

GUAM ANCESTRAL LANDS COMMISSION

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

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

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

GUAM ANCESTRAL LANDS COMMISSION

Years Ended September 30, 2014 and 2013
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INDEPENDENT AUDITORS' REPORT

Ms. Anita F. Orlino
Chairperson
Guam Ancestral Lands Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Guam Ancestral Lands Commission (the Commission), which comprise the balance sheets as of September 30, 2014 and 2013, 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.

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 Guam Ancestral Lands Commission as of September 30, 2014 and 2013, 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 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

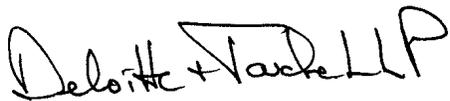
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 as a whole. 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 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 relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 standard generally accepted in the United States of America. In our opinion, the combining financial statement information and the schedule of employees and salaries is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, 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 + Tuckers LLP". The signature is written in a cursive, stylized font.

June 26, 2015

GUAM ANCESTRAL LANDS COMMISSION

Management's Discussion and Analysis September 30, 2014 and 2013

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 GALC's financial activities for the fiscal year ended September 30, 2014. 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 \$3,600,571 at the close of fiscal year 2014 as compared to \$3,051,931 at the close of fiscal year 2013.
- Total assets at September 30, 2014 increased by \$620,571 as compared to September 30, 2013.
- Total liabilities at September 30, 2014 increased by \$71,931 as compared to September 30, 2013.
- Total fund balance at September 30, 2014 increased by \$548,640 as compared to September 30, 2013.
- Total Revenues of \$740,430 for fiscal year 2014 decreased by \$48,882 as compared to \$789,312 for fiscal year 2013. Total Expenditures of \$191,790 for fiscal year 2014 decreased by \$419 as compared to \$192,209 for fiscal year 2013. This resulted in an increase in the fund balance of \$548,640 for fiscal year 2014 as compared to \$597,103 for fiscal year 2013.

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 2013.

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, 2013.

GUAM ANCESTRAL LANDS COMMISSION

Management's Discussion and Analysis September 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,413,906 | \$ 1,941,911 |
| Time certificate of deposit | 2,100,000 | 1,000,000 |
| Receivables, net | 353,779 | 328,116 |
| Due from GovGuam General Fund | <u>25,368</u> | <u>2,455</u> |
| Total Assets | \$ <u>3,893,053</u> | \$ <u>3,272,482</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accounts Payable | \$ 33,999 | \$ 17,364 |
| Accrued payroll and other liabilities | 2,368 | 1,005 |
| Security deposits payable | 149,410 | 132,213 |
| Deferred revenue | <u>106,705</u> | <u>69,969</u> |
| Total liabilities | <u>292,482</u> | <u>220,551</u> |
| Fund balance: | | |
| Reserved for: | | |
| Restricted | 3,600,351 | 3,051,488 |
| Committed | <u>220</u> | <u>443</u> |
| Total Fund Balance | <u>3,600,571</u> | <u>3,051,931</u> |
| Total Liabilities and fund balance | \$ <u>3,893,053</u> | \$ <u>3,272,482</u> |

Total assets increased by \$620,571 in 2014 compared to 2013 primarily due to the increase in Time certificate of deposit, Receivables, and Due from GovGuam General Fund.

Total liabilities increased by \$71,931 in 2014 compared to 2013 primarily due to the increase in Accounts Payable, Accrued payroll and other liabilities, Security deposits payable, and Deferred revenue.

Total Fund Balance increased by \$548,640 at the end of fiscal year 2014 due to the following:

- An increase in Time certificate of deposit
- An increase in Receivables
- An increase in Due from GovGuam General Fund

