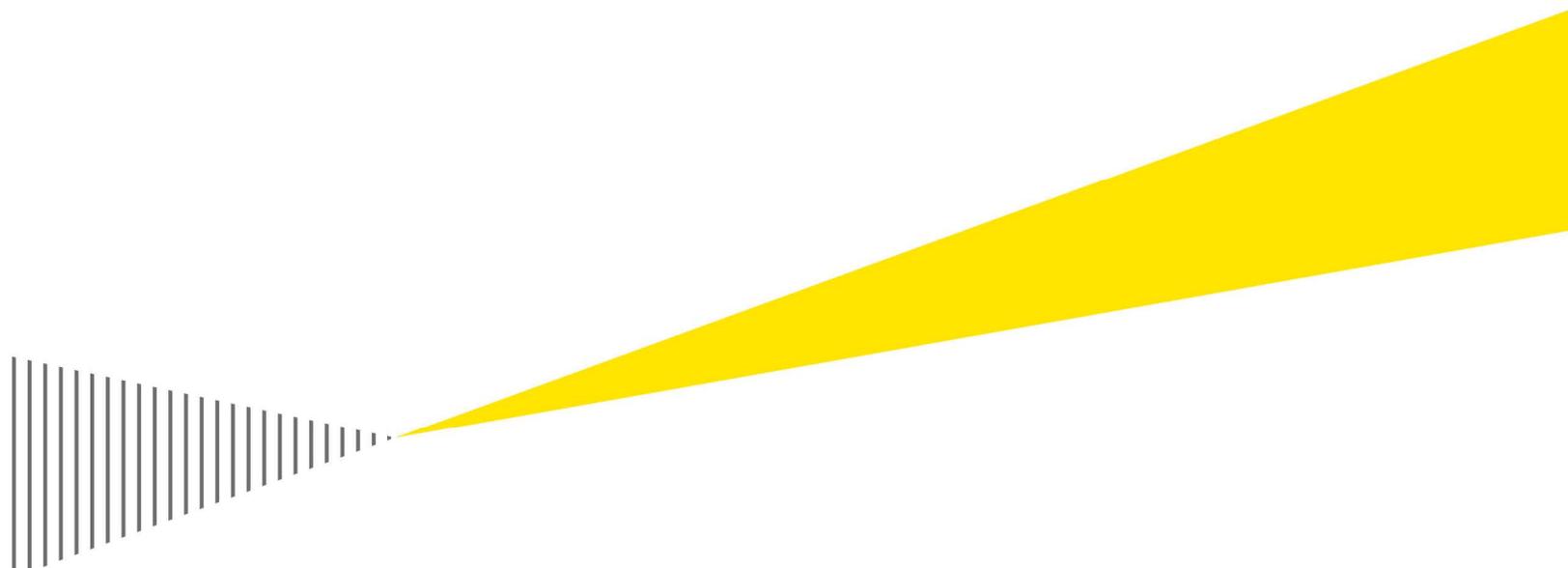


*Financial Statements, Required Supplementary Information
and Supplementary Information*

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

*Year ended September 30, 2015
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 and Other Information

Year ended September 30, 2015

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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 statement of net position of the Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of September 30, 2015 and the related statements of revenues, expenses and changes in net position and cash flows for the year 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 audit. We conducted our audit 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 Guam Housing Corporation as of September 30, 2015, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date”

As discussed in Note 1 to the financial statements, the Corporation changed its method for accounting for pensions as a result of the adoption of GASB Statement No. 68, “*Accounting and Financial Reporting for Pensions*” and GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date*” effective October 1, 2014. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management’s Discussion and Analysis on pages 4 through 20, the Schedule of the Corporation’s Proportionate Share of the Net Pension Liability on page 49, and the Schedule of the Corporation’s Contributions on page 50 be presented to supplement the basic financial statements. Such 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. 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 51 through 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information included in pages 51 through 55 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 3, 2016 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 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 3, 2016

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

Management's Discussion and Analysis

September 30, 2015

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, 2015. 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 is an autonomous agency, as with similar agencies, generates its own revenues for its operating expenses, lending capital as mandated for each of its loan programs and maintenance of its rental units. GHC's activities should be revenue generating and is expected to be self-sustaining.

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) continue to be a success however we do continue to manage this program without a specific set of Administrative Rules in addition to the fact that the program has once again run out of funds.

The draft legislation for the proposed Administrative Rules and Regulations for the Housing Trust Fund Act has been drafted and is currently being routed through the appropriate channels for approval and implementation. This initiative addresses a number of housing problems that exist throughout our Island and solutions on how to address them.

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. Their responses have been positive and in support of this initiative.

The positive economic impact on the housing market with only the single program that has been funded so far has brought over \$66,937,425 in real estate, banking, escrow, appraisers, and title insurance activity, not to mention the trickle down economic expansion, while placing over 447 families in homes (the \$2,677,497 First-Time Home-owner's Assistance Act as funded through the Housing Trust Fund Act).

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

Housing Trust Funds are distinct funds established by local governments that receive ongoing dedicated sources of public funding to support the preservation and production of affordable housing and increase opportunities for families and individuals to access decent affordable homes. Housing Trust Funds systemically shift affordable housing funding from annual budget allocations to the commitment of dedicated public revenue.

There are now 47 states with Housing Trust Funds, as well as the District of Columbia, and more than 625 city and county Housing Trust Funds in operation. They dedicate nearly \$1 billion annually to help address critical housing needs throughout the country. The number of Housing Trust Funds has doubled in the last seven years.

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 include 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 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 housing units is insufficient to meet the needs of Guam's people. It is imperative that GHC, 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 and 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 P.L. 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 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 30 years. RD loans will be available at the prevailing interest rate for a term of 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

About the Corporation, continued

Loan and Supplemental Funding Programs, continued

V. First-time Homeowners Assistance Program (FTHAP)

This program was established through the Housing Trust Fund Act established by P.L. 31-166 in January 2012 with the first grant being awarded with the establishment of the Rules and Regulations for the program in June 2012 through P.L. 31-227.

A real success story; since its reintroduction, the Corporation has issued grants totaling \$2,254,303 to 322 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 \$56 million.

Eligible recipients of the program are provided up to \$10,000 or 4% of a mortgage loan amount maximum of \$250,000 (inclusive of the purchase price and closing costs combined).

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

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 Linahyan and two 12-unit apartment buildings in Yigo named Guma As-Atdas, consisting of two and three bedrooms.

In January 2014, the monthly rent for the Lada Gardens increased to \$700 for the 4 bedroom units, \$625 for the 3 bedroom units and \$575 for the 2 bedrooms units. Also in January 2014, the monthly rent for the Guma As-Atdas 3 bedroom units increased to \$650 while the 2 bedroom units remained at \$500.

GHC continued to increase its affordable housing inventory as P.L. 31-215 was enacted. This law provided GHC an additional 10 single family units for rent from the Department of Land Management (DLM). The Sagan Linahyan Renovation Project provided Department of Housing and Urban Development funded renovations through Guam Housing and Urban Renewal Authority (GHURA), for 10 abandoned units 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. Additionally, GHC has provided a housing unit for a community outreach program through non-profit Community Services Resources, Inc. for neighborhood revitalization.

