

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

32-14-1960

Office of the Speaker
 Judith T. Won Pat

Date: 8.20.14
 Time: 8:10am
 Received by: [Signature]

August 19, 2014

Honorable Judith T. Won Pat, Ed.D.
 Speaker
 I Mina'Trentai Dos Na Liheslaturan Guåhan
 155 Hesler Place
 Hagatna, Guam 96910

GUAM LEGISLATURE
 CENTRAL FILES

ACKNOWLEDGEMENT RECEIPT

Received by: [Signature]
 Time: 9:59
 Date: 8-19-14

Dear Speaker Won Pat:

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

To recap FY 2012:

- FY 2012 is the first financial audit completed for GALC. However, the Office of Public Accountability (OPA) issued Audit Report No. 06-16 in December 2006, where the establishment of rules and regulations for the fair and equitable use of Land Bank properties was a primary recommendation.
- Since its creation, GALC has faced many challenges to include the establishment of the Land Bank Rules and Regulations, access and zoning of properties returned, and funding. Without the Land Bank Rules and Regulations, GALC has yet to start the just compensation to families who will not benefit from returned ancestral property. There is over \$2 million (M) awaiting distribution upon the effectuation or approval of the regulations. Subsequent to FY 2012, draft Land Bank Rules and Regulations have been prepared, but cannot be implemented due to conflicting laws and pending cases at the Superior and Supreme Courts.
- In 2010, GALC entered into a Memorandum of Understanding (MOU) with the Guam Economic Development Authority (GEDA) to assist with the development, management, and maintenance of the Trust Lands. Although the MOU is in place, there is a lack of monitoring of GALC's handling of leases. GALC's board and management should engage in regular dialogue with GEDA to ensure they are performing under the MOU. GEDA receives 14.3% of ground lease and 20% of participation rent income for their services. As of FY 2012, GEDA was paid \$260K.

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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]

for Doris Flores Brooks, CPA, CGFM
 Public Auditor

RECEIPT ACKNOWLEDGED:

By: _____

Date: _____

1960



Guam Ancestral Lands Commission FY 2012 Financial Highlights

August 15, 2014

The Guam Ancestral Lands Commission (GALC) closed Fiscal Year (FY) 2012 with an increase in fund balance (net income) of \$733 thousand (K), compared to a \$593K increase in FY 2011. The increase was primarily due to increased revenues totaling \$229K derived from lease rental payments. The FY 2012 is the first financial audit completed for the GALC. However, the Office of Public Accountability (OPA) issued Audit Report No. 06-16 in December 2006, where the establishment of rules and regulations for the fair and equitable use of Land Bank properties was a primary recommendation.

GALC received an unmodified (clean) opinion from independent auditors Deloitte and Touche, LLP. In order to receive the clean opinion, seven and six audit adjustments were made in 2011 and 2012 that cumulatively increased GALC's fund balance by \$593K in 2011 and \$733K in 2012. The auditors identified two material weaknesses in its Reports on Compliance and Internal Control which pertained to the lack of accounting system and lack of accounts receivable follow-up and collection. These material weaknesses have been previously identified in the prior OPA performance audit.

Land Bank Rules and Regulations Still Not Established

Since its creation, GALC has faced many challenges to include the establishment of the Land Bank Rules and Regulations, access and zoning of properties returned, and funding. Without the Land Bank Rules and Regulations, GALC has yet to start the just compensation to families who will not benefit from returned ancestral property. There is over \$2 million (M) awaiting distribution upon the effectuation or approval of the regulations. Subsequent to FY 2012, draft Land Bank Rules and Regulations have been prepared but cannot be implemented due to conflicting laws and pending cases at the Superior and Supreme Court.

For some of those beneficiaries who are fortunate to receive their ancestral properties, there is no access and zoning, which prevents them from making improvements on the properties. Such challenges are attributed to the lack of funding.

Land Endowment Recordation of \$6.7M

With the completion of the land inventory, \$406.6M in investment in land and other real estate was recorded at the government-wide level, of which \$6.7M was for GALC commercial leases. Approximately \$400M was attributed to Chamorro Land Trust Commission (CLTC), which has over 11,700 acres of property in its inventory to lease out. As of September 30, 2012, GALC had six commercial leases. GALC should coordinate with the Department of Revenue and Taxation regarding real property tax assessments for these leased properties.

MOU with GEDA

In 2010, GALC entered into a Memorandum of Understanding (MOU) with the Guam Economic Development Authority (GEDA) to assist with the development, management, and maintenance of the Trust Lands. Although the MOU is in place, there is a lack of monitoring of GALC's handling of leases. GALC's board and management should engage in regular dialogue with GEDA to ensure they are performing under the MOU. GEDA receives 14.3% of ground lease and 20% of participation rent income for their services. As of FY 2012, GEDA was paid \$260K.

GALC Merged with Department of Land Management

In September 2011, Governor Eddie Baza Calvo issued Reorganization Advisory Nos. 5 and 9 which merged the GALC and Chamorro Land Trust Commission into the Department of Land Management (DLM). The reorganization was to consolidate resources, eliminate redundancies, and provide better and faster services. In FY 2012, GALC returned 16 lots compared to three lots in FY 2011.

Presently, GALC has one full-time Administrative Officer who handles 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 GALC operations and ensure integrity of the land inventory database.

Increase in Fund Balance due to Increase in Base Rent Revenues

GALC's financial statement include all of the activities of the Ancestral Lands Operations Fund, the Land Bank Trust Fund, and the Landowner's Recovery Fund. The Ancestral Lands Operations Fund was created to account for GALC's operational costs. The Land Bank Trust Fund was created to account for all assets and revenues of the Land Bank, consisting of former Spanish Crown Lands and other ancestral lands conveyed by the United States to GovGuam. GALC acts as a developer of the lands with resulting lease rental income to provide just compensation for those dispossessed landowners whose properties cannot be returned. The Landowner's Recovery Fund was created to account for the granting of loans, loan guarantees or grant-in-aid to landowners, or to defer costs for professional services required by those landowners who have ancestral claims. While the Ancestral Lands Operations Fund and the Landowner's Recovery Fund collectively recognized a decrease in fund balance of \$3K, the Land Bank Trust Fund had an increase in fund balance of \$736K.

