GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

GUAM HOUSING CORPORATION
(a Public Corporation)

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September 30, 2003

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 (GHC), a component unit of the Government of Guam, as of September 30, 2003 and 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the GHC's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Guam Housing Corporation as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The information identified in the accompanying table of contents, as *Management's Discussion and Analysis* is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 24, 2004, on my consideration of Guam Housing Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

J. Scott Magliari & Company

Agana, Guam
September 24, 2004

GUAM HOUSING CORPORATION
Management Discussion and Analysis
Year Ending September 30, 2003

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, 2003. We encourage readers of these financials to consider the information presented even as you review the financial statistics presented on the following pages.

FORWARD

The Guam Housing Corporation is now three years into the comprehensive Recovery Plan that is the working document for the agency's return to financial stability. The Plan provides the groundwork for the Corporation's return to its prime mission of providing affordable mortgage financing programs to Guam's eligible and qualified citizenry.

FY2003 continues to be a rebuilding year at GHC. Internal controls and policies are reviewed and best practices for managing the portfolio and reducing debt continue to be given the highest priority.

The short-term goals having been met, it remains to implement the intermediate and long term goals. As we progress, we evaluate the remaining tasks at hand for continued relevancy and with an eye toward growing the Corporation. These tasks include:

Intermediate Term:

1. The recruitment of a President to assume management of Guam Housing Corporation. *An individual with industry experience was appointed by Governor Felix Camacho in February 2003, however, the individual resigned in October 2003 having not attained Legislative confirmation. A subsequent appointee appointed three months later also resigned, August 2004. In September 2004, a new Governor's appointee awaits confirmation. The Acting President brings a 42-year career with banking and lending institutions to the Corporation.*

2. The dissolution of Guam Rental Corporation. *In May 2003, the GHC Board of Directors approved a plan to re-integrate rental management functions into GHC operations by dissolving the subsidiary Rental Corporation. Completion is anticipated before the end of calendar year 2003.*

3. The proposed sale or lease-to-own of Lada Gardens, the 115-unit rental project owned by the Guam Rental Corporation. *The Guam Housing Corporation Board has discussed the issue on several occasions. No action was taken in the year.*

4. Aggressive disposal of non-performing assets. *The contracting of an aggressive new legal counsel in April 2003 has been a benefit for the Corporation, providing much needed assistance and the mechanisms to manage foreclosure proceedings and the disposal of non-performing assets.*

5. Lada Estates. Through Public Law 20-225, 46 acres of land were transferred to the Corporation from the Government of Guam with the mandate to develop affordable housing units for sale to first-time homeowners. Lada Estates, as it became known, was intended as a two-phase turnkey project. Subsequent economic conditions prevented the completion of the project. In FY2003, the matter was just a contingent claim against GHC. As of September 30, 2003, the issue of Lada Estates remains unresolved.

Long Term:

1. Personnel streamlining. *All streamlining efforts have been completed. The Corporation evaluates staffing levels on a continual basis and makes adjustments accordingly.*

2. Meeting Debt Service Obligations. *Final payoff on two notes due to Citibank was made on schedule in March and August, respectively. Payments to GHC's final creditor, the Federal Home Loan Bank of Seattle, are also being met on schedule.*

3. Loan Origination. *In early 2003, previous management imposed a moratorium on lending. In retrospect, this was likely a disadvantageous move in the face of GHC's shrinking portfolio. The approach now is to actively and aggressively market GHC's lending products and working with other lenders to identify potential borrowers. Positive results from the resumption of lending are expected in the coming year.*

FINANCIALS AT-A-GLANCE

GHC makes a note of distinguishing between the 'GHC Portfolio' and the 'Other Portfolio'. The GHC Portfolio consists of loans originated with GHC funds from the Direct Loan Program and the Revolving Loan Program. The Other Portfolio comprised all other loans (i.e., Down Payment & Closing Cost, Hazard Mitigation, Sagan Linahyan, and CAHAT.)

- ❖ Total Loans Receivable as of September 2003 fell by $3.279 million to $36.102 million, a decrease of 8.3%. The GHC portfolio alone fell by 8.68%.

- Total Delinquent Loans as of September 2003 was reduced by $1.1 million to $9.9 million, a decrease of 18 loans or 7.6%.

- 68 loans paid off during FY2003 for a total of $2.06 million, an increase from the previous year by 16.53%.

- Zero (0) loans were foreclosed upon in FY2003.

- Six (6) of 11 total OREO's held by GHC were sold in FY2003.

- The Allowance for Loan Losses for FY2003 totaled $2.9 million, a decrease of 11.2% from the previous year.

