The Corporation sub-leases office space from GEDCA under its operating lease which has an original term of two (2) years expiring February 28, 2011. The future minimum annual lease payments for this rental commitment under this operating lease are as follows:

Years ending September 30:	
2007	\$ 72,198
2008	72,198
2009	72,198
2010	72,198
2011	<u>30,082</u>
	<u>\$ 318,874</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 \$6,483,876 and \$5,850,576 is due on the outstanding liability as of September 30, 2006 and 2005, 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.

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Notes to Financial Statements
September 30, 2006 and 2005

(13) Commitments and Contingencies, continued

Contingencies, continued

The Corporation has thirty-nine (33) pending claims for approximately \$2,233,718 in which foreclosure, litigation or bankruptcy is involved. These claims are at various stages and the ultimate outcome is uncertain, therefore, no additional provision for any potential liability that may result from these claims has been made in the accompanying financial statements.

GUAM HOUSING CORPORATION
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Supplemental Information

Salaries, Wages and Benefits
Years ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Salaries, wages and benefits:		
Salaries	\$ 870,933	\$ 888,359
Retirement benefits	207,639	166,864
Benefits other than retirement	53,621	44,739
Overtime pay	<u>-</u>	<u>-</u>
Total salaries, wages and benefits	<u>\$1,132,193</u>	<u>\$1,099,962</u>
Employees at end of year	25	24

See accompanying independent auditor's report.

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Net Assets
September 30, 2006

<u>ASSETS</u>	Housing	Rental	Eliminations	Combined Total
Current Assets:				
Unrestricted assets:				
Cash and cash equivalents (notes 1 and 2)	\$ 1,543,622	\$ 1,234,184	\$ -	\$ 2,777,806
Loans receivable (notes 1, 3, 9 and 12)	3,100,013	-	-	3,100,013
Tenant accounts receivable and other receivables (note 5)	-	12,329	-	12,329
Accrued interest receivable (notes 3 and 12)	215,549	13,881	-	229,430
Supplies inventory	-	35,492	-	35,492
Prepaid expenses and other	9,310	582	-	9,892
Total unrestricted assets	<u>4,868,494</u>	<u>1,296,468</u>	<u>-</u>	<u>6,164,962</u>
Restricted assets:				
Cash and cash equivalents (notes 1 and 2)	9,269,701	-	-	9,269,701
Self-insurance fund (notes 1 and 2)	-	906,118	-	906,118
Investments (notes 2 and 8)	5,742,460	-	-	5,742,460
Other receivables-current portion (notes 4 and 12)	118,988	-	(11,106)	107,882
Total restricted assets	<u>15,131,149</u>	<u>906,118</u>	<u>(11,106)</u>	<u>16,026,161</u>
Total current assets	19,999,643	2,202,586	(11,106)	22,191,123
Loans receivable (notes 1, 3, 9 and 12)	17,609,455	-	-	17,609,455
Other receivables -noncurrent portion (notes 4 and 12)	2,017,536	-	-	2,017,536
Due from Government of Guam and other agencies (note 12)	2,915,000	-	-	2,915,000
Land held for development (note 12)	13,199,338	-	-	13,199,338
Foreclosed assets held for resale (note 7)	1,982,677	-	-	1,982,677
Capital assets, net (note 6)	69,866	5,897,713	-	5,967,579
Total assets	<u>\$ 57,793,515</u>	<u>\$ 8,100,299</u>	<u>\$ (11,106)</u>	<u>\$ 65,882,708</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, 2006

<u>LIABILITIES AND NET ASSETS</u>	<u>Housing</u>	<u>Rental</u>	<u>Eliminations</u>	<u>Combined Total</u>
Current liabilities:				
Payable from unrestricted assets:				
Accounts payable and accrued expenses (note 1)	\$ 270,764	\$ 62,398	\$ (11,106)	\$ 322,056
Deferred revenue	-	1,900	-	1,900
Current portion of accrued annual leave (note 1)	31,136	24,273	-	55,409
Total payable from unrestricted assets	<u>301,900</u>	<u>88,571</u>	<u>(11,106)</u>	<u>379,365</u>
Payable from restricted assets:				
Current portion of bonds payable (notes 8 and 10)	100,000	-	-	100,000
Current portion of notes payable (note 9)	778,422	-	-	778,422
Accrued interest payable (note 9)	66,145	-	-	66,145
Security deposits	-	56,504	-	56,504
Deposits by borrowers - insurance premiums and real estate taxes	552,566	-	-	552,566
Rebate liability (note 8)	133,092	-	-	133,092
Total payable from restricted assets	<u>1,630,225</u>	<u>56,504</u>	<u>-</u>	<u>1,686,729</u>
Total current liabilities	<u>1,932,125</u>	<u>145,075</u>	<u>(11,106)</u>	<u>2,066,094</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 accrued annual and sick leave (notes 1 and 10)	91,500	27,519	-	119,019
Accrued unfunded liability to retirement fund (notes 10 and 13)	-	105,433	-	105,433
Payable from restricted assets:				
Bonds payable (notes 8 and 10)	5,320,000	-	-	5,320,000
Long-term portion of notes payable (notes 9 and 10)	7,013,341	-	-	7,013,341
Loans held in trust (note 4)	777,067	-	-	777,067
Total non-current liabilities	<u>23,756,908</u>	<u>132,952</u>	<u>-</u>	<u>23,889,860</u>
Total liabilities	<u>25,689,033</u>	<u>278,027</u>	<u>(11,106)</u>	<u>25,955,954</u>
Net assets:				
Invested in capital assets, net of related debt				
Restricted (note 9)	69,866	3,388,485	-	3,458,351
Unrestricted	21,436,262	2,677,958	-	24,114,220
	<u>10,598,354</u>	<u>1,755,829</u>	<u>-</u>	<u>12,354,183</u>
Total net assets	<u>32,104,482</u>	<u>7,822,272</u>	<u>-</u>	<u>39,926,754</u>
Commitments and Contingencies (note 13)	\$ 57,793,515	\$ 8,100,299	\$ (11,106)	\$ 65,882,708

