# GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

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## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

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**YEARS ENDED SEPTEMBER 30, 2000 AND 1999**

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Guam Housing Corporation:

I have audited the accompanying balance sheets of Guam Housing Corporation (a public corporation), a component unit of the Government of Guam, as of September 30, 2000 and 1999, and the related statements of operations and equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audits 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, financial statements referred to above present fairly, in all material respects, the financial position of Guam Housing Corporation (a public corporation), as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report dated April 17, 2001, on my consideration of the 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 accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As shown in the financial statements, the Corporation has incurred a net loss of $973,123 for the year ended September 30, 2000, and the Corporation's current liabilities exceeded its current assets by $5,300,000. Delinquent loans receivable totaled $10,166,700 and the Corporation is subject to having its mortgage revenue bond proceeds redeemed by its Bond Trustees due to non-issuance of loans. As described more fully in Notes 15 and 16 to the financial statements, the Corporation is in default on its approximate $13,650,000 loan agreement with the Government of Guam and in arrears of approximately $517,000. On April 30, 2001, the Corporation entered into negotiations for a new loan agreement with the same maturity date, which contains substantially the same restrictive covenants included in the previous loan agreement; however, the new loan agreement has not been executed. All defaults existing at April 30, 2001 were waived by the Government of Guam through January 1, 2004. The Corporation's recovery plan was adopted February 27, 2001, which is described in Note 16 to the financial statements, contemplates reducing operating losses, reduction of staff, obtaining additional working capital, and the refinancing or restructuring of its existing bank credit agreements. The Corporation's ability to achieve the foregoing elements of its recovery plan, which may be necessary to permit the realization of assets and satisfaction of liabilities in the ordinary course of business, is uncertain. Those conditions raise substantial doubt about the Corporation's ability to continue as a going concern. The financial statements do not include any adjustments of that might result from the outcome of this uncertainty.

Agana, Guam
April 17, 2001

**GUAM HOUSING CORPORATION**
**(A PUBLIC CORPORATION)**

Balance Sheets, Continued
September 30, 2000 and 1999

| | 2000 | 1999 |
|---|---|---|
| LIABILITIES, CONTRIBUTIONS AND RETAINED EARNINGS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses (notes 9 and 13) | $ 12,256,319 | $ 1,416,420 |
| Deposits by borrowers - insurance premiums and real estate taxes | 861,947 | 969,331 |
| Rebate liability (note 7) | 593,911 | 182,445 |
| Bonds payable (notes 7 and 17) | 51,093,961 | 51,129,829 |
| Notes payable (notes 9 and 13) | 32,410,838 | 34,346,949 |
| Accrued pension cost (note 10) | 1,332,694 | 1,418,841 |
| Total liabilities | 98,549,670 | 89,463,815 |
| Commitments and Contingencies (note 13) | | |
| Contributions and retained earnings: | | |
| Contributions from Government of Guam and Federal Government (note 11) | 5,123,752 | 5,123,752 |
| Retained earnings | 9,919,771 | 10,898,894 |
| Total contributions and retained earnings | 15,043,523 | 16,022,646 |
| | $ 113,593,193 | $ 105,486,461 |

See accompanying notes to financial statements.

**GUAM HOUSING CORPORATION**
**(A PUBLIC CORPORATION)**

Statements of Earnings (Loss) and Retained Earnings
Years Ended September 30, 2000 and 1999