As of September 30, 2012, GALC had \$1.1M in total revenues, or a \$229K increase, compared to \$916K in FY 2011. GALC's commercial leases brought in base rent revenues of \$941K, representing 82% of revenues. This is followed by General Fund appropriations at 16% or \$179K, and then by participation rent at 1% or \$15K.

Compliance Report

The two material weaknesses pertained to (1) GALC not maintaining adequate record keeping for its non-appropriated funds on a formal accounting system, with no formal reconciliation process for general account balances and (2) GALC had lease receivables that remained uncollected 90 days after year end. Auditors recommended GALC implement a formal accounting system and establish policies and procedures requiring the timely collection and monitoring of receivables.

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

GUAM ANCESTRAL LANDS COMMISSION

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

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

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

GUAM ANCESTRAL LANDS COMMISSION

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

Ms. Anita F. Orlino
Chairperson
Guam Ancestral Lands Commission

We have audited the accompanying balance sheets of the Guam Ancestral Lands 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 Guam Ancestral Lands Commission and are not intended to present fairly the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States of America.

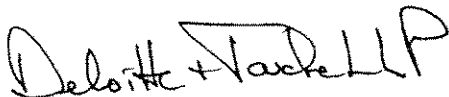
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Guam Ancestral Lands Commission, a governmental fund of the Government of Guam, as of September 30, 2012 and 2011, and the results of the Guam Ancestral Lands 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 Guam Ancestral Lands 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 6 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 Guam Ancestral Lands Commission. This supplementary information is the responsibility of the management of the Guam Ancestral Lands 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 Guam Ancestral Lands 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

GUAM ANCESTRAL LANDS COMMISSION

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

INTRODUCTION

Guam Ancestral Lands Commission (GALC) is a component unit of the Government of Guam, currently located in Tamuning, Suite 303, 3rd floor of the ITC Building. GALC acts as the Land Claims Facilitator.

The GALC's Management's Discussion and Analysis (MD&A) provides an overview of CLTC's financial activities for the fiscal years ended September 30, 2012 and September 30, 2011. The information enclosed in the MD&A has been prepared by management and it should be read in conjunction with the financial statements and notes which follow this section.

1. Financial Highlights

- Total assets exceeded total liabilities by \$2,454,828 at the close of fiscal year 2012 as compared to \$1,721,979 at the close of fiscal year 2011.
- Total assets at September 30, 2012 increased by \$441,510 as compared to September 30, 2011.
- Total liabilities at September 30, 2012 decreased by \$291,339 as compared to September 30, 2011.
- Total fund balance at September 30, 2012 increased by \$732,849 as compared to September 30, 2011.
- Total revenues of \$1,145,621 for fiscal year 2012 increased by \$229,487 as compared to \$916,134 for fiscal year 2011. Total expenditures of \$412,772 for fiscal year 2012 increased by \$89,242 as compared to \$323,530 for fiscal year 2011. This resulted in an increase in the fund balance of \$732,849 for fiscal year 2012 as compared to \$592,604 for fiscal year 2011.

2. Overview of the Financial Statements

GALC's financial statements include all of the activities of Ancestral Lands Operations Fund, Land Bank Trust Fund, and Landowner's Recovery Fund. The financial statements include a Balance Sheet and Statements of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2012 and 2011.

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

3. Financial Statement Analysis

The balance sheet discloses information on GALC's assets, liabilities, and fund balance at year-end. The condensed summary of GALC's balance sheet is shown below for year-end September 30, 2012 and September 30, 2011.

	<u>2012</u>	<u>2011</u>	(Unaudited) <u>2010</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,190,015	\$ 1,667,056	\$ 1,077,012
Receivables, net	464,017	546,227	349,100
Other assets	<u>4,729</u>	<u>3,968</u>	<u>17,818</u>
Total assets	\$ <u>2,658,761</u>	\$ <u>2,217,251</u>	\$ <u>1,443,930</u>

GUAM ANCESTRAL LANDS COMMISSION

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

	<u>2012</u>	<u>2011</u>	(Unaudited) <u>2010</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts payable and other	\$ 48,916	\$ 13,132	\$ 26,555
Security deposits payable	127,213	127,213	-
Deferred revenue	<u>27,804</u>	<u>354,927</u>	<u>288,000</u>
Total liabilities	203,933	495,272	314,555
Fund balance	<u>2,454,828</u>	<u>1,721,979</u>	<u>1,129,375</u>
Total liabilities and fund balance	\$ <u>2,658,761</u>	\$ <u>2,217,251</u>	\$ <u>1,443,930</u>

Total assets increased by \$441,510 in 2012 compared to 2011 and by \$773,321 in 2011 compared to 2010 primarily due to the increase in cash and cash equivalents.

Total liabilities decreased by \$291,339 compared to 2011 and increased by \$180,717 in 2011 compared to 2010 primarily due to the change in deferred revenue.

Total fund balance increased by \$732,849 at the end of fiscal year 2012 due to the following:

- An increase in cash and cash equivalents.
- Decrease in deferred revenue.

	<u>2012</u>	<u>2011</u>	(Unaudited) <u>2010</u>
Revenues:			
Lease rentals payments	\$ 956,141	\$ 696,238	\$ 435,432
General fund appropriations	179,155	215,076	195,626
Other	<u>10,325</u>	<u>4,820</u>	<u>277</u>
Expenditures	1,145,621	916,134	631,335
	<u>412,772</u>	<u>323,530</u>	<u>257,893</u>
Change in fund balance	732,849	592,604	373,442
Fund Balance - beginning	<u>1,721,979</u>	<u>1,129,375</u>	<u>755,933</u>
Fund Balance - ending	\$ <u>2,454,828</u>	\$ <u>1,721,979</u>	\$ <u>1,129,375</u>

Total revenues in FY2012 increased by \$229,484 to \$1,145,621 in 2012 compared to \$916,134 in 2011. The increase was primarily due to the increase in base rent, interest income and other revenues.

Total expenditures in FY2012 increased by \$89,242 to \$412,772 in 2012 compared to \$323,530 in 2011. The increase was due to the increase in health benefits, contractual services, and miscellaneous expenses.

