

GUAM ANCESTRAL LANDS COMMISSION

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

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

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

GUAM ANCESTRAL LANDS COMMISSION

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

Ms. Anita F. Orlino
Chairperson
Guam Ancestral Lands Commission

We have audited the accompanying balance sheets of the Guam Ancestral Lands 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 Guam Ancestral Lands 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.

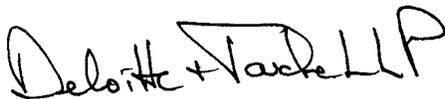
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Guam Ancestral Lands Commission, a governmental fund of the Government of Guam, as of September 30, 2012 and 2011, and the results of the Guam Ancestral Lands 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 Guam Ancestral Lands 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 6 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 Guam Ancestral Lands Commission. This supplementary information is the responsibility of the management of the Guam Ancestral Lands 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 Guam Ancestral Lands 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 + Stadel LLP". The signature is written in a cursive, stylized font.

August 7, 2014

GUAM ANCESTRAL LANDS COMMISSION

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

INTRODUCTION

Guam Ancestral Lands Commission (GALC) is a component unit of the Government of Guam, currently located in Tamuning, Suite 303, 3rd floor of the ITC Building. GALC acts as the Land Claims Facilitator.

The GALC's Management's Discussion and Analysis (MD&A) provides an overview of CLTC's financial activities for the fiscal years ended September 30, 2012 and September 30, 2011. 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 \$2,454,828 at the close of fiscal year 2012 as compared to \$1,721,979 at the close of fiscal year 2011.
- Total assets at September 30, 2012 increased by \$441,510 as compared to September 30, 2011.
- Total liabilities at September 30, 2012 decreased by \$291,339 as compared to September 30, 2011.
- Total fund balance at September 30, 2012 increased by \$732,849 as compared to September 30, 2011.
- Total revenues of \$1,145,621 for fiscal year 2012 increased by \$229,487 as compared to \$916,134 for fiscal year 2011. Total expenditures of \$412,772 for fiscal year 2012 increased by \$89,242 as compared to \$323,530 for fiscal year 2011. This resulted in an increase in the fund balance of \$732,849 for fiscal year 2012 as compared to \$592,604 for fiscal year 2011.

2. Overview of the Financial Statements

GALC's financial statements include all of the activities of Ancestral Lands Operations Fund, Land Bank Trust Fund, and Landowner's Recovery Fund. The financial statements include a Balance Sheet and Statements 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.

3. Financial Statement Analysis

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

	<u>2012</u>	<u>2011</u>	(Unaudited) <u>2010</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,190,015	\$ 1,667,056	\$ 1,077,012
Receivables, net	464,017	546,227	349,100
Other assets	<u>4,729</u>	<u>3,968</u>	<u>17,818</u>
Total assets	\$ <u>2,658,761</u>	\$ <u>2,217,251</u>	\$ <u>1,443,930</u>

GUAM ANCESTRAL LANDS COMMISSION

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

	<u>2012</u>	<u>2011</u>	<u>(Unaudited)</u> <u>2010</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts payable and other	\$ 48,916	\$ 13,132	\$ 26,555
Security deposits payable	127,213	127,213	-
Deferred revenue	<u>27,804</u>	<u>354,927</u>	<u>288,000</u>
Total liabilities	203,933	495,272	314,555
Fund balance	<u>2,454,828</u>	<u>1,721,979</u>	<u>1,129,375</u>
Total liabilities and fund balance	<u>\$ 2,658,761</u>	<u>\$ 2,217,251</u>	<u>\$ 1,443,930</u>

Total assets increased by \$441,510 in 2012 compared to 2011 and by \$773,321 in 2011 compared to 2010 primarily due to the increase in cash and cash equivalents.

Total liabilities decreased by \$291,339 compared to 2011 and increased by \$180,717 in 2011 compared to 2010 primarily due to the change in deferred revenue.