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

Management's Discussion and Analysis, continued

A. About the Corporation, continued

Lada Estates Affordable Housing

Through P.L. 20-225, 46 acres of land was transferred to the Corporation from the Government of Guam with the mandate to develop affordable housing units for sale to first-time home buyers. Lada Estates, as it became known, was intended as a two-phase turnkey project. Subsequent economic conditions prevented the completion of the project. In 2004, Maeda Pacific Corporation (MPC) brought suit against GHC. At the recommendation of our independent auditors and due to the state the property was in, an adjustment was made to decrease the value of the property recorded in the financial statement. In fiscal year 2010 an impairment loss of \$5.2 million was recorded as a prior year adjustment and in fiscal year 2011, an additional impairment loss of approximately \$392,000 was recorded. On January 6, 2012, the courts approved the settlement between GHC and MPC. As a result of the settlement, both Land Held for Development and Accounts Payable were decreased by \$10,555,000 in fiscal year 2012.

Provisions indicated in the settlement agreement stipulate the continued use of the land for affordable housing development of the proposed 399 units for lease or purchase, within a six (6) year timeline. On March 21, 2012, P.L. 31-195 was enacted approving the transfer of the Lada Estates property from the GHC to MPC. Subsequent to the settlement between GHC and MPC, the ownership has changed to another developer, who has commenced the construction and is well on the way towards completion.

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.

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 position. 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.

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

Management's Discussion and Analysis, continued

B. Overview of the Financial Statements, continued

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position 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 operating, 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 statement of the Corporation can be found on pages 21 through 55 of this report.

A condensed summary of the Corporation's statement of net position at September 30, 2015 and 2014 is shown below.

Statements of Net Position
September 30, 2015 and 2014

	2015*	2014
Cash and investments	\$10,283,013	\$11,122,753
Loans receivable, other receivables, prepaid expenses and inventory	29,437,299	29,159,519
Foreclosed assets held for resale	287,739	399,949
Capital assets	6,680,039	6,706,126
Deferred outflows of resources - pension	381,036	---
	\$47,069,126	\$47,388,347
Total assets and deferred outflows of resources		

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

Management's Discussion and Analysis, continued

B. Overview of the Financial Statements, continued

Statements of Net Position
September 30, 2015 and 2014

	2015*	2014
Accounts payable and accrued expenses	\$ 966,614	\$ 988,101
Notes payable		
Deposits by borrowers and security deposit	737,642	784,277
Bonds payable	4,255,000	4,415,000
Loans held in trust	240,743	259,485
Net pension liability	2,948,761	---
Total liabilities	\$ 9,148,760	\$ 6,446,863
Deferred inflows of resources - pension	311,652	---
Net investment in capital assets	6,680,039	6,706,126
Restricted	3,371,600	3,284,430
Unrestricted	27,557,075	30,950,928
Total net position	\$37,608,714	\$40,941,484

Statements of Revenues, Expenditures and Changes in Net Position
Fiscal years ended September 30, 2015 and 2014

	2015*	2014
Revenues	\$ 2,587,739	\$ 2,761,208
Expenses	2,710,080	2,914,339
Decrease in net position	(122,341)	(153,131)
Total net position at beginning of year	37,731,055	41,094,615
Total net position at end of year	\$37,608,714	\$40,941,484

* Due to the implementation of GASB 68, a \$3,210,429 prior year adjustment was made to record the effects of GHC's share of the net pension liability, deferred inflows of resources and deferred outflows of resources for pensions.

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

Management's Discussion and Analysis, continued

C. Financials at a Glance

GHC's 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 both unrestricted and restricted. Other Receivables under restricted assets of the Statement of Net Position comprises all other loans (i.e., Down Payment and 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 \$327,680 to approximately \$29.9 million increasing 1.1% from the prior year. It was decided at the Board of Directors meeting October 31, 2012 to change the Direct Loan Program interest rate from the prevailing rate to 6.49%, based on its cost of funds. In August 2014, GHC paid off the Federal Home Loan Bank loan, as such the Board of Director's changed the interest rate for this program to 1% above the local prevailing rate. Because of the payoff of the note GHC was able to originate eight (8) loans totaling \$1.07 million under the Direct Loan Program. Five (5) loans totaling \$861,800 under the Revolving Loan Program was originated this fiscal year. Under the CAHAT Program one (1) loan was originated for \$40,000. In addition, the corporation had a decrease of loans that were paid off during this fiscal year. In fiscal year 2015 the corporation had twenty-two (22) payoffs amounting to \$740,463 in comparison to the previous fiscal year of thirty (30) totaling \$1.09 million.

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 2015, 438 were determined to qualify for a mortgage. The Corporation estimates it would need a total of \$22.7 million for lending capital. Of those interviewed, eight (8) applicants pursued their loan applications. A total of \$1.2 million is required for these eight (8) applicants. The applicants will continue facing challenges to find homes within their buying power.

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

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

Management’s Discussion and Analysis, continued

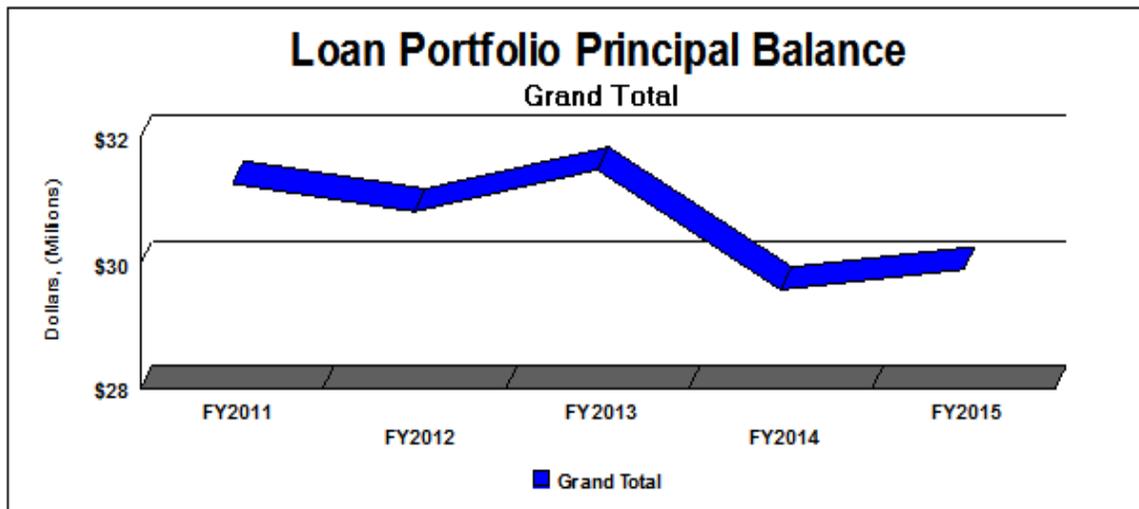
D. Financial Highlights

Loan Portfolio Principal Balance

FY2011	FY2012	FY2013	FY2014	FY2015
\$31,281,306	\$30,844,159	\$31,499,395	\$29,593,816	\$29,921,496

Total Number of Loans

465	454	447	421	411
-----	-----	-----	-----	-----



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 six (6) loans to fifty-eight (58) loans, the total delinquent principal balance increased by \$729,009 to \$4.49 million in fiscal year 2015. Overall, loans delinquent 30 days and over increased from 12.84% in fiscal year 2014 to 15.15% in fiscal year 2015. Of these delinquent loans, 38 loans with a principal balance totaling \$2.9 million have been referred to legal.

