

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Financial Statements And Independent Auditor's Report

And Additional Information

Years Ended September 30, 2004 and 2003

GUAM HOUSING CORPORATION
(a Public Corporation)

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September 30, 2004 and 2003

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Guam Housing Corporation:

I have audited the accompanying statements of net assets of Guam Housing Corporation (GHC), a component unit of the Government of Guam, as of September 30, 2004 and 2003, 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, 2004 and 2003, 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 discussed in Note 1 to the accompanying financial statements, effective November 26, 2003, the Corporation combined into its financial statements the accounts of Guam Rental Corporation (GRC), formerly an uncombined related entity. The combining occurred as a result of a court order to dissolve GRC.

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 May 17, 2005 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. The purpose of that report is to describe the scope of my testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

J. Scott Magliari & Company

Hagåtña, Guam
May 17, 2005

GUAM HOUSING CORPORATION
Management's Discussion and Analysis
Year Ending September 30, 2004

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, 2004. 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 in recovery. Despite the \$3.25 million currently available for lending, the corporation must still contend with few new loans being made. Additionally, it is an ongoing struggle to manage the loan portfolio in this climate of low interest rates and the marriage of debt consolidation to mortgage refinancing. When these concerns are combined with a lackluster economy, a rise in loan delinquency and increased foreclosures industry-wide, the situation is compounded. Despite this, we anticipate that steady economic recovery will spur an increase in our loan origination activity as interest rates, home values and home prices rise.

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

By virtue of Title 21, Chapter 75 of the Guam Code Annotated, GHC is the primary (and in most cases only) authorized lender for Chamorro Land Trust Property recipients seeking mortgage financing. The one exception to this is with the U.S. Veterans Administration Loan Guaranty program that caters to local veteran borrowers to include Land Trust recipients. The new law expands the agency's target population even as it fixes an unintended gap in the Land Trust law that did not provide recipients with an avenue to secure funding. GHC has opened a dialogue with CLTC management to educate recipients of their options with GHC. Through concerted education and marketing efforts, GHC is already seeing more activity among CLTC recipients inquiring with GHC for new loans.

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Management's Discussion and Analysis

Year Ending September 30, 2004

New in 2004 is the dissolution of the Guam Rental Corporation. In November 2003, GHC petitioned for the dissolution of the rental corporation, a wholly-owned subsidiary of GHC. In this first year, the audit will show the combined financial statements for GHC and the former GRC and then the separate financial statements for each entity. All assets and liabilities have been acquired by GHC. Included are the eight employees which now make up the new *GHC rental division*. Assets totaling \$8.2M have also been acquired.

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

RECOVERY TASKS

The initial recovery plan called for a list of tasks to be completed. Those tasks still remaining or those that were completed within FY2004 include:

Intermediate Term:

1. The recruitment of a President to assume management of Guam Housing Corporation. *Confirmation of the President is scheduled and expected to be completed in FY2005.*
2. The dissolution of Guam Rental Corporation. *Guam Rental Corporation was dissolved through court action in November 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. *At the direction of the GHC Board of Directors, management now utilizes the services of licensed real estate professionals to facilitate the disposal of foreclosed properties. It is also the directive of the Board to list all properties at no less than the appraised value of the unit at acquisition at the onset. The older foreclosed units have proven to be a challenge to sell because of the state of disrepair as*

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Management's Discussion and Analysis

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a result of having been left unoccupied. Despite the drawbacks, sales activity with the foreclosed is on the rise.

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 homebuyers. 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, 2004, the issue of Lada Estates remains unresolved.*

Long Term:

1. Meeting Debt Service Obligations. *Payments to GHC's sole creditor, the Federal Home Loan Bank of Seattle, are being met on schedule.*

FINANCIALS AT-A-GLANCE

The GHC loan portfolio was reduced by \$4.75 million to \$31.18 million, falling 13.24% from the prior year. Loan payoffs, foreclosures and non-performing loans contribute to a situation already complicated by a lingeringly slow economic recovery that severely impedes the corporation's prospects for new loans.

Total delinquencies decreased by 76 loans during the year, an improvement of \$2 million over the previous year. Overall, loans delinquent 30 days and over fell by 2.23% from the past year to 25.51%.

Fifty-two (52) loan payoffs were received in FY2004 totaling \$1.5 million, a decrease of \$555,000 over the prior year.

Fourteen (14) accounts were foreclosed upon in FY2004 totaling \$1.59 million. Action taken by our Legal Counsel has been an invaluable help to GHC to aggressively and successfully complete foreclosure actions.

Only one (1) unit was sold in FY2004. Total loss on the sale was minimal at \$8,400. Condition of the units has been a hindrance to their quick sale. Many of the vacated units were in serious disrepair and were thus susceptible to further damage from vandals while vacant. Managing the units fell to Rental Division staff, a team already at minimum levels who found daunting the task of caretaking units spread throughout the island. The GHC Board of Directors' authorization of management to list the units for sale with real estate sales professionals is expected to net more rapid sales in FY2005.

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Management's Discussion and Analysis
Year Ending September 30, 2004

An audit adjustment was made to increase the Allowance for Loan Losses by \$250,000 bringing the balance for FY2004 to \$3.57 million.

As you read the financials, you will note that loans are characterized as either being of the 'GHC Portfolio' or the 'Other Portfolio'. This 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.

LOAN PORTFOLIO

The total loan portfolio fell by 13.24% in FY2004. In the absence of loan origination activity from our typical base of clients, GHC has repurposed and is pursuing its legislative directive to provide lending capital to clients of the Chamorro Land Trust Commission. As discussed earlier, GHC is authorized to assist CLTC leaseholders to secure mortgage loans under existing programs. As of this writing, GHC has extended five new loans in the past six months, some of which are CLTC clients. Management remains optimistic about the long term outlook for GHC. We expect the number of new loans to increase even further as economic conditions improve overall.

DELINQUENCY

Collections have improved by 2.23% in FY2004. Regrettably, this two million dollar improvement is itself overshadowed by the decline of the total portfolio. Loan division is working to sustain the progress it has made in collection efforts. The newly formed *Credit & Collection Committee* is charged with the review of accounts for referral to legal and workout actions. We expect the level of delinquency will continue to decrease as economic conditions improve and collection efforts remain aggressive.

FORECLOSURES & OREO PROPERTIES (OTHER REAL ESTATE OWNED)

GHC foreclosed on 14 homes in FY2004. With legal counsel firmly on track with loan division on referrals for foreclosure, we fully expect that the process will continue to improve. Current legal counsel has proven to be an effective ally in the Corporation's efforts to clean up on non-performing assets. Maintenance and security of these units spread throughout the island has fallen to the rental division which, due to their limited

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Management's Discussion and Analysis

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staff, struggles to accommodate the additional workload and concerns of vandalism, theft and generally the deterioration of the vacant properties.

Those units foreclosed in FY2004 were collectively in quite poor condition and proved far more difficult to sell than anticipated. To better move these properties for sale, the GHC Board of Directors authorized management to list properties for sale with professional real estate sales persons. Outsourcing the marketing will help to extend the reach of GHC by utilizing the resources and contacts of real estate sales persons in the sale of our properties.

