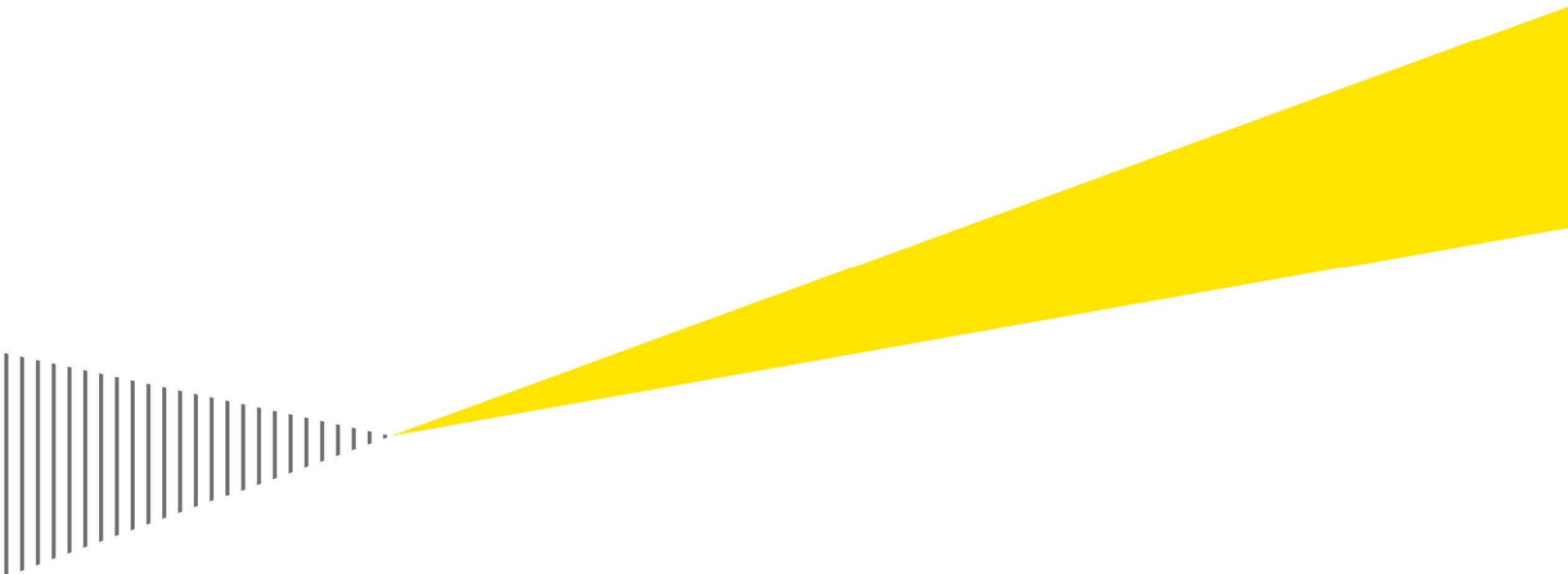


Compliance and Internal Control

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

Year ended September 30, 2013



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

Reports on Compliance and Internal Control

Year ended September 30, 2013

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Management and the Board of Directors
Guam Housing Corporation

We have audited, 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, the financial statements of the Guam Housing Corporation (the Corporation), which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 14, 2014.

Internal control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Guam Housing Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Guam Housing Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Guam Housing Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

February 14, 2014

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

Schedule of Prior Year Finding and Response

Finding in the prior year Audit Report dated February 7, 2013 is as follows:

Finding No. 2012-1 Allowance for Loan Losses

Condition:

In accordance with its loan policy, the Corporation should maintain an allowance for loan losses (ALL) of no less than 3% of the gross loan portfolio. The Corporation has no documentation that supports the basis for the aforementioned minimum ALL policy. A majority of these delinquent loans are fully secured by a first lien position on single family residential units. However, in determining the ALL, the Corporation did not measure the loss allowance as the difference between the carrying value of the loan and the fair value of the collateral less cost to sell as required by accounting principles generally accepted in the United States.

Status:

Management has prepared an updated analysis with a recommendation to reduce the ALL subject to Board of Directors' (BOD) review. The analysis, which resulted in a decrease in ALL from 3% to 2%, was approved by the BOD during the February 2013 meeting.