

GUAM ANCESTRAL LANDS COMMISSION

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

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

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

GUAM ANCESTRAL LANDS COMMISSION

Years Ended September 30, 2015 and 2014
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	4
III. FINANCIAL STATEMENTS:	
Balance Sheets	8
Statements of Revenues, Expenditures and Changes in Fund Balances	9
Notes to Financial Statements	10
IV. OTHER SUPPLEMENTARY INFORMATION:	
Combining Balance Sheets	20
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances	22
Supplemental Schedule of Employees and Salaries	24
V. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25
Schedule of Findings and Responses	27
Unresolved Prior Year Findings	28

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, 2015 and 2014, 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, 2015 and 2014, 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

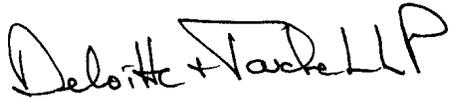
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting 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 May 13, 2016, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financing reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

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

May 13, 2016

GUAM ANCESTRAL LANDS COMMISSION

Management's Discussion and Analysis September 30, 2015 and 2014

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, 2015. 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 \$4,058,691 at the close of fiscal year 2015 as compared to \$3,600,571 at the close of fiscal year 2014.
- Total assets at September 30, 2015 increased by \$569,983 as compared to September 30, 2014.
- Total liabilities at September 30, 2015 increased by \$111,863 as compared to September 30, 2014.
- Total fund balance at September 30, 2015 increased by \$458,120 as compared to September 30, 2014.
- Total revenues of \$643,298 for fiscal year 2015 decreased by \$97,132 as compared to \$740,430 for fiscal year 2014. Total expenditures of \$185,178 for fiscal year 2015 decreased marginally by \$6,612 as compared to \$191,790 for fiscal year 2014. This resulted in an increase in the fund balance of \$458,120 for fiscal year 2015 as compared to \$548,640 for fiscal year 2014.

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 2015 and 2014.

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 sheets is shown below for years end September 30, 2015 and 2014.

GUAM ANCESTRAL LANDS COMMISSION

Management's Discussion and Analysis
September 30, 2015 and 2014

Balance Sheets

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,802,778	\$ 1,413,906	\$ 1,941,911
Time certificate of deposit	1,105,000	2,100,000	1,000,000
Receivables, net	553,135	353,779	328,116
Due from GovGuam General Fund	<u>2,123</u>	<u>25,368</u>	<u>2,455</u>
Total Assets	\$ <u>4,463,036</u>	\$ <u>3,893,053</u>	\$ <u>3,272,482</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts Payable	\$ 22,282	\$ 33,999	\$ 17,364
Accrued payroll and other liabilities	1,963	2,368	1,005
Security deposits payable	149,410	149,410	132,213
Unearned revenue	<u>230,690</u>	<u>106,705</u>	<u>69,969</u>
Total liabilities	<u>404,345</u>	<u>292,482</u>	<u>220,551</u>
Fund balance:			
Reserved for:			
Restricted	4,058,476	3,600,351	3,051,488
Committed	<u>215</u>	<u>220</u>	<u>443</u>
Total Fund Balance	<u>4,058,691</u>	<u>3,600,571</u>	<u>3,051,931</u>
Total liabilities and fund balance	\$ <u>4,463,036</u>	\$ <u>3,893,053</u>	\$ <u>3,272,482</u>

Total assets increased by \$569,983 in 2015 compared to 2014 primarily due to the increase in bank deposits and receivables.

Total liabilities increased by \$111,863 in 2015 compared to 2014 primarily due to the increase in unearned revenue.

Total fund balance increased by \$458,120 at the end of fiscal year 2015 due to continued lease rental revenues collected in excess of operational expenditures.

Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the report on the audit of the GALC's financial statements dated June 26, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and may be obtained from the contact information below.

GUAM ANCESTRAL LANDS COMMISSION

Management's Discussion and Analysis
September 30, 2015 and 2014

Statements of Revenues, Expenditures, and Changes in Fund Balances

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues:			
Lease rentals	\$ 501,194	\$ 590,889	\$ 675,218
General Fund appropriation	113,174	105,985	92,185
Interest income	26,956	43,414	21,643
Other	<u>1,974</u>	<u>142</u>	<u>266</u>
Total revenues	<u>643,298</u>	<u>740,430</u>	<u>789,312</u>
Expenditures:			
Salaries and Wages - regular	60,758	56,389	60,579
Salaries and Wages - fringe benefits	16,639	17,983	17,170
Health benefits	8,567	5,234	6,933
Contractual services	24,460	23,000	826
Supplies	-	79	727
Management fee	71,999	84,510	97,861
Miscellaneous	<u>2,755</u>	<u>4,595</u>	<u>8,113</u>
Total expenditures	<u>185,178</u>	<u>191,790</u>	<u>192,209</u>
Net change in fund balances	458,120	548,640	597,103
Fund balances at beginning of year	<u>3,600,571</u>	<u>3,051,931</u>	<u>2,454,828</u>
Fund balances at end of year	\$ <u>4,058,691</u>	\$ <u>3,600,571</u>	\$ <u>3,051,931</u>