GUAM ANCESTRAL LANDS COMMISSION

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

4. Challenges and Accomplishments

The Guam Ancestral Lands Commission (GALC) was created through Public Law 25-45 to convey title of federal excess lands to the original land owners once returned to the Government of Guam. Also, GALC is also known as the Land Claims Facilitator. Moreover, GALC is mandated to establish an account known as the Land Bank. The funds deposited into this account will be used to compensate original land owners who will never realize the return of their ancestral lands. Additionally, the Land Bank GALC has a fund known as the Landowner's Recovery Fund. This fund was created to grant loans, or guarantees of loans or grants in aid to landowners to defer costs or fees of professional services. The GALC is comprised of a 7 member board, director, and two staff.

Since its creation GALC has faced many challenges such as no Land Bank Rules and Regulations in regards to the processing of just compensation to unfortunate families who will not benefit from returned ancestral property. Also, access to properties returned, zoning of properties returned, accountability of commercial lease revenues, and funding are all challenges that have plagued GALC.

From the time of creation until the end of FY2010, GALC has received 1,482 inquiries, 689 applications filed, and returned 257 lots. The total acreage of returned lots amounted to 2,176 acres. Also, GALC executed 6 commercial licenses. Moreover, in June 2006 because of the limited staff available, inability to effectively account for revenues, and the ability to execute commercial leases and other related commercial matters GALC entered into a Memorandum of Understanding (MOU) with the Guam Economic Development and Commerce Authority (GEDCA). Through this MOU GALC paid GEDCA for their services rendered 1% of the annual ground rent on leases of Trust Lands and ½ of one percent of the participation rent paid by all developers and/or lessees of Trust Lands. GALC did not pay any amount during this period. In April of 2007, the MOU was amended. More specifically, the payment terms amended now reads "GALC will compensate GEDCA 14.3% of annual ground rent and 20% of the participation rent for services rendered." During this period up until September 30, 2010 GALC paid GEDCA \$63,251.02 for their services. More so, GALC has not provided just compensation to families who will not benefit from the return of their ancestral property. Nor has GALC issued any grants or aid to families to defer the costs or fees of professional services needed to provide adequate remedies from the taking of their property.

At the commencement of FY2011, GALC's challenges of the past remained evident. Unfortunate families who could not benefit from the return of their ancestral property have not received any just compensation. This is a result of no Land Bank Rules and Regulations being effectuated. The challenges did not end there; grants or financial aid authorized through the creation of the Landowner's Recovery Fund were never awarded to families who were in need of professional services to obtain adequate remedies from the taking of their property. An example of such services is a property survey which is needed to access their property. Also, limited funding put further strain on GALC's ability to effectively and efficiently provide services as mandated by law. To substantiate this claim GALC only returned 3 lots in FY2011. In addition to the lots returned, GALC received 24 inquiries and filed 15 applications. In addition, GALC paid GEDCA \$96,629.38 for their services rendered as agreed through the MOU. On December 13, 2010, Public Law 30-211 was passed and remedied the zoning concerns within the Puntan Dos Amantes area.

GUAM ANCESTRAL LANDS COMMISSION

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

In FY2012, GALC merged with the Department of Land Management through the Governor's Advisory No. 5, superseded by Advisory No. 9. The intention of the administration was to reduce redundancy, avail of staff expertise, and cost cutting. As result of the Governor's direction, GALC returned 16 lots and saved on cost such as contracted services, utilities, and other operation costs. Also, GALC received 3 inquiries and 2 applications were filed. Unfortunately, families who will not benefit from the return of their ancestral properties did not receive just compensation, which is a result of no Rules and Regulations being adopted. Families who are financially strapped and who cannot obtain professional services were not awarded aid through the Landowner's Recovery Fund to remedy obstacles such as inaccessibility, or real property research. The zoning issues families have faced in the past were resolved through the passage of Public Law 31-198 which zoned all returned properties as Agriculture. In FY2012, GALC paid GEDCA \$99,746.77 for their services rendered through the existing MOU. This amount is a 3% increase from FY2011.

5. Outlook

The GALC board and director have a vision to move the GALC in the right direction. An outline of that direction would be a more efficient and effective operation, beneficial to the beneficiaries of ancestral property and less financial strain on the General Fund. In order to accomplish such a task the board and director along with the assistance of the administration will draft legislative initiatives that will create the long awaited rules and regulations, and solve the other challenges faced by GALC.

6. Contacting the Guam Ancestral Lands Commission Financial Management

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

GUAM ANCESTRAL LANDS COMMISSION

Balance Sheets
September 30, 2012 and 2011

	2012	2011
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,190,015	\$ 1,667,056
Receivables, net	464,017	546,227
Due from GovGuam General Fund	4,729	3,968
Total assets	\$ 2,658,761	\$ 2,217,251
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 45,585	\$ 10,008
Accrued payroll and other liabilities	3,331	3,124
Security deposits payable	127,213	127,213
Deferred revenue	27,804	354,927
Total liabilities	203,933	495,272
Commitments and contingency		
Fund balance:		
Reserved for:		
Restricted	2,453,988	1,720,879
Committed	840	1,100
Total fund balance	2,454,828	1,721,979
Total liabilities and fund balance	\$ 2,658,761	\$ 2,217,251

See Accompanying Notes to Financial Statements.

GUAM ANCESTRAL LANDS COMMISSION

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

	2012	2011
Revenues:		
Lease rentals:		
Base rent	\$ 940,716	\$ 677,475
Participation rent	15,425	18,763
General Fund appropriation	179,155	215,076
Interest income	3,033	1,719
Other	7,292	3,101
Total revenues	1,145,621	916,134
Expenditures:		
Salaries and wages - regular	123,096	136,278
Salaries and wages - fringe benefits	37,833	37,905
Health benefits	10,170	6,711
Contractual services	1,137	2,102
Building rent	-	23,501
Supplies	3,400	1,688
Equipment	2,387	-
Utilities - power and water	-	4,632
Communications	1,132	2,259
Management fee	137,610	100,631
Miscellaneous	96,007	7,823
Total expenditures	412,772	323,530
Net change in fund balances	732,849	592,604
Fund balances at beginning of year	1,721,979	1,129,375
Fund balances at end of year	\$ 2,454,828	\$ 1,721,979

See Accompanying Notes to Financial Statements.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(1) Organization

The Guam Ancestral Lands Commission (GALC), a governmental fund of the Government of Guam (GovGuam), was established by the Guam Ancestral Lands Act of 1999 (Public Law 25-45) for the purpose of investigating, recording, filing, and reporting claims for ancestral lands, and to respond to requests for remedy from claimants, including GovGuam, for lands taken by the United States or by GovGuam on or after January 1, 1930.

