GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED SEPTEMBER 30, 1998 AND 1997

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Guam Housing Corporation:

We 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, 1998 and 1997, 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. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Guam Housing Corporation as September 30, 1997, were audited by other auditors whose report dated December 5, 1997, expressed an unqualified opinion on those statements.

Except as discussed in the following paragraph, we conducted our 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 we 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. We believe that our audits provide a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. Guam Housing Corporation has included such disclosures in note 14. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support Guam Housing Corporation's disclosures with respect to the year 2000 issue made in note 14. Further, we do not provide assurance that Guam Housing Corporation year 2000 remediation efforts will be successful in whole or in part, or that parties with which Guam Housing Corporation does business with will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, such financial statements present fairly, in all material respects, the financial position of Guam Housing Corporation (a public corporation), as of September 30, 1998 and 1997, 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*, we have also issued our report dated February 25, 1999, on our consideration of the Guam Housing Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

February 25, 1999

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Balance Sheets, Continued
September 30, 1998 and 1997

		1998		1997
LIABILITIES, CONTRIBUTIONS AND RETAINED EARNINGS				
Liabilities:				
Accounts payable and accrued expenses (note 7)	$	1,162,717	$	1,085,490
Deposits by borrowers - insurance premiums and real estate taxes (note 2)		1,102,616		1,081,076
Rebate liability (note 7)		81,480		-
Bonds payable (note 7)		51,165,696		-
Notes payable (note 9)		36,808,057		31,334,240
Accrued pension cost (note 10)		1,536,927		1,635,998
Total liabilities		91,857,493		35,136,804
Contributions and retained earnings:				
Contributions from Government of Guam and Federal Government (note 11)		5,123,752		5,123,752
Retained earnings		10,893,028		10,804,078
Total contributions and retained earnings		16,016,780		15,927,830
Commitments (note 13)				
	$	107,874,273	$	51,064,634

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
(A PUBLIC CORPORATION)

Statements of Earnings and Retained Earnings
Years Ended September 30, 1998 and 1997

	1998	1997
Interest income:		
Loans receivable (note 4)	$ 3,796,267	$ 3,494,427
Bank deposits (note 7)	1,171,592	314,571
	4,967,859	3,808,998
Interest expense (note 7)	2,988,228	1,805,803
Net interest income	1,979,631	2,003,195
Other income:		
Management fee (note 12)	146,467	148,717
Loan origination fees (note 1)	74,512	80,719
Other	60,973	25,087
Total other income	281,952	254,523
	2,261,583	2,257,718
Expenses:		
Salaries	1,249,866	1,180,728
Other	210,987	125,586
Retirement contributions (note 10)	167,924	368,425
Contractual services	144,649	100,770
Rent	130,548	111,158
Depreciation	122,265	151,379
Loan origination costs	48,411	53,001
Employee benefits, other than retirement	44,750	51,639
Professional services	39,202	65,829
Directors' fees	10,750	8,250
Travel	3,281	27,170
Total expenses	2,172,633	2,243,935
Net earnings	88,950	13,783
Retained earnings at beginning of year	10,804,078	10,790,295
Retained earnings at end of year	$ 10,893,028	$ 10,804,078

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Cash Flows
Years Ended September 30, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Net earnings	$ 88,950	$ 13,783
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation	122,265	151,379
Amortization of discount on loan due from Guam Rental Corporation	(30,000)	(30,000)
Provision for loan losses	80,000	-
Net increase in loans receivable	(6,462,934)	(1,766,029)
Increase in accrued interest receivable	(293,723)	(131,414)
Decrease (increase) in other receivables	(142,416)	62,373
Decrease (increase) in prepaid expenses and other	4,504	(3,939)
Increase in rebate liability	81,480	-
(Decrease) increase in accrued pension cost	(99,071)	122,383
Increase in accounts payable and accrued expenses	77,227	542,085
Increase in deposits by borrowers	21,540	122,406
Net cash used in operating activities	$ (6,552,178)	$ (916,973)

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Statements of Cash Flows, Continued
Years Ended September 30, 1998 and 1997

