GUAM TELEPHONE AUTHORITY
(A Public Corporation)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 1998 AND 1997

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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YEARS ENDED SEPTEMBER 30, 1998 AND 1997

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Independent Auditors' Report

The Board of Directors
Guam Telephone Authority:

We have audited the accompanying balance sheets of the Guam Telephone Authority, a component unit of the Government of Guam, (a public corporation) as of September 30, 1998 and 1997, and the related statements of (loss) earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Guam Telephone Authority, as of September 30, 1998, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 13 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Guam Telephone Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Guam Telephone Authority does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 1999 on our consideration of Guam Telephone Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Deloitte & Touche LLP

December 31, 1998

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Balance Sheets
September 30, 1998 and 1997

ASSETS	1998	1997
Current assets:		
Cash and cash equivalents (note 2):		
General funds	$ 12,613,206	$ 9,440,080
Construction funds	136,374	184,575
	12,749,580	9,624,655
Telecommunications accounts receivable, less accumulated provision for doubtful accounts of $5,870,525 in 1998 and $2,741,715 in 1997	5,951,377	7,341,316
Materials and supplies	4,231,870	5,387,749
Prepayments	820,270	1,145,872
Due from Government of Guam (note 7)	-	479,995
Total current assets	23,753,097	23,979,587
Noncurrent assets:		
Rural Telephone Bank (RTB) stock	3,227,547	2,378,405
Property, plant and equipment (note 4):		
Telecommunications plant in service	246,036,122	218,548,602
Telecommunications plant under construction	6,272,922	27,077,394
	252,309,044	245,625,996
Less accumulated depreciation	(69,510,341)	(58,907,802)
	182,798,703	186,718,194
	$ 209,779,347	$ 213,076,186

(Continued)

See accompanying notes to financial statements.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Balance Sheets
September 30, 1998 and 1997

LIABILITIES AND CAPITALIZATION	1998	1997
Current liabilities:		
Current maturities of long-term debt (note 5)	$ 3,506,866	$ 3,262,823
Accounts payable	1,314,088	3,597,323
Customers' deposits and advance billings	3,068,214	2,836,935
Accrued payroll and employee benefits	1,453,320	1,189,588
Accrued interest	1,389,651	1,370,928
Other current liabilities	3,546,211	2,194,227
Total current liabilities	14,278,350	14,451,824
Long-term debt, less current maturities (note 5):		
RUS mortgage notes	83,698,565	86,160,244
RTB mortgage notes	17,243,345	14,182,136
FFB mortgage notes	21,177,233	21,945,307
	122,119,143	122,287,687
Accrued annual leave, net of current portion	968,391	960,924
Retirement Fund deferred contributions (note 6)	13,222,579	14,730,582
Total liabilities	150,588,463	152,431,017
Capitalization:		
Contributions from Government of Guam (note 3)	13,557,529	13,557,529
Retained earnings	45,633,355	47,087,640
Total capitalization	59,190,884	60,645,169
Commitments and contingency (note 8)		
	$ 209,779,347	$ 213,076,186

See accompanying notes to financial statements.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

	1998	1997
Operating revenues:		
Basic local network services	$ 26,157,117	$ 26,044,521
Long distance network service	12,178,762	9,124,588
Non-regulated	7,529,427	7,121,611
Miscellaneous	960,659	1,090,647
Less: uncollectible revenues	(3,605,429)	(601,234)
	43,220,536	42,780,133
Operating expenses:		
Plant specific operations	14,092,846	12,600,987
Depreciation	10,614,096	10,043,691
Corporate operations	6,437,450	7,496,825
Customer operations	3,165,421	3,858,690
Plant nonspecific operations	2,884,311	2,556,633
	37,194,124	36,556,826
Operating income	6,026,412	6,223,307
Fixed charges :		
Interest on long-term debt	6,995,250	7,052,785
Other interest	40,008	176,909
Interest charged to construction-credit	(15,489)	(695,559)
	7,019,769	6,534,135
Other (expenses) income , net of dividend and interest income of $1,020,068 in 1998 and $1,154,636 in 1997	(460,928)	779,395
Net (loss) earnings	(1,454,285)	468,567
Retained earnings at beginning of year	47,087,640	46,619,073
Retained earnings at end of year	$ 45,633,355	$ 47,087,640

See accompanying notes to financial statements.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

	1998	1997
Cash flows from operating activities:		
Operating income	$ 6,026,412	$ 6,223,307
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for uncollectible revenue	3,605,429	601,234
Provision for losses on materials and supplies	314,198	24,000
Depreciation	10,614,096	10,043,691
Decrease in Retirement Fund deferred contributions	(1,508,003)	(639,819)
Increase in telecommunications accounts receivable	(1,735,495)	(2,984,977)
Decrease (increase) in materials and supplies	841,681	(271,618)
Decrease (increase)in prepayments	325,602	(75,492)
(Decrease) increase in accounts payable	(2,283,234)	1,978,111
Increase in accrued payroll and employee benefits	271,199	169,660
Increase (decrease) in accrued interest	18,723	(185,578)
Increase in customers' deposits and advance billings	231,279	441,917
Increase in other current liabilities	1,351,984	952,490
Net cash provided by operating activities	18,073,871	16,276,926
Cash flows from investing activities:		
Purchase of RTB stock	(849,142)	(518,947)
Interest and dividends on investments and bank accounts	(460,927)	779,395
Net cash (used in) provided by investing activities	(1,310,069)	260,448
Cash flows from capital and related financing activities:		
Additions to telecommunications plant, net	(6,681,042)	(15,506,758)
Proceeds from long-term debt	3,407,250	1,201,200
Payments on long-term debt	(3,348,550)	(3,181,514)
Interest paid on long-term debt	(6,976,527)	(7,052,785)
Other interest paid	(40,008)	(176,909)
Net cash used for capital and related financing activities	(13,638,877)	(24,716,766)
Net increase in cash	3,124,925	(8,179,392)
Cash and cash equivalents at beginning of year	9,624,655	17,804,047
Cash and cash equivalents at end of the year	$ 12,749,580	$ 9,624,655
Cash payments for interest (net of amount capitalized)	$ 6,961,038	$ 6,541,821

