

OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

32-14-1958
Office of the Speaker
Judith T. Won Pat, Ed.D.

Date: 8-20-14
Time: 8:15am
Received by: [Signature]

GUAM LEGISLATURE
CENTRAL FILES

August 19, 2014

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

ACKNOWLEDGEMENT RECEIPT

dated by: [Signature]
9-5-14
8/19/14

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Chamorro Land Trust Commission (CLTC)'s Fiscal Year (FY) 2012 Financial Audit. Independent auditors Deloitte & Touche, LLP expressed an unmodified (clean) opinion for CLTC's financial statements.

To recap FY 2012:

- FY 2012 is the first financial audit completed for CLTC since it was established as a component unit of the Government of Guam. However, the Office of Public Accountability (OPA) has issued three performance audits in 1999, 2005, and 2009. The development of an inventory of leases was a primary recommendation of the OPA audits.
- CLTC, with the significant guidance of the independent auditors, finally completed the first inventory of its leases. CLTC is to be applauded for this accomplishment. It is important that CLTC implement proper controls to ensure the preservation and integrity of this database.
- As of September 30, 2012 CLTC has guaranteed 152 loans of Chamorro homeland residential lessees totaling \$12.9M to the Guam Housing Corporation and the Small Business Administration. In 2005, the OPA Audit Report No. 05-09 identified a total of \$73K in defaulted loans guaranteed and paid by the CLTC. Since then, one other loan has defaulted, and the foreclosure proceedings are currently in court. Should more loans go into default, CLTC may not have the financial wherewithal to continue to meet the guarantee. Accordingly, the Board, management, and Legislature should consider whether CLTC should continue to guarantee loans.

2014 AUG 20 AM 8:55

For your convenience and further detail, you may also view and download OPA's two page highlights and the reports in their entirety at www.guamopa.org.

Senseramente,

[Signature]
Doris Flores Brooks, CPA, CGFM
Public Auditor

RECEIPT ACKNOWLEDGED:

By: _____

Date: _____



Chamorro Land Trust Commission FY 2012 Financial Highlights

August 14, 2014

The Chamorro Land Trust Commission (CLTC) closed Fiscal Year (FY) 2012 with an increase in fund balance (net income) of \$562 thousand (K), compared to a \$173K increase in FY 2011. The fund balance increase was primarily due to increased revenues of \$270K, of which \$240K was derived from royalties. The FY 2012 is the first financial audit completed for the CLTC since it was established as a component unit of the Government of Guam (GovGuam). However, the Office of Public Accountability (OPA) has issued three performance audits in 1999, 2005, and 2009. The development of an inventory of leases was a primary recommendation of the OPA audits.

CLTC, with the significant guidance of the independent auditors Deloitte and Touche, LLP, finally completed the first inventory of its leases. CLTC is to be applauded for this accomplishment. Due to limited staff expertise and lack of internal accounting infrastructure, CLTC relied heavily on the independent auditors to assist in the development of the land inventory database, which management owns and takes full responsibility for. Upon CLTC's physical review of all leases, several discrepancies were discovered which led to the correction and update to the inventory database. It is important that CLTC implement proper controls to ensure the preservation and integrity of this database.

CLTC received an unmodified (clean) opinion from its independent auditors. In order to receive the clean opinion, seven and nine audit adjustments were made in 2011 and 2012 that cumulatively increased CLTC's net position by \$10K in 2011 and \$523K in 2012. The auditors identified four material weaknesses in its Report on Compliance and Internal Control, which pertain to the lack of accounting system; lack of monitoring of leases, royalties, and loan guarantees; and lack of accounts receivable follow-up and collection. These material weaknesses were previously identified in prior OPA audits.

Land Endowment Recordation of \$400 Million

With the completion of the land lease inventory, a total of \$406.7 million (M) in investment in land and other real estate was recorded at the government-wide level. Of this amount, \$400M was attributed to CLTC land leases. CLTC must now work with the Department of Revenue and Taxation (DRT) to ensure the land leases are recorded at DRT for real property tax assessments.

CLTC Land Inventory

CLTC's primary mission is to lease Chamorro homelands to native Chamorro people. CLTC executes property leases for residential, agricultural, and commercial programs. CLTC also has about 33% of GovGuam properties or 11,785 acres in its inventory. In September 2011, Governor Eddie Baza Calvo issued Reorganization Advisories Nos. 5 and 9 which merged CLTC and the Guam Ancestral Lands Commission into the Department of Land Management (DLM). The reorganization was to consolidate resources, eliminate redundancies, and provide better and faster services. However, due to funding constraints, minimal resources have been allocated to CLTC.

In 2011, CLTC issued a total of 37 leases totaling 41 acres. After the merger with DLM, CLTC issued 90 leases totaling 90 acres in FY 2012. At the end of FY 2012, there were approximately 8,453 applications pending review and approval from CLTC's management and board. Of the pending applications, 5,260 consisted of residential, and 3,193 were agricultural. Based on the FY 2012 inventory database, 1,354 residential leases have been issued totaling 488 acres of property and 997 agricultural leases have been issued totaling 2,233 acres.

With the limited staff, CLTC is unable to adequately oversee the slotting of constituents, enforce compliance with lease agreements, maintain records, and track revenues and increases in liabilities. A portion of funds

from lease and royalty revenues should be set aside for the administration, processing, issuance, review, monitoring, collection, inspection, and inventory of leases.

CLTC Guaranteed \$13M in Loans

CLTC is authorized to loan or guarantee the repayment of any authorized loan to a Chamorro homeland lessee, where the initial capital is one million dollars up to a maximum amount not to exceed the financial ability of the borrower. In the event of default, the loan guarantees shift the lender's default risk entirely to the CLTC whereby the lender can call upon the CLTC to make partial or full payment of the guaranteed loan. As of September 30, 2012 CLTC has guaranteed 152 loans of Chamorro homeland residential lessees totaling \$12.9M to the Guam Housing Corporation and the Small Business Administration. In 2005, the OPA performance audit report 05-09 identified a total of \$73K in defaulted loans guaranteed and paid by the CLTC. Since then, one other loan has defaulted, and the foreclosure proceedings are currently in court. Should more loans go into default, CLTC may not have the financial wherewithal to continue to meet the guarantee. Accordingly, the Board, management, and Legislature should consider whether CLTC should continue to guarantee loans.

