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, 2007 AND 2006

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

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September 30, 2007 and 2006

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CERTIFIED PUBLIC ACCOUNTANT

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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, 2007 and 2006, 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, 2007 and 2006, 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 15 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 49, for the years ended September 30, 2007 and 2006 and the supplemental divisional information on pages 50 through 63, 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 other auditing procedures applied in my audit of the basic financial statements the Guam Housing Corporation for the year ended September 30, 2007. 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. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

J. Scott Magliari & Company

Hagåtña, Guam
February 22, 2007

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, 2007. 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 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 cannot 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.

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. Enabling legislation is Public Law 21-99. Term of the loan is 30 years.

IV. Leveraged Loan Program

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

The Corporation's loan will be at the interest rates established for its regular loan program for a term of thirty (30) years. Rural Development loans will be available at the current interest rate of 5.75% for a term of thirty-three (33) years. However, because Rural Development's loan is a subsidized loan, the interest rate could be reduced to as low as 1.00%, subject to income limits. This subsidy increases the buying power of an individual.

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 Supertyphoon Omar in 1992, GHC acquired 2 additional single-family homes and developed two 12-unit apartment buildings, Guma As-Atdas, bringing the total number of rental units to 141. In 2001, as GHC executed its recovery, management considered the benefits of selling the Lada Gardens. However, no action on the sale has been taken to date.

Major repairs and renovations for the Guma As-Atdas buildings (A) and (B) are budgeted for FY 2008. Building (B) consisting of twelve (12) apartments will be renovated first. Tenants were notified to move out commencing mid fiscal year 2007 and by September 30, 2007 building (B) was completely vacant. Upon completion, the units will be made available for rent. As a result of these vacancies, the rental income has decreased for fiscal year 2007.

The Guam Rental Division continually strives to improve in policy and performance. We have taken steps to strengthen tenant eligibility requirements to yield better quality tenants. GRD is currently utilizing established area guidelines to qualify tenants with respect to family size and income. This process ensures tenants have the ability to meet their monthly rental fees.

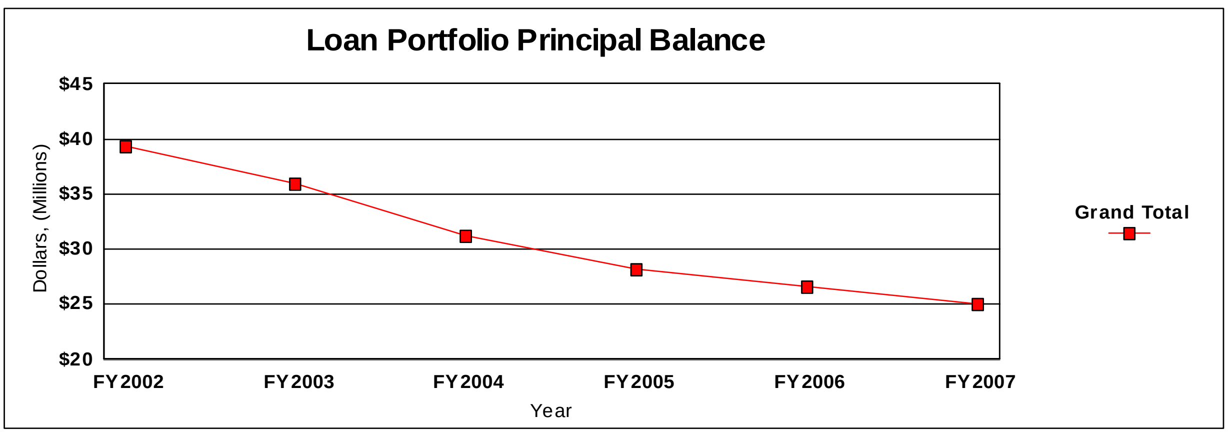
Lada Estates Affordable Housing

Through Public Law 20-225, 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, 2007, the issue of Lada Estates remains unresolved.

FINANCIALS AT-A-GLANCE

The GHC loan portfolio was reduced by $1.58M to $25.05M, falling 5.93% from the prior year. Loan payoffs, foreclosures, and non-performing loans contribute 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 trend of GHC decreasing 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.

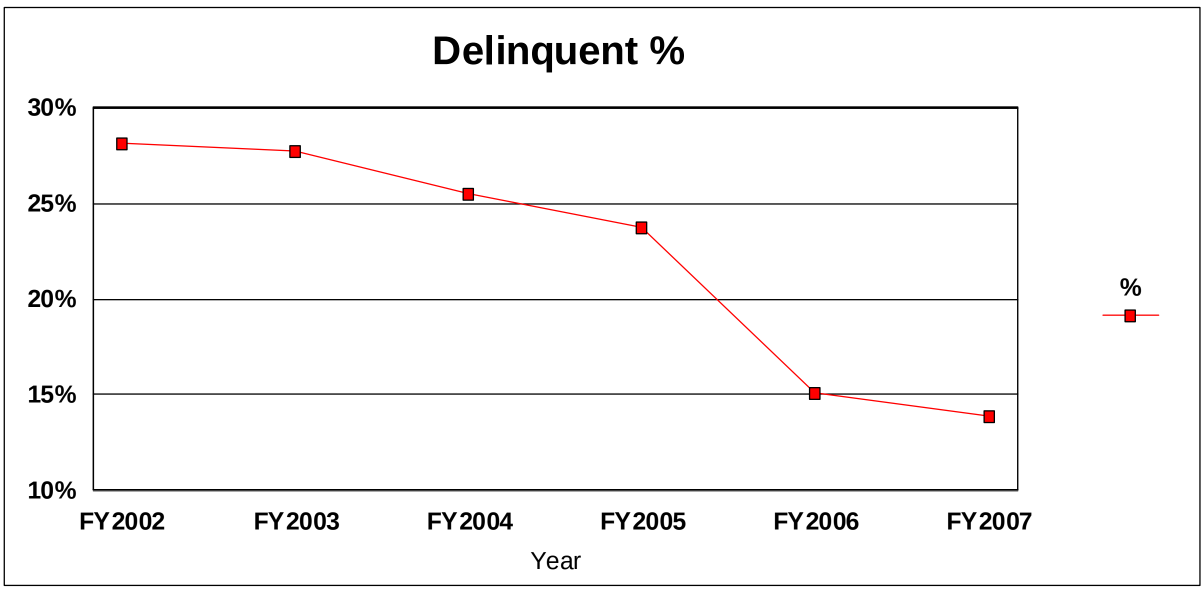
Loan Portfolio Principal Balance	FY2002	FY2003	*FY2004	FY2005	FY2006	FY2007
Grand Total	$39,381,962	$35,929,693	$31,175,230	$28,185,870	$26,632,726	$25,053,953
Total number of loans	769	702	580	533	505	470



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

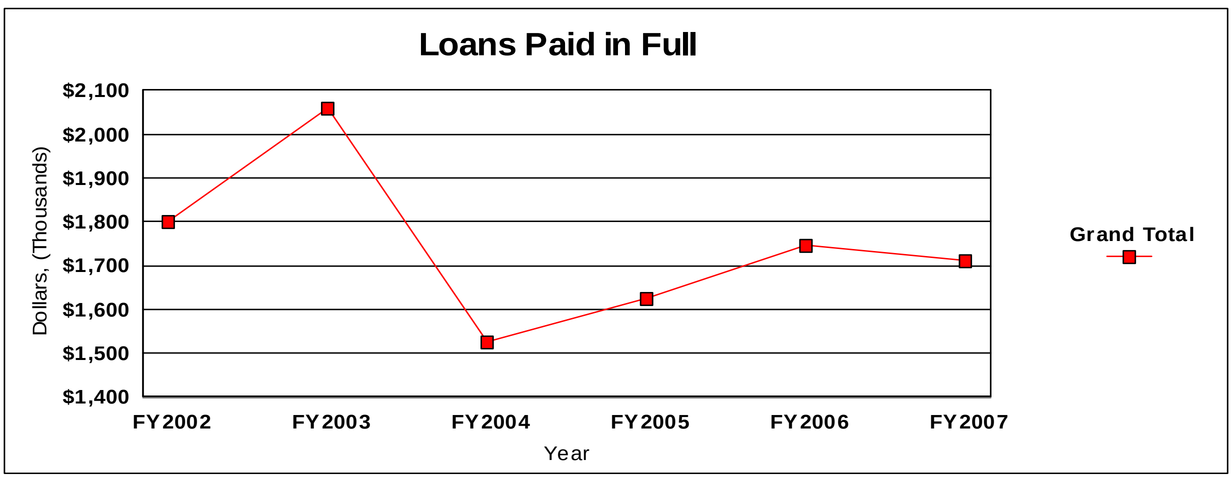
Total delinquencies decreased by 6 loans during the year, but still an improvement of $532,162 over the previous year. Overall, loans delinquent 30 days and over felled by 1.24% from the past year to 13.86%. The decrease in GHC's delinquent accounts is evident in the statistical data and chart below. The decreases are the result of a concerted effort in collections and servicing.

