

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

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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

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September 30, 2008 and 2007

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J. Scott Magliari
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

GUAM

P.O. BOX 12734 • TAMUNING, GUAM 96931
TEL: (671) 472-2680 • FAX: (671) 472-2686

SAIPAN

PMB 297 PPP BOX 10000 • SAIPAN, MP 96950
TEL: (670) 233-1837 • FAX: (670) 233-8214

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Guam Housing Corporation:

I have audited the accompanying statements of net assets of Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of September 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audits.


I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Housing Corporation as of September 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Guam Housing Corporation's management. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary salary, wage and benefit information on page 49 and the supplemental divisional information on pages 50 through 63 for the years ended September 30, 2008 and 2007, are presented for purposes of additional analysis rather than to present the financial position and changes in net assets of the individual divisions. This additional information is the responsibility of Corporation's management. Such information has been subjected to the tests and auditing procedures applied in my audit of the basic financial statements the Guam Housing Corporation for the year ended September 30, 2008. In my opinion, such information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 16, 2009, on my consideration of Guam Housing Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.


Hagåtña, Guam
February 16, 2009

GUAM HOUSING CORPORATION
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Management's Discussion and Analysis
September 30, 2008

As Management of the Guam Housing Corporation, we offer the readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended September 30, 2008. We encourage readers of these financials to consider the information presented even as you review the financial statistics presented on the following pages

FORWARD

Guam Housing Corporation continues to make measured progress. With capital currently available for lending, the Corporation is moving forward with its own programs and in cooperation with USDA and Land Trust Initiative. The Corporation continues to face its usual concerns of a turning economy; however, it should be noted there has been an improvement in loan collections and a decrease in foreclosures. We expect steadily increasing loan origination activity over next few years with the anticipated military build up on Guam.

Guam Housing Corporation's mandate is to help individuals to secure mortgage financing who cannot otherwise qualify as borrowers through conventional means. Many in our target population that once would have first looked to GHC for funding, have found the conditions, i.e., differing opportunities available to them through private lenders. From the standpoint of our mandate, this situation is not wholly unexpected or even unsatisfactory as increased loan origination among private sector lenders can be viewed as an indication of a recovering economy. We encourage individuals to seek financing through conventional lenders wherever and whenever it is feasible for them to do so. GHC, as the government entity in this industry, is ever mindful that competition with the private sector is not an option open to us.

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

Loan Programs

Currently, GHC makes available the following loan programs.

I. Regular Loan Program

The residential mortgage lending program is to assist families and individuals, who are first time homeowners and are unable to obtain financing for purchase or construction through conventional lending institutions. In fiscal year 2008 the Board approved and adopted a provision allowing GHC's Management to adjust loans interest rates to reflect

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Loan Programs, continued

the current prevailing rate. This action emanates from P.L. 26-123 which states the Board of Directors may set the rate of interest however it cannot assess a rate of interest greater than 2 points over its cost of funds. The term remains at 30 years.

II. Six Percent Loan Program

This is a low interest rate residential mortgage loan program to assist families and individuals who are first time homeowners and are unable to obtain financing from conventional mortgage lending institutions. The interest rate is 6.00% for a term of 30 years.

III. Community Affordable Housing Action Trust (CAHAT)

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

IV. Leveraged Loan Program

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

Guam Housing Corporation's loan will be at the interest rates established for its regular loan program for a term of thirty (30) years. Rural Development loans will be available at the prevailing interest rate for a term of thirty three (33) years. However, because Rural Development'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.

Brief overview of Guam Housing Corporation, Rental Division

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

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Major repairs and renovations for the Guma As-Atdas buildings (A) and (B) are budgeted for FY 2008 and 2009. Building (B) consisting of twelve apartments will be renovated first. Tenants were notified to move out commencing mid fiscal year 2007 and by September 20, 2007 building (B) was completely vacant. A scope of work was completed and the bid package was reviewed by Government of Guam's Department of Public Works for building B. As a result of these vacancies, the rental income has decreased for fiscal years 2007 and 2008.

The Guam Rental Division (GRD) continually strives to improve in policy and performance. GRD is currently utilizing established area guidelines to qualify tenants with respect to family size and income. This process ensures tenants have the ability to meet their monthly rental fees.

Lada Estates Affordable Housing

Through Public Law 20-225, 46 acres of land were transferred to the Corporation from the Government of Guam with the mandate to develop affordable housing units for sale to first-time home buyers. Lada Estates, as it became known, was intended as a two-phase turnkey project. Subsequent economic conditions prevented the completion of the project. In 2004, Maeda Pacific Corporation brought suit against the Guam Housing Corporation. As of September 30, 2008, the issue of Lada Estates remains unresolved.

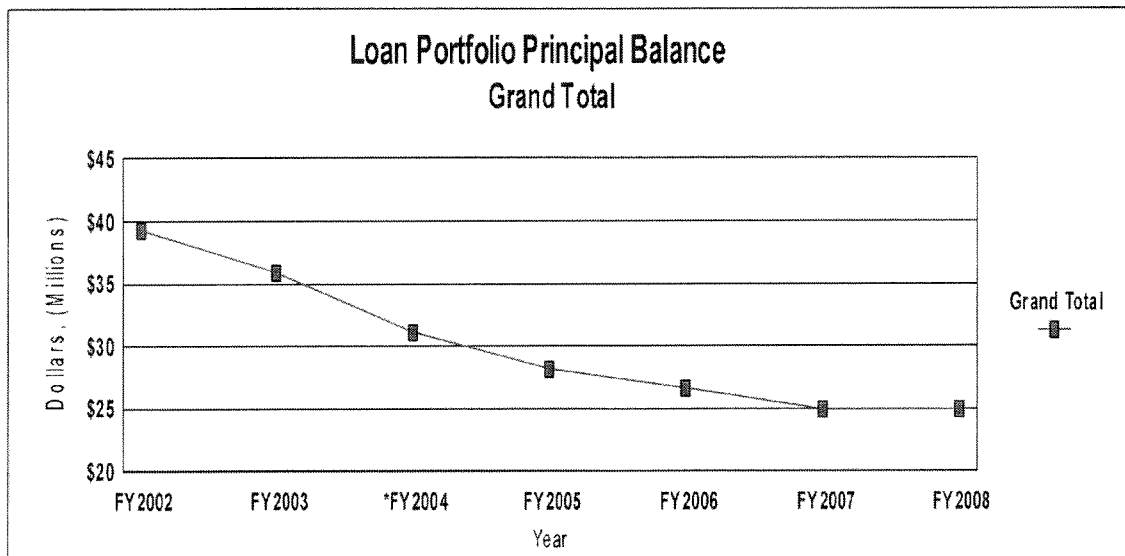
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FINANCIALS AT-A-GLANCE

The GHC loan portfolio was reduced by \$26,267 to approximately \$25 million falling .10% from the prior year. Lower interest rates available from other lenders along with the build up in equity has caused or allowed many of the potential borrowers to finance elsewhere which accelerated the reduction in GHC portfolio. The real estate market has been on a decline and may now be reaching bottom. The following chart shows the trend of GHC decreasing portfolio. We are confident the anticipated population increase will act as a catalyst in Guam's economic recovery which will in turn help GHC to build a stronger portfolio.

Loan Portfolio Principal Balance	<u>FY2002</u>	<u>FY2003</u>	<u>*FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>
Grand Total	\$39,381,962	\$35,929,693	\$31,175,230	\$28,185,870	\$26,632,726	\$25,053,953	\$25,027,686
Total number of loans	769	702	580	533	505	470	450



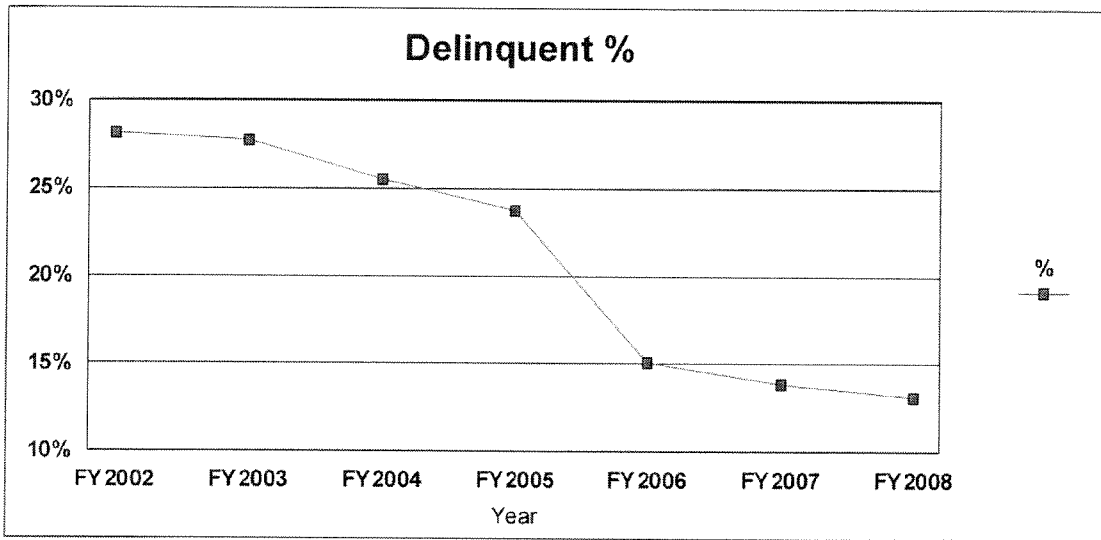
*Note: A total of 54 Sagan loans totaling \$370,240 that were converted to grants were returned to GHURA and removed from GHC's books

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Total delinquencies decreased by 6 loans during the year, an improvement of \$169,491 over the previous year. Overall, loans delinquent 30 days and over fell by .70% from the past year to 13.15%. The decrease in GHC's delinquent accounts is evident in the statistical data and chart below. The decreases are the result of a concerted effort in collections and servicing.