LOAN PORTFOLIO

GHC originates mortgages that assist homebuyers who are otherwise unable to secure conventional financing. Particular emphasis is placed on the reference to conventional financing in the preceding statement for a purpose. Despite offering loan services and products that mirror those of conventional lenders, GHC's services are geared toward customers who cannot otherwise qualify for conventional lending. The distinction becomes important when the reader attempts to characterize the portfolio in terms of some "industry standard." We submit that the appropriate "industry" measure is a public mortgage lender more in line with the Rural Development Office of the U.S. Dept. of Agriculture and similar entities and not (as happens quite often) with conventional bank/mortgage lenders. In fact, statute requires that GHC customers first be denied conventional financing. GHC loans are at greater risk of default by the very nature of the clientele.

The GHC portfolio fell by 8.3%, or $3.279 million in the course of FY2003. We must revitalize the portfolio with new loans. The Corporation will renew efforts to originate loans in FY2004. The past two years of this Recovery were particularly lean times for the Corporation. Any and all 'excess' cash was reserved or committed to reducing existing debt as part of the legislature's approval of our recovery plan.

Increased loan payoffs have been a mixed blessing in that they have caused a decline in interest income but have contributed to improved liquidity and the availability of cash for new lending. However, due in part to the moratorium on lending and a lack of lending capital during the year, no loans were made.

Lending will take center stage once again in order to grow the portfolio. New marketing strategies must be devised to make potential customers aware of the products and services historically provided by GHC over the past 35 years. This too is a period of rebuilding, a part of our recovery.

It has been three years since GHC has been in a position to make new loans. New policies are in place, clearing the way for new loans. Funds are now available for lending. As economic factors improve, we anticipate new lending will begin anew into the coming fiscal year.

DELINQUENCY

Delinquency and foreclosure remain the dominant concerns of the loan portfolio. GHC is making strides in reducing delinquency and increasing collections. When reviewing the delinquency, the reader should take into account the interplay of other factors that contribute to the calculation. Delinquency is calculated as a percentage of the total portfolio. When comparing FY2002 to FY2003, the total portfolio declined by 8.3%. Delinquent loans during this same period decreased (and collections increased) by 7.6%. However, when delinquency is put into the context of the total dollar of the portfolio, the decrease in delinquency is but 0.5%. The declining portfolio has the effect of negating the gains made by increased collection. The incongruous situation is proven out by an increase in cash flow (from delinquent collections) that is not equally reflected in a reduction in delinquency on par with the increased cash flow available for new loans.

Prior legal counsel resigned at the end of calendar year 2002 and the slot was not filled until April 2003. The delay was a result of a government-wide dispute concerning the hiring of legal services posed by the Office of the Attorney General. Once the situation was clarified, GHC hired new counsel whose aggressive stance on collection and foreclosure should bode well for the coming fiscal year. Their impact on the current year will be marginal as they were only employed for half of the fiscal year.

FORECLOSURES & OTHER REAL ESTATE OWNED (OREO)PROPERTIES

GHC saw no foreclosures in FY2003 exclusively because of the lack of counsel for the better part of the year. Of the 11 OREO properties in inventory at the beginning of 2003, GHC sold six (6) properties.

ALLOWANCE FOR LOAN LOSSES

An adjustment (increase) of $477,513 was made for fiscal year 2003 and $371,817 was used during the year.

DEBT SERVICE

GHC made final payment on its Citibank note in August 2003 with a payment of $450,283.69.

$2,823,524.76 was paid on four (4) notes to FHLB of Seattle in FY2003. To the mutual satisfaction of both GHC and FHLB Seattle, the outstanding amount due of $9,880,988.36 was consolidated into a single note, fully amortized through 2014.

OPERATIONS & BUDGET

Typhoon Relocation. Normal operations were abruptly interrupted in December 2002 due to extraordinary damage sustained to our main office from Supertyphoon Pongsona. The storm caused main operations to be relocated into temporary quarters for 14 months (December 2002 – February 2004). Though the office adapted to the difficult conditions, renovations continued for the ten months remaining in FY2003 and normal operations were not fully restored until the 2004.

Management Turnover. GHC is dedicated to the hiring of a permanent, legislatively confirmed President to manage operations. While the Corporation has indeed experienced setbacks in this endeavor due to the lack of legislative support for Governor Camacho's appointees, overall operations are stable, in large part due to the stability and zero-turnover of the classified service mid-level managers and the low-turnover of its tenured staff, most of whom have ten years or more of service to the Corporation.