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.

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

Management’s Discussion and Analysis, continued

D. Financial Highlights, continued

Delinquent %

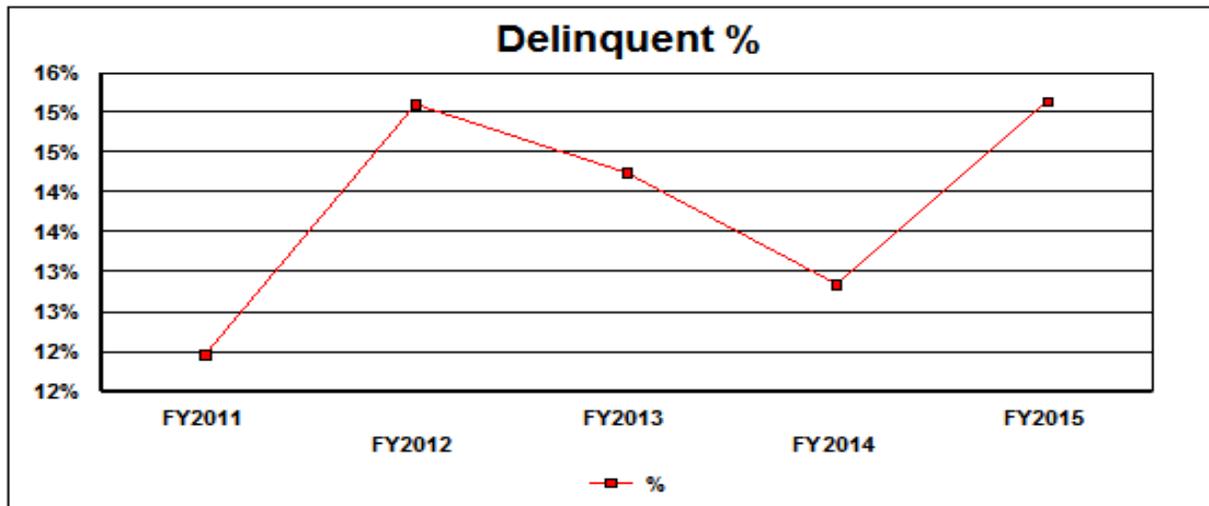
FY2011	FY2012	FY2013	FY2014	FY2015
11.97%	15.11%	14.25%	12.84%	15.15%

Principal Balance

\$3,697,143	\$4,607,291	\$4,450,698	\$3,767,666	\$4,496,676
-------------	-------------	-------------	-------------	-------------

Total Number of Loans

54	61	62	52	58
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First-time Homeowners Assistance Program

The number of FTHAP grants disbursed have increased from 102 in fiscal year 2014 to 121 in fiscal year 2015. On June 13, 2013, in accordance with P.L. 32-036, the Department of Administration transferred to the Corporation \$1.2 million for the FTHAP. By November 2014, that fund was either disbursed or encumbered. P.L. 32-036 also appropriated \$900,000 for fiscal year 2014 for the FTHAP from escheated accounts, but the funds were not received from the government until December 2014. The demand for this grant continues in fiscal year 2016 which is why GHC has been lobbying the Legislature to continue the funding source for future appropriations. As of December 2015, all funds have been committed or disbursed but GHC continues to receive applications for the grant and has established a waiting list. If funding is not available soon some applicants might not be able to close their loan.

GHC has been administrating this program since fiscal year 2012 without an administration fee. GHC is seeking to receive a 10% administrative fee to cover the cost of this program.

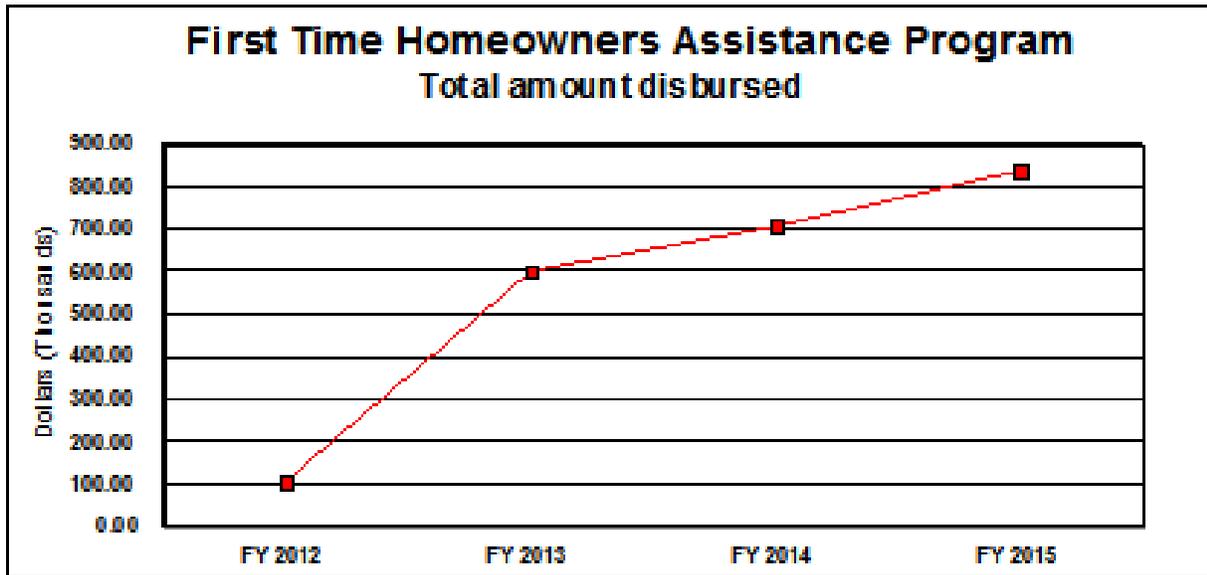
Guam Housing Corporation
(A Component Unit of the Government of Guam)

Management’s Discussion and Analysis, continued

D. Financial Highlights, continued

First-time Homeowners Assistance Program, continued

	FY2012	FY2013	FY2014	FY2015
Total amount disbursed	\$107,513	\$600,164	\$708,628	\$837,997
Total number of grants	15	84	102	121
GHC funds	\$107,513	\$357,106	\$ ---	\$ ---
Number of grants (GHC)	15	50	---	---
Escheated funds	\$ ---	\$243,058	\$708,628	\$837,997
Number of grants (Escheated funds)	---	34	102	121



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

Although the foreclosed assets held for resale remain at five (5) properties, the value of the properties decreased by \$112,210 to \$287,739 in fiscal year 2015. The decrease is due to the decrease in appraisal value for two of the properties. The Corporation, even with the assistance of the Realtor, could not sell the properties without realizing a substantial loss, thus, there were no properties sold in fiscal year 2015.