Delinquent %	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>
%	28.17%	27.74%	25.51%	23.74%	15.09%	13.86%	13.15%
Principal Balance	\$11,094,528	\$9,967,364	\$7,953,395	\$6,521,715	\$3,919,197	\$3,387,036	\$3,217,545
Total number of loans	234	216	140	108	60	54	48



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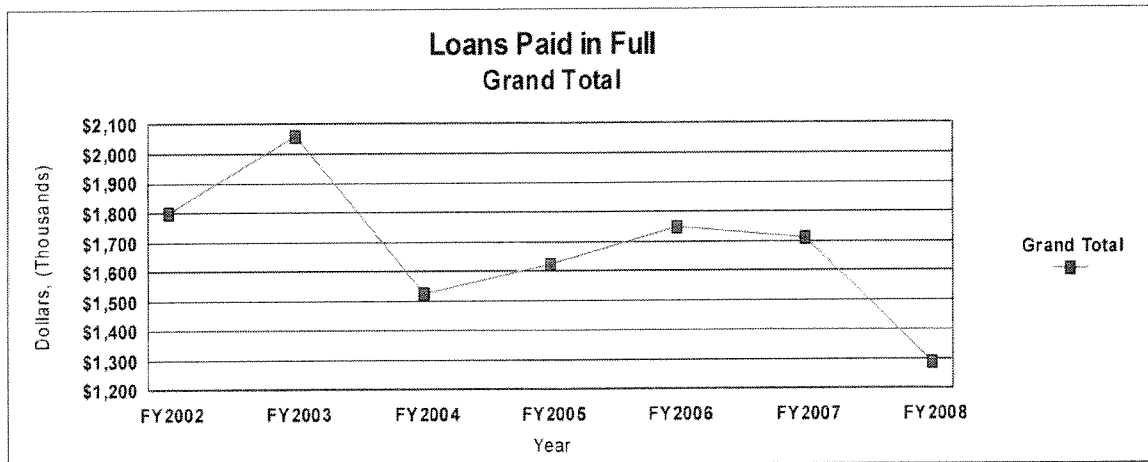
Forty-one (41) loan payoffs were received in FY2008 totaling \$1.3 million, a decrease of \$421,645 over the prior year. The payoffs can be attributed in part to mortgage holders refinancing the homes at lower interest rates than available in years past, some as high as 12%. Because these particular home owners are no longer first time home buyers GHC cannot provide financing for this purpose. Others were delinquent account holders who sought financing through another institution to prevent foreclosure by Guam Housing Corporation. The following data and chart depicts the trend in loan payoffs over the past seven (7) years.

Loans Paid in Full

	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>
Grand Total	\$1,802,486	\$2,061,421	\$1,525,515	\$1,624,036	\$1,747,437	\$1,712,039	\$1,290,394

Number of Loans

Total	58	68	52	44	49	56	41
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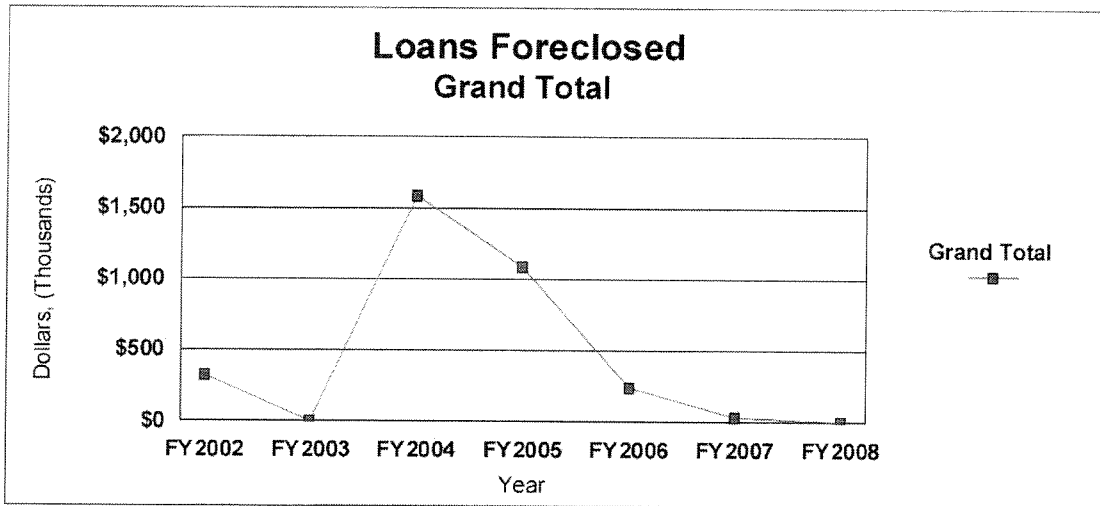
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In FY 2008, the collections division of GHC took a more aggressive approach on loan collections and delinquencies. The result of this effort has been better response from our borrowers. This improved communication is allowing GHC to place delinquent borrowers on short-term payment plans and payroll deductions to cure account delinquencies.

GHC has been working closely with legal counsel to more effectively address serious delinquencies and work with borrower to avoid foreclosure. However, after all efforts has been exhausted foreclosure action was taken on several accounts

Foreclosed Loans

	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>
Grand Total	\$326,714	\$0	\$1,589,852	\$1,087,763	\$240,849	\$35,047	\$0
Total number of loans	3	0	14	11	3	1	0



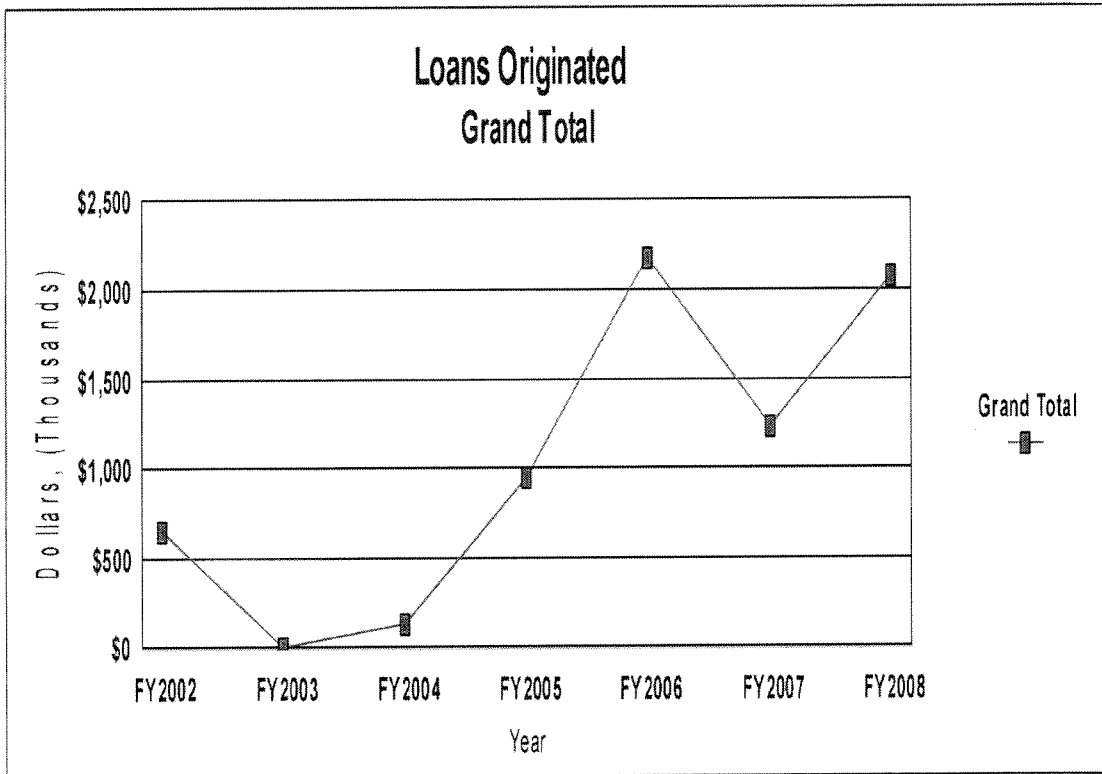
Eight (8) units were sold in FY 2008. Total loss on the sale was \$103,232. Poor conditions of the units have continued to be a hindrance to their quick sale. Many of the vacated units were in serious disrepair and were thus susceptible to further damage from vandals while vacant. Our organization is striving to sell foreclosed property more quickly upon acquisition to avert damage or vandalism to the units. In doing this we can sustain the better market value in our foreclosed units.

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

Loans Originated	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>
Grand Total	\$651.842	\$11.237	\$141.083	\$952.782	\$2,180.928	\$1,235.210	\$2,072.972
Total number of loans	12	1	2	11	36	17	18

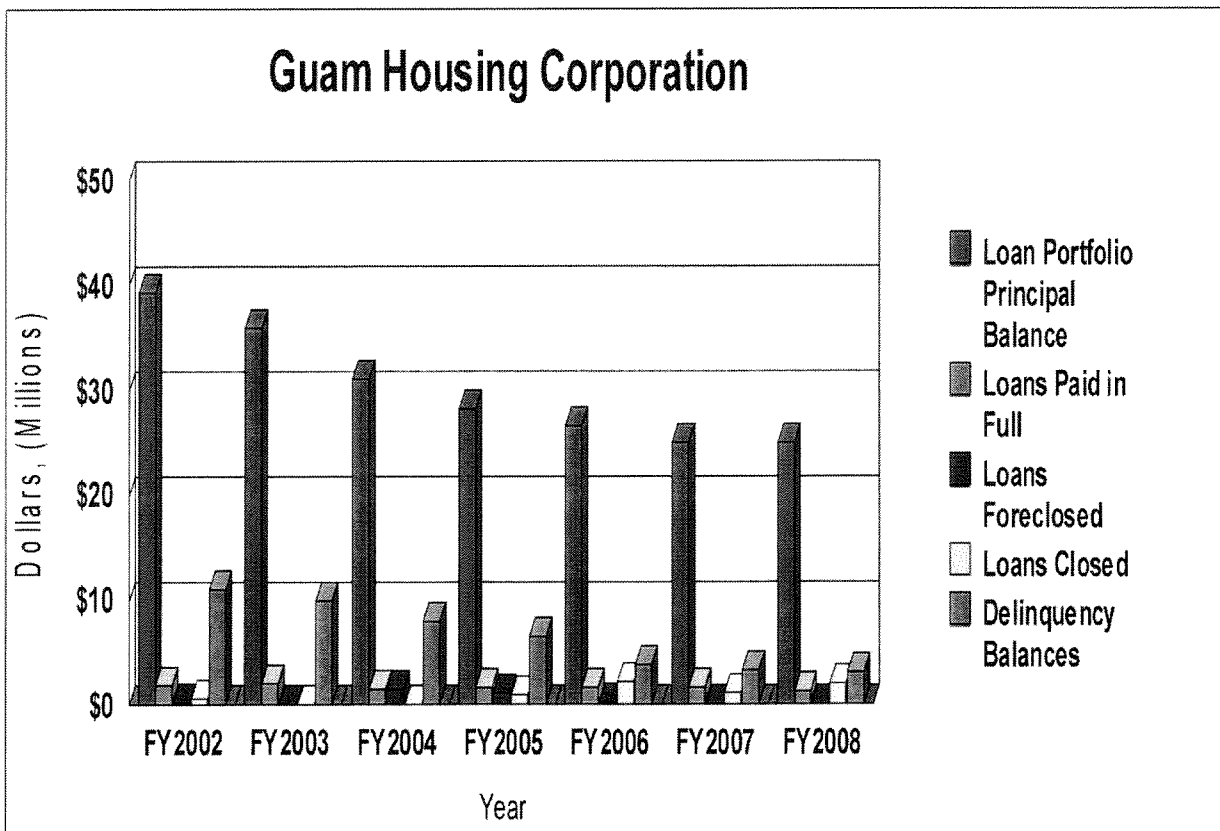


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Overall Loan Portfolio

GHC Portfolio	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Loan Portfolio Principal Balance	\$39,381,962	\$35,929,693	\$31,175,230	\$28,185,870	\$26,632,726	\$25,053,953	\$25,027,686
Loans Paid in Full	\$ 802,486	\$ 2,061,421	\$ 525,515	\$ 1,624,036	\$ 1,747,437	\$ 1,712,039	\$ 1,290,394
Loans Foreclosed	\$ 326,714	\$ 0	\$ 1,589,852	\$ 1,087,763	\$ 240,849	\$ 35,047	\$ 0
Loans Closed	\$ 651,842	\$ 11,237	\$ 141,083	\$ 952,782	\$ 2,180,928	\$ 1,235,210	\$ 2,072,972
Delinquency Balances	\$11,094,528	\$ 9,967,364	\$ 7,953,395	\$ 6,521,715	\$ 3,919,197	\$ 3,387,036	\$ 3,217,545