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

The GALC is governed by a seven-member Board of Commissioners who must be descendants or heirs of ancestral landowners or claimants and are appointed by the Governor of Guam.

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

(2) Summary of Significant Accounting Policies

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

Measurement Focus and Basis of Accounting

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

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

- The Ancestral Lands Operations Fund - this fund was created for the purpose of accounting for the payment of operational costs associated with the GALC.
- The Land Bank Trust Fund - this fund was created for the purpose of accounting for all assets and revenues of the Land Bank, which consists of former Spanish Crown Lands and other non-ancestral lands conveyed by the United States federal government to GovGuam. The GALC acts as a developer of the lands with resulting lease rental income used to provide just compensation for those dispossessed landowners whose properties cannot be returned.
- The Landowner's Recovery Fund - this fund was created for the purpose of accounting for the purpose of granting loans, loan guarantees or grant-in-aid to landowners, or to defer costs or fees for professional services required by those landowners or class of landowners who have ancestral land claims.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 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 GALC considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

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

Cash

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

For the purposes of the balance sheets, cash is defined as cash in checking and savings accounts. As of September 30, 2012 and 2011, the carrying amount of the GALC's cash was \$2,190,015 and \$1,667,056, respectively, and the corresponding bank balances were \$2,190,015 and \$1,667,056, 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 \$339,364 and \$435,000, respectively, were FDIC insured. The GALC does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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

The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

Interfund Receivables

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

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.

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

A formal minimum fund balance policy has not been adopted.

Management Estimates

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

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2012, the GALC 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 GALC 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 GALC.

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 GALC.

GUAM ANCESTRAL LANDS 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 GALC.

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 GALC.

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 GALC.

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 GALC.

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 GALC.

(3) Risk Management

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

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(4) Receivables

Receivables as of September 30, 2012 and 2011, including the applicable allowance for uncollectible accounts, are as follows:

	<u>2012</u>	<u>2011</u>
Receivables:		
Lease rental	\$ 372,204	\$ 427,414
Due from Guam Economic Development Authority (GEDA)	<u>127,213</u>	<u>127,213</u>
	499,417	554,627
Less allowance for uncollectible accounts	<u>(35,400)</u>	<u>(8,400)</u>
	<u>\$ 464,017</u>	<u>\$ 546,227</u>

(5) Security Deposits Payable

In accordance with ground lease agreements, certain lessees are required, upon execution of the lease agreements, to remit a security deposit to GEDA on behalf of the GALC. As of September 30, 2012 and 2011, security deposits in the amount of \$127,213 are maintained by GEDA on behalf of the GALC. A liability is recorded within the accompanying financial statements representing security deposits payable to lessees offset by a corresponding receivable amount due from GEDA.

(6) Related Party Transactions

The GALC is a governmental fund of GovGuam and is therefore affiliated with all GovGuam-owned and affiliated entities, including all departments and agencies of GovGuam, including the Guam Economic Development Authority (GEDA), the Guam Environmental Protection Agency, and the Guam Department of Public Health and Social Services. During the years ended September 30, 2012 and 2011, the GALC recognized certain on-behalf payments as contributions from GovGuam, totaling \$179,155 and \$215,076, respectively, representing certain payroll and related expenditures that GovGuam paid directly on behalf of the GALC.

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 \$6,759,894 and \$6,122,330, is held by the GALC. Fair value is based on estimated current value (primarily assessed real estate property tax valuations) and appraisals. Investments that do not have an established market are reported at estimated fair value. Earnings from lease agreements associated with these investments are reported as revenues of the GALC.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(7) Commitments

The GALC has ground lease agreements with seven lessees. The agreements provide the lessees with the use of former Spanish Crown Lands and other non-ancestral lands (collectively, the "Trust Lands") conveyed by the United States federal government to GovGuam. A summary of these lease agreements is as follows:

Apra Harbor Parcel No. 1 (Commissary Junction):

In April 2008, the GALC entered into a fifty-year lease agreement with a tenant commencing May 1, 2008 for certain real property with an area of approximately 5.835 acres. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Base rent of \$3,113 payable monthly in advance (\$3,240 and \$3,208 as of September 30, 2012 and 2011, respectively) on the first business day of each month escalating each year at the rate of 1%; and
- b. Participation rent of 2.5% of the tenant's gross annual revenue, as defined in the lease agreement, received by the tenant from its operation at the premises. Payment shall be made by the tenant within 90 days after the end of each fiscal year.

The base rent shall be adjusted every ten years to the product of the then fair market rental value of the premises and an eight percent capitalization rate. Such fair market rental value shall be determined by an appraisal of the premises, exclusive of any improvements, which shall be performed at the tenant's sole cost and expense.

During the years ended September 30, 2012 and 2011, the GALC recognized lease base rental revenue of \$38,653 and \$38,268, respectively, and lease participation rental revenue of \$15,318 and \$18,763, respectively, associated with this lease agreement.

Apra Harbor Reservation F-12 (Polaris Point):

In July 2007, the GALC entered into a five-year lease agreement with a tenant commencing August, 2007 for certain real property with an area of approximately 12,000 square meters. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Base rent of \$2,100 payable monthly in advance on the first business day of each month; and
- b. Participation rent of 2.5% of the tenant's gross annual revenue, as defined in the lease agreement, received by the tenant from its operation at the premises. Payment shall be made by the tenant within 90 days after the end of each fiscal year.

