

Financial Statements and Other Financial Information

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

For the period from December 31, 2004 to September 30, 2005
with Report of Independent Auditors

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

Financial Statements and
Other Financial Information

For the period from December 31, 2004 to September 30, 2005

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Report of Independent Auditors

Honorable Felix P. Camacho
Governor of Guam

We have audited the accompanying statement of assets, liabilities and fund balances of the Interim Transition Coordinating Committee and Guam Telephone Authority Privatization Proceeds Funds, as of September 30, 2005, and the related statement of revenues and expenditures for the period from December 31, 2004 to September 30, 2005. These financial statements are the responsibility of the Government of Guam'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 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 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Interim Transition Coordinating Committee and Guam Telephone Authority Privatization Proceeds Funds. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Interim Transition Coordinating Committee and Guam Telephone Authority Privatization Proceeds Funds as of September 30, 2005, and the results of its operations for the period from December 31, 2004 to September 30, 2005, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 3 through 5 are not a required part of the basic financial statements but are supplementary information required by the Government Auditing 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 express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Statement of Fund Activities 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 Government of Guam's management. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2006 on our consideration of the Interim Transition Coordinating Committee and Guam Telephone Authority Privatization Proceeds Funds and the Government of Guam's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters related to these funds. 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 *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Ernst + Young LLP

May 9, 2006

Government of Guam
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Management's Discussion and Analysis

September 30, 2005

The following Management's Discussion and Analysis of the Interim Transition Coordinating Committee (ITCC) and Guam Telephone Authority (GTA) Privatization Proceeds Funds activities and financial performance provide readers with an introduction and overview to the financial statements as of and for the period from December 31, 2004 to September 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes, which follow this section.

The ITCC serves as the successor of the Guam Telephone Authority (the "Authority") and is also tasked to administer the execution of the Asset Purchase Agreement between the Government of Guam and TeleGuam Holdings, LLC.

Using the Financial Statements

The financial statements of the ITCC and the GTA Privatization Proceeds Funds are prepared in accordance with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) establishes and sets governmental accounting and financial reporting principles for state and local governments.

As of and for the period from December 31, 2004 to September 30, 2005, the ITCC adopted GASB Statement No. 34 "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments" as amended by GASB No. 37, "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus", GASB No. 38, "Certain Financial Statement Disclosures" and GASB No. 40, "Deposit and Investment Risk Disclosures" (an amendment of GASB No. 3).

Introduction

Our discussion and analysis of the financial activities of the ITCC and GTA Privatization Proceeds Funds provide an overview for the fiscal year period from December 31, 2004 through September 30, 2005. Please read it in conjunction with the transmittal letter and the accompanying financial statements.

The name of this Committee established as an entity under the Office of the Governor clearly reflects the temporary nature of the organization. As such, it remains to be seen how the ITCC will evolve, or whether it will be dissolved completely. In the "Interim", we work towards ensuring accountability in all that we do.

The Committee has five members identified by statute to include the Director of the Department of Administration, the Director of the Bureau of Budget and Management Research, the Director of the Department of Land Management, the Director of the Department of Public Works, and the Attorney General.

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Management's Discussion and Analysis, continued

Introduction, continued

The ITCC is under the direction of an Executive Secretary, appointed by the Governor, in compliance with Public Law 27-109. The Governor sanctioned the establishment of an office to handle the mandated tasks of Administration and Enforcement of the Privatization Agreement (more commonly known as the Asset Purchase Agreement (APA)) on behalf of the government. The office was opened in March of 2005, and the staff initiated a multitude of tasks including the processing of separation incentive bonus checks for the former GTA employees. Provisions for proper storage of valuable records of the old telephone utility were made and the records are now housed at the government's General Service Agency facility in Piti. Continuous examination of these records occurs as various issues surface.

Financial Highlights

The brunt of the ITCC's work has been managing the proceeds of the sale of the Authority's assets. One Hundred Forty Million Dollars (\$140,000,000) was received in cash from the sale, and another \$10,000,000 was pledged in the form of a promissory note that will be payable at the end of 2012 with interest. Combined, they make up the total purchase price of \$150,000,000. The cash was transferred into various escrow accounts and payments were made over time to cover liabilities in compliance with local law.

Of the cash received, One Hundred Eight Million Two Hundred Four Thousand Sixty Three Dollars and Fifty Five cents (\$108,204,063.55) was set aside in an account christened the Cushion of Credit Account with the Federal Reserve Bank of New York, and controlled by the Rural Utility Service (RUS) pursuant to an agreement between the old GTA and the RUS. Neither the buyer nor the seller had any involvement with the release of this money to the RUS when the time came to satisfy the existing loan debts. The money was subsequently drawn down on March 31, 2005 and the loans were cleared completely.

The buyer and seller agreed in the APA to hold a post closing adjustment to the purchase price, since the offer of \$150,000,000 for the purchase was made at the time the initial proposal was submitted. The sale was not finalized until December of 2004, almost nine months after the proposal submission. There was some foresight in recognizing that the number of active lines at the time of the sale would be different than the line count at the time of the offer. Other smaller considerations were also included in the adjustment.