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.

Allowance for Loan Losses (ALL)

In fiscal year 2015, \$15,458 of the ALL was used to write off one loan. In accordance with the Loan Policy, the ALL was adjusted to 2% of the total gross loan portfolio. The balance of the ALL was \$598,430 at the end of fiscal year 2015.

Investment

The presentation for Investment changed from a combination of Investment with trustee and the Foreclosure Protection Fund to just the Investment with trustee. Investment with trustee decreased by \$338,523 to \$3,458,431 in fiscal year 2015. This account is used to pay the trustee fees and the principal and interest of the Mortgage Revenue Bond (MRB).

Restricted Accounts Payables

On June 13, 2013 and December 05, 2014, in accordance with P.L. 32-036, DOA transferred to GHC \$1.2 million and \$900,000 respectively, of escheated funds for the FTHAP. Because of the restrictions, the funds received were placed under a restricted payable. During fiscal year 2015, \$837,997 was disbursed to one hundred twenty-one (121) first-time homeowners. The balance at the end of fiscal year 2015 was \$339,088.

Debt Service

On April 15, 1998 GHC issued a Single Family MRB. The MRB payments are made semi-annually on March 1 and September 1 of each year at interest rates ranging from 4.45% to 5.75%. The payment for the MRB began September 1, 1998 and matures September 1, 2031. The bonds payable balance at the end on fiscal year 2015 was \$4,255,000. For more details on the MRB see Note 7 of the financial statements.

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

Management's Discussion and Analysis, continued

D. Financial Highlights, continued

Pension Liability

In accordance with GASB Statement No. 68, an adjustment to record GHC's share of the net pension liability, deferred inflows of resources and deferred outflows of resources for pensions was made to fiscal year 2015. The net pension liability balance for fiscal year 2015 amounted to \$2,948,761.

Rebate Liability

Interest on the MRB investment in excess of 5.229417% is due to the federal government and is recorded as Rebate Liability. Analysis on the interest earned on the MRB investments are made and adjusted monthly to the Rebate Liability. An Interim Arbitrage Rebate Report is done annually by Orrick, Herrington & Sucliffe LLP as of March 1 of each year. The Rebate Liability is adjusted to the Orrick report each year. The rebate liability decreased by \$2,682 in fiscal year 2015 to \$71,388 due to the decrease in market value. For more details on the Rebate Liability, see Note 7 of the financial statements.

Net Position

Due to the implementation of GASB Statement No. 68, a prior year adjustment was made to record GHC's share of the Net Pension Liability, deferred inflows of resources and deferred outflows of resources. The overall prior year adjustment to Net Position was \$3,210,429.

Interest on Loans Receivable

The presentation for Interest on loans receivable changed from interest on loans receivable net of loan origination fee and cost to interest on loans receivable net of loan origination fee and cost and adjustments to the allowance for loan loss. Interest on loans receivable, net of loan origination, decreased by \$42,576 or 2.6% from \$1,601,771 in fiscal year 2014 to \$1,559,195 in fiscal year 2015. The decrease is due to the decrease in weighted average interest rate on loans from 5.76% in fiscal year 2014 to 5.61% in fiscal year 2015.

Interest on Investment Held by Bond Trustees

Interest on Investment Held by Bond Trustees decreased by \$50,870 or 38.98% from \$130,489 in fiscal year 2014 to \$79,619 in fiscal year 2015. The decrease is due to the decrease in the Investment with trustee which was mentioned above and the decrease in the market value for these funds.

Interest Expense

Interest Expense decreased by \$41,115 or 14.57%. The decrease is due to the decrease in principal balance due for the note and bond. The note was a twelve (12) year loan for \$9.9 million that was paid off in August 2014.

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

Management's Discussion and Analysis, continued

D. Financial Highlights, continued

Rental Income

The presentation for Rental Income changed from Rental Income net of Vacancy Loss to Rental Income net of Vacancy Loss and Allowance for Tenant Uncollectible in fiscal year 2015. Rental Income, Vacancy Loss and Allowance for Tenant Uncollectible were \$1,124,250, \$158,647 and \$90,932, respectively, for fiscal year 2014, and \$1,151,159, \$199,314 and \$72,554, respectively, for fiscal year 2015. The Allowance for Tenant Uncollectible was changed from four (4%) of gross rent to sixty (60) days and over delinquent in fiscal year 2014. An adjustment of \$72,544 was made to increase the Allowance for Tenant Uncollectible in fiscal year 2015.

Reversal of Loan Losses

In fiscal year 2015, an adjustment of \$22,012 was made to increase the ALL reserve to 2% of the total loan portfolio. This was offset by the adjustment to decrease the Allowance for Legal Uncollectible by \$16,679 due to the increase in the amount of loans referred to legal.

Salaries

Salaries decreased by \$27,404 or 2.06% from \$1,329,425 in fiscal year 2014 to \$1,302,021 in fiscal year 2015. Although there was an increase in actual salaries, it was offset by the increase in annual and sick leave taken in fiscal year 2015.

Retirement and Medicare Contributions

Due to the implementation of GASB Statement No. 68 which required a prior year adjustment to record GHC's share of the Net Pension Liability, deferred inflows of resources and deferred outflows of resources, Retirement and Medicare contributions decreased by \$302,600 to \$97,499 in fiscal year 2015.

Retiree Supplemental and Health Benefits

Retiree Supplemental and Health Benefits increased by \$56,107 or 33.2% from \$168,854 in fiscal year 2014 to \$224,961 in fiscal year 2015. The increase is due to the increase in the medical, dental & life insurance and the Cost of Living Allowance (COLA) paid out to the Retirees. The COLA per retiree increased from \$1,800 in fiscal year 2014 to \$2,000 in fiscal year 2015.

Employee Benefits Other Than Retirement

Employee Benefits increased by \$15,392 or 22% from \$69,869 in fiscal year 2014 to \$85,261 in fiscal year 2015. The increase is attributed to three extra employees opting to have medical and dental insurance in fiscal year 2015.

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

Management's Discussion and Analysis, continued

D. Financial Highlights, continued

Professional Services

Professional Services increased by \$21,483 or 25.68% from \$83,660 in fiscal year 2014 to \$105,143 in fiscal year 2015. In fiscal year 2015 GHC paid out \$21,275 to a former employee's attorney.

Maintenance Expense

Maintenance Expense increased by \$13,209 or 22.17% from \$59,564 in fiscal year 2014 to \$72,773 in fiscal year 2015. In fiscal year 2014, the Corporations started to change exterior doors to fiberglass doors. These doors are more expensive yet durable and longer lasting than the previously used solid core doors. The changing of the doors continued in fiscal year 2015.

Other Expense

Other Expense increased by \$11,523 or 19.6% in fiscal year 2015 from \$58,746 in fiscal year 2014 to \$70,269 in fiscal year 2015. The increase is due to the increase in utilities, emergency housing and plumbing services at As Atdas.

Loss on Impaired Assets

Loss on Impaired Assets totaling \$112,210 was recorded in fiscal year 2015 due to the decrease in appraisal value of two of the foreclosed properties.