Total revenues in FY2015 decreased by \$97,132 from \$740,430 in 2014 to \$643,298 in 2015. The decrease was primarily due to the decrease in lease rental revenues as a result of revenue recognition under the modified accrual basis of accounting with the decrease in lease rental revenues offset by an increase in unearned revenues.

Total expenditures in FY2015 decreased marginally by \$6,612 from \$191,790 in 2014 to \$185,178 in 2015. The decrease was due to the decrease in management fees paid to the Guam Economic Development Authority (GEDA) partially offset by an increase in salaries and wages expenditures associated with the Competitive Wage Act.

4. Challenges and Accomplishments

The 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, the GALC is also known as the Land Claims Facilitator. Moreover, the 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.

GALC has been operational for about 16 years at the end of September 30, 2015. Since its creation, the GALC has been inundated with many challenges. Fortunately, some challenges have been addressed and achieved; while others have not been addressed due to the unavailability of resources.

GUAM ANCESTRAL LANDS COMMISSION

Management's Discussion and Analysis September 30, 2015 and 2014

In FY2015, the GALC returned a total of 15.10 acres to the original land owners, which increased the cumulative total amount of acres returned to 2,593.90. Also, because of the limited staff to execute licenses and effectively account for revenues, the GALC continued to utilize the services of GEDA provided through the Memorandum of Understanding (MOU) amended in 2007. As a result, the GALC incurred management fees under this MOU of \$71,999 in FY 2015.

Another achievement in FY 2015 is the completion of the Land Bank Rules and Regulations. The GALC board members, Director, and Assistant Attorney General worked collectively to finalize the Land Bank Rules and Regulations (LBRR). Although due to the vast requirements of the Administrative Adjudication Law, the GALC is awaiting the Economic Impact Statement (EIS) that is being prepared by GEDA. Upon completion of the EIS, the LBRR will be forwarded to the Office of Attorney General for review as to form and legality. Upon review by the Attorney General, it will then be forwarded to the Governor for approval, prior to submission to the Guam Legislature for their action which may possibly take up to 90 days.

After many years of operation, the GALC has not had the ability to account for their financial activities associated with the various funds. In FY 2015, the financial accounting system for the GALC was implemented and operational. The GALC now has the ability to account for the financial activities related to their various funds and prepare financial statements. Furthermore, the accounting system has provided the GALC with the ability to establish adequate internal controls and monitor the level of services provided by GEDA.

Although, even with the positive accomplishments by the GALC, the board members and Director have acknowledged and recognized that challenges that have not been addressed are stagnant and continue to have a negative effect on the GALC's day-to-day operations and ability to perform tasks mandated by law.

The GALC constituents remain deprived of access to property that has been returned. Furthermore, the GALC is monitoring the services provided by GEDA. Financial information related to the GALC commercial leased/licensed property have not been reported and furnished in a timely manner. Moreover, GEDA has not aggressively pursued accounts receivables from commercial lessees/licensees resulting in a potential loss of income due to uncollectable status.

5. Outlook

The GALC Board and Director will continue to work diligently to ensure that the approved LBRR will be submitted to the Guam Legislature in FY 2016. Also, management will engage with the administration and the Guam Legislature to create dialogue to create legislation to authorize the GALC to expend an agreeable percentage of commercial revenue to fund administrative costs and reduce the financial obligation of the General Fund. Lastly, the GALC board members and Director will conduct an assessment of the services provided by GEDA.

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,802,778	\$ 1,413,906
Time certificate of deposit	1,105,000	2,100,000
Receivables, net	553,135	353,779
Due from GovGuam General Fund	<u>2,123</u>	<u>25,368</u>
Total assets	<u>\$ 4,463,036</u>	<u>\$ 3,893,053</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 22,282	\$ 33,999
Accrued payroll and other liabilities	1,963	2,368
Security deposits payable	149,410	149,410
Unearned revenue	<u>230,690</u>	<u>106,705</u>
Total liabilities	<u>404,345</u>	<u>292,482</u>
Commitments and contingency		
Fund balance:		
Reserved for:		
Restricted	4,058,476	3,600,351
Committed	<u>215</u>	<u>220</u>
Total fund balance	<u>4,058,691</u>	<u>3,600,571</u>
Total liabilities and fund balance	<u>\$ 4,463,036</u>	<u>\$ 3,893,053</u>

See accompanying notes to financial statements.

