

CHAMORRO LAND TRUST COMMISSION

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

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

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

CHAMORRO LAND TRUST COMMISSION

Years Ended September 30, 2018 and 2017
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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, 2018 and 2017, 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 Chamorro Land Trust Commission as of September 30, 2018 and 2017, 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 3 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.

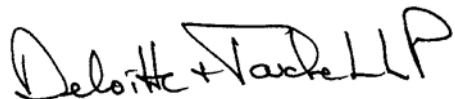
Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Supplementary Information is the responsibility of the Commission's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The additional information on pages 17 through 20 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, such information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The additional information on page 21 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2019, 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 solely 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 the effectiveness of the Commission's 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.



May 16, 2019

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis
September 30, 2018 and 2017

INTRODUCTION

The Chamorro Land Trust Commission (CLTC) is a component unit of the Government of Guam, currently located at 590 South Marine Corps Drive, Ste 303, ITC Building, Tamuning, Guam 96913. CLTC acts exclusively in the interest of the beneficiaries under the Chamorro Land Trust Act. The Audit of Financial Statements and Other Reporting for FY2018 is the seventh financial audit conducted since CLTC was codified into law and made possible with collaborative efforts by the CLTC Board, CLTC management and staff, and the Office of Public Accountability (OPA); adhering to accountability and transparency.

The Chamorro Land Trust Commission's Management's Discussion and Analysis (MD&A) provides an overview of CLTC's financial activities for fiscal year ending September 30, 2018. 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 \$2,767,889 at the close of fiscal year 2018 as compared to \$2,718,684 at the close of fiscal year 2017.
- Total assets at September 30, 2018 increased by \$568,467 as compared to September 30, 2017.
- Total liabilities at September 30, 2018 increased by \$519,262 as compared to September 30, 2017.
- Total fund balance at September 30, 2018 increased by \$49,205 as compared to September 30, 2017.
- Total revenues of \$1,013,372 for fiscal year 2018 decreased by \$511,061 as compared to \$1,524,433 for fiscal year 2017. Total expenditures of \$964,167 for fiscal year 2018 decreased by \$988,301 as compared to \$1,952,468 for fiscal year 2017.

2. Overview of the Financial Statements

CLTC's financial statements include all activities of the Chamorro Land Trust Operations Fund, the Chamorro Loan Guarantee Fund and the Chamorro Land Trust Survey and Infrastructure Fund. The financial statements include a Balance Sheet and Statements of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Year 2018.

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

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

3. Financial Statement Analysis

Balance Sheet

The balance sheet discloses information on CLTC's assets, liabilities, and fund balance at year-end. The condensed summary of CLTC's balance sheet shown below is for the years ending September 30, 2018, 2017 and 2016.

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---------------------------------------|---------------------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 2,612,362 | \$ 2,066,644 | \$ 1,176,450 |
| Receivables, net | 516,904 | 398,451 | 326,688 |
| Due from GovGuam | - | 222,155 | 964,372 |
| Restricted assets | <u>640,576</u> | <u>514,125</u> | <u>513,511</u> |
| Total assets | \$ <u>3,769,842</u> | \$ <u>3,201,375</u> | \$ <u>3,521,021</u> |
| LIABILITIES AND FUND BALANCE | | | |
| Liabilities: | | | |
| Accounts payable | \$ - | \$ 70 | \$ 5,745 |
| Accrued payroll and other Liabilities | 23,650 | 27,039 | 2,576 |
| Due from GovGuam | 427,608 | - | - |
| Unearned revenues | <u>550,695</u> | <u>455,582</u> | <u>365,981</u> |
| Total Liabilities | <u>1,001,953</u> | <u>482,691</u> | <u>374,302</u> |
| Fund Balance: | | | |
| Reserved for: | | | |
| Restricted ¹ | 640,576 | 514,125 | 513,511 |
| Committed ² | 2,123,129 | 2,200,294 | 2,370,997 |
| Assigned ³ | <u>4,184</u> | <u>4,465</u> | <u>262,211</u> |
| Total Fund Balance | <u>2,767,889</u> | <u>2,718,684</u> | <u>3,146,719</u> |
| Total Liabilities and Fund Balance | \$ <u>3,769,842</u> | \$ <u>3,201,375</u> | \$ <u>3,521,021</u> |

Total Fund Balance increased by \$49,205 at the end of fiscal year 2018 due to the following:

- Total assets increased by \$568,467 in 2018 compared to 2017, primarily due to an increase in cash and cash equivalents and commercial receivables.
- Total liabilities increased by \$519,262 in 2018 compared to 2017, primarily due to an increase in the amount due to GovGuam, and unearned revenues. The unearned revenues total is primarily made up of rent escalation related to CLTC's commercial leases. The recording and recognition of the rent escalation is to ensure compliance with GASB 13 and CLTC applies the straight-line basis of measurement.