Total fund balance increased by \$732,849 at the end of fiscal year 2012 due to the following:

- An increase in cash and cash equivalents.
- Decrease in deferred revenue.

	<u>2012</u>	<u>2011</u>	<u>(Unaudited)</u> <u>2010</u>
Revenues:			
Lease rentals payments	\$ 956,141	\$ 696,238	\$ 435,432
General fund appropriations	179,155	215,076	195,626
Other	<u>10,325</u>	<u>4,820</u>	<u>277</u>
	1,145,621	916,134	631,335
Expenditures	<u>412,772</u>	<u>323,530</u>	<u>257,893</u>
Change in fund balance	732,849	592,604	373,442
Fund Balance - beginning	<u>1,721,979</u>	<u>1,129,375</u>	<u>755,933</u>
Fund Balance - ending	<u>\$ 2,454,828</u>	<u>\$ 1,721,979</u>	<u>\$ 1,129,375</u>

Total revenues in FY2012 increased by \$229,484 to \$1,145,621 in 2012 compared to \$916,134 in 2011. The increase was primarily due to the increase in base rent, interest income and other revenues.

Total expenditures in FY2012 increased by \$89,242 to \$412,772 in 2012 compared to \$323,530 in 2011. The increase was due to the increase in health benefits, contractual services, and miscellaneous expenses.

GUAM ANCESTRAL LANDS COMMISSION

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

4. Challenges and Accomplishments

The Guam Ancestral Lands Commission (GALC) was created through Public Law 25-45 to convey title of federal excess lands to the original land owners once returned to the Government of Guam. Also, GALC is also known as the Land Claims Facilitator. Moreover, GALC is mandated to establish an account known as the Land Bank. The funds deposited into this account will be used to compensate original land owners who will never realize the return of their ancestral lands. Additionally, the Land Bank GALC has a fund known as the Landowner's Recovery Fund. This fund was created to grant loans, or guarantees of loans or grants in aid to landowners to defer costs or fees of professional services. The GALC is comprised of a 7 member board, director, and two staff.

Since its creation GALC has faced many challenges such as no Land Bank Rules and Regulations in regards to the processing of just compensation to unfortunate families who will not benefit from returned ancestral property. Also, access to properties returned, zoning of properties returned, accountability of commercial lease revenues, and funding are all challenges that have plagued GALC.

From the time of creation until the end of FY2010, GALC has received 1,482 inquiries, 689 applications filed, and returned 257 lots. The total acreage of returned lots amounted to 2,176 acres. Also, GALC executed 6 commercial licenses. Moreover, in June 2006 because of the limited staff available, inability to effectively account for revenues, and the ability to execute commercial leases and other related commercial matters GALC entered into a Memorandum of Understanding (MOU) with the Guam Economic Development and Commerce Authority (GEDCA). Through this MOU GALC paid GEDCA for their services rendered 1% of the annual ground rent on leases of Trust Lands and ½ of one percent of the participation rent paid by all developers and/or lessees of Trust Lands. GALC did not pay any amount during this period. In April of 2007, the MOU was amended. More specifically, the payment terms amended now reads "GALC will compensate GEDCA 14.3% of annual ground rent and 20% of the participation rent for services rendered." During this period up until September 30, 2010 GALC paid GEDCA \$63,251.02 for their services. More so, GALC has not provided just compensation to families who will not benefit from the return of their ancestral property. Nor has GALC issued any grants or aid to families to defer the costs or fees of professional services needed to provide adequate remedies from the taking of their property.

At the commencement of FY2011, GALC's challenges of the past remained evident. Unfortunate families who could not benefit from the return of their ancestral property have not received any just compensation. This is a result of no Land Bank Rules and Regulations being effectuated. The challenges did not end there; grants or financial aid authorized through the creation of the Landowner's Recovery Fund were never awarded to families who were in need of professional services to obtain adequate remedies from the taking of their property. An example of such services is a property survey which is needed to access their property. Also, limited funding put further strain on GALC's ability to effectively and efficiently provide services as mandated by law. To substantiate this claim GALC only returned 3 lots in FY2011. In addition to the lots returned, GALC received 24 inquiries and filed 15 applications. In addition, GALC paid GEDCA \$96,629.38 for their services rendered as agreed through the MOU. On December 13, 2010, Public Law 30-211 was passed and remedied the zoning concerns within the Puntan Dos Amantes area.