GUAM ANCESTRAL LANDS COMMISSION

Statements of Revenues, Expenditures, and Changes in Fund Balances
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues:		
Lease rentals:		
Base rent	\$ 495,431	\$ 577,220
Participation rent	5,763	13,669
GovGuam appropriation	113,174	105,985
Interest income	26,956	43,414
Other	<u>1,974</u>	<u>142</u>
Total revenues	<u>643,298</u>	<u>740,430</u>
Expenditures:		
Salaries and wages - regular	60,758	56,389
Salaries and wages - fringe benefits	16,639	17,983
Health benefits	8,567	5,234
Contractual services	24,460	23,000
Supplies	-	79
Management fee	71,999	84,510
Miscellaneous	<u>2,755</u>	<u>4,595</u>
Total expenditures	<u>185,178</u>	<u>191,790</u>
Net change in fund balances	458,120	548,640
Fund balances at beginning of year	<u>3,600,571</u>	<u>3,051,931</u>
Fund balances at end of year	<u>\$ 4,058,691</u>	<u>\$ 3,600,571</u>

See accompanying notes to financial statements.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014

(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, 2015 and 2014, the carrying amount of the GALC’s cash and cash equivalents and time certificate of deposit was \$3,907,778 and \$3,513,906, respectively, and the corresponding bank balances were \$3,907,778 and \$3,513,906, 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, 2015 and 2014, bank deposits in the amount of \$86,459 and \$86,415, 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, 2015 and 2014

(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.

Unearned Revenue

Unearned 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, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2015, the GALC implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements has no impact on the accompanying governmental fund financial statements but is presented in the government-wide financial statements of GovGuam.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of the GALC.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the GALC.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. 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, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the GALC.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the GALC.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect 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, 2015 and 2014

(4) Receivables

Receivables as of September 30, 2015 and 2014, including the applicable allowance for uncollectible accounts, are as follows:

	<u>2015</u>	<u>2014</u>
Receivables:		
Lease rental	\$ 448,022	\$ 248,666
Interest receivable	19,251	19,251
Due from Guam Economic Development Authority (GEDA)	<u>149,410</u>	<u>149,410</u>
	616,683	417,327
Less allowance for uncollectible accounts	<u>(63,548)</u>	<u>(63,548)</u>
	<u>\$ 553,135</u>	<u>\$ 353,779</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, 2015 and 2014, security deposits in the amount of \$149,410 and \$149,410, 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, 2015 and 2014, the GALC recognized certain on-behalf payments as contributions from GovGuam, totaling \$113,174 and \$105,985, 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 General Fund in 2015 and GovGuam's Land Survey Revolving Fund in 2014.

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, 2015 and 2014, such land is valued at \$423,752,438 and \$419,436,079, 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.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2015 and 2014

(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 (\$3,338 and \$3,305 as of September 30, 2015 and 2014, 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, 2015 and 2014, the GALC recognized lease base rental revenue of \$39,232 and \$39,070, respectively, and lease participation rental revenue of \$0 and \$11,731, respectively, associated with this lease agreement.

Apra Harbor Reservation F-12 (Polaris Point):

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, 2015 and 2014, the GALC recognized lease base rental revenue of \$248,042 and \$297,650, respectively, and lease participation rental revenue of \$3,555 and \$312, respectively, associated with this lease agreement.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014, the GALC recognized lease base rental revenue of \$72,000 and \$72,000, respectively, and lease participation rental revenue of \$1,056 and \$1,626, 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. Effective January 1, 2015, the GALC renewed the license agreement for one additional year with the same terms and conditions. During the year ended September 30, 2015 and 2014, the GALC recognized lease rental revenue of \$1,500 and \$4,500, respectively, 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 years ended September 30, 2015 and 2014 as the property was still under the development phase.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2015 and 2014

(7) Commitments, Continued

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, 2015 and 2014, the GALC recognized lease rental revenue of \$48,000 and \$72,000, respectively, associated with this license 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. Effective January 1, 2015, the GALC exercised the option to extend the license agreement for an additional period of ten (10) years upon the same terms and conditions with monthly base rent of \$1.05 per square foot. During the years ended September 30, 2015 and 2014, the GALC recognized lease rental revenue of \$86,657 and \$92,000, 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>	
2016	\$ 798,941
2017	861,434
2018	861,841
2019	886,728
2020	895,302
2021 - 2025	4,470,096
2026 - 2030	4,238,478
2031 - 2035	4,454,400
2036 - 2040	4,211,346
2041 - 2045	4,471,392
2046 - 2050	4,756,818
2051 - 2055	5,070,128
2056 - 2060	5,190,056
2061 - 2064	<u>2,501,035</u>
	<u>\$ 43,667,995</u>

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2015 and 2014

(7) Commitments, Continued

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, 2015 and 2014, GEDA withheld \$49,877 and \$73,511, respectively, of all rents received as payment for GEDA services. As of September 30, 2015 and 2014, the GALC has recognized a liability of \$22,122 and \$10,999, respectively, for GEDA services relating to rent receivables collected after the respective year ends.

