

*Financial Statements, Required Supplementary Information
and Supplementary Information*

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

*Years ended September 30, 2017 and 2016
with Report of Independent Auditors*



**Building a better
working world**

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

Financial Statements, Required Supplementary Information, and
Supplementary Information

Years ended September 30, 2017 and 2016

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Report of Independent Auditors

The Board of Directors
Guam Housing Corporation

Report on the Financial Statements

We have audited the accompanying statements of net position of the Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Guam Housing Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of September 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 19, the Schedule of the Corporation's Proportionate Share of the Net Pension Liability on page 51, and the Schedule of the Corporation's Contributions on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pension that GASB requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements. The supplementary information included in pages 53 through 57 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Supplementary Information, continued

The information included in pages 53 through 57 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 28, 2018 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Ernst + Young LLP

March 28, 2018

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

Management's Discussion and Analysis

Year ended September 30, 2017

As Management of the Guam Housing Corporation (GHC, the Corporation), we offer the readers of the Corporation's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended September 30, 2017. We encourage the readers to consider the information presented as you review the financial statistics presented on the following pages.

A. About the Corporation

GHC continues to make steady progress. Even with limited capital, GHC continues to move forward with its own lending programs as well as programs in cooperation with the United States Department of Agriculture (USDA) Rural Development and the Land Trust Initiative.

The "Housing Trust Fund Act" and the "First Time Homeowners Assistance Program Act" (P.L. 31-166 of 05 Jan 2012) have shown to be really good programs, both for the home-owner and even more so a boon for the economy. With the passage of P.L. 33-168, this program now has a permanent source of funding. The Administrative Rules and Regulations for the Housing Trust Fund Act has finally come to fruition, and is now Public Law 33-200. This initiative addresses a number of housing problems that exist throughout our Island and solutions on how to address them.

The Corporation has also been successful in addressing Guam's homeless concerns through the introduction and passage of the "Housing First Program", Public-Law 33-231. This sets the wheels in motion to initiate a pilot program geared towards addressing Guam's homeless families.

The Corporation has talked with many of the players regarding the Housing Trust Fund initiative and the proposed funding sources as addressed, both on the political side and even more so on the private side. Even though their responses have been positive and in support of this initiative, we still have further to go. We anticipate introducing legislation, in January 2018, the implementation of the Real Estate transfer fee.

The positive economic impact on the housing market with only the single program that has been funded so far has brought over \$80,553,525 in Real Estate, Banking, Escrow, Appraisers, and Title Insurance activity not to mention the trickle down economic expansion, while placing 458 families in homes. The First-Time Homeowner's Assistance Program Act has funded \$3,222,141 through the Housing Trust Fund Act since fiscal year 2012.

Housing Trust Funds continue to be the most impressive advance in the affordable housing field in the United States. Because housing is the foundation of every healthy community, local and state governments are recognizing that they need to contribute public resources to adequately house their residents, and they are using Housing Trust Funds as the vehicle to do exactly that.

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

Management's Discussion and Analysis, continued

A. About the Corporation, continued

Basically, every large municipality across the entire country has Housing Trust Fund Programs. They dedicate nearly \$1 billion annually to help address critical housing needs throughout the country. The mere number of Housing Trust Funds continues to grow.

Housing Trust Funds are extremely flexible and can be used to support innovative ways to address many types of housing needs. The model can work in virtually any situation. They have been created to serve small towns as well as the largest states in the country. These funds are also very efficient. Many Housing Trust Funds report highly successful track records addressing a wide range of critical housing needs.

GHC's mandate is to help individuals and families secure mortgage financing, who cannot otherwise qualify as borrowers through other means. The current conditions in Guam's real estate market, coupled with more stringent lending practices of local conventional lending institutions, has created an environment that has allowed GHC to assist working class families. GHC's borrowers are diverse and includes teachers, firemen, police officers, office managers, office workers, hotel and restaurant employees. They walk through our doors seeking financing for their first home in order to fill the basic need of housing for their families. It is for this very reason why GHC seeks additional lending capital at the lowest cost possible for those families who have been pre-qualified.

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

The current inventory of affordable housing units is insufficient to meet the needs of our people. It is imperative that the Corporation as a government entity continue to work to address the housing needs of our island residents. GHC under its mandate is geared to accomplish this mission.

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

Management's Discussion and Analysis, continued

A. About the Corporation, continued

Loan & Supplemental Funding Programs

Currently, GHC makes available the following programs:

I. Regular Loan Program

The residential mortgage lending program is to assist families and individuals, who are first time homeowners and are unable to obtain financing for purchase or construction through conventional lending institutions. During the August 2014 regular meeting of the Board of Directors, the current interest rate for this program was changed to 1% above the prevailing rate charged by local lenders.

II. Six Percent Loan Program

This is a low interest rate residential mortgage loan program to assist families and individuals who are first time homeowners and are unable to obtain financing from conventional mortgage lending institutions. The interest rate on this program was changed to match that of the local markets with a floor of 4% and a ceiling of 6% for a term of 30 years (P.L. 31-166).

III. Community Affordable Housing Action Trust (CAHAT)

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

IV. Leveraged Loan Program

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

GHC's loan will be at the interest rates established for its regular loan program for a term of thirty (30) years. RD loans will be available at the prevailing interest rate for a term of thirty three (33) years. However, because RD's loan is a subsidized loan, the interest rate may be reduced depending on the borrower's income. This subsidy increases the buying power of an individual.

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

Management's Discussion and Analysis, continued

A. About the Corporation, continued

V. First Time Homeowners Assistance Program (FTHAP)

This program was reestablished through the Housing Trust Fund Act established by P. L. 31-166 in January of 2012 with the first grant being awarded with the establishment of the Rules and Regulations for the program in June of 2012 through P. L. 31-277.

A real success story; since its reintroduction, the Corporation has issued grants totaling \$3,222,141 to 458 families. Not only has this program helped so many first time homeowners realize the Guamanian dream but it also has stimulated the real estate industry by a whopping \$80 million.

Eligible recipients of the program are provided up to \$10,000 or 4% of the total of the purchase price or construction cost and closing costs. The maximum total cost should not exceed \$250,000.

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

Rental Division

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

Currently the monthly rent for the Lada Gardens is \$725 for the 4 bedroom units, \$650 for the 3 bedroom units and \$600 for the 2 bedroom units. During fiscal years 2013 through 2015 major renovations were completed for 9 units. Of the nine units, seven were for 4 bedroom units, one was for a 3 bedroom unit and one was for a two bedroom. The rent for units that had major renovation are \$925 for a four bedroom unit, \$875 for a three bedroom unit and \$725 for a two bedroom. The monthly rent for the As Atdas 3 bedroom units is \$650 while the 2 bedroom units is \$500.

GHC continued to increase its affordable housing inventory as PL 31-215 was enacted. This law provided GHC an additional ten (10) single family units, consisting of one, two, three and four bedrooms, for rent from the Department of Land Management (DLM) in Sagan Linahan. The Department of Housing and Urban Development funded the renovation of these ten abandoned Sagan Linahan units through Guam Housing & Urban Renewal Authority (GHURA) at a cost of approximately \$650,000. The Renovation Project was completed in October 2012. Due to the source of funding for the rehabilitation of these units, the proposed tenants must meet the established income limits.

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

Management's Discussion and Analysis, continued

B. Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements are comprised of two components: 1) Corporation-wide financial statements and 2) notes to the financial statements.

The Corporation utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principle Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

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

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

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

The Corporation-wide financial statements report on the function of the Corporation that is principally supported by intergovernmental revenues. The Corporation's function is to help first-time homeowner individuals and families secure mortgage financing who cannot otherwise qualify as borrowers through other conventional financing means and provide and administer low-cost housing rental projects. The Corporation-wide financial statements of the Corporation can be found on pages 19 through 57 of this report.

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

Management's Discussion and Analysis, continued

B. Overview of the Financial Statements, continued

A condensed summary of the Corporation's statements of net position at September 30, 2017, 2016 and 2015 is shown below.

| | <u>2017</u> | <u>2016*</u> | <u>2015</u> |
|---|---------------------------------|---------------------------------|---------------------------------|
| Cash & Investments | \$ 9,361,591 | \$ 10,209,561 | \$ 10,283,013 |
| Loans receivable, other receivables, prepaid exp. & inventory | 29,527,266 | 29,054,262 | 29,437,299 |
| Foreclosed assets held for resale | 505,638 | 136,639 | 287,739 |
| Capital Assets | 6,335,993 | 6,499,045 | 6,680,039 |
| Deferred outflows of resources – pension | <u>423,640</u> | <u>513,141</u> | <u>381,036</u> |
| Total assets & deferred outflows of resources | \$ <u>46,154,128</u> | \$ <u>46,412,648</u> | \$ <u>47,069,126</u> |
| Accounts payable & accrued expenses | \$ 841,714 | \$ 932,136 | \$ 966,614 |
| Deposits by borrowers & security deposit | 712,927 | 491,844 | 737,642 |
| Bonds payable | 3,905,000 | 4,085,000 | 4,255,000 |
| Loans held in trust | 191,461 | 227,599 | 240,743 |
| Net Pension Liability | <u>4,035,146</u> | <u>4,168,980</u> | <u>2,948,761</u> |
| Total Liabilities | \$ <u>9,686,248</u> | \$ <u>9,905,559</u> | \$ <u>9,148,760</u> |
| Deferred inflows of resources – pension | <u>41,982</u> | <u>20,463</u> | <u>311,652</u> |
| Invested in capital assets, net of related debt | 6,335,993 | 6,499,045 | 6,680,039 |
| Restricted | 3,605,367 | 3,646,948 | 3,371,600 |
| Unrestricted | <u>26,484,538</u> | <u>26,340,633</u> | <u>27,557,075</u> |
| Total net position | \$ <u><u>36,425,898</u></u> | \$ <u><u>36,486,626</u></u> | \$ <u><u>37,608,714</u></u> |
| | <u>2017</u> | <u>2016*</u> | <u>2015</u> |
| Revenues | \$ 2,558,943 | \$ 2,443,301 | \$ 2,587,739 |
| Expenses | <u>2,619,671</u> | <u>2,921,173</u> | <u>2,710,080</u> |
| Decrease in net position | (60,728) | (477,872) | (122,341) |
| Total net position at beginning of year | <u>36,486,626</u> | <u>36,964,498</u> | <u>37,731,055</u> |
| Total net position at end of year | \$ <u><u>36,425,898</u></u> | \$ <u><u>36,486,626</u></u> | \$ <u><u>37,608,714</u></u> |

**Due to the implementation of GASB68 and GASB73, a prior year adjustment was made to record GHC's share of the Net Pension Liability.*

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

Management's Discussion and Analysis, continued

C. Financials at a Glance

GHC Portfolio consists of loans originated with GHC funds from the Direct Loan and the Revolving Loan Programs. It is categorized in the Statement of Net Positions under Loans Receivable, net. Other Receivables under restricted assets of the Statement of Net Position comprises all other loans (i.e., Down Payment & Closing Cost, Hazard Mitigation, and CAHAT.). Other Portfolio loans are not exclusively for first time homeowners, but rather, they represent support programs that the agency has administered from time to time throughout the years.

GHC's loan portfolio has increased by \$463,398 to approximately \$30 million increasing 1.6% from the prior year. The increase is due to the new loans originated in fiscal year 2017. GHC originated eleven (11) loans totaling \$1,948,525 under the Direct Loan Program, six (6) loans totaling \$908,886 under the Revolving Loan Program and five (5) loans totaling \$165,850 under the CAHAT program in fiscal year 2017. At the end of fiscal year 2017, 14 applicants totaling \$1.9 million were committed for loans and awaiting documents. The number of payoffs increased from 26 in fiscal year 2016 to 27 in fiscal year 2017, the principal balance of these payoffs increased from \$637,677 in fiscal year 2016 to \$771,712 in fiscal year 2017. There were three (3) foreclosures in fiscal year 2017 with a principal balance totaling \$367,993 in fiscal year 2017 compared to one (1) foreclosure in fiscal year 2016 with a principal balance of \$20,661.