ALLOWANCE FOR LOAN LOSSES

In January 2005, the GHC Board of Directors authorized an increase to the allowance by \$221,132. A total of \$315,626 was used in the current fiscal year. Recoveries from previous years amounted to \$6,634.61. A further adjustment to increase of \$250,000 was made by our auditors. Management 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, 2004, \$9,205,303 remains due on this note that is on schedule to be fully amortized by the year 2014.

OPERATIONS & BUDGET

The Dissolution of Guam Rental Corporation. Guam Rental Corporation, the wholly-owned subsidiary of the Guam Housing Corporation, was dissolved in November 2003 by court decree. In so doing, GHC acquired all that was GRC assets and liabilities. GHC has integrated rental operations into a division equal to that of the loan, accounting and administrative divisions.

Certain conditions caused a lapse in GRC audits for FY2002 & FY2003. GHC received but a fraction of the accounting assistance to support GRC committed by GEDCA as part of its Recovery efforts in 2001. The result was a backlog of GRC accounting. Severe damage sustained by the office during Supertyphoon Pongsona in December 2002 further complicated the accounting situation and added to the setbacks as some damaged records and had to be reconstructed. A full-time accountant hired in June 2004 and the move back into our permanent offices in February 2004 (after 14 months in temporary quarters) made it possible to finally get caught up in time for the FY2004 audit.

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Newly Renovated Offices. After 14 months in temporary quarters, GHC returned to normal operations and to its newly renovated offices in February 2004. The renovated and expanded office space accommodates the executive offices, administration, loan and accounting divisions. Rental Division offices remain in Dededo within the Lada Gardens Subdivision.

Management Turnover. GHC expects legislative confirmation of its current President will occur in the coming fiscal year 2005. The newly elected legislature has renewed efforts to address the delays in entertaining gubernatorial appointees for confirmation. 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.

Staff Level Increases. GHC has absorbed the eight employees of the once and prior Guam Rental Corporation. The added staff does not pose any additional burden to GHC administration or accounting as GHC already provided back-office assistance to the former Guam Rental Corporation in these areas. The result was an increase of \$277,000 in combined salaries and benefits to the Corporation.

The newly combined GHC staff is still at minimum levels, though we already see the need for additional administrative support staff for the Administration and Rental divisions, an additional accountant, and the replacement upon retirement of the rental maintenance supervisor. Additional maintenance staff may be, at some point, required to deal with the increasing inventory of O.R.E.O. properties. A thorough review of the staffing requirements will be necessary to assure that current needs are met and plans for future growth are supported.

GOVERNMENT REORGANIZATION AND STREAMLINING

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

Contacting GHC's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of GHC's finances and demonstrate GHC's accountability for the money it collects and spends. If you have questions about this report or need additional information, please contact Guam Housing Corporation's President at 647-4143.

GUAM HOUSING CORPORATION
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Statements of Net Assets
September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents (notes 1 and 2)	\$ 2,769,549	\$ 1,540,033
Self-insurance fund (note 1)	707,924	-
Loans receivable (notes 1, 4, 11 and 13)	4,270,906	3,367,186
Tenant accounts receivable and other receivables (note 6)	55,690	-
Accrued interest receivable (notes 4 and 11)	200,994	220,030
Supplies inventory	36,042	-
Prepaid expenses and other	9,409	7,371
Total unrestricted assets	<u>8,050,514</u>	<u>5,134,620</u>
Restricted assets:		
Cash and cash equivalents (notes 1 and 2)	4,537,242	1,601,441
Investments (notes 3, 9 and 10)	6,081,046	6,198,138
Other receivables-current portion (notes 5 and 14)	419,417	123,200
Total restricted assets	<u>11,037,705</u>	<u>7,922,779</u>
Total current assets	<u>19,088,219</u>	<u>13,057,399</u>
Loans receivable (notes 1, 4, 11 and 13)	20,598,265	26,138,720
Other receivables -noncurrent portion (notes 5 and 14)	2,079,326	2,961,631
Due from Government of Guam and other agencies (notes 5 and 14)	2,915,000	2,915,000
Land held for development (note 14)	13,199,338	13,199,338
Foreclosed assets held for resale (note 8)	1,699,841	528,360
Capital assets, net (note 7)	6,275,115	21,552
Total assets	<u>\$ 65,855,104</u>	<u>\$ 58,822,000</u>

See accompanying notes to financial statements.

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Statements of Net Assets, Continued
September 30, 2004 and 2003