Negotiations for the adjustment concluded in December of 2005. Though \$9,224,027.40 was set-aside in the "Deposit" escrow account with the U.S. Bank for this adjustment, and the buyer claimed \$6,000,000, with the help of our advisors we were able to negotiate a disbursement of only \$4,283,448. This amount will be made up when the Promissory Note from the buyer matures and the interest is paid. The balance of funds was transferred into the Privatization Proceeds Account upon the disbursement to the buyer. An additional payment of \$1,611,145 was made from the "Balance" escrow account with the U.S. Bank for indemnification claims, as negotiated in the Settlement Agreement and Release.

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Management's Discussion and Analysis, continued

Financial Highlights, continued

One million dollars was set-aside in a separate escrow account, also with the U.S. Bank and called the Indemnification Account, to pay for pending litigation. This issue is pending a decision of the courts and remains unresolved to date, and only a small portion of the amount has been released to the buyer for attorney fees.

\$21,571,909.05 was set-aside in the U.S. Bank Balance Account, to be released when all retained liabilities were settled including the loans to the RUS and the Procurement Advisor fee. Upon payment to the buyer of all retained liabilities, the money remaining in this account was transferred to the Privatization Proceeds Account in December of 2005.

A significant windfall occurred in March of 2006, when the Rural Telephone Bank stocks that were carried on the books at a value of \$933,000 were redeemed for \$14,713,068. This money was transferred into a local account and handled in compliance with legislative appropriation. A \$7.7 million payment was made to satisfy, in full, the "Unfunded Liability" that the Authority accumulated with the retirement fund. The remainder of over \$7 million was invested in an interest-bearing account.

Other Assets retained by the ITCC included "insurance proceeds that may be due with respect to property damage that has already been repaired or replaced at the Authority's expense prior to closing." To date we have received two reimbursements from FEMA totaling \$397,328.96. Additionally, a settlement was reached with our insurance carrier for damages from Typhoons Chataan and Pongsana in the amount of \$1,697,960. After subtracting the initial payments made by the insurance carrier, the ITCC received \$722,960.37 as full settlement of the typhoon claims.

Legislative Appropriations

The Guam Legislature initially appropriated \$1.8 million from the Authority's cash assets to fund the ITCC's mandates. In FY'05 we were able to keep costs contained and rolled over to the second fiscal period enough money to cover the ITCC's expenses.

Of the remaining cash proceeds (after paying the loans and retained liabilities), the legislature was able to appropriate the following amounts:

- \$5,000,000 to help the Guam Memorial Hospital (Public Law 28-64)
- \$2,750,000 to help the Department of Mental Health and Substance Abuse (Public Law 28-65)
- \$2,246,947 to pay for the government's obligation of Supplemental, Medical, Dental, and Life Insurance payments for our retirees for FY '06 (Public Law 28-68)
- \$7,601,000 to cover the Cost-of-Living allowance for eligible retirees (Public Law 28-94)
- \$4,200,000 as the initial payment of the un-funded liability of the GTA employees to the retirement fund (Public Law 28-94)

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Statement of Assets, Liabilities and Fund Balances

September 30, 2005

	Guam Telephone Authority Privatization Proceeds Fund	Interim Transition Coordinating Committee Fund	Total (Memorandum Only)
Assets:			
Cash and equivalents <i>(Note 6)</i>	\$ 24,353,651	\$ 2,471,388	\$ 26,825,039
Accounts receivable <i>(Note 5)</i>	---	722,960	722,960
Notes receivable <i>(Note 2)</i>	10,000,000	100,000	10,100,000
Accrued interest receivable <i>(Note 2)</i>	468,750	---	468,750
RTB stock <i>(Note 5)</i>	---	933,800	933,800
Total assets	<u>\$ 34,822,401</u>	<u>\$ 4,228,148</u>	<u>\$ 39,050,549</u>
Liabilities:			
Accounts payable	\$ ---	\$ 171,486	\$ 171,486
Post closing adjustment liability <i>(Note 5)</i>	4,283,448	---	4,283,448
Indemnification claim liability <i>(Note 5)</i>	1,611,145	---	1,611,145
Retirement liability <i>(Note 5)</i>	11,900,000	---	11,900,000
Due to other funds	174	---	174
Total liabilities	<u>17,794,767</u>	<u>171,486</u>	<u>\$ 17,966,253</u>
Contingencies			
Fund balances:			
Reserved for:			
Continuing appropriations	\$ 2,734,356	\$ ---	\$ 2,734,356
Encumbrances	15,470		15,470
Unreserved	<u>14,277,808</u>	<u>4,056,662</u>	<u>18,334,470</u>
Fund balances	<u>17,027,634</u>	<u>4,056,662</u>	<u>21,084,296</u>
Total liabilities and fund balances	<u>\$ 34,822,401</u>	<u>\$ 4,228,148</u>	<u>\$ 39,050,549</u>

See accompanying notes.

