

CHAMORRO LAND TRUST COMMISSION

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

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

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

CHAMORRO LAND TRUST COMMISSION

Years Ended September 30, 2013 and 2012
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	4
III. BASIC FINANCIAL STATEMENTS:	
Balance Sheets	11
Statements of Revenues, Expenditures and Changes in Fund Balances	12
Notes to Financial Statements	13
IV. OTHER SUPPLEMENTARY INFORMATION:	
Combining Balance Sheets	20
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances	22
Supplemental Schedule of Employees and Salaries	24
V. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
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 <i>Government Auditing Standards</i>	25
Schedule of Findings and Responses	27
Unresolved Prior Year Findings	32

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Chamorro Land Trust Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Chamorro Land Trust Commission (the Commission), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chamorro Land Trust Commission as of September 30, 2013 and 2012, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Reporting Entity

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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 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 audits 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.

Other Information

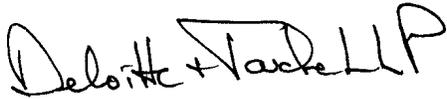
Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The combining financial statement information on pages 20 through 23 and the schedule of employees and salaries on page 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statement information and the schedule of employees and salaries are the responsibility of the Commission's management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the combining financial statement information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of employees and salaries on page 24 has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2014, on our consideration of the 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 financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

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

December 29, 2014

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis September 30, 2013 and 2012

INTRODUCTION

The Chamorro Land Trust Commission (CLTC) is a component unit of the Government of Guam, currently located in Tamuning, Suite 303, 3rd floor of the ITC Building. The 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 2013 is the fifth audit conducted since the CLTC was codified into law and made possible with collaborative efforts by the CLTC Board, management, employees and the Office of Public Accountability (OPA); adhering to accountability and transparency.

The CLTC's Management's Discussion and Analysis (MD&A) provides an overview of the CLTC's financial activities for fiscal years ended September 30, 2013 and 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 \$2,246,594 at the close of fiscal year 2013 as compared to \$1,663,663 at the close of fiscal year 2012.
- Total assets at September 30, 2013 increased by \$471,919 as compared to September 30, 2012.
- Total liabilities at September 30, 2013 decreased by \$111,012 as compared to September 30, 2012.
- Total fund balance at September 30, 2013 increased by \$582,931 as compared to September 30, 2012.
- Total revenues of \$1,054,842 for fiscal year 2013 increased by \$37,382 as compared to \$1,017,460 for fiscal year 2012. Total expenditures of \$471,911 for fiscal year 2013 decreased by \$47,888 as compared to \$519,799 for fiscal year 2012. This resulted in an increase in the fund balance of \$582,931 for fiscal year 2013 as compared to \$562,217 for fiscal year 2012.

2. Overview of the Financial Statements

The 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 Balances for Fiscal Years 2013 and 2012.

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, 2013 and 2012

3. Financial Statement Analysis

Balance Sheet

The balance sheet discloses information on the CLTC's assets, liabilities, and fund balance at year-end. The condensed summary of the CLTC's balance sheet is shown below as of September 30, 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Cash and cash equivalents	\$ 1,709,130	\$ 901,361	\$ 135,241
Receivables	207,028	337,102	354,761
Other assets	32,315	239,636	449,846
Restricted assets	<u>510,932</u>	<u>509,387</u>	<u>508,536</u>
Total assets	<u>\$ 2,459,405</u>	<u>\$ 1,987,486</u>	<u>\$ 1,448,384</u>
Liabilities and Fund Balance:			
Accounts payable and other	\$ 43,282	\$ 12,501	\$ 18,177
Deferred revenue	<u>169,529</u>	<u>311,322</u>	<u>328,761</u>
Fund Balance	212,811	323,823	346,938
	<u>2,246,594</u>	<u>1,663,663</u>	<u>1,101,446</u>
	<u>\$ 2,459,405</u>	<u>\$ 1,987,486</u>	<u>\$ 1,448,384</u>

Total assets increased by \$539,102 in 2012 compared to 2011 and further increased by \$471,919 in 2013 compared to 2012 primarily due to the increase in cash and cash equivalents.