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

Statement of Net Assets
Fiscal Year Ended September 30, 2008, 2007 & 2006

Assets	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash & investments	\$21,743,641	\$21,016,010	\$18,696,085
Loans receivable, other receivable, prepaid expense and inventory	21,649,007	21,671,873	23,122,029
Land held for development	16,114,338	16,114,338	16,114,338
Foreclosed assets held for resale	292,379	1,124,925	1,982,677
Capital assets	<u>5,729,086</u>	<u>5,824,682</u>	<u>5,967,579</u>
Total Assets	<u>\$65,528,450</u>	<u>\$65,751,828</u>	<u>\$65,882,708</u>
Liabilities			
Accounts payable and accrued expenses	\$11,229,751	\$11,243,775	\$11,358,054
Notes payable	6,182,868	7,013,341	7,791,763
Deposits by borrowers and security deposit	500,333	517,056	609,070
Bonds payable	5,215,000	5,320,000	5,420,000
Loans held in trust	<u>678,586</u>	<u>720,489</u>	<u>777,067</u>
Total Liabilities	<u>23,806,538</u>	<u>24,814,661</u>	<u>25,955,954</u>
Total net assets	<u>41,721,911</u>	<u>40,937,167</u>	<u>39,926,754</u>
Total Liabilities and Net Assets	<u>\$65,528,450</u>	<u>\$65,751,828</u>	<u>\$65,882,708</u>

As you look through the Audited Statement of Revenues, Expenses and Changes in Net Assets you will notice that total Retiree supplemental, COLA and health benefits increased by \$122,410 from previous years to \$181,838. A major part of the increase is contributed to the medical and dental insurance for our retired employees. Government contribution for retired employees' medical, dental and life insurance for FY 2008 and 2007 were \$122,959 and \$35,549 respectively. Also contributing to the increase was payment made for COLA for both FY 2008 and 2007 of \$17,600 each was paid in FY 2008.

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Currently, people are reluctant to commit to long-term financial obligations due to uncertain global and local economic conditions. The decreased demand for housing loans also reflect people's inability to afford down-payment or may otherwise be qualified for such loan financing. Additionally, borrowers have been paying off existing mortgages with the Corporation and obtaining lower interest rate loans from commercial lending institutions. In contrast, the demand for low-cost housing rental units has remained constant in 2008 and 2007. In view of this and as noted in the operating results for fiscal years 2008 and 2007, we can usually depend on a more stable rental market to support the Corporation's operations until economic conditions stabilize or improve.

Statement of Revenues, Expenses and Changes in Net Assets
Fiscal Year Ended September 30, 2008, 2007 & 2006

	2008	2007	2006
Operating revenues	\$ 2,815,661	\$ 2,981,538	\$ 3,085,683
Operating expenses	2,688,502	2,557,979	2,523,313
Income from operations	127,159	423,559	562,371
Non-operating revenues	657,585	586,853	400,689
Increase in net assets	784,744	1,010,412	963,060
Total net assets at beginning of year	40,937,167	39,926,755	38,963,695
Total net assets at end of year	<u>\$ 41,721,911</u>	<u>\$ 40,937,167</u>	<u>\$ 39,926,755</u>

LOAN PORTFOLIO

The total loan portfolio decreased by .09% in FY 2008. Although we realized a slight increase in the loan origination activity over the past four years, GHC still realizes a number of loan payoffs. As of September 2008, 19 loans were approved totaling \$2,061,282. For FY 2008, eighteen (18) loans were closed totaling \$2.1 million. A total of \$368,715 awaits loan closing.

To further increase the loan origination activity, management has been aggressive in its marketing efforts. This is reflective of the total number of pre-qualification interviews conducted for the fiscal year. There were 176 pre-qualification interviews conducted. Of these, only 30 pursued the loan processing.

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

Management has recognized that the interest rate for the Regular Loan Program, which was at 7.5%, was high for the current period and brought this issue to the attention of the Board. In August 2008, the Board upon unanimous vote, approved and adopted a provision allowing GHC's Management to adjust loans interest rate to reflect the current prevailing rate.

A good number of applicants still in process are seeking properties within the price range they are qualified for. It appears that there may be a lack of inventory of existing homes within the \$100,000 to \$160,000 range. GHC continues its efforts to identify the issue on affordable housing supply for its targeted clientele.

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

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

DELINQUENCY

Collections have improved by .70% in FY2008. Regrettably, this \$169,000 improvement is in itself overshadowed by the decline of the total portfolio. The Collection Division is working to sustain the progress it has made in collection efforts. The Credit and Collection Committee is charged with the review of accounts for referral to legal and workout actions. We expect that the level of delinquency will continue to decrease as economic conditions improve and collection efforts remain aggressive.

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

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

The Corporation did not foreclose on any homes during the year ended September 30, 2008. With legal counsel firmly on track with the Collection Division on referrals for foreclosure, we fully expect that the process will continue to improve. Legal counsel has proven to be an effective partner in the Corporation's efforts to clean up non-performing assets. Maintenance and security of these units throughout the Territory of Guam has fallen to the Rental Division, which due to its limited staff, struggles to accommodate the additional workload and concerns of vandalism, theft, and generally the deterioration of the vacant properties. As of September 2008, GHC had a total of three (3) O.R.E.O. Properties totaling \$292,379.

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

ALLOWANCE FOR LOAN LOSSES

A total of \$105,782 was charged against the allowance for loan losses in fiscal year 2008. Management and the Board believes that the current allowance is appropriately conservative, given the decrease in delinquency, the relative total value of the portfolio, the trending increase in property values, and the ability of homeowners to actually meet their obligations to maintain homeownership.

DEBT SERVICE

GHC continues to honor its debt service obligations to its sole creditor, the Federal Home Loan Bank of Seattle. As of September 30, 2008, \$6,182,868 remains due on this note which is on schedule to be fully amortized by the year 2014.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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

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Statements of Net Assets
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<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents (notes 1 and 2)	\$ 12,781,114	\$ 11,316,730
Self-insurance fund (note 1)	1,171,632	1,035,552
Loans receivable (notes 1, 3, 9 and 13)	2,105,834	2,658,869
Tenant accounts and other receivables, net (note 5)	10,044	12,339
Accrued interest receivable (note 8)	183,246	261,843
Supplies inventory	43,836	49,246
Prepaid expenses and other	<u>4,334</u>	<u>21,118</u>
Total unrestricted assets	<u>16,300,040</u>	<u>15,355,697</u>
Restricted assets:		
Cash and cash equivalents (notes 1 and 2)	2,234,324	3,034,737
Investments (notes 2 and 8)	5,556,569	5,628,991
Other receivables-current portion (note 4)	<u>209,539</u>	<u>246,800</u>
Total restricted assets	<u>8,000,432</u>	<u>8,910,528</u>
Total current assets	24,300,472	24,266,225
Loans receivable (notes 1, 3, 9 and 13)	17,540,682	16,805,358
Other receivables -noncurrent portion (note 4)	1,551,491	1,616,300
Land held for development (notes 12 and 13)	16,114,338	16,114,338
Foreclosed assets held for resale (note 7)	292,379	1,124,925
Capital assets, net (note 6)	<u>5,729,086</u>	<u>5,824,682</u>
Total assets	<u>\$ 65,528,448</u>	<u>\$ 65,751,828</u>

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

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

Statements of Net Assets, Continued
September 30, 2008 and 2007

<u>LIABILITIES AND NET ASSETS</u>	<u>2008</u>	<u>2007</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses (note 1)	\$ 117,650	\$ 118,470
Deferred revenue	136,963	149,576
Current portion of compensated absences (note 1)	<u>60,800</u>	<u>52,142</u>
Total payable from unrestricted assets	<u>315,413</u>	<u>320,188</u>
Payable from restricted assets:		
Current portion of bonds payable (notes 8 and 10)	110,000	105,000
Current portion of notes payable (notes 9 and 10)	886,002	830,473
Accrued interest payable (notes 8 and 9)	56,671	61,633
Security deposits	48,360	51,374
Deposits by borrowers - insurance premiums and real estate taxes	451,973	465,682
Rebate liability (note 8)	<u>110,110</u>	<u>104,934</u>
Total payable from restricted assets	<u>1,663,116</u>	<u>1,619,096</u>
Total current liabilities	<u>1,978,529</u>	<u>1,939,284</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Long-term portion of accounts payable (notes 1 and 10)	10,555,000	10,555,000
Long-term portion of compensated absences (notes 1 and 10)	99,534	125,106
Accrued unfunded liability to retirement fund (notes 10 and 11)	93,022	76,915
Payable from restricted assets:		
Long-term portion of bonds payable (notes 8 and 10)	5,105,000	5,215,000
Long-term portion of notes payable (notes 9 and 10)	5,296,866	6,182,868
Loans held in trust (note 4)	<u>678,586</u>	<u>720,489</u>
Total non-current liabilities	<u>21,828,008</u>	<u>22,875,378</u>
Total liabilities	<u>23,806,537</u>	<u>24,814,662</u>
Net assets:		
Invested in capital assets, net of related debt	3,219,858	3,315,453
Restricted (note 9)	24,255,580	24,182,525
Unrestricted	<u>14,246,473</u>	<u>13,439,188</u>
Total net assets	<u>41,721,911</u>	<u>40,937,166</u>
Commitments and Contingencies (note 13)		
	<u>\$ 65,528,448</u>	<u>\$ 65,751,828</u>

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

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

Statements of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Interest on loans receivable	\$ 1,702,280	\$ 1,822,260
Rental income	733,055	775,011
Interest on investments held by bond trustees	327,902	320,396
Loan origination fees	<u>52,423</u>	<u>63,871</u>
Total operating revenues	<u>2,815,660</u>	<u>2,981,538</u>
Operating Expenses:		
Salaries	946,730	931,785
Interest expense	715,290	772,069
Retirement contributions	274,750	208,057
Retiree supplemental, cola and health benefits	181,838	59,428
Depreciation	139,052	149,977
Contractual services	85,939	74,091
Rent	72,198	72,198
Professional services	67,271	54,025
Other	53,987	59,126
Maintenance	52,578	37,386
Employee benefits, other than retirement	42,370	58,452
Loan origination costs	29,843	38,796
Bond trustee fees	14,945	14,690
Travel	10,494	4,964
Director fees	800	900
Bad debts	<u>416</u>	<u>22,034</u>
Total operating expenses	<u>2,688,501</u>	<u>2,557,978</u>
Income from operations	<u>127,159</u>	<u>423,560</u>
Non-operating revenues (expenses):		
Interest income on bank deposits	558,544	516,454
Other income	99,042	70,942
Loss on disposal of capital assets	-	(544)
Total non-operating revenues (expenses), net	<u>657,586</u>	<u>586,852</u>
Increase in net assets	784,745	1,010,412
Net assets at beginning of year	<u>40,937,166</u>	<u>39,926,754</u>
Net assets at end of year	<u>\$ 41,721,911</u>	<u>\$ 40,937,166</u>

