

**CHAMORRO LAND TRUST COMMISSION**

**(A GOVERNMENTAL FUND OF THE  
GOVERNMENT OF GUAM)**

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**FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

# CHAMORRO LAND TRUST COMMISSION

Years Ended September 30, 2012 and 2011  
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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Chamorro Land Trust Commission

We have audited the accompanying balance sheets of the Chamorro Land Trust Commission (the "Commission"), a governmental fund of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 Commission'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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Chamorro Land Trust Commission and are not intended to present fairly the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America.

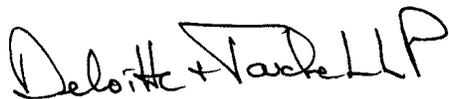
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Chamorro Land Trust Commission, a governmental fund of the Government of Guam, as of September 30, 2012 and 2011, and the results of the Chamorro Land Trust Commission's operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2014, on our consideration of the Chamorro Land Trust Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Chamorro Land Trust Commission. This supplementary information is the responsibility of the management of the Chamorro Land Trust Commission. The additional information on pages 19 through 22 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information, as set forth on pages 19 through 22 in Section IV of the foregoing table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Chamorro Land Trust Commission's basic financial statements. The supplementary information on page 23 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

August 7, 2014

# CHAMORRO LAND TRUST COMMISSION

## Management's Discussion and Analysis September 30, 2012 and 2011

### INTRODUCTION

The Chamorro Land Trust Commission (CLTC) is a component unit of the Government of Guam, currently located in Tamuning, Suite 303, 3<sup>rd</sup> floor of the ITC Building. CLTC acts exclusively in the interest of the beneficiaries under the Chamorro Land Trust Act. The Audit of Financial Statements and Other Reporting for FY 2011 and FY 2012 is the fourth audit conducted since CLTC was codified into law and made possible with collaborative efforts by the CLTC Board, Management, Employees and OPA; adhering to accountability and transparency.

CLTC's Management's Discussion and Analysis (MD&A) provides an overview of CLTC's financial activities for fiscal years ended September 30, 2011 and September 30, 2012. The information enclosed in the MD&A has been prepared by management and it should be read in conjunction with the financial statements and notes which follow this section.

#### 1. Financial Highlights

- Total assets exceeded total liabilities by \$1,663,663 at the close of fiscal year 2012 as compared to \$1,101,446 at the close of fiscal year 2011.
- Total assets at September 30, 2012 increased by \$539,192 as compared to September 30, 2011.
- Total liabilities at September 30, 2012 decreased by \$23,025 as compared to September 30, 2011.
- Total fund balance at September 30, 2012 increased by \$562,217 as compared to September 30, 2011.
- Total revenues of \$1,082,016 for fiscal year 2012 increased by \$304,568 as compared to \$777,448 for fiscal year 2011. Total expenditures of \$519,799 for fiscal year 2012 decreased by \$85,065 as compared to \$604,864 for fiscal year 2011. This resulted in an increase in the fund balance of \$562,217 for fiscal year 2012 as compared to \$172,584 for fiscal year 2011.

#### 2. Overview of the Financial Statements

CLTC's financial statements include all of the activities of Chamorro Land Trust Operations Fund and of the Chamorro Loan Guarantee Fund. The financial statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2012 and 2011.

Notes to the financial statements are additional information needed to provide further understanding of the basic financial statements.

# CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis  
September 30, 2012 and 2011

## 3. Financial Statement Analysis

### Balance Sheet

The balance sheet discloses information on CLTC's assets, liabilities, and fund balance at year-end. The condensed summary of CLTC's balance sheet is shown below as at September 30, 2012, 2011 and 2010.

	(Unaudited)		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Cash and cash equivalents	\$ 901,361	\$ 135,241	\$ -
Receivables	337,192	354,761	295,483
Other assets	239,636	449,846	512,245
Restricted assets	<u>509,387</u>	<u>508,536</u>	<u>506,336</u>
Total assets	<u>\$ 1,987,576</u>	<u>\$ 1,448,384</u>	<u>\$ 1,314,064</u>
Liabilities and Fund Balance:			
Accounts payable and other	\$ 12,501	\$ 18,177	\$ 106,719
Deferred revenue	<u>311,412</u>	<u>328,761</u>	<u>278,483</u>
Fund Balance	323,913	346,938	385,202
	<u>1,663,663</u>	<u>1,101,446</u>	<u>928,862</u>
	<u>\$ 1,987,576</u>	<u>\$ 1,448,384</u>	<u>\$ 1,314,064</u>

Total assets increased by \$562,217 in 2012 compared to 2011 and by \$172,584 in 2011 compared to 2010 primarily due to the increase in cash and cash equivalents.

Restricted assets represent cash and time certificates of deposit that are constrained to fulfill CLTC's financial requirement for the Home Loan guarantees issued by CLTC with Guam Housing Corporation and the Small Business Administration.

Total liabilities decreased by \$23,025 in 2012 compared to 2011 and decreased by \$38,264 in 2011 compared to 2010 primarily due to changes in accrued liabilities and deferred revenue.