GHC continues its marketing efforts to disseminate information relative to all its authorized programs, including the FTHAP. Although GHC is limited in its lending capital, it continued to conduct pre-qualification interviews in order to determine the need for affordable housing. As of the end of fiscal year 2017, 407 applicants were pre-qualified for a loan totaling \$12.8 million. Most of these individuals are faced with the challenge of locating a dwelling within their affordability amount.

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

Management’s Discussion and Analysis, continued

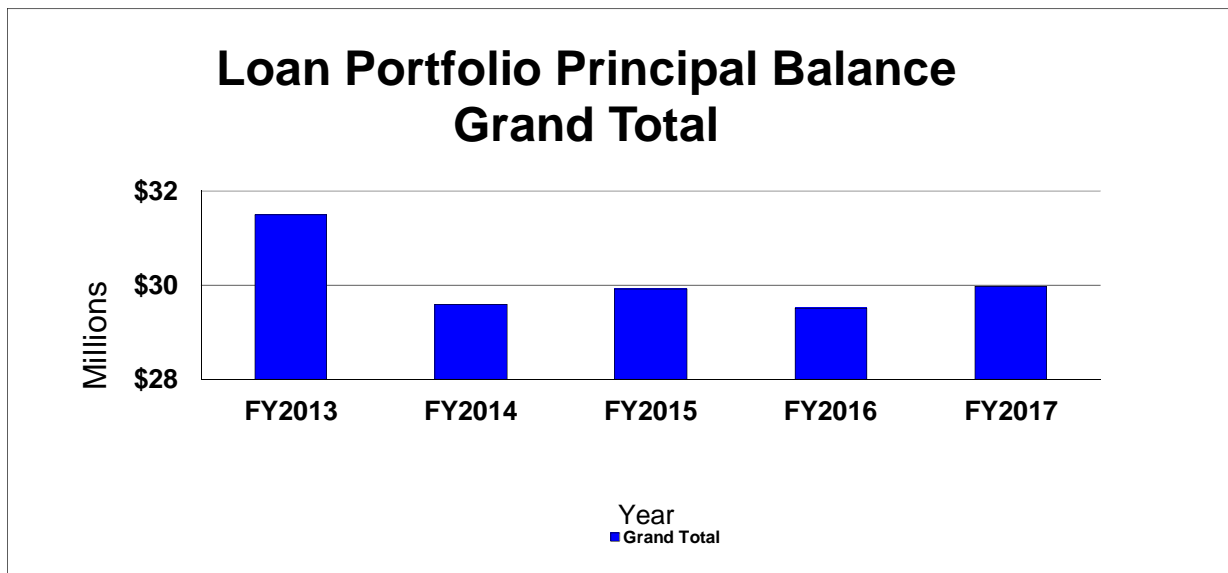
D. Financial Highlights

Loan Portfolio Principal Balance

| FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
|--------------|--------------|--------------|--------------|--------------|
| \$31,499,396 | \$29,593,816 | \$29,921,496 | \$29,512,782 | \$29,976,181 |

Total Number of Loans

| | | | | |
|-----|-----|-----|-----|-----|
| 447 | 421 | 411 | 401 | 392 |
|-----|-----|-----|-----|-----|



Delinquency

GHC provides financial assistance to individual and families who are unable to get assistance thru conventional means for their housing needs. As such, GHC takes a higher risk. Delinquent loans 30 days and over increased by \$1.1 million to \$5.8 million in fiscal year 2017. Overall, loans delinquent 30 days and over increased from 16% in fiscal year 2016 to 19.4% in fiscal year 2017. Of these delinquent loans, 30 loans with a principal balance totaling \$2.6 million have been referred to legal for further servicing action or foreclosure proceedings. It is further noted that these legal accounts were referred due to bankruptcy filings, probate issues and default of loan agreements. The delinquent loans are also comprised of 19 loans that are 30 days delinquent. The total of these loans is \$1.9 million and are still categorized as performing loans.

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

Management’s Discussion and Analysis, continued

D. Financial Highlights, continued

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

Delinquent %

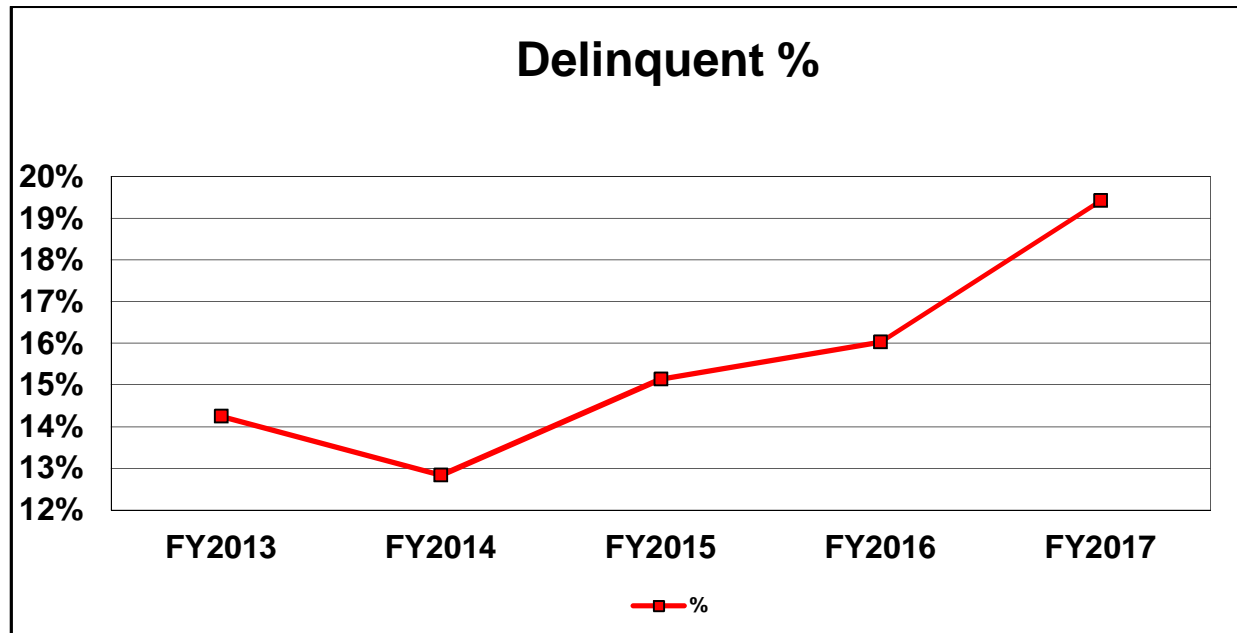
| FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
|--------|--------|--------|--------|--------|
| 14.25% | 12.84% | 15.15% | 16.04% | 19.43% |

Principal Balance

| | | | | |
|-------------|-------------|-------------|-------------|-------------|
| \$4,450,698 | \$3,767,666 | \$4,496,676 | \$4,697,389 | \$5,789,624 |
|-------------|-------------|-------------|-------------|-------------|

Total Number of Loans

| | | | | |
|----|----|----|----|----|
| 62 | 52 | 58 | 53 | 60 |
|----|----|----|----|----|



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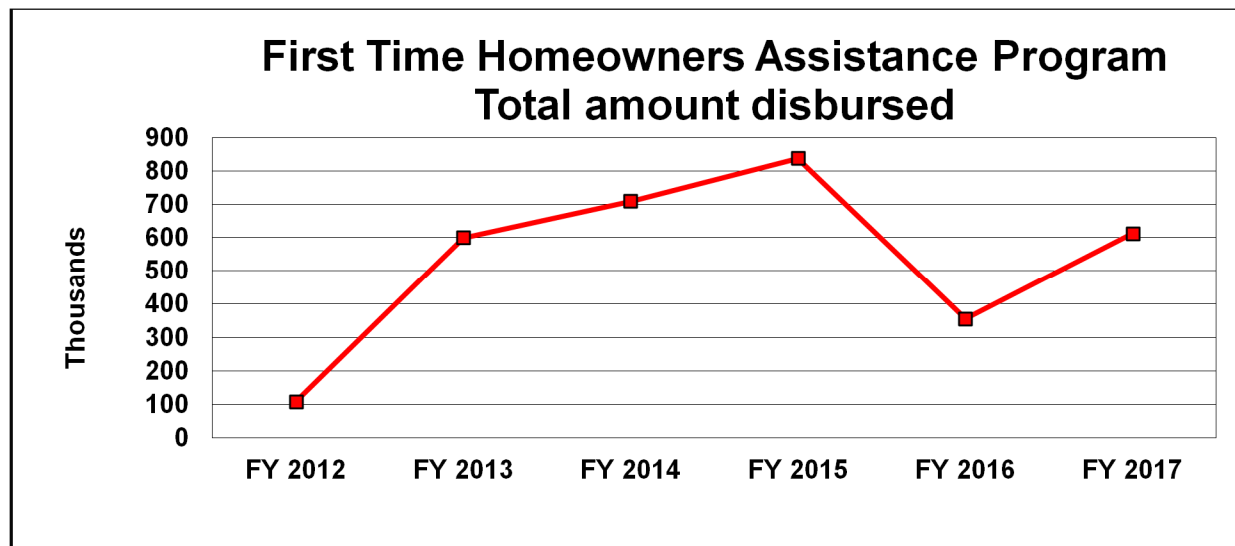
Management’s Discussion and Analysis, continued

D. Financial Highlights, continued

First-Time Homeowners Assistance Program

The total number of FTHAP grants disbursed have increased from 53 in fiscal year 2016 to 83 in fiscal year 2017. GHC received \$482,975 of escheated funds from the Department of Administration (DOA) during fiscal year 2017. As with the previous fiscal years, the funds were not enough for all the applications GHC received so a waiting list was established.

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total amount disbursed | \$107,513 | \$600,164 | \$708,628 | \$837,997 | \$355,262 | \$612,575 |
| Total number of grants | 15 | 84 | 102 | 121 | 53 | 83 |
| GHC funds | \$107,513 | \$357,106 | \$ --- | \$ --- | \$26,338 | \$ --- |
| Number of grants (GHC) | 15 | 50 | --- | --- | 4 | --- |
| Escheated funds | \$ --- | \$243,058 | \$708,628 | \$837,997 | \$328,924 | \$612,575 |
| Number of grants (Escheated funds) | --- | 34 | 102 | 121 | 49 | 83 |



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

Management's Discussion and Analysis, continued

D. Financial Highlights, continued

Foreclosed assets held for resale

Foreclosed assets held for resale increased from \$136,639 in fiscal year 2016 to \$505,638 in fiscal year 2017. During fiscal year 2017, three (3) properties were sold with a net gain totaling \$52,757 and three (3) properties were added due to a foreclosure.

Maintenance and security of these units throughout the Territory of Guam has fallen to the Rental Division, which due to its limited staff, struggles to accommodate the additional workload and concerns of vandalism, theft, and generally the deterioration of the vacant properties.

Investment with trustee

Investment with trustee decreased by \$410,783 to \$2,694,661 in fiscal year 2017. This account is used to pay the trustee fees and the principal and interest of the mortgage revenue bond.

