

Financial Statements

Guam Preservation Trust

*Year ended September 30, 2006
with Report of Independent Auditors*

Guam Preservation Trust

Financial Statements

Year ended September 30, 2006

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Independent Auditors' Report

Board of Directors
Guam Preservation Trust

We have audited the accompanying balance sheet/statement of net assets of the Guam Preservation Trust (the "Trust"), a component unit of the Government of Guam, as of September 30, 2006, and the related statement of Government Fund revenues, expenditures and changes in fund balance/activities for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 Trust'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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Guam Preservation Trust as of September 30, 2006, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Trust's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2007, on our consideration of the Guam Preservation Trust's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst + Young LLP

June 8, 2007

Guam Preservation Trust

Management's Discussion and Analysis

Year ended September 30, 2006

The Guam Preservation Trust presents its management's discussion and analysis ("MD&A") of the performance of the Trust in tandem with its financial statements and accompanying notes.

INTRODUCTION

The Guam Preservation Trust was established in 1990 as a public, non-profit corporation by Public Law 20-151, amended by Public Law 21-07, codified as Article 6, Chapter 76, Division 2 of Title 21. In 2004, the Legislature reenacted Article 6 of Chapter 76 of Division 2 of Title 21, and repealed §§87138 through 87141, and adding a new § to title 5, with Public Law 27-89.

The Guam Preservation Trust is a 501(c)(3) Non-profit Corporation comprised of ten board members representing five disciplines (Archaeology, Architecture, Chamorro Culture, Community Planning, and History). Each discipline is represented by a primary and an alternate Board Member. Board Members appointed by the Governor and approved by the Legislature to the Historic Review Board of the Guam Department of Parks and Recreation, automatically sit on the Trust Board. The Board of Directors conducts its regular monthly meeting on the second Wednesdays of the month at 2:30pm. In Fiscal Year 2006, a total of 11 meetings were conducted and 40 resolutions were made. Attendance of Board Members representing four of the five disciplines constitutes a quorum.

The Trust is staffed by the Chief Program Officer, two (2) Program Officers, and the Administrative Services Coordinator. The Trust personnel are non-government and are governed by the Trust's personnel handbook. Legal and accounting services are contracted by the Trust. The Trust maintains its own procurement regulations, and mirrors the Government of Guam Procurement Regulation.

The Trust was established with the following purposes, which are within its powers:

- a.) To seek grants and donations;
- b.) To acquire title to threatened Guam properties for the preservation of their historical value, whether in fee simple, by leasehold, or by easement, and whether through donation, transfer, dedication, or purchase;

Guam Preservation Trust

Management's Discussion and Analysis, continued

INTRODUCTION, continued

- c.) To award grants for the following:
 - 1.) Historic property documentation and historic nomination;
 - 2.) Architectural and archaeological history and documentation of historic structures and sites;
 - 3.) Protection of historic structures and sites through stabilization, rehabilitation, reconstruction, or restoration, including adequate lighting when appropriate on such sites being utilized for non-profit and non-commercial purposes, such as private homes, schools, churches, public buildings and facilities, except that commercial activity is allowable on such sites pursuant to a signed covenant between the Guam Preservation Trust and the registered owners when part of the proceeds of such commercial activity is used for the general maintenance of such sites;
 - 4.) Ethnography and oral history of Guam; and
 - 5.) Archival and archaeological research and investigations for locating, recording, and protecting sites of historic or prehistoric interest and value.
- d.) To prepare a Guam Preservation Trust Master Plan identifying, by order of priority, the buildings, structures and sites which in the opinion of the Trust are deserving of preservation and which shall be preserved. The Trust shall hold a public hearing on the proposed plan and shall transmit the plan to I Leheslaturan Guahan sixty (60) days prior to its implementation; and
- e.) To support other activities directly related to increasing the public appreciation of and benefit from historical places including public interpretation.

Advancement of Preservation on Guam

Since its inception in 1990, the Guam Preservation Trust rehabilitated and restored a total of nineteen (19) historic structures that ranged from homes in the Historic District of Inarajan, historic churches, historic public buildings, and historic structures on Guam's civic parks. The Guam Preservation Trust funded a total of about \$6.8 million dollars for these projects. In addition, the Trust granted a total of about \$1 million dollars to twenty nine (29) grantees to advance preservation in the areas of ethnography and oral histories, public interpretation of Guam's heritage, archaeology research, the preservation of Guam Museum collection, and the archival of Guam's public documents and photographs.

