

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 1999 AND 1998

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 1999 and 1998

	<u>Page No.</u>
I. INDEPENDENT AUDITORS' REPORT	
II. FINANCIAL STATEMENTS:	
Balance Sheets	1
Statements of Operations and Retained Earnings	3
Statements of Cash Flows	4
Notes to Financial Statements	5
III. INDEPENDENT AUDITORS' REPORTS ON COMPLIANCE WITH LAWS AND REGULATIONS	
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based Upon the Audit Performed in Accordance with Government Auditing Standards	13
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance and on the Schedule of Federal Awards and Expenditures in Accordance with OMB Circular A-133	15
Schedule of Expenditures of Federal Awards	17
Schedule of Findings and Questioned Costs	19
Summary Schedule of Prior Year Audit Findings	28
V. INDEPENDENT AUDITORS' MANAGEMENT LETTER REPORT	29



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, 1999 and 1998, and the related statements of operations 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, 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 25, 2000 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. 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.

May 25, 2000

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Balance Sheets
September 30, 1999 and 1998

<u>ASSETS</u>	<u>1999</u>	<u>1998 As Restated (note 8)</u>
Current assets:		
Cash and cash equivalents (note 2):		
General funds	\$ 7,917,235	\$ 12,613,206
Construction funds	<u>2,979,649</u>	<u>136,374</u>
	10,896,884	12,749,580
Telecommunications accounts receivable, less accumulated provision for doubtful accounts of \$4,875,528 in 1999 and \$5,870,525 in 1998	5,436,619	5,951,377
Materials and supplies	4,267,745	4,231,870
Prepayments	<u>451,168</u>	<u>820,270</u>
Total current assets	<u>21,052,416</u>	<u>23,753,097</u>
Noncurrent assets:		
Rural Telephone Bank (RTB) stock	<u>4,316,830</u>	<u>3,227,547</u>
Property, plant and equipment (note 4):		
Telecommunications plant in service	241,464,070	246,036,122
Telecommunications plant under construction	<u>7,007,352</u>	<u>6,272,922</u>
	248,471,422	252,309,044
Less accumulated depreciation	<u>(78,060,769)</u>	<u>(75,112,297)</u>
	<u>170,410,653</u>	<u>177,196,747</u>
	<u>\$ 195,779,899</u>	<u>\$ 204,177,391</u>

See accompanying notes to financial statements.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Balance Sheets, Continued
September 30, 1999 and 1998

<u>LIABILITIES AND CAPITALIZATION</u>	<u>1999</u>	<u>1998 As Restated (note 8)</u>
Current liabilities:		
Current maturities of long-term debt (note 5)	\$ 3,700,032	\$ 3,506,866
Accounts payable	369,452	1,314,088
Customers' deposits and advance billings	3,251,965	3,068,214
Accrued payroll and employee benefits	858,016	1,453,320
Accrued interest	1,190,089	1,389,651
Other current liabilities	3,721,771	3,546,211
Total current liabilities	<u>13,091,325</u>	<u>14,278,350</u>
Long-term debt, less current maturities (note 5):		
RUS mortgage notes	81,109,187	83,698,565
RTB mortgage notes	16,961,398	17,243,345
FFB mortgage notes	20,363,611	21,177,233
	118,434,196	122,119,143
Accrued annual leave, net of current portion	1,163,057	968,391
Retirement Fund deferred contributions	12,499,973	13,222,579
Total liabilities	<u>145,188,551</u>	<u>150,588,463</u>
Capitalization:		
Contributions from Government of Guam (note 3)	13,557,529	13,557,529
Retained earnings	37,033,819	40,031,399
Total capitalization	<u>50,591,348</u>	<u>53,588,928</u>
Commitments and contingency (note 7)	\$ <u>195,779,899</u>	\$ <u>204,177,391</u>

See accompanying notes to financial statements.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Statements of Operations and Retained Earnings
Years Ended September 30, 1999 and 1998

