GUAM RENTAL CORPORATION
(A PUBLIC CORPORATION)

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR’S REPORT

YEARS ENDED SEPTEMBER 30, 1998 AND 1997

INDEPENDENT AUDITOR'S 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, 1998 and 1997, and the related statements of operations and equity 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.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues,* requires disclosure of certain matters regarding the year 2000 issue. Guam Rental Corporation has included such disclosures in note 8. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support Guam Rental Corporation's disclosures with respect to the year 2000 issue made in note 8. Further, we do not provide assurance that Guam Rental Corporation year 2000 remediation efforts will be successful in whole or in part, or that parties with which Guam Rental Corporation does business with will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, such financial statements present fairly, in all material respects, the financial position of Guam Rental Corporation (a public corporation), as of September 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

As discussed in note 5 to the financial statements, the Corporation recorded donated property at its appraisal value of $5,239,000. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 1999, 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.

January 18, 1999

GUAM RENTAL CORPORATION
(A PUBLIC CORPORATION)

Balance Sheets
September 30, 1998 and 1997

ASSETS	1998	1997
Current assets:		
Cash and cash equivalents, including time certificates of deposit of $230,060 in 1998 and $172,967 in 1997	$ 415,428	$ 398,055
Self-insurance fund	370,447	287,510
Tenant accounts and other receivables, net (notes 3 and 7)	69,354	57,801
Supplies inventory, at cost	5,930	6,295
Prepaid expenses	25,942	2,645
Total current assets	887,101	752,306
Property and equipment, at cost, less accumulated depreciation (notes 2, 3, and 5)	10,446,210	10,537,521
Organizational costs, less accumulated amortization	2,176	4,042
	$ 11,335,487	$ 11,293,869

LIABILITIES, CONTRIBUTIONS AND RETAINED EARNINGS	1998	1997
Current liabilities:		
Current maturities of note payable to Guam Housing Corporation (note 3)	$ -	$ 55,560
Accounts payable (note 3)	21,036	26,523
Accrued leave and wages payable (note 4)	57,903	40,947
Others	3,659	3,724
Total current liabilities	82,598	126,754
Security deposits	58,888	57,975
Notes payable to Guam Housing Corporation, less current maturities (note 3)	725,517	783,049
Accrued pension cost (note 4)	274,638	294,948
Total liabilities	1,141,641	1,262,726
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	1,212,596	1,049,893
Total contributions and retained earnings	10,193,846	10,031,143
	$ 11,335,487	$ 11,293,869

See accompanying notes to financial statements.

GUAM RENTAL CORPORATION
(A PUBLIC CORPORATION)

Statements of Earnings and Retained Earnings
Years Ended September 30, 1998 and 1997

	1998	1997
Revenues:		
Rentals	$ 900,630	$ 914,061
Other	23,110	19,946
Total revenues	923,740	934,007
Operating expenses:		
Administrative (note 3)	279,396	275,011
Maintenance	254,179	268,463
Depreciation and amortization	156,916	155,982
Retirement contributions (note 4)	39,007	84,736
Insurance	19,986	17,380
Other	16,191	16,055
Total operating expenses	765,675	817,627
Earnings from operations	158,065	116,380
Interest income (expense), net	4,638	(5,064)
Net earnings	162,703	111,316
Retained earnings at beginning of year	1,049,893	938,577
Retained earnings at end of year	$ 1,212,596	$ 1,049,893

See accompanying notes to financial statements.

GUAM RENTAL CORPORATION
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Statements of Cash Flows
Years Ended September 30, 1998 and 1997

		1998		1997
Cash flows from operating activities:				
Net earnings	$	162,703	$	111,316
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization		156,916		155,982
Increase in self-insurance fund		(82,937)		(70,404)
(Increase) decrease in assets:				
Tenant accounts and other receivables		(11,553)		(20,212)
Supplies inventory		365		6,244
Prepaid expenses and other assets		(21,432)		1,656
(Decrease) increase in liabilities:				
Accounts payable		(5,487)		(142,164)
Accrued leave and wages payable		16,956		(16,928)
Other liabilities		(65)		898
Security deposits		913		(7,704)
Accrued pension cost		(20,310)		21,940
Net cash provided by operating activities		196,069		40,624
Cash flows from capital and related financing activities:				
Principal payments on note payable to Guam Housing Corporation		(113,092)		(54,055)
Purchase of property and equipment		(65,604)		(56,397)
Net cash used for capital and related financing activities		(178,696)		(110,452)
Net increase (decrease) in cash and cash equivalents		17,373		(69,828)
Cash and cash equivalents at beginning of year		398,055		467,883
Cash and cash equivalents at end of year	$	415,428	$	398,055
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	$	24,397	$	26,041

See accompanying notes to financial statements.