The accompanying notes are an integral part of these financial statements. 47

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Revenues, Expenditures and Changes in Net Assets
Year Ended September 30, 2006

	<u>Housing</u>	<u>Rental</u>	<u>Eliminations</u>	<u>Combined Total</u>
Operating Revenues:				
Interest on loans receivable	\$ 2,046,435	\$ -	\$ -	\$ 2,046,435
Interest on investments held by bond trustees	170,604	-	-	170,604
Loan origination fees	62,447	-	-	62,447
Rental income	-	772,178	-	772,178
Other	-	7,237	-	7,237
Total operating revenues	<u>2,279,486</u>	<u>779,415</u>	<u>-</u>	<u>3,058,901</u>
Operating Expenses:				
Interest expense	825,703	-	-	825,703
Bad debts	-	43,659	-	43,659
Salaries	670,646	200,287	-	870,933
Retirement contributions	183,762	23,877	-	207,639
Professional services	54,629	7,678	-	62,307
Contractual services	37,393	36,774	-	74,167
Loan origination costs	34,247	-	-	34,247
Other	45,457	22,058	-	67,515
Employee benefits, other than retirement	40,776	12,845	-	53,621
Rent	72,198	-	-	72,198
Bond trustee fees	15,859	-	-	15,859
Depreciation	37,803	126,365	-	164,168
Maintenance	-	31,274	-	31,274
Total operating expenses	<u>2,018,473</u>	<u>504,817</u>	<u>-</u>	<u>2,523,290</u>
Income from operations	<u>261,013</u>	<u>274,598</u>	<u>-</u>	<u>535,611</u>
Non-operating Revenues (Expenses):				
Interest income on bank deposits	280,037	56,086	-	336,123
Other income	92,970	-	-	92,970
Loss on disposal of fixed assets	-	(1,648)	-	(1,648)
Total non-operating expenses	<u>373,007</u>	<u>54,438</u>	<u>-</u>	<u>427,445</u>
Increase in in net assets	<u>634,020</u>	<u>329,036</u>	<u>-</u>	<u>963,056</u>
Net assets at beginning of year	<u>31,470,462</u>	<u>7,493,236</u>	<u>-</u>	<u>38,963,698</u>
Net assets at end of year	<u>\$ 32,104,482</u>	<u>\$ 7,822,272</u>	<u>\$ -</u>	<u>\$ 39,926,754</u>

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, 2006

	Housing	Rental	Eliminations	Combined Total
Cash flows from operating activities:				
Receipts received from customers	\$ 3,437,185	\$ 734,652	\$ -	\$ 4,171,837
Payments to suppliers	(484,321)	(134,506)	-	(618,827)
Payments to employees	(670,646)	(200,287)	-	(870,933)
Other operating receipts	62,447	7,237	-	69,684
Net cash provided by operating activities	<u>2,344,665</u>	<u>407,096</u>	-	<u>2,751,761</u>
Cash flows from investing activities:				
Decrease in investments	164,848	-	-	164,848
Interest received on cash and investments with trustees	170,604	-	-	170,604
Interest income on bank deposits	280,037	56,086	-	336,123
Other income	92,970	-	-	92,970
Net cash provided by investing activities	<u>708,459</u>	<u>56,086</u>	-	<u>764,545</u>
Cash flows from capital and financing related activities:				
Repayment of bonds payable	(95,000)	-	-	(95,000)
Repayment of notes payable	(729,635)	-	-	(729,635)
Repayment of rebate liability	(58,093)	-	-	(58,093)
Interest paid on notes payable	(527,852)	-	-	(527,852)
Increase in self-insurance fund	-	(109,515)	-	(109,515)
Interest paid on bonds	(297,851)	-	-	(297,851)
Acquisition of capital assets	-	(19,469)	-	(19,469)
Proceeds from sale assets held for resale	727,091	-	-	727,091
Net cash used for financing activities	<u>(981,340)</u>	<u>(128,984)</u>	-	<u>(1,110,324)</u>
Net increase (decrease) in cash and cash equivalents	2,071,784	334,198	-	2,405,982
Cash and cash equivalents at beginning of year	8,741,539	899,986	-	9,641,525
Cash and cash equivalents at end of year	<u>\$ 10,813,323</u>	<u>\$ 1,234,184</u>	<u>\$ -</u>	<u>\$ 12,047,507</u>
Cash and cash equivalents	\$ 1,543,622	\$ 1,234,184	\$ -	\$ 2,777,806
Restricted cash and cash equivalents	9,269,701	-	-	9,269,701
Total cash and cash equivalents, end of year	<u>\$ 10,813,323</u>	<u>\$ 1,234,184</u>	<u>\$ -</u>	<u>\$ 12,047,507</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, 2006