During the year ended September 30, 2011, the GALC recognized lease base rental revenue of \$35,000 associated with this lease agreement. This lease was terminated on March 12, 2012 due to the failure to pay outstanding amounts owed.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(7) Commitments, Continued

Apra Harbor Reservation F-12 (Polaris Point), Continued:

In June 2009, the GALC entered into a five-year lease agreement with a tenant commencing June 15, 2009 for certain real property with an area of approximately five (5) acres. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Base rent of \$3,500 payable monthly in advance (\$3,641 and \$3,601 as of September 30, 2012 and 2011, respectively) on the first business day of each month escalating each year at the rate of 2%; and
- b. Participation rent of 2.5% of the tenant's gross monthly revenue, as defined in the lease agreement, received by the tenant each month from its operation at the premises. Payment for the previous month shall be made by the tenant on or before the 30th day of each calendar month.

During the years ended September 30, 2012 and 2011, the GALC recognized lease base rental revenue of \$83,217 and \$59,578, respectively, associated with this lease agreement. This lease was terminated on July 15, 2013 due to the failure to pay outstanding amounts owed and failure to clean and return a portion of land to its original state.

In June 2010, the GALC entered into a fifty-year lease agreement with a tenant commencing July 1, 2010 for certain real property with an area of approximately thirty (30) acres. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Initial base rent of \$25,000 adjusted to \$24,804 payable monthly in advance on the first business day of each month; and
- b. Participation rent of 2.6% of the tenant's gross monthly revenue, as defined in the lease agreement, received by the tenant each month from its operation at the premises. Payment for the previous month shall be made by the tenant on or before the 30th day of each calendar month.

The base rent shall be adjusted every ten years to the product of the then fair market rental value of the premises and an eight percent capitalization rate. Such fair market rental value shall be determined by an appraisal of the premises, exclusive of any improvements, which shall be performed at the tenant's sole cost and expense.

During the years ended September 30, 2012 and 2011, the GALC recognized lease base rental revenue of \$274,846 and \$298,629, respectively, and lease participation rental revenue of \$107 and \$0, respectively, associated with this lease agreement.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(7) Commitments, Continued

Apra Harbor Reservation F-12 (Polaris Point), Continued:

In December 2010, the GALC entered into a five-year lease agreement with an option to extend for an additional five years with a tenant commencing January 1, 2011 for certain real property with an area of approximately six (6) acres. In accordance with the lease agreement, rental income from the tenant shall consist of the following:

- a. Base rent of \$18,000 payable quarterly in advance on the first business day of each calendar quarter; and
- b. Participation rent of 2.65% of the tenant's gross revenue, as defined in the lease agreement, received by the tenant each quarter from its operation at the premises. Payment shall be made by the tenant within 20 days after the end of each calendar quarter.

The base rent shall be adjusted every five years to the product of the then fair market rental value of the premises and an eight percent capitalization rate. Such fair market rental value shall be determined by an appraisal of the premises, exclusive of any improvements, which shall be performed at the tenant's sole cost and expense.

During the years ended September 30, 2012 and 2011, the GALC recognized lease base rental revenue of \$72,000 and \$54,000, respectively, associated with this lease agreement.

Guam Environmental Protection Authority (GEPA):

On October 3, 2005, the GALC entered into a license agreement renewable annually for a period not to exceed thirty (30) years to occupy and use a portion of Lot No. 2276 consisting of a building, a parking lot and common area with an area of approximately 8,000 square feet. In accordance with the license agreement, monthly base rent of \$1.00 per square foot is payable by GEPA. Subsequent to the tenth year, the monthly base rent amount shall be adjusted to equal the fair market value but not less than \$1.00 per square foot. Such fair market value shall be determined by an appraisal of the property, which shall be performed at GEPA's sole cost and expense. During the years ended September 30, 2012 and 2011, the GALC recognized lease rental revenue of \$88,000 and \$96,000, respectively, associated with this lease agreement.

Guam Department of Public Health and Social Services (DPHSS):

On December 21, 2004, the GALC entered into a license agreement renewable annually for a period not to exceed ten (10) years to occupy and use a portion of Lot No. 2276 consisting of a building, a parking lot and common area with an area of approximately 8,000 square feet. In accordance with the license agreement, monthly base rent of \$1.00 per square foot is payable by DPHSS. Subsequent to the initial year, the monthly base rent amount shall be adjusted to equal the fair market value but not less than \$1.00 per square foot. Such fair market value shall be determined by an appraisal of the property, which shall be performed at DPHSS sole cost and expense. During the years ended September 30, 2012 and 2011, the GALC recognized lease rental revenue of \$384,000 and \$96,000, respectively, associated with this lease agreement.

GUAM ANCESTRAL LANDS COMMISSION

Notes to Financial Statements
September 30, 2012 and 2011

(7) Commitments, Continued

The future minimum lease receipts under the remainder of these lease agreements are as follows:

<u>Year Ending September 30,</u>	
2013	\$ 647,905
2014	633,736
2015	531,822
2016	454,220
2017	436,622
Thereafter	<u>16,604,466</u>
	<u>\$ 19,308,771</u>

On July 12, 2006, the GALC entered into a memorandum of agreement with GEDA to assist with the development, management, and maintenance of Trust Lands for the purpose of maximizing benefit to dispossessed landowners and be responsible for the collection and remittance of security deposits and lease rental payments to the GALC. GEDA shall remit all rents received from the lease of Trust Lands but shall retain 14.3% of the base rent and 20% of the participation rent paid by all developers and/or lessees of the Trust Lands as payment for GEDA services. Base rent collected from developers and/or lessees shall be remitted to the GALC no later than twenty (20) calendar days after receipt from the developers and/or lessees. Participation rent collected from developers and/or lessees shall be remitted to the GALC no later than ninety (90) calendar days after receipt from the developers and/or lessees. During the years ended September 30, 2012 and 2011, GEDA withheld \$90,338 and \$87,714, respectively, of base rent and \$3,085 and \$3,753, respectively, of participation rent as payment for GEDA services. As of September 30, 2012, the GALC has recognized a liability of \$44,187 for GEDA services relating to base rent receivables for 2012 collected in 2013 and \$9,164 for GEDA services relating to base rent receivables for 2011 collected in 2012.

(8) Contingency

The GALC is party to several legal proceedings; however, the Attorney General of Guam is unable to assess the likelihood of potential liabilities related to claims outstanding as of September 30, 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.