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

General

Guam Telephone Authority (Authority) was created by Public Law 12-44, pursuant to which the assets and liabilities of the telephone division of the Public Utility Agency of Guam (PUAG) were transferred to the Authority effective April 1, 1974. In 1991, a separate non-regulated "Cellular Operations" was created utilizing funds advanced by the Authority. As a Government of Guam agency, the Authority and its Cellular Operations are classified as a component unit of the Government of Guam for financial reporting purposes and, therefore, are not subject to taxes.

The Authority follows accounting policies prescribed or authorized by the Federal Communication Commission of the United States of America, as provided for in the indenture agreement with the United States Rural Utilities Service (RUS), Rural Telephone Bank (RTB), and Federal Financing Bank (FFB).

Geographic Area of Customer Base

The Authority is the sole supplier of local telephone service within the Territory of Guam. Overseas services are provided by Guam-based private telecommunications companies.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Cost of plant includes an allocation of overhead, including administrative expenses. The Authority also capitalizes the cost of debt funds during periods of construction of projects requiring more than one year to complete. The cost of plant retired or otherwise disposed of, net of sales proceeds plus removal cost, is charged to accumulated depreciation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Operating Revenues

Operating revenues consist primarily of subscriptions and other local charges and the Authority's share of overseas message tolls.

Rural Telephone Bank Stock

The purchase of Rural Telephone Bank Stock is required by the loan agreement between the Authority and RTB. The stock is carried at cost which approximates market value.

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 could differ from those estimates.

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

Vacation and Sick Leave

Vacation of not more than 480 hours vests and is accrued for each bi-weekly pay period in which an employee is in a pay status for the entire (10) ten days. Sick leave does not vest and is not accrued. The aggregate amount of the sick leave liability cannot be estimated.

Materials and Supplies

Materials and supplies are carried at the lower of cost (average pricing) or market.

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 in banks, cash in money market funds and time certificates of deposit with original maturity dates of ninety days or less.

(2) Cash Balances

At September 30, 1998 and 1997, the Authority has cash balances of $12,678,118 and $7,241,572, respectively, deposited in various checking and savings accounts. Of the total deposits, $441,155 and $528,480, respectively, is insured by Federal Depository Insurance Corporation and $4,049,282 and $4,405,043, respectively, is deposited in trust accounts collateralized by U.S. Treasury bills and bonds. The remaining balances are not insured or collateralized.

The Authority has deposited $62,538 and $2,374,667 in money market funds which are collateralized by open-ended U.S. Treasury Bills and U.S. Treasury Notes at September 30, 1998 and 1997, respectively. These investments are recorded at cost and earn interest at 5.03% and 5.13%, respectively.

(3) Contributions From Government of Guam

Contributions from Government of Guam primarily represent the assets and liabilities transferred from PUAG (see note 1).

(4) Telecommunications Plant in Service

Listed below are the major classes of the telecommunications plant in service as of September 30, 1998 and 1997:

	1998	1997
Poles, cables and wire	$ 100,392,380	$ 93,410,087
Central office equipment	78,079,650	67,711,256
Buildings	22,267,855	18,486,184
Customer premise equipment	22,321,202	19,633,587
Cellular radio facilities	8,124,234	5,508,939
Furniture and office equipment	5,900,167	5,146,092
Motor vehicles	4,484,198	4,378,999
Other equipment	3,635,919	3,442,941
Land	830,517	830,517
	246,036,122	218,548,602
Less accumulated depreciation	69,510,341	58,907,802
Net telecommunications plant in service	$ 176,525,781	$ 159,640,800

The provision for depreciation, as a percentage of the average balance of telephone plant in service, was 4.6% in 1998 and 5.8% in 1997. Individual plant depreciable rates for 1998 and 1997 are as follows:

Poles, cables and wire	2%-10%
Central office equipment	5%-8%
Customer premise equipment	10%-12.5%
Buildings	3%
Furniture and office equipment	10%-12.5%
Motor vehicles	20%
Cellular radio facilities	5%
Other equipment	20%

The Authority did not write-off any depreciated telecommunications plant during the year ended September 30, 1998.

