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February 17, 2010

To The Board of Directors
Guam Housing Corporation

We have audited 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, 2009 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and have issued my report thereon dated February 17, 2010.

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 with additional information regarding the scope and results of the audit that may assist the Board (or those charges with governance) in overseeing management's financial reporting and disclosure process. This report summarizes our communications to the Board of Directors required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Corporation is responsible.

Our Responsibility under Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards

Our responsibility under auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 28, 2009. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Corporation's financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the year ended September 30, 2009 in conformity with "generally accepted accounting principles", in all material respects;

- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole;
- To report 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 for the year ended September 30, 2009 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and
- To report on the Corporation's compliance with requirements applicable to each major federal program and on internal control over compliance in accordance with the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (OMB A-133), if applicable.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements have been prepared by management with the oversight of the Board of Directors are fairly presented, in all material respects, in conformity with generally accepted accounting principles. The audit of financial statements does not relieve management or the Board of Directors of their responsibilities.

We considered the Corporation's 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 do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

Planned Scope and Timing of the Audit

We conducted our audit consistent with and according to the planned scope and timing previously communicated to you in our meeting about planning matters in October and November 2009.

Qualitative Aspects of the Corporation's Significant Accounting Practices

Significant Accounting Policies

Management of the Corporation has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 1 to the financial statements. We determined that the management of the Corporation is informed about the 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.

Apart from the redesignation of the Government of Guam Defined Benefit Plan from a single-employer to a cost-sharing multiple-employer plan, which resulted in a prior period adjustment as presented in the financial statements, there were no significant changes in previously adopted policies or their application during the year ended September 30, 2009. The Corporation continues to apply its accounting policies in an appropriate manner.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Corporation's financial statements include management's estimate of the allowance for loan loss, allowance for doubtful accounts receivable, and management's estimate of depreciation expense which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2009, we are not aware of any estimated or any significant changes in accounting estimates or in management's judgments relating to such estimates.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting Corporation's financial statements relate to the Employee Retirement Plan and related prior period adjustment discussed in Notes 11 and 13 regarding the redesignation of the Government of Guam Defined Benefit Plan from a single-employer to a cost-sharing multiple-employer plan, and the contingent liability of \$8,383,776 discussed in Note 13 regarding a contractor's claim for accrued interest on a liability payable to the contractor.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing our audit. The management and staff of the cooperated with us fully during the conduct of our audit.

Uncorrected and Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are inconsequential, and communicate them to the appropriate level of management. We noted no misstatements that are material, either individually or in the aggregate, to the financial statements taken as a whole. However, we proposed certain immaterial adjustments pertaining to the redesignation of the Government of Guam Defined Benefit Plan from a single-employer to a cost-sharing multiple-employer plan and certain immaterial post-closing adjustments were made at the request of management (See Appendix B). Additionally, certain adjustments, reclassification and elimination journal entries were made to the financial statements for the years ended September 30, 2009 and 2008 (See Appendix B and C).

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Corporation's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Management Representations

We have requested certain written representations from management, which are included in the attached letter dated February 17, 2010 (See Appendix A).

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on matters. If a consultation involves application of an accounting principle to the Corporation's financial statements or a determination of the type of auditor's opinion that be expressed on those financial statements, our professional standards require the consulting accountant to check with me to determine the consultation has the relevant facts. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with Guam Housing Corporation, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditor. However, none of the matters discussed resulted in a condition to my retention as the Corporation's auditors.

* * * * *

We thank the staff and management of the Guam Housing Corporation for their cooperation and assistance during the course of our audit. We would be pleased to discuss these matters or any other matters deemed appropriate at your convenience.

This information is intended solely for the information and use of the Board of Directors, management of the Guam Housing Corporation and the Office Public Accountability 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,

J. Scott Magliari & Company



GUAM HOUSING CORPORATION

Kotporasion Ginima' Guåhan

P.O. Box 3457 Hagåtña, Guam 96932

February 17, 2010

J. Scott Magliari & Company
222 Chalan Santo Papa
Suite 103 Reflections Center,
Hagåtña, Guam 96910

Gentlemen:

We are providing this letter in connection with your audits of the financial statements of the Guam Housing Corporation, a component unit of the Government of Guam, as of September 30, 2009 and 2008 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the net assets and the related statements of revenues, expenses and changes in net assets and cash flows thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of February 17, 2010, the following representations made to you during your audit(s).