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

Total liabilities decreased by \$23,115 in 2012 compared to 2011 and further decreased by \$111,012 in 2013 compared to 2012 primarily due to changes in accrued liabilities and deferred revenue.

Total fund balance increased by \$582,931 from 2012 to 2013 due to the following:

- Revenues in 2013 amounted to \$1,054,842, which primarily was generated from the commercial leases/licenses and royalty payments. Revenues in 2013 decreased by \$27,174 as compared to 2012.
- Expenditures in 2013 amounted to \$471,911, which was a decrease of \$47,888 as compared to 2012.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis September 30, 2013 and 2012

Total fund balance increased by \$562,217 from 2011 to 2012 due to the following:

- Revenues in 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 2012 increased by \$304,568 as compared to 2011.
- Expenditures in 2012 amounted to \$519,799, which was a decrease of \$85,065 as compared to 2011.

Statement of Revenues, Expenditures and Changes in Fund Balance

The statement of revenues, expenditures and changes in fund balance discloses information on the CLTC's operations for the year. The condensed summary of the CLTC's operations is shown below for the years ended September 30, 2013, 2012 and 2011.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:			
Lease rentals and royalty payments	\$ 1,044,972	\$ 1,011,130	\$ 772,444
Proceeds from sale of land	-	64,556	-
Other	<u>9,870</u>	<u>6,330</u>	<u>5,004</u>
	1,054,842	1,082,016	777,448
Expenditures	<u>471,911</u>	<u>519,799</u>	<u>604,864</u>
Change in fund balance	582,931	562,217	172,584
Fund Balance - beginning	<u>1,663,663</u>	<u>1,101,446</u>	<u>928,862</u>
Fund Balance - ending	<u>\$ 2,246,594</u>	<u>\$ 1,663,663</u>	<u>\$ 1,101,446</u>

Total revenues increased by \$304,568 in 2012 compared to 2011 and decreased slightly by \$27,174 in 2013 compared to 2012. The change in revenues between 2012 and 2011 was primarily due to revenue recognition over lease rental payments whereas the change in revenues between 2013 and 2012 was primarily due to the receipt of proceeds from land sale in 2012 offset by a slight increase in revenues received from lease rentals and royalty payments. Royalty payments 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.

Total expenditures decreased by \$85,065 in 2012 compared to 2011 and further decreased by \$47,888 in 2013 compared to 2012. The change in expenditures between 2012 and 2011 and between 2013 and 2012 was primarily due to cost savings associated with the issuance and implementation of Reorganization Advisory No. 5 and 9 by the Governor of Guam merging the operations of the CLTC into GovGuam's Department of Land Management.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis
September 30, 2013 and 2012

4. Challenges and Accomplishments

The CLTC was created through Public Law 12-226. The CLTC's primary mission is to lease Chamorro Homelands to native Chamorros, as defined by the Organic Act, and to execute commercial leases and licenses for various purposes as prescribed by law. Applicants of the residential and agricultural programs 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 Commission 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 is presented to the board for their approval or disapproval.

The CLTC has about 33% of Government of Guam property in its property inventory which is attributed to an Administrative Transfer. In 1995, 11,244.92 acres were transferred to the CLTC. In 1997, 183.14 acres were removed by Public Law 23-100 and Public Law 24-15. As a result, 11,061.78 acres were made available for lease purposes. Of those, 4,070.10 acres were located in the southern portion of the island, 1,297.54 acres in the central, and 5,694.14 acres located in the northern part of Guam. In 1983, a Land Use Plan was put in place and at the end of 2013 that plan is still being utilized by the CLTC. Tasked to oversee such an enormous property inventory, the Commission consists of a 5 member board and a Director with a staff of seven employees.

