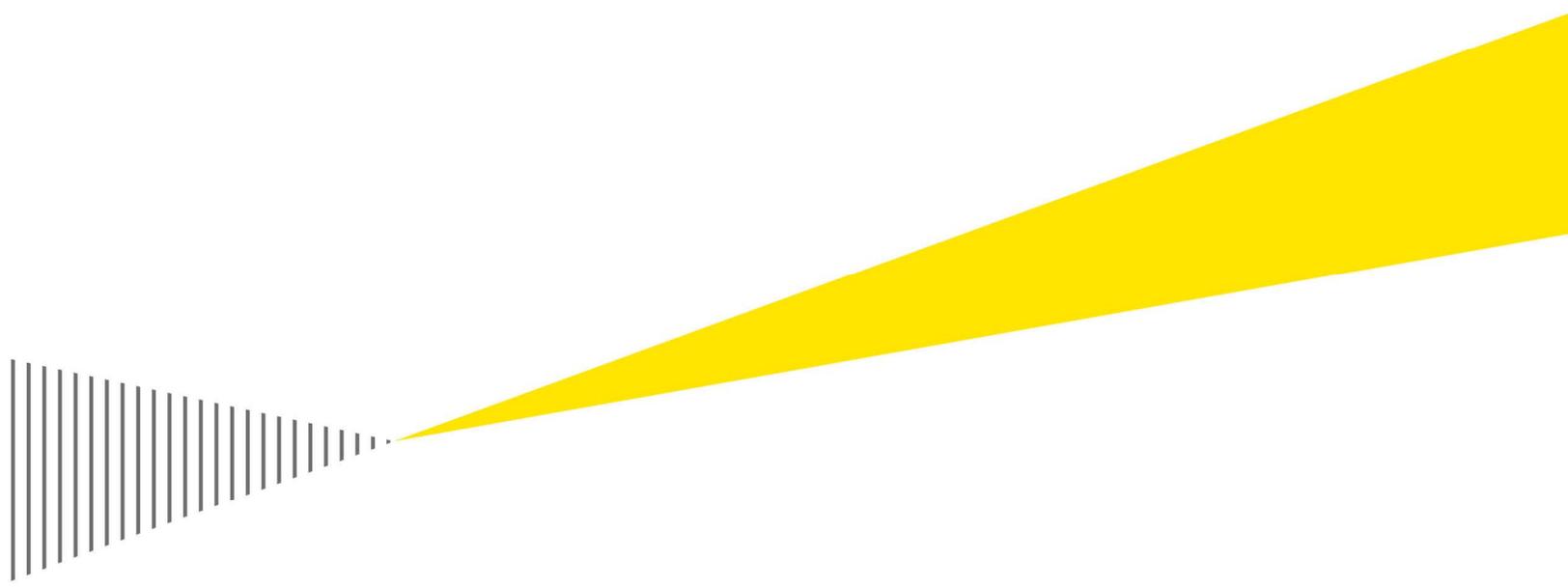


*The Auditor's Communication With Those Charged
With Governance*

Guam Housing Corporation
(A Component Unit of the Government of Guam)

Year ended September 30, 2014



**Building a better
working world**



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February 6, 2015

The Board of Directors
Guam Housing Corporation
P.O. Box 3457
Tamuning, Guam 96932

Dear Sirs:

We have performed an audit of the financial statements of the Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of and for the year ended September 30, 2014, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued our report thereon dated February 6, 2015.

REQUIRED COMMUNICATIONS

Professional standards require the auditor to provide the Board of Directors (the Board or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Board (or those charged with governance) in overseeing the financial reporting and disclosure processes which the management of the Corporation is responsible. We summarize these required communications as follows:

Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS) and Generally Accepted Government Auditing Standards (GAGAS)

The financial statements are the responsibility of the Corporation's management. Our audit was designed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting.

Auditors' Responsibilities under US GAAS and GAGAS, continued

Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

As part of our audit, we considered the Corporation's internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances.