GUAM ANCESTRAL LANDS COMMISSION

Combining Balance Sheet
September 30, 2012

	Ancestral Lands Operations Fund	Land Bank Trust Fund	Landowner's Recovery Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 840	\$ 2,178,327	\$ 10,848	\$ 2,190,015
Receivables, net	-	464,017	-	464,017
Due from GovGuam General Fund	4,729	-	-	4,729
Total assets	<u>\$ 5,569</u>	<u>\$ 2,642,344</u>	<u>\$ 10,848</u>	<u>\$ 2,658,761</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts payable	\$ 1,398	\$ 44,187	\$ -	\$ 45,585
Accrued payroll and other liabilities	3,331	-	-	3,331
Security deposits payable	-	127,213	-	127,213
Deferred revenue	-	27,804	-	27,804
Total liabilities	4,729	199,204	-	203,933
Fund balance:				
Reserved for:				
Restricted	-	2,443,140	10,848	2,453,988
Committed	840	-	-	840
Total fund balance	840	2,443,140	10,848	2,454,828
Total liabilities and fund balance	<u>\$ 5,569</u>	<u>\$ 2,642,344</u>	<u>\$ 10,848</u>	<u>\$ 2,658,761</u>

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

Combining Balance Sheet
September 30, 2011

	Ancestral Lands Operations Fund	Land Bank Trust Fund	Landowner's Recovery Fund	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 1,100	\$ 1,652,302	\$ 13,654	\$ 1,667,056
Receivables, net	-	546,227	-	546,227
Due from GovGuam General Fund	3,968	-	-	3,968
Total assets	<u>\$ 5,068</u>	<u>\$ 2,198,529</u>	<u>\$ 13,654</u>	<u>\$ 2,217,251</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts payable	\$ 844	\$ 9,164	\$ -	\$ 10,008
Accrued payroll and other liabilities	3,124	-	-	3,124
Security deposits payable	-	127,213	-	127,213
Deferred revenue	-	354,927	-	354,927
Total liabilities	3,968	491,304	-	495,272
Fund balance:				
Reserved for:				
Restricted	-	1,707,225	13,654	1,720,879
Committed	1,100	-	-	1,100
Total fund balance	1,100	1,707,225	13,654	1,721,979
Total liabilities and fund balance	<u>\$ 5,068</u>	<u>\$ 2,198,529</u>	<u>\$ 13,654</u>	<u>\$ 2,217,251</u>

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

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

	Ancestral Lands Operations Fund	Land Bank Trust Fund	Landowner's Recovery Fund	Elimination	Total
Revenues:					
Lease rentals:					
Base rent	\$ -	\$ 940,716	\$ -	\$ -	\$ 940,716
Participation rent	-	15,425	-	-	15,425
General Fund appropriation	179,155	-	-	-	179,155
Interest income	-	3,025	8	-	3,033
Other	106	7,000	186	-	7,292
Total revenues	179,261	966,166	194	-	1,145,621
Expenditures:					
Salaries and wages - regular	123,096	-	-	-	123,096
Salaries and wages - fringe benefits	37,833	-	-	-	37,833
Health benefits	10,170	-	-	-	10,170
Contractual services	1,137	-	-	-	1,137
Supplies	3,400	-	-	-	3,400
Equipment	2,387	-	-	-	2,387
Communications	1,132	-	-	-	1,132
Management fee	-	137,610	-	-	137,610
Miscellaneous	3,366	92,641	-	-	96,007
Total expenditures	182,521	230,251	-	-	412,772
Excess (deficiency) of revenues over (under) expenditures	(3,260)	735,915	194	-	732,849
Other financing sources (uses):					
Operating transfers in	3,000	1,200	-	(4,200)	-
Operating transfers out	-	(1,200)	(3,000)	4,200	-
Total other financing sources (uses), net	3,000	-	(3,000)	-	-
Net change in fund balances	(260)	735,915	(2,806)	-	732,849
Fund balances at beginning of year	1,100	1,707,225	13,654	-	1,721,979
Fund balances at end of year	\$ 840	\$ 2,443,140	\$ 10,848	\$ -	\$ 2,454,828

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS COMMISSION

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

	Ancestral Lands Operations Fund	Land Bank Trust Fund	Landowner's Recovery Fund	Elimination	Total
Revenues:					
Lease rentals:					
Base rent	\$ -	\$ 677,475	\$ -	\$ -	\$ 677,475
Participation rent	-	18,763	-	-	18,763
General Fund appropriation	215,076	-	-	-	215,076
Interest income	-	1,702	17	-	1,719
Other	-	3,068	33	-	3,101
Total revenues	215,076	701,008	50	-	916,134
Expenditures:					
Salaries and wages - regular	136,278	-	-	-	136,278
Salaries and wages - fringe benefits	37,905	-	-	-	37,905
Health benefits	6,711	-	-	-	6,711
Contractual services	2,102	-	-	-	2,102
Building rent	23,501	-	-	-	23,501
Supplies	1,688	-	-	-	1,688
Utilities - power and water	4,632	-	-	-	4,632
Communications	2,259	-	-	-	2,259
Management fee	-	100,631	-	-	100,631
Miscellaneous	-	20	7,803	-	7,823
Total expenditures	215,076	100,651	7,803	-	323,530
Excess (deficiency) of revenues over (under) expenditures	-	600,357	(7,753)	-	592,604
Other financing sources (uses):					
Operating transfers in	1,100	-	-	(1,100)	-
Operating transfers out	-	-	(1,100)	1,100	-
Total other financing sources (uses), net	1,100	-	(1,100)	-	-
Net change in fund balances	1,100	600,357	(8,853)	-	592,604
Fund balances at beginning of year	-	1,106,868	22,507	-	1,129,375
Fund balances at end of year	<u>\$ 1,100</u>	<u>\$ 1,707,225</u>	<u>\$ 13,654</u>	<u>\$ -</u>	<u>\$ 1,721,979</u>

See Accompanying Independent Auditors' Report.