Delinquent %	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
%	28.17%	27.74%	25.51%	23.74%	15.09%	13.86%
Principal Balance	$11,094,528	$9,967,364	$7,953,395	$6,521,715	$3,919,197	$3,387,036
Total number of loans	234	216	140	108	60	54



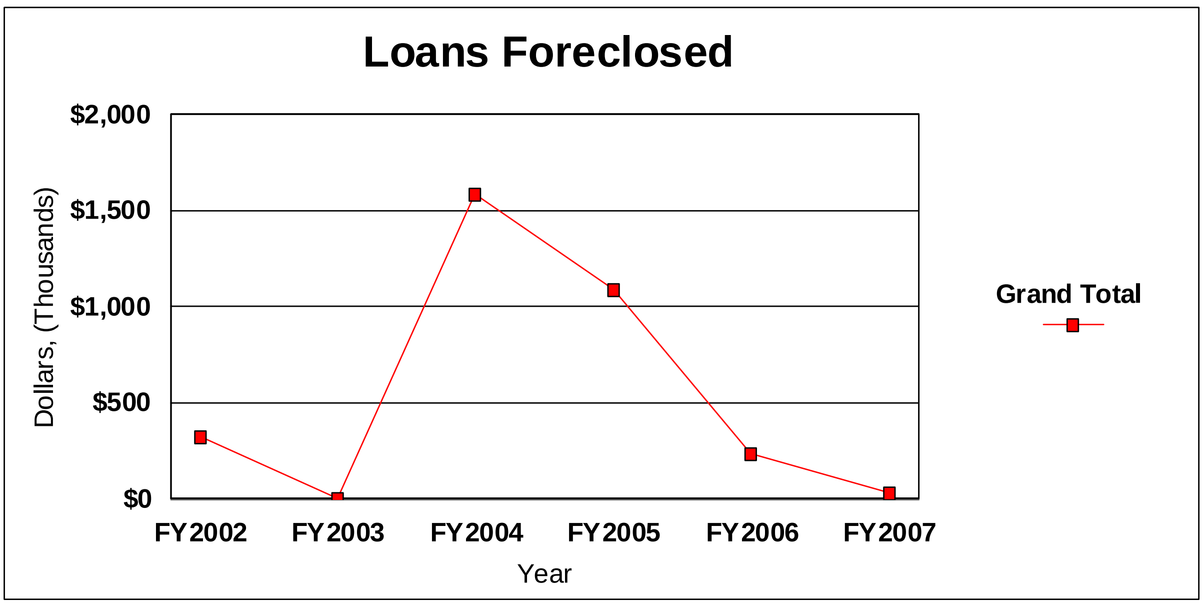
Fifty-six (56) loan payoffs were received in FY2007 totaling $1.7M, a decrease of $35,397 over the prior year. The payoffs can be attributed in part to mortgage holders refinancing the homes at lower interest rates then available in years past, some as high as 12%. Because these particular home owners 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 six (6) years.

Loans Paid in Full	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Grand Total	$1,802,486	$2,061,421	$1,525,515	$1,624,036	$1,747,437	$1,712,039
Total number of loans	58	68	52	44	49	56



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 & FY 2007. A total of one (1) account was foreclosed in FY2007, totaling $35,047. Action taken by our Legal Counsel has been an invaluable help to GHC to aggressively and successfully complete foreclosure actions.

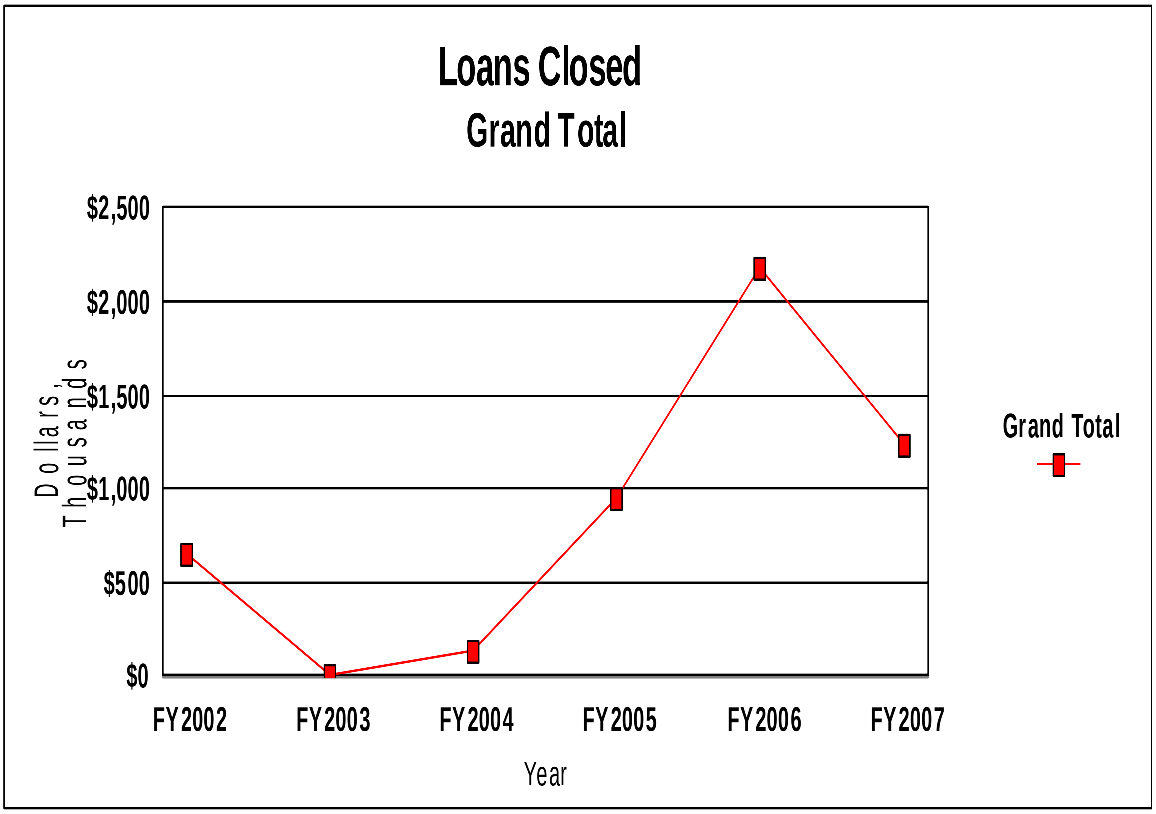
Loans Foreclosed	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Grand Total	$326,714	$0	$1,589,852	$1,087,763	$240,849	$35,047
Total number of loans	3	0	14	11	3	1



Ten (10) units were sold in FY 2007. Total gain on the sale was $960. 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 the better market value in our foreclosed units.

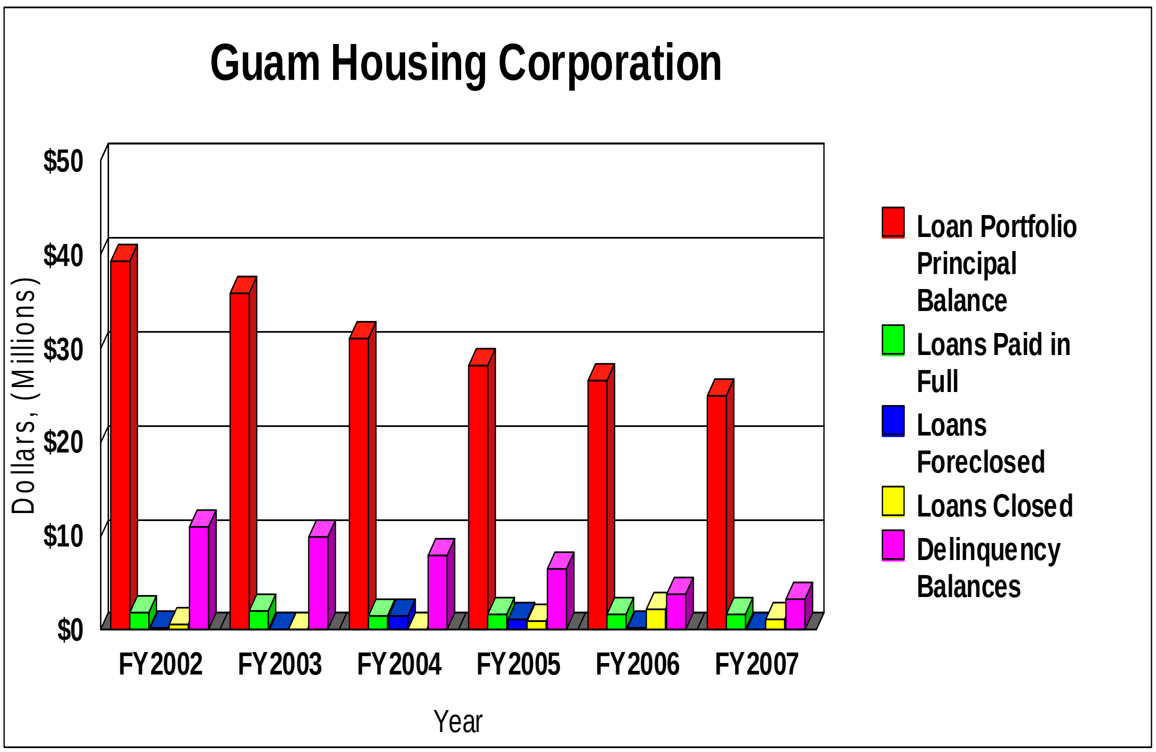
The following data and chart shows the amount of loans closed over the past six years. In fiscal year 2003 and 2004 GHC essentially suspended loan origination because of typhoon recovery and full implementation of the Recovery Plan. There was a decrease in fiscal year 2007 which was in part attributable to limited housing supply within the affordable housing price for GHC's clienteles.