¹ The fund balance restricted amount of \$640,576 represents the total time certificate of deposits, and checking account balances. These funds have been restricted to fulfill CLTC's financial requirement for the Home Loan Guarantees issued by CLTC with Guam Housing Corporation and the Small Business Administration.

² The fund balance committed amount of \$2,123,129 represents funds reserved by law for the operations of CLTC. These funds cannot be used for any other purpose unless restriction is removed by the Guam Legislature through Public Law.

³ The fund balance assigned amount of \$4,184 represents funds that have been encumbered and intended for CLTC operations in the respective fiscal year.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

Statements of Revenues, Expenditures, and Changes in Fund Balance

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------------------|-------------------------|-------------------------|
| Revenues: | | | |
| Lease rentals | \$ 835,901 | \$ 836,571 | \$ 771,061 |
| Proceeds from sale of land | 17,209 | 455,000 | - |
| Collections from Land for the Landless Program | 23,640 | 127,865 | 206,369 |
| Payment in lieu of real property taxes | 128,748 | 94,955 | 91,646 |
| Royalties | - | - | 83,215 |
| Land trust application fees | 4,200 | 7,000 | 6,250 |
| Interest income | <u>3,674</u> | <u>3,042</u> | <u>1,621</u> |
| Total revenues | <u>1,013,372</u> | <u>1,524,433</u> | <u>1,160,162</u> |
| Expenditures: | | | |
| Salaries and Wages - regular | 470,595 | 535,347 | 414,455 |
| Salaries and Wages – fringe benefits | 130,711 | 145,755 | 114,531 |
| Health benefits | 40,769 | 56,436 | 53,266 |
| Contractual services | 147,807 | 212,100 | 168,168 |
| Building rent | 124,390 | 124,390 | 124,390 |
| Supplies | 2,421 | 10,202 | 8,735 |
| Capital outlays | 34,312 | 221,700 | 27,592 |
| Transfer out to General Fund | - | 641,368 | - |
| Miscellaneous | <u>13,162</u> | <u>5,170</u> | <u>6,485</u> |
| Total expenditures | <u>964,167</u> | <u>1,952,468</u> | <u>939,570</u> |
| Net change in fund balances | 49,205 | (428,035) | 220,592 |
| Fund balances at beginning of year | <u>2,718,684</u> | <u>3,146,719</u> | <u>2,926,127</u> |
| Fund balances at end of year | \$ <u>2,767,889</u> | \$ <u>2,718,684</u> | \$ <u>3,146,719</u> |

CLTC real property taxes increased by \$33,793 in 2018 compared to 2017. This is due to the increase in real property tax collection.

Commercial lease revenues increased by \$2,964 in 2018 compared to 2017. This is primarily due to CLTC's active collection of account receivables.

Proceeds from sale of land were generated through the enactment of P.L. 11-127, which authorized the sale of property located in the Municipality of Umatac.

Total revenues in FY2018 decreased by \$511,061 from \$1,524,433 in 2017 compared to \$1,013,372 in 2018. This is primarily due to the decrease in the proceeds from sale of land, land trust application fees, collections from the Land for the Landless Program, agricultural, and residential lease payments.

Total expenditures in FY2018 decreased by \$988,301 from \$1,952,468 in 2017 compared to \$964,167 in 2018. The decrease is due to salaries and wages, fringe benefits, health benefits, contractual services, supplies, capital outlays and transfer out to General Fund.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

4. Challenges and Accomplishments

CLTC was created through Public Law (PL) 12-226. CLTC's primary mission is to lease Chamorro Homelands to native Chamorro as defined by the Organic Act. When applications for residential and agricultural programs are submitted and have fulfilled all the prerequisites they are placed on a respective island-wide waiting list in the order in which their applications were received by the Commission. Also, CLTC is authorized to execute commercial leases and licenses for various purposes as prescribed by law. CLTC's Commercial Rules & Regulations was created through the enactment of Public Law 33-95.