GUAM ANCESTRAL LANDS COMMISSION

Management's Discussion and Analysis
September 30, 2014 and 2013

Statements of Revenues, Expenditures, and Changes in Fund Balances

| | <u>2014</u> | <u>2013</u> |
|--------------------------------------|---------------------|---------------------|
| Revenues: | | |
| Lease Rentals: | | |
| Base rent | \$ 577,220 | \$ 652,330 |
| Participation rent | 13,669 | 22,888 |
| General Fund appropriation | 105,985 | 92,185 |
| Interest Income | 43,414 | 21,643 |
| Other | <u>142</u> | <u>266</u> |
| Total Revenues | <u>740,430</u> | <u>789,312</u> |
| Expenditures: | | |
| Salaries and Wages – Regular | 56,389 | 60,579 |
| Salaries and Wages – Fringe Benefits | 17,983 | 17,170 |
| Health benefits | 5,234 | 6,933 |
| Contractual Services | 23,000 | 826 |
| Supplies | 79 | 727 |
| Management fee | 84,510 | 97,861 |
| Miscellaneous | <u>4,595</u> | <u>8,113</u> |
| Total Expenditures | <u>191,790</u> | <u>192,209</u> |
| Net change in fund balances | 548,640 | 597,103 |
| Fund balances at beginning of year | <u>3,051,931</u> | <u>2,454,828</u> |
| Fund balances at end of year | \$ <u>3,600,571</u> | \$ <u>3,051,931</u> |

Total revenues in FY2014 decreased by \$48,882 from \$740,460 in 2014 compared to \$789,312 in 2013. The decrease was primarily due to the decrease in Base Rent, and Participation Rent.

Total expenditures in FY2014 decreased by \$419 from \$191,790 in 2014 compared to \$192,209 in 2013. The decrease was due to the implementation of the Governor's Advisory No.5 than superseded by Advisory No. 9.

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.

GUAM ANCESTRAL LANDS COMMISSION

Management's Discussion and Analysis
September 30, 2014 and 2013

Since its creation up until 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 negatively affected the day-to-day operations of GALC.

In FY2014 GALC returned a total of 94 acres to the original land owners. Increasing the total amount of acres returned to 2,578.80. Also, because of the limited staff to execute licenses and effectively account for revenues, GALC continued to utilize the services of the Guam Economic Development and Commerce Authority (GEDCA) provided through the Memorandum of Understanding (MOU) amended in 2007. As a result GALC paid GEDCA \$84,510 in management fees.

In the latter part of FY 2014 the Administrative Officer of the Chamorro Land Trust had initiated the planning, and development of a Financial Accounting System for GALC. The accounting system will monitor all financial activities of GALC and provide a needed internal control related to the finances of GALC.

Also in FY 2014 GALC Board Members continued to work cohesively and diligently in finalizing the Land Bank Rules and Regulations. Moreover, the merger of GALC into the Department of Land Management, the attorney assigned to the department has continued to provide legal guidance to the commission which will ensure that all legal aspects and equality is exercised during the course of finalizing the Rules and Regulations.

While the accomplishments in FY 2014 have been positive it is still evident that challenges persist. GALC continues to struggle in getting additional lands to be released by the federal government. This is a result of the lack of staff and expertise available.

5. Outlook

The GALC Board and Director vision that the Land Bank Rules and Regulations will be in final form in FY 2015. Also, management will continue to work with the administration to increase funding levels to recruit needed personnel. Moreover, the Financial Accounting System will be operational in FY 2015.

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 send an email your request to dirdlm@guam.gov.gu.

GUAM ANCESTRAL LANDS COMMISSION

Balance Sheets
September 30, 2014 and 2013

| | 2014 | 2013 |
|--|--------------|--------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 1,413,906 | \$ 1,941,911 |
| Time certificate of deposit | 2,100,000 | 1,000,000 |
| Receivables, net | 353,779 | 328,116 |
| Due from GovGuam General Fund | 25,368 | 2,455 |
| Total assets | \$ 3,893,053 | \$ 3,272,482 |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 33,999 | \$ 17,364 |
| Accrued payroll and other liabilities | 2,368 | 1,005 |
| Security deposits payable | 149,410 | 132,213 |
| Deferred revenue | 106,705 | 69,969 |
| Total liabilities | 292,482 | 220,551 |
| Commitments and contingency | | |
| Fund balance: | | |
| Reserved for: | | |
| Restricted | 3,600,351 | 3,051,488 |
| Committed | 220 | 443 |
| Total fund balance | 3,600,571 | 3,051,931 |
| Total liabilities and fund balance | \$ 3,893,053 | \$ 3,272,482 |

See accompanying notes to financial statements.