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Statement of Revenues and Expenditures

For the period from December 31, 2004 to September 30, 2005

	Guam Telephone Authority Privatization Proceeds Fund	Interim Transition Coordinating Committee Fund	Total (Memorandum Only)
Revenues:			
Interest income <i>(Note 2)</i>	\$ 2,006,957	\$ 43,849	\$ 2,050,806
Other <i>(Note 5)</i>	---	722,960	722,960
	<u>2,006,957</u>	<u>766,809</u>	<u>2,773,766</u>
Expenditures:			
Principal repayment, net <i>(Note 3)</i>	101,563,637	---	101,563,637
Retirement cost <i>(Note 5)</i>	11,900,000	---	11,900,000
Appropriations to the Guam Memorial Hospital Authority <i>(Note 6)</i>	5,000,000	---	5,000,000
Post closing adjustment <i>(Note 5)</i>	4,283,448	---	4,283,448
Interest expense <i>(Note 3)</i>	3,916,821	---	3,916,821
Prepayment penalties <i>(Note 3)</i>	2,270,274	---	2,270,274
Indemnification claims <i>(Note 5)</i>	1,611,145	---	1,611,145
Separation incentive bonus <i>(Note 6)</i>	---	1,076,697	1,076,697
Procurement advisor fee	827,655	---	827,655
Professional fees	---	795,457	795,457
Case settlements	49,617	329,410	379,027
Salaries and benefits	---	114,913	114,913
Miscellaneous	---	44,611	44,611
Supplies	174	24,387	24,561
Travel	---	4,941	4,941
Rent	---	3,600	3,600
Utilities	---	1,632	1,632
	<u>131,422,771</u>	<u>2,395,648</u>	<u>133,818,419</u>
(Deficiency) excess of revenues over expenditures	(<u>129,415,814</u>)	(<u>1,628,839</u>)	(<u>131,044,653</u>)
Other sources (uses):			
Operating transfer in <i>(Note 7)</i>	---	3,556,552	3,556,552
Operating transfer out <i>(Notes 6 and 7)</i>	(<u>3,556,552</u>)	---	(<u>3,556,552</u>)
Other sources	---	2,733,800	2,733,800
Other uses	---	(<u>604,851</u>)	(<u>604,851</u>)
	<u>(3,556,552)</u>	<u>5,685,501</u>	<u>2,128,949</u>
Expenditures and other uses over revenues and other sources before extraordinary item	(<u>132,972,366</u>)	4,056,662	(<u>128,915,704</u>)
Extraordinary item - proceeds from sale of Guam Telephone Authority	150,000,000	---	150,000,000
Fund balances at beginning of period	---	---	---
Fund balances at end of period	<u>\$ 17,027,634</u>	<u>\$ 4,056,662</u>	<u>\$ 21,084,296</u>

See accompanying notes.

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Notes to Financial Statements

September 30, 2005

1. Organization and Summary of Significant Accounting Policies

Background on the Privatization of the Guam Telephone Authority

On May 28, 1997, the Guam Legislature (the “Legislature”) adopted Public Law 24-36 to initiate the process for the privatization of the Guam Telephone Authority (GTA or the “Authority”) and to require legislative approval of any plan to privatize the Authority. On December 21, 2001, the Legislature enacted Public Law 26-70, which resulted in the adoption of special rules and regulations for the privatization process and the public disclosure of information relative to such process. Public Law 26-70 also established the creation of the GTA Privatization Proceeds Fund.

On February 4, 2004, the Legislature adopted Public Law 27-63 to amend certain sections of Public Law 26-70. The amendments were made to account for current economic and market concerns and permits the Authority to proceed with the privatization process. Bid openings for the privatization of the Authority were held on June 7, 2004.

On August 31, 2004, the Authority’s Board of Directors entered into an APA with TeleGuam Holdings, LLC (“TeleGuam”), a Delaware limited liability company, for the sale of the assets and business of the Authority for a total purchase price of \$150 million. The \$150 million consist of a \$10 million promissory note and \$140 million cash purchase price, and was subjected to adjustments upon the completion of the purchase price adjustment procedure as described in Section 2.5 of the APA.

On November 1, 2004, the Governor signed Public Law 27-109. Public Law 27-109 was enacted to approve the agreements and transactions to privatize the Authority and to amend and reenact certain sections of Public Laws 26-70 and 27-63 to effectuate the privatization of the Authority.

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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Background on the Privatization of the Guam Telephone Authority, continued

On December 17, 2003, the President signed into law the Compact of Free Association Amendments Act of 2003 or House Joint Resolution 63, Public Law 108-188. A new provision in the law authorizes the President, at the request of the Governor of Guam, to release, reduce, or waive, in whole or in part, any amounts owed by the Government of Guam to the United States Government, such as the \$105 million debt owed by the Authority to the U.S. Department of Agriculture, as an offset for past un-reimbursed Compact-Impact costs. On April 14, 2004, the Government of Guam issued a report to the U.S. Department of Interior identifying \$269 million in un-reimbursed Compact-Impact costs. During August 2004, the Governor requested that the President exercise his authority. As of December 31, 2004 and through the Office of Management and Budget, the President did not grant debt forgiveness as Public Law 108-188 did not contain the necessary appropriations for such an action. As a result, an extension for consideration was granted through March 31, 2005 to allow for the required Congressional appropriations. However, since no action was taken by Congress, the extension expired. As more fully discussed in Note 3, the Government of Guam paid its debt to the United States Government in full on March 31, 2005.

