

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

**Financial Statements And Independent Auditor's Report
And Additional Information**

For The Years Ended September 30, 2005 and 2004

GUAM HOUSING CORPORATION
(A Public Corporation)

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September 30, 2005 and 2004

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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 (GHC), a component unit of the Government of Guam, as of September 30, 2005 and 2004, 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 GHC'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the accompanying financial statements, GHC adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB No. 38, *Certain Financial Statements Notes Disclosures*.

The information identified in the accompanying table of contents, as *Management's Discussion and Analysis* 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 48, for the years ended September 30, 2005 and 2004, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of Corporation's management. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated 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 January 30, 2006, on my consideration of Guam Housing Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

J. Scott Magliari & Company

Hagåtña, Guam
January 30, 2006

GUAM HOUSING CORPORATION

Management's Discussion and Analysis September 30, 2005

As Management of the Guam Housing Corporation, we offer the readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended September 30, 2005. 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 must still contend with few new loans being made. Additionally, it is an ongoing struggle to manage the loan portfolio in this climate of low interest rates and the marriage of debt consolidation to mortgage refinancing. When these concerns are combined with a lackluster economy, a rise in loan delinquency, and increased foreclosures industry-wide, the situation is compounded. Despite these however, we anticipate that steady economic recovery will spur an increase in our loan origination activity as interest rates, home values, and home prices rise.

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

By virtue of Title 21, Chapter 75 of the Guam Code Annotated, GHC is the primary (and in most cases only) authorized lender for Chamorro Land Trust Property recipients seeking mortgage financing. Loan programs available to veterans who are also recipients of the Chamorro Land Trust were limited to GHC's loan program and U.S. Veterans Administration direct loan under the Native American Loan Program. With the recent execution of the Memorandum of Understanding between the Chamorro Land Trust Commission, GHC and Rural Development, direct loans from Rural Development can now be extended to veterans with Chamorro Land Trust Leases.

GUAM HOUSING CORPORATION

Management's Discussion and Analysis September 30, 2005

Currently, GHC makes available the following loan programs.

I. Regular Loan Program

Residential mortgage lending program, to assist families and individuals, who are first time homeowners and are unable to obtain financing for purchase or construction through conventional lending institutions. Current interest rate is 7.5% for a term of 30 years. This is subject to change.

II. Six Percent Loan Program

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. Interest rate is 6.00% for a term of 30 years.

III. Community Affordable Housing Action Trust (CAHAT)

An interest free second mortgage 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

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

USDA loans are written for 33 years. Current interest rates are at 5.75%, but are subject to change. However, loans are subsidized. USDA borrower may be paying at 1% or higher. Guam Housing Corporation can write the loan for 30 years or a 15-year balloon with a 30-year amortization. Guam Housing Corporation would use its interest rate for regular programs.

GUAM HOUSING CORPORATION

Management's Discussion and Analysis September 30, 2005

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

Lada Estates. 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, 2005, the issue of Lada Estates remains unresolved.

FINANCIALS AT-A-GLANCE

The GHC loan portfolio was reduced by \$2.99M to \$28.19M, falling 9.59% from the prior year. Loan payoffs, foreclosures, and non-performing loans contribute to a situation already complicated by a lingeringly slow economic recovery that severely impedes the corporation's prospects for new loans.

Total delinquencies decreased by 32 loans during the year, but still an improvement of \$1.4M over the previous year. Overall, loans delinquent 30 days and over felled by 1.77% from the past year to 23.74%.

Forty-four (44) loan payoffs were received in FY2005 totaling \$1.6M, an increase of \$117,730 over the prior year.

Eleven (11) accounts were foreclosed in FY2005, totaling \$1.09M. Action taken by our Legal Counsel has been an invaluable help to GHC to aggressively and successfully complete foreclosure actions.

Only four (4) units were sold in FY2005. Total loss on the sale was minimal at \$13,584. 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. Managing the units fell to the Rental Division staff; a team already at minimum levels who found the task of caretaking units spread throughout the island a major challenge.

GUAM HOUSING CORPORATION

Management's Discussion and Analysis September 30, 2005

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

Statement of Net Assets Fiscal Year Ended September 30, 2005, 2004 & 2003

Assets	2005	2004	*2003
Cash & Investments	\$ 16,345,436	\$ 14,095,761	\$ 9,339,612
Loans receivable	22,156,522	24,869,171	29,505,906
Tenant receivable	27,783	55,690	-
Accrued interest receivable	204,972	200,994	220,030
Other receivable	2,314,109	2,544,194	3,092,202
Due from Government of Guam & other agencies	2,915,000	2,915,000	2,915,000
Land held for development	13,199,338	13,199,338	13,199,338
Foreclosed assets held for resale	2,411,759	1,699,841	528,360
Capital Assets	6,113,926	6,275,115	21,552
Total Assets	\$ 65,688,845	\$ 65,855,104	\$ 58,822,000
Liabilities			
Accounts payable & accrued expenses	11,308,640	11,457,517	11,182,733
Notes payable	8,521,398	9,205,303	9,880,988
Deposits by borrowers & security deposit	554,017	546,699	469,249
Bonds payable	5,515,000	5,605,000	5,696,134
Loans held in trust	826,092	979,159	1,282,524
Total Liabilities	26,725,147	27,793,678	28,511,628
Total net assets	38,963,698	38,061,426	30,310,372
Commitments and Contingencies	\$ 65,688,845	\$ 65,855,104	\$ 58,822,000

GUAM HOUSING CORPORATION

Management's Discussion and Analysis September 30, 2005

Statement of Revenues, Expenditures and Changes in Net Assets Fiscal Year Ended September 30, 2005, 2004 & 2003

Assets	2005	2004	*2003
Operating Revenues			
Interest on loans receivable	\$ 2,082,875	\$ 2,352,205	\$ 2,558,293
Rental Income	789,942	719,673	
Interest on investments held by bond trustees	219,059	340,036	319,418
Loan origination fees & other	88,876	86,810	72,708
Total operating revenues	3,180,752	3,498,724	2,950,419
Operating Expenses			
Interest expense	875,354	922,971	1,090,919
Salaries & benefits	1,099,963	985,802	683,035
Bad Debts	105,647	579,423	566,657
Depreciation	168,564	138,350	7,247
Other expenses	319,866	343,996	468,975
Total operating expense	2,569,394	2,970,542	2,816,833
Income from operations	611,358	528,182	133,586
Non-operating revenues	290,914	101,397	100,371
Increase in net assets	902,272	629,579	233,957
Total net assets at beginning of year	38,061,426	37,431,847	30,076,415
Total net assets at end of year	\$ 38,963,698	\$ 38,061,426	\$ 30,310,372

* New in 2004 is the dissolution of the Guam Rental Corporation. In November 2003 GHC petitioned for the dissolution of the rental corporation, a wholly-owned subsidiary of GHC. All assets and liabilities have been acquired by GHC. Included are the eight employees which now make up the new *GHC Rental Division*. Assets totaling \$8.2M have also been acquired.

GUAM HOUSING CORPORATION

Management's Discussion and Analysis
September 30, 2005

LOAN PORTFOLIO

The total loan portfolio fell by 9.59% in FY 2005. Although we realized a slight increase in the loan origination activity, GHC still realizes a number of loan payoffs. As of September 2005, ten (10) loans were approved totaling \$951,170. Of these approvals, seven (7) loans were closed. The seven totaled \$734,050.

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.

In an attempt to further provide assistance to our typical base of clients, GHC 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 RD 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 1.77% in FY2005. Regrettably, this \$1.4 million 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.

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

GHC foreclosed on 11 homes in FY2005. With Legal Counsel firmly on track with Loan division on referrals for foreclosure, we fully expect that the process will continue to improve. Current Legal Counsel has proven to be an effective ally in the Corporation's efforts to clean up on non-performing assets. Maintenance and security of these units, which spread throughout the island, has fallen to the Rental Division which, due to their limited staff, struggles to accommodate the additional workload and concerns of vandalism, theft, and generally the deterioration of the vacant properties. As of September 2005, GHC had a total of 26 O.R.E.O. Properties.

GUAM HOUSING CORPORATION

Management's Discussion and Analysis September 30, 2005

These units foreclosed in FY2005 were collectively in quite poor condition and proved far more difficult to sell, than anticipated. 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 GHC by utilizing the resources and contacts of real estate sales persons in the sale of our properties.

ALLOWANCE FOR LOAN LOSSES

A total of \$72,371.09 was used in the current fiscal year. Recoveries from previous years amounted to \$68,698.59. 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, 2005, \$8,521,397.80 remains due on this note which is on schedule to be fully amortized by the year 2014.

GOVERNMENT REORGANIZATION AND STREAMLINING

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

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Statements of Net Assets
September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents (notes 1 and 2)	\$ 3,060,918	\$ 2,769,549
Loans receivable (notes 1, 4, 11 and 13)	3,683,004	4,270,906
Tenant accounts receivable and other receivables, net (note 6)	27,783	55,690
Accrued interest receivable (notes 4 and 11)	204,972	200,994
Supplies inventory	35,863	36,042
Prepaid expenses and other	<u>20,590</u>	<u>9,409</u>
Total unrestricted assets	<u>7,033,130</u>	<u>7,342,590</u>
Restricted assets:		
Cash and cash equivalents (notes 1 and 2)	6,580,607	4,537,242
Self-insurance fund (note 1)	796,603	707,924
Investments (notes 3, 9 and 10)	5,907,308	6,081,046
Other receivables-current portion (notes 5 and 14)	<u>149,292</u>	<u>419,417</u>
Total restricted assets	<u>13,433,810</u>	<u>11,745,629</u>
Total current assets	<u>20,466,940</u>	<u>19,088,219</u>
Loans receivable (notes 1, 4, 11 and 13)	18,473,518	20,598,265
Other receivables -noncurrent portion (notes 5 and 14)	2,108,364	2,079,326
Due from Government of Guam and other agencies (notes 5 and 14)	2,915,000	2,915,000
Land held for development (note 14)	13,199,338	13,199,338
Foreclosed assets held for resale (note 8)	2,411,759	1,699,841
Capital assets, net (note 7)	<u>6,113,926</u>	<u>6,275,115</u>
Total assets	<u>\$ 65,688,845</u>	<u>\$ 65,855,104</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Statements of Net Assets, Continued
September 30, 2005 and 2004