CLTC has about 33% of Government of Guam property in its property inventory, which is attributed from an administrative transfer executed in 1995. At September 30, 2018 CLTC's land inventory totaled 11,668.38 acres, which is an increase of 46.38 acres compared to FY2017 land inventory of 11,622 acres. The increase is credited to the Land Registration cases completed in FY2018 and the transfer of Land for the Landless properties that have not been paid in full. Of those, 4,153.48 acres are located in the south; 1,602.95 acres are in the central; and, 5,911.95 acres are located in the north. Furthermore, 3,274.98 acres of CLTC inventory are unregistered property, which the law prohibits any leasing and use until a title of ownership is established through judicial land registration. While the task of land registration is cumbersome and extensive, CLTC will continue to work with the Office of the Attorney General of Guam, and the Department of Land Management to rightfully and lawfully register all unregistered Government of Guam property in CLTC inventory.

At September 30, 2018, CLTC has qualified a total of 11,605 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 within 30 days as prescribed by law. In FY2018, CLTC issued a combined total of 33 leases to residential and agricultural applicants. Furthermore, CLTC at the end of FY2018 had leased a combined total acreage of 3,089.40 through its residential and agriculture programs and 607.24 acres through its commercial program.

During FY2018, CLTC issued two (2) Home Loan Guarantees. The two (2) additional Loan Guarantees increased CLTC's Home Loan Guarantee Program liability to \$10,405,552. In FY2018, CLTC has continued the working dialogue with the United States Small Business Administration (SBA) and the Guam Housing Corporation (GHC) to ensure that constituents are making their payments in a timely manner and to prevent any unforeseen foreclosures. CLTC does not foresee any potential defaults or foreclosures from occurring due to the authority granted through Chamorro Land Trust Act to "offer and reassign to the next qualified applicant the opportunity to assume any loan in default guaranteed by the Chamorro Loan Guarantee Fund."

In addition to all the tasks and programs CLTC is mandated to execute, 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, Chamorro Loan Guarantee Fund and CLTC Survey and Infrastructure Fund. Unfortunately, several funds have been dormant and unfunded which has not enabled CLTC to perform all its mandates required by law. Furthermore, as of September 30, 2018, CLTC board and personnel consisted of five (5) board members, and fourteen (14) employees that are tasked with the responsibility of ensuring CLTC's mandates and day-to-day operations are fulfilled.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis, Continued
September 30, 2018 and 2017

During FY2018, CLTC has continued to struggle to acquire needed resources to survey and provide the basic infrastructure to properties leased in the past and present. As a result, the financial burden of survey costs and utility installations has been placed on our constituents.

Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in the report on the audit of CLTC's financial statements dated April 23, 2018. That Discussion and Analysis explains the major factors impacting the 2017 financial statements and may be obtained from the contact information below.

5. Outlook

The CLTC board of commissioners and administrative director will continue to move in the direction of issuing agricultural and residential leases. Furthermore, CLTC will fully exercise the use of the Memorandum of Understanding (MOU) with the Guam Economic Development Authority for property management services related to future Commercial Leases that would require to be awarded through a competitive bid process.

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 and transparency for the money it receives. Questions concerning any of the information provided in this report or request for additional information should contact Jack E. Hattig III, Administrative Director at (671) 649-5263 ext. 400 or email jack.hattig@cltc.guam.gov.

CHAMORRO LAND TRUST COMMISSION

Balance Sheets
September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---------------------------------------|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 2,612,362 | \$ 2,066,644 |
| Receivables, net: | | |
| Commercial | 516,904 | 398,451 |
| Due from GovGuam | - | 222,155 |
| Restricted assets: | | |
| Cash and cash equivalents | 340,576 | 214,125 |
| Time certificates of deposit | <u>300,000</u> | <u>300,000</u> |
| Total assets | <u>\$ 3,769,842</u> | <u>\$ 3,201,375</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | |
| Liabilities: | | |
| Accounts payable | \$ - | \$ 70 |
| Accrued payroll and other liabilities | 23,650 | 27,039 |
| Due to GovGuam | 427,608 | - |
| Unearned revenues | <u>550,695</u> | <u>455,582</u> |
| Total liabilities | <u>1,001,953</u> | <u>482,691</u> |
| Commitments and contingencies | | |
| Fund balance: | | |
| Restricted | 640,576 | 514,125 |
| Committed | 2,123,129 | 2,200,094 |
| Assigned | <u>4,184</u> | <u>4,465</u> |
| Total fund balance | <u>2,767,889</u> | <u>2,718,684</u> |
| Total liabilities and fund balance | <u>\$ 3,769,842</u> | <u>\$ 3,201,375</u> |

See accompanying notes to financial statements.