Deferred outflows of resources

Due to the implementation of GASB 73, a prior year adjustment was made to include the COLA and supplemental in the deferred outflows of resources. Deferred outflows of resources decreased by 17% from \$513,141 in fiscal year 2016 to \$423,640 in fiscal year 2017.

Restricted Accounts Payables

In fiscal years 2016 and 2017 in accordance with PL33-168, DOA transferred to GHC \$282,000 and \$482,975, respectively, of escheated funds for the FTHAP. Because of the restrictions, the funds received were placed under a restricted payable. During fiscal year 2017, \$612,575 was disbursed to eighty-three (83) first time homeowners from this fund. The balance at the end of fiscal year 2017 was \$116,897.

Pension Liability

Due to the implementation of GASB 73, a prior year adjustment was made to include the COLA and supplemental in the pension liability. The pension liability decreased by \$133,834 from \$4,168,980 in fiscal year 2016 to \$4,035,146 in fiscal year 2017.

Deferred Inflows of Resources

Due to the implementation of GASB 73, a prior year adjustment was made to include the COLA and supplemental in the deferred inflows of resources. Deferred inflows of resources increased by \$21,519 from \$20,463 in fiscal year 2016 to \$41,982 in fiscal year 2017.

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

Management's Discussion and Analysis, continued

D. Financial Highlights, continued

Interest income on Loans Receivable

Interest on loans receivable increased minimally by \$3,550 or .2% from \$1,540,861 in fiscal year 2016 to \$1,544,411 in fiscal year 2017. At the end of fiscal years 2016 and 2017, the loan portfolio on interest bearing loans was \$27,510,816 and \$28,061,292, respectively, and the weighted average interest rate on loans was 5.49% and 5.32% respectively.

Interest on Investment held by Bond Trustees

Interest on Investment Held by Bond Trustees decreased by \$51,444 or 94.9% from \$54,219 in fiscal year 2016 to \$2,775 in fiscal year 2017. The decrease is due to the decrease in the Investment with trustee and the decrease in the market value for these funds.

Rental Income

Rental Income decreased by \$18,412 or 2% due to the increase in the vacancy which was offset by the decrease in adjustment for the allowance for uncollectible. Vacancies increased from \$197,397 in fiscal year 2016 to \$259,876 in fiscal year 2017. The adjustment to increase the Allowance for Tenant Uncollectible decreased from \$107,613 in fiscal year 2016 to \$77,531 in fiscal year 2017. The Allowance for Tenant Uncollectible was adjusted to sixty (60) days and over delinquent in both fiscal years.

Miscellaneous Revenues

Miscellaneous Revenues increased by \$56,088 or 126% from \$44,645 in fiscal year 2016 to \$100,733 in fiscal year 2017. Due to the passing of the Housing Trust Funds' Rules and Regulation (P.L. 33-200), GHC is now able to recognize an administrative fee which was effective December 2016. The administrative fee collected in fiscal year 2017 totaled \$46,248 and was included in the Miscellaneous Revenue for the first time. There was also an increase in late fee and service charge collection.

Gain/(Loss) on Sale of Assets

In fiscal year 2017, three foreclosed properties were sold with an overall gain of \$52,757 compared to fiscal year 2016 were two properties were sold with an overall loss of \$68,577.

Interest Income on Bank Deposit

Interest income on bank deposit increased by 29% from \$15,473 in fiscal year 2016 to \$19,999 in fiscal year 2017 due to the increase in the weighted average interest rate on bank accounts.

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

Management's Discussion and Analysis, continued

D. Financial Highlights, continued

Retirement and Medicare Contributions

Retirement and Medicare Contributions decreased by \$206,253 from \$521,216 in fiscal year 2016 to \$314,963 in fiscal year 2017 due to the decrease in the net pension liability.

Contractual Services

Contractual Services decreased by \$9,707 or 11.3% from \$85,867 in fiscal year 2016 to \$76,160 in fiscal year 2017 due to a decrease in liability insurance, telephone, and motor vehicle repairs expenses.

Maintenance Expense

Maintenance Expense decreased by \$19,160 or 35% from \$54,185 in fiscal year 2016 to \$35,025 in fiscal year 2017 due to the decrease in the issuance of refrigerators, stoves and materials in fiscal year 2017.

Other Expense

Other Expense decreased by \$40,573 or 46% from \$88,845 in fiscal year 2016 to \$48,272 in fiscal year 2017. In fiscal year 2016 the Corporation disbursed four (4) FTHAP grants totaling \$26,339 from GHC's funds due to the lack of DOA funds. These four disbursements were from part of the remaining balance of the initial \$500,000 set up in fiscal year 2012. In fiscal year 2017 all disbursements for the FTHAP grants were from the DOA funds. There was also a decrease in supplies purchased, emergency housing, promotion, advertising, training and foreclosed houses expenses.

Loss on Impaired Assets

Loss on Impaired Assets totaling \$17,160 was recorded in fiscal year 2017 to reduce the book value of a property that foreclosed in fiscal year 2017 to the appraised value less 10% estimated selling cost.

E. Future Events

GHC continues to pursue its mission with numerous challenges. GHC's ability to secure lending capital at affordable rates would be its immediate concern to achieve many of its goals. GHC has made numerous efforts in educating both the executive and legislative branches, as well as private sector housing partners with respect to the "Trust Fund" initiative which addresses the funding of various programs and projects. There is proposed legislation for consideration on funding opportunities intended for the Housing Trust Fund.

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

Management's Discussion and Analysis, continued

E. Future Events, continued

GHC continues its pursuit of Governor Eddie Baza Calvo's Affordable Housing Initiatives, including addressing the homelessness needs on Guam. GHC provides direction, cooperation, coordination and leveraging of federal agencies, programs, and grants, with Government of Guam agencies, and the participation and investment of the private industry. With these efforts, the "Guamanian Dream" of homeownership for the people of Guam has become a reality for many, and an opportunity to provide a safe and sanitary housing for many more in the future.

The homeless population on Guam is growing at an alarming rate. Once again, GHC under the leadership of President, Christopher Duenas, is tasked to lead the housing agencies and partnering industries to address this concern. Funding from federal grants and programs and local initiatives must be secured to alleviate the increased need for adequate safe and sanitary housing for those in need. A homeless task force has been convened to deal with the many social and economic distress facing this segment of the community.

Guam Housing Corporation has established the following goals to complete in 2018:

1. Continued work with the 34th Guam Legislature and the Calvo/Tenorio Administration to introduce and ratify legislation to fund the existing "Housing Trust Fund" and all provisions attached thereto.
2. Continued pursuit and promotion of alternative building materials, structure, and design to lessen the cost of constructing safe, sanitary, and very affordable, low cost housing. Agreements are in place for developers to construct affordable homes on Chamorro Land Trust lots throughout the island.
3. Ongoing coordination with partnering Government of Guam agencies (DLM, Chamorro Land Trust Commission, Guam Ancestral Land Commission) to provide available, developable land to recipients that qualify for homeownership financing and programs (VA, USDA, Substantially Underserved Trust Areas).
4. Continued work with GHURA and federal agencies with funding sources and layering of grants and programs in development of affordable housing.
5. Statutory authority to finance the building of new homes by funding "Housing Trust Fund" for GHC programs and initiatives (i.e., FTHAP and CAHAT loan program).
6. Sagan Linahyan – Development of 59 unused lots with available infrastructure for affordable housing (rental and home ownership)
7. Source funding to provide emergency housing shelters and homes for the needy through various programs. Federal, local, private sector and NGO's have expressed the need and desire to participate in funding and managing programs to assist the homeless population.

The Corporation is cognizant of the lack of inventory of affordable homes. It will continue addressing this issue with its housing partners for possible solutions.

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

Management's Discussion and Analysis, continued

F. Contacting the Corporation's Financial Management

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

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

Statements of Net Position

| | September 30, | |
|---|-------------------|---------------------------|
| | <u>2017</u> | <u>2016</u> (restated) |
| Assets | | |
| Current assets: | | |
| Unrestricted assets: | | |
| Cash and cash equivalents <i>(Note 2)</i> | \$ 2,834,588 | \$ 3,333,178 |
| Self-insurance fund <i>(Notes 2 and 9)</i> | 1,120,579 | 1,114,348 |
| Loans receivable, net <i>(Note 3)</i> | 2,057,325 | 1,637,039 |
| Tenants receivable, net | 14,694 | 12,791 |
| Accrued interest receivable | 64,783 | 54,595 |
| Prepaid expenses and other | 71,132 | 68,664 |
| Foreclosed assets held for resale <i>(Note 6)</i> | <u>505,638</u> | <u>136,639</u> |
| Total unrestricted assets | <u>6,668,739</u> | <u>6,357,254</u> |
| Restricted assets: | | |
| Cash and cash equivalents <i>(Note 2)</i> | 2,711,763 | 2,656,591 |
| Investments <i>(Note 2)</i> | <u>2,694,661</u> | <u>3,105,444</u> |
| Total restricted assets | <u>5,406,424</u> | <u>5,762,035</u> |
| Total current assets | 12,075,163 | 12,119,289 |
| Loans receivable, net <i>(Note 3)</i> | 25,404,443 | 25,279,208 |
| Restricted other receivables <i>(Note 4)</i> | 1,914,889 | 2,001,965 |
| Depreciable capital assets <i>(Note 5)</i> | 3,401,766 | 3,564,818 |
| Non-depreciable capital assets <i>(Note 5)</i> | <u>2,934,227</u> | <u>2,934,227</u> |
| Total assets | 45,730,488 | 45,899,507 |
| Deferred outflows of resources - pension <i>(Note 8)</i> | <u>423,640</u> | <u>513,141</u> |
| Total assets and deferred outflows of resources | <u>46,154,128</u> | <u>46,412,648</u> |

See accompanying notes.

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

Statements of Net Position, continued

| | September 30, | |
|---|----------------------|---------------------------|
| | <u>2017</u> | <u>2016</u> (restated) |
| Liabilities | | |
| Current liabilities: | | |
| Payable from unrestricted assets: | | |
| Accounts payable and accrued expenses | \$ 172,227 | \$ 165,527 |
| Current portion of accrued compensated absences (<i>Note 10</i>) | 91,690 | 90,600 |
| Unearned revenue | <u>151,418</u> | <u>97,957</u> |
| Total payable from unrestricted assets | <u>415,335</u> | <u>354,084</u> |
| Payable from restricted assets: | | |
| Accounts payable | 116,897 | 292,164 |
| Bonds payable (<i>Notes 7 and 10</i>) | 190,000 | 180,000 |
| Accrued interest payable | 18,049 | 18,851 |
| Security deposits | 57,868 | 59,866 |
| Deposits by borrowers - insurance premiums and real estate taxes | 655,059 | 431,978 |
| Rebate liability (<i>Note 7</i>) | <u>75,717</u> | <u>73,506</u> |
| Total payable from restricted assets | <u>1,113,590</u> | <u>1,056,365</u> |
| Total current liabilities | <u>1,528,925</u> | <u>1,410,449</u> |
| Non-current liabilities (<i>Note 10</i>): | | |
| Payable from unrestricted assets: | | |
| Non-current portion of accrued compensated absences (<i>Note 8</i>) | 215,716 | 193,531 |
| Net pension liability (<i>Notes 8 and 10</i>) | 4,035,146 | 4,168,980 |
| Payable from restricted assets: | | |
| Bonds payable (<i>Notes 7 and 10</i>) | 3,715,000 | 3,905,000 |
| Loans held in trust (<i>Notes 4 and 10</i>) | <u>191,461</u> | <u>227,599</u> |
| Total non-current liabilities | <u>8,157,323</u> | <u>8,495,110</u> |
| Total liabilities | <u>9,686,248</u> | <u>9,905,559</u> |
| Deferred inflows of resources - pension (<i>Note 8</i>) | <u>41,982</u> | <u>20,463</u> |
| Commitments and contingencies (<i>Notes 9</i>) | | |
| Net position: | | |
| Net investment in capital assets | 6,335,993 | 6,499,045 |
| Restricted for lending activities | 3,605,367 | 3,646,948 |
| Unrestricted | <u>26,484,538</u> | <u>26,340,633</u> |
| Total net position | <u>\$ 36,425,898</u> | <u>\$ 36,486,626</u> |