Loans Closed	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Grand Total	$651,842	$11,237	$141,083	$952,782	$2,180,928	$1,235,210
Total number of loans	12	1	2	11	36	17



Overall Loan Portfolio

GHC Portfolio	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Loan Portfolio Principal Balance	$39,381,962	$35,929,693	$31,175,230	$28,185,870	$26,632,726	$25,053,953
Loans Paid in Full	$1,802,486	$2,061,421	$1,525,515	$1,624,036	$1,747,437	$1,712,039
Loans Foreclosed	$326,714	$0	$1,589,852	$1,087,763	$240,849	$35,047
Loans Closed	$651,842	$11,237	$141,083	$952,782	$2,180,928	$1,235,210
Delinquency Balances	$11,094,528	$9,967,364	$7,953,395	$6,521,715	$3,919,197	$3,387,036
Delinquency Rate	28.17%	27.74%	25.51%	23.74%	15.09%	13.86%



As you read the financials, note that loans are characterized as either being of the "GHC Portfolio" or the "Other Portfolio". The distinction is made for the sake of understanding the source of the funding. The GHC Portfolio consists of loans originated with GHC funds from the Direct Loan Program and the Revolving Loan Program. The Other Portfolio comprises all other loans (i.e., Down Payment & Closing Cost, Hazard Mitigation, and CAHAT.) Other Portfolio loans are not exclusively for first time homeowners, but rather, they represent support programs that the agency has administered from time to time throughout the years.

Statement of Net Assets
Fiscal Year Ended September 30, 2007, 2006 & 2005

Assets	2007	2006	2005
Cash & Investments	$ 21,016,010	$ 18,696,085	$ 16,345,436
Loans receivable, other receivable, prepaid exp. & inventory	21,671,873	23,122,029	24,703,386
Land held for development	16,114,338	16,114,338	16,114,338
Foreclosed assets held for resale	1,124,925	1,982,677	2,411,759
Capital Assets	5,824,682	5,967,579	6,113,926
Total Assets	$ 65,751,828	$ 65,882,708	$ 65,688,845
Liabilities			
Accounts payable & accrued expenses	$ 11,243,775	$ 11,358,054	$ 11,308,640
Notes payable	7,013,341	7,791,763	8,521,398
Deposits by borrowers & security deposit	517,056	609,070	554,017
Bonds payable	5,320,000	5,420,000	5,515,000
Loans held in trust	720,489	777,067	826,092
Total Liabilities	$ 24,814,661	$ 25,955,954	$ 26,725,147
Total net assets	$ 40,937,167	$ 39,926,754	$ 38,963,698
Total Liabilities and Net Assets	$ 65,751,828	$ 65,882,708	$ 65,688,845

Statement of Revenues, Expenditures and Changes in Net Assets
Fiscal Year Ended September 30, 2007, 2006 & 2005

	2007	2006	2005
Operating Revenues	$ 2,994,750	$ 3,058,901	$ 3,180,752
Operating Expenses	2,557,979	2,523,290	2,569,394
Income from operations	436,771	535,611	611,358
Non-operating revenues	573,641	427,445	290,914
Increase in net assets	1,010,412	963,056	902,272
Total net assets at beginning of year	39,926,754	38,963,698	38,061,426
Total net assets at end of year	$ 40,937,167	$ 39,926,754	$ 38,963,698

LOAN PORTFOLIO

The total loan portfolio decreased by 5.93% in FY 2007. Although we realized a slight increase in the loan origination activity over the past three years, GHC still realizes a number of loan payoffs. As of September 2007, 30 loans were approved totaling $1,615,615. For FY 2007, seventeen (17) loans were closed totaling $1.2 million. A total of $380,404.00 awaits loan closing.

To further increase the loan origination activity, management has been aggressive in its marketing efforts. This is reflective of the total number of pre-qualification interviews conducted for the fiscal year. There were 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 determent 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.

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 6.25%. 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 range. GHC continues its efforts to identify the issue on affordable housing supply for its targeted clientele.

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

Collections continue 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 1.24% in FY2007. Regrettably, this $532 thousand improvement is itself overshadowed by the decline of the total portfolio. 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.

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

The Corporation foreclosed on 1 home during the year ended September 30, 2007. With legal counsel firmly on track with the Loan Division on referrals for foreclosure, we fully expect that the process will continue to improve. Legal counsel has proven to be an effective partner in the Corporation's efforts to clean up on non-performing assets. Maintenance and security of these units throughout the Territory of Guam has fallen to the Rental Division, which due to its limited staff, struggles to accommodate the additional workload and concerns of vandalism, theft, and generally the deterioration of the vacant properties. As of September 2007, GHC had a total of eleven (11) O.R.E.O. Properties.

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

ALLOWANCE FOR LOAN LOSSES

A total of $112,524 was charged against the allowance for loan losses in the current fiscal year. Loan receivable recoveries from previous years totaled $55,694 for the year ended September 30, 2007. 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, 2007, $7,013,341 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.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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

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

Statements of Net Assets
September 30, 2007 and 2006

ASSETS	2007	2006
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents (notes 1and 2)	$ 11,316,730	$ 8,797,353
Self-insurance fund (note 1)	1,035,552	906,118
Loans receivable (notes 1, 3, 9 and 13)	2,658,869	3,100,013
Tenant accounts receivable and other receivables, net (note 5)	12,339	12,329
Accrued interest receivable (note 8)	261,843	229,430
Supplies inventory	49,246	35,492
Prepaid expenses and other	21,118	9,892
Total unrestricted assets	15,355,697	13,090,627
Restricted assets:		
Cash and cash equivalents (notes 1and 2)	3,034,737	3,250,153
Investments (notes 2 and 8)	5,628,991	5,742,460
Other receivables-current portion (note 4)	246,800	118,988
Total restricted assets	8,910,528	9,111,601
Total current assets	24,266,225	22,202,228
Loans receivable (notes 1, 3, 9 and 13)	16,805,358	17,609,455
Other receivables -noncurrent portion (note 4)	1,616,300	2,006,431
Land held for development (notes 12 and 13)	16,114,338	16,114,338
Foreclosed assets held for resale (note 7)	1,124,925	1,982,677
Capital assets, net (note 6)	5,824,682	5,967,579
Total assets	$ 65,751,828	$ 65,882,708

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

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

Statements of Net Assets, Continued
September 30, 2007 and 2006

LIABILITIES AND NET ASSETS	2007	2006
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses (note 1)	$ 266,229	$ 322,056
Deferred rental income	1,817	1,900
Current portion of accrued annual leave (note 1)	52,142	55,409
Total payable from unrestricted assets	320,188	379,365
Payable from restricted assets:		
Current portion of bonds payable (notes 8 and 10)	105,000	100,000
Current portion of notes payable (notes 9 and 10)	830,473	778,422
Accrued interest payable (notes 8 and 9)	61,633	66,145
Security deposits	51,374	56,504
Deposits by borrowers - insurance premiums and real estate taxes	465,682	552,566
Rebate liability (note 8)	104,934	133,092
Total payable from restricted assets	1,619,096	1,686,729
Total current liabilities	1,939,284	2,066,094
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)	125,106	119,019
Accrued unfunded liability to retirement fund (notes 10 and 11)	76,915	105,433
Payable from restricted assets:		
Long-term portion of bonds payable (notes 8 and 10)	5,215,000	5,320,000
Long-term portion of notes payable (notes 9 and 10)	6,182,868	7,013,341
Loans held in trust (note 4)	720,489	777,067
Total non-current liabilities	22,875,378	23,889,860
Total liabilities	24,814,662	25,955,954
Net assets:		
Invested in capital assets, net of related debt	3,315,453	3,458,351
Restricted (note 9)	24,182,525	24,114,220
Unrestricted	13,439,188	12,354,183
Total net assets	40,937,166	39,926,754
Commitments and Contingencies (note 13)		
	$ 65,751,828	$ 65,882,708

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

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

Statements of Revenues, Expenditures and Changes in Net Assets
Year Ended September 30, 2007 and 2006

	2007	2006
Operating Revenues:		
Interest on loans receivable	$ 1,822,260	$ 2,046,435
Rental income	757,998	772,178
Interest on investments held by bond trustees	320,396	170,604
Loan origination fees	63,871	62,447
Other	30,225	7,237
Total operating revenues	2,994,750	3,058,901
Operating Expenses:		
Salaries	931,785	870,933
Interest expense	772,069	825,703
Retirement contributions	267,485	207,639
Depreciation	149,977	164,168
Rent	72,198	72,198
Other	70,217	67,515
Employee benefits, other than retirement	58,452	53,621
Contractual services	55,631	74,167
Professional services	54,025	62,307
Maintenance	44,755	31,274
Loan origination costs	38,796	34,247
Bad debts	22,034	43,659
Bond trustee fees	14,690	15,859
Travel	4,964	-
Director fees	900	-
Total operating expenses	2,557,978	2,523,290
Income from operations	436,772	535,611
Non-operating revenues (expenses):		
Interest income on bank deposits	516,454	336,123
Other income	57,730	92,970
Loss on disposal of fixed assets	(544)	(1,648)
Total non-operating expenses	573,640	427,445
Increase in in net assets	1,010,412	963,056
Net assets at beginning of year	39,926,754	38,963,698
Net assets at end of year	$ 40,937,166	$ 39,926,754

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

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

Statements of Cash Flows
Year Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Receipts received from customers	$ 4,116,808	$ 4,171,837
Payments to suppliers	(682,113)	(618,827)
Payments to employees	(931,785)	(870,933)
Other operating receipts	111,109	69,684
Net cash provided by operating activities	2,614,019	2,751,761
Cash flows from investing activities:		
Decrease in investments	(113,469)	164,848
Interest received on cash and investments with trustees	244,959	170,604
Interest income on bank deposits	456,432	336,123
Other income	40,717	92,970
Net cash provided by investing activities	628,639	764,545
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(100,000)	(95,000)
Repayment of notes payable	(778,422)	(729,635)
Repayment of rebate liability	(28,158)	(58,093)
Interest paid on notes payable	(482,922)	(527,852)
Interest paid on bonds	(293,660)	(297,851)
Increase in self-insurance fund	(129,434)	(109,515)
Proceeds from sale of assets held for resale	881,522	727,091
Acquisition of capital assets	(7,624)	(19,469)
Net cash used for financing activities	(938,698)	(1,110,324)
Net increase in cash and cash equivalents	2,303,960	2,405,982
Cash and cash equivalents at beginning of year	12,047,507	9,641,525
Cash and cash equivalents at end of year	$ 14,351,467	$ 12,047,507
Cash and cash equivalents	$ 11,316,730	$ 2,777,806
Restricted cash and cash equivalents	3,034,737	9,269,701
Total cash and cash equivalents, end of year	$ 14,351,467	$ 12,047,507