<u>LIABILITIES AND NET ASSETS</u>	<u>2005</u>	<u>2004</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses (note 1)	\$ 291,382	\$ 354,645
Deferred revenue	2,860	2,300
Current portion of accrued annual leave (note 1)	<u>54,992</u>	<u>78,940</u>
Total payable from unrestricted assets	<u>349,234</u>	<u>435,885</u>
Payable from restricted assets:		
Current portion of notes payable (note 11)	729,635	683,905
Accrued interest payable (note 11)	70,404	74,259
Security deposits	48,654	40,497
Deposits by borrowers - insurance premiums and real estate taxes	505,363	506,202
Rebate liability (note 9)	<u>74,999</u>	<u>62,322</u>
Total payable from restricted assets	<u>1,429,055</u>	<u>1,367,185</u>
Total current liabilities	<u>1,778,289</u>	<u>1,803,070</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Long-term portion of accounts payable (notes 1 and 15)	10,555,000	10,555,000
Long-term portion of accrued annual and sick leave (note 1)	104,122	85,922
Accrued unfunded liability to retirement fund (note 12)	154,881	244,129
Payable from restricted assets:		
Bonds payable (note 9)	5,515,000	5,605,000
Long-term portion of notes payable (note 11)	7,791,763	8,521,398
Loans held in trust (note 5)	<u>826,092</u>	<u>979,159</u>
Total non-current liabilities	<u>24,946,858</u>	<u>25,990,608</u>
Total liabilities	<u>26,725,147</u>	<u>27,793,678</u>
Net assets:		
Invested in capital assets, net of related debt	3,604,697	3,503,214
Restricted (notes 11 and 13)	24,038,311	23,226,968
Unrestricted	<u>11,320,690</u>	<u>11,331,244</u>
Total net assets	<u>38,963,698</u>	<u>38,061,426</u>
Commitments and Contingencies (note 15)	<u>\$ 65,688,845</u>	<u>\$ 65,855,104</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Revenues, Expenditures and Changes in Net Assets
Year Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Interest on loans receivable	\$ 2,082,875	\$ 2,352,205
Rental income	789,942	719,673
Interest on investments held by bond trustees	219,059	340,036
Loan origination fees	86,271	85,886
Other	<u>2,605</u>	<u>924</u>
Total operating revenues	<u>3,180,752</u>	<u>3,498,724</u>
Operating Expenses:		
Interest expense	875,354	922,971
Salaries	888,359	799,108
Depreciation	168,564	138,350
Retirement contributions	166,864	144,125
Bad debts and provision for loan loss	105,647	579,423
Rent	72,198	53,058
Contractual services	70,693	95,712
Professional services	60,796	57,263
Employee benefits, other than retirement	44,739	42,569
Loan origination costs	48,396	44,437
Other	26,297	52,946
Maintenance	25,603	24,299
Bond trustee fees	<u>15,884</u>	<u>16,281</u>
Total operating expenses	<u>2,569,394</u>	<u>2,970,542</u>
Income from operations	<u>611,358</u>	<u>528,182</u>
Non-operating Revenues (Expenses):		
Interest income on bank deposits	157,534	35,433
Other income	<u>133,380</u>	<u>65,964</u>
Total non-operating expenses	<u>290,914</u>	<u>101,397</u>
Increase in in net assets	902,272	629,579
Total net assets at beginning of year	<u>38,061,426</u>	<u>37,431,847</u>
Total net assets at end of year	<u>\$ 38,963,698</u>	<u>\$ 38,061,426</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Cash Flows
Year Ended September 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Receipts received from customers	\$ 4,956,000	\$ 6,294,119
Payments to suppliers	(547,143)	(522,467)
Payments to employees	(872,686)	(799,108)
Other operating receipts	305,330	425,951
Net cash provided by operating activities	3,841,501	5,398,495
Cash flows from investing activities:		
(Increase) decrease in investments	173,738	(457,127)
Interest earned on cash and investments with trustees	219,059	340,036
Interest income on bank deposits	157,534	35,433
Other income	133,380	65,964
Net cash provided by investing activities	683,711	(15,694)
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(90,000)	(90,000)
Repayment of notes payable	(946,578)	(675,685)
Premium on bonds payable	-	(1,134)
Accrued rebate liability	(12,676)	(46,354)
Interest paid on notes payable	(679,209)	(674,502)
Increase in self-insurance fund	(153,746)	(81,535)
Interest paid on bonds	(302,336)	(306,364)
Purchase of property and equipment	(5,933)	(155,603)
Net cash used for financing activities	(2,190,478)	(2,031,177)
Net increase (decrease) in cash and cash equivalents	2,334,734	3,351,624
Cash and cash equivalents at beginning of year	7,306,791	3,955,167
Cash and cash equivalents at end of year	\$ 9,641,525	\$ 7,306,791
Cash and cash equivalents	3,060,918	\$ 2,769,549
Restricted cash and cash equivalents	6,580,607	4,537,242
Total cash and cash equivalents, end of year	\$ 9,641,525	\$ 7,306,791

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Statements of Cash Flows, Continued
Year Ended September 30, 2005 and 2004

	2005	2004
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 611,358	\$ 528,182
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	75,733	260,489
Provision for loan loss	29,914	318,934
Depreciation	168,564	138,350
Amortization of discount on loan due from Guam Rental Corporation	(30,000)	(30,000)
Loss on sale of properties held for resale	13,584	260,585
(Increase) decrease in assets:		
Loans receivable	3,728,756	4,200,947
Tenant accounts and other receivables	24,332	(28,314)
Accrued interest receivable	(3,978)	19,036
Other receivables	382,260	424,638
Foreclosed assets held for resale	(711,918)	(1,171,480)
Supplies inventory	179	(2,537)
Prepaid expenses and other	(11,181)	(2,038)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(204,436)	94,051
Accrued annual and sick leave	(5,748)	57,261
Accrued pension cost	(89,248)	(65,637)
Accrued interest payable	(3,588)	613,973
Deposits by borrowers	(839)	36,952
Security deposits	8,157	2,114
Rebate liability	12,667	46,354
Loans held in trust	(153,067)	(303,365)
Net cash provided by operating activities	\$ 3,841,501	\$ 5,398,495
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ 879,219	\$ 691,840
Loans foreclosed and transferred to assets held for resale during the year	\$ 711,080	\$ 1,071,080

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Notes to Financial Statements
September 30, 2005 and 2004

(1) Organization and Summary of Significant Accounting Policies

Organization

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. As such, the Corporation is not subject to taxes. The Corporation is principally engaged in financing homes for low and moderate-income families.

Change in Reporting Entity

Effective November 26, 2003, the Corporation combined into its financial statements the accounts of Guam Rental Corporation (GRC), formerly an uncombined related entity. The combining occurred as a result of a court order to dissolve GRC and integrate its rental management functions into the Corporation's financial activities as a rental division. Pursuant to the authority granted to the Corporation under Public Law 8-80, GRC was created 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. Financial data presented in 2003 and prior years have not been restated to reflect the combining of GRC. For financial statement presentation, the accompanying financial statements for year ending September 30, 2005 reflect the combining of GRC's financial position, results of operations and changes in cash flows. 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 GRC and is presented on pages 48 through 50.

During the normal course of operations, transactions have occurred between the housing and rental divisions of GHC. These receivables and payables are eliminated in of the accompanying financial statements.

Fund Structure, Measurement Focus, and Basis of Accounting

The accounts of the Corporation are organized as a proprietary fund-component unit of the Government of Guam. Proprietary funds are used by governmental units to account for operations that are financed and operated in a manner similar to private business enterprises. The purpose of proprietary funds is to provide periodic determination of revenues, expenses and net income, with maintenance of capital.

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Notes to Financial Statements
September 30, 2005 and 2004

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

Fund Structure, Measurement Focus, and Basis of Accounting, continued

Proprietary funds are accounted for on a flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases and decreases (i.e., revenues and expenses, respectively) in total net assets. This is in contrast with “governmental” fund type accounting, which is accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet.

The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. 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, except for those that conflict with or contradict GASB pronouncements.

During 2002, GHC implemented GASB Statement No. 33, *Accounting and financial Reporting for Non-exchange Transactions*, GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis – for State and Local Government*, GASB Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB Statement Nos. 33 and 36 establish accounting and financial reporting standards for non-exchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from non-exchange transactions will be the same whether the accrual or modified accrual basis of accounting is required. For revenue recognition to occur on the modified accrual basis, however, the criteria established for accrual basis revenue recognition must be met and the revenue must be available.

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Notes to Financial Statements
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(1) Organization and Summary of Significant Accounting Policies, continued

Fund Structure, Measurement Focus, and Basis of Accounting, continued

GASB Statement No. 34 creates new basic financial statements for reporting on the Corporation's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund accounting financial statements which present information for individual major funds rather than by fund type. Requirements in order to comply also include adopting depreciation on capital assets and classifying assets and liabilities as current and non-current.

GASB Statement No. 37 clarifies certain provisions of GASB Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures. GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The accounts of GHC are organized and operated on the basis of funds and grant programs. A fund is an independent fiscal year and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

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.

Property and Equipment

The Corporation generally capitalizes all expenditures for property and equipment in excess of \$500 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.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
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(1) Organization and Summary of Significant Accounting Policies, continued

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 currently range from \$180,500 for single-unit dwellings to \$285,000 for four-unit dwellings. However, 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 Federal Housing Administration rate.

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.

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.

Deferred Bond Issue Cost

Bond issue costs are treated as a deferred asset and are amortized on a weighted-average basis over the lives of the bonds outstanding.

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Notes to Financial Statements
September 30, 2005 and 2004

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

Premium on Bonds

The premium on the Single Family Mortgage Revenue Bonds 1998 Series A is being amortized on a straight-line basis over the life of the bond issue.

Accrued Vacation and Sick Leave

For fiscal years 2005 and 2004, employees were credited with vacation leave at rates of 104 and 156 hours and 160 and 208 hours, respectively, depending upon their service time with the Corporation. Accumulation of such vacation credits is normally 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 shall be credited to the employee's sick leave. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003 may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. As of September 30, 2005 and 2004, accrued annual leave totaled \$78,684 and \$91,355, respectively.

Pursuant to Public Law 26-86, employees under the Defined Contribution Retirement System (DCRS) plan, upon their retirement will be paid by its employer a lump sum payment of their unused sick leave hours up to fifty percent. At September 30, 2005 and 2004, unused sick leave of the members under the DC plan totaled \$160,859 and \$124,859, of which, 50% or \$80,429 and \$62,429, respectively, was accrued in the accompanying the financial statements.

Loan Origination Fees and Related Costs

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

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2005 and 2004

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

Risk of Loss

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

Recognition of Revenues and Expenses

Revenues and expenses are recognized on the accrual basis of accounting.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

A majority of the Corporation's loan portfolio consists of single-family residential loans in the Territory of Guam. The regional economy depends heavily on tourism, which is currently in economic decline. Real estate prices in this market are also depressed. 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.

Reclassifications

Certain account balances in the 2004 financial statements have been reclassified to correspond with the 2005 presentation.

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Notes to Financial Statements
September 30, 2005 and 2004

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

Reporting Fund 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, 2005 and 2004, the Guam Housing Corporation classified and included contributions to Retained Earnings in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

(2) Cash and Cash Equivalents

Unrestricted and restricted cash and cash equivalents insured by the Federal Deposit Insurance Corporation (FDIC) are \$4,996,513 and \$3,839,612 as of September 30, 2005 and 2004, respectively, with the remaining balances being uninsured as follows:

	2005	2004
Commercial, trust and savings accounts	\$ 4,644,948	\$ 3,466,356
On-hand	64	823
	\$ 4,645,012	\$ 3,467,179

(3) Restricted Investments

Restricted investments consist of the following:

	2005	2004
Foreclosure protection fund	\$ 375,921	\$ 375,921
Investments held by bond trustees	5,531,387	5,705,125
	\$ 5,907,308	\$ 6,081,046

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Notes to Financial Statements
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(3) Restricted Investments, continued

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. Investments held and administered by the Corporation's bond trustees relate to the mortgage revenue bonds (see notes 9 and 10).

(4) Loans Receivable

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

	2005	2004
Due in varying monthly installments and interest rates with maturities to 2024, including loans in process of \$227,766 in 2005.	\$ 25,956,770	\$ 28,700,222
Less net deferred loan origination fees	(238,016)	(262,147)
Less allowance for loan loss	<u>(3,562,232)</u>	<u>(3,568,904)</u>
	22,156,522	24,869,171
Less current portion	<u>3,683,004</u>	<u>4,270,906</u>
	<u>\$ 18,473,518</u>	<u>\$ 20,598,265</u>

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

	2005	2004
Balance at beginning of year	\$ 3,568,904	\$ 3,406,764
Provision for loan loss	-	471,132
Loans charged-off	(72,371)	(315,626)
Recoveries of loans previously charged-off	<u>65,699</u>	<u>6,634</u>
Balance at end of year	<u>\$ 3,562,232</u>	<u>\$ 3,568,904</u>

A significant portion of the total loans outstanding is assigned as collateral on notes payable (see note 10). Included in outstanding loans are loans to employees of \$703,308 and \$674,005 at September 30, 2005 and 2004, 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 \$4,280,973 and \$5,385,624 at September 30, 2005 and 2004, respectively.

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Notes to Financial Statements
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(5) 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 proof homes. The Foreclosure Protection Fund is restricted for the purpose of protecting the interest of CAHAT loans.

