

Financial Statements and
Other Financial Information

Guam Preservation Trust
(A Component Unit of the Government of Guam)

*Years ended September 30, 2007 and 2006
with Report of Independent Auditors*

Guam Preservation Trust
(A Component Unit of the Government of Guam)

Financial Statements and
Other Financial Information

Years ended September 30, 2007 and 2006

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Report of Independent Auditors

The Board of Directors
Guam Preservation Trust

We have audited the accompanying governmental funds balance sheet/statements of net assets of the Guam Preservation Trust (the “Trust”), a component unit of the Government of Guam, as of September 30, 2007 and 2006, and the related statements of government fund revenues, expenditures and changes in fund balance/activities for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. We were not engaged to perform an audit of the Trust’s internal control over financial reporting. Our audits included 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements referred to above present fairly, in all material respects, the financial position of the Guam Preservation Trust as of September 30, 2007 and 2006, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2008, on our consideration of the Guam Preservation Trust’s internal control over financial reporting and 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 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 to 10 is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Trust taken as a whole. The supplementary information included in the Schedule of Grant Projects Reserved for Encumbrances is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Trust's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

February 23, 2008

Guam Preservation Trust
(A Component Unit of the Government of Guam)

Management's Discussion and Analysis

Year ended September 30, 2007

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. This presentation is provided to better understand the Trust and its financial status in accordance with the U.S. generally accepted accounting principles promulgated by the Standards of the Government Accounting Standards Board ("GASB").

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 Guam 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 of Guam and approved by the Guam 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 Wednesday of the month at 2:30pm. In Fiscal Year 2007, a total of 10 meetings were conducted and 43 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 has adopted 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;

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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

In 1996, the Guam Preservation Trust, with the input and assistance of over 100 preservation stakeholders, developed a five-year master plan that has been the driving force in our advancement of preservation on Guam. The Master Plan's proposed outcomes for 2007, under the seven (7) program goals are listed below:

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Management’s Discussion and Analysis, continued

Advancement of Preservation on Guam, continued

PROGRAM GOALS	PROPOSED OUTCOMES
Ethnography and Oral History	<ol style="list-style-type: none"> 1. Comprehensive Ethnography and Oral History Program for Schools. 2. Cultural Heritage Orientation Program. 3. Guam History Day.
Repair, Rehabilitation, Restoration or Renovation of Historic Buildings and Structures	<ol style="list-style-type: none"> 1. Inventory of Historic Structures. 2. Specialized Materials Listing
Archaeological Research	<ol style="list-style-type: none"> 1. Archaeology & Museum Program at the University of Guam. 2. Community /Educational Awareness Program about Archaeology on Guam and the Mariana Islands.
Public Interpretation and Presentation	<ol style="list-style-type: none"> 1. Historic Sites Tour Program
Historic property & Documentation and Registration Nomination	No proposed outcomes for this year
Archival Research	No proposed outcomes for this year
Architectural History	<ol style="list-style-type: none"> 1. Architectural/Engineering Design Prototype for Vernacular Homes.

All proposed outcomes for each program goals have been implemented and are in various stages of planning and completion. Partnerships with organizations, such as the University of Guam’s Micronesia Area Research Center (“MARC”) and Center of Excellence for Chamorro Language and Culture, Guam Historic Preservation Office, Department of Parks and Recreation, Guam Humanities Council, Historic Inalahan Foundation, the many public and private middle and high schools on Guam, archaeological organization, architectural firms, and many fine individuals have stepped up to take the lead in either the planning or the implementation of proposed outcomes.

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Management's Discussion and Analysis, continued

Advancement of Preservation on Guam, continued

FY2007 Approved Grants		
GRANT PROJECT NAME	GRANT APPLICANT	AMOUNT
Inventory of Guam Collection	Guam Museum	\$ 69,400
New Harmonies	Guam Humanities Council	5,000
Guampedia Phase II	Guam Humanities Council	100,500
Meno House Restoration	Historic Inalahan	33,072
I Man Ma'gas Siha Posters	Ed Benavente	24,400
Cultural Heritage Orientation Program	Ann Card	30,000
A/E Restoration drawings for Historic Talefak Spanish Bridge, Agat	Department of Parks & Recreation	180,000
A/E Rehabilitation drawings for Lujan House, Hagatna	Department of Parks & Recreation	112,352
Archaeological Data Base Center, Archaeology/Museum Course Program, Archaeology Awareness Program	Micronesian Area Research Center, University of Guam	127,622
Repair on the St. Joseph Church Historic Structure in Inarajan	Inarajan Parish/Archdiocese of Agana	FNA
Repair of the Merlyn G. Cook School in Merizo	Merizo Mayor's Office	<u>FNA</u>
TOTAL		<u>\$682,346</u>