Total fund balance increased by \$562,217 at the end of fiscal year 2012 due to the following:

- Revenues in FY 2012 amounted to \$1,082,016, which primarily was generated from the commercial leases/licenses and royalty payments and proceeds from sale of land. Revenues in FY 2012 increased by \$304,568 as compared to FY 2011.
- Expenditures in FY 2012 amounted to \$519,799, which was a decrease of \$85,065 as compared to FY 2011.

## CHAMORRO LAND TRUST COMMISSION

### Management's Discussion and Analysis September 30, 2012 and 2011

Total fund balance increased by \$172,584 at the end of fiscal year 2011 due to the following:

- Revenues in FY 2011 amounted to \$777,448, which primarily was generated from the commercial leases/licenses and royalty payments. Revenues in FY 2011 increased by \$7,791 as compared to FY 2010.
- Expenditures in FY 2011 amounted to \$604,864, which was a decrease of \$37,870 as compared to FY 2010.

#### Statement of Revenues, Expenditures and Changes in Fund Balance

The statement of revenues, expenditures and changes in fund balance discloses information on CLTC's operations for the year. The condensed summary of CLTC's operations is shown below for the years ended September 30, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	(Unaudited) <u>2010</u>
Revenues:			
Lease rentals and royalty payments	\$ 1,011,130	\$ 772,444	\$ 763,207
Proceeds from sale of land	64,556	-	-
Other	<u>6,330</u>	<u>5,004</u>	<u>6,450</u>
	1,082,016	777,448	769,657
Expenditures	<u>519,799</u>	<u>604,864</u>	<u>642,734</u>
Change in fund balance	562,217	172,584	126,923
Fund Balance - beginning	<u>1,101,446</u>	<u>928,862</u>	<u>801,939</u>
Fund Balance - ending	\$ <u>1,663,663</u>	\$ <u>1,101,446</u>	\$ <u>928,862</u>

Total revenues for FY2012 increased by \$304,568 from \$777,448 in 2011 to \$1,082,016 in 2012. The increase was primarily due to the increase in royalty payments and the receipt of proceeds from land sale offset by a decrease in commercial lease revenues. Royalty revenues are earned from the extraction of coral from the property currently being leased by the Guam Racing Federation in Yigo. The two construction companies that participate in the extraction activities are Hawaiian Rock Products and Perez Brothers. The decrease in commercial lease revenues is due to inconsistent payments from lessees due to stipulations in licenses/leases and termination of leases.

Total expenditures for FY2012 decreased by \$85,065 from \$604,864 in 2011 to \$519,799 in 2012. The decrease is credited to the merger of CLTC into the Department of Land Management through Advisory No. 5, which was later superseded by Advisory No. 9.

Total revenues for FY2011 increased marginally by \$7,791 from \$769,657 in 2010 to \$777,448 in 2011. The increase was primarily due to the increase in lease rental payments.

Total expenditures for FY2011 decreased by \$37,870 from \$642,734 in 2010 to \$604,864 in 2011. The decrease was primarily due to the decrease in contractual services associated with the increased need of professional and legal services in FY 2010 compared with FY 2011.

# CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis  
September 30, 2012 and 2011

## 4. Challenges and Accomplishments

The CLTC was created through Public Law 12-226. CLTC's primary mission is to lease Chamorro Homelands to native Chamorros as defined by the Organic Act. Also, to execute commercial leases and licenses for various purposes as prescribed by law. Applicants of the residential and agricultural programs have to pay a \$50 one-time non-refundable processing fee payable within 30 days of application as prescribed by Public Law 23-38. These applicants are then placed on a respective island-wide residential and/or agriculture tract waiting list in the order in which their applications were received by the CLTC on a first come first serve basis determined by date and time stamped as well as assigned numerical designation. Commercial applicants are required to submit a letter of interest to the Director which would be presented to the board for their approval or disapproval.

CLTC has about 33% of Government of Guam property in its property inventory which is attributed from an Administrative Transfer. In 1994 through 2000, 11,978.53 acres were transferred to CLTC. Unfortunately, through Public Laws 22-23, 22-76, 23-100, 24-15, 24-209, 25-107, and 30-74, 110.94 acres were removed from CLTC's property inventory. As a result, approximately 11,867.59 acres were made available for lease purposes. Of this acreage, 4,191.05 acres are located in the southern portion of Guam, 1,406.44 acres in the central, and 6,270.10 acres are located in the northern part of Guam. In 1983, a Land Use Plan was put in place and at the end of FY 2010 that plan was still being utilized by CLTC. Tasked to oversee such an enormous property inventory, the CLTC consists of a 5 member board and a Director with an average staff of nine employees.

In addition to all the tasks and programs the CLTC is mandated to perform, there are several revolving funds and specials funds created by law. The revolving funds are known as the Chamorro Home Loan Fund, the Chamorro Commercial Loan Fund, and the Chamorro Home Repair Fund. The special funds are known as the Chamorro Home Development Fund, the Chamorro Educational Assistance Fund, Chamorro Land Trust Operation Fund, and the Chamorro Loan Guarantee Fund.