Creation of the Interim Transition Coordinating Committee (ITCC)

In relation to the sale of the assets and business of the Authority, the ITCC was established by Public Law 27-109, signed into law on November 1, 2004, to oversee the administration and enforcement of the privatization agreements, including indemnification claims, and any assets and liabilities of the Authority retained by the Government of Guam after closing of the privatization transaction.

The ITCC consists of the Attorney General of Guam, the Director of the Department of Administration, the Director of the Bureau of Budget and Management Research, the Director of the Department of Public Works and the Director of the Department of Land Management, or their designees. The ITCC shall be under the direction of an Executive Secretary appointed by the Governor of Guam. As of September 30, 2005, the ITCC has four full time employees.

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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Asset Purchase Agreement (APA)

In accordance with the APA, the following assets and liabilities were to be retained by the Government of Guam and transferred to the ITCC, as of December 31, 2004:

Assets and Liabilities Retained

Assets:

- a. All cash and equivalents at closing date except customer deposits.
- b. Title to land.
- c. The Authority's rights and claims to insurance carriers.
- d. Rural Telephone Bank (RTB) stock.

As of December 31, 2004, \$1.8 million was transferred by the Authority to a checking account in the name of the ITCC (the fund to be referred to as the "Interim Transition Coordinating Committee Fund", see discussion in the *Fund Accounting* section). These funds will be used to cover the ITCC operations and for the payment of retained liabilities.

Liabilities:

- a. Arising from the APA.
- b. Resulting from non-compliance with the provisions of the Uniform Commercial Code.
- c. For borrowed monies, including long-term debt to the Rural Utilities Service (RUS), RTB and Federal Financing Bank (FFB).
- d. Arising out of the ownership, use, maintenance or operations of the transferred assets prior to doing or with respect to any environmental condition existing at closing.
- e. Arising in connection with the Authority's Benefit Plan.
- f. To present or former employees.
- g. Relating to excluded assets or expired purchase orders.

Final Settlement of the APA

As fully discussed in Note 5, on December 21, 2005, the ITCC entered into a "Settlement Agreement and Release" with TeleGuam wherein the ITCC settled the final post closing adjustment with TeleGuam representing the purchase price adjustment and settlement of indemnification claims.

Government of Guam
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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Fund Accounting

The assets, liabilities and fund balance of the GTA Privatization Proceeds Fund are reported in two funds (hereinafter referred to as Funds) and grouped as follows:

GTA Privatization Proceeds Fund – This fund consist of the \$150 million proceeds from the sale of the Authority. The cash portion of \$140 million was deposited into the following accounts pursuant to the terms of the Escrow Agreement and Public Law 26-70, as amended:

Cushion of Credit Account – \$108,204,064 was deposited into an interest bearing Cushion of Credit Account (Cushion Account) at the Federal Reserve Bank in New York pursuant to a Cushion Agreement between the Authority and RUS. This account was set aside to satisfy settlement of the long-term debt owed by the Authority to RUS, RTB and FFB, which were not assumed by TeleGuam.

Based on the Cushion Agreement, full and final payment to RUS, RTB and FFB was due on March 31, 2005, unless prior to such time period a Presidential determination was made to release these funds or a portion thereof to the Government of Guam as relief for compact-impact, as discussed in the *Background on the Privatization of the Guam Telephone Authority* section of Note 1. However, as more fully discussed in Note 3, full and final payment was made on March 31, 2005.

Balance Account – \$21,571,909 was deposited into an interest bearing escrow account known as the “Balance Account” maintained with the U.S. Bank, which will be used to pay any retained liabilities. These funds will be transferred to the privatization proceeds account or a similar account mandated by Public Law 26-70, as amended, when the Authority’s authorized representative certifies that the Authority’s long-term debt obligations, the procurement advisor payment and all other retained liabilities have been paid in full.

Deposit Account – \$9,224,027 was deposited into an interest bearing escrow account known as the “Deposit Account” maintained with the U.S. Bank. These funds are to be held in escrow pending the completion of the purchase price adjustment procedure.

Indemnification Account – \$1 million was deposited into an interest bearing escrow account known as the “Indemnity Account” maintained with the U.S. Bank. The \$1 million is to be maintained in escrow pursuant to a side letter agreement entered into between the Authority and TeleGuam and will be released upon successful resolution of the Tiyan condemnation proceedings or go towards relocation costs if the resolution of the proceedings requires relocation of the Tiyan Remote Switching Center (RSC) or the proceedings are not resolved by December 31, 2007.