	1998	1997
Cash flows from investing activities:		
Increase in investments	$ (47,489,690)	$ (2,846,530)
Interest earned on cash and investments with trustees	1,014,073	-
Withdrawal of investment	-	84,282
Increase in land held for development and resale	(396,877)	(842,855)
Net cash used in investing activities	(46,872,494)	(3,605,103)
Cash flows from noncapital financing activities:		
Proceeds from issuance of bonds	51,504,256	-
Proceeds from notes payable	7,950,000	6,200,000
Repayment of notes payable	(2,476,078)	(2,383,339)
Interest paid on bonds	(1,014,073)	-
Bond issue costs	(925,681)	-
Net cash provided by noncapital financing activities	55,038,424	3,816,661
Cash flows from capital and related financing activities:		
Improvements to foreclosed assets	-	(22,500)
Purchase of property and equipment	(248,738)	(40,995)
Proceeds from sale of buildings	238,001	-
Net cash used in capital and related financing activities	(10,737)	(63,495)
Net increase (decrease) in cash and cash equivalents	1,603,015	(768,910)
Cash and cash equivalents at beginning of year	1,780,334	2,549,244
Cash and cash equivalents at end of year	$ 3,383,349	$ 1,780,334
Supplemental disclosure of cash flow information:		
Cash payments during the year for interest	$ 2,691,441	$ 1,787,118
Non-cash transaction - foreclosed assets (note 9)	$ 63,176	$ 135,899

See accompanying notes to financial statements.

GUAM HOUSING CORPORATION
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Notes to Financial Statements
September 30, 1998 and 1997

(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.

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 equivalents (see also note 2).

Property and Equipment

The Corporation generally capitalizes all expenditures for property and equipment in excess of $500 in 1998 and 1997, 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.

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.

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

Premium on Bonds

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

Accrued Leave

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, 1998 and 1997, accrued annual leave totaled $211,443 and $181,974, 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.

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.

(2) *Cash and Cash Equivalents*

Cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) up to $300,000 and $289,620 as of September 30, 1998 and 1997, respectively, with the remaining uninsured balances being uncollateralized, as follows

	1998	1997
Commercial, trust and savings accounts	$ 1,033,523	$ 778,734
Time certificates of deposit with original maturities of three months or less	2,348,226	1,000,000
On hand	1,600	1,600
	$ 3,383,349	$ 1,780,334

(3) *Unrestricted Investments*

Unrestricted investments consists of the following:

	1998	1997
Time certificates of deposit with original maturities of more than three months	$ 54,467	$ 3,978,057
Other, at market	-	5,722
	$ 55,467	$ 3,983,779

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.

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Notes to Financial Statements, Continued
September 30, 1998 and 1997

(4) Loans Receivable

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

	1998	1997
Due in varying monthly installments and interest rates with maturities to 2024, including loans in process of $1,479,346 in 1998 and $2,182,778 in 1997.	$ 44,158,630	$ 37,319,090
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).	830,819	1,189,034
Due from Guam Rental Corporation in monthly installments of $6,675 including interest of 3% per annum, net of unamortized discount of $228,710 in 1998 and $258,710 in 1997.	496,806	579,898
Due from other government agencies	6,799	36,301
	45,493,054	39,124,323
Less net deferred loan origination fees	(412,770)	(285,110)
	$ 45,080,284	$ 38,839,213

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 $1,993,754 and $1,178,726 at September 30, 1998 and 1997, 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 $5,098,964 and $3,855,548 at September 30, 1998 and 1997, respectively.

(5) Property and Equipment

Property and equipment are summarized below:

	1998	1997
Office furniture and equipment	$ 806,255	$ 789,985
Vehicles	101,826	82,228
Leasehold improvements	208,072	205,276
	1,116,153	1,077,489
Less accumulated depreciation	(913,623)	(791,357)
	$ 202,530	$ 286,132

(6) Foreclosed Asset Held for Resale

Foreclosed asset held for resale represents two 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.

Revenue bonds payable as of September 30, 1998 and 1997, consist of the following:

	1998	1997
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	$ -

GUAM HOUSING CORPORATION
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Notes to Financial Statements, Continued
September 30, 1998 and 1997

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

	1998	1997
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 semiannual installments with $640,000 due in March 2014, and increasing to $815,000 by September 2018.	$ 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 semiannual installments with $930,000 due in March 2019, and increasing to $1,025,000 by September 2021.	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 semiannual installments with $975,000 due in March 2022, and increasing to $1,660,000 by September 2031.	$ 25,900,000	$ -
	50,000,000	-
Less current installments	-	-
	50,000,000	-
Add net unamortized premium on bonds	1,165,696	-
	$ 51,165,696	$ -

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

The accrued interest on the above bonds totaled $223,692 at September 30, 1998. Total interest expense on the bonds totaled $899,205 net of amortized bond premium at September 30, 1998. Accrued interest income earned on bonds totaled approximately $239,000 as of September 30, 1998.

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, 1998, the rebate liability totaled $81,480.

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

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, 1998.