	1999	1998 As Restated (note 8)
Operating revenues:		
Basic local network services	\$ 26,279,506	\$ 26,157,117
Long distance network service	11,621,016	12,178,762
Non-regulated	8,331,935	7,529,427
Miscellaneous	873,141	960,659
Less: uncollectible revenues	(581,256)	(3,605,429)
	<u>46,524,342</u>	<u>43,220,536</u>
Operating expenses:		
Plant specific operations	13,287,726	14,092,846
Depreciation	17,164,247	16,216,052
Corporate operations	6,594,821	6,437,450
Customer operations	3,437,832	3,165,421
Plant nonspecific operations	2,892,914	2,884,311
	<u>43,377,540</u>	<u>42,796,080</u>
Operating income	<u>3,146,802</u>	<u>424,456</u>
Fixed charges :		
Interest on long-term debt	6,722,697	6,995,250
Other interest	-	40,008
Interest charged to construction-credit	-	(15,489)
	<u>6,722,697</u>	<u>7,019,769</u>
Other income (expenses), net of dividend and interest income of \$1,374,857 in 1999 and \$1,020,068 in 1998	<u>578,315</u>	<u>(460,928)</u>
Net loss	(2,997,580)	(7,056,241)
Retained earnings at beginning of year	<u>40,031,399</u>	<u>47,087,640</u>
Retained earnings at end of year	<u>\$ 37,033,819</u>	<u>\$ 40,031,399</u>

See accompanying notes to financial statements.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Statements of Cash Flows
Years Ended September 30, 1999 and 1998

	1999	1998 As Restated (note 8)
Cash flows from operating activities:		
Operating income	\$ 3,146,802	\$ 424,456
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for uncollectible revenue	581,256	3,605,429
Provision for losses on materials and supplies	24,000	314,198
Depreciation	17,164,247	16,216,052
Decrease in Retirement Fund deferred contributions	(722,606)	(1,508,003)
Decrease (increase) in telecommunications accounts receivable	514,758	(1,735,495)
Decrease (increase) in materials and supplies	(35,875)	841,681
Decrease (increase) in prepayments	369,102	325,602
Decrease in accounts payable	(944,636)	(2,283,234)
(Decrease) increase in accrued payroll and employee benefits	(595,305)	271,199
(Decrease) increase in accrued interest	(199,562)	18,723
Increase in customers' deposits and advance billings	183,751	231,279
Increase in accrued annual leave	194,666	-
Increase in other current liabilities	175,560	1,351,984
Net cash provided by operating activities	<u>19,856,158</u>	<u>18,073,871</u>
Cash flows from investing activities:		
Purchase of RTB stock	(1,089,283)	(849,142)
Interest and dividends on investments and bank accounts	309,725	460,927
Net cash used in investing activities	<u>(779,558)</u>	<u>(388,215)</u>
Cash flows from capital and related financing activities:		
Additions to telecommunications plant, net	(10,515,362)	(7,602,896)
Proceeds from long-term debt	24,150	3,407,250
Payments on long-term debt	(3,515,825)	(3,348,550)
Interest paid on long-term debt	(6,922,259)	(6,976,527)
Other interest paid	-	(40,008)
Net cash used for capital and related financing activities	<u>(20,929,296)</u>	<u>(14,560,731)</u>
Net (decrease) increase in cash	(1,852,696)	3,124,925
Cash and cash equivalents at beginning of year	12,749,580	9,624,655
Cash and cash equivalents at end of the year	<u>\$ 10,896,884</u>	<u>\$ 12,749,580</u>
Cash payments for interest (net of amount capitalized)	<u>\$ 6,922,259</u>	<u>\$ 6,961,038</u>

See accompanying notes to financial statements.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Notes to Financial Statements
September 30, 1999 and 1998

(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), and the Authority is subject to the regulations of the Public Utility Commission (PUC).

Because of the PUC rate-making process, certain differences arise in the application of generally accepted accounting principles between regulated and non-regulated businesses. Such differences mainly concern the time at which various items enter into the determination of net earnings in order to follow the principle of matching costs and revenues (see note 8).

Basis of Accounting

The financial statements of the Authority 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. The Authority has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Geographic Area of Customer Base

The Authority is the sole supplier of local telephone service within 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.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Notes to Financial Statements
September 30, 1999 and 1998

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

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.