As described in our engagement letter dated August 15, 2013, the objective of a financial statement audit performed in accordance with US GAAS and GAGAS is as follows:

1. To express an opinion on whether the basic financial statements of the Corporation are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
2. To provide a report on internal control over financial reporting related to the financial statements and compliance with laws, regulations and the provisions of contracts or grant agreements and other matters, noncompliance with which could have a material effect on the financial statements, as required by *Government Auditing Standards*. We will not perform sufficient procedures to render an opinion on internal control over financial reporting nor on compliance with provisions of laws, regulations, contracts or grant agreements and other matters, and therefore, we will not express such an opinion.

The Adoption of, or a Change in Significant Accounting Policies

We determined that the Board is informed about the initial selection of, and any changes in significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.

In fiscal year 2014, the Corporation adopted Government Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Auditor's Judgments about the Quality of the Corporation's Accounting Principles

We discussed our judgments about the quality, not just the acceptability, of the Corporation's accounting principles as applied in its financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.

Sensitive Accounting Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure 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. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's expectations.

We determined that the Board is informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Management's judgment is called upon in:

- Determining the adequacy of the recorded valuation of loans receivables, including the need for any reserve.
- Preparing budgets that are used to administer and monitor the Corporation's operations. These budgets include determining how existing financial resources will be used in the Corporation's operations.
- Determining the valuation of investments.
- Determining the impairment loss on long-lived assets.
- Determining useful lives in the calculation of depreciation expense.
- Determining assumptions utilized in measuring pension and other employee-related reserves and related costs for financial accounting purposes.

Uncorrected Misstatements Considered by Management to be Immaterial

No uncorrected misstatements (i.e., adjustments either identified by us or brought to our attention by management) were identified during the current audit and pertaining to the latest period presented, which were determined by the Corporation's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Other Information in Documents Containing the Audited Financial Statements

We reviewed the Management's Discussion and Analyses and other supplementary schedules to the financial statements to ensure consistency with the audited financial statements.

Consultation with Other Accountants

We are not aware of any consultations that management may have had with other accountants regarding any significant auditing and accounting matters during the fiscal year ended September 30, 2014.

Disagreements with Management on Financial Accounting and Reporting Matters

There were no material disagreements with the Corporation's management on financial accounting and reporting matters during the audit.

Major Issues Discussed with Management Prior to Retention

There were no major accounting issues discussed with the Corporation's management prior to our retention.

Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Issues

We are not aware of any significant unusual transactions recorded by the Corporation, or of any significant accounting policies used by the Corporation related to controversial or emerging areas for which there is lack of authoritative guidance.

Serious Difficulties Encountered in Dealing with Management in Performing the Audit

There were no serious difficulties encountered in dealing with management in performing the audit.

Fraud and Illegal Acts

We are not aware of any matters that require communication. Furthermore, the Corporation's management has represented to us that they were not aware of any fraud or illegal acts for the period from October 1, 2013 to February 6, 2015 (see Appendix A – *Management Representations Letter*).

Significant Deficiencies and Material Weaknesses in Internal Control

We did not identify any control deficiencies in internal control during the course of our audit.

Control Related Matters

We have issued a separate report to you, dated February 6, 2015, on the Corporation's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*.

We have communicated to management, in a separate letter also dated February 6, 2015, certain deficiencies and other matters related to the Corporation's internal control over financial reporting and to the Corporation's internal control over its information technology environment that we identified during the audit.

Control Related Matters, continued

Although we have included management's written responses to our comments, such responses have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

Independence

We are not aware of any relationships between Ernst & Young and our related entities, and the Corporation, or any other matters that in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that we are independent with respect to the Corporation within the meaning of the applicable published rules and pronouncements, its interpretations and rulings.