	Housing	Rental	Eliminations	Combined Total
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 261,013	\$ 274,598	\$ -	\$ 535,611
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:				
Bad debts	-	43,659	-	43,659
Depreciation	37,803	126,365	-	164,168
Amortization of discount on loan due from Guam Rental Division	(18,710)	-	-	(18,710)
Loss on sale of properties held for resale	98,636	-	-	98,636
(Gain) loss on disposal of fixed assets	-	1,648	-	1,648
(Increase) decrease in assets:				
Loans receivable	1,353,229	-	-	1,353,229
Tenant accounts and other receivables	-	(29,853)	-	(29,853)
Accrued interest receivable	(22,417)	(2,041)	-	(24,458)
Other receivables	141,409	-	-	141,409
Foreclosed assets held for resale	429,082	-	-	429,082
Supplies inventory	-	371	-	371
Prepaid expenses and other	11,280	(582)	-	10,698
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	11,399	10,104	-	21,503
Accrued annual and sick leave	16,112	(798)	-	15,314
Accrued pension cost	(26,183)	(23,265)	-	(49,448)
Accrued interest payable	(4,259)	-	-	(4,259)
Deposits by borrowers	47,203	-	-	47,203
Security deposits	-	7,850	-	7,850
Deferred rental income	-	(960)	-	(960)
Rebate liability	58,093	-	-	58,093
Loans held in trust	(49,025)	-	-	(49,025)
Net cash provided by operating activities	\$ 2,344,665	\$ 407,096	\$ -	\$ 2,751,761

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, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 1,543,622	\$ 2,160,932
Loans receivable	3,100,013	3,683,004
Accrued interest receivable	215,549	193,132
Prepaid expenses and other	<u>9,310</u>	<u>20,590</u>
Total unrestricted assets	<u>4,868,494</u>	<u>6,057,658</u>
Restricted assets:		
Cash and cash equivalents	9,269,701	6,580,607
Investments	5,742,460	5,907,308
Other receivables-current portion	<u>118,988</u>	<u>169,569</u>
Total restricted assets	<u>15,131,149</u>	<u>12,657,484</u>
Total current assets	19,999,643	18,715,142
Loans receivable	17,609,455	18,473,518
Other receivables -noncurrent portion	2,017,536	2,108,364
Due from Government of Guam and other agencies	2,915,000	2,915,000
Land held for development	13,199,338	13,199,338
Foreclosed assets held for resale	1,982,677	2,411,759
Capital assets, net	<u>69,866</u>	<u>107,669</u>
Total assets	<u>\$ 57,793,515</u>	<u>\$ 57,930,790</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, 2006 and 2005

<u>LIABILITIES AND NET ASSETS</u>	<u>2006</u>	<u>2005</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses	\$ 270,764	\$ 259,365
Current portion of accrued annual leave	<u>31,136</u>	<u>28,956</u>
Total payable from unrestricted assets	<u>301,900</u>	<u>288,321</u>
Payable from restricted assets:		
Current portion of bonds payable	100,000	95,000
Current portion of notes payable	778,422	729,635
Accrued interest payable	66,145	70,404
Deposits by borrowers - insurance premiums and real estate taxes	552,566	505,363
Rebate liability	<u>133,092</u>	<u>74,999</u>
Total payable from restricted assets	<u>1,630,225</u>	<u>1,475,401</u>
Total current liabilities	<u>1,932,125</u>	<u>1,763,722</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	91,500	77,568
Accrued unfunded liability to retirement fund	-	26,183
Payable from restricted assets:		
Bonds payable	5,320,000	5,420,000
Long-term portion of notes payable	7,013,341	7,791,763
Loans held in trust	<u>777,067</u>	<u>826,092</u>
Total non-current liabilities	<u>23,756,908</u>	<u>24,696,606</u>
Total liabilities	<u>25,689,033</u>	<u>26,460,328</u>
Net assets:		
Invested in capital assets, net of related debt	69,866	107,669
Restricted	21,436,262	21,426,715
Unrestricted	<u>10,598,354</u>	<u>9,936,078</u>
Total net assets	<u>32,104,482</u>	<u>31,470,462</u>
Commitments and Contingencies	<u>\$ 57,793,515</u>	<u>\$ 57,930,790</u>