| | 2000 | 1999 |
|---|---|---|
| Interest income: | | |
| Loans receivable (note 4) | $ 3,678,003 | $ 3,871,550 |
| Investments held by bond trustees (notes 7 and 8) | 2,544,533 | 2,857,086 |
| Bank deposits | 81,400 | 136,416 |
| | 6,303,936 | 6,865,052 |
| Interest expense: | | |
| Mortgage revenue bonds (note 7) | 2,648,442 | 2,648,443 |
| Notes payable (notes 9 and 16) | 1,962,843 | 2,110,565 |
| | 4,611,285 | 4,759,008 |
| Net interest income | 1,692,651 | 2,106,044 |
| Other income: | | |
| Management fee (note 12) | 151,596 | 144,788 |
| Loan origination fees (note 1) | 71,799 | 61,314 |
| Mortgage revenue bonds loan origination fees (notes 1 and 7) | 14,350 | - |
| Other | 84,681 | 47,828 |
| Total other income | 322,426 | 253,930 |
| | 2,015,077 | 2,359,974 |
| Expenses: | | |
| Salaries | 1,215,508 | 1,345,827 |
| Bad debts (note 1) | 1,000,000 | 100,000 |
| Retirement contributions (note 10) | 173,902 | 191,446 |
| Bond trustee fees | 92,475 | 119,669 |
| Contractual services | 91,551 | 110,185 |
| Other | 90,412 | 54,543 |
| Depreciation | 80,537 | 96,017 |
| Professional services | 60,643 | 61,270 |
| Rent | 49,300 | 115,473 |
| Employee benefits, other than retirement | 45,794 | 50,127 |
| Amortization of bond issuance costs (note 1) | 39,498 | 40,102 |
| Loan origination costs (note 1) | 29,816 | 35,292 |
| Mortgage revenue bonds loan origination costs (notes 1 and 7) | 12,095 | - |
| Directors' fees | 6,800 | 6,500 |
| Travel | 5,869 | 27,657 |
| Total expenses | 2,994,200 | 2,354,108 |
| Net earnings (loss) | (979,123) | 5,866 |
| Retained earnings at beginning of year | 10,898,894 | 10,893,028 |
| Retained earnings at end of year | $ 9,919,771 | $ 10,898,894 |

See accompanying notes to financial statements.

**GUAM HOUSING CORPORATION**
**(A PUBLIC CORPORATION)**

Statements of Cash Flows, Continued
Years Ended September 30, 2000 and 1999

| | 2000 | 1999 |
|---|---|---|
| Cash flows from (used in) investing activities: | | |
| (Increase) decrease in investments | $ (187,679) | $ (154,557) |
| Interest earned on cash and investments with trustees | 3,512,997 | - |
| Increase in land held for development and resale | (8,033,836) | (351,918) |
| Purchase of property and equipment | (237,411) | (679,642) |
| Net cash (used in) investing activities | (4,945,929) | (1,186,117) |
| Cash flows from (used in) financing activities: | | |
| Repayment of notes payable | (1,936,111) | (2,461,108) |
| Premium on bonds payable | 35,868 | 35,995 |
| Interest paid on bonds | (2,648,442) | - |
| Net cash (used in) financing activities | (4,548,685) | (2,425,113) |
| Net (decrease) in cash and cash equivalents | (503,345) | (1,543,286) |
| Cash and cash equivalents at beginning of year | 1,840,063 | 3,383,349 |
| Cash and cash equivalents at end of year | $ 1,336,718 | $ 1,840,063 |
| Supplemental disclosure of cash flow information: | | |
| Cash payments during the year for interest | $ 1,962,843 | $ 2,110,565 |

See accompanying notes to financial statements.

## *(1) Organization and Summary of Significant Accounting Policies*

### Organization

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

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

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

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

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

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

### 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 (see also Note 2).

### Property and Equipment

The Corporation generally capitalizes all expenditures for property and equipment in excess of $500 in 2000 and 1999, respectively.

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

### Lending Policies

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

### Loans and Allowance for Loan Losses

Loans are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan fees.

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

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

### Deferred Bond Issue Cost

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

### Premium on Bonds

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

### Accrued Vacation Leave

Employees credited 104, 156 or 208 hours of vacation leave per fiscal year, subject to their lengths of service. The accumulation of vacation credits is limited to 480 at fiscal year-end and is convertible to pay upon termination of employment. The Corporation recognizes as a liability all vested vacation leave benefits accrued by its employees. Sick leave does not vest and is not accrued. When vacation leave benefits are used by the employees, the liability account is reduced accordingly. As of September 30, 2000 and 1999, accrued annual leave totaled $202,907 and $224,689, respectively. The aggregate amount of the sick leave liability has not been estimated.

### Loan Origination Fees and Related Costs

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

### Risk of Loss

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

Recognition of Revenues and Expenses

Revenues and expenses are recognized on an accrual basis.

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

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 consist 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 reclassifications have been made to the 1999 financial statements to conform with the 2000 presentation.

## *(2) Cash and Cash Equivalents*

Cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) up to $400,000 and $300,000 as of September 30, 2000 and 1999, respectively, with the remaining uninsured balances being uncollateralized, as follows:

| | 2000 | 1999 |
|---|---|---|
| Commercial, trust and savings accounts | $ 522,195 | $ 546,359 |
| Time certificates of deposit with original maturities of three months or less | 812,923 | 1,292,104 |
| On-hand | 1,600 | 1,600 |
| | $ 1,336,718 | $ 1,840,063 |

## *(3) Unrestricted Investments*

Unrestricted investments consists of the following:

| | 2000 | 1999 |
|---|---|---|
| Time certificates of deposit with original maturities of more than three months | $ 12,879 | $ 9,537 |
| Other, at market | - | - |
| | $ 12,879 | $ 9,537 |

Other investments represent interest income earned from certain short-term investments held by Merrill Lynch in the name of the Corporation. Such investments are not owned by the Company. However, interest income on those investments accrues to the Corporation.