1. We are responsible for the fair presentation in the financial statements of the Corporation's financial position, results of operations and changes in net assets and cash flows in conformity with accounting principles generally accepted in the United States of America. We understand that, as is customary, your audit was made in accordance with generally accepted auditing standards, Government Auditing Standards and, or accordingly, included such tests of the accounting records and such other auditing procedures as you considered necessary in the circumstances for the purpose of expressing an opinion on the financial statements. We understand that such an audit would not necessarily disclose all irregularities should there be any. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

2. We are responsible for compliance with local and federal laws, rules and regulations and provisions of grants, bond indenture debt covenants and contracts relating to the Corporation's operations. The Corporation is responsible for establishing and maintaining systems of internal accounting and administrative controls over its activities. The Corporation is responsible for maintaining accounting and administrative control over revenues, obligations, expenditures, assets, and liabilities.
3. The Corporation has made available to you all:
 - a. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. Though the minutes were not signed during your review and inspection of such, the actions taken by the Board of Directors were approved and the minutes to the meetings were subsequently signed by the Chairperson and the Corporation's legal counsel.
 - b. Records and related data for all financial transactions of the Corporation and for all funds administered by the Corporation. The records, books and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Corporation, and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the accounting records and recorded from which the basic financial statements have been prepared.
4. There have been no:
 - a. Actions taken by Corporation management which contravene the provisions of Federal Laws and Guam Laws, regulations or of contracts and grants applicable to the Corporation.
 - b. Irregularities involving management or involving employees who have significant roles in the internal control structure.
 - c. Communications from other governmental or regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices or other matters that could have a material effect on the financial statements.

5. There are no material unasserted claims or assessments that legal counsel has advised us are probable of assertion that are not disclosed in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" except for the amounts totaling \$8,383,776 claimed by Maeda Corporation as interest receivable associated with the contract for the Lada Estates Subdivision Improvement Project, Phase I development project for the on-site and off-site infrastructure.
6. We have no knowledge of any fraud or suspected fraud affecting the Corporation involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - b. Others where the fraud could have a material effect on the financial statements.
7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation received in communications from employees, former employees analysts, regulators or others.
9. We have a process to track the status of audit findings and recommendations.
10. We have provided our views on reported management letter comments, conclusions, and recommendations, as well as our planned corrective actions for the report.
11. As part of your audit, you prepared the draft financial statements, related notes and supplementary information. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and supplementary information.
12. We have no intention of terminating any of our pension plans or taking any other action that could result in an effective termination or reportable event for any of the plans. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

13. Management has identified, and disclosed to you, all laws and regulations that have a direct and material effect on the determinations of financial statement amounts.
14. The Corporation has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
15. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions and related amounts receivable or payable, including revenues, expenses purchases, loans, transfers, leasing arrangements, and guarantees (written or oral), as disclosed in Footnote 12 to the financial statements. The Corporation has recorded a related party transaction for a receivable due from the Government of Guam totaling for the \$2,915,000 for its share of the costs associated with Lada Estates Affordable Subdivision Improvement Project, Phase I for the design, build and finance of the off-site infrastructure and off-site infrastructure access roads for the project. This amount was subsequently reclassified as land held for development in the financial statements for years ended September 30, 2009 and 2008.
 - b. The Corporation has a liability of \$10,555,000 under a contract associated with Lada Estates Affordable Subdivision Improvement Project, Phase I for the design, build and finance of the off-site infrastructure and off-site infrastructure access roads for the project. This liability is being disputed with the contractor and is in litigation.
 - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to (*volumes of business, revenues, available sources of supply, or markets or geographic areas, as applicable*) for which events could occur that would significantly disrupt normal finances within the next year.
 - d. Guarantees, whether written or oral, under which the Corporation is contingently liable.

- e. All accounting estimates that could be material to the financial statements, including key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed. As discussed in Note 13 in the notes to the financial statements, the Corporation consulted with the Guam Environmental Protection Agency (GEPA) on potential environmental hazards. GEPA has offered to assist the Corporation in these environmental remediation matters and the management of the Corporation is in the process of obtaining cost estimates for proper remediation and securing the property to help prevent future illegal dumping. As of September 30, 2009, the Corporation has not recorded a provision in the financial statements for this liability. The Corporation believes, however, that any liability it may incur would not have a material adverse affect on its financial condition or its results of operations.

11. Regarding the financial statements:

- a. Included all component units, as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- b. Properly classified all funds and activities.
- c. Properly classified all net asset components and all designations (if present) have been approved.
- d. Properly classified revenues as to program or general revenues or contributions to term or to permanent endowments or contributions to permanent fund principal.
- e. Capital assets including land held for development and foreclosed assets are properly capitalized, classified and reported. We are not aware of any impairment that existed as of September 30, 2009 and 2008.
- f. Expensed have been appropriately classified in or allocated to functions and programs in the statement of revenues, expensed and changes in net assets.
- g. Properly classified and reported inter-fund/divisional, internal, and intra-entity activity and balances.
- h. Properly classified and reported special and extraordinary items (if present).