As of September 30, 2005 and 2004, other receivables due from borrowers for loans consisted of the following:

	2005	2004
CAHAT	\$ 1,373,344	\$ 1,502,080
Down-payment Assistance Program	695,583	761,209
Hazard Mitigation Program	34,823	86,777
Sagan Linayan Project	-	-
	2,103,750	2,350,066
Other receivables	153,906	148,677
	2,257,656	2,498,743
Less current portion of due from borrowers for loans	(149,292)	(419,417)
Other receivables-noncurrent	\$ 2,108,364	\$ 2,079,326

Correspondingly, the liability recorded by the Corporation for the loans held in-trust at September 30, 2005 and 2004 totaled \$826,092 and \$979,159, respectively, and consisted of the following:

	2005	2004
Down-payment Assistance Program	\$ 717,892	\$ 870,896
Hazard Mitigation Program	108,200	108,200
Sagan Linayan Program	-	63
	\$ 826,092	\$ 979,159

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Notes to Financial Statements
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(5) Other Long-Term Receivables, Continued

The Down Payment and Closing Assistance (DPCCA) and the Sagan Linayan Project programs were 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 Sagan Linayan Program and DPCCA programs which were administered by the Corporation under a Sub-recipient Agreement with GHURA, were terminated on October 10, 2003 and October 23, 2003, respectively. The repayments received by the Corporation from its borrowers are program income of GHURA and is remitted upon its request. The Corporation will cease to receive repayments of loans under these programs upon GHURA's readiness of their servicer system.

(6) Tenant Receivables

A summary of tenant receivables are as follows:

	<u>2005</u>	<u>2004</u>
Tenant accounts	\$ 90,434	\$ 120,698
Other	<u>2,349</u>	<u>3,926</u>
Allowance for uncollectible accounts	<u>(65,000)</u>	<u>(68,934)</u>
Tenant accounts and other receivables	<u>\$ 27,783</u>	<u>\$ 55,690</u>

**GUAM HOUSING CORPORATION
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Notes to Financial Statements
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(7) Capital Assets

Capital assets consist of property and equipment as summarized below:

	Housing Balance <u>09/30/04</u>	Rental Balance <u>09/30/04</u>	<u>Additions</u>	Transfers <u>Disposals</u>	Net Book Value <u>09/30/05</u>
Land and land improvements	\$ -	\$ 2,556,886	\$ -	\$ -	\$ 2,556,886
Buildings and improvement Buildings and improvements		5,521,014	-	-	5,521,014
Office Furniture and equipment	394,611	245,281	15,087	(6,680)	648,299
Vehicles	59,630	60,032	-	-	119,662
Leasehold improvements	<u>248,101</u>	<u>-</u>	<u>-</u>	<u>(9,154)</u>	<u>238,947</u>
	702,342	8,383,213	15,087	(15,834)	9,084,808
Less: Accumulated depreciation	<u>(559,507)</u>	<u>(2,250,934)</u>	<u>(167,122)</u>	<u>6,681</u>	<u>(2,970,882)</u>
Capital Assets, net	<u>\$ 142,835</u>	<u>\$ 6,132,279</u>	<u>\$(152,035)</u>	<u>\$(9,153)</u>	<u>\$ 6,113,926</u>

Public Law 21-146 (The Guam Shelter Act) was signed into law on January 12, 1993, authorizing the Governor of Guam to transfer title of 34.8 acres of land (Lot No. 10119-12) from the Government of Guam to GHC to develop moderately priced multi-family, multi-story housing rental units. A grant deed for the land was given to GHC on August 3, 1994. On December 28, 1994, a grant deed for the same land was given by GHC to the Guam Rental Corporation. The GRC obtained an appraisal of the property based upon the land's intended use and future development which consists mainly of building 96 rental units. Based on such appraisal, the Corporation initially recorded in its books the value of the land at \$5,230,000. On June 20, 1995, management decided to temporarily downsize the future development from 96 units to 24 units. During September 2002, the Corporation obtained an updated land appraisal and Corporation recorded in its books at the value of the land of \$1,560,000.

(8) Foreclosed Assets Held for Resale

Foreclosed assets held for resale represents twenty-six (26) 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, 2005 and 2004, 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.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2005 and 2004

(8) Foreclosed Assets Held for Resale, continued

A summary of the activity in the foreclosed assets held for resale as of September 30, 2005 and 2004 is as follows:

	2005	2004
Foreclosed assets held for resale beginning of year	\$ 1,699,841	\$ 528,360
Foreclosures made during the year	1,114,946	1,346,904
Foreclosed assets sold during the year	(426,775)	(171,952)
Other adjustments	23,747	(3,471)
Balance at end of year	\$ 2,411,759	\$ 1,699,841

(9) 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 monies 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, 2005 and 2004, consist of the following:

	2005	2004
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.	\$ 950,000	\$ 1,040,000
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

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Notes to Financial Statements
September 30, 2005 and 2004

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

	2005	2004
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$108,434 due in March 2019, and increasing to \$119,511 by September 2021.	\$ 685,000	\$ 685,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$114,064 due in March 2022, and increasing to \$194,200 by September 2031.	3,030,000	3,030,000
	5,515,000	5,605,000
Add net unamortized premium on bonds	-	-
	\$ 5,515,000	\$ 5,605,000

The accrued interest expense on the above bonds totaled \$24,939 and \$25,280 at September 30, 2005 and 2004, respectively. Total interest expense on the bonds totaled \$301,995 and \$304,898, net of amortized bond premium at September 30, 2005 and 2004. Accrued interest income earned on bonds totaled approximately \$23,745 and \$24,520 as of September 30, 2005 and 2004, 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, 2005 and 2004, the rebate liability totaled \$74,999 and \$62,322, respectively.

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Notes to Financial Statements
September 30, 2005 and 2004

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

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

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

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

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

As of September 30, 2005 and 2004:

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

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Notes to Financial Statements
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(9) Long-Term Mortgage Revenue Bonds Payable, continued

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

As of September 30, 2005 and 2004:

<u>Date</u>	<u>Principal Amount</u>
March 1, 2019	\$ 108,434
September 1, 2019	\$ 110,183
March 1, 2020	\$ 113,681
September 1, 2020	\$ 115,430
March 1, 2021	\$ 117,762
September 1, 2021	\$ 119,511

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

As of September 30, 2005 and 2004:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
March 1, 2022	\$ 114,064	March 1, 2027	\$ 150,915
September 1, 2022	\$ 117,573	September 1, 2027	\$ 156,180
March 1, 2023	\$ 120,498	March 1, 2028	\$ 159,689
September 1, 2023	\$ 124,008	September 1, 2028	\$ 165,539
March 1, 2024	\$ 127,517	March 1, 2029	\$ 170,218
September 1, 2024	\$ 131,612	September 1, 2029	\$ 174,898
March 1, 2025	\$ 135,122	March 1, 2030	\$ 180,162
September 1, 2025	\$ 139,216	September 1, 2030	\$ 186,012
March 1, 2026	\$ 143,311	March 1, 2031	\$ 191,275
September 1, 2026	\$ 147,990	September 1, 2031	\$ 194,200

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

The Corporation had expended Bond proceeds and originated loans totaling \$6,249,012 as of September 30, 2005 and 2004, respectively, for which the Trustee had fully disbursed from the Program Fund for the acquisition of Mortgage-Backed Securities.

Pursuant to Article IV, Section 4.02(A)(1) of the bond indenture, the Bonds were subject to special mandatory redemption as a whole, or in part, on November 1, 2001 in an amount equal to the amount transferred from the Program Fund to the Redemption Fund (and amounts transferred from the Escrow Fund and the Capitalized Interest Account in connection therewith), at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. In addition, pursuant to Article V, Section 5.02(B), on any date prior to October 1, 2001 specified by the Corporation, the Trustee shall 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, respectively, due to non-origination of loans.

The Bond Indenture contains certain restrictive covenants, including restrictions on the use of bond funds. Management of the Corporation is of the opinion that the Corporation was in compliance with all significant covenants except for the full non-origination of the entire \$50 million mortgage revenue bond, as of September 30, 2005 and 2004.

As of September 30, 2005, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2006	\$ 95,000	\$ 298,219	\$ 393,219
2007	100,000	293,660	393,660
2008	105,000	288,897	393,897
2009	110,000	283,710	393,710
2010	125,000	278,168	403,168
2011 through 2015	728,189	1,285,883	2,014,072
2016 through 2020	984,539	1,067,984	2,052,523
2021 through 2025	1,246,883	782,239	2,029,122
2026 through 2030	1,634,914	380,520	2,015,434
2031	<u>385,475</u>	<u>16,666</u>	<u>402,141</u>
	<u>\$ 5,515,000</u>	<u>\$ 4,975,946</u>	<u>\$ 10,490,946</u>

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2005 and 2004

(10) Investments and Cash with Trustees

The aforementioned 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, 2005 and 2004, investments and cash held by the trustees for the Corporation, in these funds and accounts are as follows:

	2005	2004
Program Fund	\$ 888	\$ 5,689,134
Escrow Fund	15,974	15,658
Capitalized Interest Fund	230	225
Revenue Fund	5,514,295	108
	\$ 5,531,387	\$ 5,705,125

(10) Investments and Cash with Trustees

The Corporation's trustees hold the Corporation's restricted investments and cash at September 30, 2005 and 2004. 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, 2005 and 2004 are as follows:

	2005	2004
Money Market/Trust Fund	\$ 5,531,387	\$ 5,705,125
U.S. Treasury Notes	-	-
	\$ 5,531,387	\$ 5,705,125

The market value of restricted investments and cash at September 30, 2005 and 2004 approximates its carrying value.

Under the Governmental Accounting Standards, credit risk associated with investments is categorized into three levels generally described as follows: Category 1: Insured or registered, or securities held by the Corporation or its agent in the Corporation's name; Category 2: Uninsured and unregistered, or securities held by a party other than the Corporation and not in the Corporation's name; or Category 3: Uninsured and unregistered, with securities held by a party other than the Corporation and not in the Corporation's name.

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.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2005 and 2004

(11) Notes Payable

Notes payable consists of the following:

	2005	2004
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	<u>\$ 8,521,398</u>	<u>\$ 9,205,303</u>
	8,521,398	9,205,303
Less current portion	<u>729,635</u>	<u>683,905</u>
	<u>\$ 7,791,763</u>	<u>\$ 8,521,398</u>

Under the note agreements with Citibank and 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, 2005 and 2004, the Corporation has pledged as security for these loans approximately \$18,683,624 and \$23,477,869 of related outstanding mortgage loans, respectively.

In September 2002, the Corporation and the Federal Home Loan Bank of Seattle had mutually agreed to the satisfaction of both parties, the consolidation of the remaining five of the Corporation's notes totaled \$9,897,916 into one single note, in monthly amortization starting September 2003 until 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 has 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. Accordingly, pursuant to in Section 6 of Guam Public Law 20-210, those amounts payable to the Fund was deferred for the period covering November 1999 to January 2004.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2005 and 2004

(11) Notes Payable, continued, Continued

In August 2002, the Government of Guam, under Public Law 26-123, passed legislation to forgive the note payable and accrued interest payable of \$13,650,013 and \$517,402, respectively. Consequently, the Corporation recorded a special item as other revenue in 2002 of \$14,167,415 resulting from the debt forgiveness.