The securities are insured by FDIC. All securities are registered.

## *(4) Loans Receivable*

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

| | 2000 | 1999 |
|---|---|---|
| Due in varying monthly installments and interest rates with maturities to 2024, including loans in process of $364,139 in 2000 and $484,657 in 1999. | $ 41,350,150 | $ 42,554,302 |
| Due in varying monthly installments and interest rates with maturities to 2003, purchased from Citibank, N.A. which acts as a servicing agent, insured by the Federal Housing Administration (FHA). | 366,402 | 558,765 |
| Due from Guam Rental Corporation in monthly installments of $6,675 including interest of 3% per annum, net of unamortized discount of $168,710 in 2000 and $198,710 in 1999. | 497,668 | 526,806 |
| Due from other government agencies | 49,271 | 26,580 |
| | 42,263,491 | 43,666,453 |
| Less net deferred loan origination fees | (378,254) | (394,071) |
| | $ 41,885,237 | $ 43,272,382 |

A significant portion of the total loans outstanding is assigned as collateral on notes payable (see Note 9). Included in outstanding loans are loans to employees of $1,894,507 and $2,051,089 at September 30, 2000 and 1999, 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 total $10,166,700 and $6,548,403 at September 30, 2000 and 1999, respectively.

## *(5) Property and Equipment*

Property and equipment are summarized below:

| | 2000 | 1999 |
|---|---|---|
| Office furniture and equipment | $ 856,380 | $ 843,907 |
| Vehicles | 101,826 | 101,826 |
| Leasehold improvements | 208,027 | 208,072 |
| | 1,166,233 | 1,153,805 |
| Less accumulated depreciation | (1,087,990) | (1,008,939) |
| | $ 78,243 | $ 144,866 |

## *(6) Foreclosed Asset Held for Resale*

Foreclosed asset held for resale represents eight buildings acquired by GHC due to the borrowers' default on their mortgages. The buildings are not subject to depreciation because they represent foreclosed property held for resale.

## *(7) 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.

## *(7) Long-Term Mortgage Revenue Bonds Payable, continued*

Revenue bonds payable as of September 30, 2000 and 1999, consist of the following:

| | 2000 | 1999 |
|---|---|---|
| Single Family Mortgage Revenue Bonds 1998 Series A, with varying interest rates (4.25% - 5.25%) payable semiannually on March 1 and September 1, principal payments due in varying semiannually installments with $225,000 due in March 2002, and increasing to $630,000 by September 2013. | $ 10,965,000 | $ 10,965,000 |
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.35% payable semiannually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semiannually installments with $640,000 due in March 2014, and increasing to $815,000 by September 2018. | 7,260,000 | 7,260,000 |

| | | |
|---|---|---|
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 4.7% payable semiannually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semiannually installments with $930,000 due in March 2019, and increasing to $1,025,000 by September 2021. | 5,875,000 | 5,875,000 |
| Single Family Mortgage Revenue Bonds 1998 Series A, with interest rate of 5.75% payable semiannually on March 1 and September 1, principal and mandatory sinking fund payments due in varying semiannually installments with $975,000 due in March 2022, and increasing to $1,666,000 by September 2031. | 25,900,000 | 25,900,000 |
| | 50,000,000 | 50,000,000 |
| Add net unamortized premium on bonds | 1,093,961 | 1,129,829 |
| | $ 51,093,961 | $ 51,129,829 |

## *(7) Long-Term Mortgage Revenue Bonds Payable, continued*

The accrued interest expense on the above bonds totaled $223,692 at September 30, 2000 and 1999. Total interest expense on the bonds totaled $2,648,443 and $2,648,442 net of amortized bond premium at September 30, 2000 and 1999. Accrued interest income earned on bonds totaled approximately $240,784 and $240,986 as of September 30, 2000 and 1999, 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, 2000 and 1999, the rebate liability totaled $593,911 and $182,445, respectively.