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, 1999 and 1998, the Authority has cash balances of \$10,822,688 and \$12,678,118, respectively, deposited in various checking and savings accounts. Of the total deposits, \$445,309 and \$441,155, respectively, is insured by Federal Depository Insurance Corporation and \$2,927,347 and \$4,049,282, 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 \$64,881 and \$62,538 in money market funds which are collateralized by open-ended U.S. Treasury Bills and U.S. Treasury Notes at September 30, 1999 and 1998, respectively. These investments are recorded at cost and earn interest at 5.97% and 5.03%, respectively.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Notes to Financial Statements
September 30, 1999 and 1998

(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, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
Poles, cables and wire	\$ 105,967,734	\$ 100,392,380
Central office equipment	72,421,551	78,079,650
Buildings	21,469,049	22,267,855
Customer premise equipment	25,848,795	22,321,202
Cellular radio facilities	4,988,229	8,124,234
Furniture and office equipment	4,576,262	5,900,167
Motor vehicles	3,079,427	4,484,198
Other equipment	2,282,506	3,635,919
Land	<u>830,517</u>	<u>830,517</u>
	241,464,070	246,036,122
Less accumulated depreciation	<u>(78,060,769)</u>	<u>(75,112,297)</u>
Net telecommunications plant in service	\$ <u>163,403,301</u>	\$ <u>170,923,825</u>

The provision for depreciation, as a percentage of the average balance of telephone plant in service, was 7.0% in 1999 and 4.6% in 1998. Individual plant depreciable rates for 1999 and 1998 are as follows:

	<u>1999</u>	<u>1998</u>
Poles, cables and wire	4%-10%	2%-10%
Central office equipment	5%	5%-8%
Customer premise equipment	2%	10%-12.5%
Buildings	3%-10%	3%
Furniture and office equipment	10%	10%-12.5%
Motor vehicles	20%	20%
Cellular radio facilities	10%	5%
Other equipment	10%	20%

The Authority wrote-off depreciated telecommunications plant during the year ended September 30, 1999 recording an expense of \$707,000.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Notes to Financial Statements
September 30, 1999 and 1998

(5) Long-Term Debt

Long-term debt at September 30, 1999 and 1998, is summarized as follows:

	<u>1999</u>	<u>1998</u>
Due to RUS at 5% per annum:		
May 2011, payable in semiannual installments of \$162,000, including interest	\$ 2,908,301	\$ 3,081,160
May 2011, payable in semiannual installments of \$526,000, including interest	9,386,298	9,948,668
April 2012, payable in semiannual installments of \$176,000, including interest	3,233,629	3,418,054
April 2017, payable in semiannual installments of \$308,000, including interest	6,996,246	7,252,895
October 2020, payable in semiannual installments of \$659,000, including interest	16,983,528	17,434,960
May 2025, payable in semiannual installments of \$1,557,000, including interest	44,203,186	45,038,828
Due to RTB:		
October 2020, payable in semiannual installments of \$177,000, including interest at 9.5%	3,188,126	3,235,010
May 2025, payable in semiannual installments of \$117,000, including interest at 6.04%	2,873,808	2,918,808
May 2025, payable in semiannual installments of \$104,000, including interest at 6.05%	2,613,156	2,657,895
May 2025, payable in semiannual installments of \$79,000, including interest at 6.05%	1,873,866	1,917,221
May 2025, payable in semiannual installments of \$82,000, including interest at 6.05%	1,936,827	1,966,610
May 2025, payable in semiannual installments of \$12,000, including interest at 6.05%	280,591	285,190
May 2025, payable in semiannual installments of \$46,000, including interest at 5.98%	1,153,433	1,171,431
May 2025, payable in semiannual installments of \$49,500, including interest at 6.26%	1,293,785	1,322,560
May 2025, payable in semiannual installments of \$31,400, including interest at 5.93%	825,104	837,637
May 2025, payable in semiannual installments of \$44,700, including interest at 5.56%	1,183,585	1,193,850
July 2025, payable in semiannual installments of \$930, including interest at 5.96%	24,150	-
Due to FFB December 2014:		
Payable in quarterly installments of \$5,100, including interest at 7.111%	189,185	195,861
Payable in quarterly installments of \$22,100, including interest at 6.604%	845,745	877,020
Payable in quarterly installments of \$5,300, including interest at 6.214%	208,656	216,653
Payable in quarterly installments of \$13,000, including interest at 6.402%	503,381	522,344
Payable in quarterly installments of \$26,900, including interest at 6.171%	1,058,275	1,098,993