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, 2007 and 2006

	2007	2006
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 436,772	$ 535,611
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	22,034	43,659
Depreciation	149,977	164,168
Amortization of discount on loan due from Rental Division	-	(18,710)
Loss on sale of properties held for resale	(960)	98,636
(Gain) loss on disposal of fixed assets	544	1,648
(Increase) decrease in assets:		
Loans receivable	1,245,241	1,353,229
Tenant accounts and other receivables	(10)	(29,853)
Accrued interest receivable	(32,412)	(24,458)
Other receivables	235,535	141,409
Foreclosed assets held for resale	845,148	429,082
Supplies inventory	(13,754)	371
Prepaid expenses and other	(11,226)	10,698
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(55,827)	21,503
Accrued annual and sick leave	2,820	15,314
Accrued pension cost	(28,518)	(49,448)
Accrued interest payable	(4,512)	(4,259)
Deposits by borrowers	(86,884)	47,203
Security deposits	(5,130)	7,850
Deferred rental income	(83)	(960)
Rebate liability	(28,158)	58,093
Loans held in trust	(56,578)	(49,025)
Net cash provided by operating activities	$ 2,614,019	$ 2,751,761
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	$ 776,581	$ 829,963
Loans foreclosed and transferred to assets held for resale during the year	$ 45,000	$ 240,849

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

(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 50 through 63.

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.

(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 require 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

(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.

(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.

(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.

(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, 2007 and 2006, the Corporation has cash deposits in bank accounts that exceed federal depository insurance limits totaling $3,725,009 and $4,774,499, 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.

(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, 2007 and 2006, accrued annual leave totaled $83,048 and $86,545, 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, 2007 and 2006, unused sick leave of the members under the DCRS plan totaled $188,400 and $175,766, of which 50% or $94,200 and $87,883, 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, 2007 and 2006, 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.

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

Reclassifications

Certain account balances in the 2006 financial statements have been reclassified to correspond with the 2007 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, 2007 and 2006, investments and cash held by the trustees for the Corporation, in these funds and accounts are as follows:

	2007	2006
Escrow Fund	$ 17,440	$ 16,630
Capitalized Interest Fund	250	239
Revenue Fund	5,235,380	5,349,670
	$ 5,253,070	$ 5,366,539

Unrestricted and restricted cash and cash equivalents insured by the Federal Deposit Insurance Corporation (FDIC) totaled $10,626,459 and $7,273,007 as of September 30, 2007 and 2006, respectively, with the remaining balances being uninsured which totaled $3,725,009 and $4,774,499, respectively.

Cash and cash equivalents and investments at September 30, 2007 and 2006 consist of the following:

	2007	2006
Cash on hand and due from banks	$ 2,987,285	$ 4,143,619
Certificates of deposits	7,200,721	4,264,120
Money market funds	6,031,765	5,711,957
U. S. Treasury bills	2,722,964	2,739,340
Cash with Federal Home Loan Bank	1,037,724	930,880
	$19,980,459	$ 17,789,966

(2) *Cash and Investments, continued*

Of the above cash and cash equivalents and investments, \$8,663,728 and \$8,992,613 was restricted for at September 30, 2007 and 2006, as follows:

	2007	2006
Restricted Cash:		
Revolving loan fund	$ 1,706,045	$ 2,050,120
Community Affordable Housing Action Trust	587,274	412,449
Trust fund and borrower's deposit	675,964	716,394
Tenant security deposits	65,454	71,190
Total restricted cash	3,034,737	3,250,153
Restricted Investments:		
Investments and cash with Bond Trustees	5,253,070	5,366,539
Foreclosure Protection Fund	375,921	375,921
Total restricted investments	5,628,991	5,742,460
Total Restricted Cash and Investments	$ 8,663,728	$ 8,992,613

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

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

(2) Cash and Investments, continued

A. Cash

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

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

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

For credit risk in the case of deposits, there is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. At of September 30, 2007, the carrying amount of the Corporation's total cash and cash equivalents was $14,351,468 with a corresponding bank balance was $11,022,225 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, 2007, bank deposits in the amount of $100,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk.

(2) Cash and Investments, continued

B. Investments:

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

Category 1 — Investments that are insured or registered, or securities held by the Corporation or its agent in the Corporation's name;

Category 2 — Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Corporation's name; or

Category 3 — Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in Corporation's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

The Corporation's bond trustees hold the Corporation's restricted investments and cash at September 30, 2007 and 2006. 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, 2007 and 2006 are as follows:

	2007	2006
Money Market/Trust Fund	$ 5,253,070	$ 5,366,539
U.S. Treasury Notes	375,921	375,921
	$ 5,628,991	$ 5,742,460

The market value of restricted investments and cash at September 30, 2007 and 2006 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.

(2) Cash and Investments, continued

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

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, 2007 and 2006, the restricted investments for this fund totaled $375,921, respectively.

At September 30, 2007, the Corporation's investment in debt securities is as follows:

	Moody's Credit Rating	Investment Maturities (In Years) Less than 1	1 to 5	6 to 10	Greater than 10	Total
U.S. Treasury Notes	Aaa	$ 375,921	$ -	$ -	$ -	$ 375,921
Federal Home Loan Mortgage Corporation	Aaa	-	-	-	4,424,284	4,424,284
Blackrock Liquidity T-Fund	Aaa	828,786	-	-	-	828,786
		$1,204,707	$ -	$ -	$ 4,424,284	$5,628,991

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, 2007, the Corporation's investment in Federal Home Loan Mortgage Corporation represented 79% 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:

	2007	2006
Due in varying monthly installments and interest rates with maturities to 2024, including loans in process of $361,222 in 2007.	$ 23,200,281	$ 24,517,059
Less net deferred loan origination fees	(208,190)	(222,898)
Less allowance for loan loss	(3,527,864)	(3,584,693)
	19,464,227	20,709,468
Less current portion	(2,658,869)	(3,100,013)
	$ 16,805,358	$ 17,609,455

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

	2007	2006
Balance at beginning of year	$ 3,584,693	$ 3,562,232
Additions to provision for loan loss	-	-
Loans charged-off	(112,524)	(117,924)
Recoveries of loans previously charged-off	55,695	140,385
Balance at end of year	$ 3,527,864	$ 3,584,693

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 $406,066 and $494,751 at September 30, 2007 and 2006, 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 $2,111,466 and $2,300,693 at September 30, 2007 and 2006, 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, 2007 and 2006, other receivables due from borrowers for loans consisted of the following:

	2007	2006
CAHAT	$ 1,057,566	$ 1,306,562
Down-payment and Closing Assistance Program	591,751	646,897
Hazard Mitigation Program	30,687	32,817
	1,680,004	1,986,276
Other receivables	183,096	139,143
	1,863,100	2,125,419
Less current portion of due from borrowers for loans	(246,800)	(118,988)
Other receivables-noncurrent	$ 1,616,300	$ 2,006,431

Correspondingly, the liability recorded by the Corporation for the loans held in-trust at September 30, 2007 and 2006 totaled $720,489 and $777,067 respectively, and consisted of the following:

	2007	2006
Down-payment and Closing Assistance Program	$ 612,289	$ 668,867
Hazard Mitigation Program	108,200	108,200
	$ 720,489	$ 777,067

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:

	2007	2006
Tenant accounts	$ 76,837	$ 75,298
Other	502	2,031
	77,339	77,329
Allowance for uncollectible accounts	(65,000)	(65,000)
Tenant accounts and other receivables	$ 12,339	$ 12,329

(6) Capital Assets

Capital assets consist of property and equipment as of September 30, 2007 and 2007 is as follows:

	Balance 09/30/06	Additions	Transfers Disposals	Net Book Value 09/30/07
Land and land improvements	$ 2,556,886	$ -	$ -	$ 2,556,886
Buildings and improvements	5,521,014	7,624	-	5,528,638
Office furniture and equipment	604,642	-	(18,472)	586,170
Vehicles	134,657	-	(15,514)	119,142
Leasehold improvements	238,946	-	-	238,946
	9,056,145	7,624	(33,986)	9,029,783
Less: accumulated depreciation	(3,088,566)	(149,977)	33,442	(3,205,101)
Capital assets, net	$ 5,967,579	$ (142,353)	$(544)	$ 5,824,682

	Balance 09/30/05	Additions	Transfers Disposals	Net Book Value 09/30/06
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	238,946	-	-	238,946
	9,084,808	19,469	(48,132)	9,056,145
Less: accumulated depreciation	(2,970,884)	(164,168)	(46,486)	(3,088,566)
Capital assets, net	$ 6,113,924	$ (144,699)	$(1,646)	$ 5,967,579

(7) *Foreclosed Assets Held for Resale*

Foreclosed assets held for resale represents eleven (11) 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, 2007 and 2006, 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, 2007 and 2006 is as follows:

	2007	2006
Foreclosed assets held for resale at beginning of year	$ 1,982,677	$ 2,411,759
Foreclosures made during the year	45,000	374,477
Foreclosed assets sold during the year	(880,561)	(825,727)
Other costs and adjustments	(22,191)	22,168
Balance at end of year	$ 1,124,925	$ 1,982,677

(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, 2007 and 2006, consist of the following:

	2007	2006
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.	$ 755,000	$ 855,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with $74,931 due in March 2014, and increasing to $95,420 by September 2018.	850,000	850,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with $108,434 due in March 2019, and increasing to $119,510 by September 2021.	685,000	685,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with $114,064 due in March 2022, and increasing to $194,200 by September 2031.	3,030,000	3,030,000
	5,320,000	5,420,000
Less current portion of bonds payable	105,000	100,000
	$ 5,215,000	$ 5,320,000

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

The accrued interest expense on the above bonds totaled $24,175 and $24,571 at September 30, 2007 and 2006, respectively. Total interest expense on the bonds totaled $293,264 and $297,851, net of amortized bond premium at September 30, 2007 and 2006. Accrued interest income earned on bonds totaled approximately $16,127 and $17,152 as of September 30, 2007 and 2006, 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, 2007 and 2006, the rebate liability totaled $104,934 and $133,092, respectively.