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

In FY2012, GALC merged with the Department of Land Management through the Governor's Advisory No. 5, superseded by Advisory No. 9. The intention of the administration was to reduce redundancy, avail of staff expertise, and cost cutting. As result of the Governor's direction, GALC returned 16 lots and saved on cost such as contracted services, utilities, and other operation costs. Also, GALC received 3 inquiries and 2 applications were filed. Unfortunately, families who will not benefit from the return of their ancestral properties did not receive just compensation, which is a result of no Rules and Regulations being adopted. Families who are financially strapped and who cannot obtain professional services were not awarded aid through the Landowner's Recovery Fund to remedy obstacles such as inaccessibility, or real property research. The zoning issues families have faced in the past were resolved through the passage of Public Law 31-198 which zoned all returned properties as Agriculture. In FY2012, GALC paid GEDCA \$99,746.77 for their services rendered through the existing MOU. This amount is a 3% increase from FY2011.

5. Outlook

The GALC board and director have a vision to move the GALC in the right direction. An outline of that direction would be a more efficient and effective operation, beneficial to the beneficiaries of ancestral property and less financial strain on the General Fund. In order to accomplish such a task the board and director along with the assistance of the administration will draft legislative initiatives that will create the long awaited rules and regulations, and solve the other challenges faced by GALC.

6. Contacting the Guam Ancestral Lands Commission Financial Management

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of GALC's finances and to show the GALC'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 email your request to dirdlm@guam.gov.gu.

GUAM ANCESTRAL LANDS COMMISSION

Balance Sheets
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,190,015	\$ 1,667,056
Receivables, net	464,017	546,227
Due from GovGuam General Fund	<u>4,729</u>	<u>3,968</u>
Total assets	<u>\$ 2,658,761</u>	<u>\$ 2,217,251</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 45,585	\$ 10,008
Accrued payroll and other liabilities	3,331	3,124
Security deposits payable	127,213	127,213
Deferred revenue	<u>27,804</u>	<u>354,927</u>
Total liabilities	<u>203,933</u>	<u>495,272</u>
Commitments and contingency		
Fund balance:		
Reserved for:		
Restricted	2,453,988	1,720,879
Committed	<u>840</u>	<u>1,100</u>
Total fund balance	<u>2,454,828</u>	<u>1,721,979</u>
Total liabilities and fund balance	<u>\$ 2,658,761</u>	<u>\$ 2,217,251</u>

See Accompanying Notes to Financial Statements.

GUAM ANCESTRAL LANDS 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:		
Base rent	\$ 940,716	\$ 677,475
Participation rent	15,425	18,763
General Fund appropriation	179,155	215,076
Interest income	3,033	1,719
Other	<u>7,292</u>	<u>3,101</u>
Total revenues	<u>1,145,621</u>	<u>916,134</u>
Expenditures:		
Salaries and wages - regular	123,096	136,278
Salaries and wages - fringe benefits	37,833	37,905
Health benefits	10,170	6,711
Contractual services	1,137	2,102
Building rent	-	23,501
Supplies	3,400	1,688
Equipment	2,387	-
Utilities - power and water	-	4,632
Communications	1,132	2,259
Management fee	137,610	100,631
Miscellaneous	<u>96,007</u>	<u>7,823</u>
Total expenditures	<u>412,772</u>	<u>323,530</u>
Net change in fund balances	732,849	592,604
Fund balances at beginning of year	<u>1,721,979</u>	<u>1,129,375</u>
Fund balances at end of year	<u><u>\$ 2,454,828</u></u>	<u><u>\$ 1,721,979</u></u>

See Accompanying Notes to Financial Statements.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(1) Organization

The Guam Ancestral Lands Commission (GALC), a governmental fund of the Government of Guam (GovGuam), was established by the Guam Ancestral Lands Act of 1999 (Public Law 25-45) for the purpose of investigating, recording, filing, and reporting claims for ancestral lands, and to respond to requests for remedy from claimants, including GovGuam, for lands taken by the United States or by GovGuam on or after January 1, 1930.