(5) Long-Term Debt

Long-term debt at September 30, 1998 and 1997, is summarized as follows:

	1998	1997
Due to RUS at 5% per annum:		
May 2011, payable in semiannual installments of $162,000, including interest	$ 3,081,160	$ 3,245,690
May 2011, payable in semiannual installments of $526,000, including interest	9,948,668	10,483,939
April 2012, payable in semiannual installments of $176,000, including interest	3,418,054	3,593,593
April 2017, payable in semiannual installments of $308,000, including interest	7,252,895	7,497,178

(5) Long-Term Debt, Continued

	1998	1997
October 2020, payable in semiannual installments of $659,000, including interest	17,434,960	17,864,640
May 2025, payable in semiannual installments of $1,557,000, including interest	45,038,828	45,834,205
Due to RTB:		
October 2020, payable in semiannual installments of $177,000, including interest at 9.5%	3,235,010	3,277,738
May 2025, payable in semiannual installments of $117,000, including interest at 6.04%	2,918,808	2,961,209
May 2025, payable in semiannual installments of $104,000, including interest at 6.05%	2,657,895	2,700,045
May 2025, payable in semiannual installments of $79,000, including interest at 6.05%	1,917,221	1,958,067
May 2025, payable in semiannual installments of $82,000, including interest at 6.05%	1,966,610	1,994,670
May 2025, payable in semiannual installments of $12,000, including interest at 6.05%	285,190	289,523
May 2025, payable in semiannual installments of $46,000, including interest at 5.98%	1,171,431	1,186,107
May 2025, payable in semiannual installments of $49,500, including interest at 6.26%	1,322,560	-
May 2025, payable in semiannual installments of $31,400, including interest at 5.93%	837,637	-
May 2025, payable in semiannual installments of $44,700, including interest at 5.56%	1,193,850	-
Due to FFB December 2014:		
Payable in quarterly installments of $5,100, including interest at 7.111%	195,861	202,082
Payable in quarterly installments of $22,100, including interest at 6.604%	877,020	906,311
Payable in quarterly installments of $5,300, including interest at 6.214%	216,653	224,171
Payable in quarterly installments of $13,000, including interest at 6.402%	522,344	540,140
Payable in quarterly installments of $26,900, including interest at 6.171%	1,098,993	1,137,293
Payable in quarterly installments of $300, including interest at 5.865%	13,790	14,285
Payable in quarterly installments of $114,000, including interest at 5.643%	4,830,321	5,007,539
Payable in quarterly installments of $14,400, including interest at 5.621%	609,476	631,884
Payable in quarterly installments of $15,400, including interest at 5.784%	645,044	668,388
Payable in quarterly installments of $15,300, including interest at 6.151%	625,119	646,947
Payable in quarterly installments of $4,300, including interest at 7.399%	162,089	167,092

(5) Long-Term Debt, Continued

	1998	1997
Payable in quarterly installments of $155,500, including interest at 7.647%	5,759,024	5,932,411
Payable in quarterly installments of $19,400, including interest at 7.581%	721,603	743,473
Payable in quarterly installments of $27,700, including interest at 7.887%	1,008,948	1,038,600
Payable in quarterly installments of $58,200, including interest at 7.496%	2,265,807	2,335,066
Payable in quarterly installments of $60,600, including interest at 7.301%	2,203,273	2,271,944
Payable in quarterly installments of $4,800, including interest at 6.490%	189,867	196,280
	125,626,009	125,550,510
Less current maturities of long-term debt	3,506,866	3,262,823
	$ 122,119,143	$ 122,287,687

The aggregate annual principal payments for the five years subsequent to September 30, 1998, and thereafter are as follows:

1999	$ 3,506,866
2000	3,700,032
2001	3,919,977
2002	4,099,778
2003	4,369,148
Thereafter	106,030,208
	$ 125,626,009

Unadvanced loan balance as of September 30, 1998, is as follows:

Federal grantor/ program title/ project designation	Authorized amount	Drawndown amount	Unadvanced amount
Rural Telephone Bank loan:			
Guam 501-E7, Tamuning	$ 16,082,850	$ 14,729,550	$ 1,353,300

Public Law 21-116 set the Authority's debt limit at $150,607,800.

Outstanding RUS, RTB and FFB bonds are special obligations of the Authority payable from and collateralized by the proceeds of the bonds, all revenues, and all funds established by the bond indenture. These bonds do not constitute a general indebtedness of the Authority or the Territory of Guam. Revenues are defined in the bond indenture as all revenues, income, rents and receipts derived from the ownership, leasing and operation of the telephone system (System), the proceeds of any insurance covering business interruption loss relating to the System, and interest or dividends received on any moneys or securities (other than the Development Fund) held pursuant to the indenture and paid to the Revenue Fund.

(5) Long-Term Debt, Continued

In accordance with the indenture, the Authority established the following trust accounts to be held and administered by the Trustee for the bondholders:

Development Fund - The proceeds of all bonds are to be deposited into the Development Fund. All costs of construction (including acquisitions) of all facilities are to be paid from this fund. Insurance proceeds from physical loss of or damage to any facilities of the system, and proceeds from contractors' performance bonds are to be deposited into this fund. Proceeds from sale or lease-sale of any facilities included in the System shall be maintained in this fund and used to finance future construction.

Revenue Fund - All revenues are to be deposited into the Revenue Fund. All costs relating to the system, in addition to the costs for the payment of which moneys from time to time shall have been deposited in the Development Fund and in the Debt Service Fund, are to be paid from the Revenue Fund. The Trustee shall transfer funds from the Revenue Fund to the Debt Service Fund, on or before the twenty-fifth (25th) day of each calendar month, to the extent such amount is available in the Revenue Fund after paying the monthly operating expenses with respect to the System, an amount equal to one-twelfth (1/12) of the Twelve-Month Debt Service Requirement, as defined in the Indenture. Deficiencies in any month shall be transferred to the Debt Service Fund on the earliest date on which funds become available in the Revenue Fund.