CLTC Revenue Sources

CLTC's main sources of revenue are derived from lease rentals, and royalties. Commercial leases represent 54% of total revenues, while agricultural and residential leases comprise less than 1%. For residential leases, CLTC charges only \$1 a year for a period of 99 years. Royalties constitutes 45% of CLTC's Revenues.

Compliance Report

The independent auditors identified four material weaknesses in the Report on Internal Control over Financial Reporting and Compliance that pertained to the following:

- Accounting System - CLTC did not maintain adequate records for its non appropriated funds on a formal accounting system, and no formal reconciliation process is in place for general ledger account balances;
- Collection and Monitoring of Accounts Receivable - CLTC did not have adequate internal control policies requiring the timely collection and monitoring of accounts receivable. CLTC received a payment of \$100K for which no receipt was available evidencing the nature of the transaction nor the total amount due from this lessee. As a result, there is a possibility of loss revenue and inaccurate financial reporting;
- Coral Extraction Royalties - CLTC did not have adequate internal control policies requiring monitoring and documentation of coral extraction royalties. Revenues collected were not supported by a contract agreement for established rates, nor did CLTC verify amount of coral materials extracted; and
- Loan Guarantees - No effective system of monitoring guaranteed loans with respective loan institutions has been established.

Presently, CLTC has one full-time Administrative Officer and Word Processing Secretary II who handle all the accounting and maintenance of the land inventory, and financial reporting. Management has not identified any other employee who is trained to serve as an alternate and to monitor and oversee these responsibilities. It is important that resources be made available to support the continuity of CLTC operations and ensure integrity of the land inventory database.

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

CHAMORRO LAND TRUST COMMISSION

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

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

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

CHAMORRO LAND TRUST COMMISSION

Years Ended September 30, 2012 and 2011
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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Chamorro Land Trust Commission

We have audited the accompanying balance sheets of the Chamorro Land Trust Commission (the "Commission"), a governmental fund of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended. These financial statements are the responsibility of the management of the Commission. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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.

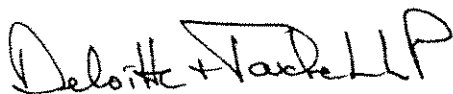
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Chamorro Land Trust Commission, a governmental fund of the Government of Guam, as of September 30, 2012 and 2011, and the results of the Chamorro Land Trust Commission's operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2014, on our consideration of the Chamorro Land Trust 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 financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Other Supplementary Information, as set forth in Section IV of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Chamorro Land Trust Commission. This supplementary information is the responsibility of the management of the Chamorro Land Trust Commission. The additional information on pages 19 through 22 was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit 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 standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information, as set forth on pages 19 through 22 in Section IV of the foregoing table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Chamorro Land Trust Commission's basic financial statements. The supplementary information on page 23 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



August 7, 2014

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis
September 30, 2012 and 2011

INTRODUCTION

The 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 2011 and FY 2012 is the fourth audit conducted since CLTC was codified into law and made possible with collaborative efforts by the CLTC Board, Management, Employees and OPA; adhering to accountability and transparency.

CLTC's Management's Discussion and Analysis (MD&A) provides an overview of CLTC's financial activities for fiscal years ended September 30, 2011 and September 30, 2012. 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 \$1,663,663 at the close of fiscal year 2012 as compared to \$1,101,446 at the close of fiscal year 2011.
- Total assets at September 30, 2012 increased by \$539,192 as compared to September 30, 2011.
- Total liabilities at September 30, 2012 decreased by \$23,025 as compared to September 30, 2011.
- Total fund balance at September 30, 2012 increased by \$562,217 as compared to September 30, 2011.
- Total revenues of \$1,082,016 for fiscal year 2012 increased by \$304,568 as compared to \$777,448 for fiscal year 2011. Total expenditures of \$519,799 for fiscal year 2012 decreased by \$85,065 as compared to \$604,864 for fiscal year 2011. This resulted in an increase in the fund balance of \$562,217 for fiscal year 2012 as compared to \$172,584 for fiscal year 2011.

2. Overview of the Financial Statements

CLTC's financial statements include all of the activities of Chamorro Land Trust Operations Fund and of the Chamorro Loan Guarantee Fund. The financial statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2012 and 2011.

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
September 30, 2012 and 2011

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 is shown below as at September 30, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	(Unaudited)	<u>2010</u>
Assets:				
Cash and cash equivalents	\$ 901,361	\$ 135,241	\$	-
Receivables	337,192	354,761		295,483
Other assets	239,636	449,846		512,245
Restricted assets	<u>509,387</u>	<u>508,536</u>		<u>506,336</u>
Total assets	<u>\$ 1,987,576</u>	<u>\$ 1,448,384</u>		<u>\$ 1,314,064</u>
Liabilities and Fund Balance:				
Accounts payable and other	\$ 12,501	\$ 18,177	\$	106,719
Deferred revenue	<u>311,412</u>	<u>328,761</u>		<u>278,483</u>
Fund Balance	<u>323,913</u>	<u>346,938</u>		<u>385,202</u>
	<u>1,663,663</u>	<u>1,101,446</u>		<u>928,862</u>
	<u>\$ 1,987,576</u>	<u>\$ 1,448,384</u>		<u>\$ 1,314,064</u>

Total assets increased by \$562,217 in 2012 compared to 2011 and by \$172,584 in 2011 compared to 2010 primarily due to the increase in cash and cash equivalents.

Restricted assets represent cash and time certificates of deposit that are constrained to fulfill CLTC's financial requirement for the Home Loan guarantees issued by CLTC with Guam Housing Corporation and the Small Business Administration.