GUAM ANCESTRAL LANDS COMMISSION

Statements of Revenues, Expenditures, and Changes in Fund Balances
Years Ended September 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--------------------------------------|---------------------|---------------------|
| Revenues: | | |
| Lease rentals: | | |
| Base rent | \$ 577,220 | \$ 652,330 |
| Participation rent | 13,669 | 22,888 |
| GovGuam appropriation | 105,985 | 92,185 |
| Interest income | 43,414 | 21,643 |
| Other | <u>142</u> | <u>266</u> |
| Total revenues | <u>740,430</u> | <u>789,312</u> |
| Expenditures: | | |
| Salaries and wages - regular | 56,389 | 60,579 |
| Salaries and wages - fringe benefits | 17,983 | 17,170 |
| Health benefits | 5,234 | 6,933 |
| Contractual services | 23,000 | 826 |
| Supplies | 79 | 727 |
| Management fee | 84,510 | 97,861 |
| Miscellaneous | <u>4,595</u> | <u>8,113</u> |
| Total expenditures | <u>191,790</u> | <u>192,209</u> |
| Net change in fund balances | 548,640 | 597,103 |
| Fund balances at beginning of year | <u>3,051,931</u> | <u>2,454,828</u> |
| Fund balances at end of year | <u>\$ 3,600,571</u> | <u>\$ 3,051,931</u> |

See accompanying notes to financial statements.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014 and 2013

(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 and Cash Equivalents and Time Certificates of Deposit

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 and cash equivalents is defined as cash in checking and savings accounts with a maturity date within three months of the date acquired. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separated classified on the balance sheets. As of September 30, 2014 and 2013, the carrying amount of the GALC's cash and cash equivalents and time certificate of deposit was \$3,513,906 and \$2,941,911, respectively, and the corresponding bank balances were \$3,513,906 and \$2,941,911, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance or credit unions subject to National Credit Union Administration (NCUA) insurance. As of September 30, 2014 and 2013, bank deposits in the amount of \$86,415 and \$87,518, respectively, were FDIC insured and bank deposits in the amount of \$500,000 and \$500,000, respectively, were NCUA insured. The GALC does not require collateralization of its cash deposits; therefore, deposit levels in excess of depository insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(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.

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.

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, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2014, the GALC implemented the following pronouncements:

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued 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 68 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the GALC.

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 GALC.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. 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, 2014 and 2013

(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.

(4) Receivables

Receivables as of September 30, 2014 and 2013, including the applicable allowance for uncollectible accounts, are as follows:

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| Receivables: | | |
| Lease rental | \$ 248,666 | \$ 244,800 |
| Interest receivable | 19,251 | 14,651 |
| Due from Guam Economic Development Authority (GEDA) | <u>149,410</u> | <u>132,213</u> |
| | 417,327 | 391,664 |
| Less allowance for uncollectible accounts | <u>(63,548)</u> | <u>(63,548)</u> |
| | <u>\$ 353,779</u> | <u>\$ 328,116</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, 2014 and 2013, security deposits in the amount of \$149,410 and \$132,213, respectively, 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, 2014 and 2013, the GALC recognized certain on-behalf payments as contributions from GovGuam, totaling \$105,985 and \$92,185, respectively, representing certain payroll and related expenditures that GovGuam paid directly on behalf of the GALC. These expenditures were funded through appropriations from GovGuam's Land Survey Revolving Fund in 2014 and GovGuam's General Fund in 2013.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(6) Related Party Transactions, Continued

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, 2014 and 2013, such land is valued at \$419,436,079 and \$411,159,732, respectively, of which \$6,759,894 and \$6,759,894, respectively, 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.

(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 (\$3,305 and \$3,272 as of September 30, 2014 and 2013, 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, 2014 and 2013, the GALC recognized lease base rental revenue of \$39,070 and \$38,875, respectively, and lease participation rental revenue of \$11,731 and \$11,478, respectively, associated with this lease agreement.