In addition to all the tasks and programs the CLTC is mandated to perform, there are several revolving funds and special 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, the Chamorro Land Trust Operation Fund, and the Chamorro Loan Guarantee Fund.

Since its initiation up until the end of 2013, the CLTC has qualified a total of 11,050 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 thousands of acres of property through their residential, agricultural, and commercial programs. More specifically, the CLTC, at the end of 2013, had leased a combined total acreage of 2,739.15 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 3,545.23 acres of the CLTC's 11,061.78 acres in inventory.

From the time of the implementation of the Governor's Advisory No. 5 then superseded by Advisory No. 9, the synergy of the CLTC merging with the Department of Land Management (DLM) has been positive with the expertise of land administration resetting the direction of the CLTC into the proper course. Lands assigned to applicants are being reviewed and errors found such as land descriptions or survey sketches are being corrected so that land is properly and legally identified. This is possible with the assistance of staff whose expertise is in land administration and survey. In addition to correcting the legal property description of leased property the CLTC has accomplished other objectives.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis September 30, 2013 and 2012

In 2013, the CLTC has completed the digitalization of its records. This will ensure all documents are not only duplicated but also safeguarded. It also allows the records to be reviewed electronically by land agents. Digitalization is an ongoing process as files are updated and new files created.

The next accomplished objective was the completion of the review of the CLTC records. This process entailed the review of existing leaseholders' files; discrepancies have been identified such as unrecorded documents, missing surveys, and incomplete lot descriptions. Each of these discrepancies has been identified and is being corrected by the CLTC and DLM staff in the most expeditious manner. Simultaneously, all leases being assigned are being cleared with a checklist to ensure all documentation is in order before they are fully executed. Additionally, a standard operating procedure for the CLTC land agents is being reviewed to ensure future actions and documents are completed properly.

To address the past issues surrounding the Commercial program, the CLTC proposed Rules and Regulations for Commercial Use has been written with the assistance of the Guam Economic Development Authority, which the CLTC has a memorandum of understanding with to assist with the CLTC commercial leases and licenses. The rules and regulations are under review by the Governor's office and will then be prepared for public review in accordance with the Administrative Adjudication Law. The adoption of these rules and regulations is significantly important because it is required by law (Chapter 75, Title 21, Guam Code Annotated) and has never been adopted. Because the commercial leases are intended to provide the financial support for the CLTC to function and administer the trust lands, these rules will provide the legitimacy and transparency of the process to award commercial leases. In the interim, the CLTC commissioners have placed a moratorium on approving any commercial leases until the rules and regulations have been duly adopted.

The fourth completed objective in 2013 is the assignment of an attorney from the Office of Attorney General. Many issues have arisen at the CLTC that required the assistance of a legal counsel but none were assigned. The CLTC now has a legal counsel to assist with a backlog of matters with land registration being the most important matter. The Trust has many lands that are currently unregistered which means they cannot be used until they are registered. This legal process is very lengthy and arduous but cannot be performed without an attorney dedicated to this matter.

Another accomplishment of the CLTC is the partnership created between the CLTC and Guam Housing Corporation (GHC). Through this partnership, the CLTC has selected vacant lots in Astumbo, Dededo that all have the available infrastructure for the construction of affordable model homes with the assistance of GHC. The CLTC will assign up to ten lots to have model homes built.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis September 30, 2013 and 2012