The annual payments on notes payable subsequent to September 30, 2005 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2006	\$ 729,635	\$ 531,444	\$ 1,261,079
2007	778,423	482,909	1,261,332
2008	830,472	432,101	1,262,573
2009	886,002	375,383	1,261,385
2010	945,246	316,124	1,261,370
2011 through 2014	<u>4,351,620</u>	<u>589,442</u>	<u>4,941,062</u>
	<u>\$ 8,521,398</u>	<u>\$ 2,727,403</u>	<u>\$ 11,248,801</u>

(12) Employees' Retirement Plan

Employees of the Corporation hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit 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 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.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2005 and 2004

(12) Employees' Retirement Plan, Continued

As a result of the most recent actuarial valuation performed as of September 30, 2003, 2002 and 2001, the annual actuarially required contribution rates have been determined as follows:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Normal Cost (as % of expected Defined Benefit Plan payroll)	18.30%	17.66%	16.42%
Unfunded liability costs, as % of total payroll (DB and DC)	<u>19.66%</u>	<u>16.23%</u>	<u>22.94%</u>
Employee contributions (DB Plan employees)	<u>38.23%</u> <u>9.50%</u>	<u>33.89%</u> <u>9.50%</u>	<u>39.36%</u> <u>9.50%</u>
Government contribution as % of DB Plan payroll	<u>28.73%</u>	<u>24.39%</u>	<u>29.86%</u>
Government required contribution, as % of total payroll (DB and DC)	<u>24.89%</u>	<u>20.81%</u>	<u>N/A</u>

Statutory contribution rates for employer and employee contributions were 20.81% and 9.5%, respectively, of qualifying payroll for the fiscal years ended September 30, 2004 and 2003.

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

	<u>2003</u> <u>Actuarial Valuation</u>	<u>2002</u> <u>Actuarial Valuation</u>
Interest rate and rate of return	7.0%	7.5%
Payroll increases	3.5%	4.5%
Salary increases	4.0% - 8.5%	4.0% - 8.5%

The actuarial valuation performed as of September 30, 2004, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Corporation as a separate sponsor, the accrued liability at September 30, 2005 and 2004 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.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2005 and 2004

(12) Employees' Retirement Plan, Continued

Statutory employer contributions into the DCRS for the years ended September 30, 2005 and 2004, 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. Members who have completed five years of service but have not attained the age of 55 are eligible only for the amount of member contributions plus any earnings thereon.

For the years ended September 30, 2005 and 2004, retirement expense contribution was \$166,864 and \$144,125, respectively. At September 30, 2005 and 2004, the accrued unfunded liability to the retirement fund was \$154,881 and \$244,129, respectively.

(13) Contributions from Government of Guam and Federal Government

In fiscal year 1993 the Government of Guam appropriated \$980,000 from the General Fund to complete the master plan for the development of affordable, market, and special needs housing units. In prior years, the Corporation has recorded a due from Government of Guam totaled \$187,851 related to the master plan, however, as reimbursement from such appropriation was not received, the Corporation has accordingly, wrote-off the account in 2002.

On July 6, 1994 the Federal Emergency Management Agency (FEMA) transferred to the Corporation two houses, which were appraised at a market value of \$171,500 on September 23, 1996, and recorded by the Corporation as a contribution. On September 27, 1996, the Corporation sold the houses to GRC for \$171,500 and recorded a contribution from FEMA of an equal amount in the financial statements.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2005 and 2004

(14) Related Party Transactions

^a

In November 2003, the Corporation's Board of Directors re-integrated the rental management functions of Guam Rental Corporation (GRC) an autonomous agency of the Government of Guam into the Corporation's activity by dissolving Guam Rental Corporation. At September 30, 2005 and 2004, the Corporation has a receivable due from GRC in the amount of \$0 and \$144,000 respectively, for the management agent fee the Corporation had rendered for GRC in 2002.

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, 2005 and 2004, the Lada Estates project reported in the statements of net assets as Land Held for Development consists of the following:

Cost of the Land	\$ 392,385
Capitalized improvement for off-site and on-site infrastructure	7,640,000
Capitalized expenditures related to the development of Lada Estates Project	<u>5,166,953</u>
	<u>\$13,199,338</u>

The Corporation has recorded a receivable due from the Government of Guam totaling \$2,915,000. Pursuant to the Guam Public Law 25-116, the Government of Guam is obligated pay its share of the cost associated with the Lada Estates Affordable Housing Subdivision Project Phase I for the design, build and finance of the off-site infrastructure and access roads; however, the Government of Guam has not recorded the related liability for that amount.

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 rent, financial consultation, network and computer administration, accounting and payroll for a fee of \$47,281 per annum. At September 30, 2005 and 2004, amounts paid to GEDCA totaled \$72,197 and \$53,058, respectively.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2005 and 2004

(15) Commitments and 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. The liability has been outstanding for the years ending September 30, 2005 and 2004. Additionally, the contractor is claiming accrued interest of \$5,850,576 and \$5,217,276 is due on the outstanding liability as of September 30, 2005 and 2004, 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.

The Corporation is the plaintiff in thirty-nine (39) pending claims for approximately \$2,543,762 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.

As of September 30, 2005 and 2004, the Corporation has a total of \$324,820 and \$100,000 respectively, in loan commitments.

The Government of Guam and its component units, including the Corporation, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1, 1998. Prior to that date, the Government of Guam did not withhold or remit Medicare payments to the U.S. Social Security system. If the Government is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result.

It has been the practice of the Corporation and all other component units of the Government of Guam that payment of this health insurance component is optional prior to October 1998. Therefore, no liability for any amount, which may ultimately arise from this matter, has been recorded in the accompanying financial statements.

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Supplementary Information

Salaries, Wages and Benefits
Years ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Salaries, wages and benefits:		
Salaries	\$ 888,359	\$ 799,108
Retirement benefits	166,864	144,125
Benefits other than retirement	44,739	42,569
Overtime pay	<u>-</u>	<u>-</u>
Total salaries, wages and benefits	<u>\$1,099,962</u>	<u>\$ 985,802</u>
Employees at end of year	24	23

See accompanying independent auditor's report.

GUAM HOUSING CORPORATION
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Combining Statements of Net Assets
September 30, 2005

	Housing	Rental	Eliminations	Combined Total
ASSETS				
Current Assets:				
Unrestricted assets:				
Cash and cash equivalents (notes 1 and 2)	\$ 2,160,932	\$ 899,986	\$ -	\$ 3,060,918
Loans receivable (notes 1, 4, 11 and 13)	3,683,004	-	-	3,683,004
Tenant accounts receivable and other receivables (note 6)	-	27,783	-	27,783
Accrued interest receivable (notes 4 and 11)	193,132	11,840	-	204,972
Supplies inventory	-	35,863	-	35,863
Prepaid expenses and other	20,590	-	-	20,590
Total unrestricted assets	6,057,658	975,472	-	7,033,130
Restricted assets:				
Cash and cash equivalents (notes 1 and 2)	6,580,607	-	-	6,580,607
Self-insurance fund (note 1)	-	796,603	-	796,603
Investments (notes 3, 9 and 10)	5,907,308	-	-	5,907,308
Other receivables-current portion (notes 5 and 14)	169,569	-	(20,277)	149,292
Total restricted assets	12,657,484	796,603	(20,277)	13,433,810
Total current assets	18,715,142	1,772,075	(20,277)	20,466,940
Loans receivable (notes 1, 4, 11 and 13)	18,473,518	-	-	18,473,518
Other receivables -noncurrent portion (notes 5 and 14)	2,108,364	-	-	2,108,364
Due from Government of Guam and other agencies (notes 5 and 14)	2,915,000	-	-	2,915,000
Land held for development (note 14)	13,199,338	-	-	13,199,338
Foreclosed assets held for resale (note 8)	2,411,759	-	-	2,411,759
Capital assets, net (note 7)	107,669	6,006,257	-	6,113,926
Total assets	\$ 57,930,790	\$ 7,778,332	\$ (20,277)	\$ 65,688,845

See accompanying notes to financial statements.

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

<u>LIABILITIES AND NET ASSETS</u>	<u>Housing</u>	<u>Rental</u>	<u>Eliminations</u>	<u>Combined Total</u>
Current liabilities:				
Payable from unrestricted assets:				
Accounts payable and accrued expenses (note 1)	\$ 259,365	\$ 52,294	\$ (20,277)	\$ 291,382
Deferred revenue	-	2,860	-	2,860
Current portion of accrued annual leave (note 1)	<u>28,956</u>	<u>26,036</u>	-	<u>54,992</u>
Total payable from unrestricted assets	<u>288,321</u>	<u>81,190</u>	<u>(20,277)</u>	<u>349,234</u>
Payable from restricted assets:				
Current portion of notes payable (note 11)	729,635	-	-	729,635
Accrued interest payable (note 11)	70,404	-	-	70,404
Security deposits	-	48,654	-	48,654
Deposits by borrowers - insurance premiums and real estate taxes	505,363	-	-	505,363
Rebate liability (note 9)	<u>74,999</u>	-	-	<u>74,999</u>
Total payable from restricted assets	<u>1,380,401</u>	<u>48,654</u>	-	<u>1,429,055</u>
Total current liabilities	<u>1,668,722</u>	<u>129,844</u>	<u>(20,277)</u>	<u>1,778,289</u>
Non-current liabilities:				
Payable from unrestricted assets:				
Long-term portion of accounts payable (notes 1 and 15)	10,555,000	-	-	10,555,000
Long-term portion of accrued annual and sick leave (note 1)	77,568	26,554	-	104,122
Accrued unfunded liability to retirement fund (note 12)	26,183	128,698	-	154,881
Payable from restricted assets:				
Bonds payable (note 9)	5,515,000	-	-	5,515,000
Long-term portion of notes payable (note 11)	7,791,763	-	-	7,791,763
Loans held in trust (note 5)	<u>826,092</u>	-	-	<u>826,092</u>
Total non-current liabilities	<u>24,791,606</u>	<u>155,252</u>	-	<u>24,946,858</u>
Total liabilities	<u>26,460,328</u>	<u>285,096</u>	<u>(20,277)</u>	<u>26,725,147</u>
Net assets:				
Invested in capital assets, net of related debt	107,669	3,497,028	-	3,604,697
Restricted (notes 11 and 13)	21,426,715	2,611,596	-	24,038,311
Unrestricted	<u>9,936,078</u>	<u>1,384,612</u>	-	<u>11,320,690</u>
Total net assets	<u>31,470,462</u>	<u>7,493,236</u>	-	<u>38,963,698</u>
Commitments and Contingencies (note 15)	\$ 57,930,790	\$ 7,778,332	\$ (20,277)	\$ 65,688,845

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Combining Statements of Revenues, Expenditures and Changes in Net Assets
Year Ended September 30, 2005

	Housing	Rental	Eliminations	Combined Total
Operating Revenues:				
Interest on loans receivable	\$ 2,082,875	\$ -	\$ -	\$ 2,082,875
Interest on investments held by bond trustees	219,059	-	-	219,059
Loan origination fees	86,271	-	-	86,271
Rental income	-	789,942	-	789,942
Other	-	2,605	-	2,605
	2,388,205	792,547	-	3,180,752
Operating Expenses:				
Interest expense	875,354	-	-	875,354
Bad debts and provision for loan loss	37,887	67,760	-	105,647
Salaries	618,218	270,141	-	888,359
Impairment loss on foreclosed properties held for sale (note 8)	-	-	-	-
Retirement contributions	132,846	34,018	-	166,864
Professional services	54,586	6,210	-	60,796
Contractual services	41,638	29,055	-	70,693
Loan origination costs	48,396	-	-	48,396
Other	13,372	12,925	-	26,297
Employee benefits, other than retirement	30,191	14,548	-	44,739
Rent	72,198	-	-	72,198
Bond trustee fees	15,884	-	-	15,884
Depreciation	38,469	130,095	-	168,564
Maintenance	-	25,603	-	25,603
Director's fees	-	-	-	-
	1,979,039	590,355	-	2,569,394
Income from operations	409,166	202,192	-	611,358
Non-operating Revenues (Expenses):				
Interest income on bank deposits	128,777	28,757	-	157,534
Other income	133,380	-	-	133,380
Total non-operating expenses	262,157	28,757	-	290,914
Increase in net assets	671,323	230,949	-	902,272
Total net assets at beginning of year	30,799,139	7,262,287	-	38,061,426
Total net assets at end of year	\$ 31,470,462	\$ 7,493,236	\$ -	\$ 38,963,698

See accompanying notes to financial statements.