This report is intended solely for the use of the Corporation's board of directors and management, the Office of Public Accountability of Guam, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Very truly yours,

Ernst + Young LLP

The Board of Directors
Guam Housing Corporation

Appendix

A – Management Representations Letter

A – Management Representations Letter



GUAM HOUSING CORPORATION

P.O. Box 3457, Hagåtña, Guam 96932

February 6, 2015

Ernst & Young LLP
231 Ypao Road, Suite 201
Ernst & Young Building
Tamuning, Guam 96913

In connection with your audits of the basic financial statements of the Guam Housing Corporation (the Corporation) as of September 30, 2014 and 2013, and for the years then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Guam Housing Corporation in conformity with US generally accepted accounting principles (US GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief.

Management's responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated August 15, 2013, for the preparation and fair presentation of the financial statements (including disclosures) in conformity with US GAAP applied on a basis consistent with that of the preceding periods.

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Corporation from whom you determined it necessary to obtain audit evidence

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A – Management Representations Letter, continued

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Uncorrected misstatements

There are no uncorrected misstatements (including the effects of correcting or reversing prior year uncorrected misstatements), or uncorrected misstatements in disclosures relating to the current year financial statements.

Internal control

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

We are not aware of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting.

Minutes and contracts

The dates of meetings of shareholders, directors, committees of directors and important management committees are as follows:

November 25, 2013	May 28, 2014	September 24, 2014
December 26, 2013	June 25, 2014	
January 29, 2014	July 18, 2014	
February 26, 2014	August 14, 2013	

We have made available to you all minutes of the meetings of shareholders, directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

We also have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

Significant assumptions

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and supportable.

A – Management Representations Letter, continued

Risks and uncertainties

There are no risks and uncertainties related to significant estimates and current vulnerabilities due to material concentrations that have not been disclosed in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 275, *Risks and Uncertainties*.

Ownership and pledging of assets

There are no properties capitalized under capital leases. The Corporation has satisfactory title to all assets appearing in the statements of net position. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged, except as disclosed in the financial statements. All assets to which the Corporation has satisfactory title appear in the statements of net position.

Loans and allowance for credit losses in the loan portfolio

Appropriate provision has been made for credit losses inherent in the Corporation's loan portfolio that has been incurred as of the statement of net position dates. Significant assumptions used by us in estimating the allowance for credit losses are reasonable and supportable.

The Corporation has no loans in the financial statements that should be classified as held for sale. The Corporation has the positive intent and ability to hold for the foreseeable future or until maturity or payoff all loans that are classified as held for investment.

Loans are correctly described in the financial statements, in all material respects, and represent valid claims against the debtors indicated arising on or before the dates indicated in the financial statements. Our disclosures related to the credit quality of financing receivables and the allowance for credit losses are complete and adequate.

Financial instruments

The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:

1. The extent, nature and terms of financial instruments with off-balance-sheet risk.
2. The amount of credit risk of financial instruments with off-balance-sheet risk and information about the collateral supporting such financial instruments.
3. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.

Long-lived assets to be held and used, including amortizable intangible assets

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

A – Management Representations Letter, continued

Related party transactions

We have disclosed to you the identity of the Corporation's related parties and all the related party relationships and transactions of which we are aware.

Related party transactions, continued

Transactions with related parties, as defined in ASC 850, *Related Party Disclosures*, and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration have been properly recorded and disclosed in the financial statements.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statements.

Events of default under debt agreements

No events of default have occurred with respect to any of the Corporation's debt agreements.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of, that are probable of assertion and must be disclosed in accordance with ASC 450-20, *Contingencies – Loss Contingencies*.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no internal investigations or communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction, noncompliance with or deficiencies in financial reporting practices, or other matters that could have a material effect on the financial statements.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed by ASC 450, *Contingencies*, other than those disclosed in the financial statements, nor are there any accruals for loss contingencies included in the statements of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of ASC 450.

Oral or written guarantees

There are no oral or written guarantees, including guarantees of the debt of others.

