

CHAMORRO LAND TRUST COMMISSION

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

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

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

CHAMORRO LAND TRUST COMMISSION

Years Ended September 30, 2014 and 2013
Table of Contents

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	1
II. MANAGEMENT'S DISCUSSION AND ANALYSIS	4
III. FINANCIAL STATEMENTS:	
Balance Sheets	11
Statements of Revenues, Expenditures and Changes in Fund Balances	12
Notes to Financial Statements	13
IV. OTHER SUPPLEMENTARY INFORMATION:	
Combining Balance Sheets	19
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances	21
Supplemental Schedule of Employees and Salaries	23
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>	24
Schedule of Findings and Responses	26
Unresolved Prior Year Findings	31

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Chamorro Land Trust Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the Chamorro Land Trust Commission (the Commission), which comprise the balance sheets as of September 30, 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, which collectively comprise the Commission's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chamorro Land Trust Commission as of September 30, 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 Chamorro Land Trust Commission and are not intended to present fairly the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

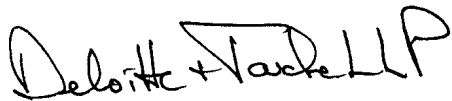
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The combining financial statement information on pages 19 through 22 and the schedule of employees and salaries on page 23 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statement information and the schedule of employees and salaries are the responsibility of the Commission's management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the basic 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 July 9, 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

July 9, 2015

CHAMORRO LAND TRUST COMMISSION

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

INTRODUCTION

Chamorro Land Trust Commission (CLTC) is a component unit of the Government of Guam, currently located in Tamuning, Suite 303, 3rd floor of the ITC Building. CLTC acts exclusively in the interest of the beneficiaries under the Chamorro Land Trust Act. The audit of financial statements and other reporting for FY 2014 is the sixth audit conducted since CLTC was codified into law and made possible with collaborative efforts by the CLTC Board, management, employees and the Office of Public Accountability (OPA); adhering to accountability and transparency.

The CLTC's Management's Discussion and Analysis (MD&A) provides an overview of CLTC's financial activities for fiscal years ended September 30, 2014 and 2013. The information enclosed in the MD&A has been prepared by management and it should be read in conjunction with the financial statements and notes which follow this section.

1. Financial Highlights

- Total assets exceeded total liabilities by \$2,543,045 at the close of fiscal year 2014 as compared to \$2,246,594 at the close of fiscal year 2013.
- Total assets at September 30, 2014 increased by \$246,599 as compared to September 30, 2013.
- Total liabilities at September 30, 2014 decreased by \$49,852 as compared to September 30, 2013.
- Total fund balance at September 30, 2014 increased by \$296,451 as compared to September 30, 2013.
- Total revenues of \$876,932 for fiscal year 2014 decreased by \$177,910 as compared to \$1,054,842 for fiscal year 2013. Total expenditures of \$580,481 for fiscal year 2014 increased by \$108,570 as compared to \$471,911 for fiscal year 2013.

2. Overview of the Financial Statements

The CLTC's financial statements include all activities of the Chamorro Land Trust Operations Fund and the Chamorro Loan Guarantee Fund. The financial statements include the Balance Sheets and Statements of Revenues, Expenditures, and Changes in Fund Balances for fiscal years 2014 and 2013.

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

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the report on the audit of CLTC's financial statements dated December 29, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and may be obtained from the contact information below.

CHAMORRO LAND TRUST COMMISSION

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

3. Financial Statement Analysis

Balance Sheet

The balance sheet discloses information on the CLTC's assets, liabilities, and fund balance at year-end. The condensed summary of the CLTC's balance sheet is shown below as of September 30, 2014, 2013 and 2012.