E. Future Events

GHC continues to meet its mission with limited challenges. GHC's most apparent challenge is the ability to secure lending capital at affordable rates. GHC has made many strides in educating both the executive and legislative branches with respect to the "Trust Fund" initiative which addresses the funding of various programs and projects.

GHC continues its pursuit of Governor Eddie Baza Calvo's Affordable Housing Initiatives. As the lead agency in the Affordable Housing Coordinating Council (AHCC), 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 for many more in the future.

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

Management's Discussion and Analysis, continued

E. Future Events, continued

The homeless population on Guam is growing at an alarming rate. And once again, GHC, under the leadership of President Martin C. Benavente, 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 distresses facing this segment of the community.

Guam Housing Corporation has established the following goals to complete in 2016:

1. Continued work with the 33rd 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 model homes on assigned lots in Dededo.
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 & initiatives (i.e., FTHAP and CAHAT loan program).
6. Sagan Linahyan – Development of 59 unused lots with available infrastructure for affordable housing (rental & 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's 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)

Statement of Net Position

September 30, 2015

Assets

Current assets:

Unrestricted assets:

Cash and cash equivalents (<i>Note 2</i>)	\$ 3,032,904
Self-insurance fund (<i>Notes 2 and 9</i>)	1,065,827
Loans receivable, net (<i>Note 3</i>)	1,742,838
Tenants receivable, net	12,230
Accrued interest receivable	49,898
Prepaid expenses and other	52,104
Foreclosed assets held for resale (<i>Note 6</i>)	<u>287,739</u>

Total unrestricted assets 6,243,540

Restricted assets:

Cash and cash equivalents (<i>Note 2</i>)	2,725,851
Investments (<i>Note 2</i>)	<u>3,458,431</u>

Total restricted assets 6,184,282

Total current assets 12,427,822

Loans receivable, net (<i>Note 3</i>)	25,617,007
Restricted other receivables (<i>Note 4</i>)	1,963,222
Depreciable capital assets (<i>Note 5</i>)	3,745,812
Non-depreciable capital assets (<i>Note 5</i>)	<u>2,934,227</u>

Total assets 46,688,090

Deferred outflows of resources - pension (*Note 8*) 381,036

Total assets and deferred
outflows of resources 47,069,126

See accompanying notes.

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

Statement of Net Position, continued

Liabilities

Current liabilities:

Payable from unrestricted assets:

Accounts payable and accrued expenses	\$ 179,926
Current portion of accrued compensated absences (<i>Note 8</i>)	138,365
Unearned revenue	<u>47,111</u>
Total payable from unrestricted assets	<u>365,402</u>

Payable from restricted assets:

Accounts payable	339,088
Bonds payable (<i>Note 7</i>)	170,000
Accrued interest payable	19,609
Security deposits	59,387
Deposits by borrowers - insurance premiums and real estate taxes	678,255
Rebate liability (<i>Note 7</i>)	<u>71,388</u>
Total payable from restricted assets	<u>1,337,727</u>

Total current liabilities	<u>1,703,129</u>
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Non-current liabilities (*Note 10*):

Payable from unrestricted assets:

Non-current portion of accrued compensated absences (<i>Note 8</i>)	171,127
Net pension liability (<i>Note 8</i>)	2,948,761

Payable from restricted assets:

Bonds payable (<i>Note 7</i>)	4,085,000
Loans held in trust (<i>Note 4</i>)	<u>240,743</u>

Total non-current liabilities	<u>7,445,631</u>
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Total liabilities	<u>9,148,760</u>
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Deferred inflows of resources - pension (<i>Note 8</i>)	<u>311,652</u>
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Commitments and contingencies (*Notes 9*)

Net position:

Net investment in capital assets	6,680,039
Restricted for lending activities	3,371,600
Unrestricted	<u>27,557,075</u>

Total net position	<u>\$ 37,608,714</u>
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See accompanying notes.

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

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2015

Operating revenues:	
Interest income on loans receivable	\$ 1,559,195
Rental income	879,291
Interest income on investments held by bond trustees	79,619
Miscellaneous revenues	55,359
Interest income on deposits	14,275
	<hr/>
Total operating revenues	2,587,739
Operating expenses:	
Salaries	1,302,021
Interest expense on borrowings	241,017
Retiree supplemental and health benefits (Note 8)	224,961
Depreciation and amortization (Note 5)	178,360
Impairment loss on foreclosed assets	112,210
Professional services	105,143
Rent (Note 9)	105,054
Retirement and Medicare contributions (Note 8)	97,499
Contractual services	96,771
Employee benefits, other than retirement	85,261
Maintenance	72,773
Other	70,269
Bond trustee fees	16,241
Director fees	2,500
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Total operating expenses	2,710,080
	<hr/>
Decrease in net position	(122,341)
Net position at beginning of year, restated (Note 1)	37,731,055
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Net position at end of year	\$ 37,608,714
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See accompanying notes.

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

Statement of Cash Flows

Year ended September 30, 2015

Cash flows from operating activities:	
Cash received from customers	\$ 2,060,969
Others	130,019
Cash paid to suppliers for goods and services	(467,835)
Cash paid to employees	(<u>2,085,826</u>)
Net used in operating activities	(<u>362,673</u>)
 Cash flows from investing activities:	
Decrease in investments	338,524
Interest received on cash and investments with trustees	79,619
Increase in self-insurance fund	(<u>89,171</u>)
Net cash provided by investing activities	<u>328,972</u>
 Cash flows from noncapital financing activities:	
Repayment of bonds payable	(160,000)
Decrease of rebate liability	(2,682)
Interest paid on bonds payable	(<u>241,731</u>)
Cash used in capital and related financing activities	(<u>404,413</u>)
 Cash flows from capital and related financing activity -	
acquisition of capital assets	(<u>152,273</u>)
Net decrease in cash and cash equivalents	(590,387)
Cash and cash equivalents at beginning of year	<u>6,349,142</u>
Cash and cash equivalents at end of year	\$ <u><u>5,758,755</u></u>
 Consisting of:	
Unrestricted	\$ 3,032,904
Restricted	<u>2,725,851</u>
	\$ <u><u>5,758,755</u></u>

See accompanying notes.

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

Statement of Cash Flows, continued

**Reconciliation of decrease in net position to
net cash used in operating activities:**

Decrease in net position	\$(122,341)
Adjustments to reconcile decrease in net position to net cash used in operating activities:	
Interest expense on borrowings reported as operating expenses	241,017
Depreciation and amortization	178,360
Impairment loss on foreclosed assets	112,210
Provision for doubtful rental receivables	72,554
Non-cash pension costs	36,090
Reversal of loan losses	5,333
Interest income on investments held by bond trustees reported as non-operating expenses	(79,619)
Decrease (increase) in assets:	
Loans receivable, net	(442,330)
Tenants receivable, net	(69,591)
Other receivables	128,056
Accrued interest receivable	6,564
Prepaid expenses and other assets	21,634
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	22,544
Accrued compensated absences	(42,532)
Unearned revenue	1,897
Security deposits	(1,618)
Deposits by borrowers - insurance premiums and real estate taxes	(45,017)
Loans held in trust	(18,742)
Net pension liability	(367,142)
Net cash used in operating activities	\$(<u>362,673</u>)

Supplemental disclosure of cash flow information:

Cash paid for interest expense during the year	\$ <u>241,731</u>
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Guam Housing Corporation
(A Component Unit of the Government of Guam)

Notes to Financial Statements

Year ended September 30, 2015

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. 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

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, 2015 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.