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

	Housing	Rental	Eliminations	Combined Total
Cash flows from operating activities:				
Receipts received from customers	\$ 4,322,187	\$ 633,813	\$ -	\$ 4,956,000
Payments to suppliers	(424,784)	(122,359)	-	(547,143)
Payments to employees	(602,545)	(270,141)	-	(872,686)
Other operating receipts	305,330	-	-	305,330
Net cash provided by operating activities	<u>3,600,188</u>	<u>241,313</u>	-	<u>3,841,501</u>
Cash flows from investing activities:				
(Increase) decrease in investments	173,738	-	-	173,738
Interest earned on cash and investments with trustees	219,059	-	-	219,059
Interest income on bank deposits	128,777	28,757	-	157,534
Other income	133,380	-	-	133,380
Net cash provided by investing activities	<u>654,954</u>	<u>28,757</u>	-	<u>683,711</u>
Cash flows from capital and financing related activities:				
Repayment of bonds payable	(90,000)	-	-	(90,000)
Repayment of notes payable	(683,905)	(262,673)	-	(946,578)
Premium on bonds payable	-	-	-	-
Accrued rebate liability	(12,676)	-	-	(12,676)
Interest paid on notes payable	(679,209)	-	-	(679,209)
Increase in self-insurance fund	-	(153,746)	-	(153,746)
Interest paid on bonds	(302,336)	-	-	(302,336)
Purchase of property and equipment	(3,303)	(2,630)	-	(5,933)
Net cash used for financing activities	<u>(1,771,429)</u>	<u>(419,049)</u>	-	<u>(2,190,478)</u>
Net increase (decrease) in cash and cash equivalents	2,483,713	(148,979)	-	2,334,734
Cash and cash equivalents at beginning of year	6,257,826	1,048,965	-	7,306,791
Cash and cash equivalents at end of year	<u>\$ 8,741,539</u>	<u>\$ 899,986</u>	<u>\$ -</u>	<u>\$ 9,641,525</u>
Cash and cash equivalents	\$ 2,160,932	\$ 899,986	\$ -	\$ 3,060,918
Restricted cash and cash equivalents	<u>6,580,607</u>	-	-	<u>6,580,607</u>
Total cash and cash equivalents, end of year	<u>\$ 8,741,539</u>	<u>\$ 899,986</u>	<u>\$ -</u>	<u>\$ 9,641,525</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Combining Statements of Cash Flows, Continued
Year Ended September 30, 2005

	Housing	Rental	Eliminations	Combined Total
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 409,166	\$ 202,192	\$ -	\$ 611,358
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:				
Bad debts	37,887	37,846	-	75,733
Provision for loan loss	-	29,914	-	29,914
Depreciation	38,469	130,095	-	168,564
Amortization of discount on loan due from Guam Rental Corporation	(30,000)	-	-	(30,000)
Loss on sale of properties held for resale	13,584	-	-	13,584
(Gain) loss on disposal of fixed assets	-	-	-	-
(Increase) decrease in assets:				
Loans receivable	3,728,756	-	-	3,728,756
Tenant accounts and other receivables	-	24,332	-	24,332
Accrued interest receivable	7,862	(11,840)	-	(3,978)
Other receivables	382,260	-	-	382,260
Foreclosed assets held for resale	(711,918)	-	-	(711,918)
Supplies inventory	-	179	-	179
Prepaid expenses and other	(11,181)	-	-	(11,181)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	(71,423)	(133,013)	-	(204,436)
Accrued annual and sick leave	14,543	(20,291)	-	(5,748)
Accrued pension cost	(62,990)	(26,258)	-	(89,248)
Accrued interest payable	(3,588)	-	-	(3,588)
Deposits by borrowers	(839)	-	-	(839)
Security deposits	-	8,157	-	8,157
Rebate liability	12,667	-	-	12,667
Loans held in trust	(153,067)	-	-	(153,067)
Net cash provided by operating activities	\$ 3,600,188	\$ 241,313	\$ -	\$ 3,841,501

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Net Assets (Housing Division)
September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents (notes 1 and 2)	\$ 2,160,932	\$ 1,720,584
Loans receivable (notes 1, 4, 11 and 13)	3,683,004	4,351,006
Accrued interest receivable (notes 4 and 11)	193,132	200,994
Prepaid expenses and other	<u>20,590</u>	<u>9,409</u>
Total unrestricted assets	<u>6,057,658</u>	<u>6,281,993</u>
Restricted assets:		
Cash and cash equivalents (notes 1 and 2)	6,580,607	4,537,242
Investments (notes 3, 9, and 10)	5,907,308	6,081,046
Other receivables-current portion (notes 5 and 14)	<u>169,569</u>	<u>419,417</u>
Total restricted assets	<u>12,657,484</u>	<u>11,037,705</u>
Total current assets	<u>18,715,142</u>	<u>17,319,698</u>
Loans receivable (notes 1, 4, 11 and 13)	18,473,518	20,780,838
Other receivables -noncurrent portion (notes 5 and 14)	2,108,364	2,240,776
Due from Government of Guam and other agencies (notes 5 and 14)	2,915,000	2,915,000
Land held for development (note 14)	13,199,338	13,199,338
Foreclosed assets held for resale (note 8)	2,411,759	1,699,841
Capital assets, net (note 7)	<u>107,669</u>	<u>142,835</u>
Total assets	<u>\$ 57,930,790</u>	<u>\$ 58,298,326</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Net Assets (Housing Division), Continued
September 30, 2005 and 2004

<u>LIABILITIES AND NET ASSETS</u>	<u>2005</u>	<u>2004</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses (note 1)	\$ 259,365	\$ 330,788
Current portion of accrued annual leave (note 1)	<u>28,956</u>	<u>28,908</u>
Total payable from unrestricted assets	<u>288,321</u>	<u>359,696</u>
Payable from restricted assets:		
Current portion of notes payable (note 11)	729,635	683,905
Accrued interest payable (note 11)	70,404	74,259
Deposits by borrowers - insurance premiums and real estate taxes	505,363	506,202
Rebate liability (note 9)	<u>74,999</u>	<u>62,322</u>
Total payable from restricted assets	<u>1,380,401</u>	<u>1,326,688</u>
Total current liabilities	<u>1,668,722</u>	<u>1,686,384</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Long-term portion of accounts payable (notes 1 and 15)	10,555,000	10,555,000
Long-term portion of accrued annual and sick leave (note 1)	77,568	63,073
Accrued unfunded liability to retirement fund (note 12)	26,183	89,173
Payable from restricted assets:		
Bonds payable (note 9)	5,515,000	5,605,000
Long-term portion of notes payable (note 11)	7,791,763	8,521,398
Loans held in trust (note 5)	<u>826,092</u>	<u>979,159</u>
Total non-current liabilities	<u>24,791,606</u>	<u>25,812,803</u>
Total liabilities	<u>26,460,328</u>	<u>27,499,187</u>
Net assets:		
Invested in capital assets, net of related debt	107,669	142,835
Restricted (notes 11 and 13)	21,426,715	21,276,095
Unrestricted	<u>9,936,078</u>	<u>9,380,209</u>
Total net assets	<u>31,470,462</u>	<u>30,799,139</u>
Commitments and Contingencies (note 15)	<u>\$ 57,930,790</u>	<u>\$ 58,298,326</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Statements of Revenues, Expenditures and Changes in Net Assets (Housing Division)
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Interest on loans receivable	\$ 2,082,875	\$ 2,352,205
Interest on investments held by bond trustees	219,059	340,036
Loan origination fees	<u>86,271</u>	<u>85,886</u>
Total operating revenues	<u>2,388,205</u>	<u>2,778,127</u>
Operating Expenses:		
Interest expense	875,354	922,971
Salaries	618,218	545,845
Retirement contributions	132,846	114,057
Rent	72,198	53,058
Professional services	54,586	50,254
Loan origination costs	48,396	44,437
Contractual services	41,638	40,232
Depreciation	38,469	16,982
Bad debts and provision for loan loss	37,887	510,489
Employee benefits, other than retirement	30,191	26,263
Bond trustee fees	15,884	16,281
Other	<u>13,372</u>	<u>38,466</u>
Total operating expenses	<u>1,979,039</u>	<u>2,379,335</u>
Income from operations	<u>409,166</u>	<u>398,792</u>
Non-operating Revenues (Expenses):		
Interest income on bank deposits	128,777	24,011
Other income	<u>133,380</u>	<u>65,964</u>
Total non-operating expenses	<u>262,157</u>	<u>89,975</u>
Increase in in net assets	671,323	488,767
Total net assets at beginning of year	<u>30,799,139</u>	<u>30,310,372</u>
Total net assets at end of year	<u>\$ 31,470,462</u>	<u>\$ 30,799,139</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Cash Flows (Housing Division)
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts received from customers	\$ 4,322,187	\$ 5,587,828
Payments to suppliers	(424,784)	(374,824)
Payments to employees	(602,545)	(545,845)
Other operating receipts	305,330	425,951
Net cash provided by operating activities	<u>3,600,188</u>	<u>5,093,110</u>
Cash flows from investing activities:		
(Increase) decrease in investments	173,738	(457,127)
Interest earned on cash and investments with trustees	219,059	340,036
Interest income on bank deposits	128,777	24,011
Other income	133,380	65,964
Proceeds from sale of property and equipment	-	-
Net cash provided by investing activities	<u>654,954</u>	<u>(27,116)</u>
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(90,000)	(90,000)
Repayment of notes payable	(683,905)	(675,685)
Premium on bonds payable	-	(1,134)
Accrued rebate liability	(12,676)	(46,354)
Interest paid on notes payable	(679,209)	(674,502)
Interest paid on bonds	(302,336)	(306,364)
Purchase of property and equipment	(3,303)	(155,603)
Net cash used for financing activities	<u>(1,771,429)</u>	<u>(1,949,642)</u>
Net increase (decrease) in cash and cash equivalents	2,483,713	3,116,352
Cash and cash equivalents at beginning of year	<u>6,257,826</u>	<u>3,141,474</u>
Cash and cash equivalents at end of year	<u>\$ 8,741,539</u>	<u>\$ 6,257,826</u>
Cash and cash equivalents	\$ 2,160,932	\$ 1,720,584
Restricted cash and cash equivalents	6,580,607	<u>4,537,242</u>
Total cash and cash equivalents, end of year	<u>8,741,539</u>	<u>\$ 6,257,826</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Cash Flows (Housing Division)
Years Ended September 30, 2005 and 2004

	2004	2003
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 409,166	\$ 398,792
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	37,887	260,489
Provision for loan loss	-	250,000
Depreciation	38,469	16,982
Amortization of discount on loan due from Guam Rental Corporation	(30,000)	(30,000)
Loss on sale of properties held for resale	13,584	260,585
(Increase) decrease in assets:		
Loans receivable	3,728,756	4,200,947
Accrued interest receivable	7,862	19,036
Due from Government of Guam	-	-
Other receivables	382,260	424,638
Foreclosed assets held for resale	(711,918)	(1,171,480)
Prepaid expenses and other	(11,181)	(2,038)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(71,423)	83,119
Accrued annual leave	14,543	29,319
Accrued pension cost	(62,990)	(41,193)
Accrued interest payable	(3,588)	613,973
Deposits by borrowers	(839)	36,952
Rebate liability	12,667	46,354
Loan held in trust	(153,067)	(303,365)
Net cash provided by operating activities	\$ 3,600,188	\$ 5,093,110
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ 879,219	\$ 691,840
Loans foreclosed and transferred to assets held for resale during the year	\$ 711,919	\$ 1,071,080

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Balance Sheets (Rental Division)
September 30, 2001 and 2000