The bonds are limited obligations of the Corporation payable from the revenues and other assets pledged for the payment thereof and are not a lien or charge upon the funds of the

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

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

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

*(7) Long-Term Mortgage Revenue Bonds Payable, continued*

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

| Date | Principal Amount | Date | Principal Amount |
|---|---|---|---|
| March 1, 2014 | $ 640,000 | September 1, 2016 | $ 730,000 |
| September 1, 2014 | $ 660,000 | March 1, 2017 | $ 755,000 |
| March 1, 2015 | $ 680,000 | September 1, 2017 | $ 775,000 |

| | | | |
|---|---|---|---|
| September 1, 2015 | $ 695,000 | March 1, 2018 | $ 795,000 |
| March 1, 2016 | $ 715,000 | September 1, 2018 | $ 815,000 |

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:

| Date | Principal Amount |
|---|---|
| March 1, 2014 | $ 640,000 |
| September 1, 2014 | $ 660,000 |
| March 1, 2015 | $ 680,000 |
| September 1, 2015 | $ 695,000 |
| March 1, 2016 | $ 715,000 |

*(7) Long-Term Mortgage Revenue Bonds Payable, continued*

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

| Date | Principal Amount | Date | Principal Amount |
|---|---|---|---|
| March 1, 2022 | $ 975,000 | March 1, 2027 | $ 1,290,000 |

| | | | |
|---|---|---|---|
| September 1, 2022 | $ 1,005,000 | September 1, 2027 | $ 1,335,000 |
| March 1, 2023 | $ 1,030,000 | March 1, 2028 | $ 1,365,000 |
| September 1, 2023 | $ 1,060,000 | September 1, 2028 | $ 1,415,000 |
| March 1, 2024 | $ 1,090,000 | March 1, 2029 | $ 1,455,000 |
| September 1, 2024 | $ 1,125,000 | September 1, 2029 | $ 1,495,000 |
| March 1, 2025 | $ 1,155,000 | March 1, 2030 | $ 1,540,000 |
| September 1, 2025 | $ 1,190,000 | September 1, 2030 | $ 1,590,000 |
| March 1, 2026 | $ 1,225,000 | March 1, 2031 | $ 1,635,000 |
| September 1, 2026 | $ 1,265,000 | September 1, 2031 | $ 1,660,000 |

Pursuant to Article IV, Section 4.02(A)(1) of the bond indenture, the Bonds are 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. As of September 30, 2000, the Corporation had expended Bond proceeds and originated loans totaling $2,164,475 which the Trustee had not disbursed such moneys from the Program Fund for the acquisition of Mortgage-Backed Securities.

## *(7) Long-Term Mortgage Revenue Bonds Payable, continued*

The bond indenture contains certain restrictive covenants, including restrictions on the use of bond funds. Management of the Corporation is of the opinion that the Corporation was in compliance with all significant covenants as of September 30, 2000 and 1999.

## *(8) 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, 2000 and 1999, investments and cash held by the trustees for the Corporation, in these funds and accounts are as follows:

| | 2000 | 1999 |
|---|---|---|
| Program Fund | $ 50,055,143 | $ 50,055,143 |
| Escrow Fund | 1,000,000 | 1,000,000 |
| Capitalized Interest Fund | 285,000 | 285,000 |
| Cash Management Fund | 344,309 | 159,972 |
| Revenue Fund | 72,444 | 72,444 |
| | $ 51,756,896 | $ 51,572,559 |

The Corporation's restricted investments and cash at September 30, 2000 and 1999, are held by the Corporation's trustees. 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, 2000 and 1999 are as follows:

| | 2000 | 1999 |
|---|---|---|
| Money Market/Trust Funds | $ 51,412,587 | $ 51,412,587 |
| U.S. Treasury Notes | 344,310 | 159,972 |
| | $ 51,756,897 | $ 51,572,559 |

*(8) Investments and Cash with Trustees, continued*

The market value of restricted investments and cash at September 30, 2000 and 1999 approximates its carrying value.

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

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

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

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

The bond funds have been classified as Category 3 investments and the bond reserve funds have been classified as Category 1 investments in accordance with Government Accounting Standards Board (GASB) Statement #3. All other investments held by the trustees at September 30, 2000, have been classified as Category 2 investments.

The Corporation maintains its cash in bank accounts which at times may exceed federal depository insurance limits. At September 30, 2000 and 1999, $432,777 and $100,000, respectively, of deposits are covered by federal depository insurance with the remainder being uninsured and uncollateralized.