- i. Deposit and investment securities are properly classified as to custodial credit risk and have made all disclosures relevant to credit risk, custodial risk, concentration risk and interest rate risk in the notes to financial statements are properly valued.
 - j. Properly capitalized and classified all capital assets (including infrastructure assets) and depreciation, as applicable.
 - k. All required supplementary information (RSI) is measured and presented within prescribed guidelines of generally accepted accounting principles.
12. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed except as recorded and/or disclosed in Footnotes 9 and 13 to the financial statements.
13. No department or agency of the Corporation has reported a material instance of noncompliance to us.
14. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged except for the debt service reserved disclosed in Footnotes 3 and 9 to the financial statements. A total of \$10,844,854 and \$13,347,886 in loan receivables as of September 30, 2009 and 2008, respectively, have been pledged as collateral to secure a total of \$5,296,866 and \$6,182,868 in notes payable as of September 30, 2009 and 2008, respectively.
15. The Corporation has outstanding loans due from employees totaling \$404,866 and \$245,072 at September 30, 2009 and 2008. Managements represents that all employees loans are current as of September 30, 2009 and 2008.
16. The Corporation is responsible for determining and maintaining the adequacy of the allowance for doubtful notes, accounts, and loan receivables, as well as estimates used to determine such amounts. The Corporation has delinquent loans totaling \$2,572,805 and \$3,217,545 as of September 30, 2009 and 2008, respectively. The Corporation has recorded an allowance for loan loss of \$3,412,482 and \$3,422,082, respectively, for the fiscal years ended September 30, 2009 and 2008. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balances.

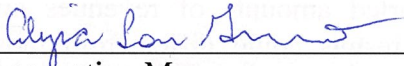
17. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
18. No provision has been made to reduce notes, accounts, and loans receivable to their estimated net realizable values.
19. The Corporation has complied with all aspects of contractual agreements that would have an effect on the financial statements in the event of noncompliance.
20. No events, other than those disclosed in the financial statements, have occurred subsequent to the balance sheet date that require consideration as adjustments to, or disclosures in, the financial statements, other than those events already disclosed.
21. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
22. The Corporation has recorded and properly accounted for its Rental Division's business activities and has reported such in the Corporation's financial statements for the years ended September 30, 2009 and 2008.
23. The Corporation has valid claims against debtors for loans, acceptances, and other receivables, and the provision for loan losses at September 30, 2009 and 2008, is accrued as considered necessary.
24. Loan commitments as of September 30, 2009 and 2008 totaled \$2,098,440 and \$629,239, respectively.

Subsequent to September 30, 2009, no events or transactions, including instances of noncompliance, 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 adjustment to or disclosure in the financial statements in order to make them misleading regarding the financial position, results of operations or cash of the Corporation.

Very truly yours,



President
Guam Housing Corporation




Accounting Manager
Guam Housing Corporation

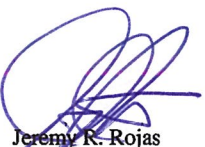
Guam Housing Corporation
Proposed Audit Adjusting Journal Entries
September 30, 2009

APPENDIX - B

Acct #	Account Name	Assets Dr. (Cr.)	Liabilities Dr. (Cr.)	Net Assets Beg. of Year Dr. (Cr.)	Income Statement Dr. (Cr.)
AJE - 1					
2050 ✓	Unfunded Liability		92,724		
3022 ✓	Net Assets - Unrestricted			(92,724)	
	To record GASB Statement No. 27 adjustment for the Fund 100 for redesignation of DB Plan.				
AJE - 2					
2050 ✓	Unfunded Liability		4,428		
5041 ✓	Retirement Contribution Expense				(4,428)
	To reverse FY 09 adjustment to unfunded liability related to redesignation of DB Plan for Fund 100.				
AJE - 3					
2050 ✓	Unfunded Liability		298		
3022 ✓	Net Assets - Unrestricted			(298)	
	To record GASB Statement No. 27 adjustment for the Fund 200 for redesignation of DB Plan.				
AJE - 3					
2050 ✓	Unfunded Liability		419		
5041 ✓	Retirement Contribution Expense				(419)
	To reverse FY 09 adjustment to unfunded liability related to redesignation of DB Plan for Fund 200.				
AJE - 4					
5121 ✓	Legal Services				2,154
2059 ✓	Accrued Expenses		(2,154)		
	To accrue professional legal fees for Fund 100.				
		-	95,715	(93,022)	(2,693)

We have reviewed the above adjustments and authorize their respective recording in the General Ledger as of September 30, 2009. As such, these adjustments are not a result of bookkeeping errors, misappropriation of assets and not a result of fraud or illegal acts.


Alysia Leon Guerrero
Accounting Manager, Guam Housing Corporation


Jeremy R. Rojas
President, Guam Housing Corporation

GUAM HOUSING CORPORATION
 Audit Eliminating Journal Entries
 SEPTEMBER 30, 2009

APPENDIX - C

Acct #	Account Name	Assets Dr. (Cr.)	Liabilities Dr. (Cr.)	Net Assets Beg. of Year Dr. (Cr.)	Income Statement Dr. (Cr.)
RJE - A					
2008	Accounts Payable - Rental Division		1,029,834		
1235	Account Receivable - GRC	(1,029,834)			
	To eliminate interfund accounts in Fund 200.				
RJE - B					
2020	Accounts Payable - Trade		18,584		
1214	Other Accounts Receivables (Lada)	(18,584)			
	To eliminate interfund accounts in Fund 200.				
		<u>(1,048,417.59)</u>	<u>1,048,417.59</u>	<u>-</u>	<u>-</u>