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

The GALC is governed by a seven-member Board of Commissioners who must be descendants or heirs of ancestral landowners or claimants and are 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 GALC was merged into GovGuam's Department of Land Management along with the Chamorro Land Trust 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 GALC's accounting policies are described below:

Measurement Focus and Basis of Accounting

The GALC 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. Funds 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 GALC are as follows:

- The Ancestral Lands Operations Fund - this fund was created for the purpose of accounting for the payment of operational costs associated with the GALC.
- The Land Bank Trust Fund - this fund was created for the purpose of accounting for all assets and revenues of the Land Bank, which consists of former Spanish Crown Lands and other non-ancestral lands conveyed by the United States federal government to GovGuam. The GALC acts as a developer of the lands with resulting lease rental income used to provide just compensation for those dispossessed landowners whose properties cannot be returned.
- The Landowner's Recovery Fund - this fund was created for the purpose of accounting for the purpose of granting loans, loan guarantees or grant-in-aid to landowners, or to defer costs or fees for professional services required by those landowners or class of landowners who have ancestral land claims.

GUAM ANCESTRAL LANDS 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 GALC 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 base and participation rent income and General Fund appropriations. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred. Significant revenues susceptible to accrual include revenue received from residential, agricultural, and commercial leases.

Cash

The GALC 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 GALC 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. As of September 30, 2012 and 2011, the carrying amount of the GALC’s cash was \$2,190,015 and \$1,667,056, respectively, and the corresponding bank balances were \$2,190,015 and \$1,667,056, 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 \$339,364 and \$435,000, respectively, were FDIC insured. The GALC 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.

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Interfund Receivables

During the course of the GALC'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.

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.

GUAM ANCESTRAL LANDS 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 GALC 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 GALC 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 GALC.

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 GALC.

GUAM ANCESTRAL LANDS 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 GALC.

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 GALC.

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 GALC.

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 GALC.

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 GALC.

(3) Risk Management

The GALC 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 GALC not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, GALC management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the GALC reports all of its risk management activities in the Ancestral Lands 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.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(4) Receivables

Receivables as of September 30, 2012 and 2011, including the applicable allowance for uncollectible accounts, are as follows:

	<u>2012</u>	<u>2011</u>
Receivables:		
Lease rental	\$ 372,204	\$ 427,414
Due from Guam Economic Development Authority (GEDA)	<u>127,213</u>	<u>127,213</u>
	499,417	554,627
Less allowance for uncollectible accounts	<u>(35,400)</u>	<u>(8,400)</u>
	<u>\$ 464,017</u>	<u>\$ 546,227</u>

(5) Security Deposits Payable

In accordance with ground lease agreements, certain lessees are required, upon execution of the lease agreements, to remit a security deposit to GEDA on behalf of the GALC. As of September 30, 2012 and 2011, security deposits in the amount of \$127,213 are maintained by GEDA on behalf of the GALC. A liability is recorded within the accompanying financial statements representing security deposits payable to lessees offset by a corresponding receivable amount due from GEDA.

(6) Related Party Transactions

The GALC 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 Economic Development Authority (GEDA), the Guam Environmental Protection Agency, and the Guam Department of Public Health and Social Services. During the years ended September 30, 2012 and 2011, the GALC recognized certain on-behalf payments as contributions from GovGuam, totaling \$179,155 and \$215,076, respectively, representing certain payroll and related expenditures that GovGuam paid directly on behalf of the GALC.