Since its initiation up until the end of FY 2010, the CLTC has qualified a total of 10,780 applicants for its residential and agricultural programs. These applicants are considered qualified based on submitting documented proof of eligibility and have satisfied the one-time processing fee of \$50 due and payable within 30 days of application. Also, the CLTC has leased out thousands of acres of property through their residential, agricultural, and commercial programs. More specifically, the CLTC, at the end of FY2010, had leased a combined total acreage of 2,595 through its residential and agriculture programs and 68 acres through its commercial program. However, it was evident and known that not all properties leased through the residential and agricultural programs were readily available with basic infrastructure and property surveys. Also, some properties were unregistered. Later it was determined that unregistered property accounted for 3,545.45 acres of the CLTC's 11,784.63 acres in inventory. Current statutes prevent any leases being issued on unregistered parcels. Unfortunately, at the end of FY 2010, there were several leases issued to a number of lots that are unregistered. Furthermore, the CLTC has not created policies and procedures to guide the daily operations of the CLTC and their programs.

## CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis  
September 30, 2012 and 2011

### **Historical Perspective:**

In all prior years, the CLTC had not done an inventory or analysis of property leased and available under the jurisdiction of the CLTC and had not developed a land use master plan for the programs of the CLTC. These deficiencies created challenges for the CLTC and its beneficiaries throughout the years. Challenges included the inability to accurately assess property taxes, over slotting of constituents, and the inability for the beneficiaries to reap the benefits of the leases awarded. Although the challenges did not cease, there were additional continued challenges that affected the daily operations of the CLTC through the maintenance of records, the enforcement of compliance, the tracking of revenues, and the increase in liabilities. With the average staff of 9, there were only 4 or 5 Land Agents at any given time, that were tasked to oversee the slotting of constituents, enforcement of compliance, and administrative work required after the intake of applications and awarding of lease stage begins. The other employees were the administrative staff and planner that handle the financials, reports, property rezoning, staff support to the board, record keeping, and many other administrative tasks. Unfortunately, the amount of work required for the administrative section of the CLTC was far greater than the amount of staff available. Without financial flexibility and restrictions on recruitment of employees, the CLTC was unable to adequately account for their revenues and receivables from their residential, agricultural, and commercial programs. Also, the CLTC was historically unable to work collaboratively with the Department of Revenue and Taxation to reconcile real estate property taxes due from the leases. This affected one special fund known as the Chamorro Loan Guarantee Fund which its primary revenue source is real estate taxes due from the CLTC leased property. One negative affect of such a special fund is that it jeopardized the solvency of the CLTC.

Since the initiation of the CLTC up until September 30, 2010, as prescribed by Title 21 Chapter 75 of the Guam Code Annotated, the CLTC was authorized to guaranty home loans with the Guam Housing Corporation for recipients seeking mortgage financing assistance and the U.S. Veteran's Administration for veterans who were awarded CLTC leases. Subsequently, a Memorandum of Understanding was executed to extend the benefits available to veterans with CLTC leases and included the Small Business Administration as a mortgage financing grantor. Since the creation of the law and the execution of the MOU up until September 30, 2010, there has been a total value of approximately \$12,179,000 of home loans guaranteed by the CLTC. This amount is a cumulative total of loans issued by the Guam Housing Corporation, Veterans Affairs, and the Small Business Administration. Unfortunately, there was no monitoring of loan guarantees. Also, there was a default valued approximately at \$73,000 that has been settled by the CLTC. Disappointingly, there were no policies or procedures in place in the event any defaults should occur, which leaves the CLTC with no recourse of recovering payment of any defaults. With such a high amount of home loan guarantees, this one contingency could negatively affect the existence of the trust.

It is evident that administrative tasks require daily, monthly, and annual maintenance. As a result, there was a need to increase staff to perform the duties required. An increase in staff would allow for the implementation of internal control principles such as the establishment of responsibilities, segregation of duties, and the independent internal verification. This would create an enhancement of the reliability and accuracy of the CLTC's accounting records.

At the end of FY2010, CLTC processed 2,232 applications and awarded a combined total acreage of 2,595 for the agriculture and residential programs and 68 acres for the commercial program.

## CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis  
September 30, 2012 and 2011

### **Current Change Management:**

In FY 2011, challenges of the past became a priority. With such an enormous task at hand, an overhaul of the CLTC records was done. A physical inventory and review of applicant files and updates to the CLTC database were accomplished. After such, the CLTC lease database decreased from three thousand plus leases to about two thousand four hundred; however, during the physical review, discrepancies were discovered which resulted in a decrease in the total number of leases issued. Once again, this was a result of the lack of follow-up and maintenance of records due to staff shortages. To alleviate the lack of follow-up and maintenance of records, an internal policy was put in place in regards to the issuance of leases. The policy that was developed included that no lease will be issued unless the property has been surveyed.