Apra Harbor Reservation F-12 (Polaris Point):

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 (\$3,788 as of September 30, 2014 and 2013) on the first business day of each month escalating each year at the rate of 2%; and

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(7) Commitments, Continued

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

- 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.

No lease base rental revenue associated with this lease agreement was recognized by the GALC during the years ended September 30, 2014 and 2013. 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, 2014 and 2013, the GALC recognized lease base rental revenue of \$297,650 and \$325,455, respectively, and lease participation rental revenue of \$312 and \$338, respectively, associated with this lease agreement.

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.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(7) Commitments, Continued

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

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, 2014 and 2013, the GALC recognized lease base rental revenue of \$72,000 and \$72,000, respectively, and lease participation rental revenue of \$1,626 and \$6,072, respectively, associated with this lease agreement.

In January 2014, the GALC entered into a one-year license agreement with a tenant commencing January 1, 2014, for certain real property with an area of approximately one-half (1/2) acre. In accordance with the license agreement, monthly base rent of \$500 is payable by the tenant. During the year ended September 30, 2014, the GALC recognized lease rental revenue of \$4,500 associated with this license agreement.

Anderson Family Housing Annex No. 1 (Camp Edusa):

In December 2013, the GALC entered into a fifty-year lease agreement with a tenant commencing January 1, 2014 for certain real property with an area of approximately 13.313 acres. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Initial base rent of \$27,197 payable monthly in advance on the first business day of each month commencing January 1, 2015 upon completion of the development phase and escalating every five years at the rate of 10%; 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 quarter from its operation at the premises. Payment shall be made by the tenant within 30 days after the end of each calendar quarter.

No lease base rental revenue associated with this lease agreement was recognized by the GALC during the year ended September 30, 2014 as the property was still under the development phase.

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, 2014 and 2013, the GALC recognized lease rental revenue of \$72,000 and \$120,000, respectively, associated with this license agreement.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(7) Commitments, Continued

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, 2014 and 2013, the GALC recognized lease rental revenue of \$92,000 and \$96,000, respectively, associated with this license agreement.

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

| <u>Year Ending</u> <u>September 30,</u> | |
|--|----------------------|
| 2015 | \$ 530,970 |
| 2016 | 451,868 |
| 2017 | 434,270 |
| 2018 | 434,677 |
| 2019 | 435,087 |
| 2020 - 2024 | 2,181,734 |
| 2025 - 2029 | 2,192,624 |
| 2030 - 2034 | 2,204,070 |
| 2035 - 2039 | 1,832,100 |
| 2040 - 2044 | 1,748,743 |
| 2045 - 2049 | 1,762,031 |
| 2050 - 2054 | 1,775,997 |
| 2055 - 2059 | 1,703,378 |
| 2060 | <u>223,236</u> |
| | <u>\$ 17,910,785</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, 2014 and 2013, GEDA withheld \$73,511 and \$81,947, respectively, of all rents received as payment for GEDA services. As of September 30, 2014 and 2013, the GALC has recognized a liability of \$10,999 and \$15,914, respectively, for GEDA services relating to rent receivables collected after the respective year ends.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(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, 2014. 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, 2014

| | 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 | \$ 220 | \$ 1,405,260 | \$ 8,426 | \$ 1,413,906 |
| Time certificates of deposit | - | 2,100,000 | - | 2,100,000 |
| Receivables, net | - | 353,779 | - | 353,779 |
| Due from GovGuam General Fund | <u>25,368</u> | <u>-</u> | <u>-</u> | <u>25,368</u> |
| Total assets | <u>\$ 25,588</u> | <u>\$ 3,859,039</u> | <u>\$ 8,426</u> | <u>\$ 3,893,053</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 23,000 | \$ 10,999 | \$ - | \$ 33,999 |
| Accrued payroll and other liabilities | 2,368 | - | - | 2,368 |
| Security deposits payable | - | 149,410 | - | 149,410 |
| Deferred revenue | <u>-</u> | <u>106,705</u> | <u>-</u> | <u>106,705</u> |
| Total liabilities | <u>25,368</u> | <u>267,114</u> | <u>-</u> | <u>292,482</u> |
| Fund balance: | | | | |
| Reserved for: | | | | |
| Restricted | - | 3,591,925 | 8,426 | 3,600,351 |
| Committed | <u>220</u> | <u>-</u> | <u>-</u> | <u>220</u> |
| Total fund balance | <u>220</u> | <u>3,591,925</u> | <u>8,426</u> | <u>3,600,571</u> |
| Total liabilities and fund balance | <u>\$ 25,588</u> | <u>\$ 3,859,039</u> | <u>\$ 8,426</u> | <u>\$ 3,893,053</u> |