CHAMORRO LAND TRUST COMMISSION

Statements of Revenues, Expenditures, and Changes in Fund Balances
Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|--|--------------|--------------|
| Revenues: | | |
| Lease rentals: | | |
| Commercial | \$ 830,494 | \$ 827,530 |
| Agricultural and residential | 5,407 | 9,041 |
| Proceeds from sale of land | 17,209 | 455,000 |
| Collections from Land for the Landless program | 23,640 | 127,865 |
| Payment in lieu of real property taxes | 128,748 | 94,955 |
| Land trust application fees | 4,200 | 7,000 |
| Interest income | 3,674 | 3,042 |
| Total revenues | 1,013,372 | 1,524,433 |
| Expenditures: | | |
| Salaries and wages - regular | 470,595 | 535,347 |
| Salaries and wages - fringe benefits | 130,711 | 145,755 |
| Health benefits | 40,769 | 56,436 |
| Contractual services | 147,807 | 212,100 |
| Building rent | 124,390 | 124,390 |
| Supplies | 2,421 | 10,202 |
| Capital outlays | 34,312 | 221,700 |
| Transfers out to General Fund | - | 641,368 |
| Miscellaneous | 13,162 | 5,170 |
| Total expenditures | 964,167 | 1,952,468 |
| Net change in fund balances | 49,205 | (428,035) |
| Fund balances at beginning of year | 2,718,684 | 3,146,719 |
| Fund balances at end of year | \$ 2,767,889 | \$ 2,718,684 |

See accompanying notes to financial statements.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2018 and 2017

(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 years ended September 30, 2018 and 2017, GovGuam's Department of Revenue and Taxation collected \$128,748 and \$94,955, respectively, in real property taxes associated with Chamorro Homelands.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting, Continued

- The Chamorro Land Trust Survey and Infrastructure Fund – this fund was created for the purpose of accounting for the receipt of all proceeds from the sale of bull cart trails and land remnants and proceeds from the sale of land under the *Land for the Landless* program that will be used solely for the surveying of unsurveyed CLTC land and for the operational needs in support thereof. In December 1, 2015, the CLTC commenced collection of outstanding receivables from the Land for the Landless program as stipulated by Public Law 33-104. The law requires funds collected shall be deposited into the Chamorro Land Trust Survey and Infrastructure Fund. During the years ended September 30, 2018 and 2017, the CLTC collected \$23,640 and \$127,865, respectively, including interest charged, from the outstanding balances.

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.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Cash and Time Certificates of Deposit, Continued

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, 2018 and 2017, the carrying amount of the CLTC's cash and time certificates of deposit was \$3,252,938 and \$2,580,769, respectively, and the corresponding bank balances were \$3,252,938 and \$2,580,769, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, 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.

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 CLTC 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.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Fund Balance, Continued

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 accordance 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, 2018 and 2017, the CLTC has encumbrances of \$4,184 and \$4,465, respectively.

New Accounting Standards

During the year ended September 30, 2018, the CLTC implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the accompanying financial statements.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Risk Management

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

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2018 and 2017

(4) Receivables

Receivables as of September 30, 2018 and 2017, including the applicable allowance for uncollectible accounts, are as follows:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Receivables: | | |
| Commercial lease | \$ 751,304 | \$ 580,051 |
| Less allowance for uncollectible accounts | <u>(234,400)</u> | <u>(181,600)</u> |
| | <u>\$ 516,904</u> | <u>\$ 398,451</u> |

(5) Restricted Assets

The CLTC maintains a savings deposit and time certificates of deposit as of September 30, 2018 and 2017 in the amount of \$640,576 and \$514,125, 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.

(6) 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, the Guam Housing Corporation, and the Guam Waterworks Authority.