<u>LIABILITIES AND NET ASSETS</u>	<u>2004</u>	<u>2003</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses (note 15)	\$ 10,909,645	\$ 10,802,669
Deferred revenue	2,300	-
Current portion of accrued annual leave (note 1)	<u>78,940</u>	<u>34,568</u>
Total payable from unrestricted assets	<u>10,990,885</u>	<u>10,837,237</u>
Payable from restricted assets:		
Current portion of notes payable (note 11)	683,905	675,685
Accrued interest payable (note 11)	74,259	78,360
Security deposits	40,497	-
Deposits by borrowers - insurance premiums and real estate taxes	506,202	469,249
Rebate liability (note 9)	<u>62,322</u>	<u>108,676</u>
Total payable from restricted assets	<u>1,367,185</u>	<u>1,331,970</u>
Total current liabilities	<u>12,358,070</u>	<u>12,169,207</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Long-term portion of accrued annual and sick leave (note 1)	85,922	28,094
Accrued unfunded liability to retirement fund (note 12)	244,129	130,366
Payable from restricted assets:		
Bonds payable (note 9)	5,605,000	5,696,134
Long-term portion of notes payable (note 11)	8,521,398	9,205,303
Loans held in trust (note 5)	<u>979,159</u>	<u>1,282,524</u>
Total non-current liabilities	<u>15,435,608</u>	<u>16,342,421</u>
Total liabilities	<u>27,793,678</u>	<u>28,511,628</u>
Net assets:		
Invested in capital assets, net of related debt	3,503,214	21,553
Restricted (notes 11 and 13)	23,226,968	21,397,377
Unrestricted	<u>11,331,244</u>	<u>8,891,442</u>
Total net assets	<u>38,061,426</u>	<u>30,310,372</u>
Commitments and Contingencies (note 15)	<u>\$ 65,855,104</u>	<u>\$ 58,822,000</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Revenues, Expenditures and Changes in Net Assets
Year Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Interest on loans receivable	\$ 2,352,205	\$ 2,558,293
Rental income	719,673	-
Interest on investments held by bond trustees	340,036	319,418
Loan origination fees	85,886	72,708
Other	<u>924</u>	<u>-</u>
Total operating revenues	<u>3,498,724</u>	<u>2,950,419</u>
Operating Expenses:		
Interest expense	922,971	1,090,919
Salaries	799,108	495,909
Bad debts and provision for loan loss	579,423	566,657
Retirement contributions	144,125	164,273
Depreciation	138,350	7,247
Contractual services	95,712	42,931
Professional services	57,263	126,478
Rent	53,058	22,799
Other	52,946	37,763
Loan origination costs	44,437	40,494
Employee benefits, other than retirement	42,569	22,853
Maintenance	24,299	-
Bond trustee fees	16,281	17,056
Impairment loss on foreclosed properties held for sale (note 8)	-	179,454
Directors' fees	<u>-</u>	<u>2,000</u>
Total operating expenses	<u>2,970,542</u>	<u>2,816,833</u>
Income from operations	<u>528,182</u>	<u>133,586</u>
Non-operating Revenues (Expenses):		
Interest income on bank deposits	35,433	21,404
Other income	<u>65,964</u>	<u>78,967</u>
Total non-operating expenses	<u>101,397</u>	<u>100,371</u>
Increase in in net assets	629,579	233,957
Total net assets at beginning of year	<u>37,431,847</u>	<u>30,076,415</u>
Total net assets at end of year	<u>\$ 38,061,426</u>	<u>\$ 30,310,372</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Cash Flows
Year Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Receipts received from customers	\$ 6,294,119	\$ 5,374,526
Payments to suppliers	(522,467)	(476,647)
Payments to employees	(799,108)	(495,909)
Other operating receipts	425,951	392,126
Net cash provided by operating activities	5,398,495	4,794,096
Cash flows from investing activities:		
(Increase) decrease in investments	(457,127)	527,870
Interest earned on cash and investments with trustees	340,036	319,418
Interest income on bank deposits	35,433	21,404
Other income	65,964	78,967
Proceeds from sale of property and equipment	-	290,891
Net cash provided by investing activities	(15,694)	1,238,550
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(90,000)	(85,000)
Repayment of notes payable	(675,685)	(4,071,474)
Premium on bonds payable	(1,134)	(4,615)
Accrued rebate liability	(46,354)	(762,933)
Interest paid on notes payable	(674,502)	(785,651)
Increase in self-insurance fund	(81,535)	-
Interest paid on bonds	(306,364)	(310,193)
Purchase of property and equipment	(155,603)	(14,816)
Net cash used for financing activities	(2,031,177)	(6,034,682)
Net increase (decrease) in cash and cash equivalents	3,351,624	(2,036)
Cash and cash equivalents at beginning of year	3,955,167	3,143,510
Cash and cash equivalents at end of year	\$ 7,306,791	\$ 3,141,474
Cash and cash equivalents	\$ 2,769,549	\$ 1,540,033
Restricted cash and cash equivalents	4,537,242	1,601,441
Total cash and cash equivalents, end of year	\$ 7,306,791	\$ 3,141,474

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Cash Flows, Continued
Year Ended September 30, 2004 and 2003

	2004	2003
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 528,182	\$ 133,586
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	260,489	89,144
Provision for loan loss	318,934	477,513
Impairment loss on foreclosed properties held for sale	-	179,454
Depreciation	138,350	7,247
Amortization of discount on loan due from Guam Rental Corporation	(30,000)	(30,000)
Loss on sale of properties held for resale	260,585	371,817
(Gain on sale of fixed assets)	-	1,920
(Increase) decrease in assets:		
Loans receivable	4,200,947	3,209,368
Tenant accounts and other receivables	(28,314)	-
Accrued interest receivable	19,036	41,168
Other receivables	424,638	143,670
Foreclosed assets held for resale	(1,171,480)	(176,264)
Supplies inventory	(2,537)	-
Prepaid expenses and other	(2,038)	7,679
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	94,051	5,685
Accrued annual and sick leave	57,261	(57,909)
Accrued pension cost	(65,637)	(45,539)
Accrued interest payable	613,973	761,796
Deposits by borrowers	36,952	(407,995)
Security deposits	2,114	-
Rebate liability	46,354	91,930
Loans held in trust	(303,365)	(10,174)
Net cash provided by operating activities	\$ 5,398,495	\$ 4,794,096
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ 691,840	\$ 785,651
Loans foreclosed and transferred to assets held for resale during the year	\$ 1,071,080	\$ 169,400

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2004 and 2003

(1) Organization and Summary of Significant Accounting Policies

Organization

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

Change in Reporting Entity

Effective November 26, 2003, the Corporation combined into its financial statements the accounts of Guam Rental Corporation (GRC), formerly an uncombined related entity. The combining occurred as a result of a court order to dissolve GRC and integrate its rental management functions into the Corporation's financial activities as a rental division. Pursuant to the authority granted to the Corporation under Public Law 8-80, GRC was created to promote the general welfare of the inhabitants of the Territory of Guam by encouraging and engaging in the development of low-cost rental housing. GRC was principally engaged in the ownership and rental of housing complexes known as Lada Gardens and Guma As-Atdas. Lease terms are initially for one month and continue indefinitely for successive terms of one month each, unless automatically terminated under specified terms of the lease agreement. Financial data presented in 2003 and prior years have not been restated to reflect the combining of GRC. For financial statement presentation, the accompanying financial statements for year ending September 30, 2004 reflect the combining of GRC's financial position, results of operations and changes in cash flows. For comparative purposes for the Guam Housing Corporation, management has elected to include supplementary information to present the financial position, results of operations and changes in cash flows without the inclusion of GRC and is presented on pages 41 through 45.

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

Fund Structure, Measurement Focus, and Basis of Accounting

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

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Notes to Financial Statements
September 30, 2004 and 2003

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

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Property and Equipment

The Corporation generally capitalizes all expenditures for property and equipment in excess of \$500 with a useful life of one year or more.

Depreciation of property and equipment is computed using the straight-line method over estimated useful lives of 2 to 10 years for vehicles and office furniture and equipment, and over the length of the lease term for leasehold improvements.

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

Lending Policies

The Corporation is permitted to make loans for the purchase, construction, or purchase of land and construction of homes not to exceed the loan limit established by the U.S. Department of Housing and Urban Development. Loan limits currently range from \$180,500 for single-unit dwellings to \$285,000 for four-unit dwellings. However, the Corporation accepts loan applications only for single-unit dwellings. Determination of loan interest rates is made by the Board of Directors of the Corporation but does not exceed the Federal Housing Administration rate.

Loans and Allowance for Loan Losses

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

Self Insurance

The Corporation self-insures for all risks to Lada Gardens and Guma As-Atdas. A separate cash account was established to fund any damages that may arise in the future, to be increased on a monthly basis by the weighted-average yield of the operation's checking account. To the extent future losses exceed the fund, they will be charged to current operations.

Deferred Bond Issue Cost

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

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

Premium on Bonds

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

Accrued Vacation and Sick Leave

For fiscal years 2004 and 2003, employees were credited with vacation leave at rates of 104 and 156 hours and 104 and 160 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, 2004 and 2003, accrued annual leave totaled \$91,355 and \$62,661, respectively.