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

| | Year ended September 30, | |
|--|-----------------------------|---------------------------|
| | <u>2017</u> | <u>2016</u> (restated) |
| Operating revenues: | | |
| Interest income on loans receivable | \$ 1,544,411 | \$ 1,540,861 |
| Rental income | 838,268 | 856,680 |
| Miscellaneous revenues | 100,733 | 44,645 |
| Gain (loss) on sale of foreclosed asset | 52,757 | (68,577) |
| Interest income on deposits | 19,999 | 15,473 |
| Interest income on investments held by bond trustees | 2,775 | 54,219 |
| Total operating revenues | <u>2,558,943</u> | <u>2,443,301</u> |
| Operating expenses: | | |
| Salaries | 1,203,356 | 1,229,618 |
| Retirement and Medicare contributions <i>(Note 8)</i> | 314,963 | 521,216 |
| Retiree supplemental and health benefits <i>(Note 8)</i> | 232,473 | 232,125 |
| Interest expense on borrowings | 223,005 | 232,278 |
| Depreciation and amortization <i>(Note 5)</i> | 176,843 | 180,994 |
| Rent <i>(Note 9)</i> | 105,054 | 105,054 |
| Professional services | 96,229 | 96,486 |
| Contractual services | 76,160 | 85,867 |
| Employee benefits, other than retirement | 73,044 | 75,843 |
| Other | 48,272 | 88,845 |
| Maintenance | 35,025 | 54,185 |
| Impairment loss on foreclosed assets | 17,160 | --- |
| Bond trustee fees | 16,137 | 16,312 |
| Director fees | 1,950 | 2,350 |
| Total operating expenses | <u>2,619,671</u> | <u>2,921,173</u> |
| Decrease in net position | (60,728) | (477,872) |
| Net position at beginning of year - restated | <u>36,486,626</u> | <u>36,964,498</u> |
| Net position at end of year | <u>\$ 36,425,898</u> | <u>\$ 36,486,626</u> |

See accompanying notes.

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

Statements of Cash Flows

| | Year ended September 30, | |
|---|-----------------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 1,676,708 | \$ 2,555,452 |
| Others | (56,533) | 13,673 |
| Cash paid to suppliers for goods and services | (356,508) | (461,396) |
| Cash paid to employees | (1,825,324) | (1,933,805) |
| Net cash (used in) provided by operating activities | (561,657) | 173,924 |
| Cash flows from investing activities: | | |
| Decrease in investments | 410,783 | 352,987 |
| Proceeds from sale of foreclosed assets | 126,299 | 99,323 |
| Interest received on cash and investments with trustees | 2,775 | 54,219 |
| Increase in self-insurance fund | (6,231) | (48,521) |
| Net cash provided by investing activities | 533,626 | 458,008 |
| Cash flows from noncapital financing activities: | | |
| Repayment of bonds payable | (180,000) | (170,000) |
| Increase of rebate liability | 2,211 | 2,118 |
| Interest paid on bonds payable | (223,807) | (233,036) |
| Net cash used in noncapital financing activities | (401,596) | (400,918) |
| Cash flows from capital and related financing activities - | | |
| acquisition of capital assets | (13,791) | --- |
| Net (decrease) increase in cash and cash equivalents | (443,418) | 231,014 |
| Cash and cash equivalents at beginning of year | <u>5,989,769</u> | <u>5,758,755</u> |
| Cash and cash equivalents at end of year | <u>\$ 5,546,351</u> | <u>\$ 5,989,769</u> |
| Consisting of: | | |
| Unrestricted | \$ 2,834,588 | \$ 3,333,178 |
| Restricted | <u>2,711,763</u> | <u>2,656,591</u> |
| | <u>\$ 5,546,351</u> | <u>\$ 5,989,769</u> |

See accompanying notes.

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

Statements of Cash Flows, continued

| | Year ended | |
|---|----------------------|---------------------------|
| | September 30, | |
| | <u>2017</u> | <u>2016</u> (restated) |
| Reconciliation of decrease in net position to net cash (used in) provided by operating activities: | | |
| Decrease in net position | \$(60,728) | \$(477,872) |
| Adjustments to reconcile decrease in net position to net cash (used in) provided by operating activities: | | |
| Non-cash pension costs | 336,167 | 364,795 |
| Interest expense on borrowings reported as operating expenses | 223,005 | 232,278 |
| Depreciation and amortization | 176,843 | 180,994 |
| Provision for doubtful rental receivables | 77,531 | 107,613 |
| (Gain) loss on sale of foreclosed asset | (52,757) | 68,577 |
| Provision for (reversal of) loan losses | 4,955 | (3,861) |
| Interest income on investments held by bond trustees reported as non-operating expenses | (2,775) | (54,219) |
| Impairment loss on foreclosed assets | 17,160 | --- |
| Decrease (increase) in assets: | | |
| Loans receivable, net | (1,010,177) | 430,659 |
| Tenants receivable, net | (79,434) | (108,174) |
| Other receivables | 87,076 | (38,743) |
| Accrued interest receivable | (10,188) | (4,697) |
| Prepaid expenses and other assets | (2,468) | (16,560) |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | (168,567) | (61,323) |
| Accrued compensated absences | 23,275 | (25,361) |
| Unearned revenue | 53,461 | 50,846 |
| Security deposits | (1,998) | 479 |
| Deposits by borrowers - insurance premiums and real estate taxes | 223,080 | (246,276) |
| Loans held in trust | (36,138) | (13,144) |
| Net pension liability | (<u>358,980</u>) | (<u>212,087</u>) |
| Net cash (used in) provided by operating activities | \$(<u>561,657</u>) | \$ <u>173,924</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest expense during the year | \$ <u>223,807</u> | \$ <u>233,036</u> |

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2017 and 2016

1. Organization and Summary of Significant Accounting Policies

Organization

Guam Housing Corporation (the Corporation), a component unit of the Government of Guam (GovGuam) was created by Public Law 8-80 to promote the general welfare of the Territory of Guam by encouraging investment in and development of low cost housing and providing low cost housing rental units. The Corporation provides for its operating needs by charging interest on its loans and rent from its tenants. As a governmental entity created by public law, the Corporation is not subject to taxes.

The Corporation consists of two divisions: housing division and rental division. The housing division is engaged in lending activities of the Corporation while the rental division is engaged in the rental of housing and apartment complexes known as Lada Gardens, Guma As-Atdas and Sagan Linahyan. During the normal course of operations, transactions have occurred between the housing and rental divisions of the Corporation. These receivables and payables are eliminated in the accompanying financial statements.

Basis of Accounting

The Corporation utilizes the flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States as applied to governmental units using the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Net Position

Net position represents the residual of all other elements presented in the statement of net position and is presented in the following categories:

Net investment in capital assets

Capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Net Position, continued

Restricted for lending activities

Nonexpendable – Net position subject to externally imposed stipulations that require the Corporation to maintain them permanently.

Expendable – Net position whose use by the Corporation is subject to externally imposed stipulations that can be fulfilled by actions of the Corporation pursuant to those stipulations or that expire with the passage of time.

All of the Corporation's restricted net position at September 30, 2017 and 2016 is expendable.

Unrestricted

The unrestricted component of net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted components of net position.

Cash and Cash Equivalents

For purposes of the statement of net position and the statement of cash flows, cash and cash equivalents is defined as cash on hand, deposits in banks and time certificates of deposit with original maturities of three months or less.

Loans Receivable

The Corporation is permitted to make loans for the purchase, construction, or purchase of land and construction of homes not to exceed the loan limit established by the U.S. Department of Housing and Urban Development. Loan limits are currently \$275,665 for single-unit dwellings.

The Corporation accepts loan applications only for single-unit dwellings. Public Law 26-123 states that the Board of Directors may adjust the rate of interest; however, it cannot assess a rate of interest greater than two (2) points over its cost of funds. During the August 2014 regular meeting of the Board of Directors, the current interest rate for this program was changed to 1% above the prevailing rate charged by local lenders.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Loans Receivable, continued

Loans receivable are stated at principal amount outstanding less allowance for loan and lease losses. Interest on receivables is accrued and credited to income based on the principal amount outstanding. The accrual of interest is discontinued when principal or interest payments are delinquent for 90 days or more, or when in the opinion of management, there is an indication that the borrower may be unable to meet payments as they come due. Upon such discontinuance, all unpaid interest is transferred to overdue receivables account. Unpaid accrued interest is not reversed. Instead, a specific allowance is provided to cover unpaid accrued interest. Principal is reduced only to the extent cash payments are received after the accrued interest is recovered. Income is subsequently recognized only to the extent cash payments are received and until, in management's opinion, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

The allowance for loan and lease losses is maintained at a level, which in management's judgment is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loans receivable including the nature of the loan portfolio, estimated value of underlying collateral, credit concentration, trends in historical loss experience, specific delinquent loans, economic conditions, and other risks inherent in the portfolio. The allowance is increased by a provision for loan and lease losses and reversal of allowance. Because of the uncertainties inherent in the estimation process, management's estimate of credit losses in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Capital Assets

Capital assets, whether purchased or constructed, are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation and amortization of capital assets is computed using the straight-line method over estimated useful lives of 5 to 50 years for buildings and improvement, 2 to 10 years for vehicles and office furniture and equipment, and over the length of the lease term for leasehold improvements.

The Corporation generally capitalizes all expenditures for capital assets in excess of \$5,000 with a useful life exceeding one year. Major renewals and betterments are charged to the capital assets, while maintenance and repairs which do not improve or extend the life of an asset are charged to expense. The cost of capital assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to other income or expenses, respectively.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Impairment of Capital Assets

In accordance with GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* the Corporation evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred.

A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value.

Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale and is primarily determined based on quoted market values.

Compensated Absences

In accordance with Public Law 27-005 and Public Law 28-068, employee vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service as follows:

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service.
2. Three-fourths day (6 hours) for each full bi-weekly pay period in the case of employees with five (5) years of service but less than fifteen (15) years of service.
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with fifteen (15) years or more service.

The statutes reduce the maximum accumulation of such vacation credits from 480 to 320 hours. Public Law 27-106 amended subsection (c) of 4 Guam Code Annotated §4109. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any excess unused leave from February 28, 2003 shall be lost. Accrued annual leave up to 320 hours is converted to pay upon termination of employment.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Corporation recognizes a net pension liability for the pension plan in which it participates, which represents the Corporation's proportionate share of total pension liability (actuarially calculated) over the pension plan assets, measured as of the fiscal year end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. As required by GASB Statements No. 68, 71 and 73 the Corporation reports deferred outflows of resources for pension-related amounts: payments since the measurement date, changes in assumptions, and for difference between projected and actual earnings.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period and so will not be recognized as an inflow of resources until then. As required by GASB Statement No. 68, the Corporation reports deferred inflows of resources for pension-related amounts: for its share of the difference between expected and actual earnings, for its share of the difference between its contributions and its proportionate share of contributions, and for the difference between expected and actual experience. The Corporation also reports deferred inflows of resources for the difference between the carrying amount and the reacquisition price of refunded bonds.