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

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

Statements of Cash Flows
Year Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts received from customers	\$ 2,579,467	\$ 4,116,808
Payments to suppliers	(887,429)	(682,113)
Payments to employees	(946,730)	(931,785)
Other operating receipts	<u>62,849</u>	<u>97,897</u>
Net cash provided by operating activities	<u>808,157</u>	<u>2,600,807</u>
Cash flows from investing activities:		
Decrease in investments	(72,422)	(113,469)
Interest received on cash and investments with trustees	327,902	244,959
Interest income on bank deposits	498,836	456,432
Other income	<u>99,042</u>	<u>53,929</u>
Net cash provided by investing activities	<u>853,358</u>	<u>641,851</u>
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(105,000)	(100,000)
Repayment of notes payable	(830,473)	(778,422)
Repayment of rebate liability	5,176	(28,158)
Interest paid on notes payable	(431,358)	(482,922)
Interest paid on bonds	(288,898)	(293,660)
Increase in self-insurance fund	(136,080)	(129,434)
Proceeds from sale of assets held for resale	832,546	881,522
Acquisition of capital assets	<u>(43,457)</u>	<u>(7,624)</u>
Net cash used for financing activities	<u>(997,544)</u>	<u>(938,698)</u>
Net increase in cash and cash equivalents	663,971	2,303,960
Cash and cash equivalents at beginning of year	<u>14,351,467</u>	<u>12,047,507</u>
Cash and cash equivalents at end of year	<u>\$ 15,015,438</u>	<u>\$ 14,351,467</u>
Cash and cash equivalents	\$ 12,781,114	\$ 11,316,730
Restricted cash and cash equivalents	<u>2,234,324</u>	<u>3,034,737</u>
Total cash and cash equivalents, end of year	<u>\$ 15,015,438</u>	<u>\$ 14,351,467</u>

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

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

Statements of Cash Flows, Continued
Year Ended September 30, 2008 and 2007

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 127,159	\$ 423,560
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Bad debts	416	22,034
Depreciation	139,062	149,977
(Gain) loss on sale of properties held for resale	103,232	(960)
(Gain) loss on disposal of capital assets	-	544
(Increase) decrease in assets:		
Loans receivable	(526,762)	1,245,241
Tenant accounts and other receivables	2,295	(10)
Accrued interest receivable	78,597	(32,412)
Other receivables	59,344	235,535
Foreclosed assets held for resale	832,546	845,148
Supplies inventory	5,410	(13,754)
Prepaid expenses and other	16,784	(11,226)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	41,906	(38,960)
Accrued compensated absences	(16,914)	2,820
Accrued unfunded retirement liability	16,107	(28,518)
Accrued interest payable	(4,962)	(4,512)
Deposits by borrowers	(13,709)	(86,884)
Security deposits	(3,014)	(5,130)
Deferred revenue	(12,613)	(16,950)
Rebate liability	5,176	(28,158)
Loans held in trust	(41,903)	(56,578)
Net cash provided by operating activities	\$ 808,157	\$ 2,600,807
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ 720,256	\$ 776,581
Loans foreclosed and transferred to assets held for resale during the year	\$ -	\$ 45,000

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

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

Notes to Financial Statements
September 30, 2008 and 2007

(1) Purpose and Summary of Significant Accounting Policies

Purpose

Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, was created by Public Law 8-80 to promote the general welfare of the Territory of Guam by encouraging investment in and development of low cost housing and providing low cost housing rental units. The Corporation provides for its operating needs by charging points and interest on its loans. As a governmental entity created by public law, the Corporation is not subject to taxes. Pursuant to the authority granted to the Corporation under Public Law 8-80, the Guam Rental Corporation (GRC) was created as separate reporting entity to promote the general welfare of the inhabitants of the Territory of Guam by encouraging and engaging in the development of low-cost rental housing. GRC was principally engaged in the ownership and rental of housing complexes known as Lada Gardens and Guma As-Atdas. Lease terms are initially for one month and continue indefinitely for successive terms of one month each, unless automatically terminated under specified terms of the lease agreement. Effective November 26, 2003, the Corporation dissolved GRC as a separate entity and integrated the rental management functions into its financial activities as a rental division.

For comparative purposes for the Guam Housing Corporation, management has elected to include supplementary information to present the financial position, results of operations and changes in cash flows with the inclusion of Rental Division and is presented on pages 50 through 63.

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

The financial statements of the Corporation have been prepared in conformity with accounting principals generally accepted in the United States of America (GAAP) as applied to governmental units. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Guam Housing Corporation has implemented GASB 20 and elected to apply all FASB Statements and Interpretations issued after November 30, 1989.

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

Notes to Financial Statements
September 30, 2008 and 2007

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

New Accounting Standards

During fiscal year 2008, the Corporation implemented the following pronouncements:

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

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

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

Notes to Financial Statements
September 30, 2008 and 2007

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

Accounting Standards Not Yet Implemented

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

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

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

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

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. In accordance with the accrual method, revenues are recognized when they are earned and expenses are recognized when they are incurred. The Corporation's revenues are primarily derived from fees and interest charged on loans and rental fees charged to tenants. Financing and investing related transactions are reported as non-operating revenues. All expenses related to operating the Corporation are reported as operating expenses.

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

Notes to Financial Statements
September 30, 2008 and 2007

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

Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of foreclosed real estate properties. In connection with the determination of the estimated losses on loans and foreclosed properties, management obtains independent appraisals for significant properties.

The Corporation's loan portfolio consists of single-family residential loans in the Territory of Guam. Real estate prices in this market are also susceptible to fluctuation and speculation. Accordingly, the ultimate collectibility of a substantial portion of the Corporation's loan portfolio and the recovery of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans and foreclosed real estate, further reductions in the carrying amounts of loans and foreclosed assets may be necessary based on changes in local economic conditions. Because of these factors, it is reasonably possible that the estimated losses on loans and foreclosed real estate may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Lending Policies

The Corporation is permitted to make loans for the purchase, construction, or purchase of land and construction of homes not to exceed the loan limit established by the U.S. Department of Housing and Urban Development. Loan limits are currently \$200,165 for single-unit dwellings. The Corporation accepts loan applications only for single-unit dwellings. Determination of loan interest rates is made by the Board of Directors of the Corporation but does not exceed the two percent (2%) of the cost of funds to the Corporation. In fiscal year 2008, the Board of Directors approved and adopted a provision allowing its management to adjust loan interest rates to reflect the current prevailing rate. This action emanate from Public Law #26-123 which states that the Board of Directors may the rate of interest; however, it cannot assess a rate of interest greater than two (2) points over its cost of funds.

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

Notes to Financial Statements
September 30, 2008 and 2007

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

Cash and Cash Equivalents

For purposes of the balance sheets and the statements of cash flows, certificates of deposit with original maturities of three months or less are considered to be cash and cash equivalents.

Loans and Accrued Interest Receivable

It is the Corporation's policy to cease the accrual of interest on delinquent loans after 90 days past due and when in the opinion of management, the past due condition is an indication of possible uncollectibility.

Receivable – Tenants

Tenant receivables are derived from monthly rents charged to tenants leasing rental units owned by the Corporation. The Corporation recognizes bad debts using the allowance method and are only written off after approval by management and subsequent reporting to the Board of Directors.

Loans and Allowance for Loan Losses

Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees. The allowance for loan losses is maintained at a level, which in management's judgment is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentration, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Because of the uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Inventories

Inventories of materials and merchandise are determined by physical count and are valued at the lower of cost or market.

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

Notes to Financial Statements
September 30, 2008 and 2007

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

Capital Assets

The Corporation generally capitalizes all expenditures for property and equipment in excess of \$5,000 with a useful life of one year or more. Depreciation of property and equipment is computed using the straight-line method over estimated useful lives of 2 to 10 years for vehicles and office furniture and equipment, and over the length of the lease term for leasehold improvements.

Self Insurance

The Corporation self-insures for all risks to Lada Gardens and Guma As-Atdas. A separate restricted cash account was established to fund any damages that may arise in the future, to be increased on a monthly basis by the weighted-average yield of the operation's checking account. To the extent future losses exceed the fund, they will be charged to current operations. No losses have been incurred as a result of management's risk management practices.

Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist principally of cash, investments and loans receivable. At September 30, 2008 and 2007, the Corporation has cash deposits in bank accounts that exceed federal depository insurance limits totaling \$3,077,242 and \$3,725,009, respectively. The Corporation has not experienced any losses in such accounts.

Substantially all of the Corporation's loans receivables are due from borrowers residing in the Territory of Guam. The Corporation maintains an allowance for loan losses based on management's evaluation of potential uncollectibility.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned. Accumulation of such vacation credits was limited to 480 hours at fiscal year end. All such vacation credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. Any annual leave earned in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 was credited to the employee's sick leave. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003 may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service.

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

Notes to Financial Statements
September 30, 2008 and 2007

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

Compensated Absences, continued

At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. As of September 30, 2008 and 2007, accrued annual leave totaled \$79,084 and \$83,048, respectively. Pursuant to Public Law 26-86, employees under the Defined Contribution Retirement System (DCRS), upon their retirement will be paid by their employer a lump sum payment of their unused sick leave hours up to fifty percent. At September 30, 2008 and 2007, unused sick leave of the members under the DCRS plan totaled \$162,500 and \$188,400, of which 50% or \$81,250 and \$94,200, respectively, was accrued in the accompanying the financial statements.

Loan Origination Fees and Related Costs

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

Net Assets

With the implementation of GASBS 34, the reporting of contributed capital and retained earnings have completely changed. As stated in paragraph 98 of GASBS 34, governments are now required to report proprietary fund net assets or fund equity in three components which are as follows: Invested in capital assets, net of related debt, Restricted and Unrestricted. "Retained earnings", "contributed capital" and "designations" should no longer be used on the face of the proprietary fund financial statements, even as a subcomponent of one of the required net assets components. Also, capital contributions are no longer reported as direct additions to fund equity but are reported in the all-inclusive statement of revenues, and changes in net assets.

At September 30, 2008 and 2007, the Guam Housing Corporation classified and included contributions to Retained Earnings in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Risk of Loss

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

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

Notes to Financial Statements
September 30, 2008 and 2007

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

Reclassifications

Certain account balances in the 2007 financial statements have been reclassified to correspond with the 2008 presentation.