Budget Planning. Slight increases to budgets for the next two years are expected as the Corporation continues to upgrade computer hardware and software applications.

Staffing. GHC is currently monitoring and reviewing staff levels, most expressly in two areas: accounting and loan servicing. For GHC (and indeed, industry wide), there has been a rise in loan delinquency and collection actions which could be addressed by additional staff to service troubled loans. With respect to the accounting division, in retrospect, staff cuts during the downsizing were too deep in the division. The situation will begin to be reversed with the hiring of at least one additional accountant presently.

GOVERNMENT REORGANIZATION AND STREAMLINING

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

GUAM HOUSING CORPORATION
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Statements of Net Assets
September 30, 2003 and 2002

ASSETS	2003	2002
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents (notes 1 and 2)	$ 1,540,033	$ 1,403,215
Loans receivable (notes 1, 4, 10 and 12)	3,367,186	3,622,962
Accrued interest receivable (notes 4 and 10)	220,030	261,198
Prepaid expenses and other	7,371	15,050
Total unrestricted assets	5,134,620	5,302,425
Restricted assets:		
Cash and cash equivalents (notes 1 and 2)	1,601,441	1,740,295
Investments (notes 3, 8 and 9)	6,198,138	7,045,426
Other receivables-current portion (notes 5, 13 and 16)	123,200	172,418
Total restricted assets	7,922,779	8,958,139
Total current assets	13,057,399	14,260,564
Loans receivable (notes 1, 4, 10 and 12)	26,138,720	29,329,856
Other receivables -noncurrent portion (notes 5, 13 and 16)	2,961,631	3,136,379
Due from Government of Guam and other agencies (note 13)	2,915,000	2,915,000
Land held for development (note 13)	13,199,338	13,199,338
Foreclosed assets held for resale (note 7)	528,360	1,194,812
Capital assets, net (note 6)	21,552	15,903
Total assets	$ 58,822,000	$ 64,051,852

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Net Assets, Continued
September 30, 2003 and 2002

LIABILITIES AND NET ASSETS	2003	2002
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses (note 14)	$ 10,802,669	$ 10,796,984
Current portion of accrued annual leave (note 1)	34,568	36,171
Total payable from unrestricted assets	10,837,237	10,833,155
Payable from restricted assets:		
Current portion of notes payable (note 10)	675,685	3,769,109
Accrued interest payable (note 10)	78,360	102,216
Deposits by borrowers - insurance premiums and real estate taxes	469,249	877,244
Rebate liability (note 8)	108,676	871,609
Total payable from restricted assets	1,331,970	5,620,178
Total current liabilities	12,169,207	16,453,333
Non-current liabilities:		
Payable from unrestricted assets:		
Long-term portion of accrued annual leave (note 1)	28,094	84,399
Accrued unfunded liability to retirement fund (note 11)	130,366	175,905
Payable from restricted assets:		
Bonds payable (note 8)	5,696,134	5,785,749
Long-term portion of notes payable (note 10)	9,205,303	10,183,353
Loans held in trust (notes 5 and 16)	1,282,524	1,292,698
Total non-current liabilities	16,342,421	17,522,104
Total liabilities	28,511,628	33,975,437
Net assets:		
Restricted (notes 10 and 12)	21,418,930	21,418,930
Unrestricted	8,891,442	8,657,485
Total net assets	30,310,372	30,076,415
Commitments and Contingencies (note 14)		
	$ 58,822,000	$ 64,051,852

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Revenues, Expenditures and Changes in Net Assets
Years Ended September 30, 2003 and 2002

	2003	2002
Operating Revenues:		
Interest on loans receivable	$ 2,558,293	$ 2,239,855
Interest on investments held by bond trustees	319,418	573,461
Loan origination fees	72,708	80,382
Total operating revenues	2,950,419	2,893,698
Operating Expenses:		
Interest expense	1,090,919	1,549,995
Bad debts and provision for loan loss	566,657	275,866
Salaries	495,909	476,305
Impairment loss on foreclosed properties held for sale (note 7)	179,454	-
Retirement contributions (note 11)	164,273	82,396
Professional services	126,478	53,250
Contractual services	42,931	55,528
Loan origination costs	40,494	45,132
Other	37,763	30,130
Employee benefits, other than retirement	22,853	20,868
Rent	22,799	20,435
Bond trustee fees	17,056	23,958
Depreciation	7,247	21,013
Directors' fees	2,000	2,300
Amortization of bond issuance costs	-	787,080
Travel	-	2,100
Total operating expenses	2,816,833	3,446,356
Income (loss) from operations	133,586	(552,658)
Non-operating Revenues (Expenses):		
Management fees (note 13)	-	144,122
Interest income on bank deposits	21,404	55,732
Other income	78,967	64,375
Total non-operating expenses	100,371	264,229
Income (loss) before extraordinary and special items	233,957	(288,429)
Special items (notes 5 and 10)	-	16,295,178
Increase in in net assets	233,957	16,006,749
Total net assets at beginning of year	30,076,415	14,069,666
Total net assets at end of year	$ 30,310,372	$ 30,076,415