Total liabilities decreased by \$23,025 in 2012 compared to 2011 and decreased by \$38,264 in 2011 compared to 2010 primarily due to changes in accrued liabilities and deferred revenue.

Total fund balance increased by \$562,217 at the end of fiscal year 2012 due to the following:

- Revenues in FY 2012 amounted to \$1,082,016, which primarily was generated from the commercial leases/licenses and royalty payments and proceeds from sale of land. Revenues in FY 2012 increased by \$304,568 as compared to FY 2011.
- Expenditures in FY 2012 amounted to \$519,799, which was a decrease of \$85,065 as compared to FY 2011.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis
September 30, 2012 and 2011

Total fund balance increased by \$172,584 at the end of fiscal year 2011 due to the following:

- Revenues in FY 2011 amounted to \$777,448, which primarily was generated from the commercial leases/licenses and royalty payments. Revenues in FY 2011 increased by \$7,791 as compared to FY 2010.
- Expenditures in FY 2011 amounted to \$604,864, which was a decrease of \$37,870 as compared to FY 2010.

Statement of Revenues, Expenditures and Changes in Fund Balance

The statement of revenues, expenditures and changes in fund balance discloses information on CLTC's operations for the year. The condensed summary of CLTC's operations is shown below for the years ended September 30, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	(Unaudited) <u>2010</u>
Revenues:			
Lease rentals and royalty payments	\$ 1,011,130	\$ 772,444	\$ 763,207
Proceeds from sale of land	64,556	-	-
Other	<u>6,330</u>	<u>5,004</u>	<u>6,450</u>
	1,082,016	777,448	769,657
Expenditures	<u>519,799</u>	<u>604,864</u>	<u>642,734</u>
Change in fund balance	562,217	172,584	126,923
Fund Balance - beginning	<u>1,101,446</u>	<u>928,862</u>	<u>801,939</u>
Fund Balance - ending	<u>\$ 1,663,663</u>	<u>\$ 1,101,446</u>	<u>\$ 928,862</u>

Total revenues for FY2012 increased by \$304,568 from \$777,448 in 2011 to \$1,082,016 in 2012. The increase was primarily due to the increase in royalty payments and the receipt of proceeds from land sale offset by a decrease in commercial lease revenues. Royalty revenues are earned from the extraction of coral from the property currently being leased by the Guam Racing Federation in Yigo. The two construction companies that participate in the extraction activities are Hawaiian Rock Products and Perez Brothers. The decrease in commercial lease revenues is due to inconsistent payments from lessees due to stipulations in licenses/leases and termination of leases.

Total expenditures for FY2012 decreased by \$85,065 from \$604,864 in 2011 to \$519,799 in 2012. The decrease is credited to the merger of CLTC into the Department of Land Management through Advisory No. 5, which was later superseded by Advisory No. 9.

Total revenues for FY2011 increased marginally by \$7,791 from \$769,657 in 2010 to \$777,448 in 2011. The increase was primarily due to the increase in lease rental payments.

Total expenditures for FY2011 decreased by \$37,870 from \$642,734 in 2010 to \$604,864 in 2011. The decrease was primarily due to the decrease in contractual services associated with the increased need of professional and legal services in FY 2010 compared with FY 2011.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis
September 30, 2012 and 2011

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. Also, to execute commercial leases and licenses for various purposes as prescribed by law. Applicants of the residential and agricultural programs 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 CLTC 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 1994 through 2000, 11,978.53 acres were transferred to CLTC. Unfortunately, through Public Laws 22-23, 22-76, 23-100, 24-15, 24-209, 25-107, and 30-74, 110.94 acres were removed from CLTC's property inventory. As a result, approximately 11,867.59 acres were made available for lease purposes. Of this acreage, 4,191.05 acres are located in the southern portion of Guam, 1,406.44 acres in the central, and 6,270.10 acres are located in the northern part of Guam. In 1983, a Land Use Plan was put in place and at the end of FY 2010 that plan was still being utilized by CLTC. Tasked to oversee such an enormous property inventory, the CLTC consists of a 5 member board and a Director with an average staff of nine 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 2010, the CLTC has qualified a total of 10,780 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 FY2010, had leased a combined total acreage of 2,595 through its residential and agriculture programs and 68 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 3,545.45 acres of the CLTC's 11,784.63 acres in inventory. Current statutes prevent any leases being issued on unregistered parcels. Unfortunately, at the end of FY 2010, there were several leases issued to a number of lots that are unregistered. Furthermore, the CLTC has not created policies and procedures to guide the daily operations of the CLTC and their programs.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis
September 30, 2012 and 2011

Historical Perspective:

In all prior years, the CLTC had not done an inventory or analysis of property leased and available under the jurisdiction of the CLTC and had not developed a land use master plan for the programs of the CLTC. These deficiencies created challenges for the CLTC and its beneficiaries throughout the years. Challenges included the inability to accurately assess property taxes, over slotting of constituents, and the inability for the beneficiaries to reap the benefits of the leases awarded. Although the challenges did not cease, there were additional continued challenges that affected the daily operations of the CLTC through the maintenance of records, the enforcement of compliance, the tracking of revenues, and the increase in liabilities. With the average staff of 9, there were only 4 or 5 Land Agents at any given time, that were tasked to oversee the slotting of constituents, enforcement of compliance, and administrative work required after the intake of applications and awarding of lease stage begins. The other employees were the administrative staff and planner that handle the financials, reports, property rezoning, staff support to the board, record keeping, and many other administrative tasks. Unfortunately, the amount of work required for the administrative section of the CLTC was far greater than the amount of staff available. Without financial flexibility and restrictions on recruitment of employees, the CLTC was unable to adequately account for their revenues and receivables from their residential, agricultural, and commercial programs. Also, the CLTC was historically unable to work collaboratively with the Department of Revenue and Taxation to reconcile real estate property taxes due from the leases. This affected one special fund known as the Chamorro Loan Guarantee Fund which its primary revenue source is real estate taxes due from the CLTC leased property. One negative affect of such a special fund is that it jeopardized the solvency of the CLTC.