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Notes to Financial Statements
September 30, 1999 and 1998

(5) Long-Term Debt, Continued

	<u>1999</u>	<u>1998</u>
Payable in quarterly installments of \$300, including interest at 5.865%	13,265	13,790
Payable in quarterly installments of \$114,000, including interest at 5.643%	4,642,890	4,830,321
Payable in quarterly installments of \$14,400, including interest at 5.621%	585,780	609,476
Payable in quarterly installments of \$15,400, including interest at 5.784%	620,320	645,044
Payable in quarterly installments of \$15,300, including interest at 6.151%	601,917	625,119
Payable in quarterly installments of \$4,300, including interest at 7.399%	156,706	162,089
Payable in quarterly installments of \$155,500, including interest at 7.647%	5,571,993	5,759,024
Payable in quarterly installments of \$19,400, including interest at 7.581%	698,028	721,603
Payable in quarterly installments of \$27,700, including interest at 7.887%	976,888	1,008,948
Payable in quarterly installments of \$58,200, including interest at 7.496%	2,191,211	2,265,807
Payable in quarterly installments of \$60,600, including interest at 7.301%	2,129,341	2,203,273
Payable in quarterly installments of \$4,800, including interest at 6.490%	<u>183,028</u>	<u>189,867</u>
	122,134,228	125,626,009
Less current maturities of long-term debt	<u>3,700,032</u>	<u>3,506,866</u>
	\$ <u>118,434,196</u>	\$ <u>122,119,143</u>

The aggregate annual principal payments for the five years subsequent to September 30, 1999, and thereafter are as follows:

2000	\$ 3,700,032
2001	3,919,977
2002	4,099,778
2003	4,369,148
2004	3,999,300
Thereafter	<u>102,045,993</u>
	\$ <u>122,134,228</u>

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Notes to Financial Statements
September 30, 1999 and 1998

(5) Long-Term Debt, Continued

Unadvanced loan balance as of September 30, 1999, is as follows:

<u>Federal grantor/ program title/ project designation</u>	<u>Authorized amount</u>	<u>Drawdown amount</u>	<u>Unadvanced amount</u>
Rural Telephone Bank loan: Guam 501-E7, Tamuning	\$ 16,082,850	\$ 14,753,700	\$ 1,329,150

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.

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, 1999.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Notes to Financial Statements
September 30, 1999 and 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, 1999 and 1998, 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, 1999. 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 13.37% for the year ended September 30, 1999. In recognition of the above, an accrual reduction of 5.23% of covered payroll is necessary to reduce the unfunded liability based on the difference between the effective rate of 13.37% and the employer's statutory rate of 18.6%.

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.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

Notes to Financial Statements
September 30, 1999 and 1998

(6) Employees' Retirement Plan, Continued

The cost to the Authority for retirement contributions for the years ended September 30, 1999 and 1998 is as follows:

	<u>1999</u>	<u>1998</u>
Cash contributions	\$ 2,563,903	\$ 3,625,841
Reduction of accrued unfunded liability	<u>(722,606)</u>	<u>(1,680,848)</u>
	\$ <u>1,841,297</u>	\$ <u>1,944,993</u>

(7) Commitments and Contingency

Leases

Rental expense for operating leases in 1999 and 1998 totalled \$125,368 and \$122,040, 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.

Self Insurance

GTA has commercial insurance coverage for owners, landlords and tenants liability, fidelity and forgery, robbery/safe burglary, workmen's compensation, automobile and comprehensive liability. GTA also has commercial property insurance coverage for 92% of the total net book value of fixed assets. GTA is of the opinion that it has suffered no material losses in the past three years related to damages in telecommunications plant in service.

