

**GUAM RENTAL CORPORATION
(A PUBLIC CORPORATION)**

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

YEARS ENDED SEPTEMBER 30, 2000 AND 1999

GUAM RENTAL CORPORATION
(a Public Corporation)

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September 30, 2000

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Guam Rental Corporation:

We have audited the accompanying balance sheets of Guam Rental Corporation (a public corporation), a component unit of the Government of Guam, as of September 30, 2000 and 1999, and the related statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam Rental Corporation (a public corporation), as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 5 to the financial statements, the Corporation recorded donated property at its appraisal value of \$5,230,000. The appraisal value was based upon the property's intended use and future development. Subsequently, management decided to temporarily downsize the development plan. The ultimate outcome of the development on the property on which the appraisal was based cannot presently be determined. Accordingly, no adjustment has been made in the accompanying financial statements.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Corporation'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.

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2001, on our consideration of the Guam Rental Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This 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.

January 19, 2001

GUAM RENTAL CORPORATION
(A PUBLIC CORPORATION)

Balance Sheets
September 30, 2000 and 1999

<u>ASSETS</u>	<u>2000</u>	<u>1999</u>
Current assets:		
Cash and cash equivalents, including time certificates of deposit of \$327,064 in 2000 and \$293,038 in 1999	\$ 570,551	\$ 527,466
Self-insurance fund	536,790	458,182
Tenant accounts and other receivables, net (notes 3 and 7)	82,945	51,196
Supplies inventory, at cost	14,227	13,549
Prepaid expenses	<u>5,438</u>	<u>2,145</u>
Total current assets	1,209,951	1,052,538
Property and equipment, at cost less accumulated depreciation (notes 2, 3, and 5)	10,267,793	10,372,537
Organizational costs, less accumulated amortization	<u>-</u>	<u>311</u>
	<u>\$ 11,477,744</u>	<u>\$ 11,425,386</u>
 <u>LIABILITIES, CONTRIBUTIONS AND RETAINED EARNINGS</u>		
Current liabilities:		
Current maturities of note payable (note 3)	\$ 60,937	\$ 59,140
Accounts payable (note 3)	38,999	32,225
Accrued leave and wages payable (notes 1 and 4)	77,581	69,148
Other liabilities	<u>3,221</u>	<u>7,368</u>
Total current liabilities	180,738	167,881
Security deposits	45,570	54,652
Note payable, less current maturities (note 3)	605,441	666,377
Accrued pension cost (note 4)	<u>239,432</u>	<u>253,543</u>
Total liabilities	<u>1,071,181</u>	<u>1,142,453</u>
Contributions and retained earnings:		
Contribution from U.S. Department of Housing and Urban Development (note 6)	3,603,000	3,603,000
Contribution from Federal Home Loan Bank	99,600	99,600
Contribution from Guam Housing Corporation (note 5)	5,278,650	5,278,650
Retained earnings	<u>1,425,313</u>	<u>1,301,683</u>
Total contributions and retained earnings	<u>10,406,563</u>	<u>10,282,933</u>
Commitments and contingencies (note 8)		
	<u>\$ 11,477,744</u>	<u>\$ 11,425,386</u>

See accompanying notes to financial statements.

GUAM RENTAL CORPORATION
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Statements of Earnings and Retained Earnings
Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Revenues:		
Rentals	\$ 928,244	\$ 885,426
Other	<u>18,704</u>	<u>22,843</u>
Total revenues	<u>946,948</u>	<u>908,269</u>
Operating expenses:		
Salaries and benefits, other than retirement	310,348	295,255
Depreciation and amortization	159,423	154,484
Management fee (note 3)	151,596	144,788
Maintenance	91,850	85,437
Retirement contributions (note 4)	37,110	39,284
Administrative	34,157	35,595
Other	28,759	10,148
Bad debts	27,154	55,609
Insurance	<u>8,724</u>	<u>7,298</u>
Total operating expenses	<u>849,121</u>	<u>827,898</u>
Earnings from operations	97,827	80,371
Interest income (expense), net	<u>25,803</u>	<u>8,716</u>
Net earnings	123,630	89,087
Retained earnings at beginning of year	<u>1,301,683</u>	<u>1,212,596</u>
Retained earnings at end of year	<u>\$ 1,425,313</u>	<u>\$ 1,301,683</u>

See accompanying notes to financial statements.

GUAM RENTAL CORPORATION
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Notes to Financial Statements
September 30, 2000 and 1999

(1) Organization and Summary of Significant Accounting Policies

Organization

The Guam Rental Corporation (Corporation) is a component unit of the Government of Guam. Pursuant to the authority granted to the Guam Housing Corporation (GHC) under Public Law 8-80, the Corporation was created to promote the general welfare of the inhabitants of the Territory of Guam by encouraging and engaging in the development of low-cost rental housing. As such, the Corporation is not subject to any taxes. The Corporation is principally engaged in the ownership and rental of housing complexes known as Lada Gardens and Guma As-Atdas. Lease terms are initially for one month and continue indefinitely for successive terms of one month each, unless automatically terminated under specified terms of the lease agreement.