Since the initiation of the CLTC up until September 30, 2010, as prescribed by Title 21 Chapter 75 of the Guam Code Annotated, the CLTC was authorized to guaranty home loans with the Guam Housing Corporation for recipients seeking mortgage financing assistance and the U.S. Veteran's Administration for veterans who were awarded CLTC leases. Subsequently, a Memorandum of Understanding was executed to extend the benefits available to veterans with CLTC leases and included the Small Business Administration as a mortgage financing grantor. Since the creation of the law and the execution of the MOU up until September 30, 2010, there has been a total value of approximately \$12,179,000 of home loans guaranteed by the CLTC. This amount is a cumulative total of loans issued by the Guam Housing Corporation, Veterans Affairs, and the Small Business Administration. Unfortunately, there was no monitoring of loan guarantees. Also, there was a default valued approximately at \$73,000 that has been settled by the CLTC. Disappointingly, there were no policies or procedures in place in the event any defaults should occur, which leaves the CLTC with no recourse of recovering payment of any defaults. With such a high amount of home loan guarantees, this one contingency could negatively affect the existence of the trust.

It is evident that administrative tasks require daily, monthly, and annual maintenance. As a result, there was a need to increase staff to perform the duties required. An increase in staff would allow for the implementation of internal control principles such as the establishment of responsibilities, segregation of duties, and the independent internal verification. This would create an enhancement of the reliability and accuracy of the CLTC's accounting records.

At the end of FY2010, CLTC processed 2,232 applications and awarded a combined total acreage of 2,595 for the agriculture and residential programs and 68 acres for the commercial program.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis
September 30, 2012 and 2011

Current Change Management:

In FY 2011, challenges of the past became a priority. With such an enormous task at hand, an overhaul of the CLTC records was done. A physical inventory and review of applicant files and updates to the CLTC database were accomplished. After such, the CLTC lease database decreased from three thousand plus leases to about two thousand four hundred; however, during the physical review, discrepancies were discovered which resulted in a decrease in the total number of leases issued. Once again, this was a result of the lack of follow-up and maintenance of records due to staff shortages. To alleviate the lack of follow-up and maintenance of records, an internal policy was put in place in regards to the issuance of leases. The policy that was developed included that no lease will be issued unless the property has been surveyed.

In FY 2011, the CLTC qualified 22 agriculture applicants and 33 residential applicants and also increased the total amount of leases issued by 37. This amount may not be acceptable in terms of productivity but it substantiates that the beneficiaries of the CLTC programs have limited resources available to pay for surveying services. Also, this condition appears to document the need to grant the CLTC more flexibility to utilize lapsed funding available to pay for property surveys for its beneficiaries. At the beginning of FY 2011, the CLTC was staffed with a director and ten employees. The land agents tasked to oversee day to day operations of the land programs amounted to 5 employees. Once again, this number was insufficient to bring the programs up to where they should be and maintain their status.

On the administrative side, the Administrative Officer in FY 2011, attempted to address some concerns of material weaknesses from previous audits and purchased the financial software known as QuickBooks 2010 that authorized a total of three users. Information that was inputted from the previous acting Administrative Officer was imported and reviewed. However, future entries were inputted and recognized using the Cash Basis Accounting Method. Once again, due to the lack of staff, internal control principles had not previously been implemented which created a vulnerable stage within the CLTC in regards to embezzlement and fraud. Moreover, in FY 2011, the CLTC guaranteed one home loan which amounted to \$114,350, which increased the potential liability of CLTC, and as a result of staff non-availability, the CLTC was still unable to monitor the loans guaranteed.

In FY 2012, the CLTC was merged with the Department of Land Management through the Governor's Advisory No. 5, which was then superseded by Advisory No. 9. The intention of the administration was to reduce redundancy, avail of staff expertise, and achieve cost cutting. As a result of the Governor's direction, the CLTC was able to determine the availability of land by lot designation of all land transferred to the CLTC. Additionally, the CLTC was able to identify that there were leases issued in some areas that exceeded the amount of acreage available. The CLTC issued 90 leases, communicated with USDA representatives regarding the Substantially Underserved Trust Area (SUTA), and actively collected on receivables related to commercial leases/licenses. At the end of FY 2012, CLTC pending applicant awards amounted to 8,453 of which 5,260 are Residential applicants and 3,193 are Agriculture applicants. Also, the CLTC guaranteed 4 mortgage loans that amounted to \$472,440. As a result, the potential liability for the CLTC increased and due to the lack of staff, loans guaranteed have not been monitored.

CHAMORRO LAND TRUST COMMISSION

Management's Discussion and Analysis
September 30, 2012 and 2011

5. Outlook

The CLTC Board and Director have a vision to move the CLTC in the direction to operate more efficiently and effectively for the beneficiaries of CLTC. With that said, the Board and Director, with the assistance of the administration, plan on drafting legislative initiatives that will allow CLTC to fill the gaps that have caused the discrepancies and to streamline certain functions and mandates created by previous laws.

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 649-5263 ext. 600 or send an email your request to dirdlm@guam.gov.gu.

CHAMORRO LAND TRUST COMMISSION

Balance Sheets
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 901,361	\$ 135,241
Receivables	337,192	354,761
Due from GovGuam	239,636	449,846
Restricted assets:		
Cash and cash equivalents	209,387	208,536
Time certificates of deposit	<u>300,000</u>	<u>300,000</u>
Total assets	<u>\$ 1,987,576</u>	<u>\$ 1,448,384</u>
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 5,403	\$ 9,315
Accrued payroll and other liabilities	7,098	8,862
Deferred revenue	<u>311,412</u>	<u>328,761</u>
Total liabilities	<u>323,913</u>	<u>346,938</u>
Commitments and contingencies		
Fund balance:		
Reserved for:		
Restricted	509,387	508,536
Committed	1,127,771	527,229
Assigned	<u>26,505</u>	<u>65,681</u>
Total fund balance	<u>1,663,663</u>	<u>1,101,446</u>
Total liabilities and fund balance	<u>\$ 1,987,576</u>	<u>\$ 1,448,384</u>

See Accompanying Notes to Financial Statements.