Guam Preservation Trust

Management's Discussion and Analysis, continued

Financial Statements

The Guam Preservation Trust's financial statements are prepared in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standards Board (GASB).

The required financial statements include a Governmental Funds Balance Sheet/Statement of Net Assets that identifies the nature and amount of an entity's available resources (assets) and obligations (liabilities) at a specific point in time. Net Assets represents the amount by which an entity's assets exceed its liabilities and represents resources available to fund future operations. The Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities is another required statement. This statement provides information about the entity's sources of revenue and nature of the related expenses during the period being reported on. It reflects the entity's ability to recover costs associated with providing services.

Financial Analysis

Our analysis is based on the following condensed financial data for the years ended September 30, 2006 and 2005. The nature of these statements is explained on the preceding paragraph.

	<u>2006</u>	<u>2005</u>	2006 % increase (decrease) <u>from 2005</u>
<u>Statement of Net Assets</u>			
Cash	\$1,848,829	\$1,175,393	57.3 %
Receivables:			
Building permit fund	5,811,096	6,003,015	(3.2)%
Allowance for doubtful accounts	(5,345,996)	(5,345,996)	---
Other assets	<u>4,612</u>	<u>4,939</u>	(6.6)%
 Total assets	 <u>\$2,318,541</u>	 <u>\$1,837,351</u>	 26.2%
 Liability-accrued expenses	 <u>\$ 42,029</u>	 <u>\$ 16,108</u>	 160.9 %
 Net assets:			
Invested in capital assets	3,762	4,089	(8.0)%
Reserve for encumbrances	119,715	---	100.0 %
Unrestricted	<u>2,153,035</u>	<u>1,817,154</u>	18.5%
 Total net assets	 <u>\$2,276,512</u>	 <u>\$1,821,243</u>	 25.0%

Guam Preservation Trust

Management's Discussion and Analysis, continued

Financial Analysis, continued

	Year ended September 30, <u>2006</u>	Year ended September 30, <u>2005</u>	2006 % increase (decrease) <u>from 2005</u>
<u>Statement of Activities</u>			
Building permit fees	\$ 926,122	\$ 670,500	38.1 %
Interest income	<u>65,303</u>	<u>12,517</u>	421.7 %
 Total revenues	 991,425	 683,017	 45.2 %
Expenditures	<u>536,156</u>	<u>180,590</u>	196.9 %
 Excess of revenues over expenditures	 455,269	 502,427	 (9.4)%
 Net assets at beginning of year	 <u>1,821,243</u>	 <u>1,318,816</u>	 38.1%
 Net assets at end of year	 <u>\$2,276,512</u>	 <u>\$1,821,243</u>	 25.0%

The Guam Preservation Trust receives most of its revenues from the Building Permit Fees administered by the Guam Department of Public Works. A compilation is conducted every quarter by our accounting services provider. For Fiscal Year 2006 a total of \$926,122 was received, which represents a 38.1% increase from FY 2005 total of \$670,500. The increase is due to the increase in construction activity on Guam.

The Trust maintains its funds through an interest bearing trust account. For Fiscal Year 2006, interest income increased 421.7% in response to the increase in revenues. The Trust Board of Directors recognizing the need to invest its funds, have taken steps into investment opportunities with investment services on Guam. An investment policy is currently being drafted to address the opportunities as well as safeguard the Trust's funds. An interim policy has been placed to invest with "capital preservation" as its guiding policy.

The implementation of projects and programs are dependent solely from the collection of building permit fees at the Guam Department of Public Works. Findings from our accounting services provider regarding collection methods have prompted our office to take steps to resolve issues of collection. Although the Treasury Office conducts the collection through their system, field receipts from Department of Public Works lack field receipt control numbers to account for receipts issued to consumers for payment to the Treasury Office. In fact, field receipt forms are photo copied and used without any control numbering system established. A corrective action is in progress to provide Department of Public Works with preprinted field receipts with control numbers for building permit fees.

Guam Preservation Trust

Management's Discussion and Analysis, continued

Financial Analysis, continued

Receivables from the Building Permit Fund of \$5,811,096 as compiled by our accounting services provider, with \$5,345,996 identified as doubtful account, concerned the Trust Board and prompted a discovery meeting with the Department of Administration, the Bureau of Budget and Management Research, Department of Public Works and the Speaker of the Legislature, to reconcile and report its findings. Preliminary findings indicated that in FY 2000, Public Law 23-128 authorized the release of \$7.4 million dollars from special revenue funds to pay for salary increments of government employees. A total of \$4.2 million dollars was released from the Trust's Building Permit Fund. This action conflicted with the Trust's mandate that Trust funds "shall not be used for operations of any government departments or line agencies."

