GUAM MASS TRANSIT AUTHORITY

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 1999

GUAM MASS TRANSIT AUTHORITY

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Year Ended September 30, 1999

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Guam Mass Transit Authority:

We have audited the accompanying balance sheet of Guam Mass Transit Authority (GMTA), a component unit of the Government of Guam, as of September 30, 1999, and the related statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of GMTA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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.

In our opinion, such financial statements present fairly, in all material respects, the financial position of GMTA as of September 30, 1999, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2000, on our consideration of GMTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Deloitte + Touche LLP

May 24, 2000

GUAM MASS TRANSIT AUTHORITY

Balance Sheet
September 30, 1999

ASSETS

Current assets:	
Cash	$ 239,823
Accounts receivable	57,052
Total current assets	296,875
Property, plant and equipment, net (note 4)	1,651,381
	$ 1,948,256

LIABILITIES AND FUND EQUITY

Current liabilities:	
Accounts payable, Government of Guam	$ 29,780
Accounts payable, other	279,609
Total current liabilities	309,389
Unfunded pension costs (note 2)	107,436
Accrued annual leave	49,100
Total liabilities	465,925
Fund equity:	
Contributed capital (note 4):	
Tourist Attraction Fund	2,660
Government of Guam General Fund	997,637
Total contributed capital	1,000,297
Retained earnings	482,034
Total fund equity	1,482,331
	$ 1,948,256

See accompanying notes to financial statements.

GUAM MASS TRANSIT AUTHORITY

Statement of Operations and Retained Earnings
Year Ended September 30, 1999

Operating revenues:		
Federal contributions	$	403,001
Fare revenues		140,514
Other		22,346
Total operating revenues		565,861
Operating expenses, local:		
Contractual, Guam Public Transit System		1,298,520
Personnel		416,359
Depreciation		212,886
Contractual, Guam Paratransit System		154,072
Benefits		106,522
Repair and maintenance		103,967
Fuel		96,698
Taxes		86,239
Professional services		79,072
Insurance		50,108
Contractual, other		42,912
Utilities		40,232
Office		15,192
Travel		7,335
Miscellaneous		52,309
Total operating expenses, local		2,762,423
Operating expenses, federal:		
Contractual		386,721
Other		16,280
Total operating expenses, federal		403,001
Total operating expenses		3,165,424
Operating expenses in excess of operating revenue		2,599,563
Non-operating revenues:		
Grants-in-aid from Government of Guam (note 3)		2,800,000
Total non-operating revenues		2,800,000
Net earnings		200,437
Add depreciation on fixed assets acquired by capital grants that reduces contributed capital from capital grants		28,666
Net increase in retained earnings		229,103
Retained earnings at beginning of year		252,931
Retained earnings at end of year	$	482,034

See accompanying notes to financial statements.

GUAM MASS TRANSIT AUTHORITY

Statement of Cash Flows
Year Ended September 30, 1999

Increase (decrease) in cash:		
Cash flows from operating activities:		
Cash received from Federal contributions	$	403,001
Cash received from fare revenues		83,462
Cash received from other sources		22,346
Cash paid to employees and suppliers		(3,071,942)
Net cash used for operating activities		(2,563,133)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets		(12,634)
Cash flows from noncapital financing activities:		
Cash received from grants-in-aid from Government of Guam		2,800,000
Net increase in cash		224,233
Cash at beginning of year		15,590
Cash at end of year	$	239,823
Reconciliation of operating deficiency to net cash used for operating activities:		
Operating deficiency	$	(2,599,563)
Add back item which does not use cash:		
Depreciation		212,886
Decrease in accounts payable		(165,096)
Decrease in accrued liabilities		(11,005)
Decrease in unfunded pension cost		(18,654)
Increase in accounts receivable		18,299
Net cash used for operating activities	$	(2,563,133)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The Guam Mass Transit Authority ("GMTA") was created by Public Law 15-92 for the purposes of establishing, developing, promoting and/or operating public transportation systems together with incidental and related facilities and services, in order to provide adequate public transportation for persons residing in, working, or visiting the island of Guam. GMTA oversees the operations of the Guam Public Transit System (GPT), which includes fixed route services, demand response services and paratransit services. The daily operations of the GPT is subcontracted to a private contractor. GMTA is a component unit of the Government of Guam.

Fund Structure, Measurement Focus, and Basis of Accounting

The accounts of GMTA are organized as a proprietary fund-component unit of the Government of Guam. Proprietary funds are used by governmental 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 (i.e. revenues) and decreases (i.e. expenses) in net total assets. This is in contrast to "governmental" fund type accounting, which are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet.

Basis of accounting refers to when revenues and expenses are recorded in the accounts and reported in the financial statements. GMTA utilizes the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when cash is received or payment is made.