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

GUAM HOUSING CORPORATION
Supplemental Information

Statements of Revenues, Expenditures and Changes in Net Assets (Housing Division)
Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating Revenues:		
Interest on loans receivable	\$ 2,046,435	\$ 2,082,875
Interest on investments held by bond trustees	170,604	219,059
Loan origination fees	<u>62,447</u>	<u>86,271</u>
Total operating revenues	<u>2,279,486</u>	<u>2,388,205</u>
Operating Expenses:		
Interest expense	825,703	875,354
Salaries	670,646	618,218
Retirement contributions	183,762	132,846
Rent	72,198	72,198
Professional services	54,629	54,586
Loan origination costs	34,247	48,396
Contractual services	37,393	41,638
Depreciation	37,803	38,469
Bad debts	-	37,887
Employee benefits, other than retirement	40,776	30,191
Bond trustee fees	15,859	15,884
Other	<u>45,457</u>	<u>13,372</u>
Total operating expenses	<u>2,018,473</u>	<u>1,979,039</u>
Income from operations	<u>261,013</u>	<u>409,166</u>
Non-operating Revenues (Expenses):		
Interest income on bank deposits	280,037	128,777
Other income	<u>92,970</u>	<u>133,380</u>
Total non-operating expenses	<u>373,007</u>	<u>262,157</u>
Increase in in net assets	634,020	671,323
Total net assets at beginning of year	<u>31,470,462</u>	<u>30,799,139</u>
Total net assets at end of year	<u>\$ 32,104,482</u>	<u>\$ 31,470,462</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts received from customers	\$ 3,437,185	\$ 4,322,187
Payments to suppliers	(484,321)	(424,784)
Payments to employees	(670,646)	(602,545)
Other operating receipts	<u>62,447</u>	<u>305,330</u>
Net cash provided by operating activities	<u>2,344,665</u>	<u>3,600,188</u>
 Cash flows from investing activities:		
(Decrease in investments)	164,848	173,738
Interest received on cash and investments with trustees	170,604	219,059
Interest income on bank deposits	280,037	128,777
Other income	<u>92,970</u>	<u>133,380</u>
Net cash provided by investing activities	<u>708,459</u>	<u>654,954</u>
 Cash flows from capital and financing related activities:		
Repayment of bonds payable	(95,000)	(90,000)
Repayment of notes payable	(729,635)	(683,905)
Accrued rebate liability	(58,093)	(12,676)
Interest paid on notes payable	(527,852)	(679,209)
Interest paid on bonds	(297,851)	(302,336)
Purchase of property of property held for resale	727,091	-
Purchase of property and equipment	<u>-</u>	<u>(3,303)</u>
Net cash used for financing activities	<u>(981,340)</u>	<u>(1,771,429)</u>
 Net increase in cash and cash equivalents	2,071,784	2,483,713
Cash and cash equivalents at beginning of year	<u>8,741,539</u>	<u>6,257,826</u>
 Cash and cash equivalents at end of year	<u>\$ 10,813,323</u>	<u>\$ 8,741,539</u>
 Cash and cash equivalents	\$ 1,543,622	\$ 2,160,932
Restricted cash and cash equivalents	<u>9,269,701</u>	<u>6,580,607</u>
Total cash and cash equivalents, end of year	<u>\$ 10,813,323</u>	<u>\$ 8,741,539</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, 2006 and 2005

	2006	2005
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 261,013	\$ 409,166
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	-	37,887
Depreciation	37,803	38,469
Amortization of discount on loan due from Guam Rental Corporation	(18,710)	(30,000)
Loss on sale of properties held for resale	98,636	13,584
(Increase) decrease in assets:		
Loans receivable	1,353,229	3,728,756
Accrued interest receivable	(22,417)	7,862
Other receivables	141,409	382,260
Foreclosed assets held for resale	429,082	(711,918)
Prepaid expenses and other	11,280	(11,181)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	11,399	(71,423)
Accrued annual leave	16,112	14,543
Accrued pension cost	(26,183)	(62,990)
Accrued interest payable	(4,259)	(3,588)
Deposits by borrowers	47,203	(839)
Rebate liability	58,093	12,667
Loan held in trust	(49,025)	(153,067)
Net cash provided by operating activities	\$ 2,344,665	\$ 3,600,188
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ 829,963	\$ 879,219
Loans foreclosed and transferred to assets held for resale during the year	\$ 374,477	\$ 711,919

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

GUAM HOUSING CORPORATION
Supplemental Information

Balance Sheets (Rental Divison)
September 30, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and cash equivalents	\$ 1,234,184	\$ 899,986
Self-insurance fund	906,118	796,603
Tenant accounts and other receivables, net	12,329	27,783
Accrued interest receivable	13,881	11,840
Supplies inventory	35,492	35,863
Prepaid expenses	<u>582</u>	<u>-</u>
Total current assets	2,202,586	1,772,075
Capital assets, net	<u>5,897,713</u>	<u>6,006,257</u>
	<u>\$ 8,100,299</u>	<u>\$ 7,778,332</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Current liabilities:		
Accounts payable	\$ 62,398	\$ 52,294
Accrued leave and wages payable	24,273	26,036
Deferred rental income	<u>1,900</u>	<u>2,860</u>
Total current liabilities	<u>88,571</u>	<u>81,190</u>
Non-current liabilities:		
Security deposits	56,504	48,654
Accrued sick leave	27,519	26,554
Accrued pension cost	<u>105,433</u>	<u>128,698</u>
Total long-term liabilities	<u>189,456</u>	<u>203,906</u>
Total liabilities	<u>278,027</u>	<u>285,096</u>
Net assets:		
Invested in capital assets, net of related debt	3,388,485	3,497,028
Restricted	2,677,958	2,611,596
Unrestricted	<u>1,755,829</u>	<u>1,384,612</u>
Total net assets	<u>7,822,272</u>	<u>7,493,236</u>
Commitments and contingencies	<u>\$ 8,100,299</u>	<u>\$ 7,778,332</u>