## *(9) Notes Payable*

Notes payable consists of the following:

| | 2000 | 1999 |
|---|---|---|
| Financial institutions: | | |
| Citibank, N.A., 9.625%, payable in monthly installments of $95,000 including interest, due 2005 | $ 2,483,029 | $ 3,332,575 |
| Citibank, N.A., 8%, principal and interest payable in monthly installments of $18,639 plus interest, due 2003 | 1,084,369 | 1,308,032 |

## *(9) Notes Payable, continued*

| | 2000 | 1999 |
|---|---|---|
| Citibank, N.A., 7% principal and interest payable in monthly installments equivalent to payments received from collateralized FHA mortgage loans, due 2003 | $ 375,346 | $ 565,528 |

| | | |
|---|---|---|
| Federal Home Loan Bank of Seattle, 6.99%, payable in monthly installments of $41,667, plus interest, principal due 2011 | 5,247,126 | 5,747,126 |
| Federal Home Loan Bank of Seattle, 6.83%, interest payable monthly, principal due 2017 | 2,200,000 | 2,200,000 |
| Federal Home Loan Bank of Seattle, 6.72%, interest payable monthly, principal due 2017 | 1,000,000 | 1,000,000 |
| Federal Home Loan Bank of Seattle, 6.60%, interest payable monthly, principal due 2017 | 1,000,000 | 1,000,000 |
| Federal Home Loan Bank of Seattle, 5.670%, interest payable monthly, principal due 2003 | 1,000,000 | 1,000,000 |
| Federal Home Loan Bank of Seattle, 6.160%, interest payable monthly, principal due 2008 | 1,475,388 | 1,486,049 |
| Federal Home Loan Bank of Seattle, 6.090%, interest payable monthly, principal due 2003 | 490,589 | 494,851 |
| Federal Home Loan Bank of Seattle, 6.060%, interest payable monthly, principal due 2003 | 979,810 | 989,100 |
| Federal Home Loan Bank of Seattle, 6.020%, interest payable monthly, principal due 2003 | 982,428 | 990,832 |
| Federal Home Loan Bank of Seattle, 5.920%, interest payable monthly, principal due 2003 | 442,740 | 446,469 |
| Government of Guam: 4%, payable in monthly installments of $107,258 including interest, due 2011 thru 2017 | 13,650,013 | 13,786,387 |
| | $ 32,410,838 | $ 34,346,949 |

*(9) Notes Payable, continued*

Under the note agreements with Citibank and the Federal Home Loan Bank of Seattle, the borrowings are collateralized by proceeds received from mortgage loans made by the Corporation. As of September 30, 2000 and 1999, the Corporation has pledged as security for these loans approximately $23,535,163 and $33,177,155 of related outstanding mortgage loans, respectively.

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 (See notes 15 and 16), as monthly payments have not been made since November 1999.

The aggregate maturities of notes payable for the five years ending September 30, 2005, are as follows:

| | |
|---|---|
| 2001 | $ 2,407,563 |
| 2002 | 2,533,763 |
| 2003 | 5,794,812 |
| 2004 | 3,092,744 |
| 2005 | 2,954,552 |
| Subsequent years | 15,627,404 |
| | $ 32,410,838 |

*(10) Employees' Retirement Plan*

Employees of the Corporation hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the new Defined Contribution Retirement System (DCRS). Until 1998, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, have the option to switch to the Defined Contribution Retirement System. Otherwise, they remain under the old plan.

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.

*(10) Employees' Retirement Plan, continued*

As a result of the most recent actuarial valuation performed as of September 30, 1995, it has been determined that for the year ended September 30, 1998, a minimum combined employer and employee contribution rate of 28.1% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 1998. The effect of the Corporation's prior year accruals for its share from 18.6% to an effective rate of 17.03% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 1.57% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 17.03% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1997 was 16.9%.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 6.5% per annum. The most recent actuarial valuation performed as of September 30, 1995, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Corporation as a separate sponsor, the accrued unfunded liability at September 30, 1998 and 1997 may be materially different than that recorded in the accompanying financial statements.

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

Employer contributions into the DCRS are based on a statutory amount of 18.6% 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 into the member's individual annuity account. The remaining 13.6% 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.

## *(11) 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. As of September 30, 2000 and 1999, $187,851 has been expended for the master plan and is recorded in other receivables. The appropriation will be recorded upon the receipt of funds from the General Fund.

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.

## *(12) Related Party Transactions*

The Corporation is the management agent of the Guam Rental Corporation from which it received a fee of $151,596 in 2000 and $144,788 in 1999. The same Board of Directors serves both corporations. (See Note 4 for loan receivable from Guam Rental Corporation.)