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

Loan Origination Fees and Related Costs

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

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Notes to Financial Statements
September 30, 2004 and 2003

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

Risk of Loss

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

Recognition of Revenues and Expenses

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

Estimates

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

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

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

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

Reclassifications

Certain account balances in the 2003 financial statements have been reclassified to correspond with the 2004 presentation.

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Notes to Financial Statements
September 30, 2004 and 2003

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

Reporting Fund Net Assets

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

At September 30, 2004 and 2003, the Guam Housing Corporation classified and included contributions to Retained Earnings in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

(2) Cash and Cash Equivalents

Unrestricted and restricted cash and cash equivalents insured by the Federal Deposit Insurance Corporation (FDIC) are \$3,839,612 and \$843,718 as of September 30, 2004 and 2003, respectively, with the remaining balances being uninsured as follows:

	2004	2003
Commercial, trust and savings accounts	\$ 3,466,356	\$ 2,296,956
On-hand	823	800
	<u>\$ 3,467,179</u>	<u>\$ 2,297,756</u>

(3) Restricted Investments

Restricted investments consist of the following:

	2004	2003
Foreclosure protection fund	\$ 375,921	\$ 375,921
Investments held by bond trustees	<u>5,705,125</u>	<u>5,822,217</u>
	<u>\$ 6,081,046</u>	<u>\$ 6,198,138</u>

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Notes to Financial Statements
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(3) Restricted Investments, continued

The foreclosure protection fund is used by the Corporation to protect the interest of Guam's Community Affordable Housing Action Trust (CAHAT) program as the second mortgage and is used exclusively for the purpose of paying off the first mortgage on foreclosure. Investments held and administered by the Corporation's bond trustees relate to the mortgage revenue bonds (see notes 9 and 10).

(4) Loans Receivable

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

	<u>2004</u>	<u>2003</u>
Due in varying monthly installments and interest rates with maturities to 2024, including loans in process of \$100,000 in 2004.	\$ 28,700,222	\$ 33,012,349
Due in varying monthly installments and interest rates with maturities to 2004, purchased from Citibank, N.A. which acts as a servicing agent, insured by the Federal Housing Administration (FHA).	-	17,747
Due from Guam Rental Corporation in monthly installments of \$6,675 including interest of 3% per annum, net of unamortized discount of \$48,710 in 2004 and \$78,710 in 2003.	<u>-</u>	<u>183,963</u>
	28,700,222	33,214,059
Less net deferred loan origination fees	(262,147)	(301,389)
Less allowance for loan loss	<u>(3,568,904)</u>	<u>(3,406,764)</u>
	24,869,171	29,505,906
Less current portion	<u>4,270,906</u>	<u>3,367,186</u>
	<u>\$ 20,598,265</u>	<u>\$ 26,138,720</u>

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Notes to Financial Statements
September 30, 2004 and 2003

(4) Loans Receivable, Continued

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

	2004	2003
Balance at beginning of year	\$ 3,406,764	\$ 3,299,286
Provision for loan loss	471,132	477,513
Loans charged-off	(315,626)	(371,817)
Recoveries of loans previously charged-off	6,634	1,782
Balance at end of year	\$ 3,568,904	\$ 3,406,764

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 \$674,005 and \$860,151 at September 30, 2004 and 2003, 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 \$5,385,624 and \$7,474,454 at September 30, 2004 and 2003, 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, 2004 and 2003, other receivables due from borrowers for loans consisted of the following:

	2004	2003
CAHAT	\$ 1,502,080	\$ 1,568,515
Down-payment Assistance Program	761,209	819,960
Hazard Mitigation Program	86,777	96,414
Sagan Linayan Project	-	304,340
	2,350,066	2,789,229
Other receivables	148,677	295,602
	2,498,743	3,084,831
Less current portion of due from borrowers for loans	(419,417)	123,200
Other receivables-noncurrent	\$ 2,079,326	\$ 2,961,631

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Notes to Financial Statements
September 30, 2004 and 2003

(5) Other Long-Term Receivables, Continued

Correspondingly, the liability recorded by the Corporation for the loans held in-trust at September 30, 2004 and 2003 totaled \$979,159 and \$1,282,524, respectively, and consisted of the following:

	2004	2003
Down-payment Assistance Program	\$ 870,896	\$ 870,896
Hazard Mitigation Program	108,200	108,200
Sagan Linayan Program	63	303,428
	\$ 979,159	\$ 1,282,524

The Down Payment and Closing Assistance (DPCCA) and the Sagan Linayan Project programs were funded by the Guam Housing and Urban Renewal Authority (GHURA) with monies received from the U.S. Department of Housing and Urban Development. The Hazard Mitigation Program was funded with monies received from the Federal Emergency Management Agency in 1995. The CAHAT and Foreclosure Protection Fund programs were funded by appropriations received from the Government of Guam in Public Law 21-99. The Sagan Linayan Program and DPCCA programs which were administered by the Corporation under a Sub-recipient Agreement with GHURA, were terminated on October 10, 2003 and October 23, 2003, respectively. The repayments received by the Corporation from its borrowers are program income of GHURA and is remitted upon its request. The Corporation will cease to receive repayments of loans under these programs upon GHURA's readiness of their servicer system.

(6) Tenant Receivables

A summary of tenant receivables is as follows:

	2004
Tenant accounts	\$ 120,698
Other	3,926
	124,624
Allowance for uncollectible accounts	(68,934)
Tenant accounts and other receivables	\$ 55,690

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(7) Capital Assets

Capital assets consist of property and equipment as summarized below:

	Housing Balance <u>09/30/03</u>	Rental Balance <u>09/30/03</u>	<u>Additions</u>	<u>Disposals</u>	Net Book Value <u>09/30/04</u>
Land and land improvements	\$ -	\$ 2,556,886	\$ -	\$ -	\$ 2,556,886
Buildings and improvement					
Buildings and improvements		5,521,014	-	-	5,521,014
Office Furniture and equipment	294,945	227,943	117,004	-	639,892
Vehicles	59,630	60,031	-	-	119,662
Leasehold improvements	<u>209,502</u>	<u>-</u>	<u>38,599</u>	<u>-</u>	<u>248,101</u>
	564,077	8,365,874	155,603	-	9,085,555
Less: Accumulated depreciation	<u>(542,525)</u>	<u>(2,129,564)</u>	<u>(138,350)</u>	<u>-</u>	<u>(2,810,480)</u>
Capital Assets, net	<u>\$ 21,552</u>	<u>\$ 6,236,310</u>	<u>\$ 17,253</u>	<u>\$ -</u>	<u>\$ 6,275,115</u>

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

(8) Foreclosed Assets Held for Resale

Foreclosed assets held for resale represents nineteen (19) 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, 2004 and 2003, the Corporation has assessed the recoverability of the carrying value of its properties held for sale, which resulted in impairment losses of \$0 and \$179,454, respectively. 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.