The financial statements of GMTA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. Government Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds 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. GMTA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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 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 may differ from those estimates.

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

Depreciation

Depreciation of vehicles and equipment, which are recorded at cost, are provided over the estimated useful lives of the respective assets on a straight-line basis.

Annual Leave

Annual leave is accrued in the period earned. Unused leave is payable to employees upon termination of employment.

Contributed Capital

GMTA has adopted the generally accepted accounting principle of reducing contributed capital for depreciation on related assets acquired through capital grants.

Cash

For the purpose of the balance sheet and the statement of cash flows, cash is defined as cash on hand and cash on deposit in banks. As of September 30, 1999, cash balances of $100,000 are insured by the Federal Deposit Insurance Corporation. The remaining balance is not insured.

Risk Management

GMTA is exposed to various risks of loss from torts, theft of, damage to, and destruction of assets, errors and omissions, employee injuries and illnesses, natural disasters and employee health, dental and accidental benefits. Commercial insurance coverage is provided for claims arising from such matters.

(2) Employees' Retirement Plan

Employees of GMTA hired before October 1, 1995 are members of the Government of Guam Employee's Retirement System, a defined benefit, contributory pension plan. The plan is administered by the Government of Guam Retirement Fund to which GMTA 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, 1998, it has been determined that for the year ended September 30, 1999, a minimum combined employer and employee contribution rate of 25.87% 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, 1999. The effect of GMTA's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 16.37% to an effective rate of 11.48% for the year ended September 30, 1999. In recognition of the above, an accrual reduction of 7.12% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 11.48% and the employer's statutory rate of 18.6%.

(2) Employees' Retirement Plan, Continued

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, 1999, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

On September 29, 1995, the Guam Legislature passed Public Law 23-43 which created the Defined Contribution Retirement System (DCRS). All employees of GMTA, hired after October 1, 1995, are members of the DCRS, a defined contribution, contributory pension plan. The Board of Trustees of the Government of Guam Retirement Fund are responsible for the administration of the DCRS. Investment management and plan administration services for the DCRS are administered by a private firm contracted by the Board of Trustees.

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.

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 in the member's individual annuity account, plus any earnings thereon. Members who have completed five years of service, but have not attained the age of 55, are vested only to the extent of member contributions plus any earnings thereon.

Retirement expense for the year ended September 30, 1999 is as follows:

Cash contributions	$ 112,698
Reduction of accrued unfunded liability	(18,654)
	$ 94,044

(3) Grant-In-Aid from Government of Guam

A significant portion of GMTA's operations are provided by annual legislative appropriations which are funded through the proceeds of a four (4) cents per gallon surcharge on all liquid fuels as mandated by Public Law 18-33.

(4) Property, Plant and Equipment and Contributed Capital

Public Law 20-221, passed in December 1990, authorized the Governor to transfer all title, right and interest in Lot No. 87-4-R3 containing an area of 3162+ square meters to GMTA. The Governor transferred the property in February 1991 through a Grant Deed filed with the Department of Land Management. The value of the land is based on estimated fair value at the date of transfer. Public Law 20-221 states that should GMTA be dissolved or no longer need the property, then the property, inclusive of any and all improvements, shall revert to the Government of Guam. Public Law 20-221 also appropriated $300,000 from the General Fund to GMTA to fund the construction of GMTA's administration, operations and light maintenance facility. This appropriation was subsequently increased to $650,000. The construction of the building was completed in June 1993. Depreciation of the building is closed out to the related contributed capital equity account.

A summary of changes in contributed capital is as follows:

	Government of Guam	Tourist Attraction Fund
Contributed capital at September 30, 1998	$ 1,026,303	$ 2,660
Less:		
Current depreciation, bus shelters	(21,666)	-
Current depreciation, building	(7,000)	-
Contributed capital at September 30, 1999	$ 997,637	2,660

A summary of property, plant and equipment and their estimated useful lives as of September 30, 1999, is as follows:

Category	Estimated Useful Life	Value
Vehicles	5 years	$ 2,532,183
Equipment	5 to 7 years	169,207
Furniture and fixtures	5 to 10 years	26,395
Building and bus shelters	15 to 30 years	963,442
		3,691,227
Less accumulated depreciation		(2,356,046)
		1,335,181
Land		316,200
Total property, plant and equipment		$ 1,651,381

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Guam Mass Transit Authority:

We have audited the financial statements of the Guam Mass Transit Authority (GMTA), as of and for the year ended September 30, 1999, and have issued our report thereon dated May 24, 2000. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether GMTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GMTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect GMTA's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs (pages 14-15) as item 99-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended for the information of management, the Board of Directors, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

Deloitte + Touche LLP

May 24, 2000

Deloitte Touche Tohmatsu

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
Guam Mass Transit Authority:

Compliance

We have audited the compliance of the Guam Mass Transit Authority (GMTA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its one major federal program for the year ended September 30, 1999. GMTA's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program is the responsibility of GMTA's management. Our responsibility is to express an opinion on GMTA's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GMTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on GMTA's compliance with those requirements.