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

GUAM HOUSING CORPORATION
Supplemental Information

Statement of Revenues, Expenditures and Changes in Net Assets (Rental Division)
Years Ended September 30, 2006 and 2005

	2006	2005
Revenues:		
Rentals	\$ 772,178	\$ 789,942
Other	7,237	2,605
Total revenues	779,415	792,547
Operating expenses:		
Salaries and benefits, other than retirement	200,287	270,141
Depreciation and amortization	126,365	130,095
Bad debts	43,659	67,760
Contractual services	36,774	29,055
Maintenance	31,274	25,603
Retirement contributions (Note 4)	23,877	34,018
Other	22,058	12,925
Employee benefits, other than retirement	12,845	14,548
Professional services	7,678	6,210
Total operating expenses	504,817	590,355
Income from operations	274,598	202,192
Non-operating revenues (expenses):		
Interest income on bank accounts	56,086	28,757
Loss on disposal of assets	(1,648)	-
Total non-operating revenues	54,438	28,757
Net earnings	329,036	230,949
Net assets at beginning of year	7,493,236	7,262,287
Net assets at end of year	\$ 7,822,272	\$ 7,493,236

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, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Receipts received from customers	\$ 734,652	\$ 633,813
Payments to suppliers	(134,506)	(122,359)
Payments to employees	(200,287)	(270,141)
Other operating receipts	7,237	-
Net cash provided by operating activities	407,096	241,313
Cash flows from investing activities:		
Interest income on bank deposits	56,086	28,757
Net cash provided by investing activities	56,086	28,757
Cash flows from capital and financing related activities:		
Repayment of notes payable	-	(262,673)
Increase in self-insurance fund	(109,515)	(153,746)
Purchase of property and equipment	(19,469)	(2,630)
Net cash used for financing activities	(128,984)	(419,049)
Net increase (decrease) in cash and cash equivalents	334,198	(148,979)
Cash and cash equivalents at beginning of year	899,986	1,048,965
Cash and cash equivalents at end of year	\$ 1,234,184	\$ 899,986

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, 2006 and 2005

	2006	2005
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 274,598	\$ 202,192
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	43,659	67,760
Depreciation	126,365	130,095
Loss on disposal of assets	1,648	-
(Increase) decrease in assets:		
Tenant accounts and other receivables, net	(29,853)	24,332
Accrued interest receivable	(2,041)	(11,840)
Supplies inventory	371	179
Prepaid expenses and other	(582)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	10,104	(133,013)
Accrued annual leave	(798)	(20,291)
Accrued pension cost	(23,265)	(26,258)
Deferred rental income	(960)	-
Security deposits	7,850	8,157
Net cash provided by operating activities	\$ 407,096	\$ 241,313

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

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED SEPTEMBER 30, 2006

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Board of Directors
Guam Housing Corporation:

I have audited the financial statements of Guam Housing Corporation (a public corporation), as of and for the year ended September 30, 2006 and have issued my report thereon dated February 22, 2007. I conducted my audit in accordance auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Guam Housing Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Guam Housing Corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Internal Control Findings as items 06-01 through 06-07.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, I consider Finding 06-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Guam Housing Corporation's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, grants, and bond covenants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Internal Control Findings as items 06-01 through 6-05 and 06-07.

This report is intended for the information of the Board of Directors and management of the Guam Housing Corporation, the Office of the Public Auditor and the federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.


Hagåtña, Guam
February 22, 2007

**GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)**

SCHEDULE OF INTERNAL CONTROL FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

I have audited the basic financial statements of Guam Housing Corporation and issued an unqualified opinion.

Internal control over financial reporting:

- Material weaknesses were identified? yes no

- Reportable conditions identified that are not considered to be material weaknesses? yes no

- Noncompliance material to financial statements noted? yes no

The Guam Housing Corporation did not receive or expend any federal awards for the fiscal year ending September 30, 2006. Therefore, it did not have any major federal programs.

PART II – FINDINGS – FINANCIAL STATEMENTS

I noted certain reportable conditions and instances of noncompliance be reported in accordance with *Government Auditing Standards* that are presented in the following pages as items 06-01 through 06-07.

Reference Number	Findings	Questioned Costs
06-01	Loans Receivable – Delinquency and Loan Servicing	\$ -
06-02	Loans Receivable – Typhoon Coverage	-
06-03	Loans Receivable – Title Reports/Insurance	-
06-04	Loans Receivable – Appraisal Reports & Mortgages	-
06-05	Receivables – Due from Government Agencies	-
06-06	Tenant Receivables – Lease Agreements	-
06-07	Tenant Receivables – Eligibility/Household Composition	-
		\$ -

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2006

Finding No. 06-01

Area : Loans Receivable/Delinquency

Criteria:

Loans should be properly monitored to minimize credit risk and to identify delinquent loans and potential foreclosures in a timely manner.

No later than three (3) business days after a loan has reached 90 days past due and placed on non-accrual status, the Loan Department must prepare and submit to the Loan Administrator a request for legal assistance. Within two (2) days of receipt, the Loan Administrator must review and forward the request to the President for approval. Within two (2) days of receipt, the President must review and return the request with final approval or disapproval. In the event the request is approved for legal action, the Loan Administrator must prepare and deliver a request for foreclosure package to the Corporation's legal counsel. In the event the President does not approve the request for legal assistance, he or she must demonstrate and document why the delinquent account should not be referred to legal counsel.