The only leasehold interest is the lease of the Rosario House, a historic home in Hagåtña. In 1999, due to the decrease in revenues, the Trust Board of Directors issued a request for a mutual termination agreement with the owners of the property, the estate of Louis and Rose Patton. Settlement to terminate the lease has yet to be realized.

Operations expense of the Trust has increased 196.9%, a total of \$536,156 in FY 2006 as compared to FY 2005's total of \$180,590. The increase is due to the increase in activities of the Trust's work plan for FY 2006, the increase in grant awards (19 awards totaling \$182,219), assessment and record drawings for two historic structures, and the hiring of the Chief Program Officer.

In FY 2006, the Guam Preservation Trust completed its development of the Guam Preservation Trust Master Plan that charts the advancement of preservation on Guam for the next five years. The comprehensive, community-based plan identifies the standards of successes (goals) and proposed outcomes (objectives) for the five-year planned period. A five-year cash flow projection was subsequently developed to track and identify funding resources to implement the plan. An estimated cost of \$975,500 is proposed to fund all proposed outcomes of the five-year plan.

The Trust established its website to provide the public a direct access to the Trust's historical photo and architectural drawing archives, organizational activities, capital improvements and preservation related grants, and financial statements.

Guam Preservation Trust

Governmental Funds Balance Sheet/Statement of Net Assets

September 30, 2006

	<u>Building Permit Fund (326)</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets:			
Cash <i>(Note 2)</i>	\$1,848,829	\$ ---	\$1,848,829
Due from Government of Guam			
Building Permit fund, net <i>(Note 3)</i>	465,100	---	465,100
Prepaid expenses	850	---	850
Property and equipment, at cost, net <i>(Note 4)</i>	<u>---</u>	<u>3,762</u>	<u>3,762</u>
Total assets	<u>\$2,314,779</u>	<u>\$ 3,762</u>	<u>\$2,318,541</u>
Liability:			
Accrued expenses	<u>\$ 42,029</u>	<u>\$ ---</u>	<u>\$ 42,029</u>
Fund Balances/Net Assets			
Fund balances:			
Reserved for encumbrances	119,715	(119,715)	---
Unreserved - Building permit fund	<u>2,153,035</u>	<u>(2,153,035)</u>	<u>---</u>
Total fund balances	<u>2,272,750</u>	<u>(2,272,750)</u>	<u>---</u>
Total liabilities and fund balances	<u>\$2,314,779</u>		
Commitments and contingency <i>(Note 5)</i>			
Net Assets:			
Invested in capital assets		3,762	3,762
Reserved for encumbrances		119,715	119,715
Unrestricted		<u>2,153,035</u>	<u>2,153,035</u>
		<u>\$2,276,512</u>	<u>\$2,276,512</u>

See accompanying notes.

Guam Preservation Trust

Statement of Government Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities

Year ended September 30, 2006

	<u>Building Permit Fund (326)</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenue:			
Building permit fees	\$ 926,122	\$ ---	\$ 926,122
Interest income	<u>65,303</u>	<u>---</u>	<u>65,303</u>
Total revenue	<u>991,425</u>	<u>---</u>	<u>991,425</u>
Expenditures:			
Program Services - Projects/Grants	<u>249,616</u>	<u>---</u>	<u>249,616</u>
Supporting Service:			
Personnel services	200,854	---	200,854
Development and promotion	24,711	---	24,711
Contractual services	22,836	---	22,836
Rent (<i>Note 5</i>)	10,200	---	10,200
Supplies	8,497	---	8,497
Bank charges	7,729	---	7,729
Communication	5,318	---	5,318
Miscellaneous	3,498	---	3,498
Depreciation	---	2,047	2,047
Stipend	850	---	850
Capital outlays	<u>1,720</u>	<u>(1,720)</u>	<u>---</u>
	<u>286,213</u>	<u>327</u>	<u>286,540</u>
Total expenditures	<u>535,829</u>	<u>327</u>	<u>536,156</u>
Excess of revenues over expenditures	455,596	(455,596)	---
Change in net assets		455,269	455,269
Increase in reserve for encumbrances	(119,715)		
Fund balance/net assets:			
Beginning of year (<i>Note 6</i>)	<u>1,817,154</u>	<u>---</u>	<u>1,821,243</u>
End of year	<u>\$2,153,035</u>	<u>\$ ---</u>	<u>\$2,276,512</u>

See accompanying notes.