A – Management Representations Letter, continued

Purchase commitments

At September 30, 2014, the Corporation had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at that date.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2014 and 2013 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Fraud

We acknowledge our responsibility for the design, implementation and maintenance of programs and internal control to prevent and detect fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Corporation's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed to you that there are no allegations of financial improprieties, including fraud or suspected fraud, coming to our attention (regardless of the source or form and including, without limitation, allegations by "whistle-blowers") where such allegations could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Corporation.

Independence

We are not aware of any capital lease, material cooperative arrangement or other business relationship between the Corporation and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be considered to be independent for purposes of the Corporation's audit.

Conflicts of interest

There are no instances where any officer or employee of the Corporation has an interest in a Corporation with which the Corporation does business that would be considered a "conflict of interest." Such an interest would be contrary to Corporation policy.

Pension and other postretirement benefits

We have disclosed to you all significant pension benefits promised and have made available to you all significant summary plan descriptions, benefit communications and all other relevant information, including plan changes that constitute the plan.

A – Management Representations Letter, continued

Pension and other postretirement benefits, continued

We have disclosed to you all significant postretirement benefits other than pensions (OPEBs) promised and have made available to you all significant summary plan descriptions, benefit communications and all other relevant information, including plan changes, that constitute the plan for each significant OPEB.

We do not plan to withdraw from the multiemployer benefit plan.

Recipients of governmental financial assistance and/or audits performed in accordance with Government Auditing Standards

We recognize that we are responsible for the Corporation's compliance with the laws, regulations, grant agreements and contracts that are applicable to it. We have identified and disclosed to your representatives all laws and regulations, grant agreements and contracts that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

There has been no noncompliance or possible noncompliance with provisions of contracts or grant agreements in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

We have a process to track the status of audit findings and recommendations.

We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

Required supplementary information

We acknowledge our responsibility for the required supplementary information on Management's Discussion and Analysis, which have been measured and presented in conformity with the guidelines established by the applicable GASB Statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the information. We are responsible for the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information. We believe that the significant assumptions and interpretations used are reasonable.

We omitted the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pension that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We believe that the omission of this required supplementary information has no significant impact on

A – Management Representations Letter, continued

the basic financial statements.

Supplementary information

We are responsible for the preparation and fair presentation of the supplementary information and its form and content in conformity with US GAAP. We believe the supplementary information, including its form and content, is fairly stated in all material respects in conformity with US GAAP. There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period. There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Restatement

The Corporation adopted GASB No. 65 which required restatement of the Corporation's financial statements as of October 1, 2012. The effect of the restatement was the reversal of the deferred loan origination fees, net of \$362,605 and the increase in loan fee income of \$6,415, which were recorded in the 2013 statement of net position and statement of revenues, expenses, and changes in net position, respectively.

Other Representations

We have identified and disclosed to you all provisions of laws, and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

We have followed all applicable laws and regulations in adopting, approving and amending budgets, tax or debt limits and covenants and secondary market disclosures, deposits and investments, including collateral requirements on depository accounts and investments.

All funds that meet the quantitative criteria in GASB Statement No. 34, as amended by GASB Statement No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

Components of net positions (net investment in capital assets; restricted and unrestricted) are properly classified and, if applicable, approved.
Provisions for uncollectible receivables have been properly identified and recorded.

Risk disclosures associated with deposits and investment securities are presented in accordance with GASB requirements.

A – Management Representations Letter, continued

Other Representations, continued

Investments, and land and other real estate held are properly valued.

Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.

Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available is appropriately disclosed and net assets were properly recognized under the policy.

Guam Housing Corporation ability to continue as a going concern was evaluated.

The Corporation is in compliance with post issuance requirements as specified in the Internal Revenue Code, including but not limited to the areas of arbitrage and private business use, for each of its outstanding bond issues.

Subsequent events

Subsequent to September 30, 2014, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Corporation's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Corporation.

We understand that your audits were conducted in accordance with auditing standards generally accepted in the United States as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and were, therefore, designed primarily for the purpose of expressing an opinion on the basic financial statements of the Corporation as a whole, and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,


Michael G. Martinez, Manager


Alysia Leon Guerrero, Accounting Manager