The last completed objective is the implementation of a monitoring system for the CLTC loan guaranties. As noted in our previous audit, the loan guarantee program raised concerns on the liability the CLTC potentially faces especially since this program had not been monitored. In the short time since the last audit, the CLTC has drilled into this program to determine where it currently stands and developed a policy to administer this program. A total of 150 CLTC leaseholders were granted loan guaranties totaling almost \$13 million. Of these, about \$3 million were for "conventional" home loans while \$10 million were for disaster relief loans following typhoons in 1998 and 2002. The CLTC is making a concerted effort to contact each of these borrowers to obtain an array of information to include the latest loan statements to determine the actual loan balance and current lender information. The disaster loans issued by FEMA through Small Business Administration have been the most difficult to track because loans had been sold multiple times from SBA to successive private lenders and SBA does not monitor the loan once it has been removed from their books. In an effort to put controls on this program, a policy has been drafted that places restrictions and requirements for these loan guaranties. Controls include establishing maximum loan guarantee limits based on family size and loan disbursement payments based on specific construction completion points. The proposed policy will soon be presented to the CLTC commissioners for their approval. Additionally, the job of monitoring this program has been assigned to the CLTC administrative officer and will be regularly reviewed by the commissioners at their monthly meetings. The CLTC will also be visiting each site and fully documenting the housing to determine whether legal action is necessary for misuse or fraud. As a footnote, the last disaster related loan guarantee was issued in 2003.

Although, with all the accomplishments for 2013, the CLTC still is faced with many challenges that affect the day-to-day operations and the livelihood of its constituents. Infrastructure is one challenge that still negatively affects the CLTC and its constituents. Many of our existing leaseholders are assigned to lands that do not have any infrastructure and a significant majority of the CLTC lands are also without infrastructure.

Another challenge is the accessibility to funding. For years, the CLTC has been limited in its annual budget appropriation. Funding appropriated has been only adequate for its current operations with no room to fund projects for capital improvements relating to the real estate in the CLTC's inventory. Also, additional funding is needed to address the need to recruit personnel to ensure proper control measures are put in place to protect the integrity of the CLTC records, property management, financials, and public trust.

5. Outlook

The CLTC Board and Director have taken the necessary measures to ensure that the CLTC operates in a more efficient and effective manner for the beneficiaries of the CLTC. Management will also explore and plan to expand on the construction of Affordable Housing. In addition, management will also seek financial assistance from Federal agencies through grants and low interest rate loans to pay for the cost of installing infrastructure on the CLTC property.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis
September 30, 2013 and 2012

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 dlmdir@dln.guam.gov.

CHAMORRO LAND TRUST COMMISSION

Balance Sheets
September 30, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,709,130	\$ 901,361
Receivables:		
Commercial	207,028	337,102
Due from GovGuam	32,315	239,636
Restricted assets:		
Cash and cash equivalents	210,932	209,387
Time certificates of deposit	300,000	300,000
Total assets	\$ 2,459,405	\$ 1,987,486
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 34,908	\$ 5,403
Accrued payroll and other liabilities	8,374	7,098
Deferred revenue	169,529	311,322
Total liabilities	212,811	323,823
Commitments and contingencies		
Fund balances:		
Reserved for:		
Restricted	510,932	509,387
Committed	1,707,389	1,127,771
Assigned	28,273	26,505
Total fund balances	2,246,594	1,663,663
Total liabilities and fund balances	\$ 2,459,405	\$ 1,987,486

See Accompanying Notes to Financial Statements.

CHAMORRO LAND TRUST COMMISSION

Statements of Revenues, Expenditures, and Changes in Fund Balances
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Lease rentals:		
Commercial	\$ 722,205	\$ 551,659
Agricultural and residential	2,906	1,896
Royalties	319,861	457,575
Land trust application fees	6,500	4,950
Interest income	<u>3,370</u>	<u>1,380</u>
Total revenues	<u>1,054,842</u>	<u>1,017,460</u>
Expenditures:		
Salaries and wages - regular	222,127	285,184
Salaries and wages - fringe benefits	66,784	84,246
Health benefits	34,075	27,039
Contractual services	79,470	20,658
Building rent	48,000	20,000
Supplies	4,552	19,859
Equipment	-	19,321
Utilities - power and water	-	115
Capital outlays	15,303	41,968
Miscellaneous	<u>1,600</u>	<u>1,409</u>
Total expenditures	<u>471,911</u>	<u>519,799</u>
Excess of revenues over expenditures	<u>582,931</u>	<u>497,661</u>
Other financing sources:		
Proceeds from sale of land	<u>-</u>	<u>64,556</u>
Net change in fund balances	582,931	562,217
Fund balances at beginning of year	<u>1,663,663</u>	<u>1,101,446</u>
Fund balances at end of year	<u>\$ 2,246,594</u>	<u>\$ 1,663,663</u>