Guam Preservation Trust

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

September 30, 2006

Fund balance - Building Permit Fund \$2,272,750

Amounts reported for governmental activities in the Balance Sheet
differ from the amounts reported in the Statement of Net Assets
because:

Capital assets used in the governmental activities are not financial
resources and, therefore, are not reported in the funds. 3,762

Net assets of governmental activities \$2,276,512

Guam Preservation Trust

Reconciliation of the Statement of Government Fund Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended September 30, 2006

Net change in fund balances - governmental funds	\$455,596
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Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balance differ from the amounts reported in the Statement of Activities because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period	(<u>327</u>)
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Change in assets of governmental activities	<u>\$455,269</u>
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Guam Preservation Trust
Notes to Financial Statements

Year ended September 30, 2006

1. Organization and Summary of Accounting Policies

Organization

The Guam Preservation Trust (the “Trust”), is an expendable trust fund that was established as a tax exempt non-profit public corporation by Public Law 20-151 dated March 21, 1990 (as amended by Public Law 21-07 on April 19, 1991 and amended by Public Law 27-89 on May 6, 2004).

The Trust was created for the following purposes:

- To seek grants and donations;
- To acquire title to threatened Guam properties for the preservation of their value whether in fee simple, leasehold, or by easement, through donation, transfer, dedication, purchase and eminent domain;
- To award grants for archaeological investigations; and
- To support other activities directly related to increasing public appreciation of and benefit from historical places.

The Trust is a component unit of the Government of Guam. The Trust is governed by a Board of Directors, who shall be appointed by the Governor of Guam with the advice and consent of the Guam Legislature. Employees of the Trust are not Government of Guam employees and, accordingly, do not participate in the Government of Guam’s retirement system.

Basis of Presentation

The Trust’s basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

The financial statements of the Trust are prepared in accordance with generally accepted accounting principles (“GAAP”). The Trust applies all relevant Governmental Accounting Standards Board (“GASB”) pronouncements. The Trust, as a component unit of the Government of Guam, applies Financial Accounting Standards Board (“FASB”) pronouncements and Accounting Principles Board (“APB”) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Guam Preservation Trust

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Trust as a whole.

The statement of net assets presents the financial condition of the governmental activities of the Trust at year-end. The statement of activities presents the revenues, expenditures and reconciliation of net assets.

Revenues of the Trust are comprised of building permit fees and interest earned on the cash balances. Public Law 20-151, Section 13, provides that the Trust will receive building permit fees and re-inspection fees collected by the Department of Public Works of the Government of Guam and fines for vandalism and unlawful taking of historic properties.

Fund Financial Statements

During 2006, the Trust accounted for its financial activities in a single governmental fund. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The Trust's only governmental fund is the building permit fund.

Measurement Focus/Government-wide and Fund Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Trust are included on the statement of net assets.

The building permit fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared.

Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the building permit fund.

Guam Preservation Trust

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Measurement Focus/Government-wide and Fund Financial Statements, continued

The modified accrual basis of accounting is used by governmental funds. 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 that the amount of the transaction can be determined and “available” means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund type revenues. Expenditures are recorded when the related fund liability is incurred.

Encumbrances

Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated. Encumbrances represent grants which will be honored in subsequent years.

Revenue Recognition

Revenues are recorded upon notification of receipt of building permit fees by the Government of Guam’s Department of Administration.

Capital Assets

Property and equipment are stated at cost at date of acquisition. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated over a period of 3 to 5 years using the straight-line method.

Income Taxes

The Trust is exempt from Guam income taxes under Section 501(c)(3) of the Guam Territorial Income Tax Laws.

Compensated Absences

Governmental Accounting Standards Board Statement No. 16, Accounting for Compensated Absences, provides that liabilities for vacation leave and other compensated absences, excluding sick leave, will be accrued provided the leave is attributable to past service.

Guam Preservation Trust

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

Compensated Absences, continued

The Trust compensates its employees for annual leave as follows:

- One half day (4 hours) for each full biweekly pay period in the case of employees with less than (1) to five (5) years of service;
- Three-fourths day (6 hours) for each biweekly pay period except that for accrual for the last full biweekly pay period in the year shall be one and one-fourth (10 hours) in the case of employees with six (6) to ten (10) years of service;
- One day (8 hours) for each full biweekly pay period in the case of employees with eleven (11) or more years of service.