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Cash and cash equivalents	\$ 1,990,705	\$ 1,709,130	\$ 901,361
Receivables:			
Commercial	199,182	207,028	337,102
Due from GovGuam	3,835	32,315	239,636
Restricted assets:			
Cash and cash equivalents	212,282	210,932	209,387
Time certificates of deposit	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
Total assets	\$ <u>2,706,004</u>	\$ <u>2,459,405</u>	\$ <u>1,987,486</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts payable	\$ 26,120	\$ 34,908	\$ 5,403
Accrued payroll and other liabilities	8,874	8,374	7,098
Unearned revenues	<u>127,965</u>	<u>169,529</u>	<u>311,322</u>
Total liabilities	<u>162,959</u>	<u>212,811</u>	<u>323,823</u>
Fund balance:			
Reserved for:			
Restricted ¹	512,282	510,932	509,387
Committed ²	2,030,158	1,707,389	1,127,771
Assigned ³	<u>605</u>	<u>28,273</u>	<u>26,505</u>
Total fund balance	<u>2,543,045</u>	<u>2,246,594</u>	<u>1,663,663</u>
Total liabilities and fund balance	\$ <u>2,706,004</u>	\$ <u>2,459,405</u>	\$ <u>1,987,486</u>

Total fund balance increased by \$296,451 at the end of fiscal year 2014 due to the following:

- Total assets increased by \$246,599 in 2014 compared to 2013, primarily due to an increase in cash and cash equivalents.
- Total liabilities decreased by \$49,852 in 2014 compared to 2013, primarily due to a decrease in accounts payable and unearned revenue accounts.

¹The fund balance restricted amount represents the total time certificate deposits and checking account balances. These funds have been constrained to fulfill CLTC's financial requirement for the Home Loan Guarantees issued by CLTC with Guam Housing Corporation and the Small Business Administration.

CHAMORRO LAND TRUST COMMISSION

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

² The fund balance committed amount represents funds constrained by law for the operations of CLTC. These funds cannot be used for any other purpose unless constraint is removed by the Guam Legislature through Public Law.

³ The fund balance assigned amount represents funds that have been encumbered and intended for CLTC operations in their respective fiscal year.

Statements of Revenues, Expenditures, and Changes in Fund Balances

The statement of revenues, expenditures and changes in fund balances discloses information on the CLTC's operations for the year. The condensed summary of the CLTC's operations is shown below for the years ended September 30, 2014, 2013 and 2012.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Lease rentals:			
Commercial	\$ 534,328	\$ 722,205	\$ 551,659
Agricultural and residential	3,660	2,906	1,896
Royalties	250,934	319,861	457,575
Payment in lieu of real property taxes	77,817	-	-
Land trust application fees	6,650	6,500	4,950
Interest income	<u>3,543</u>	<u>3,370</u>	<u>1,380</u>
 Total revenues	 <u>876,932</u>	 <u>1,054,842</u>	 <u>1,017,460</u>
Expenditures:			
Salaries and wages - regular	270,841	222,127	285,184
Salaries and wages - fringe benefits	80,359	66,784	84,246
Health benefits	37,265	34,075	27,039
Contractual services	119,348	79,470	20,658
Building rent	67,098	48,000	20,000
Supplies	4,070	4,552	19,859
Capital outlays	-	15,303	41,968
Equipment	-	-	19,321
Utilities – power and water	-	-	115
Miscellaneous	<u>1,500</u>	<u>1,600</u>	<u>1,409</u>
 Total expenditures	 <u>580,481</u>	 <u>471,911</u>	 <u>519,799</u>
 Excess of revenues over expenditures	 296,451	 582,931	 497,661
Other financing sources:			
Proceeds from sale of land	<u>-</u>	<u>-</u>	<u>64,556</u>
 Net change in fund balances	 296,451	 582,931	 562,217
 Fund balances at beginning of year	 <u>2,246,594</u>	 <u>1,663,663</u>	 <u>1,101,446</u>
 Fund balances at end of year	 <u>\$ 2,543,045</u>	 <u>\$ 2,246,594</u>	 <u>\$ 1,663,663</u>

CLTC real property taxes increased by \$77,817 in 2014 compared to 2013. This is due to the collaboration between CLTC and Department of Revenue and Taxation (DRT).