Condition:

While we commend management's recent efforts to better service its loan portfolio, we noted that as of September 30, 2006, loans in arrears three months or more, including those referred to the Corporation's attorney for collection, totaled \$3,919,197 and \$4,280,973 for the fiscal years September 30, 2006 and 2005, respectively. Loans in arrears three months or more represents 15.9% and 16.5% of the total Corporation's loan portfolio.

In addition, we conducted a review of the payment history of borrowers subsequent to September 30, 2006 to evaluate potential non-performing and delinquent loans. Based on our review of the loan portfolio we noted delinquent loans that were outstanding in excess of 90 days that were pledged as collateral with the Federal Home Loan Bank of Seattle, as follows:

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2006

Finding No. 06-01, Continued Area : Loans Receivable/Delinquency

Condition: continued

<u>Item #</u>	<u>Loan #</u>	<u>Unpaid Principal Balance as of 9/30/06</u>	<u>Number of Days Past Due</u>
1	19802548	\$ 145,698.25	793
2	18801844	35,046.50	521
3	59302262	101,456.37	376
4	59802430	149,821.45	315
5	59802544	71,651.12	284
6	18401459	29,308.69	205
7	19802425	121,334.86	134
8	59802504	156,824.66	128
9	59102066	80,760.82	111
10	19802542	73,083.05	111
11	19502313	82,950.93	105
12	59102157	78,818.51	95
13	38501480	27,925.16	91
		<u>\$ 1,154,680.37</u>	

Cause:

The Corporation hired a full-time collector to service the loan portfolio during fiscal year 2006; however, additional assistance was lacking to properly monitor the delinquent loans in a timely manner. In addition, it appears that established written internal control lending policies and procedures should be strengthened and strictly enforced for identifying and servicing delinquent loans in a timely manner.

Effect:

The Corporation could incur material loan losses and increased foreclosures in future periods. Interest income was not recognized as a result of these non-performing delinquent loans. Additionally, the above condition negatively impacts the Corporation's cash flow from its inability to collect principal and interest on delinquent loans in a timely manner.

Prior Year Status:

The lack of adherence to internal controls over delinquent loan servicing was reported in the 2006 and 2005 audits of the Corporation.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-01, Continued
Area : Loans Receivable/Delinquency

Recommendation:

The above loans should be evaluated for collectibility and be carefully monitored. We recommend that the Corporation continue to reevaluate its existing collection and loan servicing policies and procedures to determine areas of improvement and staff assigned to perform such functions.

We commend management's aggressive review of its loan portfolio to service delinquent loans. This review and level of effort should be continued and consistently performed on a monthly basis. However, it is further recommend that the Corporation continue evaluating loans once the monthly scheduled payments are not remitted past the 15-day grace period. This will facilitate the process of identifying potential delinquent or troubled loans before they reach the 90-day non-performing status. This will enable the Corporation to have sufficient time to bring the loan current or establish a repayment or work-out plan with the borrower and ensure the collection of interest income and repayment of principal on the loan. Delinquent loans 90 days past due to should be referred to legal counsel for collection and/or foreclosure proceedings.

Auditee Response and Corrective Action: Plan:

Of the above listed loan accounts, two accounts have been brought current and one will be paid in full by the end of March, 2007. With the exception of Loan numbers 59302262, 59802504, and 18801844, all will be brought current based on the approved payment plan. Plans were approved by the President. Legal counsel has been advised to pursue foreclosure proceedings or initiate other collection action.

All of the accounts past the 90 days have been reviewed by the Loan Administrator and further reviewed by the Credit and Collection Committee for further recommendation to the President. The accounts listed above were reviewed by the Credit and Collection Committee and approved by the President for referral to legal counsel for further collection or foreclosure action. If, however, the borrowers request for a workout, the Credit and Collections will review the proposed payment plan and recommend to the President for approval. Legal counsel will be advised by the President to suspend foreclosure proceedings. GHC will advise legal counsel should the borrower renege on its payment arrangement and thus will be instructed to pursue foreclosure proceedings.

The Corporation does send out reminder notices to accounts with payments not received past the 15 days period upon closing of the monthly transactions. Additional notices will be generated on a daily basis for the 15 days past due accounts. Accounts 90 days past due are reviewed by the Credit and Collection Committee for recommendation to the President for a workout or referral to the Legal Counsel for foreclosure proceedings.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-02

Area: Loans Receivable/Typhoon Coverage

Criteria:

Hazard insurance coverage must be maintained for all real estate property used as collateral for a loan. The coverage must provide protection against catastrophic loss resulting from damage or destruction to the collateral due to the perils of fire, earthquake, and typhoon. All housing hazard insurance policies must name Guam Housing Corporation as co-insured along with the borrower/owner of the property.

Typhoon coverage must be maintained on all structures in an amount equal to the principal amount of the loan. In no case is the amount of insurance coverage to be less than the principal loan balance. The replacement value of improvements must be determined by a licensed real estate appraisal. The Corporation will accept a hazard insurance clause of no less than 80% on a case-by-case basis, subject to approval by the President. Typhoon coverage may be waived based on a written request from the borrower, subject to the conditions as set forth in the Corporation's underwriting policies. All waivers of typhoon insurance coverage shall be recommended by the Loan Administrator and President and approved by the Board of Directors. Waivers shall be reviewed on an annual basis.