In FY 2011, the CLTC qualified 22 agriculture applicants and 33 residential applicants and also increased the total amount of leases issued by 37. This amount may not be acceptable in terms of productivity but it substantiates that the beneficiaries of the CLTC programs have limited resources available to pay for surveying services. Also, this condition appears to document the need to grant the CLTC more flexibility to utilize lapsed funding available to pay for property surveys for its beneficiaries. At the beginning of FY 2011, the CLTC was staffed with a director and ten employees. The land agents tasked to oversee day to day operations of the land programs amounted to 5 employees. Once again, this number was insufficient to bring the programs up to where they should be and maintain their status.

On the administrative side, the Administrative Officer in FY 2011, attempted to address some concerns of material weaknesses from previous audits and purchased the financial software known as QuickBooks 2010 that authorized a total of three users. Information that was inputted from the previous acting Administrative Officer was imported and reviewed. However, future entries were inputted and recognized using the Cash Basis Accounting Method. Once again, due to the lack of staff, internal control principles had not previously been implemented which created a vulnerable stage within the CLTC in regards to embezzlement and fraud. Moreover, in FY 2011, the CLTC guaranteed one home loan which amounted to \$114,350, which increased the potential liability of CLTC, and as a result of staff non-availability, the CLTC was still unable to monitor the loans guaranteed.

In FY 2012, the CLTC was merged with the Department of Land Management through the Governor's Advisory No. 5, which was then superseded by Advisory No. 9. The intention of the administration was to reduce redundancy, avail of staff expertise, and achieve cost cutting. As a result of the Governor's direction, the CLTC was able to determine the availability of land by lot designation of all land transferred to the CLTC. Additionally, the CLTC was able to identify that there were leases issued in some areas that exceeded the amount of acreage available. The CLTC issued 90 leases, communicated with USDA representatives regarding the Substantially Underserved Trust Area (SUTA), and actively collected on receivables related to commercial leases/licenses. At the end of FY 2012, CLTC pending applicant awards amounted to 8,453 of which 5,260 are Residential applicants and 3,193 are Agriculture applicants. Also, the CLTC guaranteed 4 mortgage loans that amounted to \$472,440. As a result, the potential liability for the CLTC increased and due to the lack of staff, loans guaranteed have not been monitored.

# CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis  
September 30, 2012 and 2011

## 5. **Outlook**

The CLTC Board and Director have a vision to move the CLTC in the direction to operate more efficiently and effectively for the beneficiaries of CLTC. With that said, the Board and Director, with the assistance of the administration, plan on drafting legislative initiatives that will allow CLTC to fill the gaps that have caused the discrepancies and to streamline certain functions and mandates created by previous laws.

## 6. **Contacting the Chamorro Land Trust Commission's Financial Management**

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of CLTC's finances and to show the CLTC's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should contact the Director's office at 649-5263 ext. 600 or send an email your request to [dirdlm@guam.gov.gu](mailto:dirdlm@guam.gov.gu).

# CHAMORRO LAND TRUST COMMISSION

## Balance Sheets September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 901,361	\$ 135,241
Receivables	337,192	354,761
Due from GovGuam	239,636	449,846
Restricted assets:		
Cash and cash equivalents	209,387	208,536
Time certificates of deposit	<u>300,000</u>	<u>300,000</u>
Total assets	<u>\$ 1,987,576</u>	<u>\$ 1,448,384</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 5,403	\$ 9,315
Accrued payroll and other liabilities	7,098	8,862
Deferred revenue	<u>311,412</u>	<u>328,761</u>
Total liabilities	<u>323,913</u>	<u>346,938</u>
Commitments and contingencies		
Fund balance:		
Reserved for:		
Restricted	509,387	508,536
Committed	1,127,771	527,229
Assigned	<u>26,505</u>	<u>65,681</u>
Total fund balance	<u>1,663,663</u>	<u>1,101,446</u>
Total liabilities and fund balance	<u>\$ 1,987,576</u>	<u>\$ 1,448,384</u>

See Accompanying Notes to Financial Statements.

**CHAMORRO LAND TRUST COMMISSION**

Statements of Revenues, Expenditures, and Changes in Fund Balances  
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Lease rentals:		
Commercial	\$ 551,659	\$ 583,312
Agricultural and residential	1,896	1,909
Royalties	457,575	187,223
Land trust application fees	4,950	2,800
Interest income	<u>1,380</u>	<u>2,204</u>
Total revenues	<u>1,017,460</u>	<u>777,448</u>
Expenditures:		
Salaries and wages - regular	285,184	395,650
Salaries and wages - fringe benefits	111,285	106,007
Health benefits	-	30,063
Contractual services	20,658	45,085
Building rent	20,000	-
Supplies	19,859	8,119
Equipment	19,321	-
Utilities - power and water	115	14,500
Communications	-	5,263
Capital outlays	41,968	-
Miscellaneous	<u>1,409</u>	<u>177</u>
Total expenditures	<u>519,799</u>	<u>604,864</u>
Excess of revenues over expenditures	<u>497,661</u>	<u>172,584</u>
Other financing sources:		
Proceeds from sale of land	<u>64,556</u>	<u>-</u>
Net change in fund balances	562,217	172,584
Fund balances at beginning of year	<u>1,101,446</u>	<u>928,862</u>
Fund balances at end of year	<u><u>\$ 1,663,663</u></u>	<u><u>\$ 1,101,446</u></u>

See Accompanying Notes to Financial Statements.

# CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements  
September 30, 2012 and 2011

## (1) Organization

The Chamorro Land Trust Commission (CLTC), a governmental fund of the Government of Guam (GovGuam), was established by the Chamorro Land Trust Act of 1975 (Public Law 12-226) for the purpose of protecting and ensuring trust lands are awarded to native Chamorro through residential, agricultural, and commercial leases. The CLTC is responsible for the disposition of Chamorro Homelands pursuant to mandates to advance the social, cultural and economic development and well-being of the Chamorro people.

The accompanying financial statements relate solely to those accounting records maintained by the CLTC, and do not incorporate any accounts related to other departments or agencies within GovGuam.

The CLTC is governed by a five-member Board of Commissioners appointed by the Governor of Guam.

On October 6, 2011, the Governor of Guam issued Reorganization Advisory No. 5, which was later superseded by Advisory No. 9, whereby the CLTC was merged into GovGuam's Department of Land Management along with the Guam Ancestral Lands Commission.

## (2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the CLTC's accounting policies are described below:

### Measurement Focus and Basis of Accounting

The CLTC reports its financial position and the results of operations in governmental funds. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

The special revenue funds currently reported by the CLTC are as follows:

- The Chamorro Land Trust Operations Fund - this fund was created for the purpose of accounting for the receipt of all land use permits, monetary contributions and fees and for the payment of operational expenses associated with the CLTC.
- The Chamorro Loan Guarantee Fund - this fund was created for the purpose of accounting for applicable taxes on Chamorro Homelands collected by GovGuam's Department of Revenue and Taxation earmarked for loan guarantees issued by governmental agencies or lending institutions to native Chamorro borrowers holding leases or licenses of Chamorro Homelands.

# CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements  
September 30, 2012 and 2011

## (2) Summary of Significant Accounting Policies, Continued

### Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the CLTC considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include revenue received from residential, agricultural, and commercial leases. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred.

### Cash and Time Certificates of Deposit

The CLTC has the power and authority to invest and re-invest any of the money in any of its funds, not otherwise immediately needed for the purposes of the funds in such bonds and securities authorized in 5 GCA Chapter 21, *Investments and Deposits*. Custodial credit risk is the risk that in the event of a bank failure, the CLTC’s deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government’s name. The CLTC does not have a deposit policy for custodial credit risk.

For the purposes of the balance sheets, cash is defined as cash in checking and savings accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the balance sheets. As of September 30, 2012 and 2011, the carrying amount of the CLTC’s cash and time certificates of deposit was \$1,410,748 and \$643,777, respectively, and the corresponding bank balances were \$1,410,748 and \$643,777, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of \$508,781 and \$508,081, respectively, were FDIC insured. The CLTC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

### Receivables

Receivables are due from individuals and businesses residing on the island of Guam and are uncollateralized and non-interest bearing.

## CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements  
September 30, 2012 and 2011

### (2) Summary of Significant Accounting Policies, Continued

#### Interfund Receivables

During the course of the CLTC's operations, GovGuam's General Fund records transactions between individual funds for goods provided or services rendered. These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

#### Deferred Revenue

Deferred revenue represents base and participation rent revenues accrued which do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting.

#### Fund Balance

Governmental fund balances are classified as follows:

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and do not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

#### Management Estimates

The preparation of financial statements in conformity with 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.

#### Encumbrances

The CLTC utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2012 and 2011, the CLTC has encumbrances of \$26,505 and \$65,681, respectively.

## CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements  
September 30, 2012 and 2011

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards

During fiscal year 2012, the CLTC implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

During fiscal year 2011, the CLTC implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.

## CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements  
September 30, 2012 and 2011

### (2) Summary of Significant Accounting Policies, Continued

#### New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the CLTC.

### (3) Risk Management

The CLTC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the CLTC not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, CLTC management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the CLTC reports all of its risk management activities in the Chamorro Land Trust Operations Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these policies in any of the past three fiscal years.

## CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements  
September 30, 2012 and 2011

### (4) Restricted Assets

The CLTC maintains a savings deposit and a time certificate of deposit as of September 30, 2012 and 2011 in the amount of \$509,387 and \$508,536, respectively, restricted to collateralize low income housing loans funded by Rural Housing Service (RHS) through the Guam Housing Corporation. The Memorandum of Understanding signed with the RHS requires the CLTC to create and maintain an escrow account with an initial deposit of \$500,000. If the account falls below \$500,000, the CLTC shall deposit in the escrow account 5% of all RHS loans issued until such time that the account has reached \$500,000.

### (5) Related Party Transactions

The CLTC is a governmental fund of GovGuam and is therefore affiliated with all GovGuam-owned and affiliated entities, including all departments and agencies of GovGuam, including the Guam Housing Corporation.