CHAMORRO LAND TRUST COMMISSION

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

Commercial lease revenues decreased by \$187,877 in 2014 compared to 2013. This is due receivables collected in FY 2013 from previous years.

Total revenues in 2014 decreased by \$177,910 from \$876,932 compared to \$1,054,842 in 2013.

Total expenditures in FY2013 increased by \$108,570 from \$580,481 in 2014 compared to \$471,911 in 2013. The increase is due to salaries and wages, benefits, contractual services, and building rent.

4. Challenges and Accomplishments

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

CLTC has about 33% of Government of Guam property in its property inventory, which is attributed from an Administrative Transfer. In 1995, 11,244.92 acres were transferred to the CLTC. In 1997, 183.14 acres were removed by Public Law 23-100 and Public Law 24-15. As a result, 11,061.78 acres were made available for lease purposes. Of those, 4,070.10 acres were located in the southern portion of the island, 1,297.54 acres in the central, and 5,694.14 acres located in the northern part of Guam. In 1983, a Land Use Plan was put in place and at the end of FY 2014 that plan is still being utilized by the CLTC. Tasked to oversee such an enormous property inventory, the Commission consists of a 5 member board and a Director with a staff of seven employees.

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

Since its initiation up until the end of FY 2014, the CLTC has qualified a total of 11,214 applicants for its residential and agricultural programs. These applicants are considered qualified based on submitting documented proof of eligibility and have satisfied the one-time processing fee of \$50 due and payable within 30 days of application. Also, the CLTC has leased out thousands of acres of property through their residential, agricultural, and commercial programs. More specifically, the CLTC, at the end of FY2014, had leased a combined total acreage of 2,783.29 through its residential and agricultural programs and 677.49 acres through its commercial program. However, it was evident and known that not all properties leased through the residential and agricultural programs were readily available with basic infrastructure and property surveys. Also, some properties were unregistered. Later, it was determined that unregistered property accounted for 3,545.23 acres of the CLTC's 11,061.78 acres in inventory.

CHAMORRO LAND TRUST COMMISSION

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

In FY 2014, the CLTC has undergone its third financial audit in the last year. In an effort to bring our Commission into compliance, the findings in each of these last two audits have set the course for the commission. Although the accomplishments are just steps in the process, they are leaps in the right direction.

For years, the CLTC's commercial license program has been operating without rules and regulations. Since 2013, all CLTC commercial matters have been put on hold. In the latter part of FY 2014, the CLTC was able to finalize the proposed rules and regulations for its commercial license program. This has allowed the CLTC to proceed in the planning and scheduling process for the public hearing to gather public comment and fulfill the requirements of the Administrative Adjudication Law. Upon completion, the CLTC will move forward with the concurrence of the administration and assistance of the Guam Legislature to enact and codify the rules and regulations. This will allow CLTC to officially use land for commercial purposes which in return will increase revenues. This has been profoundly a major hurdle.

The next accomplished objective is the implementation of the monitoring process of the Loan Guarantee program. As noted in our previous audit, the loan guarantee program raised concerns with regards to the liability the CLTC potentially faces, especially, since this program had not been monitored. In the short time since the last audit, the CLTC has drilled down into this program to determine where it currently stands and to develop a policy to administer this program. After a thorough review, it has been determined that a total of one hundred forty-five CLTC leaseholders were granted loan guarantees totaling \$12,252,604. However, a majority of the loan guarantees were for disaster relief loans following typhoons in 1998 and 2002. The CLTC made a concerted effort to contact each of these borrowers to obtain an array of information to include the latest loan statements to determine the actual loan balance and current lender information. Each person in this program was mailed a first notice and, of those not responding, CLTC staff conducted property visits to serve a second notice. Unfortunately, at the end of FY 2014, CLTC staff was not able to contact all Loan Guaranty constituents. The CLTC then explored other alternatives to ensure it obtained the necessary information regarding the Loan Guarantees issued by the Commission. As a result of the implementation of the monitoring process, CLTC's liability decreased to \$10,163,982. Moreover, in the latter part of FY2014, the CLTC prevented a default on a loan by identifying another eligible applicant to assume a Veterans Administration loan from the potentially defaulting constituent, as authorized by public law.

