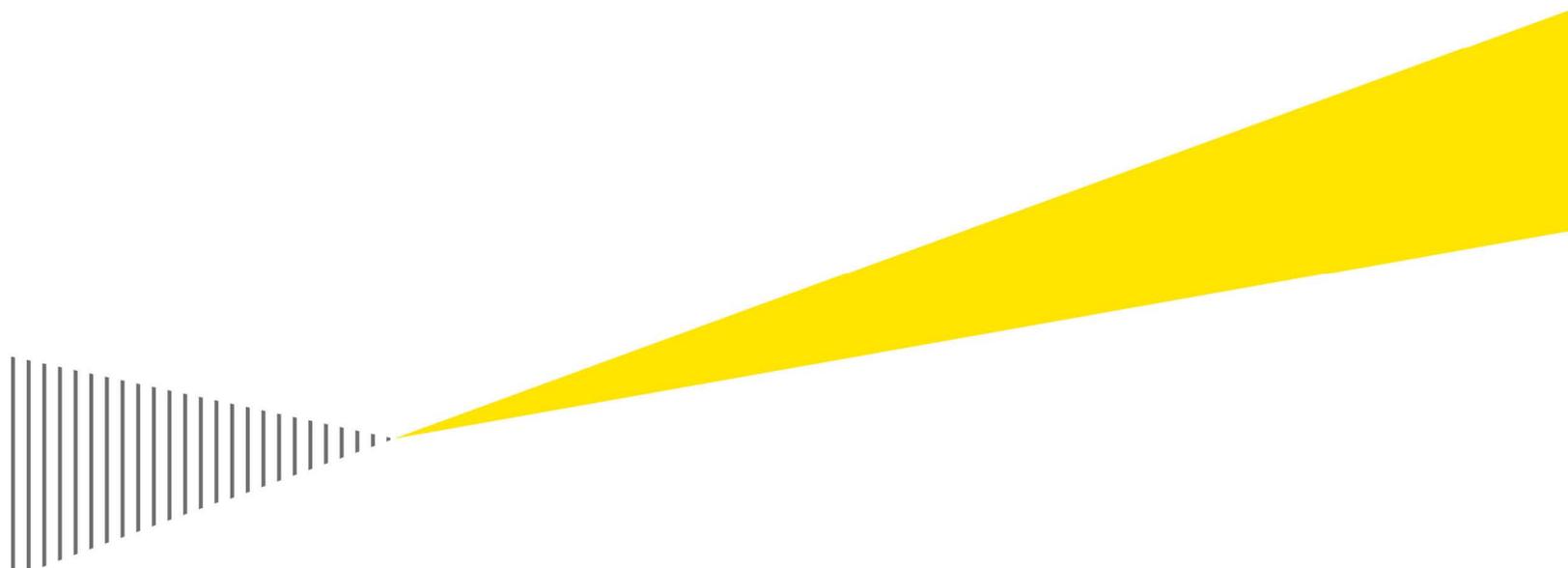


*The Auditor's Communication With Those Charged
With Governance*

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

Year ended September 30, 2017



**Building a better
working world**



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March 28, 2018

The Board of Directors
Guam Housing Corporation

We have performed an audit of the financial statements of Guam Housing Corporation, a component unit of the Government of Guam, as of and for the year ended September 30, 2017, 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 March 28, 2018.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

REQUIRED COMMUNICATIONS

Overview of the planned scope and timing of the audit

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated August 24, 2017 and at our audit planning meeting with management.

Auditor's responsibility under professional standards, including discussion of the type of auditor's report we are issuing and if there are any events or conditions that cause us to conclude that there is substantial doubt about the entity's ability to continue as a going concern

The financial statements, required supplementary information and supplementary information are the responsibility of management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with auditing standards generally accepted in the United States, as established by the American Institute of Certified Public Accountants, to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

An audit of financial statements includes 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 entity's internal control over financial reporting. Accordingly, we will express no such opinion.

An audit also includes the evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the evaluation of the overall presentation of the financial statements.

Our responsibilities are included in our audit engagement letter.

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.

Effective October 1, 2016, the Corporation implemented:

- GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes accounting and financial reporting standards for pensions that do not meet the requirements set forth in Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, and makes some modifications to GASB Statements No. 67 and 68.
- GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements.
- GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.
- GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized costs for financial reporting purposes.
- GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The Statement is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government.