Debt Service Fund - The Trustee, on behalf of the Authority, shall make all payments of principal and interest on the bonds from the Debt Service Fund.

Management of the Authority is of the opinion that it has complied with all significant bond covenants during the year ended September 30, 1998.

(6) Employees' Retirement Plan

Employees of the Authority hired before October 1, 1995 are members of the Government of Guam Employees' Retirement System, a defined benefit, contributory pension plan. The Plan is administered by the Government of Guam Retirement Fund, to which the Authority 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, 1997, it has been determined that for the years ended September 30, 1998 and 1997, a minimum combined employer and employee contribution rate of 28.1% of covered 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 Authority's prior year accruals for its share of pension underfunding reduces the actuarially determined employer contribution rate from 18.51% to an effective rate of 15.58% for the year ended September 30, 1998. In recognition of the above, an accrual reduction of 3.02% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 15.58% and the employer’s statutory rate of 18.6%.

(6) Employees' Retirement Plan, Continued

The defined benefit 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, 1997, 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 the Authority, 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 is responsible for the administration of the DCRS. Investment management and plan administration services for the DCRS are performed 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 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.

The cost to the Authority for retirement contributions for the years ended September 30, 1998 and 1997 is as follows:

	1998	1997
Cash contributions	$ 3,625,841	$ 4,575,757
Reduction of accrued unfunded liability	(1,680,848)	(779,245)
	$ 1,944,993	$ 3,796,512

(7) Due from Government of Guam

Amounts due from the Government of Guam, in the amount of $479,995, represent appropriations for the purchase of a 911 emergency network service system. The Authority fully reserved this amount as of September 30, 1998, due to issues relating to its collectibility.

(8) Commitments and Contingency

Leases

Rental expense for operating leases in 1998 and 1997 totalled $122,040 and $140,186, respectively. Future obligations under such leases are not significant.

Medicare

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

Lifeline Program

The Lifeline Program is a federally mandated program that is designed to provide telephone service to low income households. The Public Utilities Commission has mandated that the Authority establish a reserve account for the program and allocate $50,000 to this account on a monthly basis.

Contingency

On December 16, 1997, Guam experienced the effects of a major typhoon. Estimated losses and insurance proceeds from the typhoon are as follows:

Estimated losses	$ 4,008,267
Insurance proceeds	2,647,343
Net estimated loss from typhoon	$ 1,360,924

Ultimate resolution of insurance claims could be materially different from estimated amounts.

GUAM TELEPHONE AUTHORITY

Supplementary Year 2000 Issue Information
September 30, 1998

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Authority's operations as early as fiscal year 1999. The Authority has identified computer systems and other electronic equipment, which may be affected by the year 2000 issue. The Authority estimates that approximately $4,991,000 will be needed to upgrade its systems. The Authority has spent approximately $115,400 as of September 30, 1998, but has not officially budgeted for the remaining costs of conversion. System testing and validation will be performed following upgrade completion.

Because of the unprecendented nature of the year 2000 issue, its effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Authority is or will be year 2000 ready, that the Authority's remediation efforts will be successful in whole or in part, or that parties with whom the Authority does business will be year 2000 ready.

See Accompanying Independent Auditors' Report.

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

The Board of Directors
Guam Telephone Authority:

We have audited the financial statements of the Guam Telephone Authority (GTA), as of September 30, 1998, and for the year then ended, and have issued our report thereon dated December 31, 1998. 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 GTA'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 GTA'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 operations of the internal control over financial reporting that, in our judgment, could adversely affect GTA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs in Finding Numbers 98-1 through 98-12.

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 none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Directors and management of GTA and the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Deloitte + Touche LLP

December 31, 1998

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

The Board of Directors
Guam Telephone Authority:

Compliance

We have audited the compliance of the Guam Telephone Authority (GTA) 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, 1998. GTA's major federal program is identified in the Schedule of Expenditures of Federal Awards (page 18). Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program is the responsibility of GTA's management. Our responsibility is to express an opinion on GTA's compliance based on our audit.

We conducted our audit 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 GTA'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 GTA's compliance with those requirements.

In our opinion, GTA complied, in all material respects, with the requirements referred to above that are applicable to its one major federal financial assistance program for the year ended September 30 1998.

Internal Control Over Compliance

The management of GTA 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 the audit, we considered GTA'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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect GTA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 98-1 through 98-4.