Government of Guam
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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Fund Accounting, continued

Interim Transition Coordinating Committee Fund – As discussed in the *Creation of the Interim Transition Coordinating Committee* section of Note 1, this fund consist of the \$1.8 million initial appropriation that was transferred by the Authority to the ITCC in December 2004 and is deposited to an interest bearing checking account with the Bank of Guam. This fund is being used to pay for the cost of operating the ITCC and is controlled by the Government of Guam's Department of Administration (DOA).

This fund also includes the assets and liabilities retained from the Authority.

Basis of Accounting

The Funds' accounts are presented on the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period. Investment/interest income is recorded when realized. Expenditures are recorded when the corresponding liability has been incurred.

The accompanying financial statements present only the ITCC and GTA Privatization Proceeds Funds. They are not intended to present the financial position and results of operations of the Government of Guam in conformity with accounting principles generally accepted in the United States.

Cash and Investments

The cash deposit held at financial institutions can be categorized according to three levels of risk. These three levels of risks are as follows:

- Category 1 – Deposits which are insured or collateralized with securities held by the ITCC or by its agent in the ITCC's name.
- Category 2 – Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the ITCC's name.
- Category 3 – Deposits which are not collateralized or insured.

Based on the three levels of risk, ITCC's cash deposit is classified as Category 3.

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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Cash and Investments, continued

Similar to cash deposits, investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 – Investments that are insured, registered or held by the entity or its agent in the ITCC's name.
- Category 2 – Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the ITCC's name.
- Category 3 – Uninsured and unregistered investments held by the counterparty, its trust or its agent, but not in the ITCC's name.

Investment held by the ITCC relating to the RTB stock amounting to \$933,800 is considered unclassified as to credit risk.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the ITCC's deposits may not be returned to it. The ITCC does not have a deposit policy for custodial credit risk. As of September 30, 2005, \$26,425,039 of the ITCC's bank balance of \$26,825,039 was exposed to custodial credit risk.

Interest Rate Risk

ITCC does not have formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Accounts Receivable

Accounts receivable are primarily from insurance carriers related to insurance claims filed by the Authority for Typhoon Chata'an and Super-typhoon Pongsona.

Rural Telephone Bank Stock

RTB stock was issued based on the loan agreement between the Authority and the RTB. The RTB stock is carried at cost and consists of 933,800 shares of \$1 par value Class B stock. As more fully discussed in Note 5, the RTB stock was redeemed at a value determined by the RTB Board of Directors.

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Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Accounting 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.

Restricted Assets

Certain assets of the proceeds funds are classified as restricted assets because their use is completely restricted through the APA.

Fund Balance

In the financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose, which includes continuing appropriations, amounts reserved for debt service, and amounts committed to liquidate contracts and purchase orders of the prior period.

The unreserved fund balances for the funds represent the amount available for budgeting and future operations.

Memorandum Only-Total Balance

Total columns on the financial statements are captioned as “memorandum only” because they do not represent consolidated financial information and are presented only to facilitate financial analysis. This column does not present information that reflects the financial position, results or operations or cash flows in accordance with accounting principles generally accepted in the United States.

Government of Guam
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Notes to Financial Statements, continued

2. Notes Receivable

Notes receivable as of September 30, 2005 consist of the following:

\$10 million note receivable from TeleGuam (reflected as part of the GTA Privatization Proceeds Fund), which is part of the \$150 million purchase price. This note is unsecured and bears interest at 5.25% plus 1%. Both interest and principal on the note are payable in full at the note's maturity date on December 31, 2012 \$10,000,000

\$100,000 note receivable from the Guam Waterworks Authority (GWA) (reflected as part of the Interim Transition Coordinating Committee Fund). This note is unsecured and non-interest bearing and matured on March 17, 2006. If the note is uncollected within 60 days from the maturity date, this note will be immediately due without notice and shall bear interest from such time until paid at the highest rate allowable under the laws of Guam 100,000

\$10,100,000

As of audit report date, there has been no collection received from GWA. Interest rate to be charged on the \$100,000 note is still to be determined. For the period from December 31, 2004 to September 30, 2005, interest income on the \$10 million note receivable from TeleGuam totaled to \$468,750 and is reflected as accrued interest receivable and a component of interest income in the accompanying financial statements.

3. RUS, RTB and FFB Loans and Cushion Account

On December 31, 2004, the Authority transferred to the ITCC the balance of the RUS, RTB and FFB loans totaling \$101,548,335. An amount of \$108,204,064 from the \$140 million cash purchase price was deposited to an interest bearing escrow account at the Federal Reserve Bank in New York based on the Cushion Agreement, which is reserved to settle the following loan balances:

	<u>December 30,</u> <u>2004</u>	<u>January 3,</u> <u>2005</u>	<u>March 31,</u> <u>2005</u>	<u>Total</u>
Balance with:				
RUS	\$ 3,371,187	\$ ---	\$ 68,636,912	\$ 72,008,099
RTB	731,893	---	16,099,452	16,831,345
FFB	<u>---</u>	<u>562,227</u>	<u>18,802,393</u>	<u>19,364,620</u>
Total	<u>\$ 4,103,080</u>	<u>\$ 562,227</u>	<u>\$103,538,757</u>	<u>\$108,204,064</u>

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

Notes to Financial Statements, continued

3. RUS, RTB and FFB Loans and Cushion Account, continued

In January 2005, a \$4,665,307 payment was made for the RUS, RTB and FFB principal and interest payments which were due on December 30, 2004 and January 3, 2005. The payment consisted of principal and interest payments of \$2,102,701 and \$2,562,606, respectively.