(8) Restatement

The 1998 financial statements have been restated based on a PUC order, to reflect the effects of a re-evaluation of property, plant and equipment and related depreciation expense as follows:

	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>	<u>Retained Earnings</u>
As originally stated	\$ 10,614,096	\$ 69,510,341	\$ 45,633,355
Adjustment	<u>5,601,956</u>	<u>5,601,956</u>	<u>5,601,956</u>
As restated	\$ <u>16,216,052</u>	\$ <u>75,112,297</u>	\$ <u>40,031,399</u>



**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, 1999, and for the year then ended, and have issued our report thereon dated May 25, 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

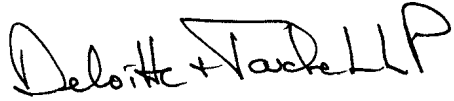
As part of obtaining reasonable assurance about whether GTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination 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 99-1 through 99-7.

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 Board of Directors and management of GTA and the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank, 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.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

May 25, 2000



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

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, 1999. GTA's major federal program is identified in the summary of auditors' results section of the Schedule of Findings and Questioned Costs (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, 1999.

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.

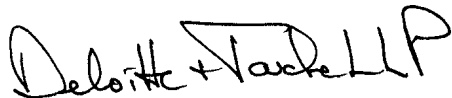
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 99-7.

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, 1999, and have issued our report thereon dated May 25, 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 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 Board of Directors and management of GTA and the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank, 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

May 25, 2000

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

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	\$ 3,081,160	\$ -	\$ -	\$ 3,081,160
Guam 501-A8, Tamuning		12020	16,498,000	9,813,545	-	-	9,813,545
Guam 501-A8, Tamuning		12021	217,000	135,122	-	-	135,122
Guam 501-B8, Tamuning		12030	1,766,000	1,064,292	-	-	1,064,292
Guam 501-B8, Tamuning		12031	3,683,000	2,353,762	-	-	2,353,762
Guam 501-C8, Tamuning		12040	9,135,004	6,771,773	-	-	6,771,773
Guam 501-C8, Tamuning		12041	621,996	481,122	-	-	481,122
Guam 501-D4, Tamuning		12050	12,393,054	10,335,214	-	-	10,335,214
Guam 501-D4, Tamuning		12051	8,176,946	7,099,747	-	-	7,099,747
Guam 501-E4, Tamuning		12060	40,558,000	37,415,790	-	-	37,415,790
Guam 501-E4, Tamuning		12061	7,964,000	7,623,038	-	-	7,623,038
				86,174,565	-	-	86,174,565
Rural Telephone Bank loans:	10.852						
Guam 501-D7, Tamuning		R010	3,526,950	3,235,010	-	-	3,235,010
Guam 501-E7, Tamuning		R020	3,021,000	2,918,808	-	-	2,918,808
Guam 501-E7, Tamuning		R022	2,756,250	2,657,895	-	-	2,657,895
Guam 501-E7, Tamuning		R023	2,031,750	1,917,221	-	-	1,917,221
Guam 501-E7, Tamuning		R024	2,016,000	1,966,610	-	-	1,966,610
Guam 501-E7, Tamuning		R025	296,100	285,190	-	-	285,190
Guam 501-E7, Tamuning		R026	5,961,750	1,171,431	-	-	1,171,431
Guam 501-E7, Tamuning		5027	1,365,000	1,322,560	-	-	1,322,560
Guam 501-E7, Tamuning		5028	848,000	837,637	-	-	837,637
Guam 501-E7, Tamuning		5520	1,193,850	1,193,850	-	-	1,193,850
				17,506,212	-	-	17,506,212
Federal Financing Bank loans:	Not applicable						
Guam 501-F9, Tamuning		H0010	223,000	195,861	-	-	195,861
Guam 501-F9, Tamuning		H0015	1,006,000	877,020	-	-	877,020
Guam 501-F9, Tamuning		H0020	250,000	216,653	-	-	216,653
Guam 501-F9, Tamuning		H0025	601,000	522,344	-	-	522,344
Guam 501-F9, Tamuning		H0030	1,269,000	1,098,993	-	-	1,098,993
Guam 501-F9, Tamuning		H0035	16,000	13,790	-	-	13,790
Guam 501-F9, Tamuning		H0040	5,600,000	4,830,321	-	-	4,830,321
Guam 501-F9, Tamuning		H0045	709,000	609,476	-	-	609,476
Guam 501-F9, Tamuning		H0050	750,000	645,044	-	-	645,044
Guam 501-F9, Tamuning		H0055	715,000	625,119	-	-	625,119
Guam 501-F9, Tamuning		H0060	181,000	162,089	-	-	162,089
Guam 501-F9, Tamuning		H0065	6,380,000	5,759,024	-	-	5,759,024
Guam 501-F9, Tamuning		H0070	800,000	721,603	-	-	721,603
Guam 501-F9, Tamuning		H0075	1,110,000	1,008,948	-	-	1,008,948
Guam 501-F9, Tamuning		H0080	2,473,000	2,265,807	-	-	2,265,807
Guam 501-F9, Tamuning		H0085	2,409,000	2,203,273	-	-	2,203,273
Guam 501-F9, Tamuning		H0090	208,000	189,867	-	-	189,867
				21,945,232	-	-	21,945,232
Note: All loans are received in a direct recipient capacity.				\$ 125,626,009	-	-	\$ 125,626,009
				Receipts	Disbursements	Adj.	Balance at end of year
Federal Emergency Management Agency							
Typhoon Omar	83.516	Not applicable	\$ 1,092,582	-	-	(402,994)	689,588
Typhoon Paka	83.516	Not applicable	197,952	(78,062)	-	12,903	132,793
			\$ 1,290,534	(78,062)	-	(390,091)	\$ 822,381