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. Our consideration of the internal control over compliance 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 none of the reportable conditions described above to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of GTA as of and for the year ended September 30, 1998, and have issued our report thereon dated December 31, 1998. 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 the purpose 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 GTA. 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 the Board of Directors and management of the GTA and the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

December 31, 1998

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 1998

Federal grantor/ program title/ project designation	Catalog of Federal Domestic Assistance Number	Account Number	Project Amount	Balance at beginning of year	Advances	Repayments	Balance at end of year
Department of Agriculture, Rural Utilities Service:							
Rural Telephone loans:	10.851						
Guam 501-A8, Tamuning		12010	$ 5,285,000	$ 3,245,690	-	$ 164,530	$ 3,081,160
Guam 501-A8, Tamuning		12020	16,498,000	10,341,593	-	528,048	9,813,545
Guam 501-A8, Tamuning		12021	217,000	142,345	-	7,223	135,122
Guam 501-B8, Tamuning		12030	1,766,000	1,120,151	-	55,859	1,064,292
Guam 501-B8, Tamuning		12031	3,683,000	2,473,442	-	119,680	2,353,762
Guam 501-C8, Tamuning		12040	9,135,004	6,999,860	-	228,087	6,771,773
Guam 501-C8, Tamuning		12041	621,996	497,318	-	16,196	481,122
Guam 501-D4, Tamuning		12050	12,393,054	10,589,321	-	254,107	10,335,214
Guam 501-D4, Tamuning		12051	8,176,946	7,275,320	-	175,573	7,099,747
Guam 501-E4, Tamuning		12060	40,558,000	38,074,290	-	658,500	37,415,790
Guam 501-E4, Tamuning		12061	7,964,000	7,759,915	-	136,877	7,623,038
				88,519,245	-	2,344,680	86,174,565
Rural Telephone Bank loans:	10.852						
Guam 501-D7, Tamuning		R010	3,526,950	3,277,738	-	42,728	3,235,010
Guam 501-E7, Tamuning		R020	3,021,000	2,961,209	-	42,401	2,918,808
Guam 501-E7, Tamuning		R022	2,756,250	2,700,045	-	42,150	2,657,895
Guam 501-E7, Tamuning		R023	2,031,750	1,958,067	-	40,846	1,917,221
Guam 501-E7, Tamuning		R024	2,016,000	1,994,670	-	28,060	1,966,610
Guam 501-E7, Tamuning		R025	296,100	289,523	-	4,333	285,190
Guam 501-E7, Tamuning		R026	5,961,750	1,186,107	-	14,676	1,171,431
Guam 501-E7, Tamuning		5027	1,365,000	-	1,365,000	42,440	1,322,560
Guam 501-E7, Tamuning		5028	848,000	-	848,000	10,363	837,637
Guam 501-E7, Tamuning		5520	1,193,850	-	1,193,850	-	1,193,850
				14,367,359	3,406,850	267,997	17,506,212
Federal Financing Bank loans:	Not applicable						
Guam 501-F9, Tamuning		H0010	223,000	202,082	-	6,221	195,861
Guam 501-F9, Tamuning		H0015	1,006,000	906,311	-	29,291	877,020
Guam 501-F9, Tamuning		H0020	250,000	224,171	-	7,518	216,653
Guam 501-F9, Tamuning		H0025	601,000	540,140	-	17,796	522,344
Guam 501-F9, Tamuning		H0030	1,269,000	1,137,293	-	38,300	1,098,993
Guam 501-F9, Tamuning		H0035	16,000	14,285	-	495	13,790
Guam 501-F9, Tamuning		H0040	5,600,000	5,007,539	-	177,218	4,830,321
Guam 501-F9, Tamuning		H0045	709,000	631,884	-	22,408	609,476
Guam 501-F9, Tamuning		H0050	750,000	668,388	-	23,344	645,044
Guam 501-F9, Tamuning		H0055	715,000	646,947	-	21,828	625,119
Guam 501-F9, Tamuning		H0060	181,000	167,092	-	5,003	162,089
Guam 501-F9, Tamuning		H0065	6,380,000	5,932,411	-	173,387	5,759,024
Guam 501-F9, Tamuning		H0070	800,000	743,473	-	21,870	721,603
Guam 501-F9, Tamuning		H0075	1,110,000	1,038,600	-	29,652	1,008,948
Guam 501-F9, Tamuning		H0080	2,473,000	2,335,066	-	69,259	2,265,807
Guam 501-F9, Tamuning		H0085	2,409,000	2,271,944	-	68,671	2,203,273
Guam 501-F9, Tamuning		H0090	208,000	196,280	-	6,413	189,867
				22,663,906	-	718,674	21,945,232
Note: All loans are received in a direct recipient capacity.				$ 125,550,510	3,406,850	3,331,351	$ 125,626,009

					Receipts	Disbursements	Balance at end of year
Federal Emergency Management Agency							
Typhoon Omar	83.516	Not applicable		$ 1,092,582	-	-	1,092,582
Typhoon Paka	83.516	Not applicable		-	29,165	227,117	197,952
				$ 1,092,582	29,165	227,117	$ 1,290,534

Note: All loans are received in a direct recipient capacity.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Schedule of Findings and Questioned Costs
Year Ended September 30, 1998

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 awards programs were identified, none of which are considered to be material weaknesses.

5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.