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Notes to Financial Statements
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(8) Foreclosed Assets Held for Resale, continued

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

	2004	2003
Foreclosed assets held for resale beginning of year	\$ 528,360	\$ 1,194,812
Foreclosures made during the year	1,346,904	169,399
Foreclosed assets sold during the year	(171,952)	(662,628)
Other adjustments	(3,471)	(173,193)
Balance at end of year	\$ 1,699,841	\$ 528,360

(9) Long-Term Mortgage Revenue Bonds Payable

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

Revenue bonds payable as of September 30, 2004 and 2003, consist of the following:

	2004	2003
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.	\$ 1,040,000	\$ 1,130,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$74,931 due in March 2014, and increasing to \$95,420 by September 2018.	850,000	850,000

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

	2004	2003
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.70% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$108,434 due in March 2019, and increasing to \$119,511 by September 2021.	\$ 685,000	\$ 685,000
Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% payable semi-annually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semi-annually installments with \$114,064 due in March 2022, and increasing to \$194,200 by September 2031.	3,030,000	3,030,000
	5,605,000	5,695,000
Add net unamortized premium on bonds	-	1,134
	\$ 5,605,000	\$ 5,696,134

The accrued interest expense on the above bonds totaled \$25,280 and \$25,613 at September 30, 2004 and 2003, respectively. Total interest expense on the bonds totaled \$304,898 and \$305,578, net of amortized bond premium at September 30, 2004 and 2003. Accrued interest income earned on bonds totaled approximately \$24,520 and \$24,307 as of September 30, 2004 and 2003, 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, 2004 and 2003, the rebate liability totaled \$62,322 and \$108,676, respectively.

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

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

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

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

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

As of September 30, 2004 and 2003:

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

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

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

As of September 30, 2004 and 2003:

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

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

As of September 30, 2004 and 2003:

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

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

The Corporation had expended Bond proceeds and originated loans totaling \$6,249,012 as of September 30, 2004 and 2003, 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 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, 2004 and 2003.

As of September 30, 2004, 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>
2005	\$ 90,000	\$ 302,336	\$ 392,336
2006	95,000	298,219	393,219
2007	100,000	293,660	393,660
2008	105,000	288,897	393,897
2009	110,000	283,710	393,710
2010 through 2014	692,204	1,322,429	2,014,633
2014 through 2019	916,413	1,116,133	2,032,546
2020 through 2024	1,201,656	847,651	2,049,307
2025 through 2029	1,543,078	470,542	2,013,620
2030 through 2031	<u>751,649</u>	<u>54,706</u>	<u>806,355</u>
	<u>\$ 5,605,000</u>	<u>\$ 5,278,283</u>	<u>\$ 10,883,283</u>

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September 30, 2004 and 2003

(10) Investments and Cash with Trustees

The aforementioned Bond Indenture requires the establishment of special funds and accounts to be held and administered by the Corporation's trustees for the accounting of the monies. At September 30, 2004 and 2003, investments and cash held by the trustees for the Corporation, in these funds and accounts are as follows:

	2004	2003
Program Fund	\$ 5,689,134	\$ 5,722,923
Escrow Fund	15,658	15,536
Capitalized Interest Fund	225	219
Revenue Fund	108	83,539
	\$ 5,705,125	\$ 5,822,217

(10) Investments and Cash with Trustees

The Corporation's trustees hold the Corporation's restricted investments and cash at September 30, 2004 and 2003. 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, 2004 and 2003 are as follows:

	2004	2003
Money Market/Trust Fund	\$ 5,705,125	\$ 5,537,355
U.S. Treasury Notes	-	284,862
	\$ 5,705,125	\$ 5,822,217

The market value of restricted investments and cash at September 30, 2004 and 2003 approximates its carrying value.

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

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

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2004 and 2003

(11) Notes Payable

Notes payable consists of the following:

	2004	2003
Financial institutions:		
Citibank, N.A., 7% principal and interest payable in monthly installments equivalent to payments received from collateralized FHA mortgage loans, due 2004	\$ -	\$ 34,644
Federal Home Loan Bank of Seattle, 6.490%, interest payable monthly up to August 2003, thereafter interest and principal payable monthly in varying amounts, due August 2014	<u>9,205,303</u>	<u>9,846,344</u>
	9,205,303	9,880,988
Less current portion	683,905	675,685
	<u>\$ 8,521,398</u>	<u>\$ 9,205,303</u>

Under the note agreements with Citibank and the Federal Home Loan Bank of Seattle, the borrowings are collateralized by proceeds received from mortgage loans made by the Corporation. As of September 30, 2004 and 2003, the Corporation has pledged as security for these loans approximately \$23,477,869 and \$21,097,211 of related outstanding mortgage loans, respectively.

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

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

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

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2004 and 2003

(11) Notes Payable, continued, Continued

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

The annual payments on notes payable subsequent to September 30, 2004 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2005	\$ 683,905	\$ 577,319	\$ 1,261,224
2006	729,635	531,589	1,261,224
2007	778,423	482,801	1,261,224
2008	830,472	430,751	1,261,223
2009	886,002	375,221	1,261,223
2010 through 2014	<u>5,296,866</u>	<u>904,151</u>	<u>6,201,037</u>
	<u>\$ 9,205,303</u>	<u>\$ 3,301,832</u>	<u>\$ 12,507,155</u>

(12) Employees' Retirement Plan

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

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

As a result of the most recent actuarial valuation performed as of September 30, 2003 issued in March 15, 2005, it was determined that for the year ended September 30, 2003, a minimum combined employer and employee contribute rate of 46.16% of covered Defined Benefit payroll is required to fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. The actuarially determined contribution rate was 24.89% of covered payroll as of September 30, 2003 from the 20.81% as of September 30, 2002 actuarial valuation. During the year ended September 30, 2003, the Guam Legislature mandated statutory contribution rates for employee and employer contributions of 9.5% and of 26%, respectively, of covered payroll from October 1, 2002 to February 28, 2003. The employer contribution was decreased to 18% effective March 1, 2003.

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Notes to Financial Statements
September 30, 2004 and 2003

(12) Employees' Retirement Plan, Continued

The Defined Benefit Plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 7% and an assumed salary scale increase of 8.5% per annum for short service employees and 4% per annum for longer service employees. The most recent actuarial valuation performed as of September 30, 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, and therefore, the amount was not determinable. If the actuarial valuation were performed for the Corporation as a separate sponsor, the accrual unfunded liability at September 30, 2003 and 2002, 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.

Employer contributions into the DCRS are based on a statutory amount of 20.81% of the member's regular base pay. 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 15.81% is contributed towards the unfunded liability of the defined benefit plan.

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service but have not attained the age of 55 are eligible only for the amount of member contributions plus any earnings thereon.

(13) Contributions from Government of Guam and Federal Government

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

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

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2004 and 2003

(14) Related Party Transactions

In November 2003, the Corporation's Board of Directors re-integrated the rental management functions of Guam Rental Corporation (GRC) an autonomous agency of the Government of Guam into the Corporation's activity by dissolving Guam Rental Corporation. At September 30, 2004 and 2003, 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.