CHAMORRO LAND TRUST COMMISSION

Statements of Revenues, Expenditures, and Changes in Fund Balances Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Lease rentals:		
Commercial	\$ 551,659	\$ 583,312
Agricultural and residential	1,896	1,909
Royalties	457,575	187,223
Land trust application fees	4,950	2,800
Interest income	<u>1,380</u>	<u>2,204</u>
Total revenues	<u>1,017,460</u>	<u>777,448</u>
Expenditures:		
Salaries and wages - regular	285,184	395,650
Salaries and wages - fringe benefits	111,285	106,007
Health benefits	-	30,063
Contractual services	20,658	45,085
Building rent	20,000	-
Supplies	19,859	8,119
Equipment	19,321	-
Utilities - power and water	115	14,500
Communications	-	5,263
Capital outlays	41,968	-
Miscellaneous	<u>1,409</u>	<u>177</u>
Total expenditures	<u>519,799</u>	<u>604,864</u>
Excess of revenues over expenditures	<u>497,661</u>	<u>172,584</u>
Other financing sources:		
Proceeds from sale of land	<u>64,556</u>	<u>-</u>
Net change in fund balances	562,217	172,584
Fund balances at beginning of year	<u>1,101,446</u>	<u>928,862</u>
Fund balances at end of year	<u>\$ 1,663,663</u>	<u>\$ 1,101,446</u>

See Accompanying Notes to Financial Statements.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(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, 2012 and 2011, the carrying amount of the CLTC's cash and time certificates of deposit was \$1,410,748 and \$643,777, respectively, and the corresponding bank balances were \$1,410,748 and \$643,777, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2012 and 2011, bank deposits in the amount of \$508,781 and \$508,081, respectively, 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, 2012 and 2011

(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.

Deferred Revenue

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

Fund Balance

Governmental fund balances are classified as follows:

- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and do not lapse at year-end.
- 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 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, 2012 and 2011, the CLTC has encumbrances of \$26,505 and \$65,681, respectively.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2012, the CLTC implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

During fiscal year 2011, the CLTC implemented the following pronouncements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.

In April 2012, GASB issued 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 provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and 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 67 are effective for financial statements for periods beginning after June 15, 2013. 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 these statements 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.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(4) Restricted Assets

The CLTC maintains a savings deposit and a time certificate of deposit as of September 30, 2012 and 2011 in the amount of \$509,387 and \$508,536, 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, 2012 and 2011, such land is valued at \$406,640,273 and \$393,242,611, respectively, of which \$399,880,379 and \$388,120,281, 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.

(6) Sale of Land

On May 10, 2011, the Guam Legislature enacted Public Law 31-53 authorizing the sale of a severed portion of GovGuam land to the adjacent private landowner for the average fair market value as determined by two independent licensed real estate appraisers. Proceeds realized from the sale of this land in the amount of \$64,556 were authorized to be deposited into the account of the CLTC.

(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 year ended September 30, 2012, the CLTC recognized revenues from two customers that represented approximately 57% of total revenues. During the year ended September 30, 2011, the CLTC recognized revenues from three customers that represented approximately 53% of total revenues.

CHAMORRO LAND TRUST COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(8) 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>	
2013	\$ 522,597
2014	318,882
2015	231,879
2016	231,879
2017	233,085
Thereafter	<u>1,138,147</u>
	<u>\$ 2,676,469</u>

(9) Contingencies

The CLTC is party to several legal proceedings; however, the Attorney General of Guam is unable to assess the likelihood of potential liabilities related to claims outstanding as of September 30, 2012 and 2011. Hence, it is not possible to predict a reasonable estimation of these claims to be paid through the claims process and, therefore, no provision for any liability that may result has been made in the accompanying financial statements.

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 shift the lender's default risk entirely to the CLTC whereby the lender can call upon the CLTC to make partial or full payment of the guaranteed loan. As of September 30, 2012, the CLTC has guaranteed 152 loans of Chamorro homeland residential lessees totaling \$12,916,115 to the Guam Housing Corporation and the Small Business Administration.

CHAMORRO LAND TRUST COMMISSION

Combining Balance Sheet
September 30, 2012

	<u>Chamorro Land Trust Operations Fund</u>	<u>Chamorro Loan Guarantee Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 901,361	\$ -	\$ 901,361
Receivables	337,192	-	337,192
Due from GovGuam General Fund	239,636	-	239,636
Restricted assets:			
Cash and cash equivalents	-	209,387	209,387
Time certificates of deposit	-	300,000	300,000
Total assets	<u>\$ 1,478,189</u>	<u>\$ 509,387</u>	<u>\$ 1,987,576</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts payable	\$ 5,403	\$ -	\$ 5,403
Accrued payroll and other liabilities	7,098	-	7,098
Deferred revenue	311,412	-	311,412
Total liabilities	<u>323,913</u>	<u>-</u>	<u>323,913</u>
Fund balance:			
Reserved for:			
Restricted	-	509,387	509,387
Committed	1,127,771	-	1,127,771
Assigned	26,505	-	26,505
Total fund balance	<u>1,154,276</u>	<u>509,387</u>	<u>1,663,663</u>
Total liabilities and fund balance	<u>\$ 1,478,189</u>	<u>\$ 509,387</u>	<u>\$ 1,987,576</u>

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Combining Balance Sheet
September 30, 2011