GUAM ANCESTRAL LANDS 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>\$ 123,096</u>	<u>\$ 136,278</u>
Number of employees:		
Executive Director	1	1
Land Agents	1	1
Other Administrative Staff	<u>1</u>	<u>1</u>
Total number of employees	<u>3</u>	<u>3</u>

See Accompanying Independent Auditors' Report.

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

Ms. Anita F. Orlino
Chairperson
Guam Ancestral Lands Commission

We have audited the financial statements of the Guam Ancestral Lands Commission (GALC) 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 GALC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the GALC'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 GALC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the GALC'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 (pages 26 and 27), 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 and 2012-2 to be material weaknesses.

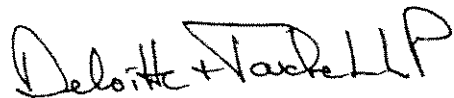
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the GALC'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*.

We noted certain matters that we reported to management of the GALC in a separate letter dated August 7, 2014.

The GALC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the GALC'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 + Tuck LLP". The signature is written in a cursive, stylized font.

August 7, 2014

GUAM ANCESTRAL LANDS 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 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:

GALC 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 effect of the above condition is 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 GALC 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

GUAM ANCESTRAL LANDS 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 GALC cash flows and minimizing exposure from uncollectible receivables.

Condition:

As of September 30, 2012 and 2011, GALC recorded lease receivables of \$372,204 and \$427,414, respectively, of which \$63,204 and \$363,327, respectively, remained uncollected 90 days after the respective year ends. Of these amounts, collection of receivables of \$35,400 and \$8,400, respectively, were considered doubtful resulting in the recording of an allowance for uncollectible accounts.

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 GALC 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. 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



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August 7, 2014

Mr. Michael Borja
Director
Department of Land Management
Government of Guam

Dear Mr. Borja:

In planning and performing our audit of the financial statements of the Guam Ancestral Lands Commission (the "Commission") as of and for the years ended September 30, 2012 and 2011, on which we have issued our report dated August 7, 2014, 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, 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, other matters as of September 30, 2012 and 2011 that we wish to bring to your attention.

We have also issued a separate report to the Chairperson, Ms. Anita F. Orlino, also dated August 7, 2014, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management of the Commission, the Office of Public Accountability of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the Department of Land Management for their cooperation and assistance during the course of this engagement.

Very truly yours,

SECTION I – DEFICIENCIES

We noted deficiencies involving the Commission's internal control over financial reporting as of September 30, 2012 and 2011 that we wish to bring to your attention as follows:

1. Unsupported Disbursements

Comment: During the years ended September 30, 2012 and 2011, we noted disbursements made from the Operations bank account in the amount of \$3,366 and \$7,803, respectively, which were not supported by underlying documentation such as vendor invoices.

Recommendation: We recommend that all disbursements be supported by documentation indicating the nature of goods and services procured.

2. Unremitted Security Deposit

Comment: In June 2009, the Commission entered into a five-year lease agreement with a tenant that required a security deposit payment of \$5,000. Based on confirmation from the Guam Economic Development Authority (GEDA), this payment was not remitted by the tenant.

Recommendation: We recommend that the Commission through GEDA require the tenant to remit the necessary security deposit.

SECTION II – DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The Commission's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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August 7, 2014

Ms. Anita F. Orlino
Chairperson
Guam Ancestral Lands Commission

Dear Ms. Orlino:

We have performed an audit of the financial statements of the Guam Ancestral Lands 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 their 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.

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.

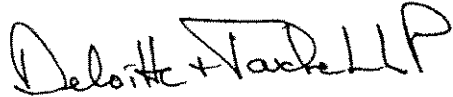
CONTROL-RELATED MATTERS

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 their compliance with certain provisions of laws, regulations, contracts and grant agreements.

We also noted certain matters that we reported to management of the Commission in a separate letter dated August 7, 2014.

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,

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



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



EDDIE BAZA CALVO
 Governor

MICHAEL J.B. BORJA
 Director

RAY TENORIO
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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 Guam Ancestral Lands Commission (GALC), 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 GALC'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 GALC 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

ATTACHMENT I, CONTINUED

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 GALC has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The GALC 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 GALC.
 - c. Financial records and related data for all financial transactions of the GALC and for all funds administered by the GALC. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the GALC 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 GALC management that contravenes the provisions of federal laws and local laws and regulations, or of contracts and grants applicable to the GALC.

- 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. The GALC 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 GALC and do not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the GALC 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.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the GALC received in communications from employees, former employees, analysts, regulators, or others.
8. 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 8 to the financial statements.
9. Significant assumptions used by us in making accounting estimates are reasonable.
10. 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.
11. 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.
12. There are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
13. The GALC has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

14. 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), specifically, as follows:
 - i. The GALC is a governmental fund of GovGuam and is therefore affiliated with all GovGuam-owned and affiliated entities, including all departments and agencies of GovGuam, including the Guam Economic Development Authority (GEDA), the Guam Environmental Protection Agency, and the Guam Department of Public Health and Social Services. During the years ended September 30, 2012 and 2011, the GALC recognized certain on-behalf payments as contributions from GovGuam, totaling \$179,155 and \$215,076, respectively, representing certain payroll and related expenditures that GovGuam paid directly on behalf of the GALC.
 - ii. 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 \$6,759,894 and \$6,122,330, is held by the GALC. Fair value is based on estimated current value (primarily assessed real estate property tax valuations) and appraisals. Investments that do not have an established market are reported at estimated fair value. Earnings from lease agreements associated with these investments are reported as revenues of the GALC.
 - b. Guarantees, whether written or oral, under which the GALC is contingently liable.
15. We have appropriately identified and properly recorded and disclosed in the financial statements all interfund transactions, including repayment terms.
16. 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.
17. 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.

18. 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.

19. 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 8 to the financial statements.

20. The GALC 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.

21. The GALC has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

22. No department or agency of the GALC has reported a material instance of noncompliance to us.

23. The GALC 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.

24. 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.

25. 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.

26. 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.
27. 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.
28. During the year ended September 30, 2012, the GALC 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.
29. During the year ended September 30, 2011, the GALC 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.
 - 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.