Certain developed land supported by a valid lease 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 a lease is reported at historical cost. As of September 30, 2018 and 2017, such land is valued at \$458,751,008 and \$461,302,203, respectively, of which \$452,048,123 and \$453,073,398, 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 leases associated with these investments are reported as revenues of the CLTC.

During the year ended September 30, 2017, the CLTC transferred certain land to the Guam Waterworks Authority in accordance with Public Law 33-174 for consideration of \$455,000.

During the year ended September 30, 2017, \$641,368 was transferred to the General Fund to fund General Fund operations. This transfer was based on a determination by CLTC management that the repayment of interfund receivables due from the General Fund of \$641,368 were not expected to occur within a reasonable time.

(7) Significant Customers

The CLTC generates revenues from certain major customers that exceed 10 percent or more of the CLTC's total revenues. During the years ended September 30, 2018 and 2017, the CLTC recognized revenues from two customers that represented approximately 74% and 73%, respectively, of total revenues.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2018 and 2017

(8) Commitments

The CLTC has entered into 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 licensing agreements are as follows:

| <u>Year Ending</u> <u>September 30,</u> | |
|--|----------------------|
| 2019 | \$ 872,855 |
| 2020 | 851,407 |
| 2021 | 830,276 |
| 2022 | 821,773 |
| 2023 | 777,652 |
| 2024 - 2028 | 3,835,275 |
| 2029 - 2033 | 4,036,772 |
| 2034 - 2038 | 2,559,370 |
| 2039 - 2043 | 145,462 |
| 2044 - 2047 | <u>12,604</u> |
| | \$ <u>14,743,446</u> |

(9) Contingencies

Loan Guarantee

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, 2018, 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 the CLTC has substantial defenses available to it in the event of litigation. As a result, at this time, management does not believe that material exposure exists related to this event. Therefore, no provision for a liability that may arise from this matter has been made in the accompanying financial statements.

Lawsuit and Claims

On January 13, 2017, the US Department of Justice (DOJ) informed GovGuam through a letter that the DOJ has completed its investigation and has authorized the filing of a complaint in federal district court against GovGuam, the CLTC, and its Administrative Director. The complaint will allege that GovGuam, through the CLTC and its Administrative Director, denied a dwelling to a person or persons because of race or national origin; discriminated in the terms, conditions, or privileges of sale or rental of dwellings, and/or in the provision of services or facilities in connection therewith because of race or national origin; and made statements and advertisements with respect to the rental of a dwelling that indicate a preference, limitation or discrimination based on race or national origin in violation of the FHA, 42 U.S.C. §§ 3604 (a), (b), (c). The complaint will also allege that the defendants discriminated because of race or national origin in making available, or in the term or conditions of, residential real estate related transactions in violation of the Fair Housing Act, 42 U.S.C. § 3605 (a). While the outcome of this communication cannot be predicted with certainty, GovGuam is of the opinion, that the CLTC Act of 1975 is legal and constitutional and that the ultimate disposition of such communication will not have a material adverse effect on the CLTC's financial statements, and therefore no related provision has been recorded in the accompanying financial statements for the potential impact, if any, of this matter.

CHAMORRO LAND TRUST COMMISSION

Combining Balance Sheet
September 30, 2018

| | <u>Chamorro Land Trust Operations Fund</u> | <u>Chamorro Loan Guarantee Fund</u> | <u>Chamorro Land Trust Survey and Infrastructure Fund</u> | <u>Total</u> |
|--|--|---|---|---------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 2,610,948 | \$ - | \$ 1,414 | \$ 2,612,362 |
| Receivables: | | | | |
| Commercial | 511,474 | 3,600 | 1,830 | 516,904 |
| Restricted assets: | | | | |
| Cash and cash equivalents | - | 340,576 | - | 340,576 |
| Time certificates of deposit | <u>-</u> | <u>300,000</u> | <u>-</u> | <u>300,000</u> |
| Total assets | <u>\$ 3,122,422</u> | <u>\$ 644,176</u> | <u>\$ 3,244</u> | <u>\$ 3,769,842</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | |
| Liabilities: | | | | |
| Accrued payroll and other liabilities | \$ 23,650 | \$ - | \$ - | \$ 23,650 |
| Due to GovGuam | 435,761 | (2,942) | (5,211) | 427,608 |
| Unearned revenues | <u>550,240</u> | <u>-</u> | <u>455</u> | <u>550,695</u> |
| Total liabilities | <u>1,009,651</u> | <u>(2,942)</u> | <u>(4,756)</u> | <u>1,001,953</u> |
| Fund balance: | | | | |
| Restricted | - | 640,576 | - | 640,576 |
| Committed | 2,108,587 | 6,542 | 8,000 | 2,123,129 |
| Assigned | <u>4,184</u> | <u>-</u> | <u>-</u> | <u>4,184</u> |
| Total fund balance | <u>2,112,771</u> | <u>647,118</u> | <u>8,000</u> | <u>2,767,889</u> |
| Total liabilities and fund balance | <u>\$ 3,122,422</u> | <u>\$ 644,176</u> | <u>\$ 3,244</u> | <u>\$ 3,769,842</u> |