Condition:

The following loans were did not have adequate insurance coverage or an proper typhoon exemption waivers on-file for such coverage:

Loan #59102120 – The house is not insured. The loan balance was \$60,175.84 as of September 30, 2006. Management represents that the Corporation will force place the insurance coverage.

There was no typhoon coverage or exemption waiver on-file for the following loans: #38501505, #59802514, and #19802507.

Loan #19702378 – The home is under-insured by \$46,492.43 or insured for 63.2% of the loan value. The property is insured for \$80,000 and the loan balance was \$126,492.43 as of September 30, 2006.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-02, continued

Area: Loans Receivable/Typhoon Coverage

Cause:

Timely inspections were not performed to evaluate each borrower's respective hazard insurance coverage annually due to lack of staffing.

Effect:

The properties are not properly insured and the Corporation has assumed additional collateral risk.

Prior Year Status:

Loans lacking adequate insurance coverage and typhoon waivers was reported as a finding in the audit of the Corporation for the fiscal years 2005 and 2004.

Recommendation:

The Corporation should ensure that compliance to its underwriting hazard insurance coverage policy is properly implemented in a timely manner. Loans should be reviewed for adequate typhoon coverage upon insurance policy renewal. Waivers should be obtained and properly documented on-file to evidence that dwellings that have been physically inspected and approved for typhoon waiver.

Auditee Response and Corrective Action: Plan:

Loan No. 59102120 – GHC will force place the insurance; a field inspection has been arranged with Insurance Company and GHC staff before a policy can be effectuated.

Loan Nos. 38501505, 59802514, 19102109, and 19802507 – Waivers are on-file.

Loan No.19702378 – Waiver on file; the insured amount is the construction amount.

The Corporation will continue its efforts to conduct timely inspections required for the typhoon waivers. This is an ongoing activity and reviewed by Trust Technician, Loan Officer or Loan Administrator, Quality Assurance Officer, Manager, and President.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-03

Area: Loan Receivable – Title Reports

Criteria:

A preliminary title report (PTR) serves as a basis for the commitment by a title insurance company to provide title insurance on a property's title. It shows the condition of a property's title at a specific time, indicating the current owner and any liens on the property that have not been removed. The Corporation's loan officer is responsible for reviewing all PTR's to include all stated exceptions that may impair the Corporation's mortgage position prior to loan origination.

Additionally, the Corporation should be named as loss payee on the policies. The amount of hazard insurance coverage should cover the replacement value of the improvements. Flood insurance coverage should also cover the replacement value of improvements except that in certain areas the maximum allowable coverage may be capped to a lesser amount in accordance with the limits available under the National Flood Insurance Program.

Condition:

We read the title insurance policy, attorney's opinion letter or other title documentation and verified the collateral constitutes a first lien against the property and noted the following:

Loan #10002679 – The title insurance policy was not on-file for third-party verification. Management represented that the policy was provided to the Federal Home Loan Bank of Seattle and copies were not retained.

Loan#59802514 – The title insurance policy was not on-file for inspection and verification. Management represented that the policy was provided to Federal Home Loan Bank of Seattle and copies were not retained.

Cause:

Loan files were not properly updated in a timely manner to ensure that all loan files are reviewed for proper documentation.

Effect:

The potential exists for loans to be improperly approved and for documents to be lost or misplaced. Additionally, as property taxes are basic source of funds to pay various public services within the Territory of Guam, ensuring settlement and clearing by the applicant should take first priority.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-03, continued

Area: Loan Receivable – Title Reports

Prior Year Status:

The lack of proper loan file management and documentation was reported as finding in the Corporation's audit for the fiscal year ending September 30, 2005.

Recommendation:

Loan files should be periodically reviewed to ensure that all required documents have been obtained. The current loan documentation checklist should be compared to the actual loan documentation for verification during the loan origination process and prior to loan closing.

Insurance coverage should be maintained at adequate levels to ensure that the Corporation's collateral is properly insured to mitigate collateral risk in the event of perils.

Auditee Response and Corrective Action: Plan:

Loan No. 10002679 & 59802514 – Copies of Title Insurance Policies are both on File. Originals are with FHLB.

Loan Officers and Technician are required to review title policy for any exceptions prior to disbursement of any funds. This is an ongoing activity as new loans are closed.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-04

Area: Appraisal Reports & Recorded Mortgages

Criteria:

All loans should be subject to a Financial Institutions Reform Recovery Enforcement Act (FIRREA) complaint appraisal or other FIRREA-eligible collateral evaluation and all conditions of the appraisal should be resolved prior to closing. The Corporation should be the legal holder of the notes and be in possession (or control) of the original notes.

Condition:

An appraisal report was not originally on-file for inspection for Loan #10002679.

In addition we noted for Loan #10002679, the recorded mortgage was not on-file for third-party verification. The original note was for \$92,500 and has a loan balance of \$86,214.89 as of September 30, 2006.