(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, 1998 and 1997, investments and cash held by the trustees for the Corporation, in these funds and accounts are as follows:

	1998	1997
Program Fund	$ 50,055,143	$ -
Escrow Fund	1,000,000	-
Capitalized Interest Fund	285,000	-
Revenue Fund	72,444	-
Cost of Issuance Fund	5,415	-
	$ 51,418,002	$ -

The Corporation's restricted investments and cash at September 30, 1998 and 1997, 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, 1998 and 1997 are as follows:

	1998	1997
Money Market/trust funds	$ 50,055,143	$ -
U.S. Treasury notes	1,362,859	-
	$ 51,418,002	$ -

(8) Investment and Cash with Trustees, continued

The market value of restricted investments and cash at September 30, 1998 and 1997 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, 1998, 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, 1998, $100,000 of deposits is covered by federal depository insurance with the remainder being uninsured and uncollateralized.

(9) Notes Payable

Notes payable consists of the following:

Financial institutions:

	1998	1997
Citibank, N.A., 9.625%, payable in monthly installments of $95,000 including interest, due 2005	$ 4,105,744	$ 4,808,708

(9) Notes Payable, continued

	1998	1997
Citibank, N.A., 8%, principal and interest payable in monthly installments of $18,639 plus interest, due 2003	$ 1,531,695	$ 1,755,359
Citibank, N.A., 7% principal and interest payable in monthly installments equivalent to payments received from collateralized FHA mortgage loans, due 2003	835,419	1,192,857
Federal Home Loan Bank of Seattle, 6.99%, payable in monthly installments of $41,667, plus interest, principal due 2011	6,247,126	6,747,126
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	-
Federal Home Loan Bank of Seattle, 5.670%, interest payable monthly, principal due 2003	1,000,000	-
Federal Home Loan Bank of Seattle, 6.160%, interest payable monthly, principal due 2008	1,495,746	-
Federal Home Loan Bank of Seattle, 6.090%, interest payable monthly, principal due 2003	498,767	-
Federal Home Loan Bank of Seattle, 6.060%, interest payable monthly, principal due 2003	997,679	-

(9) Notes Payable, continued

	1998	1997
Federal Home Loan Bank of Seattle, 6.020%, interest payable monthly, principal due 2003	$ 998,553	$ -
Federal Home Loan Bank of Seattle, 5.920%, interest payable monthly, principal due 2003	449,895	-
Government of Guam:		
4%, payable in monthly installments of $107,258 including interest, due 2011 thru 2017	14,447,433	13,630,190
	$ 36,808,057	$ 31,334,240

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, 1998 and 1997, the Corporation has pledged as security for these loans approximately $34,382,457 and $26,033,890 of related outstanding mortgage loans, respectively.

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

The aggregate maturities of notes payable for the five years ending September 30, 2003, are as follows:

1999	$2,384,663
2000	2,390,663
2001	2,407,563
2002	2,533,763
2003	3,092,744

(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.

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.

(10) Employees Retirement Plan, continued

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, 1998 and 1997, $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 $146,467 in 1998 and $148,717 in 1997. The same Board of Directors serves both corporations. (See note 4 for loan receivable from Guam Rental Corporation.)

As of September 30, 1998 and 1997, a total of $ 7,325 and $8,023, 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 $ 4,394,718 and $4,019,607 at September 30, 1998 and 1997, respectively.

(13) Commitments

As of September 30, 1998 and 1997, the Corporation has a total of $1,479,346 and $4,001,304, respectively, in loan commitments.

(14) Year 2000 Issue

The worldwide challenge facing organizations, commonly referred to as the Year 2000 (Y2K) issue, is the result of problems that may be encountered with date-related transactions on systems that have historically recognized years using two digits vs. four digits, e.g.; 98 versus 1998. These systems will potentially recognize the “00” as the year 1900 instead of 2000. On the surface, the Y2K problem sounds simple enough; however, the implications of this problem are far reaching and could impact a full range of business services and activities.

(14) Year 2000 Issue, continued

The Authority recognizes the potential implications of the Y2K issue on systems that may contain date-related transactions, data, embedded chips, etc. The Corporation has assessed the impact of the Y2K issue on its operations and is now in the process of renovating or replacing, as necessary, the computer applications and business processes to provide for continued services in the new millennium. An assessment of the preparedness of external entities that interface with the Corporation is also ongoing. There can be no assurance that there will not be material adverse effect on the Corporation if its actions and/or those of related third parties fail to access all significant issues in a timely manner.

The costs of the Corporation's Y2K compliance efforts are expensed as incurred and are being funded with cash flows from operations. At this time, the costs of these efforts are not expected to be material to the Corporation's financial position or the results of their operations in any given period.

(15) Other

As of September 30, 1998 and 1997, the Corporation has approximately $819,100 and $960,000, 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.