(2) Cash and Investments

The Mortgage Revenue Bond Indenture requires the establishment of special funds and accounts to be held and administered by the Corporation's trustees for the accounting of the monies. At September 30, 2008 and 2007, investments and cash held by the trustees for the Corporation, in these funds and accounts are as follows:

	<u>2008</u>	<u>2007</u>
Escrow Fund	\$ 17,891	\$ 17,440
Capitalized Interest Fund	257	250
Revenue Fund	<u>5,162,500</u>	<u>5,235,380</u>
	<u>\$ 5,180,648</u>	<u>\$ 5,253,070</u>

Unrestricted and restricted cash and cash equivalents insured by the Federal Deposit Insurance Corporation (FDIC) totaled \$11,938,197 and \$10,626,459 as of September 30, 2008 and 2007, respectively, with the remaining balances being uninsured which totaled \$3,077,242 and \$3,725,009, respectively. The Corporation maintains its cash and equivalents in over one hundred financial institutions insured by FDIC to mitigate risk of loss.

Cash and cash equivalents and investments at September 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Cash on hand and due from banks	\$ 2,707,565	\$ 2,999,323
Certificates of deposits	11,698,381	8,224,235
Money market funds	6,210,013	6,031,765
U. S. Treasury bills	-	2,722,964
Cash with Federal Home Loan Bank	<u>1,127,680</u>	<u>1,037,724</u>
	<u>\$21,743,639</u>	<u>\$21,016,011</u>

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

Notes to Financial Statements
September 30, 2008 and 2007

(2) Cash and Investments, continued

Of the above cash and cash equivalents and investments, \$7,790,894 and \$8,663,728 was restricted for at September 30, 2008 and 2007, as follows:

	2008	2007
Restricted Cash:		
Revolving loan fund	\$ 857,251	\$ 1,706,045
Community Affordable Housing Action Trust	650,753	587,274
Trust fund and borrower's deposit	662,708	675,964
Tenant security deposits	63,612	65,454
Total restricted cash	2,234,324	3,034,737
Restricted Investments:		
Investments and cash with Bond Trustees	5,180,648	5,253,070
Foreclosure Protection Fund	375,921	375,921
Total restricted investments	5,556,569	5,628,991
Total Restricted Cash and Investments	\$ 7,790,893	\$ 8,663,728

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

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

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

Notes to Financial Statements
September 30, 2008 and 2007

(2) Cash and Investments, continued

A. Cash

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

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

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

For credit risk in the case of deposits, there is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. At of September 30, 2008 and 2007, the carrying amount of the Corporation's total cash and cash equivalents was \$15,015,438 and \$14,351,468, respectively, with a corresponding bank balance was \$11,979,458 and \$11,022,225, respectively are insured by the Federal Deposit Insurance Corporation or fully collateralized by securities held by a trustee in the name of the financial institution. As of September 30, 2008 and 2007, bank deposits in the amount of \$250,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk.

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

Notes to Financial Statements
September 30, 2008 and 2007

(2) Cash and Investments, continued

B. Investments:

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

- Category 1 Investments that are insured or registered, or securities held by the Corporation or its agent in the Corporation's name;
- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Corporation's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in Corporation's name.

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

The Corporation's bond trustees hold the Corporation's restricted investments and cash at September 30, 2008 and 2007. Investments are stated at amortized cost and accrued interest under a separate balance sheet caption. The carrying value of restricted assets and cash at September 30, 2008 and 2007 are as follows:

	2008	2007
Money Market/Trust Fund	\$ 5,180,648	\$ 5,253,070
U.S. Treasury Notes	375,921	375,921
	\$ 5,556,569	\$ 5,628,991

The market value of restricted investments and cash at September 30, 2008 and 2007 approximates its carrying value.

The bond funds have been classified as Category 3 investments and the bond reserve funds have been classified as Category 1 investments in accordance with Government Accounting Standards Board (GASB) Statement #3.

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(2) Cash and Investments, continued

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

The Corporation also maintains restricted investments for its Foreclosure Protection Fund. The Foreclosure Protection Fund is used by the Corporation to protect the interest of Guam's Community Affordable Housing Action Trust (CAHAT) program as the second mortgage and is used exclusively for the purpose of paying off the first mortgage on foreclosure. As of September 30, 2008 and 2007, the restricted investments for this fund totaled \$375,921 each year.

At September 30, 2008, the Corporation's investment in debt securities is as follows:

	Moody's Credit Rating	Investment Maturities (In Years)				Total
		Less than 1	1 to 5	6 to 10	Greater than 10	
U.S. Treasury Notes	Aaa	\$ 375,921	\$ -	\$ -	\$ -	\$ 375,921
Federal Home Loan Mortgage Corporation	Aaa	-	-	-	4,113,013	4,113,013
Blackrock Liquidity T-Fund	Aaa	<u>1,067,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,067,635</u>
		<u>\$1,443,556</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,113,013</u>	<u>\$5,556,569</u>

Concentration of risk for investments is the risk of loss attributable to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in one issuer representing five percent (5%) or more of total investments of the Corporation. As of September 30, 2008, the Corporation's investment in Federal Home Loan Mortgage Corporation represented 74% of its total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect their fair value of debt instruments. The Corporation investment policy limits its investments maturities by restricting investments to U.S. government securities and FDIC insured certificates of deposits and money market funds.

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(3) Loans Receivable

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

	2008	2007
Due in varying monthly installments and interest rates with maturities to 2024, including loans in process of \$260,525 in 2008.	\$ 23,286,080	\$ 23,200,281
Less net deferred loan origination fees	(217,482)	(208,190)
Less allowance for loan loss	(3,422,082)	(3,527,864)
	19,646,516	19,464,227
Less current portion	(2,105,834)	(2,658,869)
	\$ 17,540,682	\$ 16,805,358

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

	2008	2007
Balance at beginning of year	\$ 3,527,864	\$ 3,584,693
Additions to provision for loan loss	-	-
Loans charged-off	(105,782)	(112,524)
Recoveries of loans previously charged-off	-	55,695
Balance at end of year	\$ 3,422,082	\$ 3,527,864

A significant portion of the total loans outstanding is assigned as collateral on notes payable (see note 9). Included in outstanding loans are loans to employees of \$245,072 and \$406,066 at September 30, 2008 and 2007, respectively. These loans meet the same criteria as all real estate loans made to non-related individuals by the Corporation. Loans in arrears three months or more or held with the attorney for collection totaled \$1,613,696 and \$2,111,466 at September 30, 2008 and 2007, respectively.

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(4) Other Receivables

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

As of September 30, 2008 and 2007, other receivables due from borrowers for loans consisted of the following:

	<u>2008</u>	<u>2007</u>
CAHAT	\$ 1,039,626	\$ 1,057,566
Down-payment and Closing Assistance Program	552,556	591,751
Hazard Mitigation Program	<u>28,425</u>	<u>30,687</u>
	1,620,607	1,680,004
Other receivables	<u>140,423</u>	<u>183,096</u>
	1,761,030	1,863,100
Less current portion of due from borrowers for loans	<u>(209,539)</u>	<u>(246,800)</u>
Other receivables-noncurrent	<u>\$ 1,551,491</u>	<u>\$ 1,616,300</u>

Correspondingly, the liability recorded by the Corporation for the loans held in-trust at September 30, 2008 and 2007 totaled \$678,586 and \$720,489 respectively, and consisted of the following:

	<u>2008</u>	<u>2007</u>
Down-payment and Closing Assistance Program	\$ 570,386	\$ 612,289
Hazard Mitigation Program	<u>108,200</u>	<u>108,200</u>
	<u>\$ 678,586</u>	<u>\$ 720,489</u>

The Down Payment and Closing Assistance (DPCCA) program was funded by the Guam Housing and Urban Renewal Authority (GHURA) with monies received from the U.S. Department of Housing and Urban Development. The Hazard Mitigation Program was funded with monies received from the Federal Emergency Management Agency in 1995. The CAHAT and Foreclosure Protection Fund programs were funded by appropriations received from the Government of Guam in Public Law 21-99. The DPCCA program which was administered by the Corporation under a Sub-recipient Agreement with GHURA, was terminated October 23, 2003. The repayments received by the Corporation from its borrowers are program income of GHURA and is remitted monthly.

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(5) Tenant Receivables

A summary of tenant receivables is as follows:

	2008	2007
Tenant accounts	\$ 39,367	\$ 76,837
Other	<u>677</u>	<u>502</u>
	40,044	77,339
Allowance for uncollectible accounts	<u>(30,000)</u>	<u>(65,000)</u>
Tenant accounts and other receivables	<u>\$ 10,044</u>	<u>\$ 12,339</u>

(6) Capital Assets

Capital assets consist of property and equipment as of September 30, 2008 and 2007 is as follows:

	Balance 09/30/07	Additions	Transfers Disposals	Net Book Value 09/30/08
Land and land improvements	\$ 2,556,886	\$ -	\$ -	\$ 2,556,886
Buildings and improvements	5,528,638	-	-	5,528,638
Office furniture and equipment	586,170	-	-	586,170
Vehicles	119,142	43,457	-	162,599
Leasehold improvements	<u>238,946</u>	<u>-</u>	<u>-</u>	<u>238,946</u>
	9,029,783	43,457	-	9,073,240
Less: accumulated depreciation	<u>(3,205,101)</u>	<u>(139,053)</u>	<u>-</u>	<u>(3,344,154)</u>
Capital assets, net	<u>\$ 5,824,682</u>	<u>\$ (95,596)</u>	<u>\$ -</u>	<u>\$ 5,729,086</u>

	Balance 09/30/06	Additions	Transfers Disposals	Net Book Value 09/30/07
Land and land improvements	\$ 2,556,886	\$ -	\$ -	\$ 2,556,886
Buildings and improvements	5,521,014	7,624	-	5,528,638
Office furniture and equipment	604,642	-	(18,472)	586,170
Vehicles	134,657	-	(15,514)	119,143
Leasehold improvements	<u>238,946</u>	<u>-</u>	<u>-</u>	<u>238,946</u>
	9,056,145	7,624	(33,986)	9,029,783
Less: accumulated depreciation	<u>(3,088,566)</u>	<u>(149,977)</u>	<u>33,442</u>	<u>(3,205,101)</u>
Capital assets, net	<u>\$ 5,967,579</u>	<u>\$ (142,353)</u>	<u>\$ (544)</u>	<u>\$ 5,824,682</u>

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(7) Foreclosed Assets Held for Resale

Foreclosed assets held for resale represents three (3) buildings acquired by GHC due to the borrowers' default on their mortgages. The buildings are not subject to depreciation because they represent foreclosed properties held for resale.

At September 30, 2008 and 2007, the Corporation has assessed the recoverability of the carrying value of its properties held for sale and believe that such reflect the amounts by which the carrying values of these foreclosed assets held for sale equate to the estimated fair values determined by their estimated future discounted cash flows and recent valuation of an independent appraisal.