Employees entitled to annual leave may accumulate up to four hundred eighty (480) hours thereof. Any annual leave earned by eligible employees in excess of four hundred eighty (480) hours shall be automatically credited to such employee's accumulated sick leave, provided, that not more than one hundred (100) hours shall be credited to said sick leave.

Fund Balances

Unreserved fund balances for governmental funds represent the amount available for funding future operations. Reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Trust.

Guam Preservation Trust

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

New Accounting Standards, continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Trust.

2. Cash - Custodial Credit Risk

The Trust's policy is to minimize custodial credit risk with capital preservation as its guiding policy. GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, defines custodial credit risk for deposits as the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The Trust has an interest-bearing checking account at September 30, 2006 totaling \$20,637. This deposit is insured by the Federal Deposit Insurance Corporation.

As of September 30, 2006, the Trust also had \$1,828,192 deposited in an interest bearing money market account which can be liquidated within 24 hours notice to the bank. The account is backed by short term U.S. treasury securities but is not insured by the Federal Deposit Insurance Corporation.

As of September 30, 2006, the Trust's money market account balance of \$1,828,192 was exposed to custodial credit risk.

3. Due from Government of Guam Building Permit Fund

The due from the Government of Guam Building Permit Fund balance represents accumulated building permit fees and reinspection fees collected and deposited with the Treasurer of Guam by the Department of Public Works but not yet transferred to the Trust. Management of the Trust is in the opinion that such balances are due and payable to the Trust. However, issues relating to this outstanding balance exist at September 30, 2006. Accordingly, the Trust has recorded an allowance for uncollectible revenues of \$5,345,996 as of September 30, 2006.

Guam Preservation Trust

Notes to Financial Statements, continued

4. Property and Equipment

The following is a summary of the changes in capital assets for the year ended September 30, 2006:

	Beginning Balance October 1, <u>2005</u>	<u>Additions</u>	<u>Disposals</u>	Ending Balance September 30, <u>2006</u>
Furniture, fixtures, and equipment	\$5,462	\$ 1,720	\$ ---	\$7,182
Less accumulated depreciation	<u>(1,373)</u>	<u>(2,047)</u>	<u>---</u>	<u>(3,420)</u>
Investment in capital assets	<u>\$4,089</u>	<u>\$ (327)</u>	<u>\$ ---</u>	<u>\$3,762</u>

5. Commitments and Contingencies

In 1991, the Trust acquired a leasehold interest in Guam property of historical significance. The lease agreement, which expires on December 31, 2037, calls for the Trust to remit monthly payments totaling \$726.

The Trust is attempting to terminate the lease but has been unsuccessful in its efforts. Rental payments have not been remitted since September 1999 and total approximately \$70,000 as of September 30, 2006. However, the landlord has not taken any efforts to enforce collections.

The Trust, as a component unit of the Government of Guam, is covered under the Government of Guam Claims Act. This act prohibits the lessor from pursuing collection of outstanding rents beyond the past 18 month period. Accordingly, the Trust believes its maximum obligation as of September 30, 2006 will not exceed approximately \$14,000. Because the landlord has not pursued collection, and because of ongoing efforts to terminate the lease, the Trust has not recorded any accrued liability.

Guam Preservation Trust

Notes to Financial Statements, continued

5. Commitments and Contingencies, continued

Future rental payments as of September 30, 2006, are as follows:

Year ending September 30,

2007	\$ 8,712
2008	8,712
2009	8,712
2010	8,712
2011	8,712
Thereafter	<u>226,512</u>
	<u>\$270,072</u>

The Trust has a lease agreement that is renewed annually to rent office space for its operations. Rent expense incurred for the year ended September 30, 2006 totaled \$10,200.

The Trust has commitments to pay \$119,715 to fund grants approved as of September 30, 2006. The Trust will release the funds to the grantees only upon satisfactory performance by the grantees of requirements called for in their respective grant agreement. Subsequent to September 30, 2006, the Trust paid \$86,643 in grants that were reserved for encumbrances. In addition, subsequent to September 30, 2006, the Trust terminated a grant with a remaining reserve encumbrances totaling \$33,072.

6. Prior Period Adjustment

Matters resulting in the overstatement of previously reported assets and understatement of liabilities were discovered during the year ended September 30, 2006. The impact of these matters is as follows:

Net assets, as previously reported, September 30, 2005	\$3,459,439
Adjustment - overstatement of receivables	(1,535,191)
Adjustment - overstatement of leasehold interest	(96,853)
Adjustment - understatement of accrued liabilities	(<u>6,152</u>)
Net assets, as restated, September 30, 2005	<u>\$1,821,243</u>