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

Combining Balance Sheet
September 30, 2013

| | 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 | \$ 443 | \$ 1,932,115 | \$ 9,353 | \$ 1,941,911 |
| Time certificates of deposit | - | 1,000,000 | - | 1,000,000 |
| Receivables, net | - | 328,116 | - | 328,116 |
| Due from GovGuam General Fund | <u>2,455</u> | <u>-</u> | <u>-</u> | <u>2,455</u> |
| Total assets | <u>\$ 2,898</u> | <u>\$ 3,260,231</u> | <u>\$ 9,353</u> | <u>\$ 3,272,482</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 1,450 | \$ 15,914 | \$ - | \$ 17,364 |
| Accrued payroll and other liabilities | 1,005 | - | - | 1,005 |
| Security deposits payable | - | 132,213 | - | 132,213 |
| Deferred revenue | <u>-</u> | <u>69,969</u> | <u>-</u> | <u>69,969</u> |
| Total liabilities | <u>2,455</u> | <u>218,096</u> | <u>-</u> | <u>220,551</u> |
| Fund balance: | | | | |
| Reserved for: | | | | |
| Restricted | - | 3,042,135 | 9,353 | 3,051,488 |
| Committed | <u>443</u> | <u>-</u> | <u>-</u> | <u>443</u> |
| Total fund balance | <u>443</u> | <u>3,042,135</u> | <u>9,353</u> | <u>3,051,931</u> |
| Total liabilities and fund balance | <u>\$ 2,898</u> | <u>\$ 3,260,231</u> | <u>\$ 9,353</u> | <u>\$ 3,272,482</u> |

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2014

| | Ancestral Lands Operations Fund | Land Bank Trust Fund | Landowner's Recovery Fund | Elimination | Total |
|--|--|----------------------------|---------------------------------|-------------|----------------|
| Revenues: | | | | | |
| Lease rentals: | | | | | |
| Base rent | \$ - | \$ 577,220 | \$ - | \$ - | \$ 577,220 |
| Participation rent | - | 13,669 | - | - | 13,669 |
| GovGuam appropriation | 105,985 | - | - | - | 105,985 |
| Interest income | - | 43,411 | 3 | - | 43,414 |
| Other | 142 | - | - | - | 142 |
| Total revenues | 106,127 | 634,300 | 3 | - | 740,430 |
| Expenditures: | | | | | |
| Salaries and wages - regular | 56,389 | - | - | - | 56,389 |
| Salaries and wages - fringe benefits | 17,983 | - | - | - | 17,983 |
| Health benefits | 5,234 | - | - | - | 5,234 |
| Contractual services | 23,000 | - | - | - | 23,000 |
| Supplies | 79 | - | - | - | 79 |
| Management fee | - | 84,510 | - | - | 84,510 |
| Miscellaneous | 4,565 | - | 30 | - | 4,595 |
| Total expenditures | 107,250 | 84,510 | 30 | - | 191,790 |
| Excess (deficiency) of revenues over (under) expenditures | (1,123) | 549,790 | (27) | - | 548,640 |
| Other financing sources (uses): | | | | | |
| Operating transfers in | 900 | - | - | (900) | - |
| Operating transfers out | - | - | (900) | 900 | - |
| Total other financing sources (uses), net | 900 | - | (900) | - | - |
| Net change in fund balances | (223) | 549,790 | (927) | - | 548,640 |
| Fund balances at beginning of year | 443 | 3,042,135 | 9,353 | - | 3,051,931 |
| Fund balances at end of year | \$ 220 | \$ 3,591,925 | \$ 8,426 | \$ - | \$ 3,600,571 |