Operating and Non-operating Revenue and Expenses

The Corporation was created with the authority to invest in and develop low cost housing and provide low cost housing rental units. The primary operating revenues are the interest income on outstanding loans receivable and income from rental properties. The primary operating expenses include interest on borrowings, property maintenance, and general and administrative expenses directly related to the operations. Non-operating revenues and expenses result from financing activities and certain other non-recurring income and expenses.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Risk Management

The Corporation is exposed to various risks of loss; theft of, damage to, and destruction of assets; employee injuries and illnesses; natural disasters and employee health, dental and accident benefits. Commercial insurance coverage is provided for claims arising from most of these matters.

Recently Adopted Accounting Pronouncements

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes accounting and financial reporting standards for pensions that do not meet the requirements set forth in Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, and makes some modifications to GASB Statements No. 67 and 68.

The implementation of GASB Statement No. 73, required the Corporation to record deferred outflow of resources and net pension liability totaling \$58,398, and \$702,614, respectively, with a \$644,216 charge to beginning net position as of October 1, 2016.

The effect of implementing GASB Statement No. 73 on the Corporation's net position and the Corporation's changes in net position for the year ended September 30, 2016 have been restated as follows:

| | <u>As Previously Reported</u> | <u>Adjustment</u> | <u>Restated</u> |
|--|-----------------------------------|----------------------|----------------------|
| As of October 1, 2015: | | | |
| Net position | \$ <u>37,608,714</u> | \$(<u>644,216</u>) | \$ <u>36,964,498</u> |
| For the year ended September 30, 2016: | | | |
| Retirement and Medicare contributions | \$ <u>405,696</u> | \$ <u>115,520</u> | \$ <u>521,216</u> |
| Change in net position | \$(<u>362,352</u>) | \$(<u>115,520</u>) | \$(<u>477,872</u>) |
| As of September 30, 2016: | | | |
| Net position | \$ <u>37,246,362</u> | \$(<u>759,736</u>) | \$ <u>36,486,626</u> |

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for periods beginning after June 15, 2016. This Statement replaces Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized costs for financial reporting purposes.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The Statement is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government.

Upcoming Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017. This Statement replaces the requirement of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. GASB Statement No. 75 will be effective for the Corporation for fiscal year ending September 30, 2018.

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

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB Statement No. 81 will be effective for the Corporation for fiscal year ending September 30, 2018.

In March 2016, GASB issued Statement No. 82, *Pension Issues*. This Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 will be effective for the Corporation for fiscal year ending September 30, 2018.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance of this statement. GASB Statement No. 83 will be effective for the Corporation for fiscal year ending September 30, 2019.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. GASB Statement No. 84 will be effective for the Corporation for fiscal year ending September 30, 2020.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB Statement No. 85 will be effective for the Corporation for fiscal year ending September 30, 2018.

Guam Housing Corporation
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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB Statement No. 86 will be effective for the Corporation for fiscal year ending September 30, 2018.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. GASB Statement No. 87 will be effective for the Corporation for fiscal year ending September 30, 2021.

The Corporation is currently evaluating whether or not the above listed new GASB pronouncements will have a significant impact to the Corporation's financial statements.

Reclassification

Certain reclassifications have been made to the 2016 financial statements for comparative purposes. Such reclassifications have no effect on the previously reported decrease in net position.

Subsequent Events

The Corporation has evaluated subsequent events through March 28, 2018, which is the date the financial statements were available to be issued.

Guam Housing Corporation
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Notes to Financial Statements, continued

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

As of September 30, 2017 and 2016, the Corporation's deposits had a bank balance of \$6,666,930 and \$7,104,117, respectively. These deposits were insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation (FDIC). The Corporation does not require collateralization of its cash deposits. At September 30, 2017 and 2016, deposits were comprised of the following:

| | <u>2017</u> | <u>2016</u> |
|------------------|---------------------|---------------------|
| FDIC Insured | \$ 2,055,882 | \$ 2,853,087 |
| Uncollateralized | <u>4,611,048</u> | <u>4,251,030</u> |
| Total deposits | <u>\$ 6,666,930</u> | <u>\$ 7,104,117</u> |

Cash and cash equivalents, and investments at September 30, 2017 and 2016 are restricted as follows:

| | <u>2017</u> | <u>2016</u> |
|---|--------------------|--------------------|
| Restricted Cash and Cash Equivalents: | | |
| Revolving Loan Fund | \$ 845,982 | \$ 931,120 |
| Trust fund and borrower's deposits | 622,536 | 390,453 |
| Foreclosure Protection Fund | 504,843 | 500,005 |
| Community Affordable Housing Action Trust (CAHAT) | 253,724 | 217,566 |
| Tenant security deposits | 192,214 | 157,538 |
| Hazard Mitigation Program | 162,331 | 158,618 |
| First-time Homeowner Assistance Program (FTHAP) | <u>130,133</u> | <u>301,291</u> |
| Total restricted cash and cash equivalents | 2,711,763 | 2,656,591 |
| Restricted investments - cash with Bond Trustees | <u>2,694,661</u> | <u>3,105,444</u> |
| Total restricted cash, cash equivalents and investments | <u>\$5,406,424</u> | <u>\$5,762,035</u> |

The restricted cash, cash equivalents and investments are restricted for specific uses from enabling Public Law 26-123, Public Law 31-166 and 12 GCA Chapter 4 §4209 for revolving loan fund and related trust funds, the FTHAP and the CAHAT, respectively, the Mortgage Revenue Bonds and self-imposed restrictions on tenant security deposits for the Corporation's rental units.

Guam Housing Corporation
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Notes to Financial Statements, continued

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

The Corporation also maintains restricted investments for its Foreclosure Protection Fund. The Foreclosure Protection Fund is used by the Corporation to protect the interest of Guam's CAHAT program as holder of the second mortgage and is used exclusively for the purpose of paying off the first mortgage upon foreclosure.

The Mortgage Revenue Bond Indenture requires the establishment of special funds and accounts to be held and administered by the Corporation's trustees for the accounting of the bond proceeds. The Bank of New York Mellon manages the Corporation's investments by investing in U.S. Securities, U.S. Government Agencies, Money Market Funds and Certificates of Deposits insured by the FDIC. The U.S. Securities are low risk investments as they are guaranteed by the full faith and credit of the U.S. government. While U.S. Government Agencies are not guaranteed, they are backed by the U.S. government and are recognized as low risk investments as well. All investment securities are within the requirement of the mortgage revenue bond indenture.

At September 30, 2017 and 2016, the Corporation's restricted investments held by trustee are as follows:

| | <u>Moody's Credit Rating</u> | <u>2017</u> | <u>2016</u> |
|---|----------------------------------|--------------------|--------------------|
| Federal Home Loan Mortgage Corporation | Aaa | \$1,253,253 | \$1,482,330 |
| Blackrock Liquidity T-Fund | Aaa | <u>1,441,408</u> | <u>1,623,114</u> |
| | | <u>\$2,694,661</u> | <u>\$3,105,444</u> |

The maturities of the Corporation's restricted investments at September 30, 2017 were:

| | <u>Investment Maturities (In Years)</u> | | | | <u>Total</u> |
|---|---|---------------|----------------|----------------------------|--------------------|
| | <u>Less than 1</u> | <u>1 to 5</u> | <u>6 to 10</u> | <u>Greater than 10</u> | |
| Federal Home Loan Mortgage Corporation | \$ --- | \$ --- | \$ --- | \$1,253,253 | \$1,253,253 |
| Blackrock Liquidity T-Fund | <u>1,441,408</u> | <u>---</u> | <u>---</u> | <u>---</u> | <u>1,441,408</u> |
| | <u>\$1,441,408</u> | <u>\$---</u> | <u>\$---</u> | <u>\$1,253,253</u> | <u>\$2,694,661</u> |

Guam Housing Corporation
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Notes to Financial Statements, continued

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

The maturities of the Corporation’s restricted investments at September 30, 2016 were:

| | Investment Maturities (In Years) | | | | <u>Total</u> |
|----------------------------|----------------------------------|---------------|----------------|------------------------|--------------------|
| | <u>Less than 1</u> | <u>1 to 5</u> | <u>6 to 10</u> | <u>Greater than 10</u> | |
| Federal Home Loan | | | | | |
| Mortgage Corporation | \$ --- | \$ --- | \$ --- | \$1,482,330 | \$1,482,330 |
| Blackrock Liquidity T-Fund | <u>1,623,114</u> | <u>---</u> | <u>---</u> | <u>---</u> | <u>1,623,114</u> |
| | <u>\$1,623,114</u> | <u>\$---</u> | <u>\$---</u> | <u>\$1,482,330</u> | <u>\$3,105,444</u> |

Custodial credit risk is the risk that the Corporation will not be able to recover the value of investments or collateral securities held by a third-party custodian, in the event that the custodian defaults. Based on negotiated trust and custody contracts, all of these investments were held in the Corporation’s name by the Corporation’s custodial financial institutions at September 30, 2017 and 2016.

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

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. In compliance with the bond indenture, the Corporation minimized the interest rate risk, by limiting maturity of investments. A majority of the Corporation’s investment securities have maturities of 5 years or less. This reduces the impact of interest rate movements seen with longer maturity investments.

Concentration of risk for investments is the risk of loss attributable to the magnitude of an entity’s investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in one issuer that represents five percent (5%) or more of total investments for the Corporation. In compliance with the mortgage revenue bond indenture, the Corporation minimized credit risk loss by limiting investments to the safest types of securities.

Guam Housing Corporation
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Notes to Financial Statements, continued

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

Investments Measured at Fair Value

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The following tables set forth by fair value hierarchy level the Corporation's assets carried at fair value:

| | At September 30, 2017 | | | |
|---|-----------------------|---------------------|---------------------|---------------|
| | Level 1 | Level 2 | Level 3 | Level 3 |
| Investments by fair value level | | | | |
| Debt security - Federal Home Loan Mortgage Corporation (FHLMC) | \$ 1,253,253 | \$ --- | \$ 1,253,253 | \$ --- |
| Equity security - Blackrock Liquidity T-Fund | <u>1,441,408</u> | <u>1,441,408</u> | <u>---</u> | <u>---</u> |
| Total investments by fair value level | <u>\$ 2,694,661</u> | <u>\$ 1,441,408</u> | <u>\$ 1,253,253</u> | <u>\$ ---</u> |

| | At September 30, 2016 | | | |
|---|-----------------------|---------------------|---------------------|---------------|
| | Level 1 | Level 2 | Level 3 | Level 3 |
| Investments by fair value level | | | | |
| Debt security - Federal Home Loan Mortgage Corporation (FHLMC) | \$ 1,482,330 | \$ --- | \$ 1,482,330 | \$ --- |
| Equity security - Blackrock Liquidity T-Fund | <u>1,623,114</u> | <u>1,623,114</u> | <u>---</u> | <u>---</u> |
| Total investments by fair value level | <u>\$ 3,105,444</u> | <u>\$ 1,623,114</u> | <u>\$ 1,482,330</u> | <u>\$ ---</u> |

3. Loans Receivable

At September 30, 2017 and 2016, loans receivable are as follows:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Unrestricted | \$28,061,292 | \$27,510,816 |
| Less: Allowance for loan and lease losses | <u>599,524</u> | <u>594,569</u> |
| | 27,461,768 | 26,916,247 |
| Less: Current portion | <u>2,057,325</u> | <u>1,637,039</u> |
| | <u>\$25,404,443</u> | <u>\$25,279,208</u> |

Guam Housing Corporation
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Notes to Financial Statements, continued

3. Loans Receivable, continued

Loans to employees totaled \$473,168 and \$484,080 at September 30, 2017 and 2016, respectively. These loans meet the same criteria as all real estate loans made to non-related individuals by the Corporation. At September 30, 2017 and 2016, loans and other receivables in arrears three months or more or referred to an attorney for collection totaled \$3,730,663 and \$4,734,572, respectively.