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Cash Flows
Years Ended September 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Receipts received from customers	$ 5,374,526	$ 3,479,425
Payments to suppliers	(476,647)	(336,097)
Payments to employees	(495,909)	(476,305)
Other operating receipts	392,126	653,843
Net cash provided by operating activities	4,794,096	3,320,866
Cash flows from investing activities:		
(Increase) decrease in investments	527,870	44,791,663
Interest earned on cash and investments with trustees	319,418	573,461
Increase in land held for development and resale	-	(5,350)
Management fees	-	144,122
Interest income on bank deposits	21,404	55,732
Other income	78,967	64,375
Proceeds from sale of property and equipment	290,891	92,928
Net cash provided by investing activities	1,238,550	45,716,931
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(85,000)	(44,220,000)
Repayment of notes payable	(4,071,474)	(3,128,619)
Premium on bonds payable	(4,615)	1,052,344
Accrued rebate liability	(762,933)	-
Interest paid on notes payable	(785,651)	(970,285)
Interest paid on bonds	(310,193)	(708,375)
Purchase of property and equipment	(14,816)	(4,184)
Net cash used for financing activities	(6,034,682)	(47,979,119)
Net increase (decrease) in cash and cash equivalents	(2,036)	1,058,678
Cash and cash equivalents at beginning of year	3,143,510	2,084,832
Cash and cash equivalents at end of year	$ 3,141,474	$ 3,143,510
Cash and cash equivalents	$ 1,540,033	$ 1,403,215
Restricted cash and cash equivalents	1,601,441	1,740,295
Total cash and cash equivalents, end of year	$ 3,141,474	$ 3,143,510

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Cash Flows, Continued
Years Ended September 30, 2003 and 2002

	2003	2002
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ 133,586	$ (552,658)
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	89,144	-
Provision for loan loss	477,513	-
Impairment loss on foreclosed properties held for sale	179,454	-
Depreciation	7,247	21,013
Amortization of bond issuance cost	-	787,080
Amortization of discount on loan due from Guam	(30,000)	(30,000)
Loss on sale of properties held for resale	371,817	235,444
(Gain) loss on disposal of fixed assets	1,920	143
(Increase) decrease in assets:		
Loans receivable	3,209,368	2,798,146
Accrued interest receivable	41,168	974,733
Due from Government of Guam	-	187,851
Other receivables	143,670	(109,502)
Foreclosed assets held for resale	(176,264)	-
Prepaid expenses and other	7,679	3,764
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	5,685	(326,018)
Accrued annual leave	(57,909)	(51,671)
Accrued pension cost	(45,539)	(32,290)
Accrued interest payable	761,796	(733,847)
Deposits by borrowers	(407,995)	107,005
Rebate liability	91,930	41,773
Loan held in trust	(10,174)	-
Net cash provided by operating activities	$ 4,794,096	$ 3,320,966
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	$ 785,651	$ 1,046,576
Loans foreclosed and transferred to assets held for resale during the year	$ 169,400	$ 408,208

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, was created by Public Law 8-80 to promote the general welfare of the Territory of Guam by encouraging investment in and development of low cost housing. As such, the Corporation is not subject to taxes. The Corporation is principally engaged in financing homes for low and moderate-income families.

Fund Structure, Measurement Focus, and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

(1) Organization 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.

Property and Equipment

The Corporation generally capitalizes all expenditures for property and equipment in excess of $500 in 2003 and 2002, respectively.

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.

Lending Policies

The Corporation is permitted to make loans for the purchase, construction, or purchase of land and construction of homes not to exceed the loan limit established by the U.S. Department of Housing and Urban Development. Loan limits currently range from $180,500 for single-unit dwellings to $285,000 for four-unit dwellings. However, the Corporation accepts loan applications only for single-unit dwellings. Determination of loan interest rates is made by the Board of Directors of the Corporation but does not exceed the Federal Housing Administration rate. In August 2002, Public Law 26-123 was passed to reduce the Corporation's loan limits to range from $57,400 for two bedroom dwellings to $91,000 for four bedroom dwellings. Loans for five bedroom dwellings and over are subject to Board review and approval provided that dwelling area construction cost does not exceed $70 per square foot.