As of September 30, 2000 and 1999, a total of $0 and $7,325, respectively, is payable to GRC for labor in renovating the main office, and a total of $138,690 is receivable from GRC for reimbursement of GHC expenses for the As-Atdas project as of September 30, 1996.

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 units will be sold at cost of construction, plus 2% and $3 per square meter for the house lot. The donated land was initially recorded at $2.10 per square meter increased by the cost of the development incurred. Expenditures, net of reimbursements and rental income, related to the development of this property (the Lada Estates Project) amount to $4,746,626 and $4,394,718 at September 30, 2000 and 1999, respectively.

As of September 30, 2000, the Corporation has receivable of $2,915,000 due from the Government of Guam pursuant to Guam Public Law 25-116 for it's share of the costs associated with Lada Estates Affordable Subdivision Improvement Project, Phase I for the design, build and finance the off-site infrastructure and off-site infrastructure access roads for the project.

## *(13) Commitments and Contingencies*

The Corporation has a liability payable to a contractor for $10,555,000 associated with Lada Estates Affordable Subdivision Improvement Project, Phase I for the design, build and finance the on-site infrastructure and off-site infrastructure access roads for the project. The Project was substantially complete on July 24, 1998. The liability is outstanding as of September 30, 2000 and the contractor is claiming accrued interest approximating $1,803,000 is due on the outstanding balance as of September 30, 2000. The Corporation is disputing the amount and its legal counsel believes the contractor's claim may not be payable pursuant to terms of the contract. Therefore, it is not possible to determine the ultimate resolution of this matter and therefore, no provision for any liability that may result from this claim has been made in the financial statements.

As of September 30, 2000 and 1999, the Corporation has a total of $151,731 and $484,657, 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.

## *(14) Program Funds Under Management*

As of September 30, 2000 and 1999, the Corporation has approximately $12,422 and $20,668, respectively, of the Government of Guam's Community Affordable Housing Action Trust (CAHAT) Program funds under its management. Such funds are not included in the accounts of the Corporation.

*(15) Subsequent Events*

In April 2001 subsequent to the balance sheet date, 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, 2000. The Corporation has not made monthly payments to the Fund since November 1999 and as such, exceeded the 90-day period after such payments becomes due for making such payments which approximated $517,000 as of September 30, 2000. Accordingly, pursuant to the authority vested in the Governor of Guam as provided in Section 6 of Guam Public Law 20-210, those amounts payable to the Fund were deferred for the period covering November 1999 to January 2004. Additionally, the Governor of Guam directed the Government of Guam to amend the existing loan agreement to provide for the repayment of the Corporation's obligation to the Fund to recommence January 1, 2004.

*(16) Going-Concern*

As shown in the accompanying financial statements, the Corporation has sustained a loss from operations and recurring negative cash flows, and as of September 30, 2000, the Corporation's current liabilities exceeded its current assets by approximately $5,300,000 and may not be able to meet its obligations as they become due. Delinquent loans receivable approximated $10,100,000 as of September 30, 2000. The Corporation defaulted on its note payable to the Government of Guam and is in arrears since November 1999, which approximates $517,000 as of September 30, 2000. Pursuant to the Bond Indenture, the Corporation's $50,000,000 mortgage revenue bonds are subject to a non-origination call or redemption if such bond proceeds are not fully expended no later than November 1, 2001. As of September 30, 2000, the Corporation had originated loans totaling $2,164,475, for which the Trustee had not disbursed such moneys from the Program Fund for the acquisition of Mortgage-Backed Securities. These factors raise substantial doubt about the Corporation's ability to continue as a going concern.

The Corporation's Board of Directors has adopted and management has instituted a recovery plan and cost reduction program that includes a reduction of labor and fringe costs, obtaining additional working capital and restructuring existing bank and credit agreements. The Corporation is conducting a comprehensive review of its loan portfolio and is increasing collection and service efforts on all delinquent accounts. The Corporation is assisting its borrowers to refinance, re-amortize and set-up payment plans for outstanding loans receivable. The Corporation is negotiating a new loan agreement with Government of Guam, and those amounts payable to the Government of Guam were deferred until January 2004. The Corporation expects to generate additional cash needed through the sale of its foreclosed properties held for sale and the through the refinancing of existing loans and notes payable to financial institutions. However, there can be no assurance that the Corporation will be successful in achieving its objectives. The financial statements do not include any adjustments that might be necessary if the Corporation is unable to continue as a going concern.