On March 3, 2005, the Governor and Congresswoman, requesting an extension for the RUS, RTB and FFB long-term debt, signed a letter addressed to the Administrator of the RUS. The request for an additional nine months, up to December 31, 2005, was made in order to allow time for the consideration of proposals that will be presented to the President regarding the use of funds held in the Cushion Account.

On March 31, 2005, a \$103,085,425 payment was made for the remaining unpaid principal and accrued interest on the RUS, RTB and FFB loans. The payment consisted of principal, interest and prepayment penalty payments of \$99,460,936, \$1,354,215 and \$2,270,274, respectively. The payment was made as the extension discussed in the preceding paragraph was not granted. In addition, as discussed in *Fund Accounting* section of Note 1, the President did not authorize the release of all or a portion of the funds in the Cushion Account, as relief for compact-impact.

From January 1, 2005 to March 31, 2005, the Authority earned \$1,276,919 in interest income on the Cushion Account.

After the aforementioned payments were made to RUS, RTB and FFB, the remaining balance in the Cushion Account, including the interest income was transferred to the Interim Transition Coordinating Committee Fund. The interest income of \$1,276,919 was offset with the outstanding principal and is shown as a component of principal repayment, net, in the statement of revenues and expenditures.

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

Notes to Financial Statements, continued

3. RUS, RTB and FFB Loans and Cushion Account, continued

A summary of the transactions relating to the RUS, RTB and FFB loans and the balance of the Cushion Account are as follows:

Balance of the Cushion Account as of December 31, 2004	\$108,204,064
Less payment of December 30, 2004 and January 3, 2005 outstanding loan balances including interest in January 2005	4,665,307
Final payment on remaining loan balances including interest and prepayment penalties on March 31, 2005	<u>103,085,425</u>
Balance of Cushion Account after payments	453,332
Add interest income from January 1, 2005 to March 31, 2005	1,276,919
Other	<u>14,780</u>
Total	1,745,031
Less balance of Cushion Account (part of the Proceeds Fund) transferred to the Interim Transition Coordinating Committee Fund	<u>1,745,031</u>
Balance of Cushion Account as of September 30, 2005	\$ <u>---</u>

Overall, total payment of principal, interest and prepayment penalties amounted to \$101,563,637, \$3,916,821 and \$2,270,274, respectively.

4. Contingencies

The ITCC, as the successor of the Authority, is a defendant in various lawsuits and proceedings arising in the normal course of business. While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on the ITCC's financial position and results of operations, it is the opinion of management, after consulting with legal counsel, that the ultimate disposition of such lawsuits and proceedings will not have a material or adverse effect, therefore, no provision for any liability that may result from these claims has been made in the financial statements.

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

Notes to Financial Statements, continued

5. Subsequent Events

Final Post Closing Adjustment

On December 21, 2005, the Government of Guam and TeleGuam, executed the “Settlement Agreement and Release” in relation to the final post closing adjustment on the acquisition of the Authority. Payment of \$4,283,448 was made by the Government of Guam to TeleGuam as final post closing adjustment of the acquisition of the Authority. This amount was released from the Deposit Account with the U.S. Bank.

Payment of Indemnification Claims with TeleGuam

Additionally, as negotiated in the Settlement Agreement and Release, payment of \$1,611,145 was made from the U.S. Bank Balance Account to TeleGuam for indemnification claims.

On December 23, 2005, after the final post closing adjustment was made and indemnification claims were settled, the sum of \$17,543,643 was transferred from the U.S. Bank Deposit and Balance Accounts to the Bank of Guam account both under the GTA Privatization Proceeds Fund.

Typhoon Claims

On July 5, 2002 and December 8, 2002, the island of Guam was struck by typhoon Chata’an and super-typhoon Pongsona, respectively. As a result, the Authority suffered damages totaling approximately \$2,711,000 (from typhoon Chata’an) and \$4,890,000 (from super-typhoon Pongsona) to its telecommunication facilities. The island was also struck by tropical storm Tinging during July 2004. The Authority expected much of the damage to be covered by insurance or reimbursements from FEMA. As a result of the privatization, the ITCC inherited such right to claim for reimbursements.

Subsequent to September 30, 2005, the ITCC received from an insurance carrier \$722,960 as final settlement on claims for typhoon Chata’an and super-typhoon Pongsona, which is shown as accounts receivable and as a component of other revenue in the accompanying financial statements. The total settlement was \$1,697,960 of which \$722,960 was received after subtracting prior collections from the Authority totaling \$975,000. Additionally, \$397,329 was received from FEMA for super-typhoon Pongsona. However, the ultimate amount collectible from FEMA is not determinable.