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.

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

Deferred Bond Issue Cost

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

Premium on Bonds

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

Accrued Vacation Leave

For fiscal years 2003 and 2002, employees were credited with vacation leave at rates of 104 and 156 hours and 104, 160 and 208 hours, respectively, depending upon their service time with the Corporation. Accumulation of such vacation credits is normally limited to 480 hours at fiscal year end. All such vacation credit is convertible to pay upon termination of employment. During the year ended September 30, 2003, Public Law 27-05 was implemented reducing the maximum accumulation amount of annual leave to 320 hours. Any annual leave earned in excess of 320 hours but not to exceed 100 hours as of February 28, 2003 shall be credited to the employee's sick leave. Pursuant to Public Law 27-106, employees who have accumulated annual leave in excess of three hundred twenty (320) hours as of February 28, 2003 may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. At the time of retirement or termination of service, that portion permitted to be credited to sick leave shall be so credited and the remainder of the excess leave, if any, shall be lost. As of September 30, 2003 and 2002, accrued annual leave totaled $62,661 and $120,570, respectively. As of September 30, 2003, accumulated sick liability was $140,500.

Loan Origination Fees and Related Costs

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

Risk of Loss

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

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

Recognition of Revenues and Expenses

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

Estimates

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

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

A majority of the Corporation's loan portfolio consists of single-family residential loans in the Territory of Guam. The regional economy depends heavily on tourism, which is currently in economic decline. Real estate prices in this market are also depressed. Accordingly, the ultimate collectibility of a substantial portion of the Corporation's loan portfolio and the recovery of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

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

Reporting Fund Net Assets

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

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

At September 30, 2003 and 2002, the Guam Housing Corporation classified and included contributions to Retained Earnings in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform with the 2003 presentation.

(2) *Cash and Cash Equivalents*

Cash and cash equivalents insured by the Federal Deposit Insurance Corporation (FDIC) are $843,718 and $1,024,107 as of September 30, 2003 and 2002, respectively, with the remaining balances being uninsured as follows:

	2003	2002
Commercial, trust and savings accounts	$ 2,296,956	$ 2,118,603
On-hand	800	800
	$ 2,297,756	$ 2,119,403

(3) *Restricted Investments*

Restricted investments consist of the following:

	2003	2002
Foreclosure protection fund	$ 375,921	$ 375,921
Investments held by bond trustees	5,822,217	6,669,505
	$ 6,198,138	$ 7,045,426

The foreclosure protection fund is used by the Corporation to protect the interest of Guam's Community Affordable Housing Action Trust (CAHAT) program as the second mortgage and is used exclusively for the purpose of paying off the first mortgage on foreclosure. Investments held and administered by the Corporation's bond trustees relate to the mortgage revenue bonds (see notes 8 and 9).

(4) *Loans Receivable*

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

	2003	2002
Due in varying monthly installments and interest rates with maturities to 2024, including loans in process of $0 in 2003 and $89,147 in 2002.	$ 33,012,349	$ 36,323,346
Due in varying monthly installments and interest rates with maturities to 2003, purchased from Citibank, N.A. which acts as a servicing agent, insured by the Federal Housing Administration (FHA).	17,747	41,415
Due from Guam Rental Corporation in monthly installments of $6,675 including interest of 3% per annum, net of unamortized discount of $78,710 in 2003 and $108,710 in 2002.	183,963	225,018
	33,214,059	36,589,779
Less net deferred loan origination fees	(301,389)	(337,675)
Less allowance for loan loss	(3,406,764)	(3,299,286)
	29,505,906	32,952,818
Less current portion	3,367,186	3,622,962
	$ 26,138,720	$ 29,329,856

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

	2003	2002
Balance at beginning of year	$ 3,299,286	$ 3,534,730
Provision for loan loss	477,513	-
Loans charged-off	(371,817)	(235,444)
Recoveries of loans previously charged-off	1,782	-
Balance at end of year	$ 3,406,764	$ 3,299,286

(4) Loans Receivable, Continued

A significant portion of the total loans outstanding is assigned as collateral on notes payable (see note 10). Included in outstanding loans are loans to employees of $860,151 and $967,351 at September 30, 2003 and 2002, 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 $7,474,454 and $6,255,612 at September 30, 2003 and 2002, respectively.