A summary of the activity in the foreclosed assets held for resale as of September 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Foreclosed assets held for resale at beginning of year	\$ 1,124,925	\$ 1,982,677
Foreclosures made during the year	-	45,000
Foreclosed assets sold during the year	(834,408)	(880,561)
Other costs and adjustments	<u>1,862</u>	<u>(22,191)</u>
Balance at end of year	<u>\$ 292,379</u>	<u>\$ 1,124,925</u>

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(8) Long-Term Mortgage Revenue Bonds Payable

On April 15, 1998, the Corporation issued \$50,000,000 (Guaranteed Mortgage-Backed Securities Program) 1998 Series A tax-exempt Single Family Mortgage Revenue Bonds. The bonds were issued for the purpose of providing money to engage in a home-financing program within the territory of Guam. Interest on the bonds is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 1998 at various rates noted below. Revenue bonds payable as of September 30, 2008 and 2007, consist of the following:

	2008	2007
Single Family Mortgage Revenue Bonds 1998 Series A, with varying interest rates (4.45% - 5.25%) payable semi-annually on March 1 and September 1, principal payments due in varying semi-annually installments with \$45,000 due in March 2004, and increasing to \$75,000 by September 2013.	\$ 650,000	\$ 755,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$74,931 due in March 2014, and increasing to \$95,420 by September 2018.	850,000	850,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$108,434 due in March 2019, and increasing to \$119,510 by September 2021.	685,000	685,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$114,064 due in March 2022, and increasing to \$194,200 by September 2031.	3,030,000	3,030,000
	5,215,000	5,320,000
Less current portion of bonds payable	110,000	105,000
	\$ 5,105,000	\$ 5,215,000

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

The accrued interest expense on the above bonds totaled \$23,755 and \$24,175 at September 30, 2008 and 2007, respectively. Total interest expense on the bonds totaled \$288,478 and \$293,264, net of amortized bond premium at September 30, 2008 and 2007. Accrued interest income earned on bonds totaled approximately \$14,727 and \$16,127 as of September 30, 2008 and 2007, respectively.

The Corporation is required to calculate rebatable arbitrage as of the last day of any Bond year pursuant to the provisions of the U.S. Department Treasury Regulation Section 1.148. The arbitrage provisions require the Corporation to rebate excess arbitrage earnings from bond proceeds to the federal government. As provided for by the bond indenture, this amount has been recorded as "Rebate Liability" for the benefit of the federal government and will be paid as required by applicable regulations. As of September 30, 2008 and 2007, the rebate liability totaled \$110,110 and \$104,934, respectively.

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

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

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

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

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

As of September 30, 2008:

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

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

As of September 30, 2008:

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

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

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

As of September 30, 2008:

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

The Corporation had expended Bond proceeds and originated loans totaling \$6,249,012 as of September 30, 2008 and 2007, respectively, for which the Trustee and had fully disbursed from the Program Fund for the acquisition of Mortgage-Backed Securities.

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

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

The Bond Indenture contains certain restrictive covenants, including restrictions on the use of bond funds. Management of the Corporation is of the opinion that the Corporation was in compliance with all significant covenants mortgage revenue bonds, as of September 30, 2008 and 2007.

As of September 30, 2008, future maturities of long-term debt are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2009	\$ 110,000	\$ 283,710	\$ 393,710
2010	125,000	278,168	403,168
2011	130,000	271,760	401,760
2012	140,000	264,968	404,968
2013	145,000	257,643	402,643
2014 through 2018	850,000	1,162,152	2,012,152
2019 through 2023	1,161,143	908,342	2,069,485
2024 through 2028	1,457,091	555,552	2,012,643
2029 through 2031	<u>1,096,766</u>	<u>112,876</u>	<u>1,209,642</u>
	<u>\$ 5,215,000</u>	<u>\$ 4,095,171</u>	<u>\$ 9,310,171</u>

(9) Notes Payable

Notes payable consists of the following:

	<u>2008</u>	<u>2007</u>
Federal Home Loan Bank of Seattle, 6.490%, interest payable monthly up to August 2003, thereafter interest and principal payable monthly in varying amounts, due August 2014	\$ 6,182,868	\$ 7,013,341
Less current portion	<u>886,002</u>	<u>830,473</u>
	<u>\$ 5,296,866</u>	<u>\$ 6,182,868</u>

Under the note agreements with the Federal Home Loan Bank of Seattle, the borrowings are collateralized by proceeds received from mortgage loans made by the Corporation. As of September 30, 2008 and 2007, the Corporation has pledged as security for these loans approximately \$13,347,886 and \$14,766,085 of related outstanding mortgage loans, respectively.

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(9) Notes Payable, continued. Continued

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

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

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

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

The annual payments on notes payable subsequent to September 30, 2008 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2009	\$ 886,002	\$ 375,123	\$ 1,261,125
2010	945,245	316,124	1,261,369
2011	1,008,451	252,913	1,261,364
2012	1,075,881	186,040	1,261,921
2013	1,147,820	113,612	1,261,432
2014	<u>1,119,469</u>	<u>36,876</u>	<u>1,156,345</u>
	<u>\$ 6,182,868</u>	<u>\$ 1,280,688</u>	<u>\$ 7,463,556</u>

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(10) Noncurrent Liabilities

Noncurrent liability activity at September 30, 2008 and 2007 are as follows:

	<u>Balance</u> <u>10/01/07</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9/30/08</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>	<u>Noncurrent</u>
Long-term portion of accounts payable	\$10,555,000	\$ -	\$ -	\$ 10,555,000	\$ -	\$ 10,555,000
Bonds payable	5,320,000	-	(105,000)	5,215,000	110,000	5,105,000
Note payable	7,013,341	-	(830,473)	6,182,868	886,002	5,296,866
Accrued Unfunded liability to retirement fund	76,915	48,220	(32,113)	93,022	-	93,022
Accrued annual leave and 50% accrued sick leave of employees under DC Retirement Plan	177,248	113,703	(130,617)	160,334	60,800	99,534
Loans held in trust	<u>720,489</u>	<u>-</u>	<u>(41,903)</u>	<u>678,586</u>	<u>-</u>	<u>678,586</u>
	<u>\$ 23,862,993</u>	<u>\$ 161,923</u>	<u>(\$ 1,140,106)</u>	<u>\$ 22,884,810</u>	<u>\$ 1,056,802</u>	<u>\$ 21,828,008</u>

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

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(11) Employees' Retirement Plan

Employees of the Corporation hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995 are members of the Government of Guam's Defined Contribution Retirement System (DCRS). Until December 31, 1999, those employees who were members of the defined benefit plan with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Requirements of both plans are established by Title 4 Guam Code Annotated, Chapter 8, Articles 1 and 2.

The Defined Benefit Plan (DB) and the DCRS are administered by the Government of Guam Retirement Fund, to which the Corporation contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

As a result of the most recent actuarial valuation performed as of September 30, 2005, 2004, 2003, the annual actuarially required contribution rates for the years ended September 30, 2007, 2006 and 2005, respectively, have been determined as follows:

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

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Employer rate	<u>24.07%</u>	<u>22.94%</u>	<u>21.81%</u>
Employee rate	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

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(11) Employees' Retirement Plan, Continued

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

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

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

The actuarial valuations performed as of September 30, 2005, 2004 and 2003, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Corporation as a separate sponsor, the accrued unfunded liability at September 30, 2008 and 2007 may be materially different than that recorded in the accompanying financial statements.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2008 and 2007 are determined using the same rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited in the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

For the years ended September 30, 2008 and 2007, retirement expense contribution including amounts paid for retiree supplemental COLA and health benefits was \$456,588 and \$267,485, respectively. At September 30, 2008 and 2007, the accrued unfunded liability to the retirement fund was \$93,022 and \$76,915, respectively.

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

Notes to Financial Statements
September 30, 2008 and 2007

(12) Related Party Transactions

In accordance with Public Law 20-225, 46 acres of land were transferred to the Corporation from the Government of Guam upon which to develop affordable housing units for sale to first-time homeowners. The recorded cost of the 46 acres was \$392,385 at the time of transfer. The Lada Estates Project, as it became known, was intended as a two-phase turnkey project. Subsequent economic conditions prevented the completion of the project and the Corporation has halted further development as of September 30, 2002.

The Lada Estates units were to be sold at the cost of construction, plus 2% and \$3 per square meter for the house lot. The donated land initially recorded at \$2.10 per square meter increased by the cost of the development incurred. At September 30, 2008 and 2007, the Lada Estates project reported in the statements of net assets as Land Held for Development consists of the following:

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

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

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

Notes to Financial Statements
September 30, 2008 and 2007

(13) Commitments and Contingencies

Commitments

As of September 30, 2008 and 2007, the Corporation has a total of \$629,239 and \$875,589, respectively, in loan commitments.

On February 2003, the Corporation entered into a Memorandum of Understanding (MOU) with Guam Economic Development and Commerce Authority (GEDCA), an autonomous agency of the Government of Guam to provide support services to the Corporation. Such services were for network and computer administration for a fee of \$21,696 per annum. At September 30, 2008 and 2007, rent paid to GEDCA totaled \$72,198 and \$72,198 respectively.

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

Years ending September 30:

2009	\$ 72,198
2010	72,198
2011	<u>30,082</u>
	<u>\$ 174,478</u>

Contingencies

The Corporation has recorded a liability payable to a contractor for \$10,555,000 associated with the Lada Estates Affordable Housing Subdivision Project Phase I for the design, build and finance of the off-site infrastructure and access roads for the project. The project was a turnkey project and was substantially completed July 24, 1998. Pursuant to the terms of the contract the Corporation believes that the liability may not be payable to the contractor. Additionally, the contractor is claiming accrued interest of \$7,750,476 and \$7,117,176 is due on the outstanding liability as of September 30, 2008 and 2007, respectively.

The Corporation is disputing both the liability and the accrued interest and its legal counsel believes that the contractor's claim may not be payable pursuant to the terms of the contract and under Guam Law. Therefore, it is not possible to determine the ultimate outcome of this matter and hence, no provision for any liability that may result from the accrued interest claimed by the contractor has been made in the accompanying financial statements.

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

Notes to Financial Statements
September 30, 2008 and 2007

(13) Commitments and Contingencies, continued

Contingencies, continued

The Corporation has three (3) pending claims for approximately \$315,450 in which foreclosure, litigation or bankruptcy is involved. These claims are at various stages and the ultimate outcome is uncertain. Therefore, no additional provision for any potential liability that may result from these claims has been made in the accompanying financial statements.

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

Supplemental Information

Salaries, Wages and Benefits
Years ended September 30, 2008 and 2007

	2008	2007
Salaries, wages and benefits:		
Salaries	\$ 946,730	\$ 931,785
Retirement benefits	274,750	208,057
Retiree supplemental, cola and health Benefits	181,838	59,428
Benefits other than retirement	42,370	58,542
Total salaries, wages and benefits	<u>\$1,445,688</u>	<u>\$1,257,812</u>
Employees at end of year	23	25

See accompanying independent auditor's report.