	<u>Chamorro Land Trust Operations Fund</u>	<u>Chamorro Loan Guarantee Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 135,241	\$ -	\$ 135,241
Receivables	354,761	-	354,761
Due from GovGuam General Fund	449,846	-	449,846
Restricted assets:			
Cash and cash equivalents	-	208,536	208,536
Time certificates of deposit	-	300,000	300,000
Total assets	<u>\$ 939,848</u>	<u>\$ 508,536</u>	<u>\$ 1,448,384</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts payable	\$ 9,315	\$ -	\$ 9,315
Accrued payroll and other liabilities	8,862	-	8,862
Deferred revenue	328,761	-	328,761
Total liabilities	<u>346,938</u>	<u>-</u>	<u>346,938</u>
Fund balance:			
Reserved for:			
Restricted	-	508,536	508,536
Committed	527,229	-	527,229
Assigned	65,681	-	65,681
Total fund balance	<u>592,910</u>	<u>508,536</u>	<u>1,101,446</u>
Total liabilities and fund balance	<u>\$ 939,848</u>	<u>\$ 508,536</u>	<u>\$ 1,448,384</u>

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended September 30, 2012

	<u>Chamorro Land Trust Operations Fund</u>	<u>Chamorro Loan Guarantee Fund</u>	<u>Total</u>
Revenues:			
Lease rentals:			
Commercial	\$ 551,659	\$ -	\$ 551,659
Agricultural and residential	1,896	-	1,896
Royalties	457,575	-	457,575
Land trust application fees	4,950	-	4,950
Interest income	529	851	1,380
	<u>1,016,609</u>	<u>851</u>	<u>1,017,460</u>
Total revenues			
Expenditures:			
Salaries and wages - regular	285,184	-	285,184
Salaries and wages - fringe benefits	111,285	-	111,285
Contractual services	20,658	-	20,658
Building rent	20,000	-	20,000
Supplies	19,859	-	19,859
Equipment	19,321	-	19,321
Utilities - power and water	115	-	115
Capital outlays	41,968	-	41,968
Miscellaneous	1,409	-	1,409
	<u>519,799</u>	<u>-</u>	<u>519,799</u>
Total expenditures			
Excess of revenues over expenditures	<u>496,810</u>	<u>851</u>	<u>497,661</u>
Other financing sources:			
Proceeds from sale of land	<u>64,556</u>	<u>-</u>	<u>64,556</u>
Net change in fund balances	561,366	851	562,217
Fund balances at beginning of year	<u>592,910</u>	<u>508,536</u>	<u>1,101,446</u>
Fund balances at end of year	<u>\$ 1,154,276</u>	<u>\$ 509,387</u>	<u>\$ 1,663,663</u>

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Year Ended September 30, 2011

	<u>Chamorro Land Trust Operations Fund</u>	<u>Chamorro Loan Guarantee Fund</u>	<u>Total</u>
Revenues:			
Lease rentals:			
Commercial	\$ 583,312	\$ -	\$ 583,312
Agricultural and residential	1,909	-	1,909
Royalties	187,223	-	187,223
Land trust application fees	2,800	-	2,800
Interest income	4	2,200	2,204
	<u>775,248</u>	<u>2,200</u>	<u>777,448</u>
Total revenues			
Expenditures:			
Salaries and wages - regular	395,650	-	395,650
Salaries and wages - fringe benefits	106,007	-	106,007
Health benefits	30,063	-	30,063
Contractual services	45,085	-	45,085
Supplies	8,119	-	8,119
Utilities - power and water	14,500	-	14,500
Communications	5,263	-	5,263
Miscellaneous	177	-	177
	<u>604,864</u>	<u>-</u>	<u>604,864</u>
Total expenditures			
Net change in fund balances	170,384	2,200	172,584
Fund balances at beginning of year	<u>422,526</u>	<u>506,336</u>	<u>928,862</u>
Fund balances at end of year	<u>\$ 592,910</u>	<u>\$ 508,536</u>	<u>\$ 1,101,446</u>

See Accompanying Independent Auditors' Report.

CHAMORRO LAND TRUST COMMISSION

Supplemental Schedule of Employees and Salaries Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries and wages - regular	<u>\$ 285,184</u>	<u>\$ 395,650</u>
Number of employees:		
Director	1	1
Land Agents	3	5
Planner	1	1
Records Management	1	1
Other Administrative Staff	<u>2</u>	<u>4</u>
Total number of employees	<u>8</u>	<u>12</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 the financial statements of the Chamorro Land Trust Commission (CLTC) as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated August 7, 2014. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the CLTC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the CLTC's internal control over financial reporting as a basis for designing our auditing procedures 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 CLTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CLTC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

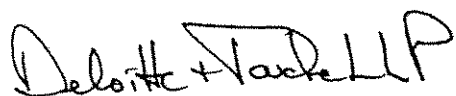
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2012-1 through 2012-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CLTC's financial statements are free of 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 CLTC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the CLTC's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

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

August 7, 2014

CHAMORRO LAND TRUST COMMISSION

Schedule of Findings and Responses
Years Ended September 30, 2012 and 2011

Finding No. 2012-1

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 direction from management requiring the need to establish and maintain accounting records utilizing 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.

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
Years Ended September 30, 2012 and 2011

Finding No. 2012-2

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, 2012 and 2011, CLTC recorded lease receivables of \$337,192 and \$354,761, respectively, of which \$311,412 and \$328,761, respectively, remained uncollected 90 days after the respective year ends. In addition, CLTC received a payment of \$100,000 in 2011 from a recycling company for past delinquent monthly rental payments. Documentation evidencing the nature of this receipt was not available. Furthermore, no documentation was available indicating the total amount due from this lessee at September 30, 2012 and 2011.

Cause:

The cause of the above condition is the lack of adequate internal control policies requiring 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 documentation of lease revenue receipts.

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
Years Ended September 30, 2012 and 2011

Finding No. 2012-3

Coral Extraction Royalties

Criteria:

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

Condition:

During the years ended September 30, 2012 and 2011, CLTC recorded coral extraction royalties of \$457,575 and \$187,223, respectively, from three construction companies 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 respective construction companies 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 timely collection and monitoring of accounts receivable.

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
Years Ended September 30, 2012 and 2011

Finding No. 2012-4

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, 2012, CLTC has guaranteed 152 loans of Chamorro homeland residential lessees totaling \$12,916,115 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.