(5) Other Receivables

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

As of September 30, 2003 and 2002, other receivables due from borrowers for loans consisted of the following:

	2003	2002
CAHAT	$ 1,568,515	$ 1,635,709
Down-payment Assistance Program	819,960	825,654
Hazard Mitigation Program	96,414	90,792
Sagan Linayan Project	304,340	308,390
	2,789,229	2,860,545
Other receivables	295,602	448,252
	3,084,831	3,308,797
Less current portion of due from borrowers for loans	123,200	172,418
Other receivables-noncurrent	$ 2,961,631	$ 3,136,379

(5) *Other Long-Term Receivables, Continued*

Correspondingly, the liability recorded by the Corporation for the loans held in-trust at September 30, 2003 and 2002 totaled $1,282,524 and $1,292,698, respectively, and consisted of the following:

	2003	2002
Down-payment Assistance Program	$ 870,896	$ 870,896
Hazard Mitigation Program	108,200	108,200
Sagan Linayan Program	303,428	313,601
	$ 1,282,524	$ 1,292,698

The Down Payment and Closing Assistance and the Sagan Linayan Project programs were funded by the Guam Housing and Urban Renewal Authority 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 Corporation recorded a special item as other revenue in 2002 totaling $2,127,763 resulting from the recording of appropriations received for the CAHAT and Foreclosure Protection fund.

(6) *Capital Assets*

Capital assets consist of property and equipment as summarized below:

	Balance 09/30/02	Additions	Disposals	Net Book Value 09/30/03
Office Furniture and equipment	$362,268	$ 14,816	($ 82,139)	$294,945
Vehicles	59,630	-	-	59,630
Leasehold improvements	209,502	-	-	209,502
	631,400	14,816	(82,139)	564,077
Less: Accumulated depreciation	(615,497)	(7,247)	80,219	(542,525)
Capital Assets, net	$ 15,903	$ 7,569	($ 1,920)	$ 21,552

(7) Foreclosed Assets Held for Resale

Foreclosed assets held for resale represents six 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, 2003, the Corporation has assessed the recoverability of the carrying value of its properties held for sale which resulted in impairment losses of $179,454. These losses reflect the amounts by which the carrying values of these foreclosed assets held for sale exceed their estimated fair values determined by their estimated future discounted cash flows and recent valuation of an independent appraisal.

(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 monies to engage in a home-financing program within the territory of Guam. Interest on the bonds is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 1998 at various rates noted below.

Revenue bonds payable as of September 30, 2003 and 2002, consist of the following:

	2003	2002
Single Family Mortgage Revenue Bonds 1998 Series A, with varying interest rates (4.45% - 5.25%) payable semiannually on March 1 and September 1, principal payments due in varying semiannually installments with $45,000 due in March 2004, and increasing to $75,000 by September 2013.	$ 1,130,000	$ 1,215,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% payable semiannually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semiannually installments with $74,931 due in March 2014, and increasing to $95,420 by September 2018.	850,000	850,000

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

	2003	2002
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% payable semiannually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semiannually installments with $108,434 due in March 2019, and increasing to $119,511 by September 2021.	$ 685,000	$ 685,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% payable semiannually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semiannually installments with $114,064 due in March 2022, and increasing to $194,200 by September 2031.	3,030,000	3,030,000
	5,695,000	5,780,000
Add net unamortized premium on bonds	1,134	5,749
	$ 5,696,134	$ 5,785,749

The accrued interest expense on the above bonds totaled $25,613 and $25,922 at September 30, 2003 and 2002, respectively. Total interest expense on the bonds totaled $305,578 and $503,419, net of amortized bond premium at September 30, 2003 and 2002. Accrued interest income earned on bonds totaled approximately $24,307 and $29,602 as of September 30, 2003 and 2002, 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, 2003 and 2002, the rebate liability totaled $108,676 and $871,609, respectively. During the year, amount rebated to the Federal Government for rebatable arbitrage was $849,566, disbursed from the funds administered by the Corporation's bond trustee.

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

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

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

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

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, 2003 and 2002:

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

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

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

As of September 30, 2003 and 2002:

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

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

As of September 30, 2003 and 2002:

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

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

The Corporation had expended Bond proceeds and originated loans totaling $6,249,012 as of September 30, 2003 and 2002, respectively, for which the Trustee had not disbursed such moneys from the Program Fund for the acquisition of Mortgage-Backed Securities.

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

The Bond Indenture contains certain restrictive covenants, including restrictions on the use of bond funds. Management of the Corporation is of the opinion that the Corporation was in compliance with all significant covenants except for the full non-origination of the entire $50 million mortgage revenue bond, as of September 30, 2003 and 2002.