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, 2004 and 2003, the Lada Estates project reported in the statements of net assets as Land Held for Development consists of the following:

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

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

On February 2003, the Corporation entered into a Memorandum of Understanding (MOU) with Guam Economic Development and Commerce Authority (GEDCA), an autonomous agency of the Government of Guam to provide support services to the Corporation. Such services were for rent, financial consultation, network and computer administration, accounting and payroll for a fee of \$47,281 per annum. At September 30, 2004, amounts paid to GEDCA were \$26,490 which included its retroactive services for fiscal year 2003 in the amount of \$94,562. At September 30, 2004, accrued support services due to GEDCA were \$11,509.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 2004 and 2003

(15) Commitments and Contingencies

The Corporation has recorded a liability payable to a contractor for \$10,555,000 associated with the Lada Estates Affordable Housing Subdivision Project Phase I for the design, build and finance of the off-site infrastructure and access roads for the project. The project was a turnkey project and was substantially completed July 24, 1998. Pursuant to the terms of the contract the Corporation believes that the liability may not be payable to the contractor. The liability has been outstanding for the years ending September 30, 2004 and 2003. Additionally, the contractor is claiming accrued interest of \$5,217,276 and \$4,583,976 is due on the outstanding liability as of September 30, 2004 and 2003, respectively.

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

The Corporation is the plaintiff in thirty-two (32) pending claims for approximately \$2,035,131 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, 2004 and 2003, the Corporation has a total of \$100,000 and \$0 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.

GUAM HOUSING CORPORATION
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Combining Statements of Net Assets
September 30, 2004

<u>ASSETS</u>	<u>Housing</u>	<u>Rental</u>	<u>Eliminations</u>	<u>Combined Total</u>
Current Assets:				
Unrestricted assets:				
Cash and cash equivalents (notes 1 and 2)	\$ 1,720,584	\$ 1,048,965	\$ -	\$ 2,769,549
Self-insurance fund (note 1)	-	707,924	-	707,924
Loans receivable (notes 1, 4, 11 and 13)	4,351,006	-	(80,100)	4,270,906
Tenant accounts receivable and other receivables (note 6)	-	55,690	-	55,690
Accrued interest receivable (notes 4 and 11)	200,994	-	-	200,994
Supplies inventory	-	36,042	-	36,042
Prepaid expenses and other	9,409	-	-	9,409
	<u>6,281,993</u>	<u>1,848,621</u>	<u>(80,100)</u>	<u>8,050,514</u>
Total unrestricted assets				
Restricted assets:				
Cash and cash equivalents (notes 1 and 2)	4,537,242	-	-	4,537,242
Investments (notes 3, 9 and 10)	6,081,046	-	-	6,081,046
Other receivables-current portion (notes 5 and 14)	419,417	-	-	419,417
	<u>11,037,705</u>	<u>-</u>	<u>-</u>	<u>11,037,705</u>
Total restricted assets				
	<u>17,319,698</u>	<u>1,848,621</u>	<u>(80,100)</u>	<u>19,088,219</u>
Total current assets				
Loans receivable (notes 1, 4, 11 and 13)	20,780,838	-	(182,573)	20,598,265
Other receivables -noncurrent portion (notes 5 and 14)	2,249,001	-	(169,675)	2,079,326
Due from Government of Guam and other agencies (notes 5 and 14)	2,915,000	-	-	2,915,000
Land held for development (note 14)	13,199,338	-	-	13,199,338
Foreclosed assets held for resale (note 8)	1,699,841	-	-	1,699,841
Capital assets, net (note 7)	142,835	6,132,280	-	6,275,115
	<u>\$ 58,306,551</u>	<u>\$ 7,980,901</u>	<u>\$ (432,348)</u>	<u>\$ 65,855,104</u>
Total assets				

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Combining Statements of Net Assets, Continued
September 30, 2004

<u>LIABILITIES AND NET ASSETS</u>	<u>Housing</u>	<u>Rental</u>	<u>Eliminations</u>	<u>Combined Total</u>
Current liabilities:				
Payable from unrestricted assets:				
Accounts payable and accrued expenses (note 15)	\$ 10,885,788	\$ 185,307	(161,450)	\$ 10,909,645
Deferred revenue	-	2,300	-	2,300
Current portion of accrued annual leave (note 1)	<u>28,908</u>	<u>50,032</u>	<u>-</u>	<u>78,940</u>
Total payable from unrestricted assets	<u>10,914,696</u>	<u>237,639</u>	<u>(161,450)</u>	<u>10,990,885</u>
Payable from restricted assets:				
Current portion of notes payable (note 11)	683,905	-	-	683,905
Accrued interest payable (note 11)	74,259	-	-	74,259
Security deposits	-	40,497	-	40,497
Deposits by borrowers - insurance premiums and real estate taxes	506,202	-	-	506,202
Rebate liability (note 9)	<u>62,322</u>	<u>-</u>	<u>-</u>	<u>62,322</u>
Total payable from restricted assets	<u>1,326,688</u>	<u>40,497</u>	<u>-</u>	<u>1,367,185</u>
Total current liabilities	<u>12,241,384</u>	<u>278,136</u>	<u>(161,450)</u>	<u>12,358,070</u>
Non-current liabilities:				
Payable from unrestricted assets:				
Long-term portion of accrued annual and sick leave (note 1)	63,073	22,849	-	85,922
Accrued unfunded liability to retirement fund (note 12)	89,173	154,956	-	244,129
Payable from restricted assets:				
Bonds payable (note 9)	5,605,000	-	-	5,605,000
Long-term portion of notes payable (note 11)	8,521,398	262,673	(262,673)	8,521,398
Loans held in trust (note 5)	<u>979,159</u>	<u>-</u>	<u>-</u>	<u>979,159</u>
Total non-current liabilities	<u>15,257,803</u>	<u>440,478</u>	<u>(262,673)</u>	<u>15,435,608</u>
Total liabilities	<u>27,499,187</u>	<u>718,614</u>	<u>(424,123)</u>	<u>27,793,678</u>
Net assets:				
Invested in capital assets, net of related debt	142,835	3,360,379	-	3,503,214
Restricted (notes 11 and 13)	21,276,095	1,950,873	-	23,226,968
Unrestricted	<u>9,380,209</u>	<u>1,951,035</u>	<u>-</u>	<u>11,331,244</u>
Total net assets	<u>30,799,139</u>	<u>7,262,287</u>	<u>-</u>	<u>38,061,426</u>
Commitments and Contingencies (note 15)	<u>\$ 58,298,326</u>	<u>\$ 7,980,901</u>	<u>\$ (424,123)</u>	<u>\$ 65,855,104</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Combining Statements of Revenues, Expenditures and Changes in Net Assets
Year Ended September 30, 2004