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

Notes to Financial Statements, continued

5. Subsequent Events, continued

Redemption of RTB Stock

On August 4, 2005, the board of directors of RTB has authorized the liquidation and dissolution of the bank. As part of the plan of liquidation, RTB is required to redeem all of its outstanding Class B and Class C stock. On January 25, 2006, a quorum of the members of the ITCC approved the Stock Redemption Agreement dated November 10, 2005.

The value of the redeemed RTB stock (carried at cost of \$933,800 at September 30, 2005) is as follows:

14,382,068 shares of Class B stock at \$1 par price per stock	\$14,382,068
331 shares of Class C stock at \$1,000 par price per stock	<u>331,000</u>
	<u>\$14,713,068</u>

The proceeds from the redemption totaling \$14,713,068 were deposited to the Interim Transition Coordinating Committee Fund on April 11, 2006. Out of the proceeds from the redemption of the RTB stock, \$7,700,000 was paid in relation to the unfunded liability of the Authority's defined benefit plan in accordance with Public Law 28-94, which is reflected as a component of retirement liability and retirement cost in the accompanying financial statements. On April 20, 2006, the remaining balance of the redemption proceeds of \$7,013,068 was invested to a time certificate of deposit with Citibank, N.A. which bears interest at 4.88% per annum and will mature on July 19, 2006.

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

Notes to Financial Statements, continued

5. Subsequent Events, continued

Payments to the Retirement Fund and Others

On December 28, 2005, a total of \$14,047,947 was paid to the Government of Guam Retirement Fund, through the GTA Privatization Proceeds Fund, in relation to the following:

Cost of Living Allowance at \$1,100 per annuitant of the Government of Guam Retirement Fund as of December 15, 2005, in accordance with Public Law 28-94	\$7,601,000
Unfunded liability of the GTA Defined Benefit Plan, in accordance with Public Law 28-94	4,200,000
Payment of benefit of current retirees from October 1, 2005 through September 30, 2006, as per Public Law 28-68	<u>2,246,947</u>
	<u>\$14,047,947</u>

As of September 30, 2005, the unfunded liability of \$4,200,000 is shown as a component of retirement liability and retirement cost in the accompanying financial statements.

Subsequent to September 30, 2005, the ITCC received from a consulting firm a return of a previous deposit for \$50,000 and patronage capital from the Rural Telephone Finance Cooperation totaling \$79,487.

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

Notes to Financial Statements, continued

6. Fund Activities

Fund Details

The following is a summary of the transactions relating to the remaining three subcomponents of the GTA Privatization Proceeds Fund (certain disbursements were reflected as a component of operating transfer-out in the accompanying statement of revenues and expenditures):

Balance Account

Balance Account as of December 31, 2004	\$21,571,909
Less: Payment in accordance with Section 1 of Public Law 28-64 relating to the emergency appropriation for medicines, medical supplies and medical equipment maintenance contracts for the Guam Memorial Hospital Authority (GMHA)	(5,000,000)
Payment in accordance with Section 3a of Public Law 27-151, which indicates that those employees who are members of the defined benefit plan who separate and terminate from the Government of Guam and withdraw their contribution from the retirement plan shall be granted a separation incentive bonus, which is equal to five percent of their annual base salary times five, upon termination from the Government of Guam and acceptance of employment with the privatized entity	(1,005,685)
Payment to the procurement advisor	(827,656)
Payment in accordance with Public Law 27-106 which require the Authority to remit to DOA an amount to cover the supplemental benefits and government share of the respective retirees, medical, dental and life insurance premiums and supplemental benefits	(370,609)
Settlement of various litigation	(356,410)
Payment of various retained liabilities	(105,814)
Add interest income for the period from December 31, 2004 to September 30, 2005	<u>163,874</u>
Balance Account as of September 30, 2005	<u>\$14,069,609</u>

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

Notes to Financial Statements, continued

6. Fund Activities, continued

Balance Account, continued

As discussed in Note 5, a total of \$1,611,145 was disbursed from the Balance Account on December 21, 2005, to settle TeleGuam's additional indemnification claims. Also, on December 23, 2005, a total of \$12,500,615 was transferred from the U.S. Bank Balance Account to the Bank of Guam account both under the GTA Privatization Proceeds Fund.

Deposit Account

Deposit Account as of December 31, 2004	\$9,224,027
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Add interest income for the period from December 31, 2004 to September 30, 2005	<u>74,590</u>
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Deposit Account as of September 30, 2005	<u>\$9,298,617</u>
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As discussed in Note 5, a total of \$4,283,448 was disbursed from the Deposit Account on December 21, 2005, as a result of the final post closing adjustment with TeleGuam. Also, on December 23, 2005, a total of \$5,043,028 was transferred from the U.S. Deposit Account to the Bank of Guam account both under the GTA Privatization Proceeds Fund.