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Net Assets
September 30, 2008

	<u>ASSETS</u>			
	Housing	Rental	Eliminations	Combined Total
Current Assets:				
Unrestricted assets:				
Cash and cash equivalents (notes 1 and 2)	\$ 11,055,325	\$ 1,725,789	\$ -	\$ 12,781,114
Self-insurance fund (note 1)	-	1,171,632	-	1,171,632
Loans receivable (notes 1, 3, 9 and 13)	2,105,834	-	-	2,105,834
Tenant accounts and other receivables (note 5)	54,189	10,044	(54,189)	10,044
Accrued interest receivable (note 8)	168,176	15,070	-	183,246
Supplies inventory	-	43,836	-	43,836
Prepaid expenses and other	4,334	-	-	4,334
Total unrestricted assets	<u>13,387,858</u>	<u>2,966,371</u>	<u>(54,189)</u>	<u>16,300,040</u>
Restricted assets:				
Cash and cash equivalents (notes 1 and 2)	2,170,712	63,612	-	2,234,324
Investments (notes 2 and 8)	5,556,569	-	-	5,556,569
Other receivables-current portion (note 4)	209,539	-	-	209,539
Total restricted assets	<u>7,936,820</u>	<u>63,612</u>	<u>-</u>	<u>8,000,432</u>
Total current assets	21,324,678	3,029,983	(54,189)	24,300,472
Loans receivable (notes 1, 3, 9 and 13)	17,540,682	-	-	17,540,682
Other receivables -noncurrent portion (note 4)	1,551,491	-	-	1,551,491
Land held for development (notes 12 and 13)	16,114,338	-	-	16,114,338
Foreclosed assets held for resale (note 7)	292,379	-	-	292,379
Capital assets, net (note 6)	41,153	5,687,933	-	5,729,086
Total assets	<u>\$ 56,864,721</u>	<u>\$ 8,717,916</u>	<u>\$ (54,189)</u>	<u>\$ 65,528,448</u>

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

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Net Assets, Continued
September 30, 2008

	Housing	Rental	Eliminations	Combined Total
LIABILITIES AND NET ASSETS				
Current liabilities:				
Payable from unrestricted assets:				
Accounts payable and accrued expenses (note 1)	\$ 82,292	\$ 89,547	\$ (54,189)	\$ 117,650
Deferred revenue	133,935	3,028	-	136,963
Current portion of compensated absences (note 1)	46,438	14,362	-	60,800
Total payable from unrestricted assets	262,665	106,937	(54,189)	315,413
Payable from restricted assets:				
Current portion of bonds payable (notes 8 and 10)	110,000	-	-	110,000
Current portion of notes payable (notes 9 and 10)	886,002	-	-	886,002
Accrued interest payable (notes 8 and 9)	56,671	-	-	56,671
Security deposits	-	48,360	-	48,360
Deposits by borrowers - insurance premiums and real estate taxes	451,973	-	-	451,973
Rebate liability (note 8)	110,110	-	-	110,110
Total payable from restricted assets	1,614,756	48,360	-	1,663,116
Total current liabilities	1,877,421	155,297	(54,189)	1,978,529
Non-current liabilities:				
Payable from unrestricted assets:				
Long-term portion of accounts payable (notes 1 and 10)	10,555,000	-	-	10,555,000
Long-term portion of compensated absences (notes 1 and 10)	63,471	36,063	-	99,534
Accrued unfunded liability to retirement fund (notes 10 and 11)	92,724	298	-	93,022
Payable from restricted assets:				
Bonds payable (notes 8 and 10)	5,105,000	-	-	5,105,000
Long-term portion of notes payable (notes 9 and 10)	5,296,866	-	-	5,296,866
Loans held in trust (note 4)	678,586	-	-	678,586
Total non-current liabilities	21,791,647	36,361	-	21,828,008
Total liabilities	23,669,068	191,658	(54,189)	23,806,537
Net assets:				
Invested in capital assets, net of related debt	41,153	3,178,705	-	3,219,858
Restricted (note 9)	21,452,308	2,803,272	-	24,255,580
Unrestricted	11,702,192	2,544,281	-	14,246,473
Total net assets	33,195,653	8,526,258	-	41,721,911
Commitments and Contingencies (note 13)	\$ 56,864,721	\$ 8,717,916	\$ (54,189)	\$ 65,528,448

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

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2008

	Housing	Rental	Eliminations	Combined Total
Operating Revenues:				
Interest on loans receivable	\$ 1,702,280	\$ -	\$ -	\$ 1,702,280
Interest on investments held by bond trustees	327,902	-	-	327,902
Loan origination fees	52,423	-	-	52,423
Rental income	10,425	722,630	-	733,055
Total operating revenues	2,093,030	722,630	-	2,815,660
Operating Expenses:				
Interest expense	715,290	-	-	715,290
Salaries	719,650	227,080	-	946,730
Retirement contributions	289,624	(14,874)	-	274,750
Retiree supplemental, cola and health benefits	127,649	54,189	-	181,838
Depreciation	21,862	117,190	-	139,052
Rent	72,198	-	-	72,198
Other	35,945	18,042	-	53,987
Employee benefits, other than retirement	31,210	11,160	-	42,370
Contractual services	43,603	42,336	-	85,939
Professional services	58,051	9,220	-	67,271
Maintenance	-	52,578	-	52,578
Loan origination costs	29,843	-	-	29,843
Bad debts	416	-	-	416
Bond trustee fees	14,945	-	-	14,945
Travel	10,494	-	-	10,494
Director fees	800	-	-	800
Total operating expenses	2,171,580	516,921	-	2,688,501
Income from operations	(78,550)	205,709	-	127,159
Non-operating Revenues (Expenses):				
Interest income on bank deposits	461,503	97,041	-	558,544
Other income	54,879	44,163	-	99,042
Loss on disposal of fixed assets	-	-	-	-
Total non-operating revenues (expenses), net	516,382	141,204	-	657,586
Increase in net assets	437,832	346,913	-	784,745
Net assets at beginning of year	32,757,821	8,179,345	-	40,937,166
Net assets at end of year	\$ 33,195,653	\$ 8,526,258	\$ -	\$ 41,721,911

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

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Cash Flows
Year Ended September 30, 2008

	Housing	Rental	Eliminations	Combined Total
Cash flows from operating activities:				
Receipts received from customers	\$ 1,859,506	\$ 719,961	\$ -	\$ 2,579,467
Payments to suppliers	(714,778)	(172,651)	-	(887,429)
Payments to employees	(719,650)	(227,080)	-	(946,730)
Other operating receipts	62,849	-	-	62,849
Net cash provided by operating activities	<u>487,927</u>	<u>320,230</u>	-	<u>808,157</u>
Cash flows from investing activities:				
Decrease in investments	(72,422)	-	-	(72,422)
Interest received on cash and investments with trustees	327,902	-	-	327,902
Interest income on bank deposits	401,795	97,041	-	498,836
Other income	54,879	44,163	-	99,042
Net cash provided by investing activities	<u>712,154</u>	<u>141,204</u>	-	<u>853,358</u>
Cash flows from capital and financing related activities:				
Repayment of bonds payable	(105,000)	-	-	(105,000)
Repayment of notes payable	(830,473)	-	-	(830,473)
Repayment of rebate liability	5,176	-	-	5,176
Interest paid on notes payable	(431,358)	-	-	(431,358)
Increase in self-insurance fund	-	(136,080)	-	(136,080)
Interest paid on bonds	(288,898)	-	-	(288,898)
Acquisition of capital assets	(22,658)	(20,799)	-	(43,457)
Proceeds from sale of assets held for resale	832,546	-	-	832,546
Net cash used for financing activities	<u>(840,665)</u>	<u>(156,879)</u>	-	<u>(997,544)</u>
Net increase (decrease) in cash and cash equivalents	359,416	304,555	-	663,971
Cash and cash equivalents at beginning of year	12,866,621	1,484,846	-	14,351,467
Cash and cash equivalents at end of year	<u>\$ 13,226,037</u>	<u>\$ 1,789,401</u>	<u>\$ -</u>	<u>\$ 15,015,438</u>
Cash and cash equivalents	\$ 11,055,325	\$ 1,725,789	\$ -	\$ 12,781,114
Restricted cash and cash equivalents	2,170,712	63,612	-	2,234,324
Total cash and cash equivalents, end of year	<u>\$ 13,226,037</u>	<u>\$ 1,789,401</u>	<u>\$ -</u>	<u>\$ 15,015,438</u>

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

GUAM HOUSING CORPORATION
Supplemental Information

Combining Statements of Cash Flows, Continued
Year Ended September 30, 2008

	Housing	Rental	Eliminations	Combined Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (78,550)	\$ 205,709	\$ -	\$ 127,159
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:				
Bad debts	416	-	-	416
Depreciation	21,872	117,190	-	139,062
Loss on sale of properties held for resale	103,232	-	-	103,232
(Gain) loss on disposal of fixed assets	-	-	-	-
(Increase) decrease in assets:				
Loans receivable	(526,762)	-	-	(526,762)
Tenant accounts and other receivables	-	2,295	-	2,295
Accrued interest receivable	67,762	10,835	-	78,597
Other receivables	59,344	-	-	59,344
Foreclosed assets held for resale	832,546	-	-	832,546
Supplies inventory	-	5,410	-	5,410
Prepaid expenses and other	16	16,768	-	16,784
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	(5,929)	47,835	-	41,906
Accrued compensated absences	(9,522)	(7,392)	-	(16,914)
Accrued unfunded retirement liability	92,724	(76,617)	-	16,107
Accrued interest payable	(4,962)	-	-	(4,962)
Deposits by borrowers	(13,709)	-	-	(13,709)
Security deposits	-	(3,014)	-	(3,014)
Deferred revenues	(13,824)	1,211	-	(12,613)
Rebate liability	5,176	-	-	5,176
Loans held in trust	(41,903)	-	-	(41,903)
Net cash provided by operating activities	\$ 487,927	\$ 320,230	\$ -	\$ 808,157

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

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Net Assets (Housing Division)
September 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 11,055,325	\$ 9,897,338
Loans receivable	2,105,834	2,658,869
Accrued interest receivable	168,176	235,938
Tenant accounts and other receivables	54,189	-
Prepaid expenses and other	4,334	4,350
	<u>13,387,858</u>	<u>12,796,495</u>
Total unrestricted assets		
Restricted assets:		
Cash and cash equivalents	2,170,712	2,969,283
Investments	5,556,569	5,628,991
Other receivables-current portion	209,539	246,800
	<u>7,936,820</u>	<u>8,845,074</u>
Total restricted assets		
Total current assets	21,324,678	21,641,569
Loans receivable	17,540,682	16,805,358
Other receivables -noncurrent portion	1,551,491	1,627,763
Land held for development	16,114,338	16,114,338
Foreclosed assets held for resale	292,379	1,124,925
Capital assets, net	41,153	40,358
	<u>\$ 56,864,721</u>	<u>\$ 57,354,311</u>
Total assets		

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

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Net Assets (Housing Division), Continued
September 30, 2008 and 2007