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

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

| | Ancestral Lands Operations Fund | Land Bank Trust Fund | Landowner's Recovery Fund | Elimination | Total |
|--|--|----------------------------|---------------------------------|-------------|---------------------|
| Revenues: | | | | | |
| Lease rentals: | | | | | |
| Base rent | \$ - | \$ 652,330 | \$ - | \$ - | \$ 652,330 |
| Participation rent | - | 22,888 | - | - | 22,888 |
| GovGuam appropriation | 92,185 | - | - | - | 92,185 |
| Interest income | - | 21,638 | 5 | - | 21,643 |
| Other | 266 | - | - | - | 266 |
| Total revenues | <u>92,451</u> | <u>696,856</u> | <u>5</u> | <u>-</u> | <u>789,312</u> |
| Expenditures: | | | | | |
| Salaries and wages - regular | 60,579 | - | - | - | 60,579 |
| Salaries and wages - fringe benefits | 17,170 | - | - | - | 17,170 |
| Health benefits | 6,933 | - | - | - | 6,933 |
| Contractual services | 826 | - | - | - | 826 |
| Supplies | 727 | - | - | - | 727 |
| Management fee | - | 97,861 | - | - | 97,861 |
| Miscellaneous | 8,113 | - | - | - | 8,113 |
| Total expenditures | <u>94,348</u> | <u>97,861</u> | <u>-</u> | <u>-</u> | <u>192,209</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,897)</u> | <u>598,995</u> | <u>5</u> | <u>-</u> | <u>597,103</u> |
| Other financing sources (uses): | | | | | |
| Operating transfers in | 1,500 | - | - | (1,500) | - |
| Operating transfers out | - | - | (1,500) | 1,500 | - |
| Total other financing sources (uses), net | <u>1,500</u> | <u>-</u> | <u>(1,500)</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | (397) | 598,995 | (1,495) | - | 597,103 |
| Fund balances at beginning of year | <u>840</u> | <u>2,443,140</u> | <u>10,848</u> | <u>-</u> | <u>2,454,828</u> |
| Fund balances at end of year | <u>\$ 443</u> | <u>\$ 3,042,135</u> | <u>\$ 9,353</u> | <u>\$ -</u> | <u>\$ 3,051,931</u> |

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

Supplemental Schedule of Employees and Salaries
Years Ended September 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|------------------------------|------------------|------------------|
| Salaries and wages - regular | <u>\$ 56,389</u> | <u>\$ 60,579</u> |
| Number of employees: | | |
| Land Agents | 1 | 1 |
| Other Administrative Staff | <u>1</u> | <u>1</u> |
| Total number of employees | <u>2</u> | <u>2</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, 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 Guam Ancestral Lands Commission (the Commission or GALC), which comprise the balance sheet as of September 30, 2014, 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 June 26, 2015.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2014-001 and 2014-002, which we consider to be material weaknesses.

Compliance and Other Matters

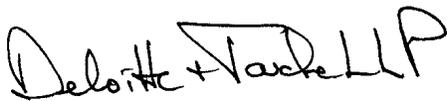
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

GALC's Responses to Findings

GALC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. GALC'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, flowing style.

June 26, 2015

GUAM ANCESTRAL LANDS COMMISSION

Schedule of Findings and Responses
Year Ended September 30, 2014

Finding No. 2014-001

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 utilization of 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.

Prior Year Status:

The lack of maintaining adequate record-keeping for non-appropriated funds was reported as a finding in the audits of the Commission for fiscal years 2011 through 2013.

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
Year Ended September 30, 2014

Finding No. 2014-002

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, 2014, GALC recorded lease receivables of \$185,960, of which \$107,548 remained uncollected 90 days after the year end. Of this amount, collection of receivables of \$63,548 was considered doubtful resulting in the recording of an allowance for uncollectible accounts.

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 GALC establish policies and procedures requiring the timely collection and monitoring of accounts receivable.

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 Commission for fiscal years 2011 through 2013.

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

GUAM ANCESTRAL LANDS COMMISSION

Unresolved Prior Audit Findings
Year Ended September 30, 2014

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