See Accompanying Notes to Financial Statements.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2013 and 2012

(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, 2013 and 2012

(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 Cash Equivalents 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 and cash equivalents are 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, 2013 and 2012, the carrying amount of the CLTC's cash and cash equivalents and time certificates of deposit was \$2,220,062 and \$1,410,748, respectively, and the corresponding bank balances were \$2,220,062 and \$1,410,748, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2013 and 2012, bank deposits in the amount of \$250,000 and \$508,781, 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.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Receivables

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

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.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

Encumbrances

The CLTC utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2013 and 2012, the CLTC has encumbrances of \$28,273 and \$26,505, respectively.

New Accounting Standards

During the year ended September 30, 2013, the CLTC implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB 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. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The implementation of these statements did not have a material effect on the accompanying financial statements.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2013 and 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 70 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

(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, 2013 and 2012

(4) Restricted Assets

The CLTC maintains a savings deposit and a time certificate of deposit as of September 30, 2013 and 2012 in the amount of \$510,932 and \$509,387, 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, 2013 and 2012, such land is valued at \$411,159,732 and \$406,640,273, respectively, of which \$404,399,838 and \$399,880,379, 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, 2013, the CLTC recognized revenues from two customers that represented approximately 70% of total revenues. During the year ended September 30, 2012, the CLTC recognized revenues from two customers that represented approximately 57% of total revenues.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2013 and 2012

(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>	
2014	\$ 309,974
2015	222,972
2016	222,972
2017	224,178
2018	203,001
2019 – 2023	691,713
2024 – 2028	148,902
2029 – 2033	18,467
2034 – 2038	18,000
2039 – 2043	18,000
2044 – 2047	<u>12,600</u>
	<u>\$ 2,090,779</u>

(9) Contingencies

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 may shift the lender's default risk entirely to the CLTC whereby the lender may call upon the CLTC to make partial or full payment of the guaranteed loan. As of September 30, 2013, the CLTC has guaranteed a material amount of loans for Chamorro homeland residential lessees. Management of the CLTC is of the opinion that defaulted loans may be reassigned and that the CLTC has substantial defenses available to it in the event of litigation. As a result, at this time, management does not believe that material exposure exists related to this event. Therefore, no provision for a liability that may arise from this matter has been made in the accompanying financial statements.

CHAMORRO LAND TRUST COMMISSION

Combining Balance Sheet
September 30, 2013

	Chamorro Land Trust Operations Fund	Chamorro Loan Guarantee Fund	Total
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,709,130	\$ -	\$ 1,709,130
Receivables:			
Commercial	207,028	-	207,028
Due from GovGuam General Fund	32,315	-	32,315
Restricted assets:			
Cash and cash equivalents	-	210,932	210,932
Time certificates of deposit	-	300,000	300,000
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,948,473</u>	<u>\$ 510,932</u>	<u>\$ 2,459,405</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 34,908	\$ -	\$ 34,908
Accrued payroll and other liabilities	8,374	-	8,374
Deferred revenue	169,529	-	169,529
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>212,811</u>	<u>-</u>	<u>212,811</u>
Fund balances:			
Reserved for:			
Restricted	-	510,932	510,932
Committed	1,707,389	-	1,707,389
Assigned	28,273	-	28,273
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,735,662</u>	<u>510,932</u>	<u>2,246,594</u>
Total liabilities and fund balances	<u>\$ 1,948,473</u>	<u>\$ 510,932</u>	<u>\$ 2,459,405</u>

See Accompanying Independent Auditors' Report.