Sensitive Accounting Estimates

A discussion of sensitive accounting estimates has been included in footnote 1 of the financial statements.

We determined that those charged with governance are 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 receivable, 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 the assumptions utilized in measuring pension and other employee-related reserves and related costs for financial accounting purposes.

Our views about the qualitative aspects of the entity's significant accounting practices

We are not aware of any significant accounting policies used by the Corporation in controversial or emerging areas or for which there is a lack of authoritative guidance.

We are not aware of any significant unusual transactions recorded by the Corporation.

A discussion of significant accounting policies has been included in footnote 1 of the financial statements.

Uncorrected misstatements, related to accounts and disclosures, considered by management to be immaterial

No uncorrected misstatements were identified in connection with our audit of the Corporation's financial statements as of and for the year ended September 30, 2017.

Material corrected misstatements, related to accounts and disclosures

Refer to "Summary of Corrected Misstatements" in Appendix B.

Our responsibility, any procedures performed and the results relating to other information in documents containing audited financial statements

Our auditor's report on the financial statements relates only to the financial statements and the accompanying notes.

We have reviewed the Management Discussion and Analysis and found the information presented to be consistent with the information in the audited financial statements.

Fraud and illegal acts

We are not aware of any matters that require communication.

Independence matters

We are not aware of any matters that in our professional judgment would impair our independence.

Representations from management

We have obtained from management a representations letter related to the audit and a copy of the management representations letter is included in Appendix A.

Changes to the terms of the audit with no reasonable justification for the change

We are not aware of any matters that require communication.

Significant findings and issues arising during the audit relating to related parties

We are not aware of any matters that require communication.

Significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management

We are not aware of any matters that require communication. We have issued a separate management letter outlining control deficiencies and recommendations.

Significant difficulties encountered during the audit

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

Disagreements with management

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

The Board of Directors
Guam Housing Corporation

Management’s consultations with other accountants

We are not aware of any consultations made by management with other accountants or specialists.

AICPA ethics ruling regarding third-party service providers

Our responsibilities are included in our audit engagement letter.

Other findings or issues regarding the oversight of the financial reporting process

There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management. It is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Ernst + Young LLP". The signature is written in a cursive, flowing style.

The Board of Directors
Guam Housing Corporation

Appendix

A – Management Representations Letter

B – Summary of Corrected Misstatements

Appendix A – Management Representations Letter



GUAM HOUSING CORPORATION

P.O. Box 3457, Hagåtña, Guam 96932

March 28, 2018

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

In connection with your audits of the basic financial statements of Guam Housing Corporation (the Corporation) as of September 30, 2017 and 2016 and for the periods 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 24, 2017 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, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit

Appendix A – Management Representations Letter, continued

Management’s responsibilities, continued

- Unrestricted access to persons within the Corporation from whom you determined it necessary to obtain evidence

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

We have identified to your representatives all previous audits, attestation engagements, and other studies related to the audit objectives and whether the related recommendations have been implemented.

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.

There have been no instances of abuse that have occurred or are likely to have occurred that could be quantitatively or qualitatively material to the financial statements.

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.

We have taken timely and appropriate steps to remedy fraud, and noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported.

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.

Appendix A – Management Representations Letter, continued

Minutes and contracts

The dates of meetings of shareholders, directors, committees of directors and important management committees from October 1, 2016 to March 28, 2018 are as follows:

October 4, 2016	May 30, 2017	January 25, 2018
January 31, 2017	July 7, 2017	March 15, 2018
February 28, 2017	July 28, 2017	
April 19, 2017	August 25, 2017	

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.

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.

Appendix A – Management Representations Letter, continued

Loans and allowance for credit losses in the loan portfolio, continued

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.

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.

Fair value measurements

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or other third parties. Our valuation techniques have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of GASB Statement No. 72. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72.

Related party relationships and transactions

We have made available to you the names of all related parties and all relationships and transactions with related parties.

The substance of transactions with related parties as defined in GASB Statement No. 56 – as amended, has been considered and appropriate adjustments or disclosures are made in the basic financial statements, and information concerning these transactions and amounts have been made available to you.

Side agreements and other arrangements

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

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.

Appendix A – Management Representations Letter, continued

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 GASB Statement No. 62.

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 GASB Statement No. 62, 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 GASB Statement No. 62.