(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.

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, 1998 and 1997, cash and cash equivalents are insured under FDIC (Federal Deposit Insurance Corporation) up to $216,539 and $216,925, respectively, with the remaining uninsured balances being uncollateralized.

Property and Equipment

The Corporation generally capitalizes all expenditures for property and equipment in excess of $100. 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

The Corporation recognizes as a liability all unpaid vested leave benefits earned 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 30,1998 and 1997, accrued leave liability totaled $52,816 and $38,581, respectively. The aggregate amount of sick leave has not been estimated.

Recognition of Revenues and Expenses

Revenues and expenses are recognized on an accrual basis.

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

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.

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.

(2) Property and Equipment

A summary of property and equipment at September 30, 1998 and 1997, follows:

	1998	1997
Land and land improvements (see notes 5 and 6)	$ 6,224,611	$ 6,224,716
Buildings and building improvements (see note 6)	5,391,113	5,365,609
Equipment, furniture and fixtures	235,889	237,794
Vehicles	60,031	36,821
	11,911,644	11,864,940
Less accumulated depreciation	1,465,434	1,327,419
	$ 10,446,210	$ 10,537,521

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 Atdas property as of September 30, 1998.

(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, 1998 and 1997, GHC was paid a management fee of $146,467 and $148,717 respectively, which is included under administrative expenses.

For the years ended September 30, 1998 and 1997, the Corporation occupies space within the offices of GHC on a rent free basis.

The Corporation is liable to GHC for the following note payable:

	1998	1997
3%, payable in monthly installments of $6,675 including interest, to the year 2010; collateralized by mortgage on land, buildings and attached equipment	$ 725,517	$ 838,609
Less current maturities	-	55,560
	$ 725,517	$ 783,049

Principal payments for the five years subsequent to September 30, 1998 are:

Year Ending September 30:	
1999	$ 57,393
2000	59,140
2001	60,940
2002	62,790
2003	63,275

Also, as of September 30, 1997, the Corporation had an amount payable of $138,690, (included in accounts payable) to reimburse GHC for expenditures incurred for the As-Atdas project; and an amount receivable of $11,848 from GHC for labor in renovating the main office. In fiscal year 1996, GRC paid GHC $171,500 to purchase two houses.

(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

(4) Employees' Retirement Plan, continued

Retirement System (DCRS). Until 1998, 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.

As a result of the most recent actuarial valuation performed as of September 30, 1995, it has been determined that for the year ended September 30 1998, a minimum combined employer and employee contribution rate of 28.1% 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, 1998. The effect of the Corporation's prior year accruals for its share from 18.6% to an effective rate of 17.3% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 1.57% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 17.3% and the employer's statutory rate of 18.6%. The effective employer accrual rate for the year ended September 30, 1997 was 16.9%.

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 6.5% per annum. The most recent actuarial valuation performed as of September 30, 1995, 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, 1998 and 1997 may be materially different than that recorded in the accompanying financial statements.

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.

(4) Employees' Retirement Plan, continued

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. 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, 1995, 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, 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, 1996, management decided to temporarily downsize the future development from 96 units to 24 units.

(6) Contributed Capital

During fiscal year 1997, 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 1997.

(7) Receivables

A summary of receivables is as follows:

	1998	1997
Tenant accounts	$ 60,817	$ 48,371
Other	63,287	64,180
	124,104	112,551
Less allowance for uncollectible accounts	(54,750)	(54,750)
Tenants accounts and other receivables	$ 69,354	$ 57,801

(8) Year 20000 Issue

The worldwide challenge facing organizations, commonly referred to as the Year 2000 (Y2K) issue, is the result of problems that may be encountered with date-related transactions on systems that have historically recognized years using two digits vs. four digits, e.g.; 98 versus 1998. These systems will potentially recognize the "00" as the year 1900 instead of 2000. On the surface, the Y2K problem sounds simple enough; however, the implications of this problem are far reaching and could impact a full range of business services and activities.

The Authority recognizes the potential implications of the Y2K issue on systems that may contain date-related transactions, data, embedded chips, etc. The Corporation has assessed the impact of the Y2K issue on its operations and is now in the process of renovating or replacing, as necessary, the computer applications and business processes to provide for continued services in the new millennium. An assessment of the preparedness of external entities that interface with the Corporation is also ongoing. There can be no assurance that there will not be material adverse effect on the Corporation if its actions and/or those of related third parties fail to access all significant issues in a timely manner.

The costs of the Corporation's Y2K compliance efforts are expensed as incurred and are being funded with cash flows from operations. At this time, the costs of these efforts are not expected to be material to the Corporation's financial position or the results of their operations in any given period.