Fund Structure, Measurement Focus, and Basis of Accounting

The accounts of the Corporation are organized as a proprietary fund-component unit of the Government of Guam. Proprietary funds are used by government units to account for operations that are financed and operated in a manner similar to private business enterprises. The purpose of proprietary funds is to provide periodic determination of revenues, expenses and net income, with maintenance of capital.

Proprietary funds are accounted for on a flow of economic resources measurement focus, whereby all assets and liabilities associated with the operations of the funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements present increases and decreases (i.e., revenues and expenses, respectively) in total net assets. This is in contrast with "governmental" fund type accounting, which are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet.

The financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary and Other Governmental Entities that Use Proprietary Fund Accounting," requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. The Guam Rental Corporation has implemented GASB 20 and elected to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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Notes to Financial Statements
September 30, 2000 and 1999

(1) Organization and Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For purposes of the balance sheets and the statements of cash flows, cash and cash equivalents include cash on hand, cash on deposit in banks, and all highly liquid investments with original maturities of three months or less. As of September 30, 2000 and 1999, cash and cash equivalents are insured under FDIC (Federal Deposit Insurance Corporation) up to \$544,435 and \$400,000, respectively, with the remaining uninsured balances being uncollateralized.

Property and Equipment

The Corporation generally capitalizes all expenditures for property and equipment in excess of \$500. Depreciation is provided on a straight-line method over the estimated useful lives of 50 years for buildings, 3 to 15 years for building improvements, 1 to 7 years for equipment and 3 to 5 years for vehicles.

Organizational Costs

Organizational costs are being amortized on a straight-line method over 30 years.

Accrued Leave

Employees are credited 104, 156 or 208 hours of vacation leave per fiscal year, subject to their lengths of service. The accumulation of vacation credits is limited to 480 at fiscal year-end and is convertible to pay upon termination of employment. The Corporation recognizes as a liability all vested vacation leave benefits accrued by its employees. Sick leave does not vest and is not accrued. When vacation leave benefits are used by the employees, the liability account is reduced accordingly. As of September 30, 2000 and 1999, accrued leave liability totaled \$70,945 and \$62,862, respectively. The aggregate amount of the sick leave liability has not been estimated.

Recognition of Revenues and Expenses

Revenues and expenses are recognized on an accrual basis.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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Notes to Financial Statements
September 30, 2000 and 1999

(1) Organization and Summary of Significant Accounting Policies, continued

Insurance Losses

The Corporation self-insures for all risks to Lada Gardens and Guma As-Atdas. A separate cash account was established to fund any damages that may arise in the future, to be increased on a monthly basis by the weighted-average yield of the operation's checking account. To the extent future losses exceed the fund, they will be charged to current operations.

Reclassifications

Certain reclassifications have been made to the 1999 financial statements to conform to the 2000 presentation.

(2) Property and Equipment

A summary of property and equipment at September 30, 2000 and 1999 follows:

	<u>2000</u>	<u>1999</u>
Land and land improvements (see notes 5 and 6)	\$ 6,224,611	\$ 6,224,611
Buildings and building improvements (see note 6)	5,480,259	5,449,248
Equipment, furniture and fixtures	240,518	242,601
Vehicles	<u>60,031</u>	<u>60,031</u>
	12,005,419	11,976,491
Less accumulated depreciation	<u>1,737,626</u>	<u>1,603,954</u>
	<u>\$ 10,267,793</u>	<u>\$ 10,372,537</u>

The portions of land and buildings that relate to Lada Gardens amount to \$68,650 and \$72,626, respectively. As of December 15, 1995, the land and buildings of Lada Gardens were appraised at a market value of \$4.4 million and \$4.6 million, respectively, assuming sale of the entire project, "as is," at one time to one entity. There has been no appraisal conducted on the Guma As-Atdas property as of September 30, 2000.

(3) Related Parties

GHC is the management agent for the Corporation and the same board of directors serves both entities. For the years ended September 30, 2000 and 1999, GHC was paid a management fee of \$151,596 and \$144,788 respectively, which is included under administrative expenses.

For the years ended September 30, 2000 and 1999, the Corporation occupies space within the offices of GHC on a rent-free basis.

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Notes to Financial Statements
September 30, 2000 and 1999

(3) Related Parties, continued

The Corporation is liable to the Guam Housing Corporation for the following note payable:

	<u>2000</u>	<u>1999</u>
3%, payable in monthly installments of \$6,675 including interest, to the year 2010; collateralized by mortgage on land, Buildings and attached equipment.	\$ 666,378	\$ 725,517
Less current maturities	<u>60,937</u>	<u>59,140</u>
	<u>\$ 605,441</u>	<u>\$ 666,377</u>

Principal payments by the Corporation and payable to the Guam Housing Corporation through 2005 and subsequent years are as follows:

<u>Year Ending September 30,</u>	
2001	\$ 60,947
2002	62,790
2003	64,700
2004	66,670
2005	73,337
Subsequent years	<u>276,997</u>
	<u>\$ 605,441</u>

(4) Employees' Retirement Plan

Employees of the Corporation hired before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined, contributory pension plan). Employees hired after September 30, 1995, are members of the New Defined Retirement System (DCRS). Until 1999, those employees who are members of the defined benefit plan with less than 20 years of service at September 30, 1995, have the option to switch to the Defined Contribution Retirement System. Otherwise, they remain under the old plan.