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 \$6,759,894 and \$6,122,330, is held by the GALC. 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 GALC.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(7) Commitments

The GALC has ground lease agreements with seven lessees. The agreements provide the lessees with the use of former Spanish Crown Lands and other non-ancestral lands (collectively, the “Trust Lands”) conveyed by the United States federal government to GovGuam. A summary of these lease agreements is as follows:

Apra Harbor Parcel No. 1 (Commissary Junction):

In April 2008, the GALC entered into a fifty-year lease agreement with a tenant commencing May 1, 2008 for certain real property with an area of approximately 5.835 acres. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Base rent of \$3,113 payable monthly in advance (\$3,240 and \$3,208 as of September 30, 2012 and 2011, respectively) on the first business day of each month escalating each year at the rate of 1%; and
- b. Participation rent of 2.5% of the tenant’s gross annual revenue, as defined in the lease agreement, received by the tenant from its operation at the premises. Payment shall be made by the tenant within 90 days after the end of each fiscal year.

The base rent shall be adjusted every ten years to the product of the then fair market rental value of the premises and an eight percent capitalization rate. Such fair market rental value shall be determined by an appraisal of the premises, exclusive of any improvements, which shall be performed at the tenant’s sole cost and expense.

During the years ended September 30, 2012 and 2011, the GALC recognized lease base rental revenue of \$38,653 and \$38,268, respectively, and lease participation rental revenue of \$15,318 and \$18,763, respectively, associated with this lease agreement.

Apra Harbor Reservation F-12 (Polaris Point):

In July 2007, the GALC entered into a five-year lease agreement with a tenant commencing August, 2007 for certain real property with an area of approximately 12,000 square meters. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Base rent of \$2,100 payable monthly in advance on the first business day of each month; and
- b. Participation rent of 2.5% of the tenant’s gross annual revenue, as defined in the lease agreement, received by the tenant from its operation at the premises. Payment shall be made by the tenant within 90 days after the end of each fiscal year.

During the year ended September 30, 2011, the GALC recognized lease base rental revenue of \$35,000 associated with this lease agreement. This lease was terminated on March 12, 2012 due to the failure to pay outstanding amounts owed.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(7) Commitments, Continued

Apra Harbor Reservation F-12 (Polaris Point), Continued:

In June 2009, the GALC entered into a five-year lease agreement with a tenant commencing June 15, 2009 for certain real property with an area of approximately five (5) acres. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Base rent of \$3,500 payable monthly in advance (\$3,641 and \$3,601 as of September 30, 2012 and 2011, respectively) on the first business day of each month escalating each year at the rate of 2%; and
- b. Participation rent of 2.5% of the tenant's gross monthly revenue, as defined in the lease agreement, received by the tenant each month from its operation at the premises. Payment for the previous month shall be made by the tenant on or before the 30th day of each calendar month.

During the years ended September 30, 2012 and 2011, the GALC recognized lease base rental revenue of \$83,217 and \$59,578, respectively, associated with this lease agreement. This lease was terminated on July 15, 2013 due to the failure to pay outstanding amounts owed and failure to clean and return a portion of land to its original state.

In June 2010, the GALC entered into a fifty-year lease agreement with a tenant commencing July 1, 2010 for certain real property with an area of approximately thirty (30) acres. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Initial base rent of \$25,000 adjusted to \$24,804 payable monthly in advance on the first business day of each month; and
- b. Participation rent of 2.6% of the tenant's gross monthly revenue, as defined in the lease agreement, received by the tenant each month from its operation at the premises. Payment for the previous month shall be made by the tenant on or before the 30th day of each calendar month.

The base rent shall be adjusted every ten years to the product of the then fair market rental value of the premises and an eight percent capitalization rate. Such fair market rental value shall be determined by an appraisal of the premises, exclusive of any improvements, which shall be performed at the tenant's sole cost and expense.