6. The audit disclosed no findings required to be reported by OMB Circular A-133.

7. The Organization's major programs were:

Name of Federal Program or Cluster	CFDA Number
Rural Telephone Bank	10.852
Rural Utilities Service	10.851
Federal Financing Bank	N/A

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 not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings Section

Reference Number	Findings	Questioned Costs	Refer Page #
98-1	Property, Plant and Equipment	$ -	21
98-2	Property, Plant and Equipment	-	22
98-3	Property, Plant and Equipment	-	23
98-4	Insurance	-	24
98-5	Receivables	-	25
98-6	Receivables	-	26
98-7	Receivables	-	27
98-8	Inventory	-	28
98-9	Revenue/Receipts	-	29
98-10	Accounts payable	-	30
98-11	Revenue/Receipts	-	31
98-12	Property, Plant and Equipment	-	32

Part III - Federal Award Findings and Questioned Cost Section

Reference Number	Findings	Questioned Costs	Refer Page #
98-1	Property, Plant and Equipment	$ -	21
98-2	Property, Plant and Equipment	-	22
98-3	Property, Plant and Equipment	-	23
98-4	Insurance	-	24

Finding No. 98-1 – Property, Plant and Equipment

Criteria: The construction work in progress account should be reviewed and reconciled with the open projects listing (maintained by the Engineering Department) in a timely manner.

Condition: During testing of CWIP transfers and through inquiry of personnel in the Accounting and Engineering Departments, approximately $19,900,000 and $1,250,000 of completed projects were not transferred from the construction work in progress account to the fixed asset account for GTA and Cellular respectively. Projects were completed during the periods from FY93 through FY97, with approximately 50% of the depreciable charges being attributed to capitalizable Engineering Department costs which were not closed out to fixed assets upon project completion.

Cause: The Accounting and Engineering Departments each track projects in progress, with Engineering providing final project close out documentation to the Accounting Department. Reconciliation of the two departmental CWIP listings has not been performed.

Effect: The above condition results in the overstatement of CWIP and an understatement of plant in service, depreciation expense and accumulated depreciation by a material amount.

Recommendation: The Accounting Department should reconcile the CWIP account to the CWIP list being tracked by the Engineering Department on a monthly or quarterly basis. The Engineering Department should ensure that all charges relating to a specific completed project are charged accordingly upon project completion.

Status of Prior Year Finding: The above finding is a carryforward finding (97-1) from fiscal year 1997. This issue has not been corrected as of September 30, 1998. See also 98-3 for additional information.

Finding No. 98-2 – Property, Plant and Equipment

Criteria: Per 7 CFR Part 1788.12, in the event of damage, loss or destruction of property mortgaged to the government covered by insurance, the borrower shall repair or replace the damaged, lost, or destroyed property so that the property is substantially the same condition as before the damage, loss or destruction.

Condition: Per review of the damages listed for typhoon Paka, we are unable to determine whether damages were incurred on property mortgaged to the government.

Cause: Fixed assets are not classified as either "federally funded" or "GTA funded" upon recording.

Effect: There is a potential for non-compliance as the insurance proceeds are not differentiated between federally funded and GTA funded fixed assets.

Recommendation: Fixed asset records should specify funding source.

Finding No. 98-3 – Property, Plant and Equipment

Criteria: Construction work in progress (CWIP) projects that are completed and placed in service should be reclassed from CWIP to a capital asset account. Furthermore, CWIP contracts should be reconciled and investigated in a timely manner to determine whether such contracts should be closed.

Condition: During testing of CWIP transfers and through inquiry of personnel in the Accounting and Engineering Departments, the amounts indicated below were not transferred from the construction work in progress account to the fixed asset account for GTA and Cellular, respectively. Projects were completed during periods from FY93 through FY98, but were not capitalized as of year end.

CWIP Type	GTA	Cellular	Total
Force	$ 3,524,735	$ 471,565	$ 3,996,300
Contract	436,514	1,176,911	1,613,425
Totals	$ 3,961,249	$ 1,648,476	$ 5,609,725

Cause: The Accounting and Engineering Departments are not coordinating their efforts to monitor the status of jobs in progress.

Effect: The effect of this condition is a delayed reclassification of CWIP to capital asset accounts which results in a:

- $5,609,210 overstatement of CWIP
- $5,609,210 understatement of capital assets
- $194,492 understatement of depreciation expense
- $194,492 understatement of accumulated depreciation

Recommendation: The Accounting Department should reconcile the CWIP account to the CWIP list being tracked by the Engineering Department on a monthly or quarterly basis. Internal controls should be placed in operation to ensure that CWIP accounts are aged. Jobs with no transactions for more than ninety days should be brought to Engineering's attention. Engineering should be responsible for determining and authorizing final capitalization approval.

Finding No. 98-4 - Insurance

Criteria: Per 7 CFR Part 1788.3, borrowers shall furnish written evidence to RUS within sixty days of the close of each calendar year stating that during such year all insurance required by this Part 1788 was in force and renewals have been obtained for all policies.

Condition: The certification of insurance coverage could not be provided.

Cause: The cause of the condition is unknown.

Effect: The Authority may not be in compliance with the above mentioned requirement.

Recommendation: Written evidence should be submitted to RUS to obtain certification of insurance coverage.

Finding No. 98-5 - Receivables

Criteria: Subledgers should be periodically reconciled with the general ledger. Reconciliations should be performed and variances addressed to prove the accuracy of recorded accounts receivable balances.

Condition: Differences exist between subledger and book balances as of September 30, 1998 as follows:

GTA

Description	Per sub ledger (net)	Per G/L (net)	Under (over) stated
1181 A/R active	$ 2,487,289	$ 2,227,918	$ 259,371
1182 A/R inactive	1,998,357	2,010,531	(12,174)
Totals	$ 4,485,646	$ 4,238,449	$ 247,197

The accounts receivable subledger is comprised of residential, business, local government, and federal accounts. Per review of the billing register, a majority of the variances are in the "local government-active" accounts.