(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, 2015. 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, 2015

	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	\$ 215	\$ 2,794,135	\$ 8,428	\$ 2,802,778
Time certificates of deposit	-	1,105,000	-	1,105,000
Receivables, net	-	553,135	-	553,135
Due from GovGuam General Fund	<u>2,123</u>	<u>-</u>	<u>-</u>	<u>2,123</u>
Total assets	<u>\$ 2,338</u>	<u>\$ 4,452,270</u>	<u>\$ 8,428</u>	<u>\$ 4,463,036</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts payable	\$ 160	\$ 22,122	\$ -	\$ 22,282
Accrued payroll and other liabilities	1,963	-	-	1,963
Security deposits payable	-	149,410	-	149,410
Unearned revenue	<u>-</u>	<u>230,690</u>	<u>-</u>	<u>230,690</u>
Total liabilities	<u>2,123</u>	<u>402,222</u>	<u>-</u>	<u>404,345</u>
Fund balance:				
Reserved for:				
Restricted	-	4,050,048	8,428	4,058,476
Committed	<u>215</u>	<u>-</u>	<u>-</u>	<u>215</u>
Total fund balance	<u>215</u>	<u>4,050,048</u>	<u>8,428</u>	<u>4,058,691</u>
Total liabilities and fund balance	<u>\$ 2,338</u>	<u>\$ 4,452,270</u>	<u>\$ 8,428</u>	<u>\$ 4,463,036</u>

See Accompanying Independent Auditors' Report.

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
Unearned 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 Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended September 30, 2015

	Ancestral Lands Operations Fund	Land Bank Trust Fund	Landowner's Recovery Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Lease rentals:				
Base rent	\$ -	\$ 495,431	\$ -	\$ 495,431
Participation rent	-	5,763	-	5,763
GovGuam appropriation	113,174	-	-	113,174
Interest income	-	26,954	2	26,956
Other	-	1,974	-	1,974
	<u>113,174</u>	<u>530,122</u>	<u>2</u>	<u>643,298</u>
Total revenues				
Expenditures:				
Salaries and wages - regular	60,758	-	-	60,758
Salaries and wages - fringe benefits	16,639	-	-	16,639
Health benefits	8,567	-	-	8,567
Contractual services	24,460	-	-	24,460
Management fee	-	71,999	-	71,999
Miscellaneous	2,755	-	-	2,755
	<u>113,179</u>	<u>71,999</u>	<u>-</u>	<u>185,178</u>
Total expenditures				
Net change in fund balances	(5)	458,123	2	458,120
Fund balances at beginning of year	<u>220</u>	<u>3,591,925</u>	<u>8,426</u>	<u>3,600,571</u>
Fund balances at end of year	<u>\$ 215</u>	<u>\$ 4,050,048</u>	<u>\$ 8,428</u>	<u>\$ 4,058,691</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

Supplemental Schedule of Employees and Salaries
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Salaries and wages - regular	<u>\$ 60,758</u>	<u>\$ 56,389</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, 2015, 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 May 13, 2016.

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 2015-001, which we consider to be material weaknesses.

Compliance and Other Matters

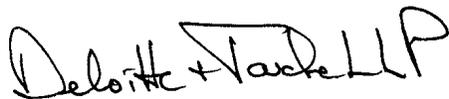
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 + Stark LLP". The signature is written in a cursive, flowing style.

May 13, 2016

GUAM ANCESTRAL LANDS COMMISSION

Schedule of Findings and Responses
Year Ended September 30, 2015

Finding No. 2015-001

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, 2015, GALC recorded lease receivables of \$376,017, of which \$223,189 remained uncollected 90 days after year end. Of this amount, \$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 receivable collections.

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 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 2014.

Auditee Response and Corrective Action Plan:

Management concurs with the audit recommendation. GALC had implemented its financial accounting system in FY 2015. This accomplishment has enabled GALC to monitor the services provided by GEDA. By the end FY 2016, GALC will have policies and procedures in place to ensure the timely collection and monitoring of accounts receivables. GALC continues to struggle with the availability of financial resources to recruit the necessary personnel but will work diligently and collaboratively with the Administration and the Guam Legislature to address GALC needs.

GUAM ANCESTRAL LANDS COMMISSION

Unresolved Prior Audit Findings
Year Ended September 30, 2015

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