4. Other Receivables

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

As of September 30, 2017 and 2016, other receivables due from borrowers for the aforementioned loans consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|---------------------------|--------------------|--------------------|
| CAHAT | \$1,737,909 | \$1,774,004 |
| DPCCA | 176,416 | 223,826 |
| Hazard Mitigation Program | <u>564</u> | <u>4,135</u> |
| | <u>\$1,914,889</u> | <u>\$2,001,965</u> |

The Corporation recorded a corresponding liability on the DPCCA Program totaling \$191,461 and \$227,599 as of September 30, 2017 and 2016, respectively, which is reported as loans held in trust in the accompanying statements of net position. The DPCCA program was funded by the Guam Housing and Urban Renewal Authority (GHURA) with monies received from the U.S. Department of Housing and Urban Development.

The CAHAT and Foreclosure Protection Fund programs were funded by appropriations received from the Government of Guam (GovGuam) through Public Law 21-99. The DPCCA program, which was administered by the Corporation under a Sub-recipient Agreement with GHURA, was terminated on October 23, 2003. The repayments received by the Corporation from its borrowers are program income of GHURA and are remitted monthly.

Guam Housing Corporation
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Notes to Financial Statements, continued

5. Capital Assets

A summary of changes in net capital assets for the year ended September 30, 2017 is as follows:

| | Beginning Balance October 1, <u>2016</u> | Transfers-in and <u>Additions</u> | Transfers-out and <u>Disposals</u> | Ending Balance September 30, <u>2017</u> |
|---|---|---|--|---|
| Capital assets depreciated and amortized: | | | | |
| Buildings and improvements | \$6,993,559 | \$ --- | \$ --- | \$6,993,559 |
| Office furniture and equipment | 304,278 | 13,791 | --- | 318,069 |
| Vehicles | 102,347 | --- | --- | 102,347 |
| Land improvements | 64,749 | --- | --- | 64,749 |
| Leasehold improvements | <u>29,445</u> | <u>---</u> | <u>---</u> | <u>29,445</u> |
| Total capital assets depreciated and amortized | 7,494,378 | 13,791 | --- | 7,508,169 |
| Less accumulated depreciation and amortization | <u>(3,929,560)</u> | <u>(176,843)</u> | <u>---</u> | <u>(4,106,403)</u> |
| Net capital assets depreciated and amortized | 3,564,818 | (163,052) | --- | 3,401,766 |
| Capital asset not depreciated and amortized - land | <u>2,934,227</u> | <u>---</u> | <u>---</u> | <u>2,934,227</u> |
| | <u>\$6,499,045</u> | <u>\$(163,052)</u> | <u>\$ ---</u> | <u>\$6,335,993</u> |

A summary of changes in net capital assets for the year ended September 30, 2016 is as follows:

| | Beginning Balance October 1, <u>2015</u> | Transfers-in and <u>Additions</u> | Transfers-out and <u>Disposals</u> | Ending Balance September 30, <u>2016</u> |
|---|---|---|--|---|
| Capital assets depreciated and amortized: | | | | |
| Buildings and improvements | \$6,993,559 | \$ --- | \$ --- | \$6,993,559 |
| Office furniture and equipment | 307,786 | --- | (3,508) | 304,278 |
| Vehicles | 102,347 | --- | --- | 102,347 |
| Land improvements | 64,749 | --- | --- | 64,749 |
| Leasehold improvements | <u>29,445</u> | <u>---</u> | <u>---</u> | <u>29,445</u> |
| Total capital assets depreciated and amortized | 7,497,886 | --- | (3,508) | 7,494,378 |
| Less accumulated depreciation and amortization | <u>(3,752,074)</u> | <u>(180,994)</u> | <u>3,508</u> | <u>(3,929,560)</u> |
| Net capital assets depreciated and amortized | 3,745,812 | (180,994) | --- | 3,564,818 |
| Capital asset not depreciated and amortized - land | <u>2,934,227</u> | <u>---</u> | <u>---</u> | <u>2,934,227</u> |
| | <u>\$6,680,039</u> | <u>\$(180,994)</u> | <u>\$ ---</u> | <u>\$6,499,045</u> |

Guam Housing Corporation
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Notes to Financial Statements, continued

6. Foreclosed Assets Held for Resale

A summary of the activities in the foreclosed assets held for resale as of September 30, 2017 and 2016 is as follows:

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| Foreclosed assets held for resale at beginning of year | \$136,639 | \$287,739 |
| Foreclosures during the year | 459,701 | 16,800 |
| Impairment loss | (17,160) | --- |
| Foreclosed assets sold during the year | (73,542) | (167,900) |
| | <u>\$505,638</u> | <u>\$136,639</u> |

At September 30, 2017 and 2016, foreclosed assets held for resale represent four residential units acquired by the Corporation due to the borrowers' default on their mortgages.

7. Mortgage Revenue Bonds Payable

| | <u>October 1,</u> <u>2016</u> | <u>Payments</u> | <u>September 30,</u> <u>2017</u> | <u>Due</u> <u>Within</u> <u>One Year</u> |
|--|----------------------------------|----------------------|-------------------------------------|--|
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2018. Semi-annual principal installments totaling \$95,000 | \$ 370,000 | \$(180,000) | \$ 190,000 | \$ 190,000 |
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2021. Semi-annual principal installments totaling from \$110,000 to \$120,000 | 685,000 | --- | 685,000 | --- |
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2031. Semi-annual principal installments totaling from \$115,000 to \$190,000 | <u>3,030,000</u> | <u>---</u> | <u>3,030,000</u> | <u>---</u> |
| | <u>\$ 4,085,000</u> | <u>\$(180,000)</u> | <u>\$ 3,905,000</u> | <u>\$ 190,000</u> |

Guam Housing Corporation
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Notes to Financial Statements, continued

7. Mortgage Revenue Bonds Payable, continued

| | October 1, <u>2015</u> | <u>Payments</u> | September 30, <u>2016</u> | Due Within <u>One Year</u> |
|---|---------------------------|----------------------|------------------------------|----------------------------------|
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2018. Semi-annual principal installments totaling from \$85,000 to \$95,000 | \$ 540,000 | \$(170,000) | \$ 370,000 | \$ 180,000 |
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2021. Semi-annual principal installments totaling from \$110,000 to \$120,000 | 685,000 | --- | 685,000 | --- |
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% per annum payable semi-annually on March 1 and September 1 and matures on September 1, 2031. Semi-annual principal installments totaling from \$115,000 to \$190,000 | <u>3,030,000</u> | <u>---</u> | <u>3,030,000</u> | <u>---</u> |
| | <u>\$ 4,255,000</u> | <u>\$(170,000)</u> | <u>\$ 4,085,000</u> | <u>\$ 180,000</u> |

On April 15, 1998, the Corporation issued \$50,000,000 (Guaranteed Mortgage-Backed Securities Program) 1998 Series A tax-exempt Single Family Mortgage Revenue Bonds. The bonds were issued for the purpose of providing money to engage in a home-financing program within the territory of Guam. Principal installments and interest due on the bonds are payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 1998 at various rates indicated in the preceding paragraph.

Guam Housing Corporation
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Notes to Financial Statements, continued

7. Mortgage Revenue Bonds Payable, continued

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, 2017 and 2016, the rebate liability totaled \$75,717 and \$73,506, respectively, as reported in the accompanying statements of net position. The bonds are limited obligations of the Corporation payable from the revenues and other assets pledged for the payment thereof and are not a lien or charge upon the funds of the Corporation, except to the extent of the pledge and assignment set forth in the Indenture and in the bonds. The bonds do not constitute indebtedness or a loan of credit of the GovGuam or the United States of America, within the meaning of the Organic Act of Guam or statutory provisions. Neither the faith and credit nor the taxing power of the GovGuam is pledged to the payment of the principal of, or interest on the bonds. The Corporation has no taxing authority.

The bonds are not debts, liabilities or obligations of the GovGuam and the GovGuam is not liable for the payment should the Corporation default on the loan.

The bonds maturing on September 1, 2031 are not subject to optional redemption prior to maturity. The bonds maturing after September 1, 2008 but on or before September 1, 2021 are subject to redemption on any date on or after September 1, 2008, at the option of the Corporation, in whole, or in part from such maturities as are determined by the Corporation, from any source of available monies, at the redemption prices of 100%.

The Bond Indenture contains certain restrictive covenants, including restrictions on the use of bond funds. Management of the Corporation is of the opinion that the Corporation is in compliance with all significant covenants of the mortgage revenue bonds as of September 30, 2017 and 2016.

Future bond principal and mandatory sinking fund installments payable by the Corporation to the bond trustees are as follows:

| <u>Year ending September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|---------------------|---------------------|---------------------|
| 2018 | \$ 190,000 | \$ 214,044 | \$ 404,044 |
| 2019 | 220,000 | 203,835 | 423,835 |
| 2020 | 230,000 | 193,378 | 423,378 |
| 2021 | 235,000 | 182,450 | 417,450 |
| 2022 | 235,000 | 170,919 | 405,919 |
| 2023 to 2027 | 1,380,000 | 634,225 | 2,014,225 |
| 2028 to 2031 | <u>1,415,000</u> | <u>188,600</u> | <u>1,603,600</u> |
| | <u>\$ 3,905,000</u> | <u>\$ 1,787,451</u> | <u>\$ 5,692,451</u> |

Guam Housing Corporation
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Notes to Financial Statements, continued

8. Employee Benefits and Others

Employee Retirement Plan

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the GovGuam Employees' Retirement System, a defined benefit pension plan (DB Plan) and Defined Contribution Retirement System (DCRS) and additions to/deductions from its fiduciary net position have been determined on the same basis as they are reported by the Government of Guam Retirement Fund (GGRF). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

DB Plan

The Corporation participates in the GovGuam DB Plan, a single-employer plan administered by the GGRF. Article 1 of 4 GCA 8, Section 8105 requires that all employees of GovGuam on the operative date, regardless of age or length of service, become members of the DB Plan. The DB Plan provides for retirement, disability, and survivor benefits to members who enrolled in the Plan prior to October 1, 1995. All new employees of GovGuam whose employment commences on or after October 1, 1995 are required to participate in the Defined Contribution Plan.

Members of the DB Plan and DCRS also receive ad hoc cost of living allowance benefits. Members of the DB Plan also receive supplemental annuity benefits. Collectively these are referred to as COLA benefits. These COLA benefits are appropriated yearly by the Guam Legislature. Those benefits are deemed to be substantively automatic, requiring reporting under GASB Statement No. 73.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website - www.ggrf.com.

The DB Plan provides retirement benefits to retired employees based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 25 years of service at any age.

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

Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

DB Plan, continued

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or completion of 30 years of service at any age.

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. Members under age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty-six and two-thirds percent (66 2/3%) of the average of their three highest annual salaries received during years of credited service.

Contributions

Contribution requirements of the active employees and the participating employers are established and may be amended in accordance with Guam law. For the years ended September 30, 2017 and 2016, employees are required to contribute 9.5% of their annual pay. The Corporation's statutory contribution rate for the years ended September 30, 2017 and 2016 was 27.41% and 28.16%, respectively, of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Corporation is invoiced by the Government of Guam Department of Administration for its share of COLA benefits. The rate per retiree is \$2,000 for the cost of living allowance and \$4,238 for the supplemental annuity benefits.

Contributions to the plan from the Corporation were \$336,167 and \$356,654 for the years ended September 30, 2017 and 2016, respectively.

