

Guam Telephone Authority
Financial Highlights for the three months ended December 31, 2004

August 29, 2005

The Guam Telephone Authority (GTA) is the last local exchange carrier to be operated as a government agency in the United States. P.L. 27-109 authorized the sale of GTA to TeleGuam Holdings, LLC (TeleGuam) effective December 31, 2004. The audit conducted by Ernst & Young as of December 31, 2004 represents the final three months of the *government-operated* GTA.

The audit revealed that for the three months ended December 31, 2004, GTA had \$143.3 million in total assets comprised mainly of \$14.3 million in cash and cash equivalents; \$3 million in receivables; \$933,800 in Rural Telephone Bank (RTB) stock; and \$121.1 million in property, plant and equipment, net of accumulated depreciation. Liabilities of \$116.2 million included the \$101.5 million long-term debt owed to Rural Utilities Services (RUS).

GTA completed the three months ended December 31, 2004 with a decrease in net assets of \$5 million. This was in part attributable to \$5.8 million in one-time expenses due to the privatization. In December 2004, P.L. 27-151 authorized a payout of all accrued sick leave to GTA employees who elected to join TeleGuam. Approximately \$3.4 million was paid to employees for accrued *sick leave*. In addition, \$932,000 was paid to employees for accrued and unused *annual leave*. Another \$1.5 million was paid for privatization costs.

The privatization of GTA has been a 5-year endeavor. As of December 31, 2004, privatization costs were over \$12.5 million. A break down of the privatization costs is as follows:

**Three months
ended**

12/31/04	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000	Total
\$1,555,502	\$1,674,762	\$589,368	\$5,509,327	\$1,800,403	\$1,371,856	\$12,501,218

In accordance with the Asset Purchase Agreement (APA) nearly all assets, including \$12.5 million in cash, and certain liabilities were transferred to TeleGuam as of December 31, 2004 for the \$150 million sale of GTA.

The assets that remained with the Government of Guam were the RTB stock of \$933,800, Land valued at \$830,517, and the \$1.8 million transferred to the Interim Transition Coordinating Committee (ITCC)¹ to fund their operations and for the payment of retained liabilities.

Of the \$150 million in proceeds from the sale of GTA to TeleGuam \$10 million is in the form of a promissory note that matures on January 1, 2013 at a rate of 5.25% and \$140 million represents the cash purchase price that was deposited into the following accounts in accordance with an Escrow Agreement and Public Law 26-70:

➤ Cushion of Credit Account	\$ 108,204,064
➤ Balance Account	\$ 21,571,909
➤ Deposit Account	\$ 9,224,027
➤ Indemnification Account	<u>\$ 1,000,000</u>
Total	<u>\$ 140,000,000</u>

Debt forgiveness of the RUS loan did not occur. Therefore, on March 31, 2005 full and final payment of \$107,750,730 consisting of \$101,548,355 in principle and \$6,202,375 in interest was made from the Cushion of Credit Account. The remaining balance of \$453,334 plus the \$1,277,000 of interest earned was transferred to the ITCC's checking account.

P.L. 27-151 also authorized 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 to receive 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. As of July 7, 2005, approximately \$489,000 has been paid from the Balance Account in accordance with this section of the law.² Other payments from the Balance Account include approximately \$903,000 to Patton Boggs LLP, GTA's Procurement Advisor, and \$371,000 for supplemental annuities and other benefits for GTA's retirees, leaving \$19.8 million in the Balance Account plus interest earnings as of July 7, 2005.

Furthermore, P.L. 27-151 authorized those GTA employees who were members of the *defined contribution plan* and with *less than* five years of total services to receive the government's contribution and earnings. As of July 7, 2005, approximately \$142,000 was paid to defined contribution employees, from the ITCC checking account.³

The Deposit Account's funds of \$9.2 million are to be held in escrow pending the completion of the purchase price adjustment procedures described in the APA. The \$1 million in the Indemnification Account also remains in escrow due to pending litigation.

The compliance report did not cite any findings for the three months ended December 31, 2004. However, in a separate management letter, the auditors noted that the ITCC has yet to submit information/documentation to the Department of Administration (DOA) necessary to ensure that all transactions will be properly recorded by DOA who will handle the accounting and record keeping of transactions following the privatization of GTA.

¹ P.L. 27-109 established the ITCC, which is responsible for the administration and enforcement of the privatization agreement and any assets and liabilities retained by the Government of Guam.

² The ITCC has estimated that payments of approximately half a million dollars will subsequently be made in accordance with this section of P.L. 27-151.

³ Typically, members of the defined contribution plan must complete five years of government service to have a vested balance of 100% of both member and employer contributions.