Cause:

The appraisal and recorded mortgage were either misfiled or management did not retain the copies of the original documentation when they were provided to the Federal Home Loan Bank of Seattle.

Effect:

The potential exist for the property values to be understated and expose the Corporation to additional collateral risk.

Recommendation:

The above documentation was subsequently received. We recommend that copies of recorded mortgages and appraisal reported be retained and placed on file for independent verification.

Auditee Response and Corrective Action: Plan:

The loans are used as collateral to FHLB and all original documents are required to be sent to FHLB. The loans reviewed and missing appraisals and original notes are with FHLB. GHC has received a copy of the appraisal reports and are in the respective files.

Copies of the recorded mortgage for the loans reviewed are also on file. The loan Technician and the Loan Officer review files for completeness. The Loan Technician is the custodian of loan files and will monitor the files as they are released to other loan personnel or management.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-05

Area: Receivables Due From Government Agencies

Criteria

Receivables due from other Government of Guam agencies should be collected in a timely manner.

Condition:

The Corporation has a receivable due from the Government of Guam totaling \$2,915,000. Pursuant to the Guam Public Law 25-116, the Government of Guam is obligated pay its share of the cost 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. However, the Government of Guam has not recorded the related liability for that amount.

Cause:

The contract to build the project is in litigation with the contractor awaiting final determination and it appears that the Department of Administration has not recognized its liability for its pro-rata share of the contract pursuant to Public Law 25-116.

Effect:

The potential exists that accounts may no longer be collectible.

Prior Year Status:

The lack of collection of the receivable was reported as finding in the Corporation's audit for the fiscal year ending September 30, 2005.

Recommendation:

We recommend the Corporation meet with the Guam Department of Administration discuss recording the receivable pursuant to Public Law 25-116 and its ultimate collectibility.

Auditee Response and Corrective Action: Plan:

The Guam Housing Corporation recognizes the importance of collecting this receivable. Action is being taken to meet with Department of Administration officials to discuss recognition of this receivable in accordance with the law. In addition, GHC management will instruct legal counsel to provide an interpretation of the law and a recommendation on the proper course of action in regard to DOA and Public Law 25-116.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-06

Area: Tenant Receivables – Lease Agreements

Criteria:

Section 7 of the Corporation's Rental Division lease agreement states that "*the tenant agrees that the monthly rental payment is based upon the following formula and should any of the factors in the formula change, the rent may increase or decrease accordingly.*" The formula is the total gross family income minus \$400 per family member, divided by 12 (months), multiplied by 22 percent.

Condition:

Based on our review of twenty-five files tested, the tenant's monthly rent was not based on the above-mentioned formula. The Senior Tenant Relations Advisor calculated tenant monthly rent based on household composition and bedroom size.

Cause:

The Corporation changed its tenant rent calculation methodology and failed to update its existing lease agreement.

Effect:

The Corporation is not charging and collecting rental income pursuant to Section 7 of its Rental Division Lease Agreement.

Recommendation:

Section 7 of the Rental Division's Tenant Lease agreement should be amended and executed with tenants during certifications and recertification.

Auditee Response/Corrective Action Plan:

The Lease Agreement has been updated to comply with the existing GHC Policy Manual. The formula methodology is no longer used to compute rental rates. Tenants pay the rates as determined by the household composition for the appropriate unit size as determined by the Board of Directors. The updated Lease Agreement is awaiting Board of Directors review and approval which was submitted for Board of Directors review March 2007.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-07

Area: Tenant Receivables – Eligibility/Household Composition

Criteria:

Eligible tenant family members' name and relationship and household composition should be properly determined and documented during the eligibility certification process.

Condition:

For all of the twenty-five files tested for eligibility, the participant's household composition was not properly determined or verified birth certificates, social security numbers or any other such documentation.

Additionally, for 1 or 4% of the 25 files tested for eligibility, the household composition exceeded the allowable bedroom size per unit for the following:

<u>Unit Number</u>	<u>Bedroom Size</u>	<u>Household Composition</u>
147	2	10

Cause:

Existing written policies and procedures for verifying and documenting participant household composition prior to determining eligibility and providing adequate housing based on the size of the family were not adhered.

Effect:

The potential exists for the Corporation to make an incorrect determination of tenant eligibility, bedroom unit size, and tenant monthly rent resulting over/under recognition of rental income and ineligible persons participating in the housing program.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2006

Finding No. 06-07, continued

Area: Tenant Receivables – Eligibility/Household Composition

Recommendation:

The participant's household composition should be properly verified by examination of income tax returns, social security records, birth certificates, child support records or some form of similar documentation.

We further recommend that the Corporation examine the household composition of the tenants residing in the above-mentioned units and provide assistance in obtaining sufficient housing based on their respective family size to ensure compliance with housing quality standards for safe and decent living accommodations.

Auditee Response/Corrective Action Plan:

Applicants for housing fill out the applicable forms (i.e. application and certification) in accordance with the GHC Policy Manual, providing complete name, place of birth, date of birth, and social security number for each member of household.

Tenant assigned to unit 147 moved into the unit in 2003. The original certification form listed six (6) family members. In 2006, the brother, his wife and child moved in temporarily while they were awaiting transportation to Hawaii for emergency treatment for their child. The three members have since moved out. The present household composition size is six (6) in compliance with the GHC Policy Manual.