FNA: Funds Not Approved (Project was approved by the GPT Board but funds have not been approved during reporting period.)

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Management's Discussion and Analysis, continued

Advancement of Preservation on Guam, continued

In Fiscal Year 2007, the Guam Preservation Trust Board approved a total of \$682,346 to fund eleven (11) grant applications. Two historic homes in Inarajan and Hagatna, and the 1860 Talefak Historic Spanish Bridge in Agat, all have been slated for rehabilitation and restoration. Architectural and Engineering work has been ongoing with completion estimated by mid-year 2008. The St. Joseph Church in Inarajan and the Merlyn G. Cook School in Merizo have been approved for repair and are currently undergoing the procurement process (no funds have been approved during this reporting period).

The first ever Guam History Day underwent a great deal of planning and will be celebrated March 29, 2008. Middle and high school students will have the opportunity to write history and present them in five different formats: paper, exhibit, performance, documentary, and website. Teachers will be provided professional development on the programs that are linked to the National History Day Program. Guam Preservation Trust is the National History Day State Coordinator for Guam's participation in the National History Day programs culminating with completion and celebration with middle and high school students in the nation.

The Guam Preservation Trust, the Universities of Guam and Hawaii, and other fine organizations, have partnered to develop a multi-faceted archeological program that will address 2007 – 2010 proposed outcomes. This multi-faceted program is proposed to develop an archeological database center, archaeology and museum course program, and an awareness program for archaeology on Guam – all towards the advancement of our people in the field of archaeology and the protection and preservation of our historic resources.

A cultural heritage orientation program is underway to provide our people and visitors, particularly the military and their dependents, an orientation of Guam's culture and heritage. This program will be presented in three different formats, Website, DVD, and print.

The completion of Guampedia, a web-based encyclopedia of Guam, spearheaded by the Guam Humanities Council, will provide a valuable resource for our community on Guam and others around the world. Once completed and launched in March 2007, our community will have access to information about Guam through technology.

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Management's Discussion and Analysis, continued

Financial Analysis

Our analysis is based on the following condensed financial data for the years ended September 30, 2007, 2006, and 2005. The nature of these statements is explained on the following pages.

	<u>2007</u>	<u>2006</u>	<u>2005</u>	2007 % increase (decrease) <u>from 2006</u>
<u>Statement of Net Assets</u>				
Cash	\$1,405,255	\$1,848,829	\$1,175,393	(24.0)%
Investments	708,577	---	---	100.0%
Receivables:				
Building permit fund	6,106,219	5,811,096	6,003,015	5.1%
Allowance for doubtful accounts	(5,345,996)	(5,345,996)	(5,345,996)	---
Other assets	<u>16,362</u>	<u>4,612</u>	<u>4,939</u>	254.8%
Total assets	<u>\$2,890,417</u>	<u>\$2,318,541</u>	<u>\$1,837,351</u>	24.7%
Accrued expenses	\$ 42,817	\$ 42,029	\$ 16,108	1.9%
Grant deposit	<u>8,000</u>	<u>---</u>	<u>---</u>	100.0%
	<u>50,817</u>	<u>42,029</u>	<u>16,108</u>	20.9%
Net assets:				
Invested in capital assets	6,608	3,762	4,089	75.7%
Reserve for encumbrances	601,325	119,715	---	402.3%
Unrestricted	<u>2,231,667</u>	<u>2,153,035</u>	<u>1,817,154</u>	3.7%
Total net assets	<u>\$2,839,600</u>	<u>\$2,276,512</u>	<u>\$1,821,243</u>	24.7%

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Management's Discussion and Analysis, continued