Another accomplishment by the CLTC in FY 2014 was the expansion of the availability of affordable homes for CLTC leaseholders through the partnership with the Guam Housing Corporation to build affordable model homes on CLTC property. One program would use CLTC lots to build affordable homes to serve as model homes for one year prior to being issued to qualified applicants eligible to purchase the homes. Another program would create subdivisions of affordable homes throughout the island. This is the most affordable method to install the full range of infrastructure (water, sewer, electricity, road, and telecommunications) for residential purposes by having infrastructure built with subdivisions. Small-, medium-, and large-size subdivisions are envisioned. The goal is to develop communities where residents will become the stewards who will responsibly and respectfully care for the land. The previous methods of distributing land lots without infrastructure or any community design has not produced many success stories in land use or land development. As a result, many land leases remain stagnant because of the lack of proper infrastructure. In other cases, lessees have poorly used the land and have spoiled it with material waste. As the CLTC moves forward, it is our intent to develop communities by creating subdivisions with quality of life characteristics. As our population grows and as more citizens become eligible candidates to lease lands, the CLTC needs to be ready to provide a community for them to reside.

CHAMORRO LAND TRUST COMMISSION

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

For years, the CLTC has issued leases that contained property descriptions of the general parcel known as "A Portion of." Due to this practice, the Department of Revenue and Taxation (DRT) was unable to assess real estate taxes for all applicable leased property. In FY 2014, CLTC, with the assistance from the Department of Land Management's Survey Division, initiated a tabletop survey project to address leases that were issued with "A Portion of" description. The objective of this project was to parcel basic lots and give proper property descriptions to enable DRT to fully assess real estate taxes on leases that are applicable. At the end of FY 2014, this project was 50% complete.

Also, in the latter part of FY 2014, the CLTC initiated the development of an accounting system utilizing the accounting software Quick Books. In the past, Quick Books was used to track the commercial license/lease activities. With the newly created accounting system, CLTC will be able to track and monitor all financial activities for appropriated and non-appropriated funds. Also, CLTC will be able to reconcile their records with the Department of Administration's General Ledgers and prepare financial statements.

Moreover, maintaining our vast inventory and leases is also moving ahead by establishing an accounting system and other internal controls to manage the financial activity, leases, and inventory. In fact, the land inventory is soon to expand as we begin to register properties that still remain unregistered.

The Payment in Lieu of Taxes (PILOT) is the revenue account that supports the Chamorro Loan Guarantee Fund. Initially, at the end of FY 2014, CLTC was going to record and realize \$1,614,578 of revenue generated as indicated in the AS400. Although, after a few tests were conducted it was determined that not all real property tax revenues collected were from CLTC constituents. Also, it was determined that the error was a posting error on the part of the cashier posting the revenue to the wrong account. As a result, CLTC recorded and realized only \$77,817 of real property tax revenues for FY 2014. The CLTC will work with Treasurer of Guam to ensure that this type of error does not occur in the future. Furthermore, the CLTC will work with DRT to deputize two CLTC employees to obtain access to view and monitor all real property payments made by CLTC constituents.

Much of what we need to do cannot be done without the infusion of resources to jumpstart some of the activities. The current administration has supported CLTC's request to assist with the surveying of our properties so they could be disbursed quicker and to register those lands still not registered by approving our budget requests to fund these activities. The revenue generated from property taxes of leased lands would help fund the needs of CLTC which includes monitoring and compliance, enhancing the lands to be ready for use, and assist with other programs to allow our clients to realize their dreams of home ownership or farming.

