



Chamorro Land Trust Commission FY 2014 Financial Highlights

July 13, 2015

The Chamorro Land Trust Commission (CLTC) closed Fiscal Year (FY) 2014 with an increase in fund balance (net income) of \$296 thousand (K), compared to a \$583K increase in FY 2013. The fund balance decrease was due to decreased revenues of \$178K and increased expenditures of \$108K.

CLTC received an unmodified (clean) opinion from its independent auditors Deloitte and Touche, LLP . In order to receive the clean opinion, nine audit adjustments were made in 2014 that cumulatively increased CLTC's net position by \$1.5 million (M). The auditors identified five material weaknesses in its Report on Compliance and Internal Control, which pertained to the lack of a formal accounting system; lack of monitoring of leases, royalties, and loan guarantees; lack of accounts receivable follow-up and collection; and lack of a formal rental lease agreement. These material weaknesses were also identified in prior audits.

Land Inventory

As of FY 2014, CLTC has qualified a total of 11,214 applicants for its residential and agricultural programs. CLTC has leased out a combined total acreage of 2,783.29 through its residential and agricultural programs and 677.49 acres through its commercial programs.

Not all properties leased through the residential and agricultural programs were readily available with basic infrastructure and property surveys. Unregistered land accounts for 3,545.23 acres of CLTC's 11,061.78 acres of land inventory. These unregistered properties are at risk of loss from surrounding claimants; and therefore, it is important that CLTC work on getting these acreages registered properly.

In FY 2014, with the assistance of the Department of Land Management's Survey Division, CLTC 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 descriptions to enable DRT to fully assess real estate taxes on applicable leases. This project was 50% complete at the end of FY 2014. Without a full description, the Department of Revenue and Taxation (DRT) is unable to assess real property taxes on these lots.

Payment in Lieu of Property Taxes

The Payment in Lieu of Taxes (PILOT) is the revenue that supports the Chamorro Loan Guarantee Fund. Initially in FY 2014, CLTC was going to record and realize \$1.6M of PILOT revenue. However, not all real property tax revenues collected were from CLTC constituents as there were errors from cashiers posting the revenue to the wrong account. As a result, CLTC only recorded \$78K of real property tax revenues for FY 2014. CLTC will work with the Treasurer of Guam to ensure this type of error does not occur in the future. In addition, CLTC will work with DRT to deputize two CLTC employees to obtain viewing access in order to better monitor all real property payments made by CLTC constituents.

Increase in Land Valuation

As of September 30, 2014, the Government of Guam land endowment was valued at \$419.4M, an increase from the \$411.1M in FY 2013. CLTC holds \$412.7M of the \$419.4M, with the remaining \$6.7M from the Guam Ancestral Lands Commission

Commercial Lease Program

For years CLTC's commercial license program had been operating without rules and regulations. In 2013, there was a moratorium on issuing new commercial leases. In the latter part of FY 2014, CLTC was finally able to finalize the rules and regulations for its commercial license program, which allowed CLTC to proceed in the planning and scheduling process for the public hearing, and fulfill the Administrative Adjudication Law process. Upon completion, the rules and regulations will allow CLTC to officially use land for commercial purposes which is expected to increase revenues.

Loan Guarantee Program

CLTC has drilled down into the loan guarantee 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 145 CLTC leaseholders were granted loan guarantees totaling \$12.2M. However, a majority of the loan guarantees were for disaster relief loans following typhoons in 1998 and 2002. 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.

As a result of the implementation of the monitoring process, CLTC's liability decreased to \$10.2M. Moreover, in the latter part of FY2014, 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.

Revenues and Expenses Increase

In FY 2014, CLTC's total revenues decreased by \$178K. This was primarily due to the \$188K decrease in Commercial lease rentals and \$69K decrease in Royalties. The decreases were slightly offset by the new revenue from PILOT of \$78K.

Total expenditures also increased in FY 2014 by \$108K, going from \$472K in FY 2013 to \$580K in FY 2014. Significant increases were from Salaries and Wages for regular and fringe benefits, which increased by \$49K and \$13K, respectively. This increase was due to the implementation of the new Competitive Wage Act. There were also increases in Contractual Services and Building Rent. Contractual Services increased by \$40K, going from \$79K in FY 2013 to \$119K in FY 2014, which is due to full recognition of legal services expenses. Building Rent increased by \$19K, going from \$48K in FY 2013 to \$67K in FY 2014, which is due to the increase in rates per square feet.

Compliance Report

The independent auditors identified five material weaknesses in the Report on Compliance and Internal Controls. These repeat findings pertained to CLTC lacking the following: (1) formal accounting system and no reconciliation with general account balances; (2) adequate internal control policies for collection and monitoring of accounts receivables; (3) adequate internal control policies requiring monitoring and documentation of coral extraction royalties; (4) adequate internal control policies requiring monitoring of loan guarantees; and (5) a negotiated lease agreement for the CLTC occupied office space which cost \$4K a month.

Summary of Uncorrected Misstatements

There were three uncorrected misstatements identified in FY 2014 that would have increased CLTC's revenues by \$31K. Management agreed these misstatements will not be recorded as they were the result of an error, were immaterial, and not the result of fraud, irregularities, or illegal acts.

For a more detailed discussion on CLTC's operations, see the Management's Discussion and Analysis in the audit report at www.opaguam.org.