Oral or written guarantees

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

Purchase commitments

At September 30, 2017 and 2016, the Corporation had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at those dates.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2017 and 2016 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.

Appendix A – Management Representations Letter, continued

Fraud, continued

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 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 audits.

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.

Effects of new accounting principles

As discussed in Note 1 to the financial statements, we have not completed the process of evaluating the effects that will result from adopting the amendments to the following codifications provided in Governmental Accounting Standards Board (GASB):

- GASB Statement No. 75
- GASB Statement No. 81
- GASB Statement No. 82
- GASB Statement No. 83
- GASB Statement No. 84
- GASB Statement No. 85
- GASB Statement No. 86
- GASB Statement No. 87

The Corporation is therefore unable to disclose the effects that adopting the amendments in the aforementioned GASB Statements will have on its financial position and the changes in its financial position when such statements are adopted.

Appendix A – Management Representations Letter, continued

Required supplementary information

We acknowledge our responsibility for the required supplementary information on the management’s discussion and analysis on pages 4 through 18, schedule of proportionate share of net pension liability on page 51 and the schedule of defined benefit plan contributions on page 52 related to GASB Statement No. 68 – as amended, which have been measured and presented in conformity with the guidelines established by the Governmental Accounting Standards Board in its 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. 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 the basic financial statements.

Supplementary information

We are responsible for the preparation and fair presentation of the following schedules (the “supplementary information”):

- Schedule 3 – Combining Statement of Net Position
- Schedule 4 – Combining Statement of Revenues, Expenses and Changes in Net Position
- Schedule 5 – Salaries, Wages and Benefits
- Schedule 6 – First-time Homeowner Assistance Program

We believe the supplementary information, including its form and content, is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

Appendix A – Management Representations Letter, continued

Other Representations, continued

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 position (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.

Special and extraordinary items are appropriately classified and reported.

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

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, 2017, 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 that are of such significance in relation to the 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 cash flows of the Corporation.

Appendix A – Management Representations Letter, continued

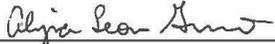
Subsequent events, continued

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 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,



Mr. Christopher Duenas, President



Ms. Alysia Leon Guerrero, Accounting Manager

Appendix B – Summary of Corrected Misstatements

Communication schedule for corrected misstatements

Entity: <u>Guam Housing Corporation</u>		Period ended: <u>30-Sep-2017</u>	Currency: <u>USD</u>						
Corrected misstatements		Analysis of misstatements Debit/(Credit)				Income statement effect of the current period			
No.	W/P ref.	Account (misstatements are recorded as journal entries with a description)	Assets Current Debit/(Credit)	Assets Non-current Debit/(Credit)	Liabilities Current Debit/(Credit)	Liabilities Non-current Debit/(Credit)	Equity components Debit/(Credit)	Effect on the current period OCI Debit/(Credit)	Non taxable Debit/(Credit)
A.JE P0100 To adjust the ending balance of net pension liability related to GASB 68 and 73 on the DB Plan, Ad Hoc Benefits and related DC Plan Ad Hoc cola benefits.									
01		Net pension liability				133,834			
2017		Deferred outflow of resources - pension	(90,602)						
		Deferred inflow of resources - pension				(20,418)			
		Retirement and medical contributions							(22,814)
A.JE P0100 To adjust the ending balance of NPL regarding GASB73 Ad Hoc Benefits based on the actuarial valuation									
02		Net pension liability				6,107			
2016		Deferred outflow of resources - pension	14,384						
		Deferred inflow of resources - pension				(21,605)			1,114
		Retirement and medical contributions							
A.JE P0100 To adjust the ending balance of NPL regarding GASB68 Retirement only based on the revised discount rate									
03		Net pension liability				(161,056)			
2016		Deferred outflow of resources - pension	46,649						
		Retirement and medical contributions							114,407
A.JE P0100 To adjust the beginning balance of net pension liability as of 10/1/2015 to reflect the implementation of GASB 73									
04		Net pension liability				(702,614)			
2016		Deferred outflow of resources - pension	56,398						
		Net Position					644,216		
Total of corrected misstatements before income tax			0	28,829	0	(765,752)	644,216	0	92,707
Financial statement amounts			12,075,163	34,078,965	(1,528,925)	(8,199,305)	(36,425,898)		60,728
Effect of corrected misstatements on F/S amounts			0.0%	0.1%	0.0%	9.3%	-1.8%		152.7%