CHAMORRO LAND TRUST COMMISSION

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

5. Outlook

The CLTC Board of Commissioners and Director continue and strive to take the necessary steps to ensure that CLTC operates in a more efficient and effective manner for the beneficiaries of the CLTC. The CLTC is excited about its future as many of our objectives begin to fall into place allowing us to attain the goals set forth in the creation of the trust. These audits have identified our needs and sets us on the proper path and the Chamorro Land Trust Commission is made better in the process. In FY 2015, CLTC accounting system will be functional and operational. Also, 100% of the easements with "A Portion of" will be parceled. Management will also explore and plan to expand on the construction of affordable housing. In addition, management will also seek financial assistance from Federal agencies through grants and low interest rate loans to finance the cost of installing infrastructure on CLTC property.

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

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of CLTC's finances and to show the CLTC's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should contact the Director's office at (671) 649-5263 ext. 600 or email to dlmdir@land.guam.gov.

CHAMORRO LAND TRUST COMMISSION

Balance Sheets
September 30, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,990,705	\$ 1,709,130
Receivables:		
Commercial	199,182	207,028
Due from GovGuam	3,835	32,315
Restricted assets:		
Cash and cash equivalents	212,282	210,932
Time certificates of deposit	300,000	300,000
Total assets	\$ 2,706,004	\$ 2,459,405
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 26,120	\$ 34,908
Accrued payroll and other liabilities	8,874	8,374
Unearned revenues	127,965	169,529
Total liabilities	162,959	212,811
Commitments and contingencies		
Fund balance:		
Reserved for:		
Restricted	512,282	510,932
Committed	2,030,158	1,707,389
Assigned	605	28,273
Total fund balance	2,543,045	2,246,594
Total liabilities and fund balance	\$ 2,706,004	\$ 2,459,405

See accompanying notes to financial statements.

CHAMORRO LAND TRUST 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:		
Commercial	\$ 534,328	\$ 722,205
Agricultural and residential	3,660	2,906
Royalties	250,934	319,861
Payment in lieu of real property taxes	77,817	-
Land trust application fees	6,650	6,500
Interest income	<u>3,543</u>	<u>3,370</u>
Total revenues	<u>876,932</u>	<u>1,054,842</u>
Expenditures:		
Salaries and wages - regular	270,841	222,127
Salaries and wages - fringe benefits	80,359	66,784
Health benefits	37,265	34,075
Contractual services	119,348	79,470
Building rent	67,098	48,000
Supplies	4,070	4,552
Capital outlays	-	15,303
Miscellaneous	<u>1,500</u>	<u>1,600</u>
Total expenditures	<u>580,481</u>	<u>471,911</u>
Net change in fund balances	296,451	582,931
Fund balances at beginning of year	<u>2,246,594</u>	<u>1,663,663</u>
Fund balances at end of year	<u>\$ 2,543,045</u>	<u>\$ 2,246,594</u>

See accompanying notes to financial statements.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(1) Organization

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

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

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

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

(2) Summary of Significant Accounting Policies

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

Measurement Focus and Basis of Accounting

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

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

- The Chamorro Land Trust Operations Fund - this fund was created for the purpose of accounting for the receipt of all land use permits, monetary contributions and fees and for the payment of operational expenses associated with the CLTC.
- The Chamorro Loan Guarantee Fund - this fund was created for the purpose of accounting for applicable taxes on Chamorro Homelands collected by GovGuam's Department of Revenue and Taxation earmarked for loan guarantees issued by governmental agencies or lending institutions to native Chamorro borrowers holding leases or licenses of Chamorro Homelands. During the year ended September 30, 2014, GovGuam's Department of Revenue and Taxation collected \$77,817 in real property taxes associated with Chamorro Homelands.