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents, including time certificates of deposit of \$317,847 in 2001 and \$327,064 in 2000 (Note 1)	\$ 899,986	\$ 1,048,965
Self-insurance fund	796,603	707,924
Tenant accounts and other receivables, net (Notes 3 and 7)	39,623	55,690
Supplies inventory	35,863	36,042
Prepaid expenses	-	-
Total current assets	<u>1,772,075</u>	<u>1,848,621</u>
Property and equipment, net (Notes 2, 3 and 5)	<u>6,006,257</u>	<u>6,132,280</u>
	<u>\$ 7,778,332</u>	<u>\$ 7,980,901</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current maturities of note payable (Note 3)	\$ -	\$ -
Accounts payable (Note 3)	52,294	185,307
Accrued leave and wages payable (Notes 1 and 4)	26,036	50,032
Deferred revenue	<u>2,860</u>	<u>2,300</u>
Total current liabilities	<u>81,190</u>	<u>237,639</u>
Non-current liabilities:		
Security deposits	48,654	40,497
Note payable, less current maturities (Note 3)	-	262,673
Accrued sick leave	26,554	22,849
Accrued pension cost (Note 4)	<u>128,698</u>	<u>154,956</u>
Total long-term liabilities	<u>203,906</u>	<u>480,975</u>
Total liabilities	<u>285,096</u>	<u>718,614</u>
Net assets:		
Invested in capital assets, net of related debt	3,497,028	3,360,379
Restricted	2,611,596	1,950,873
Unrestricted	<u>1,384,612</u>	<u>1,951,035</u>
Total net assets	<u>7,493,236</u>	<u>7,262,287</u>
Commitments and contingencies (Note 8)	<u>\$ 7,778,332</u>	<u>\$ 7,980,901</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Statement of Revenues, Expenditures and Changes in Net Assets (Rental Division)
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Rentals	\$ 789,942	\$ 719,673
Other	<u>2,605</u>	<u>924</u>
Total revenues	<u>792,547</u>	<u>720,597</u>
Operating expenses:		
Salaries and benefits, other than retirement	270,141	253,263
Depreciation and amortization	130,095	121,368
Bad debts	67,760	68,934
Retirement contributions (Note 4)	34,018	30,068
Contractual services	29,055	55,480
Maintenance	25,603	24,299
Employee benefits, other than retirement	14,548	16,306
Other	12,925	14,480
Professional services	<u>6,210</u>	<u>7,009</u>
Total operating expenses	<u>590,355</u>	<u>591,207</u>
Earnings from operations	202,192	129,390
Interest income (expense), net	<u>28,757</u>	<u>11,422</u>
Net earnings	230,949	140,812
Net assets at beginning of year	<u>7,262,287</u>	<u>7,121,475</u>
Net assets at end of year	<u>\$ 7,493,236</u>	<u>\$ 7,262,287</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Cash Flows (Rental Division)
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts received from customers	\$ 633,813	\$ 706,291
Payments to suppliers	(122,359)	(147,643)
Payments to employees	(270,141)	(253,263)
Other operating receipts	<u>-</u>	<u>-</u>
Net cash provided by operating activities	<u>241,313</u>	<u>305,385</u>
Cash flows from investing activities:		
(Increase) decrease in investments	-	-
Interest income on bank deposits	-	-
Other income	28,757	11,422
Proceeds from sale of property and equipment	<u>-</u>	<u>-</u>
Net cash provided by investing activities	<u>28,757</u>	<u>11,422</u>
Cash flows from capital and financing related activities:		
Repayment of notes payable	(262,673)	-
Interest paid on notes payable	-	-
Increase in self-insurance fund	(153,746)	(81,535)
Purchase of property and equipment	<u>(2,630)</u>	<u>-</u>
Net cash used for financing activities	<u>(419,049)</u>	<u>(81,535)</u>
Net increase (decrease) in cash and cash equivalents	(148,979)	235,272
Cash and cash equivalents at beginning of year	<u>1,048,965</u>	<u>813,693</u>
Cash and cash equivalents at end of year	<u>\$ 899,986</u>	<u>\$ 1,048,965</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Cash Flows (Rental Division)

Years Ended September 30, 2005 and 2004

	2005	2004
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 202,192	\$ 129,390
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	37,846	-
Provision for loan loss	29,914	68,934
Depreciation	130,095	121,368
Amortization of discount on loan due from Guam Rental Corporation	-	-
Loss on sale of properties held for resale	-	-
(Increase) decrease in assets:		
Tenant accounts and other receivables	24,332	(28,314)
Accrued interest receivable	(11,840)	-
Supplies inventory	179	(2,537)
Prepaid expenses and other	-	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(133,013)	10,932
Accrued annual leave	(20,291)	27,942
Accrued pension cost	(26,258)	(24,444)
Accrued interest payable	-	-
Security deposits	8,157	2,114
Net cash provided by operating activities	\$ 241,313	\$ 305,385

See accompanying notes to financial statements.

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

REPORT ON COMPLIANCE AND INTERNAL CONTROL

FOR THE YEAR ENDED SEPTEMBER 30, 2005

GUAM

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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 (a public corporation), as of and for the year ended September 30, 2005, and have issued my report thereon dated January 30, 2006. I conducted my audit in accordance auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Guam Housing Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Guam Housing Corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Internal Control Findings as items 05-01 through 05-12.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, I consider Findings 05-01, 05-02, 05-06, 05-07, 05-11, and 05-12 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Guam Housing Corporation's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, grants, and bond covenants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Internal Control Findings as items 05-01, 05-03, 05-04, 05-05, 05-06, 05-11 and 05-12.

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

J. Scott Magfari & Company
Hagåtña, Guam
January 30, 2006

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

SCHEDULE OF INTERNAL CONTROL FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2005

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:

- Material weaknesses were identified? x yes no

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

- Noncompliance material to financial statements noted? x yes no

The Guam Housing Corporation did not receive or expend any federal awards for the fiscal year ending September 30, 2005. Therefore, it did not have any major federal programs.

PART II – FINDINGS – FINANCIAL STATEMENTS

I noted certain reportable conditions and instances of noncompliance be reported in accordance with *Government Auditing Standards* that are presented in the following pages as items 05-01 through 05-12.

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
05-01	Loans Receivable – Delinquency	\$ -
05-02	Loans Receivable – Delinquency and Loan Servicing	-
05-03	Loans Receivable – Employees	-
05-04	Loans Receivable – Typhoon Coverage	-
05-05	Loans Receivable – Title Reports/Insurance	-
05-06	Trust Fund – OREO/Foreclosed Assets	-
05-07	Trust Fund – Overdrawn Trust Fund Accounts	-
05-08	Loans Receivable – Chamorro Land Trust	-
05-09	Investment Policy and Procedures	-
05-10	Receivables – Due from Government Agencies	-
05-11	Tenant Receivables – Eligibility/Recertification	-
05-12	Tenant Receivables – Income Verification	-
		<u><u>\$ -</u></u>

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-01

Area : Loans Receivable/Delinquency

Criteria:

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 shall prepare and submit to the Loan Administrator a request for legal assistance. Within two (2) days of receipt, the Loan Administrator shall review and forward the request to the President for approval. Within two (2) days of receipt, the President shall review and return the request with final approval or disapproval. In the event the request is approved for legal action, the Loan Administrator shall prepare and deliver a request for foreclosure package to the Corporation's legal counsel. In the event the President does not approve the request for legal assistance, he or she must demonstrate and document why the delinquent account should not be referred to legal counsel.

Condition:

We conducted a review of the payment history of borrowers subsequent to September 30, 2005 to evaluate potential non-performing and delinquent loans. Based on our review of the loan portfolio, we would commend management for its efforts to service delinquent loans; however, we noted delinquent loans that were outstanding in excess of 90 days that were pledged as collateral with the Federal Home Loan Bank of Seattle, as follows:

<u>Item No.</u>	<u>Loan Number</u>	<u>Outstanding Loan Balances</u>	<u>Days Delinquent</u>
1.	59302222	\$ 88,584.09	1,102
2.	19802548	146,719.64	550
3.	19702356	85,298.09	462
4.	18601639	1,695.24	390
5.	38501482	18,442.18	373
6.	59802544	73,660.41	343
7.	59102157	83,400.92	276
8.	59302262	103,845.48	255
9.	59802504	161,350.96	219
10.	19802425	123,714.12	195
11.	59102066	85,311.52	172
12.	28601650	37,306.60	161
13.	18401459	31,056.43	113
14.	19102051	48,880.95	111
15.	59802433	<u>98,813.30</u>	109
		<u>\$1,376,083.11</u>	

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-01, Continued **Area : Loans Receivable/Delinquency**

Cause:

The Corporation did not adhere to its established written internal control lending policies and procedures for identifying and servicing delinquent loans in a timely manner. Additionally, it appears that the Corporation's loan servicing and collection policies and procedures may still be ineffective.

Effect:

The potential exists for these loans to become uncollectible and result in foreclosure in the near future. 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 2004 and 2003 audits of the Corporation.

Recommendation:

The above delinquent loans should be referred to the Corporation's legal counsel for foreclosure proceedings. We recommend that the Corporation reevaluate its collection and loan servicing policies and procedure to determine areas of improvement and staff assigned to perform such functions.

Auditee Response and Corrective Action: Plan:

Of the fifteen accounts listed, ten accounts were already referred to Legal Counsel for review and further action. Two of the accounts are current and the remaining will be submitted to the Credit Committee for recommendation relative to the servicing action appropriate to each account.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-02

Area : Loans Receivable/Delinquency Servicing

Criteria:

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

Condition:

While we commend management's recent efforts to service its loan portfolio, we noted that as of September 30, 2005, loans in arrears three months or more, including those referred to the Corporation's attorney for collection, totaled \$4,280,973 and \$5,385,624 for the fiscal years September 30, 2005 and 2004, respectively. Loan in arrears three months or more represents 16.5% and 18.8% of the total Corporation's loan portfolio.

Cause:

The Corporation did not have a full-time collector to service the loan portfolio during most of fiscal year 2005. The above condition could have been further mitigated if proper monitoring, timely evaluation had been in place in the absence of having a full-time collector.

Effect:

The Corporation could incur material loan losses and increased foreclosures in subsequent periods. Moreover, the Corporation has lost additional interest income as a result of not being able to accrue and collect interest income associated with the above loans delinquent in excess of 90 days.

Prior Year Status:

The lack of adherence to internal controls over delinquent loan servicing was reported in the 2004 and 2003 audits of the Corporation.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-02, continued

Area : Loans Receivable/Delinquency Servicing

Recommendation:

We acknowledge the Corporation's aggressive review of its loan portfolio to service delinquent loans. This review and level of effort should be performed consistently on a monthly basis. The Corporation should continue to sustain its aggressive posture and consistent adherence to its existing loan policies and procedures. However, we recommend that the Corporation start evaluating loans once the monthly scheduled payment is not remitted past the 15-day grace period. This will facilitate the process of identifying potential delinquent or troubled loans before the loan reach the 90-day non-performing status. This will enable the Corporation to have sufficient time to establish a repayment or work-out plan with the borrower and ensure the collection of interest income and repayment of principal on the loan.

Auditee Response and Corrective Action: Plan:

For the first six months of this fiscal year, the Collection Agent position was vacant. Despite this vacancy, the Loan Division continued its efforts on servicing delinquent accounts. Although the delinquency rates continue to decrease, the loan portfolio continues to decrease as well. This is due to payoffs and foreclosure actions.

It should be noted that more timely servicing actions are being made to keep the accounts in a performing status. Accounts over the 90 days are either being referred to legal counsel or a workout plan has been accepted by the Credit Committee and approved by the President. For those, the delinquent amount continues to decrease each month.

A monthly report is submitted to the Board of Directors reflecting the account status and the action being taken.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-03

Area: Employee Loans Receivable

Criteria

In accordance with the Corporations collateral loan agreement with the Federal Home Loan Bank of Seattle (the Bank), no employee loans of the Corporation may be pledged as collateral with the Bank.

Condition:

We noted that Corporation had pledged employee Loan #19702367, whose unpaid principal balance of \$111,974.08, with the Bank.