The bonds are limited obligations of the Corporation payable from the revenues and other assets pledged for the payment thereof and are not a lien or charge upon the funds of the Corporation, except to the extent of the pledge and assignment set forth in the Indenture and in the bonds. The bonds do not constitute indebtedness or a loan of credit of the Government of Guam or the United States of America, within the meaning of the Organic Act of Guam or statutory provisions. Neither the faith and credit nor the taxing power of the Government of Guam is pledged to the payment of the principal of, or interest on the bonds. The Corporation has no taxing authority. The bonds are not debts, liabilities or obligations of the Government of Guam, and the Government of Guam is not liable for the payment should the Corporation default on the loan.

The bonds maturing on September 1, 2031 are not subject to optional redemption prior to maturity. The bonds maturing after September 1, 2008 but on or before September 1, 2021 are subject to redemption on any date on or after September 1, 2008, at the option of the Corporation, in whole, or in part from such maturities as are determined by the Corporation, from any source of available monies, at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued interest thereon to the date fixed for redemption:

Redemption Dates	Redemption Prices
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%

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

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

As of September 30, 2007:

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

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, 2007:

Date	Principal Amount
March 1, 2019	$ 108,434
September 1, 2019	$ 110,183
March 1, 2020	$ 113,681
September 1, 2020	$ 115,430
March 1, 2021	$ 117,762
September 1, 2021	$ 119,510

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

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

As of September 30, 2007:

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

The Corporation had expended Bond proceeds and originated loans totaling $6,249,012 as of September 30, 2007 and 2006, respectively, for which the Trustee and had fully disbursed from the Program Fund for the acquisition of Mortgage-Backed Securities.

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

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

The Bond Indenture contains certain restrictive covenants, including restrictions on the use of bond funds. Management of the Corporation is of the opinion that the Corporation was in compliance with all significant covenants mortgage revenue bonds, as of September 30, 2007 and 2006.

As of September 30, 2007, future maturities of long-term debt are as follows:

Year ending September 30,	Principal	Interest	Debt Service
2008	$ 105,000	$ 288,898	$ 393,898
2009	110,000	283,710	393,710
2010	125,000	278,168	403,168
2011	130,000	271,760	401,760
2012	140,000	264,968	404,968
2013 through 2017	806,501	1,205,780	2,012,281
2018 through 2022	1,105,136	964,915	2,070,051
2023 through 2027	1,069,274	540,737	1,610,011
2028 through 2031	1,729,089	285,134	2,014,223
	$ 5,320,000	$ 4,384,070	$ 9,704,070

(9) Notes Payable

Notes payable consists of the following:

	2007	2006
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	$ 7,013,341	$ 7,791,763
Less current portion	830,473	778,422
	$ 6,182,868	$ 7,013,341

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, 2007 and 2006, the Corporation has pledged as security for these loans approximately $14,766,085 and $16,673,900 of related outstanding mortgage loans, respectively.

(9) Notes Payable, continued, Continued

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

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

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

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

The annual payments on notes payable subsequent to September 30, 2007 are as follows:

Year ending September 30,	Principal	Interest	Debt Service
2008	$ 830,473	$ 432,113	$ 1,262,586
2009	886,002	375,384	1,261,386
2010	945,246	316,124	1,261,370
2011	1,008,450	252,913	1,261,363
2012	1,075,881	186,040	1,261,921
2013 through 2014	2,267,289	153,488	2,417,777
	$ 7,013,341	$ 1,713,062	$ 8,726,403

(10) Noncurrent Liabilities

Noncurrent liability activity at September 30, 2007 and 2006 are as follows:

	Balance 10/01/06	Increases	Decreases	Balance 9/30/07	Amounts Due within One Year	Noncurrent
Long-term portion of accounts payable	$10,555,000	$ -	$ -	$ 10,555,000	$ -	$ 10,555,000
Bonds payable	5,420,000	-	(100,000)	5,320,000	105,000	5,215,000
Note payable	7,791,763	-	(778,422)	7,013,341	830,473	6,182,868
Accrued Unfunded liability to retirement fund	105,433	-	(28,518)	76,915	-	76,915
Accrued annual leave and 50% accrued sick leave of employees under DC Retirement Plan	174,428	109,349	(106,529)	177,248	52,142	125,106
Loans held in trust	777,067	-	(56,578)	720,489	-	720,489
	$ 24,823,691	$ 109,349	($ 1,070,047)	$ 23,862,993	$ 987,615	$ 22,875,378

	Balance 10/01/05	Increases	Decreases	Balance 9/30/06	Amounts Due within One Year	Noncurrent
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	826,092	-	(49,025)	777,067	-	777,067
	$ 25,731,484	$ 99,432	($ 1,007,225)	$ 24,823,691	$ 933,831	$ 23,889,860

(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, 2005, 2004, 2003, the annual actuarially required contribution rates for the years ended September 30, 2007, 2006 and 2005, respectively, have been determined as follows:

	2007	2006	2005
Normal Cost (as % of DB Plan payroll)	18.21%	17.83%	18.30%
Employee contributions (DB Plan employees)	9.50%	9.50%	9.50%
Employer portion of normal cost (% of DB Plan payroll)	8.71%	8.33%	8.80%
Employer portion of normal cost (% of total payroll)	6.81%	4.64%	4.96%
Unfunded liability costs, as % of total payroll	20.67%	21.36%	19.93%
Government contribution as % of DB Plan payroll	27.48%	26.00%	24.89%

The statutory contribution rates as a percent of the DB payroll is as follows:

	2007	2006	2005
Employer rate	22.94%	21.81%	20.81%
Employee rate	9.50%	9.50%	9.50%

(11) Employees' Retirement Plan, Continued

The plan utilized the actuarial cost method termed "entry age normal". Significant valuations assumptions for years ended September 30, 2005, 2004 and 2003 were as follows:

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

The unfunded liability is being amortized as a level percentage of total payroll through May 1, 2031.

The actuarial valuations performed as of September 30, 2005, 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 unfunded liability at September 30, 2007 and 2006 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, 2007 and 2006 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, 2007 and 2006, retirement expense contribution was $267,485 and $207,639, respectively. At September 30, 2007 and 2006, the accrued unfunded liability to the retirement fund was $76,915 and $105,433, respectively.

(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, 2007 and 2006, the Lada Estates project reported in the statements of net assets as Land Held for Development consists of the following:

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

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

(13) Commitments and Contingencies

Commitments

As of September 30, 2007 and 2006, the Corporation has a total of $875,589 and $894,202, 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, 2007 and 2006, rent paid to GEDCA totaled $72,198 for each respective year.

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

Years ending September 30:	
2008	72,198
2009	72,198
2010	72,198
2011	30,082
	$ 246,676

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 $7,117,176 and $6,483,876 is due on the outstanding liability as of September 30, 2007 and 2006, 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.

(13) Commitments and Contingencies, continued

Contingencies, continued

The Corporation has twenty-nine (29) pending claims for approximately $1,888,575 in which foreclosure, litigation or bankruptcy is involved. These claims are at various stages and the ultimate outcome is uncertain, therefore, no additional provision for any potential liability that may result from these claims has been made in the accompanying financial statements.

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

Supplemental Information

Salaries, Wages and Benefits
Years ended September 30, 2007 and 2006

	2007	2006
Salaries, wages and benefits:		
Salaries	$ 931,785	$ 870,933
Retirement benefits	267,485	207,639
Benefits other than retirement	58,452	53,621
Overtime pay	-	-
Total salaries, wages and benefits	$1,257,722	$1,132,193
Employees at end of year	25	25

See accompanying independent auditor's report.