Indemnification Account

Indemnification Account as of December 31, 2004	\$1,000,000
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Less legal fees relating to indemnity claim of TeleGuam on Tiyan RSC	(22,618)
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Add interest income for the period from December 31, 2004 to September 30, 2005	<u>8,043</u>
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Indemnification Account as of September 30, 2005	<u>\$ 985,425</u>
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Overall Summary

Summarized in the accompanying statement of fund activities, are the transactions during the period from December 31, 2004 to September 30, 2005 and all subsequent events up to the final settlement of the APA. This statement only shows the fund activities of the cash portion (\$140 million) of the purchase price from the sale of the Authority.

Government of Guam
Interim Transition Coordinating Committee and
Guam Telephone Authority Privatization Proceeds Funds

Notes to Financial Statements, continued

7. Operating Transfer In and Out

Details of the transfer in and out as of September 30, 2005 are as follows:

	Guam Telephone Authority Privation Proceeds Fund <u>Transfer Out</u>	Interim Transition Coordinating Committee Fund <u>Transfer In</u>
Transfer to the Interim Transition Coordinating Committee (ITCC) Fund in relation to case settlement and professional fees	\$ 435,227	\$(435,227)
Transfer to the ITCC Fund for payment of the separation incentive bonus and respective benefits for retirees	1,376,294	(1,376,294)
Transfer to the ITCC Fund the excess fund from the Cushion Account	<u>1,745,031</u>	<u>(1,745,031)</u>
	<u>\$3,556,552</u>	<u>\$(3,556,552)</u>

Other Financial Information

Government of Guam
Interim Transition Coordinating Committee
and Guam Telephone Authority Privatization Proceeds Funds
For the Period from December 31, 2004 to September 30, 2005
Statement of Fund Activities

<u>Transactions from December 31, 2004 to September 30, 2005</u>	GTA Privatization Proceeds Fund				Total (Memorandum Only)
	Balance Account	Deposit Account	Indemnification Account	Cushion Account	
Balance as of December 31, 2004	\$ 21,571,909	\$ 9,224,027	\$ 1,000,000	\$ 108,204,064	\$ 140,000,000
Add: Interest income from January 1, 2005 to March 31, 2005	---	---	---	1,276,919	1,276,919
Interest income from January 1, 2005 to September 30, 2005	163,874	74,590	8,043	---	246,507
Other	---	---	---	14,780	14,780
	<u>21,735,783</u>	<u>9,298,617</u>	<u>1,008,043</u>	<u>109,495,763</u>	<u>141,538,206</u>
Less: Payment of December 30, 2004 and January 3, 2005 outstanding RUS, RTB and FFB loan balances	---	---	---	4,665,307	4,665,307
Final payment on remaining loan balances on March 31, 2005	---	---	---	103,085,425	103,085,425
Transfer of the balance of the cushion account to the ITCC Transition Fund	---	---	---	1,745,031	1,745,031
Payment to the Guam Memorial Hospital Authority, per Public Law 28-64	5,000,000	---	---	---	5,000,000
Payment to GTA employees under the defined benefit plan, per Public Law 27-151	1,005,685	---	---	---	1,005,685
Payment to procurement advisor	827,656	---	---	---	827,656
Payment to the Government of Guam Retirement Fund for retiree's supplemental benefits and government share medical, dental and life insurance premiums per Public Law 27-106	370,609	---	---	---	370,609
Settlement of various litigations	356,410	---	---	---	356,410
Payment of various retained liabilities	105,814	---	---	---	105,814
Payment of legal fees relating to indemnity claim of TeleGuam on Tiyan RSC case	---	---	22,618	---	22,618
	<u>7,666,174</u>	<u>---</u>	<u>22,618</u>	<u>109,495,763</u>	<u>117,184,555</u>
Balance as of September 30, 2005	<u>\$ 14,069,609</u>	<u>\$ 9,298,617</u>	<u>\$ 985,425</u>	<u>\$ ---</u>	<u>\$ 24,353,651</u>
<u>Subsequent Events - Transactions from October 1, 2005 to January 31, 2006</u>					
Balance as of October 1, 2005	\$ 14,069,609	\$ 9,298,617	\$ 985,425	\$ ---	\$ 24,353,651
Add: Interest income from October 1, 2005 to January 31, 2006	51,896	34,298	1,826	---	88,020
	<u>14,121,505</u>	<u>9,332,915</u>	<u>987,251</u>	<u>---</u>	<u>24,441,671</u>
Less: Final settlement with TeleGuam Holdings, LLC on the Asset Purchase Agreement	1,611,145	4,283,448	---	---	5,894,593
Transfer of funds from Balance and Deposit Accounts to GTA Privatization Proceeds Fund	12,500,615	5,043,028	---	---	17,543,643
	<u>14,111,760</u>	<u>9,326,476</u>	<u>---</u>	<u>---</u>	<u>23,438,236</u>
Balance as of January 31, 2006	<u>\$ 9,745</u>	<u>\$ 6,439</u>	<u>\$ 987,251</u>	<u>\$ ---</u>	<u>\$ 1,003,435</u>

See accompanying notes.