Cause:

The cause of this condition is unknown; however, it appears that such was an oversight by management.

Effect:

The Corporation is in not in compliance the loan covenants with the Bank. There is no material effect on the financial statements.

Recommendation:

We recommend that the Corporation replace the employee loan with another performing loan to comply with the Bank loan covenants.

Auditee Response and Corrective Action: Plan:

As of this date, FHLB has yet to advise GHC of this unacceptable collateral. Because GHC has met or exceeded the collateral requirement, there is no need to replace the account. GHC is not in violation of the loan covenants relative to the collateral requirements.

Auditor's Response:

Based on the FHLB collateral loan agreement requirements, employee loans may not be used for collateral, therefore, we believe that this employee loan should be exchanged for another loan. We further recommend that the management of GHC consult with FHLB to determine whether this loan is acceptable collateral.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-04

Area: Loans Receivable/Typhoon Coverage

Criteria:

Hazard insurance coverage shall 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 shall be maintained on all structures in an amount equal to the principal amount of the loan. In no case shall the amount of insurance coverage be less than the principal loan balance. The replacement value of improvements shall be determined by a real estate appraisal prepared by a licensed real estate appraiser. The Corporation will accept a hazard insurance clause of no less than 80% on a case-by-case basis, subject to approval by the President.

Typhoon coverage may be waived based on a written request from the borrower, subject to the conditions as set forth in the Corporation's underwriting policies. All waivers of typhoon insurance coverage shall be recommended by the Loan Administrator and President and approved by the Board of Directors. Waivers shall be reviewed on an annual basis.

Condition:

The following loans were did not have typhoon insurance coverage or an exemption waiver on-file for such coverage: Loan numbers 18701774, 19702356, 19702370, 19802414, 19802431, 19802507, 59702367, 28601650, 38701782, 59002009, 59102043, 59102088, 59102157 and 59202164.

Cause:

There is lack of internal control in reviewing and evaluating each borrower's respective hazard insurance coverage annually.

Effect:

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

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-04, continued

Area: Loans Receivable/Typhoon Coverage

Prior Year Status:

Lack of internal control with regards to the review and documentation of insurance policies on loan files was reported as a finding in the audit of the Corporation for the fiscal years 1999 through 2004.

Recommendation:

The Corporation should ensure that compliance to its underwriting hazard insurance coverage policy is properly implemented in a timely manner. The Loan Administrator should take necessary action by informing all borrowers in which real estate property is used as collateral for loan about the waiver of typhoon insurance, subject to borrower's compliance to the conditions set forth by the Corporation.

Auditee Response and Corrective Action: Plan:

The policy was amended by the Board of Directors on November, 2004 to delete Section 509(e) relative to annual review.

The loan division has identified and continues to identify accounts requiring physical inspections and documentation for approval of typhoon waivers. This is an on-going servicing activity as insurance policies are renewed.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-05

Area: Loan Receivable – Title Reports/Insurance Coverage

Criteria:

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

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

Condition:

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

Loan #19202143

Based on a review of the title policy, a mortgage in the amount of \$40,100 was executed by a third-party with the Small Business Administration on 9/20/76 and there was no documentation on-file to evidence that was released.

Loan #19001973

Based on a review of the title report, there is a tax lien on the property for 1978, 1980, 1981 and 1982 for an unspecified amount back taxes due.

Loan #19402288

Based on a review of the title report, there is a tax lien on the property for 1983 in the amount of \$143.70 which have not been cleared or paid for back taxes due.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-05, continued

Area: Loan Receivable – Title Reports/Insurance Coverage

Condition, continued:

Loan #19702340

Based on a review of the title policy, the property was pledged and assigned to the Bank of Guam by the Corporation on May 4, 1994 and recorded 5/5/94; however, there was documentation on-file to evidence that the pledge and assignment was satisfied prior to pledging the property as collateral to the Seattle Bank.

Loan #19702370

Based on review of the insurance policy this loan had an unpaid principal balance of \$109,547.16, there is a 50% coinsurance clause and the insured value is \$112,000.

Loan #19702378

Based on review of the borrower's insurance policy, this loan had an unpaid principal balance of \$108,599.17 and there is a 50% coinsurance clause and the insured value is \$80,000 and coverage approximates 73.7%.

Cause:

The Corporation did not comply with existing internal control policies and procedures to ensure that all loan files are reviewed for proper documentation prior to loan approval.

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 years ending September 30, 1999 through 2004.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2005

Finding No. 05-05, continued

Area: Loan Receivable – Title Reports/Insurance Coverage

Recommendation:

Loan files should be properly reviewed to ensure that all documents have been obtained and exceptions have been cleared prior to loan approval and disbursement of funds. The Loan Department should ensure adherence to the Corporation's established policies and procedures outlining the review of preliminary title reports and title insurance policy and ensure that all exceptions noted of these are reports are cleared prior to loan closing.

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

Auditee Response and Corrective Action: Plan:

The loan division has reviewed all citations and noted that there is documentation on file for each loan. The liens were either paid in full or receipts are on file.

As for the two accounts reflecting 50% co-insurance clause, the insurance companies advised that for both loans, there is 100% co-insurance clause and that the dwelling is insured at 100% of the replacement value.

GHC will note on file that the replacement value is lesser than the principal balance, thus the insurance coverage cannot be increased.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-06

Area: Insurance Coverage – Real Estate Owned and Other Foreclosed Assets

Criteria

Generally, the largest component of real estate owned by lenders is assets taken in settlement of troubled loans through surrender or foreclosure. Foreclosed assets include all assets received in full or partial satisfaction of a receivable. Foreclosed assets also include loans that are treated as if the underlying collateral had been foreclosed because the institution has taken possession of the collateral, even though legal foreclosure or repossession proceedings have not taken place. Such assets should be properly insured to protect the collateral until such are disposed or sold.

Condition:

As of September 30, 2005, the Corporation had foreclosed assets totaling \$2,411,759, which are not properly insured for liability and against various perils. Additionally, we noted the Corporation had entered into various lease/caretaker agreements with individuals to reside in the properties at rents ranging from \$25 to \$50 per month to maintain the properties and mitigate deterioration and vandalism. No eligibility requirements exist for eligibility and selection determination. Caretakers maintaining these foreclosed properties pose a liability risk to the Corporation in the event they or other persons are injured while on the premises since the properties are not insured. Industry standards are that insurance coverage is obtained to cover foreclosed properties and specific endorsements are available for such coverage under Property and Casualty insurance policies.

Cause:

The Corporation did not acquire liability insurance coverage to protect its collateral interest in foreclosed properties.

Effect:

The Corporation is exposed to an undetermined liability from the potential risk and litigation in the event that the caregiver or other persons are injured while on the premises.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2005

Finding No. 05-06, continued

Area: Insurance Coverage – Real Estate Owned and Other Foreclosed Assets

Recommendation:

We recommend that the Corporation obtain adequate insurance coverage for all real estate owned and foreclosed assets held. Additionally, the Corporation should consider seeking waivers be signed by Caretakers indemnifying the Corporation from injuries sustained while temporarily residing in the foreclosed properties. Additionally, we recommend that the Corporation establish and implement policies and procedures for determining caretaker eligibility determinations and related selection process.

Auditee Response and Corrective Action: Plan:

We partially agree with the finding that we had not updated and improved our caretaker agreements with individuals to reside in the O.R.E.O. properties at rents that were initially at \$25 per month. We have since changed the amount and raised it to \$100.00. We are currently in the process of revising the agreements to add certain provisions to allow the caretaker to be more responsible and responsive in maintaining the properties and in mitigating deterioration and vandalism. Other issues that were raised in the audit, such as eligibility, waiver, and indemnification, will be considered in the new agreements.

GHC acknowledges the need to acquire liability insurance coverage to protect the O.R.E.O. properties. GHC has been negotiating with insurance companies to provide the liability coverage against the GHC's liability to third parties for bodily injury and property damage. As soon as the funds are identified, GHC will negotiate with the company to reflect the additional insurance coverage for the O.R.E.O.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-07

Area: Trust Fund/Overdrawn Trust Fund Accounts

Criteria

In accordance with Section 6.01 of the Corporation's Loan Policy, the Corporation shall establish a trust fund for all residential mortgage loans. In doing so, the Corporation will require impounding of real estate property taxes and hazard insurance premiums so that there will be sufficient funds available to pay each respective borrower's annual real estate property taxes and hazard insurance premiums. Once these funds are placed in a trust fund account, the Corporation becomes responsible for paying the real estate property taxes and hazard insurance when they are due.

Pursuant to Section 6.12 of the Corporation's Loan Policy, in the event that a borrower is delinquent, the Corporation will make all necessary payments for property taxes and hazard insurance and add the amount to the borrower's loan.

If a borrower cancels or fails to have their insurance policy renewed, the Corporation will order a policy in the appropriate coverage amount and pay the premium. The cost of this premium will be added to the borrower's loan. The loan administrator may also review the borrower's financial condition to determine whether or not they qualify for an 1113 loan to finance the annual hazard insurance and property tax. The loan shall be approved subject to standard underwriting guidelines and should be made only if the borrower appears willing to make the necessary payments.

Condition:

As of September 30, 2005, the Corporation had advanced funds on behalf of the borrowers for the disbursements of hazard insurance and real property tax approximating \$31,017 consisting of 10 loans. The negative trust fund balances were as high as \$12,700.

Cause:

The cause of the above condition is the lack of adherence to the Corporation's established policies and procedures concerning delinquent accounts. The Corporation did not properly service loans from these borrower trust fund accounts in a timely manner.

Effect:

The Corporation is financing borrowers' real property tax and insurance payments. This practice is negatively impacting the Corporation's operations and cash flow position. The potential exists for these amounts to become uncollectible in the event of foreclosure.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-07, continued

Area: Trust Fund/Overdrawn Trust Fund Accounts

Prior Year Status:

The lack of adherence to the established internal control loan policies and procedures over review of delinquent accounts, trust fund policy, and collection policy, were reported as findings in fiscal years 2004 and 2003.

Recommendation:

We recommend that the Corporation examine all negative trust account balances and either collect amounts due from borrowers or apply future monthly loan payments to cure the negative trust fund balance. We further recommend the Corporation to adhere to its policies and procedures for addressing issues on trust funds shortages, surpluses, and deficiencies in accordance to requirements as set forth in the 24 CFR Section 3500.17, and to those procedures as may be required under Real Estate Procedures Act (RESPA).

Auditee Response and Corrective Action: Plan:

The policy was amended by the Board of Directors relative to the application of payments made by a borrower. Payments will be applied to satisfy the negative trust fund before any amount is applied to interest and principal.

The Trust Fund Technician and the Loan Technician continue to send out letters advising borrowers of their negative trust fund. Borrowers have been making additional payments to satisfy the overdrawn amount. The number of accounts with negative trust fund balances has been reduced significantly. Those remaining are on a payment plan or are with Legal Counsel for further action.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-08

Area: Loans Receivable – Chamorro Land Trust

Criteria:

Pursuant to the Corporation's loan policies, loans should be properly approved and documented and collateral used to secure loans should be fee simple.

Condition:

Based on review of 60 loan files, we noted various loans whose land pledged as collateral was leased from the Chamorro Land Trust (CLTC). The property used as collateral for these loans is leased to the borrowers from the Chamorro Land Trust which prohibits the borrower from subletting or selling the property, and even in the event of foreclosure, the property can only be sold to another qualified Chamorro Land Trust applicant. Pursuant to §10(ii) of the executed leasehold mortgage, in the event of default, the Corporation may foreclose and sale the property and apply the proceeds to be applied to pay off the debt. Moreover, pursuant to §3 of the Chamorro Land Trust Commission (CLTC) Guaranty, in the event of default by the borrower, the CLTC will pay the delinquent payments for no more than one (1) year and may cancel or transfer the borrower's lease to another qualified person or simply pay GHC the entire outstanding loan balance. The safety and soundness of the Chamorro Land Trust has not been determined as it has never been audited nor have any financial statements been prepared and made public.