<u>LIABILITIES AND NET ASSETS</u>	<u>2008</u>	<u>2007</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses	\$ 82,292	\$ 88,221
Current portion of accrued annual leave	46,438	24,931
Deferred revenue	<u>133,935</u>	<u>147,759</u>
Total payable from unrestricted assets	<u>262,665</u>	<u>260,911</u>
Payable from restricted assets:		
Current portion of bonds payable	110,000	105,000
Current portion of notes payable	886,002	830,473
Accrued interest payable	56,671	61,633
Deposits by borrowers - insurance premiums and real estate taxes	451,973	465,682
Rebate liability	<u>110,110</u>	<u>104,934</u>
Total payable from restricted assets	<u>1,614,756</u>	<u>1,567,722</u>
Total current liabilities	<u>1,877,421</u>	<u>1,828,633</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Long-term portion of accounts payable	10,555,000	10,555,000
Long-term portion of accrued annual and sick leave	63,471	94,500
Accrued unfunded liability to retirement fund	92,724	-
Payable from restricted assets:		
Bonds payable	5,105,000	5,215,000
Long-term portion of notes payable	5,296,866	6,182,868
Loans held in trust	<u>678,586</u>	<u>720,489</u>
Total non-current liabilities	<u>21,791,647</u>	<u>22,767,857</u>
Total liabilities	<u>23,669,068</u>	<u>24,596,490</u>
Net assets:		
Invested in capital assets, net of related debt	41,153	40,357
Restricted	21,452,308	21,445,811
Unrestricted	<u>11,702,192</u>	<u>11,271,653</u>
Total net assets	<u>33,195,653</u>	<u>32,757,821</u>
Commitments and Contingencies	<u>\$ 56,864,721</u>	<u>\$ 57,354,311</u>

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

GUAM HOUSING CORPORATION
Supplemental Information

Statements of Revenues, Expenses and Changes in Net Assets (Housing Division)
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues:		
Interest on loans receivable	\$ 1,702,280	\$ 1,822,260
Interest on investments held by bond trustees	327,902	320,396
Loan origination fees	52,423	63,871
Rental income	<u>10,425</u>	<u>17,013</u>
Total operating revenues	<u>2,093,030</u>	<u>2,223,540</u>
Operating Expenses:		
Salaries	719,650	704,602
Interest expense	715,290	772,069
Retirement contributions	289,624	180,656
Retiree supplemental, Cola and health benefits	127,649	59,428
Rent	72,198	72,198
Professional services	58,051	46,625
Contractual services	43,603	42,106
Other	35,945	34,881
Employee benefits, other than retirement	31,210	42,327
Loan origination costs	29,843	38,796
Depreciation	21,862	29,184
Bond trustee fees	14,945	14,690
Travel	10,494	4,964
Director fees	800	900
Bad debts	<u>416</u>	<u>-</u>
Total operating expenses	<u>2,171,580</u>	<u>2,043,426</u>
Income from operations	<u>(78,550)</u>	<u>180,114</u>
Non-operating Revenues (Expenses):		
Interest income on bank deposits	461,503	432,833
Other income	54,879	40,718
Loss on disposal of fixed assets	<u>-</u>	<u>(325)</u>
Total non-operating expenses	<u>516,382</u>	<u>473,226</u>
Increase in in net assets	437,832	653,340
Total net assets at beginning of year	<u>32,757,821</u>	<u>32,104,482</u>
Total net assets at end of year	<u>\$ 33,195,653</u>	<u>\$ 32,757,822</u>

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

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Cash Flows (Housing Division)
Years Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Receipts received from customers	\$ 1,859,506	\$ 3,448,957
Payments to suppliers	(714,778)	(537,571)
Payments to employees	(719,650)	(704,602)
Other operating receipts	62,849	97,897
Net cash provided by operating activities	487,927	2,304,681
Cash flows from investing activities:		
Increase in investments	(72,422)	(113,469)
Interest received on cash and investments with trustees	327,902	244,959
Interest income on bank deposits	401,795	395,063
Other income	54,879	23,704
Net cash provided by investing activities	712,154	550,257
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(105,000)	(100,000)
Repayment of notes payable	(830,473)	(778,422)
Accrued rebate liability	5,176	(28,158)
Interest paid on notes payable	(431,358)	(482,922)
Interest paid on bonds	(288,898)	(293,660)
Acquisition of capital assets	(22,658)	-
Purchase of property of property held for resale	832,546	881,522
Net cash used for financing activities	(840,665)	(801,640)
Net increase in cash and cash equivalents	359,416	2,053,298
Cash and cash equivalents at beginning of year	12,866,621	10,813,323
Cash and cash equivalents at end of year	\$ 13,226,037	\$ 12,866,621
Cash and cash equivalents	\$ 11,055,325	\$ 9,897,338
Restricted cash and cash equivalents	2,170,712	2,969,283
Total cash and cash equivalents, end of year	\$ 13,226,037	\$ 12,866,621

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

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Cash Flows (Housing Division)
Years Ended September 30, 2008 and 2007

	2008	2007
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (78,550)	\$ 180,114
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:		
Depreciation	21,872	29,184
Bad debts	416	-
Loss (gain) on sale of properties held for resale	103,232	(960)
Loss (gain) on disposal of fixed assets	-	325
(Increase) decrease in assets:		
Loans receivable	(526,762)	1,245,241
Accrued interest receivable	67,762	(20,388)
Other receivables	59,344	235,535
Foreclosed assets held for resale	832,546	845,148
Prepaid expenses and other	16	4,960
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(5,929)	(18,274)
Accrued compensated absences	(9,522)	(3,205)
Deferred revenues	(13,824)	(16,867)
Accrued unfunded retirement liability	92,724	-
Accrued interest payable	(4,962)	(4,512)
Deposits by borrowers	(13,709)	(86,884)
Rebate liability	5,176	(28,158)
Loans held in trust	(41,903)	(56,578)
Net cash provided by operating activities	\$ 487,927	\$ 2,304,681
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ 720,256	\$ 776,581
Loans foreclosed and transferred to assets held for resale during the year	\$ -	\$ 374,477

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

GUAM HOUSING CORPORATION
Supplemental Information

Balance Sheets (Rental Divison)
September 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Unrestricted cash and cash equivalents	\$ 1,725,789	\$ 1,419,392
Restricted cash and cash equivalents	63,612	65,454
Self-insurance fund	1,171,632	1,035,552
Tenant accounts and other receivables, net	10,044	12,339
Accrued interest receivable	15,070	25,905
Supplies inventory	43,836	49,246
Prepaid expenses	-	16,768
Total current assets	<u>3,029,983</u>	<u>2,624,656</u>
Capital assets, net	<u>5,687,933</u>	<u>5,784,324</u>
	<u>\$ 8,717,916</u>	<u>\$ 8,408,980</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 89,547	\$ 41,712
Current portion of compensated absences	14,362	27,211
Security deposits	48,360	51,374
Deferred revenue	3,028	1,817
Total current liabilities	<u>155,297</u>	<u>122,114</u>
Non-current liabilities:		
Long-term portion of compensated absences	36,063	30,606
Accrued unfunded retirement liability	298	76,915
Total long-term liabilities	<u>36,361</u>	<u>107,521</u>
Total liabilities	<u>191,658</u>	<u>229,635</u>
Net assets:		
Invested in capital assets, net of related debt	3,178,705	3,275,096
Restricted	2,803,272	2,736,714
Unrestricted	2,544,281	2,167,535
Total net assets	<u>8,526,258</u>	<u>8,179,345</u>
Commitments and contingencies	<u>\$ 8,717,916</u>	<u>\$ 8,408,980</u>

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

GUAM HOUSING CORPORATION
Supplemental Information

Statement of Revenues, Expenses and Changes in Net Assets (Rental Division)
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Revenues:		
Tenant rental income	\$ 722,630	\$ 757,998
Total revenues	<u>722,630</u>	<u>757,998</u>
Operating expenses:		
Salaries and benefits, other than retirement	227,080	227,183
Depreciation and amortization	117,190	120,793
Retiree supplemental, Cola and health benefits	54,189	-
Maintenance	52,578	37,386
Contractual services	42,336	31,985
Other	18,042	24,245
Employee benefits, other than retirement	11,160	16,125
Professional services	9,220	7,400
Retirement contributions	(14,874)	27,401
Bad debts	<u>-</u>	<u>22,034</u>
Total operating expenses	<u>516,921</u>	<u>514,552</u>
Income from operations	<u>205,709</u>	<u>243,446</u>
Non-operating revenues (expenses):		
Interest income on bank accounts	97,041	83,621
Other income	44,163	30,225
Loss on disposal of assets	<u>-</u>	<u>(219)</u>
Total non-operating revenues	<u>141,204</u>	<u>113,627</u>
Increase in net assets	346,913	357,073
Net assets at beginning of year	<u>8,179,345</u>	<u>7,822,272</u>
Net assets at end of year	<u>\$ 8,526,258</u>	<u>\$ 8,179,345</u>

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

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Cash Flows (Rental Division)
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts received from customers	\$ 719,961	\$ 667,851
Payments to suppliers	(172,651)	(144,542)
Payments to employees	<u>(227,080)</u>	<u>(227,183)</u>
Net cash provided by operating activities	<u>320,230</u>	<u>296,126</u>
Cash flows from investing activities:		
Other nonoperating receipts	44,163	30,225
Interest income on bank deposits	<u>97,041</u>	<u>61,369</u>
Net cash provided by investing activities	<u>141,204</u>	<u>91,594</u>
Cash flows from capital and financing related activities:		
Increase in self-insurance fund	(136,080)	(129,434)
Acquisition of capital assets	<u>(20,799)</u>	<u>(7,624)</u>
Net cash used for financing activities	<u>(156,879)</u>	<u>(137,058)</u>
Net increase (decrease) in cash and cash equivalents	304,555	250,662
Cash and cash equivalents at beginning of year	<u>1,484,846</u>	<u>1,234,184</u>
Cash and cash equivalents at end of year	<u>\$ 1,789,401</u>	<u>\$ 1,484,846</u>
Cash and cash equivalents	\$ 1,725,789	\$ 1,419,392
Restricted cash and cash equivalents	<u>63,612</u>	<u>65,454</u>
Total cash and cash equivalents, end of year	<u>\$ 1,789,401</u>	<u>\$ 1,484,846</u>

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

GUAM HOUSING CORPORATION
Supplemental Information

Comparative Statements of Cash Flows (Rental Division)
Years Ended September 30, 2008 and 2007

	2008	2007
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 205,709	\$ 243,446
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Bad debts	-	22,034
Depreciation	117,190	120,793
Loss on disposal of capital assets	-	219
(Increase) decrease in assets:		
Tenant accounts and other receivables, net	2,295	(10)
Accrued interest receivable	10,835	(12,024)
Supplies inventory	5,410	(13,754)
Prepaid expenses and other	16,768	(16,186)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	47,835	(20,686)
Accrued compensated absences	(7,392)	6,025
Accrued unfunded retirement liability	(76,617)	(28,518)
Deferred rental income	1,211	(83)
Security deposits	(3,014)	(5,130)
Net cash provided by operating activities	\$ 320,230	\$ 296,126

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