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 \$271,050 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 and 71, 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

As of October 1, 2014, the Corporation implemented the following GASB pronouncements:

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement provides guidance for accounting for net pension liabilities, including definition of balances to be included in deferred inflows and deferred outflows of resources.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date, an amendment of GASB Statement No. 68*. This statement requires that contributions made by participating employers to pension plans after the Measurement Date for the Net Pension Liability but before the end of the financial statement period for the employer be reported as deferred outflows of resources.

The implementation of GASB Statement No. 68 and 71, required the Corporation to record a deferred outflow of resources, deferred inflow of resources and net pension liability totaling \$319,153, \$199,067 and \$3,330,515, respectively, with a \$3,210,429 charge to beginning net position as of October 1, 2014.

The effects of implementing GASB Statement No. 68 on the Corporation's net position as of October 1, 2014 have been restated as follows:

	As Previously <u>Reported</u>	<u>Adjustment</u>	<u>Restated</u>
Net position, October 1, 2014	\$40,941,484	\$(3,210,429)	\$37,731,055

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The implementation of this statement did not have any impact on the Corporation's accompanying financial statements.

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

The following GASB pronouncements have been issued, but are not effective for the Corporation as of September 30, 2015:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement establishes accounting and financial reporting standards for fair value measurements, the level of fair value hierarchy, and valuation techniques. GASB Statement No. 72 will be effective for the Corporation for fiscal year ending September 30, 2016.

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 provisions that effect pensions not within the scope of GASB Statement No. 67 and 68 will be effective for the Corporation for fiscal year ending September 30, 2017.

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*. GASB Statement No. 74 will be effective for the Corporation for fiscal year ending September 30, 2017.

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 June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 will be effective for the Corporation for fiscal year ending September 30, 2016.

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. GASB Statement No. 77 will be effective for the Corporation for fiscal year ending September 30, 2017.

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. GASB Statement No. 78 will be effective for the Corporation for fiscal year ending September 30, 2017.

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. GASB Statement No. 79 will be effective for the Corporation for fiscal year ending September 30, 2017.

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. GASB Statement No. 80 will be effective for the Corporation for fiscal year ending September 30, 2017.

The Corporation is currently evaluating the effects the above pronouncements may have on its financial statements.

Subsequent Events

The Corporation has evaluated subsequent events through March 3, 2016, which is the date the financial statements were available to be issued.

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

Notes to Financial Statements, continued

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

As of September 30, 2015, the Corporation's deposits had a bank balance of \$6,824,582. 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, 2015, deposits were comprised of the following:

FDIC Insured	\$ 2,804,914
Uncollateralized	<u>4,019,668</u>
Total deposits	<u>\$ 6,824,582</u>

Cash and cash equivalents, and investments at September 30, 2015 are restricted as follows:

Restricted Cash and Cash Equivalents:

Revolving Loan Fund	\$ 667,857
Trust fund and borrower's deposits	633,955
Foreclosure Protection Fund	501,038
First-time Homeowner Assistance Program (FTHAP)	358,393
Community Affordable Housing Action Trust (CAHAT)	276,782
Hazard Mitigation Program	154,571
Tenant security deposits	<u>133,255</u>

Total restricted cash and cash equivalents

2,725,851

Restricted investments - cash with Bond Trustees

3,458,431

Total restricted cash, cash equivalents
and investments

\$6,184,282

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.

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.

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

Notes to Financial Statements, continued

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

The Mortgage Revenue Bond Indenture requires the establishment of special funds and accounts to be held and administered by the Corporation's trustees for the accounting of the 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, 2015, the Corporation's restricted investments held by trustee are as follows:

	<u>Moody's Credit Rating</u>	
Federal Home Loan Mortgage Corporation	Aaa	\$1,728,732
Blackrock Liquidity T-Fund	Aaa	<u>1,729,699</u>
		<u>\$3,458,431</u>

The maturities of the Corporation's restricted investments at September 30, 2015 were:

	<u>Investment Maturities (In Years)</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	\$ ---	\$ ---	\$ ---	\$1,728,732	\$1,728,732
Blackrock Liquidity T-Fund	<u>1,729,699</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>1,729,699</u>
	<u>\$1,729,699</u>	<u>\$---</u>	<u>\$---</u>	<u>\$1,728,732</u>	<u>\$3,458,431</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, 2015.

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

Notes to Financial Statements, continued

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

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

3. Loans Receivable

At September 30, 2015, loans receivable are as follows:

Unrestricted	\$27,958,275
Less: Allowance for loan and lease losses	(598,430)
	27,359,845
Less: Current portion	<u>1,742,838</u>
	<u>\$25,617,007</u>

Loans to employees totaled \$507,281 at September 30, 2015. These loans meet the same criteria as all real estate loans made to non-related individuals by the Corporation. At September 30, 2015, loans and other receivables in arrears three months or more or referred to an attorney for collection totaled \$3,581,970.

Guam Housing Corporation
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Notes to Financial Statements, continued

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, 2015, other receivables due from borrowers for the aforementioned loans consisted of the following:

CAHAT	\$1,715,846
DPCCA	239,561
Hazard Mitigation Program	<u>7,815</u>
	<u>\$1,963,222</u>

The Corporation recorded a corresponding liability on the DPCCA Program totaling \$240,743 as of September 30, 2015, which is reported as loans held in trust in the accompanying statement 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, 2015 is as follows:

	Beginning Balance October 1, <u>2014</u>	Transfers-in and <u>Additions</u>	Transfers-out and <u>Disposals</u>	Ending Balance September 30, <u>2015</u>
Capital assets depreciated and amortized:				
Buildings and improvements	\$6,841,286	\$ 152,273	\$ ---	\$6,993,559
Office furniture and equipment	307,786	---	---	307,786
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	7,345,613	152,273	---	7,497,886
Less accumulated depreciation and amortization	<u>(3,573,714)</u>	<u>(178,360)</u>	<u>---</u>	<u>(3,752,074)</u>
Net capital assets depreciated and amortized	3,771,899	(26,087)	---	3,745,812
Capital asset not depreciated and amortized - land	<u>2,934,227</u>	<u>---</u>	<u>---</u>	<u>2,934,227</u>
	<u>\$6,706,126</u>	<u>\$ (26,087)</u>	<u>\$ ---</u>	<u>\$6,680,039</u>

6. Foreclosed Assets Held for Resale

A summary of the activities in the foreclosed assets held for resale as of September 30, 2015 is as follows:

Foreclosed assets held for resale at beginning of year	\$399,949
Other costs and adjustments	<u>(112,210)</u>
	<u>\$287,739</u>

At September 30, 2015, foreclosed assets held for resale represent five residential units acquired by the Corporation due to the borrowers' default on their mortgages.