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 inquires 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

August 7, 2014

Board of Commissioners
Chamorro Land Trust Commission

Dear Board of Commissioners:

We have performed an audit of the financial statements of the Chamorro Land Trust Commission (the "Commission") as of and for the years ended September 30, 2012 and 2011, in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated August 7, 2014.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Commission is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated January 21, 2014. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the Commission's basic financial statements and the accompanying supplementary information, and to disclaim an opinion on the required supplementary information for the years ended September 30, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- To report on the Commission's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the years ended September 30, 2012 and 2011 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Department of Land Management's Office of the Director are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Department of Land Management's Office of the Director of their responsibilities.

We considered the Commission's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and on assumptions about future events. No significant accounting estimates are reflected in the Commission's 2012 and 2011 financial statements.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendices A and B to Attachment I, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. These corrected misstatements are listed in Attachment II and are reflected in the Commission's 2012 and 2011 financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Commission's significant accounting policies are set forth in Note 2 to the Commission's 2012 and 2011 financial statements. During the years ended September 30, 2012 and 2011, there were no significant changes in previously adopted accounting policies or their application.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Commission's 2012 and 2011 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2012 and 2011.

SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Commission's management and staff and had unrestricted access to the Commission's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

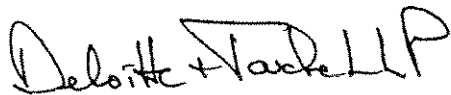
We have made specific inquiries of the Commission's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Funds are required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, also dated August 7, 2014, containing information regarding our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements.

This report is intended solely for the information and use of management, the Department of Land Management and the Office of Public Accountability of Guam and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Handwritten signature of Deloitte + Touche LLP in cursive script.



DIPĀTTAMENTON MINANEHAN TĀNO'
 (Department of Land Management)
GUBETNAMENTON GUĀHAN
 (Government of Guam)



EDDIE BAZA CALVO
 Governor

MICHAEL J.B. BORJA
 Director

RAY TENORIO
 Lieutenant Governor

DAVID V. CAMACHO
 Deputy Director

Street Address:
 590 S. Marine Corps Drive
 Suite 733 ITC Building
 Tamuning, GU 96913

Mailing Address:
 P.O. Box 2950
 Hagåtña, GU 96932

Website:
<http://dlm.guam.gov>

E-mail Address:
dlmdir@dlm.guam.gov

Telephone:
 671-649-LAND (5263)

Facsimile:
 671-649-5383

August 7, 2014

Deloitte & Touche LLP
 Certified Public Accountants
 361 South Marine Corps Drive
 Guam GU 96913

Gentlemen:

We are providing this letter in connection with your audits of the balance sheets of the Chamorro Land Trust Commission (CLTC), a governmental fund of the Government of Guam, as of September 30, 2012 and 2011, and the related statements of revenues, expenditures, and changes in fund balances for the years then ended, which collectively comprise the CLTC's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances of the CLTC in conformity with generally accepted accounting principles (GAAP) in the United States of America.

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position and results of operations in conformity with GAAP.
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to

you during your audits.

1. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. Deposits are properly classified in the category of custodial credit risk.
 - b. Required supplementary information is measured and presented within prescribed guidelines.
 - c. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
 - d. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.
2. The CLTC has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The CLTC has provided you:
 - a. Minutes of the meetings of the Board of Commissioners or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - b. Summaries of actions of legislation passed by the Government of Guam's legislative body as pertaining to the CLTC.
 - c. Financial records and related data for all financial transactions of the CLTC and for all funds administered by the CLTC. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the CLTC and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - d. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.
4. There has been no:
 - a. Action taken by CLTC management that contravenes the provisions of federal laws and local laws and regulations, or of contracts and grants applicable to the CLTC.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2011 taken as a

whole. A summary of such uncorrected misstatements has been attached as Appendix B.

7. The CLTC has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the CLTC and do not believe that the financial statements are materially misstated as a result of fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the CLTC involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the CLTC received in communications from employees, former employees, analysts, regulators, or others.
10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*, except as disclosed in note 9 to the financial statements.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
13. We have adopted the provisions of GASB Codification Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the CNMI each organization that meets the criteria established in GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$6,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

14. Except as described in Appendix A and Appendix B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
15. The CLTC has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
16. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which the CLTC is contingently liable.

ATTACHMENT I, CONTINUED

17. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
18. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
19. In preparing the financial statements, in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
20. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
21. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*, except as disclosed in note 9 to the financial statements.
22. The CLTC has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in note 4 to the financial statements..
23. The CLTC has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
24. No department or agency of the CLTC has reported a material instance of noncompliance to us.
25. The CLTC has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
26. No events have occurred after September 30, 2012, but before the date of this letter, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.

27. Regarding required supplementary information:
- a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with the Governmental Accounting Standards Board.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
28. Regarding supplementary information:
- a. We are responsible for the fair presentation of the supplementary information in relation to the basic financial statements taken as a whole.
 - b. We believe the supplementary information, including its form and content, is fairly presented in relation to the basic financial statements taken as a whole.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
29. Management is aware of its requirement to disclose whether, subsequent to September 30, 2012, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses have occurred. However, we represent to you that no such disclosure has been made as no such changes in internal control or such other factors have occurred.
30. During the year ended September 30, 2012, the CLTC implemented the following pronouncements:
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the financial statements.
 - GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the financial statements.
31. During the year ended September 30, 2011, the CLTC implemented the following pronouncements:
- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The implementation of this pronouncement did not have a material effect on the financial statements.

ATTACHMENT I, CONTINUED

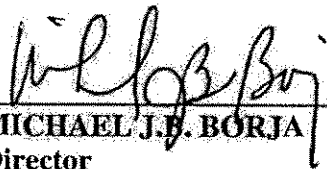
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this pronouncement did not have a material effect on the financial statements.
32. In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.
 33. In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.
 34. In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.
 35. In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the CLTC.
 36. In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.
 37. In April 2012, GASB issued 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 provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the CLTC.