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:		-	
Commercial	337,102	-	337,102
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>\$ 1,478,099</u>	<u>\$ 509,387</u>	<u>\$ 1,987,486</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 5,403	\$ -	\$ 5,403
Accrued payroll and other liabilities	7,098	-	7,098
Deferred revenue	311,322	-	311,322
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>323,823</u>	<u>-</u>	<u>323,823</u>
Fund balances:			
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 balances	<u>1,154,276</u>	<u>509,387</u>	<u>1,663,663</u>
Total liabilities and fund balances	<u>\$ 1,478,099</u>	<u>\$ 509,387</u>	<u>\$ 1,987,486</u>

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2013

	Chamorro Land Trust Operations Fund	Chamorro Loan Guarantee Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Lease rentals:			
Commercial	\$ 722,205	\$ -	\$ 722,205
Agricultural and residential	2,906	-	2,906
Royalties	319,861	-	319,861
Land trust application fees	6,500	-	6,500
Interest income	<u>1,825</u>	<u>1,545</u>	<u>3,370</u>
Total revenues	<u>1,053,297</u>	<u>1,545</u>	<u>1,054,842</u>
Expenditures:			
Salaries and wages - regular	222,127	-	222,127
Salaries and wages - fringe benefits	66,784	-	66,784
Health benefits	34,075	-	34,075
Contractual services	79,470	-	79,470
Building rent	48,000	-	48,000
Supplies	4,552	-	4,552
Capital outlays	15,303	-	15,303
Miscellaneous	<u>1,600</u>	<u>-</u>	<u>1,600</u>
Total expenditures	<u>471,911</u>	<u>-</u>	<u>471,911</u>
Net change in fund balances	581,386	1,545	582,931
Fund balances at beginning of year	<u>1,154,276</u>	<u>509,387</u>	<u>1,663,663</u>
Fund balances at end of year	<u>\$ 1,735,662</u>	<u>\$ 510,932</u>	<u>\$ 2,246,594</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

	Chamorro Land Trust Operations Fund	Chamorro Loan Guarantee Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
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>
Expenditures:			
Salaries and wages - regular	285,184	-	285,184
Salaries and wages - fringe benefits	84,246	-	84,246
Health benefits	27,039	-	27,039
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>
Other financing sources:			
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>\$ 1,154,276</u>	<u>\$ 509,387</u>	<u>\$ 1,663,663</u>

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Supplemental Schedule of Employees and Salaries
Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Salaries and wages - regular	<u>\$ 222,127</u>	<u>\$ 285,184</u>
Number of employees:		
Director	-	1
Land Agents	3	3
Planner	1	1
Records Management	1	1
Other Administrative Staff	<u>3</u>	<u>2</u>
Total number of employees	<u>8</u>	<u>8</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, in accordance with the 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, the financial statements of the Chamorro Land Trust Commission (the Commission or CLTC), which comprise the balance sheet as of September 30, 2013, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 29, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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 2013-1 through 2013-5 to be material weaknesses.

Compliance and Other Matters

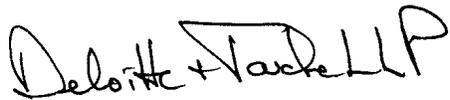
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 Commission's Responses to Findings

The Commission's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Commission's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

December 29, 2014

CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses
Year Ended September 30, 2013

Finding No. 2013-1

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:

The 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 utilization of 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 the CLTC establish an adequate system of internal controls through the implementation of a formal accounting system.

Prior Year Status:

The lack of maintaining adequate record-keeping for non-appropriated funds was reported as a finding in the audits of the CLTC for fiscal years 2011 and 2012.