Certain developed land supported by valid lease agreements is held as investments in land and other real estate within a permanent fund of the Government of Guam. Such investment is recorded at fair value whereas other undeveloped land not supported by lease agreements is reported at historical cost. As of September 30, 2012 and 2011, such land is valued at \$406,640,273 and \$393,242,611, respectively, of which \$399,880,379 and \$388,120,281, is held by the CLTC. Fair value is based on estimated current value (primarily assessed real estate property tax valuations) and appraisals. Investments that do not have an established market are reported at estimated fair value. Earnings from lease agreements associated with these investments are reported as revenues of the CLTC.

### (6) Sale of Land

On May 10, 2011, the Guam Legislature enacted Public Law 31-53 authorizing the sale of a severed portion of GovGuam land to the adjacent private landowner for the average fair market value as determined by two independent licensed real estate appraisers. Proceeds realized from the sale of this land in the amount of \$64,556 were authorized to be deposited into the account of the CLTC.

### (7) Significant Customers

The CLTC generates revenues from certain major customers that exceed 10 percent or more of the CLTC's total revenues. During the year ended September 30, 2012, the CLTC recognized revenues from two customers that represented approximately 57% of total revenues. During the year ended September 30, 2011, the CLTC recognized revenues from three customers that represented approximately 53% of total revenues.

## CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements  
September 30, 2012 and 2011

### (8) Commitments

The CLTC has entered into license agreements with various licensees for the use of trust lands for commercial, agricultural and residential purposes. The future minimum lease receipts under the remainder of these license agreements are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2013	\$ 522,597
2014	318,882
2015	231,879
2016	231,879
2017	233,085
Thereafter	<u>1,138,147</u>
	<u>\$ 2,676,469</u>

### (9) Contingencies

The CLTC is party to several legal proceedings; however, the Attorney General of Guam is unable to assess the likelihood of potential liabilities related to claims outstanding as of September 30, 2012 and 2011. Hence, it is not possible to predict a reasonable estimation of these claims to be paid through the claims process and, therefore, no provision for any liability that may result has been made in the accompanying financial statements.

The CLTC is authorized to loan or guarantee the repayment of or otherwise underwrite any authorized loan to a Chamorro homeland lessee up to a maximum amount not to exceed the financial ability of the borrower. In the event of default, these loan guarantees shift the lender's default risk entirely to the CLTC whereby the lender can call upon the CLTC to make partial or full payment of the guaranteed loan. As of September 30, 2012, the CLTC has guaranteed 152 loans of Chamorro homeland residential lessees totaling \$12,916,115 to the Guam Housing Corporation and the Small Business Administration.

**CHAMORRO LAND TRUST COMMISSION**

Combining Balance Sheet  
September 30, 2012

	Chamorro Land Trust Operations Fund	Chamorro Loan Guarantee Fund	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 901,361	\$ -	\$ 901,361
Receivables	337,192	-	337,192
Due from GovGuam General Fund	239,636	-	239,636
Restricted assets:			
Cash and cash equivalents	-	209,387	209,387
Time certificates of deposit	-	300,000	300,000
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 1,478,189</u>	<u>\$ 509,387</u>	<u>\$ 1,987,576</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts payable	\$ 5,403	\$ -	\$ 5,403
Accrued payroll and other liabilities	7,098	-	7,098
Deferred revenue	311,412	-	311,412
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>323,913</u>	<u>-</u>	<u>323,913</u>
Fund balance:			
Reserved for:			
Restricted	-	509,387	509,387
Committed	1,127,771	-	1,127,771
Assigned	26,505	-	26,505
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balance	<u>1,154,276</u>	<u>509,387</u>	<u>1,663,663</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balance	<u>\$ 1,478,189</u>	<u>\$ 509,387</u>	<u>\$ 1,987,576</u>

See Accompanying Independent Auditors' Report.

**CHAMORRO LAND TRUST COMMISSION**

Combining Balance Sheet  
September 30, 2011

	Chamorro Land Trust Operations Fund	Chamorro Loan Guarantee Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 135,241	\$ -	\$ 135,241
Receivables	354,761	-	354,761
Due from GovGuam General Fund	449,846	-	449,846
Restricted assets:			
Cash and cash equivalents	-	208,536	208,536
Time certificates of deposit	-	300,000	300,000
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 939,848</u>	<u>\$ 508,536</u>	<u>\$ 1,448,384</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts payable	\$ 9,315	\$ -	\$ 9,315
Accrued payroll and other liabilities	8,862	-	8,862
Deferred revenue	328,761	-	328,761
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>346,938</u>	<u>-</u>	<u>346,938</u>
Fund balance:			
Reserved for:			
Restricted	-	508,536	508,536
Committed	527,229	-	527,229
Assigned	65,681	-	65,681
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>592,910</u>	<u>508,536</u>	<u>1,101,446</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balance	<u>\$ 939,848</u>	<u>\$ 508,536</u>	<u>\$ 1,448,384</u>

See Accompanying Independent Auditors' Report.