Financial Analysis, continued

	Year ended September 30, <u>2007</u>	Year ended September 30, <u>2006</u>	Year ended September 30, <u>2005</u>	2007 % increase (decrease) <u>from 2006</u>
<u>Statement of Activities</u>				
Building permit fees	\$1,060,221	\$ 926,122	\$ 670,500	14.5%
Interest income	<u>75,875</u>	<u>65,303</u>	<u>12,517</u>	16.2%
Total revenues	1,136,096	991,425	683,017	14.6%
Expenditures	563,129	536,156	180,590	5.0%
Loss on sale of investments	<u>9,879</u>	<u>---</u>	<u>---</u>	100.0%
Excess of revenues over expenditures	563,088	455,269	502,427	23.7%
Net assets at beginning of year	<u>2,276,512</u>	<u>1,821,243</u>	<u>1,318,816</u>	25.0%
Net assets at end of year	<u>\$2,839,600</u>	<u>\$2,276,512</u>	<u>\$1,821,243</u>	24.7%

The Guam Preservation Trust receives most of its revenues from the Building Permit Fees administered by the Guam Department of Public Works ("DPW"). A compilation is conducted every quarter by our accounting services provider. For Fiscal Year 2007, a total of \$1,060,221 was received from building permit fees, a 14.5% increase from FY 2006 total of \$926,122. The increase is a result of an increase of construction activity on Guam.

The Trust Board of Directors, recognizing the need to invest its funds, have utilized investment services on Guam. This is evident with the increase in interest income between FY 2005 and FY 2007. In FY 2007, \$75,875 was earned on interest income. Most of the earnings were from investments that were made in April through September 2007 which resulted in a 16.2% increase from FY 2006 earnings of \$65,303.

An investment policy is currently being drafted to address the administration of investments to safeguard the Trust's funds. An interim policy has been placed to invest with "capital preservation" as its guiding policy.

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Management's Discussion and Analysis, continued

Financial Analysis, continued

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 into taking steps to resolve issues of collection. Although the Treasurer of Guam conducts the collection through their system, a Transmittal Form Letter, created by DPW, lacks a transmittal control number to account for building permits issued to consumers for payment to the Treasury Office. Department of Public Works agreed to a corrective action of providing a preprinted Transmittal Form Letters with control numbers for building permit fees. Our next step is to obtain the approval from the Department of Administration to inform them of the new transmittal form letter with control numbers for their procedures. This action will ensure the completeness of building permit fee transaction and that an accountability compilation report can be obtained in the future.

Receivables from the General Fund as of September 30, 2007 totaling \$6,106,219, 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 Guam Legislature, to reconcile and report its findings. Preliminary findings indicated that in FY 2000, Public Law authorized the release of \$7.4 million dollars from special revenue funds to pay for salary increments of government employees. A total of \$4.7 million dollars was released from the Trust's Special Revenue 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." It is with uncertainty that payments will be received in the near future.

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 5%, a total of \$563,129 in FY 2007 as compared to FY 2006's total of \$536,156. 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.

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Governmental Funds Balance Sheet/Statements of Net Assets