In addition, the language in the Government of Guam CLTC Guaranty (Attachments A &B) is inconsistent with the GHC Mortgage documents, for example:

- a. Attachment B item #4 states the borrower shall obtain hazard and related insurance coverage naming the CLTC as the Loss Payee on the policy. However, under item 3 of the GHC Mortgage, it states that GHC shall be named as the Loss Payee.
- b. The GHC Mortgage Section 10 Default, Rights, and Remedies of Mortgagee § (g)(ii) states that if the borrower defaults, GHC will proceed to foreclose and sell the property to satisfy the loan. However, section 3 of Attachment A of the Terms & Conditions of Guaranty of CLTC states that if the borrower fails to cure the default after 60 days, CLTC will make payment for one (1) yr, may terminate the borrower's lease and seek to find a qualified person to re-lease the property who may be qualified person assuming that the meet GHC's loan criteria, at which time the loan can be assumed. If CLTC is unable to re-lease the property, they will pay off the loan balance in its entirety.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-08, continued

Area: Loans Receivable – Chamorro Land Trust

Cause:

There is a lack of internal control policies and procedures to ensure that all loans are properly documented, reviewed and approved according to loan origination policy and procedures.

Effect:

The Corporation is exposed to credit and collateral risk in the event of loan default and subsequent foreclosure.

Recommendation:

We understand that the Corporation continues to expand its loan program to recipients of the Chamorro Land Trust. We recommend the Corporation determine the financial viability of the Chamorro Land Trust since it has never been audited or financial statements have not been made available because there is no assurance that CLTC will be able to repay the note in the event of foreclosure or comply with §3 of the Chamorro Land Trust Commission (CLTC) Guaranty.

The Corporation should seek advice from legal counsel to clarify the inconsistent language in the CLTC Guaranty to mitigate potential collateral risk, credit risk and potential foreclosure associated with these loans

Auditee Response and Corrective Action: Plan:

GHC requirements have been met and insurance policies reflect GHC as the Loss Payee despite CLTC's requirement. The Board of Directors is well aware of the loans made to CLTC's recipients and have been advised of the auditor's concerns.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-09

Area: Investment Policies and Procedures

Criteria:

Management internal control policies and procedures, adopted by the Board of Directors or its investment committee, should be maintained to establish authority and responsibility for investments in securities and other investment alternatives. Such policies should address investment objectives and guidelines, including specific position limits for each major type of investment, provisions for assessing risks of alternative investments, and policies on evaluating and selecting security dealers and safekeeping agents. They should also set forth procedures for ensuring that management's investment directives are carried out and for gathering, analyzing, and communicating timely information about investment transactions. In addition, the Corporation should have procedures to analyze alternative securities according to the its intent, with consideration of the level of management expertise, the sophistication of its control procedures and monitoring systems, its asset/liability structure, and its capacity to maintain liquidity and absorb losses out of capital.

Condition:

As of September 30, 2005, the Corporation had cash and investments totaling \$10,814,049 (exclusive of approximately \$5.5 million held by bond trustees), for which it had direct control. The Corporation established a "Fund Management Group" that meets monthly to review and place investments of excess cash and TCD's, which we commend. However, we noted that the Corporation has not developed and established written internal control polices and procedures or related monitoring procedures to address investment objectives and guidelines, including specific position limits for each major type of investment, provisions for assessing risks of alternative investments needed to safeguard assets and to guide the Fund Management Group.

Cause:

The Corporation has not established and adopted an investment policy and formal written internal control policies and procedures to evaluate investment decisions to mitigate potential loss and to manage liquidity and interest rate risk.

Effect:

The Corporation is exposed to interest rate risk and the potential exist for it to make unsound investment decisions resulting in potential losses.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2005

Finding No. 05-09, continued

Area: Investment Policies and Procedures

Recommendation:

Management should implement investment internal control policies and procedures, adopted by the Board of Directors, to be maintained to establish authority and responsibility for investments in securities and other investment alternatives. Such policies should address investment objectives and guidelines, including specific position limits for each major type of investment, provisions for assessing risks of alternative investments, and policies on evaluating and selecting security dealers and safekeeping agents. They should also set forth procedures for ensuring that management's investment directives are carried out and for gathering, analyzing, and communicating timely information about investment transactions. In addition, the Corporation should have procedures to analyze alternative securities according to the its intent, with consideration of the level of management expertise, the sophistication of its control procedures and monitoring systems, its asset/liability structure, and its capacity to maintain liquidity and absorb losses out of capital.

Auditee Response and Corrective Action: Plan:

The Corporation recognizes that it does not have a formal written investment policy and such will be considered and adopted to ensure that any excess funds with no immediate need for lending, trust payments, equipment purchase or insurance requirements will be placed in short term vehicles within FDIC or U.S. Treasury bill parameters.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2005

Finding No. 05-10

Area: Receivables Due From Government Agencies

Criteria

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

Condition:

The Corporation has a receivable due from the Government of Guam totaling \$2,915,000. Pursuant to the Guam Public Law 25-116, the Government of Guam is obligated pay its share of the cost associated with the Lada Estates Affordable Housing Subdivision Project Phase I for the design, build and finance of the off-site infrastructure and access roads; however, the Government of Guam has not recorded the related liability for that amount.

Cause:

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

Effect:

The potential exists that accounts may no longer be collectible.

Recommendation:

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

Auditee Response and Corrective Action: Plan:

We agree with this finding. Management has instructed legal counsel to investigate this matter for resolution.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings Year Ended September 30, 2005

Finding No. 05-11

Area: Tenant Receivables – Eligibility/Recertification

Criteria:

The Corporation's Rental Division, at its option, may conduct tenant recertification and adjust the Tenant's rent annually.

Condition:

During our audit of the Corporation's tenant files, for all of the of the thirty-seven (37) files tested for recertification, we noted that the Certification/Recertification of Tenant Eligibility (Form 50059) was not in the tenant file nor was any other corroborating evidence to indicate that the tenants were properly recertified who reside in the units. In certain instances, we noted that tenant recertification had not taken place in over six (6) years.

For unit A106, we noted that this tenant was originally residing in foreclosed house as a caregiver from April 1, 2005 to July 31, 2005. The tenant signed a separate caretaker lease agreement. During June 2005, the tenants were instructed to vacate the foreclosed unit and were placed in A106 without determining program eligibility. The unit was not properly inspected, as the tenant was allowed occupy the unit "as is" and never completed a preliminary application. The Corporation executed a lease agreement dated August 1, 2005 @ \$450 per month.

Cause:

The Corporation does not conduct recertification of tenant eligibility once the initial eligibility certification is determined. Additionally, the TRA permitted the tenant residing in A106 to occupy the unit without undergoing the eligibility process.

Effect:

The potential exists for the Corporation to be providing housing to tenants who are unable to pay monthly rents or who may otherwise be no longer eligible to participate in the housing program. We noted that the Corporation wrote-off bad debts totaling \$67,760, which may be attributable to tenants who may no longer be eligible to pay the monthly rents.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2005

Finding No. 05-11, continued

Area: Tenant Receivables – Eligibility/Recertification

Recommendation:

We recommend that tenants be recertified at least annually to determine continued eligibility and ability to pay the monthly rent. Furthermore, the Quality Assurance Officer or the Housing Manager should perform periodic reviews of tenant files to ensure compliance with Handbook regulations and compliance requirements. A tenant-tracking list should be developed and implemented to ensure all tenants are recertified on their respective anniversary dates and rents should be adjusted as needed.

Auditee Response and Corrective Action: Plan:

Of the thirty-seven (37) files cited for recertification, thirty-three (33) of those consisted of tenants who had moved into the rental units during FY-05. We implemented the recertification process in July 2005. The majority of tenants had been living in the unit for less than one year and would be scheduled for a recertification during FY06. In accordance with the GHC Policy Manual, Section 1 Paragraph 1.07, “Guam Housing Corporation, at its option, may conduct re-certification of tenant eligibility for this project subject to HUD guidelines.”

The tenant residing in apartment A106 had been living in a GHC Foreclosed unit as a caretaker and was ordered to move out due to the sale of the property. The Rental Division was directed to find the tenant a home or an apartment to reside in. We did not have any vacant units ready for occupancy. However, we did have a three (03) bedroom unit in As-Atlas that was awaiting renovation. The Maintenance Supervisor contacted the prospective tenant and the tenant was shown the apartment, and agreed to take the apartment in an “as-is” condition. The tenant agreed to clean the unit and make it ready for occupancy. A Lease Agreement and Certification Form 50059 was completed and placed into the tenant’s record. The tenant was instructed to provide me with a verification of employment. This was an extenuating circumstance and is definitely not the norm.

Verification of Employment was subsequently obtained and placed in tenants’ folder. A tenant-tracking file has been implemented effective July 2005 and is on-going.

Auditor’s Response:

We recommend that the management of GHC consider changing its existing policy Manual, Section 1 Paragraph 1.07, which states, “*Guam Housing Corporation, at its option, may conduct re-certification of tenant eligibility*” to conduct re-certifications on periodical basis not to exceed a specified period of time. The mere fact that recertifications may occur at GHC’s option, does not ensure that tenants will be recertified. The lack of timely recertification is directly attributable to Corporation’s continued write-off of uncollectible tenant receivables.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2005

Finding No. 05-12

Area: Tenant Receivables – Recertification/Verification of Income

Criteria:

In accordance with Chapters 2 and 3 of the Corporation's Handbook, the Corporation is required to obtain certain information to verify tenant income and eligibility. Among others, such information includes employment verifications, paycheck stubs, W-2 forms, income tax returns, etc.

Condition:

For one (1) or 3% of the thirty-seven (37) tenant files tested, there was no documentation to verify income, such as verification of employment, check stub, income tax return, public assistance or any other document stating income for tenants residing in unit 115B.

Cause:

The Senior TRA did not retain copies of the required documentation to verify the Tenant's income to document compliance to existing internal control policies and procedures.

Effect:

The Corporation may be not be in compliance with the Handbook. The potential exists for the Corporation to make an incorrect determination of tenant eligibility and tenant monthly rent.

Recommendation:

The TRA should obtain and retain copies of all required documentation to properly determine tenant income sources and eligibility to comply with to the Handbook regulations.

Furthermore, the Quality Assurance Officer should conduct a periodic review of tenant files to ensure compliance with all Handbook regulations and other such compliance requirements. The participant's household composition should be properly verified by examination of income tax returns or some form of similar documentation. The proper verification of income and determination of the tenant's ability to pay the monthly rent will help to mitigate potential bad debts and ensure that only duly eligible participants quality and reside in the rental units.

GUAM HOUSING CORPORATION

Schedule of Internal Control Findings
Year Ended September 30, 2005

Finding No. 05-12, continued

Area: Tenant Receivables – Recertification/Verification of Income

Auditee Response and Corrective Action: Plan:

Our copier machine has been out of commission since September 2005. The tenant residing in unit number 115B came in and needed their documents for their appointment with public health. Since our copier was down, there was no choice but to give the certification paper and associated documents to the tenant for the Department of Public health and Social Services. Documentation was on file in the tenant record indicating why the files were not in the record. GHC provided the Rental Division a loaner copy machine in late December 2005. The tenant vacated the unit in December 2005.

GUAM HOUSING CORPORATION

SUMMARY OF UNRESOLVED QUESTIONED COSTS
SEPTEMBER 30, 2005

	<u>Beginning Questioned Costs</u>	<u>Costs Allowed</u>	<u>Costs Disallowed</u>	<u>Unresolved Questioned Costs</u>
Total unresolved questioned costs for fiscal year 2004	\$ 56,821	\$ (56,821)	\$ -	\$ -
Questioned costs for fiscal year ending 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total unresolved questioned costs At September 30, 2004	<u>\$ 56,821</u>	<u>\$ (56,821)</u>	<u>\$ -</u>	<u>\$ -</u>