**CHAMORRO LAND TRUST COMMISSION**

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Year Ended September 30, 2012

	<u>Chamorro Land Trust Operations Fund</u>	<u>Chamorro Loan Guarantee Fund</u>	<u>Total</u>
<b>Revenues:</b>			
Lease rentals:			
Commercial	\$ 551,659	\$ -	\$ 551,659
Agricultural and residential	1,896	-	1,896
Royalties	457,575	-	457,575
Land trust application fees	4,950	-	4,950
Interest income	<u>529</u>	<u>851</u>	<u>1,380</u>
Total revenues	<u>1,016,609</u>	<u>851</u>	<u>1,017,460</u>
<b>Expenditures:</b>			
Salaries and wages - regular	285,184	-	285,184
Salaries and wages - fringe benefits	111,285	-	111,285
Contractual services	20,658	-	20,658
Building rent	20,000	-	20,000
Supplies	19,859	-	19,859
Equipment	19,321	-	19,321
Utilities - power and water	115	-	115
Capital outlays	41,968	-	41,968
Miscellaneous	<u>1,409</u>	<u>-</u>	<u>1,409</u>
Total expenditures	<u>519,799</u>	<u>-</u>	<u>519,799</u>
Excess of revenues over expenditures	<u>496,810</u>	<u>851</u>	<u>497,661</u>
<b>Other financing sources:</b>			
Proceeds from sale of land	<u>64,556</u>	<u>-</u>	<u>64,556</u>
Net change in fund balances	561,366	851	562,217
Fund balances at beginning of year	<u>592,910</u>	<u>508,536</u>	<u>1,101,446</u>
Fund balances at end of year	<u><u>\$ 1,154,276</u></u>	<u><u>\$ 509,387</u></u>	<u><u>\$ 1,663,663</u></u>

See Accompanying Independent Auditors' Report.

**CHAMORRO LAND TRUST COMMISSION**

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Year Ended September 30, 2011

	<u>Chamorro Land Trust Operations Fund</u>	<u>Chamorro Loan Guarantee Fund</u>	<u>Total</u>
<b>Revenues:</b>			
Lease rentals:			
Commercial	\$ 583,312	\$ -	\$ 583,312
Agricultural and residential	1,909	-	1,909
Royalties	187,223	-	187,223
Land trust application fees	2,800	-	2,800
Interest income	<u>4</u>	<u>2,200</u>	<u>2,204</u>
Total revenues	<u>775,248</u>	<u>2,200</u>	<u>777,448</u>
<b>Expenditures:</b>			
Salaries and wages - regular	395,650	-	395,650
Salaries and wages - fringe benefits	106,007	-	106,007
Health benefits	30,063	-	30,063
Contractual services	45,085	-	45,085
Supplies	8,119	-	8,119
Utilities - power and water	14,500	-	14,500
Communications	5,263	-	5,263
Miscellaneous	<u>177</u>	<u>-</u>	<u>177</u>
Total expenditures	<u>604,864</u>	<u>-</u>	<u>604,864</u>
Net change in fund balances	170,384	2,200	172,584
Fund balances at beginning of year	<u>422,526</u>	<u>506,336</u>	<u>928,862</u>
Fund balances at end of year	<u>\$ 592,910</u>	<u>\$ 508,536</u>	<u>\$ 1,101,446</u>

See Accompanying Independent Auditors' Report.

**CHAMORRO LAND TRUST COMMISSION**

Supplemental Schedule of Employees and Salaries  
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries and wages - regular	<u>\$ 285,184</u>	<u>\$ 395,650</u>
Number of employees:		
Director	1	1
Land Agents	3	5
Planner	1	1
Records Management	1	1
Other Administrative Staff	<u>2</u>	<u>4</u>
Total number of employees	<u>8</u>	<u>12</u>

See Accompanying Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners  
Chamorro Land Trust Commission

We have audited the financial statements of the Chamorro Land Trust Commission (CLTC) as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated August 7, 2014. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the CLTC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the CLTC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CLTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CLTC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

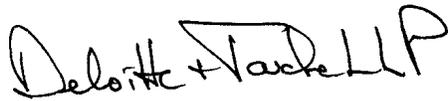
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2012-1 through 2012-4 to be material weaknesses.

## Compliance and Other Matters

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

The CLTC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the CLTC's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

August 7, 2014

# CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses  
Years Ended September 30, 2012 and 2011

## Finding No. 2012-1

### Accounting System

#### Criteria:

An adequate accounting system should provide accurate and current financial reporting information in accordance with generally accepted accounting principles identifying the receipt and expenditure of non-appropriated funds and should be integrated with an adequate system of internal controls to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies.

#### Condition:

CLTC does not maintain adequate record-keeping for its non-appropriated funds on a formal accounting system. Accordingly, no formal reconciliation process is in place for general ledger account balances.

#### Cause:

The cause of the above condition is the lack of direction from management requiring the need to establish and maintain accounting records utilizing a formal accounting system.

#### Effect:

The effects of the above condition are the lack of the ability to prepare accurate and reliable financial statements in accordance with generally accepted accounting principles and an increased risk of error or fraud in the receipt and expenditure of non-appropriated funds.