During the years ended September 30, 2012 and 2011, the GALC recognized lease base rental revenue of \$274,846 and \$298,629, respectively, and lease participation rental revenue of \$107 and \$0, respectively, associated with this lease agreement.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(7) Commitments, Continued

Apra Harbor Reservation F-12 (Polaris Point), Continued:

In December 2010, the GALC entered into a five-year lease agreement with an option to extend for an additional five years with a tenant commencing January 1, 2011 for certain real property with an area of approximately six (6) acres. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Base rent of \$18,000 payable quarterly in advance on the first business day of each calendar quarter; and
- b. Participation rent of 2.65% of the tenant's gross revenue, as defined in the lease agreement, received by the tenant each quarter from its operation at the premises. Payment shall be made by the tenant within 20 days after the end of each calendar quarter.

The base rent shall be adjusted every five years to the product of the then fair market rental value of the premises and an eight percent capitalization rate. Such fair market rental value shall be determined by an appraisal of the premises, exclusive of any improvements, which shall be performed at the tenant's sole cost and expense.

During the years ended September 30, 2012 and 2011, the GALC recognized lease base rental revenue of \$72,000 and \$54,000, respectively, associated with this lease agreement.

Guam Environmental Protection Authority (GEPA):

On October 3, 2005, the GALC entered into a license agreement renewable annually for a period not to exceed thirty (30) years to occupy and use a portion of Lot No. 2276 consisting of a building, a parking lot and common area with an area of approximately 8,000 square feet. In accordance with the license agreement, monthly base rent of \$1.00 per square foot is payable by GEPA. Subsequent to the tenth year, the monthly base rent amount shall be adjusted to equal the fair market value but not less than \$1.00 per square foot. Such fair market value shall be determined by an appraisal of the property, which shall be performed at GEPA's sole cost and expense. During the years ended September 30, 2012 and 2011, the GALC recognized lease rental revenue of \$88,000 and \$96,000, respectively, associated with this lease agreement.

Guam Department of Public Health and Social Services (DPHSS):

On December 21, 2004, the GALC entered into a license agreement renewable annually for a period not to exceed ten (10) years to occupy and use a portion of Lot No. 2276 consisting of a building, a parking lot and common area with an area of approximately 8,000 square feet. In accordance with the license agreement, monthly base rent of \$1.00 per square foot is payable by DPHSS. Subsequent to the initial year, the monthly base rent amount shall be adjusted to equal the fair market value but not less than \$1.00 per square foot. Such fair market value shall be determined by an appraisal of the property, which shall be performed at DPHSS sole cost and expense. During the years ended September 30, 2012 and 2011, the GALC recognized lease rental revenue of \$384,000 and \$96,000, respectively, associated with this lease agreement.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(7) Commitments, Continued

The future minimum lease receipts under the remainder of these lease agreements are as follows:

<u>Year Ending</u> <u>September 30,</u>	
2013	\$ 647,905
2014	633,736
2015	531,822
2016	454,220
2017	436,622
Thereafter	<u>16,604,466</u>
	<u>\$ 19,308,771</u>

On July 12, 2006, the GALC entered into a memorandum of agreement with GEDA to assist with the development, management, and maintenance of Trust Lands for the purpose of maximizing benefit to dispossessed landowners and be responsible for the collection and remittance of security deposits and lease rental payments to the GALC. GEDA shall remit all rents received from the lease of Trust Lands but shall retain 14.3% of the base rent and 20% of the participation rent paid by all developers and/or lessees of the Trust Lands as payment for GEDA services. Base rent collected from developers and/or lessees shall be remitted to the GALC no later than twenty (20) calendar days after receipt from the developers and/or lessees. Participation rent collected from developers and/or lessees shall be remitted to the GALC no later than ninety (90) calendar days after receipt from the developers and/or lessees. During the years ended September 30, 2012 and 2011, GEDA withheld \$90,338 and \$87,714, respectively, of base rent and \$3,085 and \$3,753, respectively, of participation rent as payment for GEDA services. As of September 30, 2012, the GALC has recognized a liability of \$44,187 for GEDA services relating to base rent receivables for 2012 collected in 2013 and \$9,164 for GEDA services relating to base rent receivables for 2011 collected in 2012.