(9) Investments and Cash with Trustees

The aforementioned Bond Indenture requires the establishment of special funds and accounts to be held and administered by the Corporation's trustees for the accounting of the monies. At September 30, 2003 and 2002, investments and cash held by the trustees for the Corporation, in these funds and accounts are as follows:

	2003	2002
Program Fund	$ 5,722,923	$ 6,058,408
Escrow Fund	15,536	16,447
Capitalized Interest Fund	219	288,623
Cash Management Fund	-	-
Revenue Fund	83,539	306,027
	$ 5,822,217	$ 6,669,505

(9) Investments and Cash with Trustees

The Corporation's trustees hold the Corporation's restricted investments and cash at September 30, 2003 and 2002. 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, 2003 and 2002 are as follows:

	2003	2002
Money Market/Trust Fund	$ 5,537,355	$ 6,251,036
U.S. Treasury Notes	284,862	418,469
	$ 5,822,217	$ 6,669,505

The market value of restricted investments and cash at September 30, 2003 and 2002 approximates its carrying value.

Under the Governmental Accounting Standards, credit risk associated with investments is categorized into three levels generally described as follows:

Category 1: Insured or registered, or securities held by the Corporation or its agent in the Corporation's name.

Category 2: Uninsured and unregistered, or securities held by a party other than the Corporation and not in the Corporation's name.

Category 3: Uninsured and unregistered, with securities held by a party other than the Corporation and not in the Corporation's name.

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

(10) Notes Payable

Notes payable consists of the following:

	2003	2002
Financial institutions:		
Citibank, N.A., 9.625%, payable in monthly installments of $95,000 including interest, due 2003	$ -	$ 522,356
Citibank, N.A., 8%, principal and interest payable in monthly installments of $18,639 plus interest, due 2005	-	637,041
Citibank, N.A., 7% principal and interest payable in monthly installments equivalent to payments received from collateralized FHA mortgage loans, due 2004	34,644	57,806
Federal Home Loan Bank of Seattle, 6.090%, interest payable monthly, principal due 2003	-	480,902
Federal Home Loan Bank of Seattle, 6.060%, interest payable monthly, principal due 2003	-	958,851
Federal Home Loan Bank of Seattle, 6.02%, interest payable monthly, principal due 2003	-	963,326
Federal Home Loan Bank of Seattle, 5.920%, interest payable monthly, principal due 2003	-	434,264
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	9,846,344	9,897,916
	9,880,988	13,952,462
Less current portion	675,685	3,769,109
	$9,205,303	$10,183,353

(10) Notes Payable, continued, Continued

Under the note agreements with Citibank and the Federal Home Loan Bank of Seattle, the borrowings are collateralized by proceeds received from mortgage loans made by the Corporation. As of September 30, 2003 and 2002, the Corporation has pledged as security for these loans approximately $21,097,211 and $29,789,397 of related outstanding mortgage loans, respectively.

In September 2002, the Corporation and the Federal Home Loan Bank of Seattle had mutually agreed to the satisfaction of both parties, the consolidation of the remaining five of the Corporation's notes totaled $9,897,916 into one single note, in monthly amortization starting September 2003 until August 2014.

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

The Corporation defaulted on its Government of Guam loan agreement. In April 2001, pursuant to Section 6 of Guam Public Law 20-210, the Corporation was declared in default on its Government of Guam Revolving Loan Fund ("the Fund") note payable to the Government of Guam that totaled $13,650,013 as of September 30, 2001. The Corporation has not made monthly payments to the Fund since November 1999, and as such, exceeded the 90-day period after such payments become due for making such payments, which approximated $517,000 as of September 30, 2001. Accordingly, pursuant to in Section 6 of Guam Public Law 20-210, those amounts payable to the Fund was deferred for the period covering November 1999 to January 2004. In August 2002, the Government of Guam, under Public Law 26-123, passed legislation to forgive the note payable and accrued interest payable of $13,650,013 and $517,402, respectively. Consequently, the Corporation recorded a special item as other revenue in 2002 of $14,167,415 resulting from the debt forgiveness.

The aggregate maturities of notes payable for the five years ending September 30, 2008 are as follows:

2004	$ 675,685
2005	683,905
2006	729,635
2007	778,423
2008	830,472
Subsequent years	6,182,868
	$ 9,880,988

(11) Employees' Retirement Plan

Employees of the Corporation hired before September 30, 1995, are under the Government of Guam Employees' Retirement System (a defined, contributory pension plan). Employees hired after September 30, 1995, are members of the New Defined Retirement System (DCRS). Until 1999 and periodically thereafter, 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 Defined Contribution Retirement System.