The Defined Benefit Plan and the DCRS are administered by the Government of Guam Retirement Fund, to which the Corporation contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

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Notes to Financial Statements
September 30, 2000 and 1999

(4) Employees' Retirement Plan, continued

As a result of the most recent actuarial valuation performed as of September 30, 1999, it has been determined that for the year ended September 30, 2000, a minimum combined employer and employee contribution rate of 33.41% of covered Defined Benefit Plan payroll is required to appropriately fund the current cost, amortize prior service costs and provide for interest on the unfunded accrued liability. Statutory contribution rates for employee and employer contributions were 9.5% and 18.6%, respectively, for the year ended September 30, 2000. The effect of the Corporation's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 23.91% to an effective rate of 21.71% for the year ended September 30, 2000. In recognition of the above, an accrual reduction of 3.11% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 21.71% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1999 was 17.02%.

The plan utilized the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 5.5% per annum. The most recent actuarial valuation performed as of September 30, 1999, did not provide breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. If the actuarial valuation were performed for the Corporation as a separate sponsor, the accrued unfunded liability at September 30, 2000 and 1999 may be materially different than that recorded in the accompanying financial statements.

The Guam Legislature enacted legislation during the year ended September 30, 2000, which offered retirement incentives for employees to retire or voluntarily separate from service with the Government of Guam and also required the Retirement Fund to incur the costs of providing certain supplemental retiree benefits. This legislation resulted in a significant increase in the Retirement Fund's unfunded accrued liability and is the primary reason for the increase in the employer's contribution rate for the year ended September 30, 2000.

Contributions into the DCRS by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan.

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Notes to Financial Statements
September 30, 2000 and 1999

(4) Employees' Retirement Plan, continued

Members of the DCRS who have completed five years of government service, and have attained the age of 55 years at termination, have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members, who have completed five years of service but have not attained the age of 55, are eligible only for the amount of member contributions plus any earnings thereon.

(5) Donated Property

Public Law 21-146 was signed into law on January 12, 1993, authorizing the Governor of Guam to transfer title of 34.8 acres of land (Lot No. 10119-12) from the Government of Guam to GHC to develop moderately priced multi-family, multi-story housing rental units. A grant deed for the land was given to GHC on August 3, 1994. On December 28, 1994, a grant deed for the same land was given by GHC to the Corporation. The Corporation obtained an appraisal of the property based upon the land's intended use and future development which consists mainly of building 96 rental units. Based on such appraisal, the Corporation recorded in its books the value of the land at \$5,230,000.

On June 20, 1995, management decided to temporarily downsize the future development from 96 units to 24 units.

(6) Contributed Capital

During fiscal year 1996, GRC drew down the remaining \$2,726,916 balance of its \$3,533,000 grant award from the U. S. Department of Housing and Urban Development (HUD). The As-Atdas project, which was federally funded by HUD, was completed in June 1996.

(7) Receivables

A summary of receivables is as follows:

	<u>2000</u>	<u>1999</u>
Tenant accounts	\$ 102,740	\$ 42,300
Other	<u>7,359</u>	<u>63,646</u>
	110,099	105,946
Less allowance for uncollectible accounts	<u>(27,154)</u>	<u>(54,750)</u>
Tenant accounts and other receivables	<u>\$ 82,945</u>	<u>\$ 51,196</u>

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Notes to Financial Statements
September 30, 2000 and 1999

(8) Commitments and Contingencies

The Government of Guam and its component units, including the Corporation, began withholding and remitting funds to the U.S. Social Security System for the health insurance component of its salaries and wages effective October 1998. Prior to that date, the Government of Guam did not withhold or remit Medicare payments to the U. S. Social Security System. If the Government of Guam is found to be liable for Medicare payments on salaries and wages prior to October 1998, an indeterminate liability could result. It has been the practice of the Corporation and all other component units of the Government of Guam that payment of this health insurance component was optional prior to October 1998. Consequently, no liability for any amount, which may ultimately arise from this matter, has been recorded in the accompanying financial statements.

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Supplementary Information

Schedule 1

Schedule of Salaries and Wages
Years Ended September 30, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Salaries and wages:		
Salaries	\$ 255,069	\$ 253,416
Benefits	55,279	41,839
Overtime pay	<u>-</u>	<u>-</u>
Total salaries and wages	<u>\$ 310,348</u>	<u>\$ 295,255</u>
 Employees at end of year	 7	 7

See accompanying independent auditor's report.