In our opinion, GMTA complied, in all material respects, with the requirements referred to above that are applicable to its one major federal program for the year ended September 30, 1999.

Internal Control Over Compliance

The management of GMTA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered GMTA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Guam Mass Transit Authority (GMTA), as of and for the year ended September 30, 1999, and have issued our report thereon dated May 24, 2000. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of GMTA. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects when considered in relation to the financial statements taken as a whole.

This report is intended for the information of management, the Board of Directors, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and is not intended to be, and should not be, used by anyone other than those specified parties.

Deloitte & Touche LLP

May 24, 2000

GUAM MASS TRANSIT AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 1999

	Funds Received	Funds Expended
Direct Program:		
Public Transportation for Non-Urbanized Areas, Department of Transportation Grant CFDA #20.509 (Program #GU-18-X015)	$ 403,001	$ 403,001

Note: The above Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

GUAM MASS TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Part I - Summary of Auditors' Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, none of which are considered to be material weaknesses.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were not identified.
5. The Independent Auditors' Report On Compliance with Requirements Applicable to Major Federal Award Programs expressed an unqualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. GMTA's major program was:

Name of Federal Program or Cluster	CFDA Number
Public Transportation for Non-Urbanized Areas Grant	20.509

8. A threshold of $300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Organization did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

Reference Number	Questioned Costs	Refer Page #
99-1	$ -	15

Part III - Federal Award Findings and Questioned Cost Section

No matters are reportable.

GUAM MASS TRANSIT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 1999

Item No.	CFDA No.	Criteria:	Questioned Costs
99-1		Contractual expenditures should be reviewed and signed, noting goods and/or services have been rendered.	$ -

Condition:

Four out of twenty-eight invoices (or 14%) were found to contain no signature verifying mileage of the buses to ensure buses were in service and running as stated in the contract and the invoice.

Cause:

There appears to be a lack of review of the invoices before payment is made.

Effect:

There is no material effect on the financial statement as a result of the condition.

Recommendation:

Expenditures should be reviewed on a timely basis to ensure goods and/or services have been rendered.

GUAM MASS TRANSIT AUTHORITY

Summary Schedule of Prior Audit Findings
Year Ended September 30, 1999

Prior year audit findings 98-1 and 98-2 were resolved during the year ended September 30, 1999.

GUAM MASS TRANSIT AUTHORITY
(Aturidat Transpottasion Guahan)
Government of Guam

J. A. (Tony) Martinez
General Manager

Tony M. Diaz
Assistant General Manager

JUN 27 2000

Mr. Dan Fitzgerald
Deloitte & Touche
361 South Marine Drive
Tamuning, Guam 96911

Subject: Guam Mass Transit Authority Financial Audit – Fiscal Year ending September 30, 1999

Håfa Adai Senot Fitzgerald!

In reviewing prior fiscal year audits, we noted findings on the Authority's lack of internal control procedures, particularly in monitoring contractual performance. Hence, we have developed a checklist taken directly from the GPT contract to use as a tool to monitor the contractor's compliance to contractual agreement effective 1 June 1999. Although deductions were made when contractor failed to provide transit services, GMTA lack the ability to assess penalties when the contractor did not perform to other standards dictated in the contractual agreement. Attached is Exhibit 1, the Internal Control checklist GMTA used to assess contractor's performance.

As a result of our experiences the past year, GMTA executed a new contract for the Guam Public Transit system effective May 1, 2000. Put in place were penalties to be imposed should the contractor fail to perform as required by the contract. Attached is Exhibit 2, the Performance Standard and Contract Monitoring Check List; as you can see there is a difference between the two control documents.

In compliance to the subject matter, The Guam Mass Transit Authority has established the following corrective action plan for audit finding 99-1.

99-1 <u>Check list for the proper execution of Contractual stipulations</u>

Implementation date: June 1, 1999

Responsible GMTA personnel: Contract Administrator, Planner IV

Subject: Guam Mass Transit Authority Financial Audit – Fiscal Year ending September 30, 1999

Method of compliance: Development of a Contract Review checklist. The checklist will be routed to the appropriate GMTA personnel for proper evaluation of adherence to contractual stipulations and other major points of interest for GMTA. Until such time the checklist has been reviewed and approved by all the appropriate personnel will contractual payment be rendered.

If you require additional information, please call Ms. Jane Bulante at 475-4616.

Put Respectu,

J.A.(Tony)Martinez
General Manager

jmd