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Combining Balance Sheet
September 30, 2017

| | <u>Chamorro Land Trust Operations Fund</u> | <u>Chamorro Loan Guarantee Fund</u> | <u>Chamorro Land Trust Survey and Infrastructure Fund</u> | <u>Total</u> |
|--|--|---|---|---------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 2,066,644 | \$ - | \$ - | \$ 2,066,644 |
| Receivables: | | | | |
| Commercial | 394,393 | 3,600 | 458 | 398,451 |
| Due from GovGuam | 222,155 | - | - | 222,155 |
| Restricted assets: | | | | |
| Cash and cash equivalents | - | 214,125 | - | 214,125 |
| Time certificates of deposit | - | 300,000 | - | 300,000 |
| Total assets | <u>\$ 2,683,192</u> | <u>\$ 517,725</u> | <u>\$ 458</u> | <u>\$ 3,201,375</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 70 | \$ - | \$ - | \$ 70 |
| Accrued payroll and other liabilities | 27,039 | - | - | 27,039 |
| Unearned revenues | <u>455,582</u> | <u>-</u> | <u>-</u> | <u>455,582</u> |
| Total liabilities | <u>482,691</u> | <u>-</u> | <u>-</u> | <u>482,691</u> |
| Fund balance: | | | | |
| Restricted | - | 514,125 | - | 514,125 |
| Committed | 2,196,036 | 3,600 | 458 | 2,200,094 |
| Assigned | <u>4,465</u> | <u>-</u> | <u>-</u> | <u>4,465</u> |
| Total fund balance | <u>2,200,501</u> | <u>517,725</u> | <u>458</u> | <u>2,718,684</u> |
| Total liabilities and fund balance | <u>\$ 2,683,192</u> | <u>\$ 517,725</u> | <u>\$ 458</u> | <u>\$ 3,201,375</u> |

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2018

| | Chamorro Land Trust Operations Fund | Chamorro Loan Guarantee Fund | Chamorro Land Trust Survey and Infrastructure Fund | Total |
|---|--|---------------------------------------|--|---------------------|
| Revenues: | | | | |
| Lease rentals: | | | | |
| Commercial | \$ 817,687 | \$ - | \$ 12,807 | \$ 830,494 |
| Agricultural and residential | - | - | 5,407 | 5,407 |
| Proceeds from sale of land | 17,209 | - | - | 17,209 |
| Collections from Land for the Landless program | - | - | 23,640 | 23,640 |
| Payments in lieu of real property taxes | - | 128,748 | - | 128,748 |
| Land trust application fees | 4,200 | - | - | 4,200 |
| Interest income | 3,029 | 645 | - | 3,674 |
| | <u>842,125</u> | <u>129,393</u> | <u>41,854</u> | <u>1,013,372</u> |
| Total revenues | | | | |
| Expenditures: | | | | |
| Salaries and wages - regular | 470,595 | - | - | 470,595 |
| Salaries and wages - fringe benefits | 130,711 | - | - | 130,711 |
| Health benefits | 40,769 | - | - | 40,769 |
| Contractual services | 147,807 | - | - | 147,807 |
| Building rent | 124,390 | - | - | 124,390 |
| Supplies | 2,421 | - | - | 2,421 |
| Capital outlays | - | - | 34,312 | 34,312 |
| Miscellaneous | 13,162 | - | - | 13,162 |
| | <u>929,855</u> | <u>-</u> | <u>34,312</u> | <u>964,167</u> |
| Total expenditures | | | | |
| Net change in fund balances | (87,730) | 129,393 | 7,542 | 49,205 |
| Fund balances at beginning of year | <u>2,200,501</u> | <u>517,725</u> | <u>458</u> | <u>2,718,684</u> |
| Fund balances at end of year | <u>\$ 2,112,771</u> | <u>\$ 647,118</u> | <u>\$ 8,000</u> | <u>\$ 2,767,889</u> |

