

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

**Guam Housing Corporation**

*Year ended September 30, 2012*

Ernst & Young



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February 7, 2013

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

Gentlemen:

We have performed an audit of the financial statements of Guam Housing Corporation (the Corporation), a component unit of the Government of Guam, as of and for the year ended September 30, 2012, 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 7, 2013.

## **REQUIRED COMMUNICATIONS**

Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance*, and other 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)**

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.

The Board of Directors  
Guam Housing Corporation

### **Auditors' Responsibilities under US GAAS, 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.

### **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.

There were no changes in the Corporation's significant accounting policies during the year ended September 30, 2012. The Corporation continues to apply its accounting policies in an appropriate manner and is disposed toward high quality financial reporting and application of accounting policies.

### **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.

The Corporation has consistently applied accounting principles generally accepted in the United States (US GAAP) and adequately disclosed required US GAAP disclosures in the financial statements.

The Board of Directors  
Guam Housing Corporation

### **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 assumptions utilized in measuring pension and other employee-related reserves and related costs for financial accounting purposes.

### **Significant Audit Adjustments**

During our audits, we proposed a reclassifying journal entry, which the Corporation subsequently agreed to be reflected in the financial statements. (see Appendix A –*Reclassifying Journal Entry*).

### **Unadjusted Audit Differences Considered by Management to be Immaterial**

Certain uncorrected misstatement accumulated by us (i.e. adjustment either identified by us or brought to our attention by management) was identified during the audit and pertaining to the latest period presented, which was determined by the Corporation's management to be immaterial, both individually and in the aggregate, to the financial statements as a whole (see Appendix B – *Summary of Uncorrected Misstatement*).

### **Other Information in Documents Containing the Audited Financial Statements**

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

The Board of Directors  
Guam Housing Corporation

### **Consultation with Other Accountants**

There were no consultations with other accountants during the audit.

### **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 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, 2011 to February 7, 2013 (see Appendix C – *Management's Representation Letter*).

### **Significant Deficiencies and Material Weaknesses in Internal Control**

We have identified certain significant deficiency and other control deficiencies in internal control during the course of our audit which have been included in our separately issued Compliance and Internal Control Report, and Management Letters dated February 7, 2013.

The Board of Directors  
Guam Housing Corporation

**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.

\*\*\*\*\*

The completion of our audit of the Corporation's financial statements as of and for the year ended September 30, 2012 was accomplished through the effective support and assistance of the Corporation's finance, operational and administrative personnel.

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.

We would be happy to discuss the contents of this report and answer any questions you may have about these or any other audit related matters.

Very truly yours,

*Ernst + Young LLP*

The Board of Directors  
Guam Housing Corporation

## Appendices

A – Reclassifying Journal Entry

B – Summary of Uncorrected Misstatement

C – Management’s Representation Letter

The Board of Directors  
 Guam Housing Corporation

Appendix A

**GUAM HOUSING CORPORATION**  
 YEAR END: SEPTEMBER 30, 2012  
 RECLASS ENTRIES  
 DATE: 10/1/2011 TO 9/30/2012

RJE-1

SUBJECT	DATE	NAME	ACCOUNT NO	REFERENCE ANNOTATION	DEBIT	CREDIT	RECURRANCE
RJE 1	9/30/2012	Loans receivable - restricted	1999 GUAM	E LEAD	7,244,507.00		
RJE 1	9/30/2012	Loans receivable - FHLB	1999EY GUAM	E LEAD		7,244,507.00	
To properly classify loans held as collateral with FHLB as restricted assets as of 9/30/2012.							
					<b>7,244,507.00</b>	<b>7,244,507.00</b>	
<b>Net Income (Loss)</b>			<b>501,307.00</b>				

The Board of Directors  
Guam Housing Corporation

Appendix B

**GUAM HOUSING CORPORATION**  
YEAR END: SEPTEMBER 30, 2012  
UNRECORDED PROPOSED ADJUSTING ENTRIES  
DATE: 10/01/2011 TO 9/30/2012

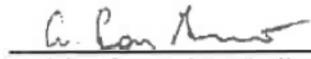
SAD

NUMBER	DATE	NAME	ACCOUNT NO	REFERENCE	DEBIT	CREDIT	PROPOSED NET INCOME (LOSS)	PROPOSED AMOUNT CHG	RECURRENCE
		Net Income (Loss)					501,207.00		
SAD 1	9/30/2012	Reserve for Loan Losses	1381 GUAM	VD01 10		-20,308.00			
SAD 1	9/30/2012	Legal (Ref. & Serv. Rendered)	5121 GUAM	VD01 10	20,308.00				
		To reverse the capitalized legal fees on delinquent loans.							
					20,308.00	-20,308.00	480,899.00	(20,308.00)	
					<b>20,308.00</b>	<b>-20,308.00</b>	<b>480,899.00</b>	<b>(20,308.00)</b>	