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Net Assets
September 30, 2007

ASSETS	Housing	Rental	Eliminations	Combined Total
Current Assets:				
Unrestricted assets:				
Cash and cash equivalents (notes 1 and 2)	$ 9,897,338	$ 1,419,392	$ -	$ 11,316,730
Self-insurance fund (note 1)	-	1,035,552	-	1,035,552
Loans receivable (notes 1, 3, 9 and 13)	2,658,869	-	-	2,658,869
Tenant accounts receivable and other receivables (note 5)	-	12,339	-	12,339
Accrued interest receivable (note 8)	235,938	25,905	-	261,843
Supplies inventory	-	49,246	-	49,246
Prepaid expenses and other	4,350	16,768	-	21,118
Total unrestricted assets	12,796,495	2,559,202	-	15,355,697
Restricted assets:				
Cash and cash equivalents (notes 1and 2)	2,969,283	65,454	-	3,034,737
Investments (notes 2 and 8)	5,628,991	-	-	5,628,991
Other receivables-current portion (note 4)	246,800	-	-	246,800
Total restricted assets	8,845,074	65,454	-	8,910,528
Total current assets	21,641,569	2,624,656	-	24,266,225
Loans receivable (notes 1, 3, 9 and 13)	16,805,358	-	-	16,805,358
Other receivables -noncurrent portion (note 4)	1,627,763	-	(11,463)	1,616,300
Land held for development (notes 12 and 13)	16,114,338	-	-	16,114,338
Foreclosed assets held for resale (note 7)	1,124,925	-	-	1,124,925
Capital assets, net (note 6)	40,358	5,784,324	-	5,824,682
Total assets	$ 57,354,311	$ 8,408,980	$ (11,463)	$ 65,751,828

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

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Net Assets, Continued
September 30, 2007

LIABILITIES AND NET ASSETS	Housing	Rental	Eliminations	Combined Total
Current liabilities:				
Payable from unrestricted assets:				
Accounts payable and accrued expenses (note 1)	$ 235,980	$ 41,712	$ (11,463)	$ 266,229
Deferred revenue	-	1,817	-	1,817
Current portion of accrued annual leave (note 1)	24,931	27,211	-	52,142
Total payable from unrestricted assets	260,911	70,740	(11,463)	320,188
Payable from restricted assets:				
Current portion of bonds payable (notes 8 and 10)	105,000	-	-	105,000
Current portion of notes payable (notes 9 and 10)	830,473	-	-	830,473
Accrued interest payable (notes 8 and 9)	61,633	-		61,633
Security deposits	-	51,374	-	51,374
Deposits by borrowers - insurance premiums and real estate taxes	465,682	-	-	465,682
Rebate liability (note 8)	104,934	-	-	104,934
Total payable from restricted assets	1,567,722	51,374	-	1,619,096
Total current liabilities	1,828,633	122,114	(11,463)	1,939,284
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)	94,500	30,606	-	125,106
Accrued unfunded liability to retirement fund (notes 10 and 11)	-	76,915	-	76,915
Payable from restricted assets:				
Bonds payable (notes 8 and 10)	5,215,000	-	-	5,215,000
Long-term portion of notes payable (notes 9 and 10)	6,182,868	-	-	6,182,868
Loans held in trust (note 4)	720,489	-	-	720,489
Total non-current liabilities	22,767,857	107,521	-	22,875,378
Total liabilities	24,596,490	229,635	(11,463)	24,814,662
Net assets:				
Invested in capital assets, net of related debt	40,357	3,275,096	-	3,315,453
Restricted (note 9)	21,445,811	2,736,714	-	24,182,525
Unrestricted	11,271,653	2,167,535	-	13,439,188
Total net assets	32,757,821	8,179,345	-	40,937,166
Commitments and Contingencies (note 13)				
	$ 57,354,311	$ 8,408,980	$ (11,463)	$ 65,751,828

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

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Revenues, Expenditures and Changes in Net Assets
Year Ended September 30, 2007

	Housing	Rental	Eliminations	Combined Total
Operating Revenues:				
Interest on loans receivable	$ 1,822,260	$ -	$ -	$ 1,822,260
Interest on investments held by bond trustees	320,396	-	-	320,396
Loan origination fees	63,871	-	-	63,871
Rental income	-	757,998	-	757,998
Other	-	30,225	-	30,225
Total operating revenues	2,206,527	788,223	-	2,994,750
Operating Expenses:				
Salaries	704,602	227,183	-	931,785
Interest expense	772,069	-	-	772,069
Retirement contributions	240,084	27,401	-	267,485
Depreciation	29,184	120,793	-	149,977
Rent	72,198	-	-	72,198
Other	36,735	33,482	-	70,217
Employee benefits, other than retirement	42,327	16,125	-	58,452
Contractual services	40,252	15,379	-	55,631
Professional services	46,625	7,400	-	54,025
Maintenance	-	44,755	-	44,755
Loan origination costs	38,796	-	-	38,796
Bad debts	-	22,034	-	22,034
Bond trustee fees	14,690	-	-	14,690
Travel	4,964	-	-	4,964
Director fees	900	-	-	900
Total operating expenses	2,043,426	514,552	-	2,557,978
Income from operations	163,101	273,671	-	436,772
Non-operating Revenues (Expenses):				
Interest income on bank deposits	432,833	83,621	-	516,454
Other income	57,730	-	-	57,730
Loss on disposal of fixed assets	(325)	(219)	-	(544)
Total non-operating expenses	490,238	83,402	-	573,640
Increase in in net assets	653,339	357,073	-	1,010,412
Net assets at beginning of year	32,104,482	7,822,272	-	39,926,754
Net assets at end of year	$ 32,757,821	$ 8,179,345	$ -	$ 40,937,166

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, 2007

	Housing	Rental	Eliminations	Combined Total
Cash flows from operating activities:				
Receipts received from customers	$ 3,448,957	$ 667,851	$ -	$ 4,116,808
Payments to suppliers	(537,571)	(144,542)	-	(682,113)
Payments to employees	(704,602)	(227,183)	-	(931,785)
Other operating receipts	80,884	30,225	-	111,109
Net cash provided by operating activities	2,287,668	326,351	-	2,614,019
Cash flows from investing activities:				
Increase in investments	(113,469)	-	-	(113,469)
Interest received on cash and investments with trustees	244,959	-	-	244,959
Interest income on bank deposits	395,063	61,369	-	456,432
Other income	40,717	-	-	40,717
Net cash provided by investing activities	567,270	61,369	-	628,639
Cash flows from capital and financing related activities:				
Repayment of bonds payable	(100,000)	-	-	(100,000)
Repayment of notes payable	(778,422)	-	-	(778,422)
Repayment of rebate liability	(28,158)	-	-	(28,158)
Interest paid on notes payable	(482,922)	-	-	(482,922)
Increase in self-insurance fund	-	(129,434)	-	(129,434)
Interest paid on bonds	(293,660)	-	-	(293,660)
Acquisition of capital assets	-	(7,624)	-	(7,624)
Proceeds from sale assets held for resale	881,522	-	-	881,522
Net cash used for financing activities	(801,640)	(137,058)	-	(938,698)
Net increase (decrease) in cash and cash equivalents	2,053,298	250,662	-	2,303,960
Cash and cash equivalents at beginning of year	10,813,323	1,234,184	-	12,047,507
Cash and cash equivalents at end of year	$ 12,866,621	$ 1,484,846	$ -	$ 14,351,467
Cash and cash equivalents	$ 9,897,338	$ 1,419,392	$ -	$ 11,316,730
Restricted cash and cash equivalents	2,969,283	65,454	-	3,034,737
Total cash and cash equivalents, end of year	$ 12,866,621	$ 1,484,846	$ -	$ 14,351,467

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, 2007

	Housing	Rental	Eliminations	Combined Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 163,101	$ 273,671	$ -	$ 436,772
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:				
Bad debts	-	22,034	-	22,034
Depreciation	29,184	120,793	-	149,977
Loss on sale of properties held for resale	(960)	-	-	(960)
(Gain) loss on disposal of fixed assets	325	219	-	544
(Increase) decrease in assets:				
Loans receivable	1,245,241	-	-	1,245,241
Tenant accounts and other receivables	-	(10)	-	(10)
Accrued interest receivable	(20,388)	(12,024)	-	(32,412)
Other receivables	235,535	-	-	235,535
Foreclosed assets held for resale	845,148	-	-	845,148
Supplies inventory	-	(13,754)	-	(13,754)
Prepaid expenses and other	4,960	(16,186)	-	(11,226)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	(35,141)	(20,686)	-	(55,827)
Accrued annual and sick leave	(3,205)	6,025	-	2,820
Accrued pension cost		(28,518)	-	(28,518)
Accrued interest payable	(4,512)	-	-	(4,512)
Deposits by borrowers	(86,884)	-	-	(86,884)
Security deposits	-	(5,130)	-	(5,130)
Deferred rental income	-	(83)	-	(83)
Rebate liability	(28,158)	-	-	(28,158)
Loans held in trust	(56,578)	-	-	(56,578)
Net cash provided by operating activities	$ 2,287,668	$ 326,351	$ -	$ 2,614,019

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, 2007 and 2006

ASSETS	2007	2006
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents	$ 9,897,338	$ 7,634,359
Loans receivable	2,658,869	3,100,013
Accrued interest receivable	235,938	215,549
Prepaid expenses and other	4,350	9,310
Total unrestricted assets	12,796,495	10,959,231
Restricted assets:		
Cash and cash equivalents	2,969,283	3,178,964
Investments	5,628,991	5,742,460
Other receivables-current portion	246,800	118,988
Total restricted assets	8,845,074	9,040,412
Total current assets	21,641,569	19,999,643
Loans receivable	16,805,358	17,609,455
Other receivables -noncurrent portion	1,627,763	2,017,536
Land held for development	16,114,338	16,114,338
Foreclosed assets held for resale	1,124,925	1,982,677
Capital assets, net	40,358	69,866
Total assets	$ 57,354,311	$ 57,793,515

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, 2007 and 2006

LIABILITIES AND NET ASSETS	2007	2006
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses	$ 235,980	$ 270,764
Current portion of accrued annual leave	24,931	31,136
Total payable from unrestricted assets	260,911	301,900
Payable from restricted assets:		
Current portion of bonds payable	105,000	100,000
Current portion of notes payable	830,473	778,422
Accrued interest payable	61,633	66,145
Deposits by borrowers - insurance premiums and real estate taxes	465,682	552,566
Rebate liability	104,934	133,092
Total payable from restricted assets	1,567,722	1,630,225
Total current liabilities	1,828,633	1,932,125
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	94,500	91,500
Payable from restricted assets:		
Bonds payable	5,215,000	5,320,000
Long-term portion of notes payable	6,182,868	7,013,341
Loans held in trust	720,489	777,067
Total non-current liabilities	22,767,857	23,756,908
Total liabilities	24,596,490	25,689,033
Net assets:		
Invested in capital assets, net of related debt	40,357	69,866
Restricted	21,445,811	21,436,262
Unrestricted	11,271,653	10,598,354
Total net assets	32,757,821	32,104,482
Commitments and Contingencies		
	$ 57,354,311	$ 57,793,515