ATTACHMENT I, CONTINUED

38. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and 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 67 are effective for financial statements for periods beginning after June 15, 2013. 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 these statements on the financial statements of the CLTC.
39. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before September 30, 2012 and 2011 and have been appropriately reduced to their estimated net realizable value.
40. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
41. 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. The CLTC has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Very truly yours,

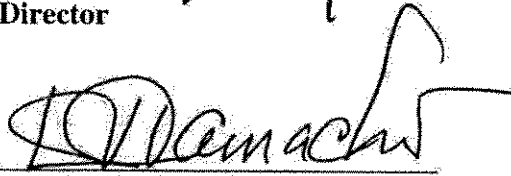
Signed:


MICHAEL J.F. BORJA

Title:

Director

Signed:


DAVID V. CAMACHO

Title:

Deputy Director

Signed:


JOSEPH B. CRUZ, JR.

Title:

Administrative Officer

APPENDIX A

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
	To correct overstatement of lease rental revenue	103,370			(106,174)			2,804
	<u>103,370</u>			<u>(106,174)</u>			<u>2,804</u>	

APPENDIX B

	Assets		Liabilities		Equity		Income	
	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)	Dr.	(Cr.)
	To correct overstatement of lease rental revenue	100,883			(104,149)			3,266
	<u>100,883</u>			<u>(104,149)</u>			<u>3,266</u>	

ATTACHMENT II

#	Name	Debit	Credit
OPERATIONS FUND:			
1 AJE To record A/R and deferred revenue			
1100	Accounts receivable	354,761.30	-
2200	Deferred revenue	-	354,761.30
		<u>354,761.30</u>	<u>354,761.30</u>
2 AJE To correct GGRP revenue recordation			
362454201	Commercial lease/license	-	4,400.00
162414100	Due to/from General Fund	4,400.00	-
		<u>4,400.00</u>	<u>4,400.00</u>
3 AJE To correct Choice revenue recordation			
362454201	Commercial lease/license	-	2,078.16
162414100	Due to/from General Fund	2,078.16	-
		<u>2,078.16</u>	<u>2,078.16</u>
4 AJE To correct IP&E revenue recordation			
362454201	Commercial lease/license	7,560.00	-
162414100	Due to/from General Fund	-	7,560.00
		<u>7,560.00</u>	<u>7,560.00</u>
5 AJE To correct beginning fund balance			
162441110	Unappropriated surplus	-	17,000.00
362454201	Commercial lease/license	17,000.00	-
		<u>17,000.00</u>	<u>17,000.00</u>
6 AJE To correct deferred revenue balance			
362454201	Commercial lease/license	-	26,000.00
2200	Deferred revenue	26,000.00	-
		<u>26,000.00</u>	<u>26,000.00</u>
LOAN GUARANTEE FUND:			
1 AJE To record bank transactions			
1000	BOG (A/C 2501-002274)	200,355.09	-
1001	BOG (A/C 0101-295976)	8,180.93	-
8003	Interest income	-	2,200.28
7001	Fund balance-Land Bank Trust	-	506,335.74
1002	BOG TCD (A/C 0401-437964)	300,000.00	-
		<u>508,536.02</u>	<u>508,536.02</u>

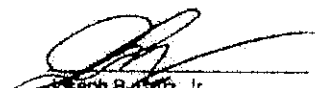
I have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of September 30, 2011. The adjustments are the result of errors and are not the result of fraud or illegal acts.


 Joseph B. Cruz, Jr.
 Administrative Officer

ATTACHMENT II, CONTINUED

#	Name	Debit	Credit
OPERATIONS FUND:			
1 AJE To record PY audit adjustments			
162441110	Unappropriated surplus	-	24,918.16
162414100	Due to/from General Fund	-	1,081.84
1100	Accounts receivable	354,761.30	-
2200	Deferred revenue	-	328,761.30
		<u>354,761.30</u>	<u>354,761.30</u>
2 AJE To reverse PY A/R and deferred revenue			
362454201	Commercial lease/license	26,000.00	-
1100	Accounts receivable	-	354,761.30
2200	Deferred revenue	328,761.30	-
		<u>354,761.30</u>	<u>354,761.30</u>
3 AJE To correct JR Mateo revenue recordation			
362454201	Commercial lease/license	5,000.00	-
162414100	Due to/from General Fund	-	5,000.00
		<u>5,000.00</u>	<u>5,000.00</u>
4 AJE To correct Tamuning Mart revenue recordation			
362454201	Commercial lease/license	1,000.00	-
162414100	Due to/from General Fund	-	1,000.00
		<u>1,000.00</u>	<u>1,000.00</u>
5 AJE To record CY A/R and deferred revenue			
1100	Accounts receivable	337,192.06	-
2200	Deferred revenue	-	337,192.06
		<u>337,192.06</u>	<u>337,192.06</u>
6 AJE To correct deferred revenue balance			
362454201	Commercial lease/license	-	25,780.00
2200	Deferred revenue	25,780.00	-
		<u>25,780.00</u>	<u>25,780.00</u>
7 AJE To correctly record sale of land proceeds			
162414100	Due to/from General Fund	20,017.00	-
362457207	Sale of Govt Land	-	20,017.00
		<u>20,017.00</u>	<u>20,017.00</u>
LOAN GUARANTEE FUND:			
1 AJE To record PY audit adjustments			
1000	BOG (A/C 2501-002274)	200,355.09	-
1001	BOG (A/C 0101-295976)	8,180.93	-
7001	Fund balance-Land Bank Trust	-	508,536.02
1002	BOG TCD (A/C 0401-437964)	300,000.00	-
		<u>508,536.02</u>	<u>508,536.02</u>
2 AJE To record current year interest income			
1000	BOG (A/C 2501-002274)	251.28	-
1001	BOG (A/C 0101-295976)	600.01	-
8003	Interest income	-	851.29
		<u>851.29</u>	<u>851.29</u>

I have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of September 30, 2012. The adjustments are the result of errors and are not the result of fraud or illegal acts.


 Joseph B. Lopez, Jr.
 Administrative Officer