Account #	Per sub ledger	Per G/L	Understated
11813	$ 516,462	$ 251,389	$ 265,073

Description	Per sub ledger (net)	Per G/L (net)	Under (over) stated
Accounts payable trade	$ 1,099,393	$ 1,363,853	$ (264,490)

CELL

Description	Per sub ledger (net)	Per G/L (net)	Under (over) stated
1181 A/R active	$ 551,342	$ 842,295	$ (290,953)
1182 A/R inactive	894,888	901,706	(6,818)
Totals	$ 1,446,230	$ 1,744,001	$ (297,771)

The accounts receivable subledger is comprised of individual, business, local government, and federal accounts. Per review of the billing register, a majority of the variances are in the "individual-active" accounts.

Account #	Per sub ledger	Per G/L	Understated
1181100	$ 36,805	$ 326,895	$ 290,090

Cause: The accounts receivable and accounts payable reconciliations have not been performed and agreed to the general ledger balances in a timely manner.

Effect: There is a potential for accounts receivable, accounts payable, and basic local revenue account balances to be misstated.

Recommendation: Account subledgers should be reconciled on a monthly basis and adjusted results should be reflected in general ledger balances in a timely manner.

Finding No. 98-6 - Receivables

Criteria: Negative balances in the accounts receivable active and inactive billing registers should be resolved in a timely manner.

Condition: At September 30, 1998, the following negative balances were noted in both the accounts receivable active and inactive accounts:

A/R - Active

GTA –$601,095.34 (or 24%) of the total accounts receivable active balance ($2,487,289.39) are negative amounts. Negative balances outstanding for over one year aggregate $43,104.08 (or 7%). The negative balances range from $0.25 to $13,150.00 and comprise 142 records. We also noted that some of these amounts date back to 1992.

Cell - $37,527.87 (or 7%) of the total accounts receivable active balance ($551,228.55) are negative amounts.

A/R – Inactive

GTA - $261,243.80 (or 13%) of the total A/R inactive balance ($1,998,357.08) are negative amounts. Negative balances outstanding for over one year is $163,767.04 (or 63%). The negative balances range from $0.01 to $8,087.50 and is composed of 5,776 records. We also noted that some of these amounts date back to 1989.

Cell - $18,220.20 (or 2%) of the total A/R inactive balance ($894,888.20) are negative amounts.

Effect:

- Real costs are being incurred in maintaining and reporting this information.
- Delayed recognition of revenues for customers who have both positive and negative balances in other accounts.
- Possible non compliance occurs with Government of Guam requirements regarding unclaimed prepayments.

Recommendation: Procedures should be implemented to ensure that credits are applied in a timely manner.

Finding No. 98-7 - Receivables

Criteria: Receivables should be carried at net realizable value.

Condition: Receivables include amounts that date back as far as 1985. These receivables do not appear to be recoverable and as such, GTA should consider writing these amounts off.

Acct #	Name	Balance > 3 years old as of 9/30/98
1184.200	A/R collection agency KCO	$ 219,545
1184.300	A/R collection agency	8,741
1191.000	A/R KCO active	740,264
Total		$ 968,550

Cause: The cause of this condition is unknown.

Effect: An overstatement of receivables and of miscellaneous revenue results from this condition. Real costs are being incurred in maintaining and reporting this information.

Recommendation: We recommend that management assess receivable amounts on an individual basis to determine the potential write-off required. The allowance for doubtful accounts should be recorded at a level necessary to account for all anticipated uncollectible accounts existing in the accounts receivable portfolio.

Finding No. 98-8 - Inventory

Criteria: Per review of management's response to our audit letter dated December 6, 1995, it was noted that beginning August 1995, warehouse personnel should conduct quarterly inventories to eliminate inventory spoilage and to make a determination of obsolescence on those items counted.

Condition: During our observation of the physical inventory and review of the general ledger, we noted that no items were surveyed during the fiscal year. We also noted one item that appeared to be old.

Item #:	J7238	Extended cost:	$105,391.60
Item description:	X9943041 Cable DE-4Esmart	Received date:	April 16, 1996
Unit cost:	$304.60	Age:	2 yrs, 5 mos
Qty:	346 units		

In reviewing the inventory listing for GTA and Cellular, we noted $1,220,177 of inventory items that have not moved for in excess of one year.

Cause: Periodic analyses of excess damaged, discontinued or obsolete inventory are not prepared. Quantities on hand are not monitored to determine the adequacy of recorded reserves. An "inventory allowance expense" of $2,000 per month is recorded, regardless of the physical characteristics or aging of inventory.

Effect: The failure to perform periodic analyses of damaged, discontinued and obsolete inventory reduces management's ability to take timely corrective action to dispose of these items. In addition, this condition increases the risk that inventory balances could be overstated as a result of recording such items at original cost rather than at net realizable value as required by generally accepted accounting principles. There is also a risk that inventory may be understated due to excessive reserves since some outdated items may represent long-term replacement parts.

Recommendation: Management should establish formal policies and procedures for monitoring excess, discontinued or obsolete inventory. Long-term replacement parts should be identified and separately classified.