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

Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

DB Plan, continued

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017 and 2016, the Corporation reported a liability of \$4,035,146 and \$4,168,980, respectively, for its proportionate share of the net pension liability. The Corporation's proportion of the net pension liability was based on the expected contributions of the Corporation to the pension plan relative to the expected contributions of all GovGuam and GovGuam's component units for the measurement period, determined by multiplying the total covered payroll against the applicable contribution rate. At September 30, 2017 and 2016, the Corporation's proportion was 0.2362% and 0.2388%, respectively, for DB Plan participants and 0.42% and 0.33%, respectively, for DCRS participants.

For the years ended September 30, 2017 and 2016, the Corporation recognized pension expense of \$330,244 and \$480,315, respectively. At September 30, 2017 and 2016, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2017 | | 2016 | |
|--|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 5,026 | \$ 12,877 | \$ 40,387 | \$ 1,847 |
| Net difference between projected and actual earnings on pension plan investments | --- | 17,031 | 37,420 | --- |
| Corporation contributions subsequent to the measurement date | 336,167 | --- | 356,774 | --- |
| Changes in assumptions | 38,242 | --- | 57,200 | --- |
| Changes in proportion and difference between the Corporation contributions and proportionate share of contributions | 44,205 | 12,074 | 21,360 | 18,616 |
| | \$ 423,640 | \$ 41,982 | \$ 513,141 | \$ 20,463 |

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

Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

DB Plan, continued

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, continued

Deferred outflow of resources at September 30, 2017 and 2016, resulting from the Corporation's employer contributions of \$336,167 and \$356,774, respectively, subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the years ended September 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ending September 30,</u> | |
|----------------------------------|------------|
| 2018 | \$(4,326) |
| 2019 | \$ 10,543 |
| 2020 | \$ 32,057 |
| 2021 | \$(16,221) |
| 2022 | \$ 1,958 |
| Thereafter | \$ 21,480 |

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial Assumptions

The collective total pension liability being presented as of September 30, 2017 and 2016 is based upon the September 30, 2015 and 2014 actuarial valuations, with a measurement date of September 30, 2016 and 2015, respectively. An expected total pension liability is determined as of September 30, 2016 and 2015 using standard roll-forward techniques. The roll-forward calculation adds the annual normal cost (service cost), subtracts the actual benefit payments and refunds for the year, and then applies the expected single equivalent interest rate for the period.

The methods and assumptions used to determine the collective total pension liability are as follows:

- Actuarial cost method: entry age
- Amortization method: Level percentage of payroll, closed
- Remaining amortization period: May 1, 2031 (14.58 years remaining as of September 30, 2016)
- Asset valuation method: 3-year smoothed market value (effective September 30, 2009)
- Inflation: 2.75% per year
- Interest rate: 7.0% per year
- Payroll growth: 3.0% per year
- Salary increases: 7.5% per year in the first 5 years, 6.0% for years 6-10, 5.0% for years 11 to 15, and 4.5% for service after 15 years.

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

Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

DB Plan, continued

Actuarial Assumptions, continued

- Investment rate of return: The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best estimate range of expected future real rates of return (expected returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.
- Retirement age:
 - DB Plan: assume that 40% of employees will retire when first eligible for unreduced retirement, thereafter, 15% of employees will retire at each year until age 65, and 20% of employees will retire from age 65 until age 70, at which time all remaining employees are assumed to retire.
 - DCRS: assume that 5% per year from age 55 to 64, 10% per year from age 65 to age 74, and 100% at age 75.

Mortality rates for pre-retirement and post-retirement were based on the RP-2000 combined mortality table, set forward 4 years for males and 1 year for females. The mortality table used for disabled lives was the RP-2000 disability mortality table for males and females.

Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

DB Plan, continued

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the current discount rate of 7.0%, as well as the net pension liability calculated using a discount rate that is one percentage point (1.0%) lower or 1% higher than the current rate:

| | 1% Decrease 5.70% DB <u>2.058% DCRS</u> | Current Discount Rate 6.70% DB <u>3.058% DCRS</u> | 1% Increase 7.70% DB <u>4.058% DCRS</u> |
|-----------------------|---|---|---|
| Net pension liability | <u>\$4,822,270</u> | <u>\$4,035,146</u> | <u>\$3,357,000</u> |

Detailed information about the DB Plan's fiduciary net position is available in the separately issued GGRF financial report.

Expected Remaining Service Lives

Under GASB Statement No. 68, gains and losses that are deferred and amortized over future periods are presented as deferred inflows or gains, and deferred outflows or losses. Economic and demographic gains and losses and changes in the total pension liability due to changes in assumptions are recognized over a closed period equal to the average expected remaining services lives of all covered active and inactive members, determined as of the beginning of the measurement period. The amortization period was calculated at 1.3 years. The amortization period is calculated as the weighted average of expected remaining service lives assuming zero years for all inactive members.

Expected Rate of Return and Asset Allocation

The Fund has a target asset allocation based on the investment policy adopted by the Board of Trustees. The target allocation and best estimates of the expected nominal return for each major asset class are summarized as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Nominal Return</u> | <u>Component Return</u> |
|--------------------------------------|------------------------------|---------------------------|-----------------------------|
| U.S. Equities (large cap) | 29% | 8.78% | 2.55% |
| U.S. Equities (small cap) | 7% | 9.45% | 0.66% |
| Non-U.S. Equities | 12% | 9.15% | 1.10% |
| Non-U.S. Equities (small cap) | 4% | 9.15% | 0.37% |
| Non-U.S. Equities (emerging markets) | 2% | 10.75% | 0.22% |
| U.S. Fixed Income (aggregate) | 25% | 4.85% | 1.21% |
| Risk Parity | 8% | 8.36% | 0.67% |
| High Yield Bonds | 8% | 7.35% | 0.59% |
| Global Real Estate (REITs) | 5% | 8.71% | 0.44% |
| Expected average return for one year | | | 7.81% |
| Expected geometric mean (30 years) | | | 7.18% |

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

Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

DB Plan, continued

Expected Rate of Return and Asset Allocation, continued

The assumption used in the actuarial valuation (7.0%) is slightly higher than the expected geometric average return over the next 40 years. If the investments do not return the expected results, future pension expense will increase.

DCRS

Contributions into the DCRS, by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Statutory employer contributions into the DCRS for the years ended September 30, 2017 and 2016 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

During the years ended September 30, 2017 and 2016, contributions made and amounts accrued under the DCRS amounted to \$242,404 and \$257,314, respectively, out of which \$198,183 and \$211,642, respectively, were allocated towards the unfunded liability of the DB Plan.

Retirement expense amounted to \$242,404 and \$257,314 for the years ended September 30, 2017 and 2016, respectively.

Accrued Sick Leave

Public Law 26-86 allows members of the DCRS to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. As of September 30, 2017 and 2016, the Corporation has accrued an estimated liability of \$176,581 and \$150,908, respectively, which is reported as a component of accrued compensated absences in the accompanying statements of net position. However, this amount is an estimate and actual payout could differ from the estimate.

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

Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

Other Post-Employment Benefits

The GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a single-employer defined benefit plan to provide certain post-retirement healthcare benefits to retirees who are members of the GGRF. Under the Plan, known as the GovGuam Group Health Insurance Program, the GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. The GovGuam shares in the cost of these plans, with the GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, the GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare.

For the life insurance plan, the GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of the GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

During the years ended September 30, 2017 and 2016, the Corporation's required contributions to this Plan totaled \$172,595 and \$172,046, respectively.

9. Commitments and Contingencies

Commitments

As of September 30, 2017 and 2016, the Corporation has loan commitments totaling \$1,856,495 and \$2,764,192, respectively.

The Corporation leases office space from the Guam Economic Development Authority (GEDA) under an operating lease which expires on February 28, 2020. The lease agreement calls for a monthly rental payment of \$8,312. For each of the years ended September 30, 2017 and 2016, rental expense totaling \$99,744 was paid to GEDA, which is reported as a component of rent expense in the accompanying statements of revenues, expenses and changes in net position.

The future minimum lease payments for the aforementioned operating lease are as follows:

Year ending September 30,

| | |
|------|------------------|
| 2018 | \$ 99,744 |
| 2019 | 99,744 |
| 2020 | <u>41,560</u> |
| | <u>\$241,048</u> |

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

Notes to Financial Statements, continued

9. Commitments and Contingencies, continued

Litigation

The Corporation is involved in certain litigation and management is of the opinion that liabilities of a material nature will not be realized.

The Corporation has claims under legal procedures for approximately \$3 million in which foreclosure, litigation or bankruptcy is involved. These claims are at various stages and the ultimate outcome is uncertain. Therefore, no additional provision for any potential liability that may result from these claims has been made in the accompanying financial statements.

Self-Insurance

The Corporation self-insures for all risks to Lada Gardens and Guma As-Atdas. A separate account was established to fund any damages that may arise in the future, to be increased on a monthly basis by the weighted-average yield of the Corporation's checking account. This amount is primarily invested in time certificate of deposits with original maturities greater than 90 days. Excess of losses over the fund is recognized in the year realized. At September 30, 2017 and 2016, the self-insurance fund totaled \$1,120,579 and \$1,114,348, respectively, as reported in the accompanying statements of net position.

10. Long-Term Liabilities

A summary of changes in long-term liabilities during fiscal years 2017 and 2016 is as follows:

| | October 1, 2016 (restated) | Increases | Decreases | September 30, 2017 | Due Within One Year |
|------------------------------|----------------------------------|---------------------|-------------------|-----------------------|------------------------|
| Accrued compensated absences | \$ 284,131 | \$ 161,347 | \$ 138,072 | \$ 307,406 | \$ 91,690 |
| Net pension liability | 4,168,980 | 222,940 | 356,774 | 4,035,146 | --- |
| Bonds Payable | 4,085,000 | --- | 180,000 | 3,905,000 | 190,000 |
| Loans held in trust | 227,599 | --- | 36,138 | 191,461 | --- |
| | <u>\$ 8,765,710</u> | <u>\$ 384,287</u> | <u>\$ 710,984</u> | <u>\$ 8,439,013</u> | <u>\$ 281,690</u> |
| | October 1, 2015 (restated) | Increases | Decreases | September 30, 2016 | Due Within One Year |
| Accrued compensated absences | \$ 309,492 | \$ 145,080 | \$ 170,441 | \$ 284,131 | \$ 90,600 |
| Net pension liability | 3,651,375 | 935,162 | 417,557 | 4,168,980 | --- |
| Bonds Payable | 4,255,000 | --- | 170,000 | 4,085,000 | 180,000 |
| Loans held in trust | 240,743 | --- | 13,144 | 227,599 | --- |
| | <u>\$ 8,456,610</u> | <u>\$ 1,080,242</u> | <u>\$ 771,142</u> | <u>\$ 8,765,710</u> | <u>\$ 270,600</u> |

Required Supplementary Information

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

**Schedule of the Corporation's Proportionate Share
of the Net Pension Liability (Unaudited)**

Last 10 Fiscal Years*

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------------|--------------------|--------------------|--------------------|
| Corporation's proportion of the net pension liability - DB Plan | 0.2362% | 0.2388% | 0.2336% | 0.2555% |
| Corporation's proportion of the net pension liability - DCRS | 0.4221% | 0.3338% | 0.3759% | --- |
| Corporation's proportionate share of the net pension liability - DB Plan | \$3,774,767 | \$3,995,029 | \$3,475,131 | \$3,330,515 |
| Corporation's proportionate share of the net pension liability - DCRS | <u>260,379</u> | <u>173,951</u> | <u>176,244</u> | <u>---</u> |
| | <u>\$4,035,146</u> | <u>\$4,168,980</u> | <u>\$3,651,375</u> | <u>\$3,330,515</u> |
| Corporation's covered-employee payroll | \$1,266,692 | \$1,354,686 | \$1,284,400 | \$1,260,920 |
| Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 318.56% | 307.75% | 284.29% | 264.13% |
| Plan fiduciary net position as a percentage of total pension liability | 49.81% | 47.75% | 55.69% | 53.94% |