CHAMORRO LAND TRUST 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 CLTC considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

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

Cash and Time Certificates of Deposit

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

For the purposes of the balance sheets, cash is defined as cash in checking and savings accounts. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the balance sheets. As of September 30, 2014 and 2013, the carrying amount of the CLTC's cash and time certificates of deposit was \$2,502,987 and \$2,220,062, respectively, and the corresponding bank balances were \$2,502,987 and \$2,220,062, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014 and 2013, bank deposits in the amount of \$250,000 were FDIC insured. The CLTC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Interfund Receivables

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

Unearned Revenues

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

Fund Balance

Governmental fund balances are classified as follows:

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

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

A formal minimum fund balance policy has not been adopted.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Encumbrances

The CLTC utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2014 and 2013, the CLTC has encumbrances of \$605 and \$28,273, respectively.

CHAMORRO LAND TRUST 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 CLTC 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 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans*, and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan. Statement No. 67 requires plans to calculate a net pension liability to be measured as the total pension liability less the amount of the pension plan's fiduciary net position. 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 has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.

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

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.

(3) Risk Management

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

(4) Restricted Assets

The CLTC maintains a savings deposit and a time certificate of deposit as of September 30, 2014 and 2013 in the amount of \$512,282 and \$510,932, respectively, restricted to collateralize low income housing loans funded by Rural Housing Service (RHS) through the Guam Housing Corporation. The Memorandum of Understanding signed with the RHS requires the CLTC to create and maintain an escrow account with an initial deposit of \$500,000. If the account falls below \$500,000, the CLTC shall deposit in the escrow account 5% of all RHS loans issued until such time that the account has reached \$500,000.

(5) Related Party Transactions

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

Certain developed land supported by valid lease agreements is held as investments in land and other real estate within a permanent fund of the Government of Guam. Such investment is recorded at fair value whereas other undeveloped land not supported by lease agreements is reported at historical cost. As of September 30, 2014 and 2013, such land is valued at \$419,436,079 and \$411,159,732, respectively, of which \$412,676,185 and \$404,399,838, is held by the CLTC. Fair value is based on estimated current value (primarily assessed real estate property tax valuations) and appraisals. Investments that do not have an established market are reported at estimated fair value. Earnings from lease agreements associated with these investments are reported as revenues of the CLTC.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2014 and 2013

(6) Significant Customers

The CLTC generates revenues from certain major customers that exceed 10 percent or more of the CLTC's total revenues. During the years ended September 30, 2014 and 2013, the CLTC recognized revenues from two customers that represented approximately 61% and 70%, respectively, of total revenues.

(7) Commitments

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

<u>Year Ending</u> <u>September 30.</u>	
2015	\$ 837,171
2016	837,171
2017	838,377
2018	817,200
2019	799,499
2020 – 2024	3,958,406
2025 – 2029	3,740,584
2030 – 2034	4,003,705
2035 – 2039	1,682,139
2040 – 2044	18,000
2045 – 2047	<u>9,000</u>
	<u>\$ 17,541,252</u>

(8) Contingency

The CLTC is authorized to loan or guarantee the repayment of or otherwise underwrite any authorized loan to a Chamorro homeland lessee up to a maximum amount not to exceed the financial ability of the borrower. In the event of default, these loan guarantees may shift the lender's default risk entirely to the CLTC whereby the lender may call upon the CLTC to make partial or full payment of the guaranteed loan. As of September 30, 2014, the CLTC has guaranteed a material amount of loans for Chamorro homeland residential lessees. CLTC management is of the opinion that defaulted loans may be reassigned and that CLTC has substantial defenses available to it in the event of litigation. As a result, at this time, management does not believe that material exposure exists related to this event. Therefore, no provision for a liability that may arise from this matter has been made in the accompanying financial statements.