	Housing	Rental	Eliminations	Combined Total
Operating Revenues:				
Interest on loans receivable	\$ 2,352,205	\$ -	\$ -	\$ 2,352,205
Interest on investments held by bond trustees	340,036	-	-	340,036
Loan origination fees	85,886	-	-	85,886
Rental income	-	719,673	-	719,673
Other	-	924	-	924
	<u>2,778,127</u>	<u>720,597</u>	<u>-</u>	<u>3,498,724</u>
Operating Expenses:				
Interest expense	922,971	-	-	922,971
Bad debts and provision for loan loss	510,489	68,934	-	579,423
Salaries	545,845	253,263	-	799,108
Impairment loss on foreclosed properties held for sale (note 8)	-	-	-	-
Retirement contributions	114,057	30,068	-	144,125
Professional services	50,254	7,009	-	57,263
Contractual services	40,232	55,480	-	95,712
Loan origination costs	44,437	-	-	44,437
Other	38,466	14,480	-	52,946
Employee benefits, other than retirement	26,263	16,306	-	42,569
Rent	53,058	-	-	53,058
Bond trustee fees	16,281	-	-	16,281
Depreciation	16,982	121,368	-	138,350
Maintenance	-	24,299	-	24,299
Director's fees	-	-	-	-
	<u>2,379,335</u>	<u>591,207</u>	<u>-</u>	<u>2,970,542</u>
Income from operations	<u>398,792</u>	<u>129,390</u>	<u>-</u>	<u>528,182</u>
Non-operating Revenues (Expenses):				
Interest income on bank deposits	24,011	11,422	-	35,433
Other income	65,964	-	-	65,964
Total non-operating expenses	<u>89,975</u>	<u>11,422</u>	<u>-</u>	<u>101,397</u>
Increase in net assets	488,767	140,812	-	629,579
Total net assets at beginning of year	<u>30,310,372</u>	<u>7,121,475</u>	<u>-</u>	<u>37,431,847</u>
Total net assets at end of year	<u>\$ 30,799,139</u>	<u>\$ 7,262,287</u>	<u>\$ -</u>	<u>\$ 38,061,426</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Combining Statements of Cash Flows
Year Ended September 30, 2004

	Housing	Rental	Eliminations	Combined Total
Cash flows from operating activities:				
Receipts received from customers	\$ 5,587,828	\$ 706,291	\$ -	\$ 6,294,119
Payments to suppliers	(374,824)	(144,793)	-	(519,617)
Payments to employees	(545,845)	(256,113)	-	(801,958)
Other operating receipts	425,951	-	-	425,951
Net cash provided by operating activities	5,093,110	305,385	-	5,398,495
Cash flows from investing activities:				
(Increase) decrease in investments	(457,127)	-	-	(457,127)
Interest earned on cash and investments with trustees	340,036	-	-	340,036
Interest income on bank deposits	24,011	11,422	-	35,433
Other income	65,964	-	-	65,964
Net cash provided by investing activities	(27,116)	11,422	-	(15,694)
Cash flows from capital and financing related activities:				
Repayment of bonds payable	(90,000)	-	-	(90,000)
Repayment of notes payable	(675,685)	-	-	(675,685)
Premium on bonds payable	(1,134)	-	-	(1,134)
Accrued rebate liability	(46,354)	-	-	(46,354)
Interest paid on notes payable	(674,502)	-	-	(674,502)
Increase in self-insurance fund	-	(81,535)	-	(81,535)
Interest paid on bonds	(306,364)	-	-	(306,364)
Purchase of property and equipment	(155,603)	-	-	(155,603)
Net cash used for financing activities	(1,949,642)	(81,535)	-	(2,031,177)
Net increase (decrease) in cash and cash equivalents	3,116,352	235,272	-	3,351,624
Cash and cash equivalents at beginning of year	3,141,474	813,693	-	3,955,167
Cash and cash equivalents at end of year	\$ 6,257,826	\$ 1,048,965	\$ -	\$ 7,306,791
Cash and cash equivalents	\$ 1,720,584	\$ 1,048,965	\$ -	\$ 2,769,549
Restricted cash and cash equivalents	4,537,242	-	-	4,537,242
Total cash and cash equivalents, end of year	\$ 6,257,826	\$ 1,048,965	\$ -	\$ 7,306,791

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Combining Statements of Cash Flows, Continued
Year Ended September 30, 2004

	<u>Housing</u>	<u>Rental</u>	<u>Eliminations</u>	<u>Combined Total</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	\$ 398,792	\$ 129,390	\$ -	\$ 528,182
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:				
Bad debts	260,489	-	-	260,489
Provision for loan loss	250,000	68,934	-	318,934
Depreciation	16,982	121,368	-	138,350
Amortization of discount on loan due from Guam Rental Corporation	(30,000)	-	-	(30,000)
Loss on sale of properties held for resale	260,585	-	-	260,585
(Gain) loss on disposal of fixed assets	-	-	-	-
(Increase) decrease in assets:				
Loans receivable	4,200,947	-	-	4,200,947
Tenant accounts and other receivables	-	(28,314)	-	(28,314)
Accrued interest receivable	19,036	-	-	19,036
Other receivables	424,638	-	-	424,638
Foreclosed assets held for resale	(1,171,480)	-	-	(1,171,480)
Supplies inventory	-	(2,537)	-	(2,537)
Prepaid expenses and other	(2,038)	-	-	(2,038)
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	83,119	10,932	-	94,051
Accrued annual and sick leave	29,319	27,942	-	57,261
Accrued pension cost	(41,193)	(24,444)	-	(65,637)
Accrued interest payable	613,973	-	-	613,973
Deposits by borrowers	36,952	-	-	36,952
Security deposits	-	2,114	-	2,114
Rebate liability	46,354	-	-	46,354
Loan held in trust	(303,365)	-	-	(303,365)
Net cash provided by operating activities	\$ 5,093,110	\$ 305,385	\$ -	\$ 5,398,495

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Net Assets (Housing Division)
September 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current Assets:		
Unrestricted assets:		
Cash and cash equivalents (notes 1 and 2)	\$ 1,720,584	\$ 1,540,033
Loans receivable (notes 1, 4, 11 and 13)	4,351,006	3,367,186
Accrued interest receivable (notes 4 and 11)	200,994	220,030
Prepaid expenses and other	<u>9,409</u>	<u>7,371</u>
Total unrestricted assets	<u>6,281,993</u>	<u>5,134,620</u>
Restricted assets:		
Cash and cash equivalents (notes 1 and 2)	4,537,242	1,601,441
Investments (notes 3, 9, and 10)	6,081,046	6,198,138
Other receivables-current portion (notes 5 and 14)	<u>419,417</u>	<u>123,200</u>
Total restricted assets	<u>11,037,705</u>	<u>7,922,779</u>
Total current assets	<u>17,319,698</u>	<u>13,057,399</u>
Loans receivable (notes 1, 4, 11 and 13)	20,780,838	26,138,720
Other receivables -noncurrent portion (notes 5 and 14)	2,240,776	2,961,631
Due from Government of Guam and other agencies (notes 5 and 14)	2,915,000	2,915,000
Land held for development (note 14)	13,199,338	13,199,338
Foreclosed assets held for resale (note 8)	1,699,841	528,360
Capital assets, net (note 7)	<u>142,835</u>	<u>21,552</u>
Total assets	<u>\$ 58,298,326</u>	<u>\$ 58,822,000</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Net Assets (Housing Division), Continued
September 30, 2004 and 2003