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
Year Ended September 30, 2013

Finding No. 2013-2

Collection and Monitoring of Accounts Receivable

Criteria:

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

Condition:

As of September 30, 2013, the CLTC recorded lease receivables of \$207,028, of which \$115,349 remained uncollected 90 days after year end. Of the recorded amount of \$207,028, \$48,500 was supported by a Memorandum of Agreement (MOU) with the licensee documenting repayment terms and conditions of delinquent amounts.

Cause:

The cause of the above condition is the lack of 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 the CLTC establish policies and procedures requiring the timely collection and monitoring of accounts receivable and the entering into of MOUs with licensees in regards to repayment of delinquent amounts.

Prior Year Status:

The lack of adequate internal control policies over timely collection of receivables was reported as a finding in the audits of the CLTC for fiscal years 2011 and 2012.

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 Year Ended September 30, 2013

Finding No. 2013-3

Coral Extraction Royalties

Criteria:

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

Condition:

During the year ended September 30, 2013, the CLTC recorded coral extraction royalties of \$316,562 from two construction companies for mining activities on a CLTC leased property. These revenues were not evidenced by an underlying agreement between the 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 the CLTC establish policies and procedures requiring the timely collection and monitoring of accounts receivable.

Prior Year Status:

The lack of adequate internal control policies requiring monitoring and documentation of coral extraction royalties was reported as a finding in the audits of the CLTC for fiscal years 2011 and 2012.

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 Year Ended September 30, 2013

Finding No. 2013-4

Loan Guarantees

Criteria:

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

Condition:

The 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. 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 may shift the lender's default risk entirely to the CLTC whereby the lender may call upon the CLTC to make partial or full payment of the guaranteed loan. Although no losses were incurred during the year ended September 30, 2013 by the CLTC due to loan defaults, no effective system of monitoring of these guaranteed loans has been established by the 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 the CLTC establish policies and procedures requiring the periodic monitoring of loan guarantees with the respective loan institutions.

Prior Year Status:

The lack of adequate internal control policies requiring monitoring of loan guarantees was reported as a finding in the audits of the CLTC for fiscal years 2011 and 2012.

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 inquiries of potential commercial licensees. 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

CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2013

Finding No. 2013-5

Rental Lease Agreement

Criteria:

Leasing of office space should be supported by an underlying lease agreement identifying the terms and conditions of the landlord/tenant relationship and the responsibilities of the respective parties.

Condition:

During the year ended September 30, 2013, the CLTC occupied certain office space at a cost of \$4,000/month. No underlying lease agreement was available supporting the monthly rent expenditure. Instead, an Invitation for Bid in the name of the Department of Land Management, dated April 16, 2010, was provided indicating rental cost of \$58,327/month.

Cause:

The cause of the above condition is the lack of a negotiated lease agreement.

Effect:

The effect of the above condition is the possibility of unauthorized expenditures.

Recommendation:

We recommend that the CLTC enter into a formal office space lease agreement.

Auditee Response and Corrective Action Plan:

As part of the Governor's Advisor No. 5 that was later superseded by Advisory No. 9 CLTC was merged into the Department of Land Management (DLM). In FY 2013 DLM was under a office space lease contract with Fujita Properties, Inc. effectuated through a GSA Bid. As a result CLTC was utilizing office space under DLM's office space lease contract. To ensure that the merger did not have a negative effect on the operations of DLM financially CLTC paid for the space used.

With guidance from GSA we do not feel that a formal office space lease agreement is necessary because CLTC is or has been merged into the DLM. Also, as part of the GSA Bid the awarding bidder signs the contract which outlines all the specifications and is held liable to ensure that all terms and conditions are fulfilled.

Auditor Response:

We reiterate our recommendation that the CLTC enter into a formal office lease agreement.

CHAMORRO LAND TRUST COMMISSION

Unresolved Prior Audit Findings
Year Ended September 30, 2013

The status of unresolved prior year findings is discussed in Schedule of Findings and Responses section of this report.