(8) Contingency

The GALC 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.

GUAM ANCESTRAL LANDS COMMISSION

Combining Balance Sheet
September 30, 2012

	<u>Ancestral Lands Operations Fund</u>	<u>Land Bank Trust Fund</u>	<u>Landowner's Recovery Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 840	\$ 2,178,327	\$ 10,848	\$ 2,190,015
Receivables, net	-	464,017	-	464,017
Due from GovGuam General Fund	4,729	-	-	4,729
Total assets	<u>\$ 5,569</u>	<u>\$ 2,642,344</u>	<u>\$ 10,848</u>	<u>\$ 2,658,761</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts payable	\$ 1,398	\$ 44,187	\$ -	\$ 45,585
Accrued payroll and other liabilities	3,331	-	-	3,331
Security deposits payable	-	127,213	-	127,213
Deferred revenue	-	27,804	-	27,804
Total liabilities	<u>4,729</u>	<u>199,204</u>	<u>-</u>	<u>203,933</u>
Fund balance:				
Reserved for:				
Restricted	-	2,443,140	10,848	2,453,988
Committed	840	-	-	840
Total fund balance	<u>840</u>	<u>2,443,140</u>	<u>10,848</u>	<u>2,454,828</u>
Total liabilities and fund balance	<u>\$ 5,569</u>	<u>\$ 2,642,344</u>	<u>\$ 10,848</u>	<u>\$ 2,658,761</u>

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

Combining Balance Sheet
September 30, 2011

	Ancestral Lands Operations Fund	Land Bank Trust Fund	Landowner's Recovery Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,100	\$ 1,652,302	\$ 13,654	\$ 1,667,056
Receivables, net	-	546,227	-	546,227
Due from GovGuam General Fund	3,968	-	-	3,968
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 5,068</u>	<u>\$ 2,198,529</u>	<u>\$ 13,654</u>	<u>\$ 2,217,251</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts payable	\$ 844	\$ 9,164	\$ -	\$ 10,008
Accrued payroll and other liabilities	3,124	-	-	3,124
Security deposits payable	-	127,213	-	127,213
Deferred revenue	-	354,927	-	354,927
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>3,968</u>	<u>491,304</u>	<u>-</u>	<u>495,272</u>
Fund balance:				
Reserved for:				
Restricted	-	1,707,225	13,654	1,720,879
Committed	1,100	-	-	1,100
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>1,100</u>	<u>1,707,225</u>	<u>13,654</u>	<u>1,721,979</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 5,068</u>	<u>\$ 2,198,529</u>	<u>\$ 13,654</u>	<u>\$ 2,217,251</u>

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

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

	Ancestral Lands Operations Fund	Land Bank Trust Fund	Landowner's Recovery Fund	Elimination	Total
Revenues:					
Lease rentals:					
Base rent	\$ -	\$ 940,716	\$ -	\$ -	\$ 940,716
Participation rent	-	15,425	-	-	15,425
General Fund appropriation	179,155	-	-	-	179,155
Interest income	-	3,025	8	-	3,033
Other	106	7,000	186	-	7,292
Total revenues	179,261	966,166	194	-	1,145,621
Expenditures:					
Salaries and wages - regular	123,096	-	-	-	123,096
Salaries and wages - fringe benefits	37,833	-	-	-	37,833
Health benefits	10,170	-	-	-	10,170
Contractual services	1,137	-	-	-	1,137
Supplies	3,400	-	-	-	3,400
Equipment	2,387	-	-	-	2,387
Communications	1,132	-	-	-	1,132
Management fee	-	137,610	-	-	137,610
Miscellaneous	3,366	92,641	-	-	96,007
Total expenditures	182,521	230,251	-	-	412,772
Excess (deficiency) of revenues over (under) expenditures	(3,260)	735,915	194	-	732,849
Other financing sources (uses):					
Operating transfers in	3,000	1,200	-	(4,200)	-
Operating transfers out	-	(1,200)	(3,000)	4,200	-
Total other financing sources (uses), net	3,000	-	(3,000)	-	-
Net change in fund balances	(260)	735,915	(2,806)	-	732,849
Fund balances at beginning of year	1,100	1,707,225	13,654	-	1,721,979
Fund balances at end of year	\$ 840	\$ 2,443,140	\$ 10,848	\$ -	\$ 2,454,828