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

As a result of the most recent actuarial valuation performed as of September 30, 2001, it has been determined that for the year ended September 30 2003, a minimum combined employer and employee contribution rate of 41.55% (9.5% for employees and 32.05% for employer) of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employer and employee contributions were initially set at 26% and 9.5%, respectively, by the Guam Legislature for the year ended September 30, 2003. The employer contribution rate was reduced to 18% by legislative action effective March 1, 2003. The statutory employer and employee contribution rates for the year ended September 30, 2002 were 19.8016% and 9.5%, respectively.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 7.5% and an assumed salary scale increase of 5.5% per annum. The actuarial valuation performed as of September 30, 2001, 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.

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

Statutory employer contributions into the DCRS for the years ended September 30, 2003 and 2002 are determined using rates as the DB plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

(11) Employees' Retirement Plan, Continued

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

During 2002, the Government of Guam, as a whole, adopted the provisions of Governmental Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees.* Accordingly, the 2001 unfunded pension liability, retirement contributions, and net assets, has been restated in 2002 and retroactively applied the provisions.

(12) Contributions from Government of Guam and Federal Government

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

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

(13) Related Party Transactions

In May 2003, the Corporation's Board of Directors approved a plan to re-integrate the rental management functions of Guam Rental Corporation (GRC) an autonomous agency of the Government of Guam into the Corporation's activity by dissolving Guam Rental Corporation. At September 30, 2003 and 2002, the Corporation has a receivable due from GRC in the amount of $144,000, for the management agent fee the Corporation had rendered for GRC in 2002. The Corporation determines to collect the amount upon GRC's final accounting of its book of accounts for fiscal years 2002 through 2003 which are currently in progress.

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.

(13) Related Party Transactions, Continued

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, 2003 and 2002, the Lada Estates project reported in the statements of net assets as Land Held for Development consists of the following:

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

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

On February 2003, the Corporation entered into a Memorandum of Understanding (MOU) with Guam Economic Development and Commerce Authority (GEDCA), an autonomous agency of the Government of Guam to provide support services to the Corporation. Such services were for financial consultation, network and computer administration, accounting and payroll for a fee of $47,281 per annum. At September 30, 2003, amounts paid to GEDCA were $82,742 which included its retroactive services for fiscal year 2002 in the amount of $47,281. At September 30, 2003, accrued support services due to GEDCA were $11,820.

(14) Commitments and Contingencies

The Corporation has recorded a liability payable to a contractor for $10,555,000 associated with the Lada Estates Affordable Housing Subdivision Project Phase I for the design, build and finance of the off-site infrastructure and access roads for the project. The project was a turnkey project and was substantially completed July 24, 1998. Pursuant to the terms of the contract the Corporation believes that the liability may not be payable to the contractor. The liability has been outstanding for the years ending September 30, 2003 and 2002. Additionally, the contractor is claiming accrued interest of $4,583,976 and $3,950,676 is due on the outstanding liability as of September 30, 2003 and 2002, respectively.

(14) Commitments and Contingencies, Continued

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

The Corporation is the plaintiff in fifty eight (58) pending claims for approximately $3,661,120 in which foreclosure, litigation or bankruptcy is involved. These claims are at various stages and the ultimate outcome is uncertain, therefore, no additional provision for any potential liability that may result from these claims has been made in the accompanying financial statements.

As of September 30, 2003 and 2002, the Corporation has a total of $0 and $72,963 respectively, in loan commitments.

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

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

(15) Typhoon Damages

On December 8, 2002, the island of Guam was struck by a super typhoon Pongsona. Damages from this typhoon totaled $65,468. The Corporation expects the costs be recovered from FEMA.

(16) Subsequent Events

The Sagan Linayan Program and Down Payment and Closing Costs Assistance Program (DPCCA) which were administered by the Corporation under a Sub-recipient Agreement with Guam Housing and Urban Renewal Authority (GHURA), were terminated on October 10, 2003 and October 23, 2003, respectively. These were the loans receivables held in trust disclosed in Note 5. The repayments received by the Corporation from its borrowers are program income of GHURA and is remitted upon its request. The Corporation will cease to receive repayments of loans under these programs upon GHURA's readiness of their servicer system.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Supplementary Information

Salaries, Wages and Benefits
Years ended September 30, 2003 and 2002

	2003	2002
Salaries, wages and benefits:		
Salaries	$ 495,909	$ 476,305
Retirement benefits	164,273	82,396
Benefits other than retirement	22,853	20,868
Overtime pay	-	-
Total salaries, wages and benefits	$ 683,035	$ 579,569
Employees at end of year	14	13

See accompanying independent auditor's report.