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We believe that the effect of the unrecorded misstatement, as shown above, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

  
Martin Benavente, President

  
Alysia Leon Guerrero, Accounting Manager



GUAM HOUSING CORPORATION

P.O. Box 3457, Hagåtña, Guam 96932

February 7, 2013

Ernst & Young LLP  
Ernst & Young Building  
231 Ypao Road, Suite 201  
Tamuning, Guam 96911

In connection with your audit of the basic financial statements of Guam Housing Corporation as of September 30, 2012 and for the year then ended, we recognize that obtaining representations concerning 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 respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Corporation and the respective changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States.

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 10, 2010, for the preparation and fair presentation of the financial statements in conformity with US generally accepted accounting principles (US GAAP) applied on a basis consistent with that of the preceding periods. We believe the financial statements referred to in paragraph one above are fairly presented in conformity with US generally accepted accounting principles applied on a basis consistent with that of the preceding periods.

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*Management's responsibilities, continued*

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

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

Ernst & Young LLP assisted in drafting the format of the financial statement footnotes and the formatting of the individual and combining financial statements and schedules that appear in the Corporation's financial statements in accordance with standards of the Governmental Accounting Standards Board. Management accepts responsibility for the various individual and combining financial statements and schedules that appear in the Guam Housing Corporation financial statements as our own and have prepared the source documents for all transactions and have maintained accounting control.

*Uncorrected misstatements*

We believe that the effects of any uncorrected misstatements, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.

*Internal control*

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

We have communicated to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2012.

***Minutes and contracts***

The dates of meetings of shareholders, directors, committees of directors and important management committees from October 1, 2011 to the date of this letter are as follows:

October 26, 2011	March 28, 2012	July 25, 2012
November 30, 2011	April 25, 2012	August 29, 2012
December 20, 2011	May 30, 2012	September 26, 2012
January 25, 2012	June 27, 2012	October 31, 2012
February 29, 2012		

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.

***Risks and uncertainties***

There are no risks and uncertainties related to significant estimates or 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*.

***Environmental liabilities***

We have disclosed to you that there are no significant environmental matters and no disclosure relating to environmental matters is needed in the financial statements.

***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 assets. 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 assets.

***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 assets date. 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.

***Inventories***

Inventories, including goods that are defective, slow-moving, obsolete or unusable, are stated at amounts not in excess of their estimated net realizable values.

***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.

***Deferred charges***

We believe that all material expenditures for which recognition has been deferred to future periods are recoverable.

***Long-lived assets to be held and used***

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.

***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.

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 non-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, funds on deposit, marketable securities, 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 other than those disclosed or accrued in the financial statements.

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*, nor are there any accruals for loss contingencies included in the statements of net assets 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.

***Purchase commitments***

At September 30, 2012, 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, 2012, 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 all 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 company 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.

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, 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 have 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.

*Supplementary information*

We are responsible for the presentation of the supplementary information in accordance with US generally accepted accounting principles. We believe the supplementary information, including its form and content, is fairly presented in accordance with US generally accepted accounting principles. 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.

*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 and tax levies and refunds.

The financial statements properly classify all funds and activities.

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), nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.

Expenses have been appropriately classified in or allocated to functions and programs in the statements of activities, and allocations have been made on a reasonable basis.

Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments or contributions to permanent fund principal.

Provisions for uncollectible receivables have been properly identified and recorded.

Interfund, internal and intra-entity activity and balances have been appropriately classified and reported.

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

*Other Representations, continued*

Investments, derivative transactions, and land and other real estate held by endowments are properly valued.

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

Our policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available, determines the fund balance classifications for financial reporting purposes.

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 events have been evaluated and classified as recognized or nonrecognized through February 7, 2013.

Subsequent to September 30, 2012, no events or transactions have occurred or are pending that would have a material effect on the basic financial statements at that date or for the period then ended, or are of such significance in relation to Guam Housing Corporation's affairs to require mention in a note to the basic financial statements in order to make them not misleading regarding the financial position, changes in financial position and, where applicable, cash flows of the Corporation.

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The Board of Directors  
Guam Housing Corporation

Appendix C, continued

We understand that your audits were conducted in accordance with US generally accepted auditing standards 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 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,

  
\_\_\_\_\_  
Martin Benavente, President

  
\_\_\_\_\_  
Alysia Leon Guerrero, Accounting Manager