Finding No. 98-9 – Revenue/Receipts

Criteria: The special circuits department is to monitor the monthly revenues and minutes per the CABS invoice. The information systems department is to monitor errors discovered every ten days. The accounting department is to monitor monthly revenues per the general ledger.

Condition: The departments noted above do not document that the required monitoring has occurred.

Cause: The cause of this condition is unknown.

Effect: The effect of this condition is that errors discovered may be overlooked, duplicate adjustments may be posted, and a possible misstatement of CABS revenue could occur.

Recommendation: Internal controls should be implemented to ensure that the appropriate departments maintain records documenting that the required monitoring occurred and the results of this monitoring.

Finding No. 98-10 – Accounts Payable

Criteria: The account payable subsidiary ledgers should be maintained to ensure outstanding balances represent items that were actually received. If an item is based on an estimate, actual amounts should be subsequently recorded.

Condition: During the confirmation process of accounts payable trade, certain transactions listed per the accounts payable ledger were noted as:

(a) old, (earliest date is February 14, 1992) or
(b) not supported by invoices and receiving reports.

Condition type	Vendor #	Questionable balance
(a)	1111	$ 33,103
(b)	0964	$104,532

Condition: Approximately $215,866 (or 20%) of the total accounts payable trade balance ($1,099,393) is greater than ninety days old.

Cause: The cause of this condition is not known.

Effect: A possible misstatement of the accounts payable balance could result from this condition.

Recommendation: We recommend that supporting documentation be appropriately maintained and management review the aged accounts payable ledger on a monthly basis, and investigate amounts that are greater than ninety days old.

Finding No. 98-11 – Revenue/Receipts

Criteria: Non-billable costs shall not be charged as receivable from a customer.

Condition: Per review of the accounts receivable billing system, the following amounts were billed subsequent to September 30, 1998 as follows:

Main billing number 500-0111-0

October '98	$39,129
November '98	$36,522
December '98	$35,994

Per discussion with management, GTA has subsequently determined that it is not authorized to assess these fees to the above customer.

Cause: The computer system automatically bills based on minutes of use. A formal order from management has not been issued to the circuits/data department to cease billing the above charges.

Effect: An overstatement of accounts receivable and basic local revenue results from this condition.

Recommendation: The circuits/data department should be formally requested to cease billing for the above unallowable services.

Finding No. 98-12 – Property, Plant and Equipment

Criteria: Fixed asset registers should be updated on a regular basis.

Condition: Management is in the process of performing a comprehensive inventory of certain fixed asset categories (vehicles, test equipment, furniture and fixtures, computers, office support equipment) where the continuing property records have not been updated.

Cause: The continuing property listing has not been updated.

Effect: Fixed assets may be misstated.

Recommendation: Internal controls should be strengthened to ensure that continuing property records are updated on a timely basis.

GUAM TELEPHONE AUTHORITY

Schedule of Prior Year Audit Findings
Year Ended September 30, 1998

The status of prior year audit findings are contained within finding number 98-1.

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INDEPENDENT AUDITORS' MANAGEMENT LETTER REPORT

The Board of Directors
Guam Telephone Authority:

We have audited the financial statements of the Guam Telephone Authority (GTA) for the year ended September 30, 1998, and have issued our report thereon dated December 31, 1998, which was qualified because insufficient audit evidence exists to support GTA's disclosures with respect to the year 2000 issue. Except as discussed in the preceding sentence, we conducted our audit 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 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of GTA for the year ended September 30, 1998, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

A description of the responsibility of management for establishing and maintaining the internal control over financial reporting, and the objectives of and inherent limitations in such control is set forth in our Independent Auditors' Report on Compliance and Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* dated December 31, 1998, and should be read in conjunction with this report.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

7 CFR Part 1773.34 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.34(e)(2) and related party transactions. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our Independent Auditors' Report, our Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* and our Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to Each Major Federal Award Program, all dated December 31, 1998) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.34 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding GTA's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- the accounting procedures and records;
- the process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts, and;
- the materials control.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards* dated December 31, 1998, and should be read in conjunction with this report. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedure performed with respect to the requirement to maintain all funds in institutions whose accounts are insured by an Agency of the Federal Government:
  - Obtained information from financial institutions with which GTA maintains funds that indicated that the institutions are insured by an Agency of the Federal Government.
- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching for the year ended September 30, 1998, of GTA.
  - GTA did not enter into any new contracts for the operation or maintenance of its property, or for the use of its mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in §1773.34 (e)(2)(i) during the year ended September 30, 1998.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of GTA, nothing came to our attention that caused us to believe that GTA failed to comply with respect to:

- the reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.34(c)(1);

- the clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.34(c)(2), except as set forth in finding number 98-1 and 98-3 on page 21 and 23 of the abovementioned audit reports;

- the retirement of plant addressed at 7 CFR Part 1773.34(c)(3) and (4);

- sales of plant material or scrap addressed at 7 CFR Part 1773.34(c)(5); and

- the disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards (SFAS) No. 57, "Related Party Transactions," for the year ended September 30, 1998, in the financial statement referred to in the first paragraph of this report addressed at 7 CFR Part 1773.34(f).

REPORTABLE CONDITIONS

In connection with our audit of the financial statements of GTA, we noted reportable conditions which are set forth in findings 98-1 through 98-12 on pages 21 to 32.

* *

This report is intended solely for the information and use of the Board of Directors, management, and the RUS and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

December 31, 1998