*This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

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

Schedule of the Corporation's Contributions (Unaudited)

Last 10 Fiscal Years

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Contractually required contribution | \$ 337,983 | \$ 357,522 | \$ 405,266 | \$ 380,600 | \$ 361,800 | \$ 330,901 | \$ 288,917 | \$ 258,253 | \$ 236,004 | \$ 259,358 |
| Contribution in relation to the contractually required contribution | <u>\$ 336,166</u> | <u>\$ 356,654</u> | <u>\$ 417,357</u> | <u>\$ 373,951</u> | <u>\$ 357,826</u> | <u>\$ 339,454</u> | <u>\$ 279,922</u> | <u>\$ 249,159</u> | <u>\$ 235,039</u> | <u>\$ 258,038</u> |
| Contribution excess (deficiency) | <u>\$ (1,817)</u> | <u>\$ (868)</u> | <u>\$ 12,091</u> | <u>\$ (6,649)</u> | <u>\$ (3,974)</u> | <u>\$ 8,553</u> | <u>\$ (8,995)</u> | <u>\$ (9,094)</u> | <u>\$ (965)</u> | <u>\$ (1,320)</u> |
| Corporation's covered-employee payroll | \$ 1,197,094 | \$ 1,266,692 | \$ 1,354,686 | \$ 1,284,400 | \$ 1,260,920 | \$ 1,187,344 | \$ 1,067,363 | \$ 1,102,909 | \$ 916,034 | \$ 983,750 |
| Contribution as a percentage of the covered-employee payroll | 28.08% | 28.16% | 30.81% | 29.11% | 28.38% | 28.59% | 26.23% | 22.59% | 25.66% | 26.23% |

Note to Required Supplementary Information (Unaudited)

Changes in Assumptions

Amounts reported in 2013 reflect a change in assumptions of payroll growth, salary increases, disability and retirement age to more closely reflect actual experience. The amounts reported in 2010 reflect an expectation of retired life mortality based on the RP-2000 Mortality Table rather than the 1994 U.S. Uninsured Pensioners Table, which was used to determine amounts reported prior to 2010. Amounts reported in 2010 also reflect a change in assumption on valuation of assets to a 3-year phase in for gains/losses relative to interest rate assumption from market value, with fixed income investments at amortized costs which was used to determine amounts reported prior to 2010.

Supplementary Information

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

Combining Statement of Net Position

September 30, 2017

| | Housing | Rental | Combined Total |
|--|--------------|------------|-------------------|
| Assets | | | |
| Current assets: | | | |
| Unrestricted assets: | | | |
| Cash and cash equivalents | \$ 2,201,436 | \$ 633,152 | \$ 2,834,588 |
| Self-insurance fund | --- | 1,120,579 | 1,120,579 |
| Loans receivable, net | 2,057,325 | --- | 2,057,325 |
| Tenants receivable, net | --- | 14,694 | 14,694 |
| Accrued interest receivable | 61,949 | 2,834 | 64,783 |
| Prepaid expenses and other | 2,589 | 68,543 | 71,132 |
| Foreclosed assets held for resale | 505,638 | --- | 505,638 |
| Interdivision | (594,410) | 594,410 | --- |
| Total unrestricted assets | 4,234,527 | 2,434,212 | 6,668,739 |
| Restricted assets: | | | |
| Cash and cash equivalents | 2,519,549 | 192,214 | 2,711,763 |
| Investments | 2,694,661 | --- | 2,694,661 |
| Total restricted assets | 5,214,210 | 192,214 | 5,406,424 |
| Total current assets | 9,448,737 | 2,626,426 | 12,075,163 |
| Loans receivable, net | 25,404,443 | --- | 25,404,443 |
| Restricted other receivables | 1,914,889 | --- | 1,914,889 |
| Depreciable capital assets | --- | 3,401,766 | 3,401,766 |
| Non-depreciable capital assets | --- | 2,934,227 | 2,934,227 |
| Total assets | 36,768,069 | 8,962,419 | 45,730,488 |
| Deferred outflows of resources - pension | 263,602 | 160,038 | 423,640 |
| Total assets and deferred outflows of resources | 37,031,671 | 9,122,457 | 46,154,128 |

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

Combining Statement of Net Position, continued

September 30, 2017

| | <u>Housing</u> | <u>Rental</u> | <u>Combined Total</u> |
|---|----------------------|---------------------|---------------------------|
| Liabilities | | | |
| Current liabilities: | | | |
| Payable from unrestricted assets: | | | |
| Accounts payable and accrued expenses | \$ 124,681 | \$ 47,546 | \$ 172,227 |
| Current portion of accrued compensated absences | 54,967 | 36,723 | 91,690 |
| Unearned revenue | <u>145,995</u> | <u>5,423</u> | <u>151,418</u> |
| Total payable from unrestricted assets | <u>325,643</u> | <u>89,692</u> | <u>415,335</u> |
| Payable from restricted assets: | | | |
| Accounts payable | 116,897 | --- | 116,897 |
| Bonds payable | 190,000 | --- | 190,000 |
| Accrued interest payable | 18,049 | --- | 18,049 |
| Security deposits | 900 | 56,968 | 57,868 |
| Deposits by borrowers - insurance premiums and real estate taxes | 655,059 | --- | 655,059 |
| Rebate liability | <u>75,717</u> | <u>---</u> | <u>75,717</u> |
| Total payable from restricted assets | <u>1,056,622</u> | <u>56,968</u> | <u>1,113,590</u> |
| Total current liabilities | <u>1,382,265</u> | <u>146,660</u> | <u>1,528,925</u> |
| Non-current liabilities: | | | |
| Payable from unrestricted assets: | | | |
| Non-current portion of accrued compensated absences | 118,653 | 97,063 | 215,716 |
| Net pension liability | 2,510,668 | 1,524,478 | 4,035,146 |
| Payable from restricted assets: | | | |
| Bonds payable | 3,715,000 | --- | 3,715,000 |
| Loans held in trust | <u>191,461</u> | <u>---</u> | <u>191,461</u> |
| Total non-current liabilities | <u>6,535,782</u> | <u>1,621,541</u> | <u>8,157,323</u> |
| Total liabilities | <u>7,918,047</u> | <u>1,768,201</u> | <u>9,686,248</u> |
| Deferred inflows of resources - pension | <u>26,135</u> | <u>15,847</u> | <u>41,982</u> |
| Net position | | | |
| Net investment in capital assets | --- | 6,335,993 | 6,335,993 |
| Restricted for lending activities | 3,470,121 | 135,246 | 3,605,367 |
| Unrestricted | <u>25,617,368</u> | <u>867,170</u> | <u>26,484,538</u> |
| Total net position | <u>\$ 29,087,489</u> | <u>\$ 7,338,409</u> | <u>\$ 36,425,898</u> |

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

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2017

| | <u>Housing</u> | <u>Rental</u> | <u>Combined Total</u> |
|---|----------------------|------------------|---------------------------|
| Operating revenues: | | | |
| Interest income on loans receivable | \$ 1,544,411 | --- | \$ 1,544,411 |
| Rental income | 6,000 | 832,268 | 838,268 |
| Miscellaneous revenues | 92,899 | 7,834 | 100,733 |
| Gain on sale of foreclosed assets | 52,757 | --- | 52,757 |
| Interest income on deposits | 10,484 | 9,515 | 19,999 |
| Interest income on investments held by bond trustees | <u>2,775</u> | <u>---</u> | <u>2,775</u> |
| Total operating revenues | <u>1,709,326</u> | <u>849,617</u> | <u>2,558,943</u> |
| Operating expenses: | | | |
| Salaries | 741,998 | 461,358 | 1,203,356 |
| Retirement and Medicare contributions | 249,549 | 65,414 | 314,963 |
| Retiree supplemental and health benefits | 152,321 | 80,152 | 232,473 |
| Interest expense on borrowings | 223,005 | --- | 223,005 |
| Depreciation and amortization | --- | 176,843 | 176,843 |
| Rent | 105,054 | --- | 105,054 |
| Professional services | 78,918 | 17,311 | 96,229 |
| Contractual services | 35,124 | 41,036 | 76,160 |
| Employee benefits, other than retirement | 43,115 | 29,929 | 73,044 |
| Other | 22,465 | 25,807 | 48,272 |
| Maintenance | --- | 35,025 | 35,025 |
| Impairment on foreclosed assets | 17,160 | --- | 17,160 |
| Bond trustee fees | 16,137 | --- | 16,137 |
| Director fees | <u>1,950</u> | <u>---</u> | <u>1,950</u> |
| Total operating expenses | <u>1,686,796</u> | <u>932,875</u> | <u>2,619,671</u> |
| Increase (decrease) in net position | 22,530 | (83,258) | (60,728) |
| Net position at beginning of year - restated | <u>29,064,959</u> | <u>7,421,667</u> | <u>36,486,626</u> |
| Net position at end of year | <u>\$ 29,087,489</u> | <u>7,338,409</u> | <u>\$ 36,425,898</u> |

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

Salaries, Wages and Benefits

| | Year ended | |
|--|---------------------|---------------------|
| | September 30, | |
| | <u>2017</u> | <u>2016</u> |
| Salaries, wages and benefits: | | |
| Salaries | \$ 1,203,356 | \$ 1,229,618 |
| Retirement and Medicare contributions | 314,963 | 521,216 |
| Retiree supplemental and health benefits | 232,473 | 232,125 |
| Employee benefits other than retirement | <u>73,044</u> | <u>75,843</u> |
| Total salaries, wages and benefits | <u>\$ 1,823,836</u> | <u>\$ 2,058,802</u> |
| Employees at end of year | 21 | 22 |

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

First-time Homeowner Assistance Program

Year ended September 30, 2017

| | Number of Grantees | Balance at September 30, 2016 | Total Fund Allocated | Total Amount Disbursed | Interest Earned | Administration Fee | Balance at September 30, 2017 |
|------------------------------|--------------------------|-------------------------------------|----------------------------|------------------------------|--------------------|-----------------------|-------------------------------------|
| Guam Housing Corporation | --- | \$ 9,042 | \$ --- | \$ --- | \$ --- | \$ --- | \$ 9,042 |
| Department of Administration | 83 | 292,164 | 482,975 | (612,575) | 580 | (46,248) | 116,896 |
| Total | <u>83</u> | <u>\$ 301,206</u> | <u>\$ 482,975</u> | <u>\$(612,575)</u> | <u>\$ 580</u> | <u>\$(46,248)</u> | <u>\$ 125,938</u> |

Year ended September 30, 2016

| | Number of Grantees | Balance at September 30, 2015 | Total Fund Allocated | Total Amount Disbursed | Interest Earned | Administration Fee | Balance at September 30, 2016 |
|------------------------------|--------------------------|-------------------------------------|----------------------------|------------------------------|--------------------|-----------------------|-------------------------------------|
| Guam Housing Corporation | 4 | \$ 35,381 | \$ --- | \$(26,339) | \$ --- | \$ --- | \$ 9,042 |
| Department of Administration | 49 | 339,088 | 282,000 | (328,924) | --- | --- | 292,164 |
| Total | <u>53</u> | <u>\$ 374,469</u> | <u>\$ 282,000</u> | <u>\$(355,263)</u> | <u>\$ ---</u> | <u>\$ ---</u> | <u>\$ 301,206</u> |