September 30, 2007 and 2006

	Building Permit Fund (326)	Adjustments	2007 Statement of Net Assets	2006 Statement of Net Assets
Assets:				
Cash and cash equivalents <i>(Note 2)</i>	\$ 1,405,255	\$ ---	\$ 1,405,255	\$ 1,848,829
Investments <i>(Note 2)</i>	708,577	---	708,577	---
Due from Government of Guam				
Building Permit fund, net <i>(Note 3)</i>	760,223	---	760,223	465,100
Interest receivable	8,904	---	8,904	---
Prepaid expenses	850	---	850	850
Property and equipment, at cost, net <i>(Note 4)</i>	---	6,608	6,608	3,762
	<u>---</u>	<u>6,608</u>	<u>6,608</u>	<u>3,762</u>
Total assets	\$ <u>2,883,809</u>	\$ <u>6,608</u>	\$ <u>2,890,417</u>	\$ <u>2,318,541</u>
Liabilities:				
Accrued expenses	\$ 42,817	\$ ---	\$ 42,817	\$ 42,029
Grant deposit	8,000	---	8,000	---
	<u>8,000</u>	<u>---</u>	<u>8,000</u>	<u>---</u>
Total liabilities	<u>50,817</u>	<u>---</u>	<u>50,817</u>	<u>42,029</u>
Fund Balances/Net Assets				
Fund balances:				
Reserve for encumbrances	601,325	(601,325)	---	---
Building permit fund	2,231,667	(2,231,667)	---	---
	<u>2,231,667</u>	<u>(2,231,667)</u>	<u>---</u>	<u>---</u>
Total fund balances	<u>2,832,992</u>	<u>(2,832,992)</u>	<u>---</u>	<u>---</u>
Total liabilities and fund balances	\$ <u>2,883,809</u>			
Commitments and contingencies <i>(Note 5)</i>				
Net Assets:				
Invested in capital assets		6,608	6,608	3,762
Reserve for encumbrances		601,325	601,325	119,715
Unrestricted		2,231,667	2,231,667	2,153,035
		<u>2,231,667</u>	<u>2,231,667</u>	<u>2,153,035</u>
		\$ <u>2,839,600</u>	\$ <u>2,839,600</u>	\$ <u>2,276,512</u>

See accompanying notes.

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

Years ended September 30, 2007 and 2006

	<u>Building Permit Fund (326)</u>	<u>Adjustments</u>	2007 <u>Statement of Activities</u>	2006 <u>Statement of Activities</u>
Revenue:				
Building permit fees	\$ 1,060,221	\$ ---	\$ 1,060,221	\$ 926,122
Interest income	<u>75,875</u>	<u>---</u>	<u>75,875</u>	<u>65,303</u>
Total revenue	<u>1,136,096</u>	<u>---</u>	<u>1,136,096</u>	<u>991,425</u>
Expenditures:				
Program services - projects/grants	<u>199,903</u>	<u>---</u>	<u>199,903</u>	<u>249,616</u>
Supporting services:				
Personnel <i>(Note 6)</i>	232,942	---	232,942	200,854
Contractual	45,020	---	45,020	22,836
Travel	43,301	---	43,301	21,951
Rent <i>(Note 5)</i>	10,200	---	10,200	10,200
Supplies and equipment rental	8,871	---	8,871	8,497
Trust fund fees	7,652	---	7,652	7,729
Advertising	3,859	---	3,859	2,760
Communication	3,683	---	3,683	5,318
Stipend	3,100	---	3,100	850
Depreciation expense	---	2,794	2,794	2,047
Miscellaneous	1,804	---	1,804	3,498
Capital outlays	<u>5,640</u>	<u>(5,640)</u>	<u>---</u>	<u>---</u>
	<u>366,072</u>	<u>(2,846)</u>	<u>363,226</u>	<u>286,540</u>
Total expenditures	565,975	(2,846)	563,129	536,156
Loss on sale of investments	<u>(9,879)</u>	<u>---</u>	<u>(9,879)</u>	<u>---</u>
Excess of expenditures and loss on investments over revenues	560,242	2,846	---	---
Change in net assets			563,088	455,269
Increase in reserve for encumbrances	(601,325)			
Fund balance/net assets:				
Beginning of year	<u>2,272,750</u>	<u>---</u>	<u>2,276,512</u>	<u>1,821,243</u>
End of year	<u>\$ 2,231,667</u>	<u>\$ ---</u>	<u>\$ 2,839,600</u>	<u>\$ 2,276,512</u>

See accompanying notes.

Guam Preservation Trust
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Reconciliation of the Governmental Funds Balance Sheet
to the Statements of Net Assets

	September 30, <u>2007</u>	<u>2006</u>
Fund balance - Building Permit Fund	\$2,832,992	\$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	<u>6,608</u>	<u>3,762</u>
Net assets of governmental activities	<u>\$2,839,600</u>	<u>\$2,276,512</u>

See accompanying notes.