CHAMORRO LAND TRUST COMMISSION

Combining Balance Sheet
September 30, 2014

	Chamorro Land Trust Operations Fund	Chamorro Loan Guarantee Fund	Total	Elimination	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,990,705	\$ -	\$ 1,990,705	\$ -	\$ 1,990,705
Receivables:					
Commercial	199,182	-	199,182	-	199,182
Due from GovGuam	-	77,817	77,817	(73,982)	3,835
Restricted assets:					
Cash and cash equivalents	-	212,282	212,282	-	212,282
Time certificates of deposit	-	300,000	300,000	-	300,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,189,887</u>	<u>\$ 590,099</u>	<u>\$ 2,779,986</u>	<u>\$ (73,982)</u>	<u>\$ 2,706,004</u>
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Accounts payable	\$ 26,120	\$ -	\$ 26,120	\$ -	\$ 26,120
Accrued payroll and other liabilities	8,874	-	8,874	-	8,874
Due to GovGuam	73,982	-	73,982	(73,982)	-
Unearned revenues	127,965	-	127,965	-	127,965
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>236,941</u>	<u>-</u>	<u>236,941</u>	<u>(73,982)</u>	<u>162,959</u>
Fund balance:					
Reserved for:					
Restricted	-	512,282	512,282	-	512,282
Committed	1,952,341	77,817	2,030,158	-	2,030,158
Assigned	605	-	605	-	605
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>1,952,946</u>	<u>590,099</u>	<u>2,543,045</u>	<u>-</u>	<u>2,543,045</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 2,189,887</u>	<u>\$ 590,099</u>	<u>\$ 2,779,986</u>	<u>\$ (73,982)</u>	<u>\$ 2,706,004</u>

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Combining Balance Sheet
September 30, 2013

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

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

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

	<u>Chamorro Land Trust Operations Fund</u>	<u>Chamorro Loan Guarantee Fund</u>	<u>Total</u>
Revenues:			
Lease rentals:			
Commercial	\$ 534,328	\$ -	\$ 534,328
Agricultural and residential	3,660	-	3,660
Royalties	250,934	-	250,934
Payments in lieu of real property taxes	-	77,817	77,817
Land trust application fees	6,650	-	6,650
Interest income	<u>2,193</u>	<u>1,350</u>	<u>3,543</u>
Total revenues	<u>797,765</u>	<u>79,167</u>	<u>876,932</u>
Expenditures:			
Salaries and wages - regular	270,841	-	270,841
Salaries and wages - fringe benefits	80,359	-	80,359
Health benefits	37,265	-	37,265
Contractual services	119,348	-	119,348
Building rent	67,098	-	67,098
Supplies	4,070	-	4,070
Miscellaneous	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Total expenditures	<u>580,481</u>	<u>-</u>	<u>580,481</u>
Net change in fund balances	217,284	79,167	296,451
Fund balances at beginning of year	<u>1,735,662</u>	<u>510,932</u>	<u>2,246,594</u>
Fund balances at end of year	<u>\$ 1,952,946</u>	<u>\$ 590,099</u>	<u>\$ 2,543,045</u>

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

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

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

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

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

	<u>2014</u>	<u>2013</u>
Salaries and wages - regular	<u>\$ 270,841</u>	<u>\$ 222,127</u>
Number of employees:		
Land Agents	4	3
Planner	1	1
Records Management	1	1
Other Administrative Staff	<u>3</u>	<u>3</u>
Total number of employees	<u>9</u>	<u>8</u>

See Accompanying Independent Auditors' Report.

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

Board of Commissioners
Chamorro Land Trust Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chamorro Land Trust Commission (the Commission or CLTC), which comprise the balance sheet as of September 30, 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 July 9, 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 through 2014-005, which we consider to be material weaknesses.