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

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

	Ancestral Lands Operations Fund	Land Bank Trust Fund	Landowner's Recovery Fund	Elimination	Total
Revenues:					
Lease rentals:					
Base rent	\$ -	\$ 677,475	\$ -	\$ -	\$ 677,475
Participation rent	-	18,763	-	-	18,763
General Fund appropriation	215,076	-	-	-	215,076
Interest income	-	1,702	17	-	1,719
Other	-	3,068	33	-	3,101
Total revenues	215,076	701,008	50	-	916,134
Expenditures:					
Salaries and wages - regular	136,278	-	-	-	136,278
Salaries and wages - fringe benefits	37,905	-	-	-	37,905
Health benefits	6,711	-	-	-	6,711
Contractual services	2,102	-	-	-	2,102
Building rent	23,501	-	-	-	23,501
Supplies	1,688	-	-	-	1,688
Utilities - power and water	4,632	-	-	-	4,632
Communications	2,259	-	-	-	2,259
Management fee	-	100,631	-	-	100,631
Miscellaneous	-	20	7,803	-	7,823
Total expenditures	215,076	100,651	7,803	-	323,530
Excess (deficiency) of revenues over (under) expenditures	-	600,357	(7,753)	-	592,604
Other financing sources (uses):					
Operating transfers in	1,100	-	-	(1,100)	-
Operating transfers out	-	-	(1,100)	1,100	-
Total other financing sources (uses), net	1,100	-	(1,100)	-	-
Net change in fund balances	1,100	600,357	(8,853)	-	592,604
Fund balances at beginning of year	-	1,106,868	22,507	-	1,129,375
Fund balances at end of year	\$ 1,100	\$ 1,707,225	\$ 13,654	\$ -	\$ 1,721,979

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS 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>123,096</u>	\$ <u>136,278</u>
Number of employees:		
Executive Director	1	1
Land Agents	1	1
Other Administrative Staff	<u>1</u>	<u>1</u>
Total number of employees	<u>3</u>	<u>3</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

Ms. Anita F. Orlino
Chairperson
Guam Ancestral Lands Commission

We have audited the financial statements of the Guam Ancestral Lands Commission (GALC) 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 GALC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the GALC'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 GALC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the GALC'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 (pages 26 and 27), 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 and 2012-2 to be material weaknesses.

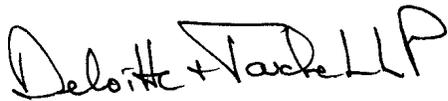
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the GALC'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*.

We noted certain matters that we reported to management of the GALC in a separate letter dated August 7, 2014.

The GALC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the GALC'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

GUAM ANCESTRAL LANDS 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 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:

GALC 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 effect of the above condition is 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 GALC 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

GUAM ANCESTRAL LANDS 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 GALC cash flows and minimizing exposure from uncollectible receivables.

Condition:

As of September 30, 2012 and 2011, GALC recorded lease receivables of \$372,204 and \$427,414, respectively, of which \$63,204 and \$363,327, respectively, remained uncollected 90 days after the respective year ends. Of these amounts, collection of receivables of \$35,400 and \$8,400, respectively, were considered doubtful resulting in the recording of an allowance for uncollectible accounts.

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 GALC 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. 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