Guam Preservation Trust
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Reconciliation of the Statements of Government Fund Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds to the
Statements of Activities

	Years ended September 30,	
	<u>2007</u>	<u>2006</u>
Net change in fund balances - governmental funds	\$ 560,242	\$ 455,596
<p>Amounts reported for governmental activities in the Statement of Government Fund Revenues, Expenditures and Changes in Fund Balance differ from the amounts reported in the Statement of Activities because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period</p>		
	<u>2,846</u>	<u>(327)</u>
Change in net assets of governmental activities	<u>\$ 563,088</u>	<u>\$ 455,269</u>

See accompanying notes.

Guam Preservation Trust
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Notes to Financial Statements

Years ended September 30, 2007 and 2006

1. Organization and Summary of Accounting Policies

Organization

The Guam Preservation Trust (the “Trust”), is an expendable trust fund that was established 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;
- 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
- 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
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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 2007 and 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
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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.

Cash and Cash Equivalents

For the purpose of presentation in the Governmental Funds balance sheet/statement of net assets, cash and cash equivalents consist of cash balances deposited in banks and money market accounts.

Investments

Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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 the useful life of the assets are expensed. Capital assets are depreciated over a period of 3 to 5 years using the straight-line method.

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.

Guam Preservation Trust
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

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.

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 three hundred twenty (320) hours thereof. Any annual leave earned by eligible employees in excess of three hundred twenty (320) 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.

Guam Preservation Trust
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

1. Organization and Summary of Accounting Policies, continued

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.

In July 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.

In July 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. The provisions of this statement should be implemented simultaneously with GASB Statement No. 45. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of the Trust.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements for comparative purposes. Such reclassifications have no effect on previously reported increase in net assets.

2. Cash and Cash Equivalents and Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the Trust has assessed the custodial credit risk, interest rate risk, credit risk, and concentration of credit risk of its cash and cash equivalents, and investments.

Guam Preservation Trust
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Cash and Cash Equivalents and Investments continued

Cash and cash equivalents and investments as of September 30, 2007 and 2006 are classified in the statements of net assets as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ <u>1,405,255</u>	\$ <u>1,848,829</u>
Investments	\$ <u>708,577</u>	\$ <u>---</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Trust's deposits may not be returned to it. The Trust does not have a deposit policy for custodial credit risk. As of September 30, 2007 and 2006, cash and cash equivalents were held by depositories and amounted to \$1,405,255 and \$1,848,829, respectively, of which \$153,395 and \$20,637, respectively, were insured and \$1,251,860 and \$1,828,192, respectively, were uninsured and uncollateralized. Based on negotiated trust and custody contracts, all of the investments were held in the Trust's name by the Trust's custodial financial institution at September 30, 2007 and 2006.

As of September 30, 2007 and 2006, the Trust also had \$1,251,860 and \$1,828,192, respectively, 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.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Trust does not have an investment policy for custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. To minimize interest rate risk, the maturities of investments are limited to one year or less. This reduces the impact of interest rate movements seen with longer maturity investments.

Guam Preservation Trust
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

2. Cash and Cash Equivalents and Investments continued

Concentration of Credit Risk

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The Trust minimized credit risk losses by limiting investments to low risk securities. The following represents the Trust's investments:

<u>Type</u>	<u>Amount</u>	<u>% of Portfolio</u>
Certificates of Deposit	\$ 497,177	70%
Stock	119,400	17%
Certificates of Deposit	<u>92,000</u>	<u>13%</u>
	<u>\$ 708,577</u>	<u>100%</u>

As of September 30, 2007, the Trust had no formal investment policy adopted.

3. Due from Government of Guam Building Permit Fund

The due from 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 Government of Guam's Department of Public Works but not yet transferred to the Trust. Management of the Trust is of the opinion that such balances are due and payable to the Trust. However, issues relating to this outstanding balance exist at September 30, 2007 and 2006. Accordingly, the Trust has recorded an allowance for uncollectible receivables of \$5,345,996 as of September 30, 2007 and 2006.