#### Recommendation:

We recommend that CLTC establish an adequate system of internal controls through the implementation of a formal accounting system.

Auditee Response and Corrective Action Plan: Management concurs with the audit recommendation. A land use plan is essential to the present and future direction in regards to the issuance of leases for the respective programs.

Target Date of completion: End of FY2016 with consideration that the appropriate positions are recruited.

- a. Land Agent Supervisor
- b. Planner III
- c. Program Coordinator IV

Board Members and Director

## CHAMORRO LAND TRUST COMMISSION

### Schedule of Findings and Responses, Continued Years Ended September 30, 2012 and 2011

#### Finding No. 2012-2

#### Collection and Monitoring of Accounts Receivable

#### Criteria:

Prompt and timely collection of receivables is critical to maximizing CLTC cash flows and minimizing exposure from uncollectible receivables.

#### Condition:

As of September 30, 2012 and 2011, CLTC recorded lease receivables of \$337,192 and \$354,761, respectively, of which \$311,412 and \$328,761, respectively, remained uncollected 90 days after the respective year ends. In addition, CLTC received a payment of \$100,000 in 2011 from a recycling company for past delinquent monthly rental payments. Documentation evidencing the nature of this receipt was not available. Furthermore, no documentation was available indicating the total amount due from this lessee at September 30, 2012 and 2011.

#### Cause:

The cause of the above condition is the lack of adequate internal control policies requiring timely collection of receivables.

#### Effect:

The effect of the above condition is the possibility of monetary loss and inaccurate financial statements.

#### Recommendation:

We recommend that CLTC establish policies and procedures requiring the timely collection and monitoring of accounts receivable and documentation of lease revenue receipts.

Auditee Response and Corrective Action Plan: Management concurs with the audit recommendation. Completion of this recommendation will provide a definite direction for administrative support staff and will allow for the implementation of internal controls.

Target Date of completion: End of FY2015 or sooner considering that the following positions are recruited.

- a. Administrative Assistant
- b. Data entry clerk
- c. Program Coordinator IV

Board Members and Director

## CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses, Continued  
Years Ended September 30, 2012 and 2011

### Finding No. 2012-3

#### Coral Extraction Royalties

##### Criteria:

Monitoring and documentation of coral extraction royalties is critical to maximizing CLTC cash flows and property utilization.

##### Condition:

During the years ended September 30, 2012 and 2011, CLTC recorded coral extraction royalties of \$457,575 and \$187,223, respectively, from three construction companies for mining activities on a CLTC leased property. These revenues were not evidenced by an underlying agreement between CLTC and/or the lessee and the respective construction companies documenting the rates upon which royalties were to be calculated. In addition, royalty revenues were not evidenced by a verification of actual coral materials extracted.

##### Cause:

The cause of the above condition is the lack of adequate internal control policies requiring monitoring and documentation of coral extraction royalties.

##### Effect:

The effect of the above condition is the possibility of monetary loss and inaccurate financial statements.

##### Recommendation:

We recommend that CLTC establish policies and procedures requiring the timely collection and monitoring of accounts receivable.

Auditee Response and Corrective Action Plan: Management concurs with the audit recommendation. This type of recommendation will ensure that reviews of any and all future licenses are in accordance with the enable legislation.

Target Date of completion: End of FY 2015 with consideration that the appropriate positions are recruited.

- a. Land Agent Supervisor
- b. Program Coordinator IV

Board Members and Director

## CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses, Continued  
Years Ended September 30, 2012 and 2011

### Finding No. 2012-4

#### Loan Guarantees

#### Criteria:

Monitoring of loans guaranteed by CLTC is critical to minimizing CLTC's exposure to losses due to default loans.

#### Condition:

CLTC has entered into a memorandum of understanding with the Guam Housing Corporation and the USDA Rural Development to provide housing for low and moderate income residents of Guam. As of September 30, 2012, CLTC has guaranteed 152 loans of Chamorro homeland residential lessees totaling \$12,916,115 to the Guam Housing Corporation and the Small Business Administration. Although no losses were incurred by CLTC due to loan defaults, no effective system of monitoring of these guaranteed loans has been established by CLTC with the respective loan institutions.

#### Cause:

The cause of the above condition is the lack of adequate internal control policies requiring monitoring of loan guarantees.

#### Effect:

The effect of the above condition is the possibility of monetary loss and inaccurate financial statements.

#### Recommendation:

We recommend that CLTC establish policies and procedures requiring the periodic monitoring of loan guarantees with the respective loan institutions.

Auditee Response and Corrective Action Plan: Management concurs with the audit recommendation. It is vital to the present and future day-to-day operations and programs of CLTC and its beneficiaries that constant reviews of any pending commercial licenses are attended to immediately. Commercial accounts are the primary source of income that funds the entire CLTC.

Target Date of completion is undetermined because of the constant inquires of potential commercial licensees. Although reviews will be done on a weekly basis with consideration that the appropriate positions are recruited.

- a. Land Agent Supervisor
- b. Land Agent III
- c. Program Coordinator IV