Compliance and Other Matters

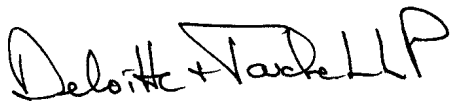
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

CLTC's Responses to Findings

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

Purpose of this Report

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

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

July 9, 2015

CHAMORRO LAND TRUST 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 should be integrated with an adequate system of internal controls to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies.

Condition:

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

Cause:

The cause of the above condition is the lack of utilization of a formal accounting system.

Effect:

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

Recommendation:

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

Prior Year Status:

The lack of maintaining adequate record-keeping for non-appropriated funds was reported as a finding in the audits of CLTC 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

CHAMORRO LAND TRUST 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 CLTC cash flows and minimizing exposure from uncollectible receivables.

Condition:

As of September 30, 2014, CLTC recorded lease receivables of \$199,182, of which \$85,395 remained uncollected 90 days after year end. Of the recorded amount of \$199,182, \$30,500 was supported by a Memorandum of Agreement (MOU) with the licensee documenting repayment terms and conditions of delinquent amounts.

Cause:

The cause of the above condition is the lack of timely collection of receivables.

Effect:

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

Recommendation:

We recommend that CLTC establish policies and procedures requiring the timely collection and monitoring of accounts receivable and the entering into of MOUs with licensees in regards to repayment of delinquent amounts.

Prior Year Status:

The lack of adequate internal control policies over timely collection of receivables was reported as a finding in the audits of CLTC 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

CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses, Continued
Year Ended September 30, 2014

Finding No. 2014-003

Coral Extraction Royalties

Criteria:

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

Condition:

During the year ended September 30, 2014, CLTC recorded coral extraction royalties of \$250,934 from a construction company for mining activities on a CLTC leased property. These revenues were not evidenced by an underlying agreement between CLTC and/or the lessee and the construction company documenting the rates upon which royalties were to be calculated. In addition, royalty revenues were not evidenced by a verification of actual coral materials extracted.

Cause:

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

Effect:

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

Recommendation:

We recommend that CLTC establish policies and procedures requiring the monitoring and documentation of coral extraction royalties.

Prior Year Status:

The lack of adequate internal control policies requiring monitoring and documentation of coral extraction royalties was reported as a finding in the audits of CLTC for fiscal years 2011 through 2013.

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

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

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

Board Members and Director

CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses, Continued Year Ended September 30, 2014

Finding No. 2014-004

Loan Guarantees

Criteria:

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

Condition:

CLTC has entered into a memorandum of understanding with the Guam Housing Corporation and the USDA Rural Development to provide housing for low and moderate income residents of Guam. As of September 30, 2014, CLTC has guaranteed 153 loans of Chamorro homeland residential lessees totaling \$10,505,587 to the Guam Housing Corporation and the Small Business Administration. Although no losses were incurred by CLTC due to loan defaults, no effective system of monitoring of these guaranteed loans has been established by CLTC with the respective loan institutions.

Cause:

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

Effect:

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

Recommendation:

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

Prior Year Status:

The lack of adequate internal control policies requiring monitoring of loan guarantees was reported as a finding in the audits of CLTC for fiscal years 2011 through 2013.

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

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

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

CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses, Continued Year Ended September 30, 2014

Finding No. 2014-005

Rental Lease Agreement

Criteria:

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

Condition:

During the year ended September 30, 2014, CLTC occupied certain office space at a cost of \$4,000/month from October 2013 through June 2014, which increased to \$10,365/month from July 2014 through September 2014. No underlying lease agreement was available supporting the monthly rent expenditure. Instead, an Invitation For Bid in the name of the Department of Land Management, dated April 16, 2010, was provided indicating rental cost of \$58,327/month.

Cause:

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

Effect:

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

Recommendation:

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

Prior Year Status:

The lack of a formal office space lease agreement was reported as a finding in the audit of CLTC for fiscal year 2013.

Auditee Response and Corrective Action Plan:

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

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

CHAMORRO LAND TRUST 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.