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2017

| | Chamorro Land Trust Operations Fund | Chamorro Loan Guarantee Fund | Chamorro Land Trust Survey and Infrastructure Fund | Total |
|---|--|---------------------------------------|--|---------------------|
| Revenues: | | | | |
| Lease rentals: | | | | |
| Commercial | \$ 816,457 | \$ - | \$ 11,073 | \$ 827,530 |
| Agricultural and residential | - | - | 9,041 | 9,041 |
| Proceeds from sale of land | 455,000 | - | - | 455,000 |
| Collections from Land for the Landless program | - | - | 127,865 | 127,865 |
| Payments in lieu of real property taxes | - | 94,955 | - | 94,955 |
| Land trust application fees | 7,000 | - | - | 7,000 |
| Interest income | <u>2,428</u> | <u>614</u> | <u>-</u> | <u>3,042</u> |
| Total revenues | <u>1,280,885</u> | <u>95,569</u> | <u>147,979</u> | <u>1,524,433</u> |
| Expenditures: | | | | |
| Salaries and wages - regular | 535,347 | - | - | 535,347 |
| Salaries and wages - fringe benefits | 145,755 | - | - | 145,755 |
| Health benefits | 56,436 | - | - | 56,436 |
| Contractual services | 212,100 | - | - | 212,100 |
| Building rent | 124,390 | - | - | 124,390 |
| Supplies | 10,202 | - | - | 10,202 |
| Capital outlays | 221,700 | - | - | 221,700 |
| Transfer out to General Fund | - | 320,105 | 321,263 | 641,368 |
| Miscellaneous | <u>5,170</u> | <u>-</u> | <u>-</u> | <u>5,170</u> |
| Total expenditures | <u>1,311,100</u> | <u>320,105</u> | <u>321,263</u> | <u>1,952,468</u> |
| Net change in fund balances | (30,215) | (224,536) | (173,284) | (428,035) |
| Fund balances at beginning of year | <u>2,230,716</u> | <u>742,261</u> | <u>173,742</u> | <u>3,146,719</u> |
| Fund balances at end of year | <u>\$ 2,200,501</u> | <u>\$ 517,725</u> | <u>\$ 458</u> | <u>\$ 2,718,684</u> |

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Supplemental Schedule of Employees and Salaries
Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|------------------------------|-------------------|-------------------|
| Salaries and wages - regular | \$ <u>470,595</u> | \$ <u>535,347</u> |
| Number of employees: | | |
| Land Agents | 8 | 6 |
| Records Management | 1 | 1 |
| Other Administrative Staff | 2 | 4 |
| Engineering Technician | <u>2</u> | <u>3</u> |
| Total number of employees | <u>13</u> | <u>14</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 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), which comprise the balance sheet as of September 30, 2018, 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 16, 2019.

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.

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2018-001, that we consider to be material weaknesses.

Compliance and Other Matters

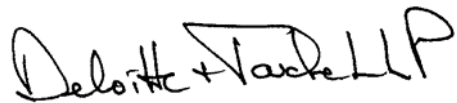
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

The Commission's Responses to Findings

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

Purpose of this Report

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

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

May 16, 2019

CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses Year Ended September 30, 2018

Finding No. 2018-001

Rental Lease

Criteria: Office space should be supported by an underlying lease identifying the terms and conditions of the landlord/tenant relationship and the responsibilities of the respective parties.

Condition: During the year ended September 30, 2018, the Commission occupied certain office space at a cost of \$10,365 per month. No underlying lease 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 per month.

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

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

Recommendation: We recommend that the Department of Land Management enter into a formal office space lease that incorporates the office space utilized by the Commission.

Prior Year Status: The lack of a formal office space lease was reported as a finding in the audits of the Commission for fiscal years 2013 through 2017.

Auditee Response and Corrective Action Plan: CLTC in FY2019 will issue an Invitation For Bid (IFB) for Office Space Rental to ensure that a negotiated lease is executed on behalf of CLTC.

CHAMORRO LAND TRUST COMMISSION

Unresolved Prior Audit Findings
Year Ended September 30, 2018

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