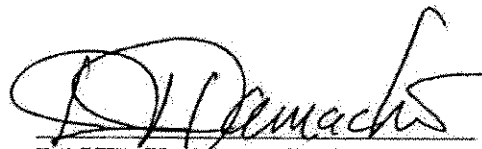
ATTACHMENT I, CONTINUED


30. 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 GALC.
31. 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 GALC.
32. 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 GALC.
33. 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 GALC.
34. 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 GALC.
35. 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 GALC.

36. 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 GALC.
37. 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.
38. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.
39. The GALC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The GALC 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. BORJA
Title: Director

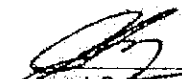
Signed: 
DAVID V. CAMACHO
Title: Deputy Director

Signed: 
JOSEPH B. CRUZ, JR.
Title: Administrative Officer

ATTACHMENT II

#	Name	Debit	Credit
OPERATIONS FUND:			
1 AJE To record bank transactions			
1003	BOH Operations (A/C 0038-231057)	1,100.00	-
8200	Transfer in	-	1,100.00
		<u>1,100.00</u>	<u>1,100.00</u>
LAND BANK TRUST FUND:			
1 AJE To record bank transactions			
1000	FHB Land Bank Trust (A/C 03-922405)	1,482,055.87	-
1001	BOH Land Bank Trust (A/C 6838-000217)	170,245.51	-
8003	Interest income	-	1,701.57
8004	Other revenue	-	3,063.00
8108	Inactive account service fee	20.00	-
7001	Fund balance-Land Bank Trust	-	1,054,504.88
8000	Base Rent revenue	-	578,036.43
8001	Participation Rent revenue	-	15,010.45
8005	Other deposits	-	5.05
		<u>1,652,321.38</u>	<u>1,652,321.38</u>
2 AJE To correct beginning fund balance			
7001	Fund balance-Land Bank Trust	-	52,362.70
8000	Base Rent revenue	52,362.70	-
		<u>52,362.70</u>	<u>52,362.70</u>
3 AJE To record A/R and deferred revenue			
8000.1	Base Rent revenue - Matson	-	24,804.20
2200	Deferred revenue	-	354,927.40
1101	Allowance for doubtful accounts	-	8,400.00
1100	Accounts receivable	427,414.40	-
8000.6	Base Rent revenue - GEPA	-	16,000.00
8000.4	Base Rent revenue - Ball Steel	-	7,282.80
8000.7	Base Rent revenue - DPHSS	-	16,000.00
		<u>427,414.40</u>	<u>427,414.40</u>
4 AJE To record GEDA accrual			
2400	Due to GEDA	-	9,164.44
8110	GEDA management fees	9,164.44	-
		<u>9,164.44</u>	<u>9,164.44</u>
5 AJE To record lessee deposit payable			
2300	Security deposits payable	-	127,213.20
1300	Due from GEDA	127,213.20	-
		<u>127,213.20</u>	<u>127,213.20</u>
LANDOWNER'S RECOVERY FUND:			
1 AJE To record bank transactions			
1002	BOH Landowners Recovery (A/C 6838-000071)	13,654.88	-
8003	Interest income	-	17.49
8004	Other revenue	-	33.00
8109	Withdrawals	7,803.08	-
8201	Transfer out	1,100.00	-
7002	Fund balance-Landowners Recovery Fund	-	22,507.47
		<u>22,557.96</u>	<u>22,557.96</u>

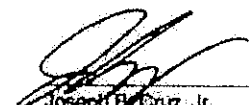
I have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of September 30, 2011. The adjustments are the result of errors and are not the result of fraud or illegal acts.


 Joseph B. Cruz, Jr.
 Administrative Officer

ATTACHMENT II, CONTINUED

#	Name	Debit	Credit
OPERATIONS FUND:			
1 AJE To record bank transactions			
1003	BOH Operations (A/C 0038-231057)	-	259.75
8200	Transfer in	-	3,000.00
8004	Other revenue	-	108.00
8112	Miscellaneous expenditures	3,365.75	-
		<u>3,365.75</u>	<u>3,365.75</u>
LAND BANK TRUST FUND:			
1 AJE To record bank transactions			
1000	FHB Land Bank Trust (A/C 03-922405)	-	1,482,055.87
1001	BOH Land Bank Trust (A/C 6838-000217)	-	92,569.69
8003	Interest Income	-	3,025.08
8004	Other revenue	-	7,000.00
8108	Inactive account service fee	10.00	-
8000	Base Rent revenue	-	596,301.21
8001	Participation Rent revenue	-	12,340.34
8200	Transfer in	-	1,200.00
8201	Transfer out	1,200.00	-
8111	Court judgment	92,630.98	-
1004	Coast 360 Land Bank Trust (A/C 238454)	2,100,651.21	-
		<u>2,194,482.19</u>	<u>2,194,482.19</u>
2 AJE To reverse PY A/R & revenue accrual			
2200	Deferred revenue	354,927.40	-
1101	Allowance for doubtful accounts	8,400.00	-
1100	Accounts receivable	-	363,327.40
1100	Accounts receivable	-	64,087.00
2400	Due to GEDA	9,164.44	-
8000	Base Rent revenue	54,922.56	-
		<u>427,414.40</u>	<u>427,414.40</u>
3 AJE To record A/R and deferred revenue			
2200	Deferred revenue	-	27,804.20
1101	Allowance for doubtful accounts	-	35,400.00
1100	Accounts receivable	372,204.20	-
8000.6	Base Rent revenue - GEPA	-	16,000.00
8000.4	Base Rent revenue - Ball Steel	-	5,000.00
8000.7	Base Rent revenue - DPHSS	-	288,000.00
		<u>372,204.20</u>	<u>372,204.20</u>
4 AJE To record GEDA accrual			
2400	Due to GEDA	-	44,187.00
8110	GEDA management fees	44,187.00	-
		<u>44,187.00</u>	<u>44,187.00</u>
LANDOWNER'S RECOVERY FUND:			
1 AJE To record bank transactions			
1002	BOH Landowners Recovery (A/C 6838-000071)	-	2,806.50
8003	Interest income	-	7.50
8004	Other revenue	-	186.00
8201	Transfer out	3,000.00	-
		<u>3,000.00</u>	<u>3,000.00</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. Cruz, Jr.
 Administrative Officer