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, 2007 and 2006

	2007	2006
Operating Revenues:		
Interest on loans receivable	$ 1,822,260	$ 2,046,435
Interest on investments held by bond trustees	320,396	170,604
Loan origination fees	63,871	62,447
Total operating revenues	2,206,527	2,279,486
Operating Expenses:		
Interest expense	772,069	825,703
Salaries	704,602	670,646
Retirement contributions	240,084	183,762
Rent	72,198	72,198
Professional services	46,625	54,629
Employee benefits, other than retirement	42,327	40,776
Contractual services	40,252	37,393
Loan origination costs	38,796	34,247
Other	36,735	45,457
Depreciation	29,184	37,803
Bond trustee fees	14,690	15,859
Travel	4,964	-
Director fees	900	-
Total operating expenses	2,043,426	2,018,473
Income from operations	163,101	261,013
Non-operating Revenues (Expenses):		
Interest income on bank deposits	432,833	280,037
Other income	57,730	92,970
Loss on disposal of fixed assets	(325)	-
Total non-operating expenses	490,238	373,007
Increase in in net assets	653,339	634,020
Total net assets at beginning of year	32,104,482	31,470,462
Total net assets at end of year	$ 32,757,821	$ 32,104,482

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, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Receipts received from customers	$ 3,448,957	$ 3,437,185
Payments to suppliers	(537,571)	(484,321)
Payments to employees	(704,602)	(670,646)
Other operating receipts	80,884	62,447
Net cash provided by operating activities	2,287,668	2,344,665
Cash flows from investing activities:		
Increase in investments	(113,469)	164,848
Interest received on cash and investments with trustees	244,959	170,604
Interest income on bank deposits	395,063	280,037
Other income	40,717	92,970
Net cash provided by investing activities	567,270	708,459
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(100,000)	(95,000)
Repayment of notes payable	(778,422)	(729,635)
Accrued rebate liability	(28,158)	(58,093)
Interest paid on notes payable	(482,922)	(527,852)
Interest paid on bonds	(293,660)	(297,851)
Purchase of property of property held for resale	881,522	727,091
Net cash used for financing activities	(801,640)	(981,340)
Net increase in cash and cash equivalents	2,053,298	2,071,784
Cash and cash equivalents at beginning of year	10,813,323	8,741,539
Cash and cash equivalents at end of year	$ 12,866,621	$ 10,813,323
Cash and cash equivalents	$ 9,897,338	$ 7,634,359
Restricted cash and cash equivalents	2,969,283	3,178,964
Total cash and cash equivalents, end of year	$ 12,866,621	$ 10,813,323

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, 2007 and 2006

	2007	2006
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$ 163,101	$ 261,013
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation	29,184	37,803
Amortization of discount on loan due from Guam Rental Corporation	-	(18,710)
Loss (gain) on sale of properties held for resale	(960)	98,636
Loss (gain) on disposal of fixed assets	325	-
(Increase) decrease in assets:		
Loans receivable	1,245,241	1,353,229
Accrued interest receivable	(20,388)	(22,417)
Other receivables	235,535	141,409
Foreclosed assets held for resale	845,148	429,082
Prepaid expenses and other	4,960	11,280
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(35,141)	11,399
Accrued annual leave	(3,205)	16,112
Accrued pension cost	-	(26,183)
Accrued interest payable	(4,512)	(4,259)
Deposits by borrowers	(86,884)	47,203
Rebate liability	(28,158)	58,093
Loans held in trust	(56,578)	(49,025)
Net cash provided by operating activities	$ 2,287,668	$ 2,344,665

	2007	2006
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	$ 776,581	$ 829,963
Loans foreclosed and transferred to assets held for resale during the year	$ 45,000	$ 374,477

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

GUAM HOUSING CORPORATION
Supplemental Information

Balance Sheets (Rental Divison)
September 30, 2007 and 2006

ASSETS	2007	2006
Current assets:		
Unrestricted cash and cash equivalents	$ 1,419,392	$ 1,162,994
Restricted cash and cash equivalents	65,454	71,190
Self-insurance fund	1,035,552	906,118
Tenant accounts and other receivables, net	12,339	12,329
Accrued interest receivable	25,905	13,881
Supplies inventory	49,246	35,492
Prepaid expenses	16,768	582
Total current assets	2,624,656	2,202,586
Capital assets, net	5,784,324	5,897,713
	$ 8,408,980	$ 8,100,299
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 41,712	$ 62,398
Accrued leave and wages payable	27,211	24,273
Security deposits	51,374	56,504
Deferred rental income	1,817	1,900
Total current liabilities	122,114	145,075
Non-current liabilities:		
Accrued annual and sick leave	30,606	27,519
Accrued pension cost	76,915	105,433
Total long-term liabilities	107,521	132,952
Total liabilities	229,635	278,027
Net assets:		
Invested in capital assets, net of related debt	3,275,096	3,388,485
Restricted	2,736,714	2,677,958
Unrestricted	2,167,535	1,755,829
Total net assets	8,179,345	7,822,272
Commitments and contingencies		
	$ 8,408,980	$ 8,100,299

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, 2007 and 2006

	2007	2006
Revenues:		
Rentals	$ 757,998	$ 772,178
Other	30,225	7,237
Total revenues	788,223	779,415
Operating expenses:		
Salaries and benefits, other than retirement	227,183	200,287
Depreciation and amortization	120,793	126,365
Bad debts	22,034	43,659
Contractual services	15,379	36,774
Maintenance	44,755	31,274
Retirement contributions (Note 4)	27,401	23,877
Other	33,482	22,058
Employee benefits, other than retirement	16,125	12,845
Professional services	7,400	7,678
Total operating expenses	514,552	504,817
Income from operations	273,671	274,598
Non-operating revenues (expenses):		
Interest income on bank accounts	83,621	56,086
Loss on disposal of assets	(219)	(1,648)
Total non-operating revenues	83,402	54,438
Net earnings	357,073	329,036
Net assets at beginning of year	7,822,272	7,493,236
Net assets at end of year	$ 8,179,345	$ 7,822,272

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, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Receipts received from customers	$ 667,851	$ 734,652
Payments to suppliers	(144,542)	(134,506)
Payments to employees	(227,183)	(200,287)
Other operating receipts	30,225	7,237
Net cash provided by operating activities	326,351	407,096
Cash flows from investing activities:		
Interest income on bank deposits	61,369	56,086
Net cash provided by investing activities	61,369	56,086
Cash flows from capital and financing related activities:		
Increase in self-insurance fund	(129,434)	(109,515)
Purchase of property and equipment	(7,624)	(19,469)
Net cash used for financing activities	(137,058)	(128,984)
Net increase (decrease) in cash and cash equivalents	250,662	334,198
Cash and cash equivalents at beginning of year	1,234,184	899,986
Cash and cash equivalents at end of year	$ 1,484,846	$ 1,234,184

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, 2007 and 2006

	2007	2006
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$ 273,671	$ 274,598
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	22,034	43,659
Depreciation	120,793	126,365
Loss on disposal of assets	219	1,648
(Increase) decrease in assets:		
Tenant accounts and other receivables, net	(10)	(29,853)
Accrued interest receivable	(12,024)	(2,041)
Supplies inventory	(13,754)	371
Prepaid expenses and other	(16,186)	(582)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(20,686)	10,104
Accrued annual and sick leave	6,025	(798)
Accrued pension cost	(28,518)	(23,265)
Deferred rental income	(83)	(960)
Security deposits	(5,130)	7,850
Net cash provided by operating activities	$ 326,351	$ 407,096

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

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

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED SEPTEMBER 30, 2007

J. Scott Magliari
& COMPANY
CERTIFIED PUBLIC ACCOUNTANT

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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 (the Corporation), as of and for the year ended September 30, 2007 and have issued my report thereon dated February 9, 2008. 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 as a basis for designing my auditing procedures for the procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely manner. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Corporation's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are considered to be material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, 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 or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Internal Control Findings as items 07-01 through 7-04.

I noted certain matters that were reported to management of the Corporation in a separate letter dated February 22, 2008.

This report is intended solely for the information and use 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.

J. Scott Magliari & Company

Hagåtña, Guam
February 22, 2008

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

SCHEDULE OF INTERNAL CONTROL FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2007

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 __x__ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ______yes __x__ None reported
- Noncompliance material to financial statements noted? ______yes __x__ no

The Guam Housing Corporation did not receive or expend any federal awards for the fiscal year ending September 30, 2007. Therefore, it did not have any major federal programs.

PART II – FINDINGS – FINANCIAL STATEMENTS

I noted certain instances of noncompliance be reported in accordance with *Government Auditing Standards* that are presented in the following pages as items 07-01 through 07-04.

Reference Number	Findings	Questioned Costs
07-01	Loans Receivable – Delinquency and Loan Servicing	$ -
07-02	Loans Receivable – Insurance Coverage	-
07-03	Loans Receivable – Title Reports	-
07-04	Loans Receivable – Appraisal Reports	-
		$ -

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2007

Finding No. 07-01
Area : Loans Receivable/Delinquency and Loan Servicing

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. Additionally, pursuant to the Corporation's loan underwriting policies and procedures for loan extensions granted to borrowers, all accrued interest must be brought current prior to approving an extension.