Guam Housing Corporation
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Notes to Financial Statements, continued

7. Mortgage Revenue Bonds Payable

	<u>October 1,</u> <u>2014</u>	<u>Payments</u>	<u>September 30,</u> <u>2015</u>	<u>Due 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 from \$85,000 to \$95,000	\$ 700,000	\$(160,000)	\$ 540,000	\$ 170,000
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>\$ 4,415,000</u>	<u>\$(160,000)</u>	<u>\$ 4,255,000</u>	<u>\$ 170,000</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.

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, 2015, the rebate liability totaled \$71,388, as reported in the accompanying statement 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.

Guam Housing Corporation
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Notes to Financial Statements, continued

7. Mortgage Revenue Bonds Payable, continued

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, 2015.

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>
2016	\$ 170,000	\$ 233,036	\$ 403,036
2017	180,000	223,807	403,807
2018	190,000	214,044	404,044
2019	220,000	203,835	423,835
2020	230,000	193,378	423,378
2021 to 2025	1,250,000	781,312	2,031,312
2026 to 2030	1,635,000	378,494	2,013,494
2031	<u>380,000</u>	<u>16,388</u>	<u>396,388</u>
	<u>\$4,255,000</u>	<u>\$2,244,294</u>	<u>\$6,499,294</u>

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.

Guam Housing Corporation
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Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

DB Plan

The Corporation participates in the GovGuam DB Plan, a single-employer plan administered by the Government of Guam Retirement Fund (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.

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.

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.

Guam Housing Corporation
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Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

DB Plan, continued

Contributions

Contribution requirements of the active employees and the participating employers are established and may be amended in accordance with Guam law. Employees are required to contribute 9.5% of their annual pay. The Corporation's statutory contribution rate for the year ended September 30, 2015 was 29.85% 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. Contributions to the plan from the Corporation were \$359,159 for the year ended September 30, 2015.

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

At September 30, 2015, the Corporation reported a liability of \$2,948,761 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013. 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, 2015, the Corporation's proportion was 0.2366%.

For the year ended September 30, 2015, the Corporation recognized pension expense of \$36,090. At September 30, 2015, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2015</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ ---	\$(224,435)
Difference between employer contributions and proportionate share of contributions	21,877	(87,217)
Corporation contributions subsequent to the measurement date	<u>359,159</u>	<u>---</u>
Total	<u>\$ 381,036</u>	<u>\$(311,652)</u>

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, 2015, resulting from the Corporation's employer contributions of \$359,159 subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. 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>	
2016	\$(132,968)
2017	\$(67,628)
2018	\$(67,628)
2019	\$(21,550)

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 for this implementation is based upon the September 30, 2013 actuarial valuation, with a measurement date of September 30, 2014. An expected total pension liability is determined as of September 30, 2014 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 (16.58 years remaining as of September 30, 2014)
- 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: 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.

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
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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 <u>6%</u>	Current Discount Rate <u>7.0%</u>	1% Increase <u>8.0%</u>
Net pension liability	<u>\$3,779,322</u>	<u>\$2,948,761</u>	<u>\$2,321,580</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 as 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 1.5 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)	30.00%	8.12%	2.44%
U.S. Equities (small cap)	10.00%	9.32%	0.93%
Non-U.S. Equities	14.25%	8.76%	1.25%
Non-U.S. Equities (emerging markets)	5.75%	11.03%	0.64%
U.S. Fixed Income (aggregate)	30.00%	4.97%	1.49%
Real Estate (REITs)	10.00%	8.14%	0.81%

Guam Housing Corporation
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Notes to Financial Statements, continued

8. Employee Benefits and Others, continued

DB Plan, continued

Expected Rate of Return and Asset Allocation, continued

Expected average return for one year	7.56%
Expected geometric mean (40 years)	6.90%

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 year ended September 30, 2015 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 year ended September 30, 2015, contributions made and amounts accrued under the DCRS amounted to \$313,453, out of which \$260,932 were allocated towards the unfunded liability of the DB Plan.

Retirement expense amounted to \$313,453 for the year ended September 30, 2015.

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, 2015, the Corporation has accrued an estimated liability of \$179,991 which is reported as a component of accrued compensated absences in the accompanying statement of net position. However, this amount is an estimate and actual payout could differ from the estimate.

Guam Housing Corporation
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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 year ended September 30, 2015, the Corporation's required contributions to this Plan totaled \$166,763.

9. Commitments and Contingencies

Commitments

As of September 30, 2015, the Corporation has loan commitments totaling \$1,451,811.

The Corporation leases office space from the Guam Economic Development Authority (GEDA) under an operating lease which expires on February 28, 2017. The lease agreement calls for a monthly rental payment of \$8,312. For the year ended September 30, 2015, rental expense totaling \$99,744 was paid to GEDA, which is reported as a component of rent expense in the accompanying statement of revenues, expenses and changes in net position.

Guam Housing Corporation
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Notes to Financial Statements, continued

9. Commitments and Contingencies, continued

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

Year ending September 30,

2016	\$ 99,744
2017	<u>41,560</u>
	<u>\$141,304</u>

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 \$3.4 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 restricted cash account was established to fund any damages that may arise in the future, to be increased on a monthly basis by the weighted-average yield of the Corporation's checking account. Excess of losses over the fund is recognized in the year realized. At September 30, 2015, the self-insurance fund totaled \$1,065,827, as reported in the accompanying statement of net position.

10. Long-Term Liabilities

	October 1, 2014	Increases	Decreases	September 30, 2015	Due Within One Year
Accrued compensated absences	\$ 352,024	\$ 164,777	\$ 207,309	\$ 309,492	\$ 138,365
Net pension liability	3,330,515	292,048	673,802	2,948,761	---
Bonds Payable	4,415,000	---	160,000	4,255,000	170,000
Loans held in trust	<u>259,485</u>	<u>---</u>	<u>18,742</u>	<u>240,743</u>	<u>---</u>
	<u>\$ 8,357,024</u>	<u>\$ 456,825</u>	<u>\$ 1,059,853</u>	<u>\$ 7,753,996</u>	<u>\$ 308,365</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>2015</u>	<u>2014</u>
Corporation's proportion of the net pension liability	0.2366%	0.2555%
Corporation's proportionate share of the net pension liability	\$2,948,762	\$3,330,515
Corporation's covered-employee payroll	\$1,284,400	\$1,260,920
Corporation's proportionate share of the net pension liability as a percentage of its covered-employee payroll	229.58%	264.13%
Plan fiduciary net position as a percentage of total pension liability	56.60%	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
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Schedule of the Corporation's Contributions (Unaudited)

Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 347,068	\$ 325,802	\$ 319,322	\$ 289,322	\$ 251,375	\$ 217,374	\$ 199,162	\$ 200,479	\$ 182,211	\$ 162,864
Contribution in relation to the contractually required contribution	<u>\$ 359,159</u>	<u>\$ 319,153</u>	<u>\$ 315,348</u>	<u>\$ 297,876</u>	<u>\$ 242,381</u>	<u>\$ 208,279</u>	<u>\$ 198,198</u>	<u>\$ 199,159</u>	<u>\$ 182,211</u>	<u>\$ 162,864</u>
Contribution excess (deficiency)	<u>\$ 12,091</u>	<u>\$ (6,649)</u>	<u>\$ (3,974)</u>	<u>\$ 8,554</u>	<u>\$ (8,994)</u>	<u>\$ (9,095)</u>	<u>\$ (964)</u>	<u>\$ (1,320)</u>	<u>\$ ---</u>	<u>\$ ---</u>
Corporation's covered-employee payroll	\$ 1,354,686	\$ 1,284,400	\$ 1,260,920	\$ 1,187,344	\$ 1,067,363	\$ 1,102,909	\$ 916,034	\$ 983,750	\$ 947,126	\$ 888,302
Contribution as a percentage of the covered-employee payroll	26.51%	24.85%	25.01%	25.09%	22.71%	18.88%	21.64%	20.24%	19.24%	18.33%

Note to Required Supplementary Information (Unaudited)

Changes of 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, 2015

	Housing	Rental	Combined Total
Assets			
Current assets:			
Unrestricted assets:			
Cash and cash equivalents	\$ 2,158,125	\$ 874,779	\$ 3,032,904
Self-insurance fund	---	1,065,827	1,065,827
Loans receivable, net	1,742,838	---	1,742,838
Tenants receivable, net	---	12,230	12,230
Accrued interest receivable	48,724	1,174	49,898
Prepaid expenses and other	2,940	49,164	52,104
Foreclosed assets held for resale	287,739	---	287,739
Interdivision	(531,082)	531,082	---
Total unrestricted assets	3,709,284	2,534,256	6,243,540
Restricted assets:			
Cash and cash equivalents	2,592,596	133,255	2,725,851
Investments	3,458,431	---	3,458,431
Total restricted assets	6,051,027	133,255	6,184,282
Total current assets	9,760,311	2,667,511	12,427,822
Loans receivable, net	25,617,007	---	25,617,007
Restricted other receivables	1,963,222	---	1,963,222
Depreciable capital assets	---	3,745,812	3,745,812
Non-depreciable capital assets	---	2,934,227	2,934,227
Total assets	37,340,540	9,347,550	46,688,090
Deferred outflows of resources - pension	215,280	165,756	381,036
Total assets and deferred outflows of resources	37,555,820	9,513,306	47,069,126

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

Combining Statement of Net Position, continued

September 30, 2015

	<u>Housing</u>	<u>Rental</u>	<u>Combined Total</u>
Liabilities			
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable and accrued expenses	\$ 84,530	\$ 95,396	\$ 179,926
Current portion of accrued compensated absences	71,310	67,055	138,365
Unearned revenue	<u>43,443</u>	<u>3,668</u>	<u>47,111</u>
Total payable from unrestricted assets	<u>199,283</u>	<u>166,119</u>	<u>365,402</u>
Payable from restricted assets:			
Accounts payable	339,088	---	339,088
Bonds payable	170,000	---	170,000
Accrued interest payable	19,609	---	19,609
Security deposits	900	58,487	59,387
Deposits by borrowers - insurance premiums and real estate taxes	678,255	---	678,255
Rebate liability	<u>71,388</u>	<u>---</u>	<u>71,388</u>
Total payable from restricted assets	<u>1,279,240</u>	<u>58,487</u>	<u>1,337,727</u>
Total current liabilities	<u>1,478,523</u>	<u>224,606</u>	<u>1,703,129</u>
Non-current liabilities:			
Payable from unrestricted assets:			
Non-current portion of accrued compensated absences	112,350	58,777	171,127
Net pension liability	1,782,279	1,166,482	2,948,761
Payable from restricted assets:			
Bonds payable	4,085,000	---	4,085,000
Loans held in trust	<u>240,743</u>	<u>---</u>	<u>240,743</u>
Total non-current liabilities	<u>6,220,372</u>	<u>1,225,259</u>	<u>7,445,631</u>
Total liabilities	<u>7,698,895</u>	<u>1,449,865</u>	<u>9,148,760</u>
Deferred inflows of resources - pension	<u>188,040</u>	<u>123,612</u>	<u>311,652</u>
Net position			
Net investment in capital assets	---	6,680,039	6,680,039
Restricted for lending activities	3,296,832	74,768	3,371,600
Unrestricted	<u>26,372,053</u>	<u>1,185,022</u>	<u>27,557,075</u>
Total net position	<u>\$ 29,668,885</u>	<u>7,939,829</u>	<u>\$ 37,608,714</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, 2015

	<u>Housing</u>	<u>Rental</u>	<u>Combined Total</u>
Operating revenues:			
Interest income on loans receivable	\$ 1,559,195	---	\$ 1,559,195
Rental income	10,900	868,391	879,291
Interest income on investments held by bond trustees	79,619	---	79,619
Miscellaneous revenues	39,565	15,794	55,359
Interest income on deposits	8,873	5,402	14,275
Total operating revenues	<u>1,698,152</u>	<u>889,587</u>	<u>2,587,739</u>
Operating expenses:			
Salaries	767,700	534,321	1,302,021
Interest expense on borrowings	241,017	---	241,017
Retiree supplemental and health benefits	147,861	77,100	224,961
Depreciation and amortization	---	178,360	178,360
Impairment loss on foreclosed assets	112,210	---	112,210
Professional services	72,556	32,587	105,143
Rent	105,054	---	105,054
Retirement and Medicare contributions	66,942	30,557	97,499
Contractual services	45,206	51,565	96,771
Employee benefits, other than retirement	51,336	33,925	85,261
Maintenance	---	72,773	72,773
Other	24,356	45,913	70,269
Bond trustee fees	16,241	---	16,241
Director fees	2,500	---	2,500
Total operating expenses	<u>1,652,979</u>	<u>1,057,101</u>	<u>2,710,080</u>
Increase (decrease) in net position	45,173	(167,514)	(122,341)
Net position at beginning of year, as restated	<u>29,623,712</u>	<u>8,107,343</u>	<u>37,731,055</u>
Net position at end of year	<u>\$ 29,668,885</u>	<u>7,939,829</u>	<u>\$ 37,608,714</u>

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

Salaries, Wages and Benefits

Year ended September 30, 2015

Salaries, wages and benefits:

Salaries	\$ 1,302,021
Retiree supplemental and health benefits	224,961
Retirement and Medicare contributions	97,499
Employee benefits other than retirement	<u>85,261</u>
 Total salaries, wages and benefits	 <u>\$ 1,709,742</u>
 Employees at end of year	 25

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

First-time Homeowner Assistance Program

Year ended September 30, 2015

<u>Source of Fund</u>	<u>Number of Grantees</u>	<u>Total Fund Allocated</u>	<u>Total Amount Disbursed</u>	<u>Balance at September 30, 2015</u>
Guam Housing Corporation	-	\$ ---	\$ ---	\$ 35,381
Department of Administration	<u>122</u>	<u>900,000</u>	<u>837,997</u>	<u>339,088</u>
Total	<u>122</u>	<u>\$ 900,000</u>	<u>\$837,997</u>	<u>\$374,469</u>