<u>LIABILITIES AND NET ASSETS</u>	<u>2004</u>	<u>2003</u>
Current liabilities:		
Payable from unrestricted assets:		
Accounts payable and accrued expenses (note 15)	\$ 10,885,788	\$ 10,802,669
Current portion of accrued annual leave (note 1)	<u>28,908</u>	<u>34,568</u>
Total payable from unrestricted assets	<u>10,914,696</u>	<u>10,837,237</u>
Payable from restricted assets:		
Current portion of notes payable (note 11)	683,905	675,685
Accrued interest payable (note 11)	74,259	78,360
Deposits by borrowers - insurance premiums and real estate taxes	506,202	469,249
Rebate liability (note 9)	<u>62,322</u>	<u>108,676</u>
Total payable from restricted assets	<u>1,326,688</u>	<u>1,331,970</u>
Total current liabilities	<u>12,241,384</u>	<u>12,169,207</u>
Non-current liabilities:		
Payable from unrestricted assets:		
Long-term portion of accrued annual and sick leave (note 1)	63,073	28,094
Accrued unfunded liability to retirement fund (note 12)	89,173	130,366
Payable from restricted assets:		
Bonds payable (note 9)	5,605,000	5,696,134
Long-term portion of notes payable (note 11)	8,521,398	9,205,303
Loans held in trust (note 5)	<u>979,159</u>	<u>1,282,524</u>
Total non-current liabilities	<u>15,257,803</u>	<u>16,342,421</u>
Total liabilities	<u>27,499,187</u>	<u>28,511,628</u>
Net assets:		
Invested in capital assets, net of related debt	142,835	21,553
Restricted (notes 11 and 13)	21,276,095	21,397,377
Unrestricted	<u>9,380,209</u>	<u>8,891,442</u>
Total net assets	<u>30,799,139</u>	<u>30,310,372</u>
Commitments and Contingencies (note 15)	<u>\$ 58,298,326</u>	<u>\$ 58,822,000</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Statements of Revenues, Expenditures and Changes in Net Assets (Housing Division)
Years Ended September 30, 2004 and 2003

	2004	2003
Operating Revenues:		
Interest on loans receivable	\$ 2,352,205	\$ 2,558,293
Interest on investments held by bond trustees	340,036	319,418
Loan origination fees	85,886	72,708
Total operating revenues	2,778,127	2,950,419
Operating Expenses:		
Interest expense	922,971	1,090,919
Bad debts and provision for loan loss	510,489	566,657
Salaries	545,845	495,909
Retirement contributions	114,057	164,273
Professional services	50,254	126,478
Contractual services	40,232	42,931
Loan origination costs	44,437	40,494
Other	38,466	37,763
Employee benefits, other than retirement	26,263	22,853
Depreciation	16,982	7,247
Rent	53,058	22,799
Bond trustee fees	16,281	17,056
Impairment loss on foreclosed properties held for sale (note 8)	-	179,454
Directors' fees	-	2,000
Total operating expenses	2,379,335	2,816,833
Income from operations	398,792	133,586
Non-operating Revenues (Expenses):		
Interest income on bank deposits	24,011	21,404
Other income	65,964	78,967
Total non-operating expenses	89,975	100,371
Increase in in net assets	488,767	233,957
Total net assets at beginning of year	30,310,372	30,076,415
Total net assets at end of year	<u>\$ 30,799,139</u>	<u>\$ 30,310,372</u>

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Cash Flows (Housing Division)
Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Receipts received from customers	5,587,828	\$ 5,374,526
Payments to suppliers	(374,824)	(476,647)
Payments to employees	(545,845)	(495,909)
Other operating receipts	425,951	392,126
Net cash provided by operating activities	5,093,110	4,794,096
Cash flows from investing activities:		
(Increase) decrease in investments	(457,127)	527,870
Interest earned on cash and investments with trustees	340,036	319,418
Interest income on bank deposits	24,011	21,404
Other income	65,964	78,967
Proceeds from sale of property and equipment	-	290,891
Net cash provided by investing activities	(27,116)	1,238,550
Cash flows from capital and financing related activities:		
Repayment of bonds payable	(90,000)	(85,000)
Repayment of notes payable	(675,685)	(4,071,474)
Premium on bonds payable	(1,134)	(4,615)
Accrued rebate liability	(46,354)	(762,933)
Interest paid on notes payable	(674,502)	(785,651)
Interest paid on bonds	(306,364)	(310,193)
Purchase of property and equipment	(155,603)	(14,816)
Net cash used for financing activities	(1,949,642)	(6,034,682)
Net increase (decrease) in cash and cash equivalents	3,116,352	(2,036)
Cash and cash equivalents at beginning of year	3,141,474	3,143,510
Cash and cash equivalents at end of year	\$ 6,257,826	\$ 3,141,474
Cash and cash equivalents	\$ 1,720,584	\$ 1,540,033
Restricted cash and cash equivalents	4,537,242	1,601,441
Total cash and cash equivalents, end of year	\$ 6,257,826	\$ 3,141,474

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Comparative Statements of Cash Flows (Housing Division)
Years Ended September 30, 2004 and 2003

	2004	2003
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	\$ 398,792	\$ 133,586
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Bad debts	260,489	89,144
Provision for loan loss	250,000	477,513
Impairment loss on foreclosed properties held for sale	-	179,454
Depreciation	16,982	7,247
Amortization of bond issuance cost	-	-
Amortization of discount on loan due from Guam Rental Corporation	(30,000)	(30,000)
Loss on sale of properties held for resale	260,585	371,817
(Gain) loss on disposal of fixed assets	-	1,920
(Increase) decrease in assets:		
Loans receivable	4,200,947	3,209,368
Accrued interest receivable	19,036	41,168
Due from Government of Guam	-	-
Other receivables	424,638	143,670
Foreclosed assets held for resale	(1,171,480)	(176,264)
Prepaid expenses and other	(2,038)	7,679
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	83,119	5,685
Accrued annual leave	29,319	(57,909)
Accrued pension cost	(41,193)	(45,539)
Accrued interest payable	613,973	761,796
Deposits by borrowers	36,952	(407,995)
Rebate liability	46,354	91,930
Loan held in trust	(303,365)	(10,174)
Net cash provided by operating activities	\$ 5,093,110	\$ 4,794,096
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest expense	\$ 691,840	\$ 785,651
Loans foreclosed and transferred to assets held for resale during the year	\$ 1,071,080	\$ 169,400

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Supplementary Information

Salaries, Wages and Benefits
Years ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Salaries, wages and benefits:		
Salaries	\$ 799,108	\$ 495,909
Retirement benefits	144,125	164,273
Benefits other than retirement	42,569	22,853
Overtime pay	<u> -</u>	<u> -</u>
Total salaries, wages and benefits	<u>\$ 985,802</u>	<u>\$ 683,035</u>
Employees at end of year	23	14

See accompanying independent auditor's report.