Condition:

We conducted a review of the payment history of borrowers subsequent to September 30, 2007 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 (FHLB), as follows:

Item #	Loan #	Unpaid Principal Balance as of 9/30/07	Number of Days Past Due
1	19802548	$ 143,557.47	793
2	59302262	100,359.62	560
3	59802430	148,970.85	530
4	59102066	79,166.68	263
5	59802544	69,783.90	193
6	18401459	27,192.69	175
7	59302227	47,825.08	142
8	59102100	85,086.04	133
9	59802504	153,806.72	129
10	59702387	90,208.22	111
11	19702351	67,638.93	103
		$ 1,013,596.20	

Finding No. 07-01, Continued
Area : Loans Receivable/Delinquency and Loan Servicing

Condition: (continued)

For Loan #19802548, it was still delinquent and past due 541 days. During November 2005, this loan was referred to the Corporation's Credit & Collection Committee which approved a payment plan to cure the delinquency. The borrower was unable fulfill the workout plan to cure the delinquency. The loan was referred to Legal counsel for foreclosure proceeding but was retrieved during January, 2007. A loan extension was considered but was not granted because the borrower inability to make a payment sufficient to cover the total interest due, late charges and legal fees. The borrower requested the Corporation's assistance to obtain his income tax return and retirement fund contributions to bring the account current. Subsequent to September 30, 2007, the borrower obtained and applied his entire income tax refund to the past due amount; however, his retirement funds have not been obtained. Monthly payments are being made but are still insufficient to cure the delinquent amount of $22,945 that remains past due.

For loan #18401459, the borrowers are the parents of an employee of the Corporation who is making the monthly payments to cure loan delinquency. Subsequent to September 30, 2007, this loan was brought current.

Context:

Of the 211 loans pledged as collateral with FHLB, 11 loans or 5% were outstanding in excess of 90 days.

Cause:

The Corporation hired a full-time collector to service the loan portfolio during fiscal year 2007; however, this employee left the Corporation subsequent to September 30, 2007. In addition, it appears that established written internal control lending policies and procedures are not adhered and strictly enforced for identifying, servicing and foreclosing 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 2007 and 2006 audits of the Corporation.

Finding No. 07-01, Continued
Area : Loans Receivable/Delinquency and Loan Servicing

Recommendation:

The above loans should be evaluated for collectability on a monthly basis 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 current efforts to review its loan portfolio to service delinquent loans. This review and level of effort should be continued and consistently performed on a monthly basis. However, the Corporation should 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 in a timely manner before they reach the 90-day non-performing status. This will also 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.

Loans should not be allowed to remain delinquent beyond a reasonable period of time. We recommend that the Corporation re-examine its existing loan underwriting policies and procedures and revise such to establish time limitations on the maximum length of time loans may remain delinquent before foreclosure proceeding. Once revised, the loan policy should be consistently applied to all loans. Any deviation from the revised policy should well-documented with the requisite approvals of the Credit & Collection Committee, the President and the Board of Directors.

Auditee Response and Corrective Action: Plan:

For Loan #19802548, the Credit & Collection Committee recommended to accept the borrower's proposed payment plan in order to cure the delinquency. This committee decision was made to reduce the unpaid principal balance in order to lessen any potential loss should the Corporation pursue loan foreclosure. The President approved the Committee's recommendation. The borrower failed to adhere to the approved payment plan and thus the Committee and the President approved to refer the loan to the Corporation's legal counsel for further collection. Subsequent to the referral, the borrower requested for reconsideration and offered his income tax return refund and withdrawal of his retirement fund contributions to bring the account current. A loan extension could not be recommended because the borrower was unable to bring the past due interest current. The borrower has made subsequent payments to reduce the loan delinquency from 793 days to 541 days. Should the borrower fail to make continued payments, the Credit & Collection Committee will review the loan for collectability and provide recommendation for collection or foreclosure.

Loans #5939262 and #59802504 were referred to legal counsel for further collection or foreclosure proceedings. Loans #9802430, #59802544, #1840459, #59302227, #59102100, #59702387, and #19702351 are on a payment arrangement or eligible for a loan revision or extension. Loans #59302227, #59802504 and #59702387 are now current.

For Loan #18401459, the GHC employee is being deducted via bi-weekly payroll for the full monthly payment to include the late fees. Subsequent to September 30, 2007, the loan was brought current.

Finding No. 07-02
Area: Loans Receivable/Insurance 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 did not have adequate insurance coverage:

1. Loan #38601607 – Per review of appraisal dated 2/19/86, there was no indication that the property was not located in HUD identified special flood hazard area and the insurance policy did not include flood coverage.

2. Loan #19202207 – Insurance policy contains a 50% co-insurance clause on the insured value of $154,425 or $77,212.50; however, the outstanding loan as of September 30, 2007 was $69,595.62.

Context:

During our testing of loans and review of 55 loan files, 2 or 4% did not have adequate insurance coverage pursuant to the Corporation's loan policy.

Cause:

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

Effect:

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

Finding No. 07-02, continued
Area: Loans Receivable/Insurance Coverage

Prior Year Status:

Loans lacking adequate insurance coverage was reported as a finding in the audit of the Corporation for the fiscal years 2006 and 2005.

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.

Auditee Response and Corrective Action: Plan:

Loan #38601607 was approved in 1986 and the report was acceptable at that time. The Corporation will not require flood insurance, unless it is reflected on the appraisal report. There have been no claims of flood damages on this property. For Loan #19202207, the corporation's policy allows for the replacement value or the unpaid balance. The unpaid balance is still below the insurance coverage despite the 50% co-insurance. The insured amount is acceptable per Corporation's policy.

Finding No. 07-03
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.

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:

1. Loan #59802430 – Upon assumption of mortgage, the title search was not conducted. In addition, it appears that this loan was not properly approved as the loan application was not properly reviewed, signed and approved by the Corporation.
2. Loan #38601607 – Real property taxes were not paid for 1986.
3. Loan #38901921 – Real property taxes were not paid for 1989.
4. Loan #59102088 – Real property taxes were not paid for 1991.
5. Loan #59102069 – Real property taxes were not paid for 1991 and 1990.
6. Loan #19402283 – Real property taxes were not paid for 1993.
7. Loan #59102082 – Real property taxes were not paid for 1990 and 1991.
8. Loan #19602337 – Real property taxes were not paid for 1977 thru 1982 totaling $375.30.
9. Loan #19802559 – Loan file documentation was not available to determine if real property taxes were not paid.

In addition we examined loan files to determine that the collateral is wholly owned by the Corporation and that no participating or retaining interest is held by any other party and noted the following:

1. Loan #28701712: Property is collateralized with Countrywide Home Loans (Van Nuys, CA) under loan #41858730.
2. Loan #59802430: Property is collateralized with Countrywide Home Loans (Van Nuys, CA) under loan #2282011182.
3. Loan #38501511: Property is collateralized with Countrywide Home Loans (Van Nuys, CA) under loan #2282011156.
4. Loan #59102082: Property is collateralized with the Small Business Administration (SBA) and the Beal Bank in Plano, Texas.
5. Loan #19602337: Property is collateralized with the SBA.
6. Loan #59302262: Property is collateralized with the Bank of Guam.
7. Loan #19202207: Partial Release of Mortgage dated 9/22/99 with the SBA was not recorded with the Department of Land Management for Lot #3-2, Block 4, Tract #212 for $21,000.
8. Loan #59202214: Property pledged as collateral to First Hawaiian Bank under loan #35-001031.

Finding No. 07-03, continued
Area: Loan Receivable – Title Reports

Condition: (continued)

9. Loan #19802559: Borrower's file was incomplete and did not contain sufficient documentation to determine compliance with this procedure.
10. Loan #38601596: Based on review of the title policy, borrower executed a mortgage with American Savings & Loan for $28,000 and recorded such with Land Management on 6/13/80 under document #312701. A release of mortgage was not on-file for inspection.

Context:

During our testing and review of 55 loan files for compliance with the Corporation's loan policies and compliance with Federal Home Loan Bank collateral requirements, 9 or 16% lacked sufficient information to document the payment of prior year real property taxes and 10 or 18% were pledged by borrowers to other financial institutions.

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.

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, 2006.

Recommendation:

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

Finding No. 07-03, continued
Area: Loan Receivable – Title Reports

Auditee Response and Corrective Action: Plan:

We will submit a written request for certification of payment to the Department of Revenue and Taxation to document that the above taxes were paid.

For the above loans listed in items 1 through 8 for the collateral, the noted mortgages are second mortgages obtained by borrowers. These mortgages do not jeopardize GHC's 1st lien position.

For Loan #19202207, the original release was given to the borrower for recording at the Dept. of Land Management (DLM). A copy will be obtained from DLM.

For Loan #1982559, the original loan file was subpoenaed by the U.S. Attorney and has not been returned. GHC has made requests via the FBI's office for the return of the original file; however, the file has yet to be returned. The Manager will submit a written request.

For Loan #38601596, GHC has written Bank of Hawaii requesting for a release; however, they have not responded to our request. In addition, we are working with Pacific American Title Insurance & Escrow Company to obtain the release.

Finding No. 07-04
Area: Appraisal Reports

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:

Appraisal reports were not on-file for inspection for Loans #18701733, #59802430 and #19802559.

Context:

During our testing of loans and review of 55 loan files, 2 or 5% did not have appraisal reports available for inspection.

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 original appraisal reports were given to the Federal Home Loan Bank of Seattle (FHLB) without retaining a file copy. A request will be made to FHLB for a copy.

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