4. Property and Equipment

The following is a summary of the changes in capital assets for the years ended September 30, 2007 and 2006:

	Beginning Balance October 1, <u>2006</u>	<u>Additions</u>	Transfers and <u>Deletions</u>	Ending Balance September 30, <u>2007</u>
Furniture, fixtures, and equipment	\$ 7,182	\$ 5,642	\$ ---	\$ 12,824
Less accumulated depreciation	(<u>3,420</u>)	(<u>2,796</u>)	---	(<u>6,216</u>)
Investment in capital assets	\$ <u>3,762</u>	\$ <u>2,846</u>	\$ <u>---</u>	\$ <u>6,608</u>

Guam Preservation Trust
(A Component Unit of the Government of Guam)

Notes to Financial Statements, continued

4. Property and Equipment, continued

	Beginning Balance October 1, <u>2005</u>	<u>Additions</u>	Transfers and <u>Deletions</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>3,420</u>)
Investment in capital assets	\$ <u>4,089</u>	\$(<u>327</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 \$798.

The Trust issued a letter of termination dated December 10, 1998. Rental payments have not been remitted since September 1999 and total approximately \$75,000 and \$70,000, respectively, as of September 30, 2007 and 2006. The lessor has not taken efforts to collect.

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, 2007 will not exceed approximately \$14,000. Because the lessor has not pursued collection, the Trust has not recorded any accrued liability.

Future rental payments as of September 30, 2007, are as follows:

Year ending September 30,

2008	\$ 9,576
2009	9,576
2010	9,576
2011	9,576
2012	9,576
Thereafter	<u>285,149</u>
	<u>\$333,029</u>

Guam Preservation Trust
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Notes to Financial Statements, continued

5. Commitments and Contingencies, continued

The Trust has a lease agreement that is renewed annually to rent office space for its operations. Rent expense incurred for the years ended September 30, 2007 and 2006 totaled \$10,200.

The Trust has commitments to pay \$601,325 and \$119,715, respectively, to fund grants approved as of September 30, 2007 and 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, 2007, the Trust paid \$261,100 in grants that were reserved for encumbrances. Encumbered balances relating to September 30, 2006 have been paid during the period ended September 30, 2007.

In May 2007, the Trust received a levy from the United States Internal Revenue Service (“IRS”). The IRS seeks to obtain payment of taxes owed by a Trust grant recipient. However, the Trust had disbursed grant monies to the recipient prior to receiving the IRS levy. The Trust communicated this situation to the IRS and no reply has been received from the IRS. The Trust has not recorded any liability on its 2007 and 2006 financial statements.

6. Employee’s Retirement Plan

Employees of the Trust are not classified as Government of Guam employees and do not participate in the Government of Guam Employees’ Retirement System. Instead, the Trust’s Board of Directors, through Resolution 0806-31, approved the adoption of a Simple IRA Retirement Plan.

Employees can contribute up to the maximum allowable limit and the Trust offers a matching contribution of up to three percent (3%) of the gross annual salary of employees. To qualify, employees must complete one year of service with the Trust.

For the year ended September 30, 2007, the retirement contribution amounted to \$5,133, which is included as a component of personnel services in the accompanying 2007 Statement of Government Fund Revenues, Expenditures and Changes in Fund Balance/Statements of Activities. No contributions were made for the year ended September 30, 2006.

Other Financial Information

Guam Preservation Trust
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September 30, 2007

Schedule of Grant Projects Reserved for Encumbrances

<u>Description</u>	<u>Grant Amount</u>	<u>Expenditures Year Ended September 30, 2007</u>	<u>Outstanding Encumbrances</u>
Baltazar Aguon – Constantly Chamorro	\$ 45,000	\$ 43,380	\$ 1,620
Guam Humanities Council – New Harmonies	5,000	4,200	800
Guam Museum – Inventory of Collections	69,400	25,828	43,572
Inalahan Historic Foundation – Meno House	33,072	---	33,072
Guam Humanities Council – Guampedia II	39,500	35,196	4,304
Guampedia II – Amendment I	61,000	---	61,000
UOG Archaeological Program	127,622	17,417	110,205
Ann Card – Cultural Heritage Program	30,000	---	30,000
Ed Benavente – I Man Ma’gas Siha Poster Series	24,400	---	24,400
Winzler & Kelly (A&E) – Taleyfac Bridge	180,000	---	180,000
Setiadi Architects (A&E) – Lujan House	<u>112,352</u>	<u>---</u>	<u>112,352</u>
Total	\$ <u>727,346</u>	\$ <u>126,021</u>	\$ <u>601,325</u>

See accompanying notes.