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

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

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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 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:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
99-1	Receivables	\$ -	20
99-2	Inventory	\$ -	21
99-3	Cash	\$ -	22
99-4	Receivables	\$ -	23
99-5	Accruals	\$ -	25
99-6	Payables	\$ -	26
99-7	Property, Plant and Equipment	\$ -	27

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

Part III - Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
99-7	Property, Plant and Equipment	\$ -	27

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

Finding No. 99-1 - Accounts Receivable-Active and Inactive

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

Condition: At September 30, 1999, the following negative balances were noted in both the accounts receivable active and inactive accounts:

A/R - Active

GTA -\$957,211 (or 38%) of the total accounts receivable active balance (\$2,493,330) Negative balances outstanding for over one year aggregate \$52,455 (or 5%). The negative balances range from \$0.25 to \$13,100 and comprise 152 records. We also noted that some of these amounts date back to 1992.

Cell - \$26,433 (or 3%) of the total accounts receivable active balance (\$834,353)

A/R – Inactive

GTA - \$299,103 (or 13%) of the total A/R inactive balance (\$2,298,683) are negative amounts. Negative balances outstanding for over one year are \$226,037 (or 76%). The negative balances range from \$0.01 to \$7,722 and is composed of 7,672 records. We also noted that some of these amounts date back to 1986.

Cell - \$25,643 (or 2.55%) of the total A/R inactive balance (\$1,005,110) are negative amounts.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Telephone Authority.

Cause: This condition was caused by customer advanced payments for future billing periods.

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.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

Finding No. 99-2 - Inventory Allowance and 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: The inventory listing for GTA and Cellular, noted \$1,447,601 of inventory items that has 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.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

Finding No. 99-3 - Stale Dated Checks

Criteria: The subsidiary ledgers for stale dated checks should be reviewed and adjusted on a consistent basis.

Condition: Review of the stale dated checks subsidiary details indicates that checks in this account are dated as follows:

Stale dated checks

1997 and prior	\$ 157,534
1998	30,203
1999	<u>40,004</u>
	\$ <u>227,741</u>

Cause: Management may not have consulted with legal counsel to determine the appropriate disposition of these amounts.

Effect: A possible misstatement of the stale dated checks balance could result from this condition.

Recommendation: We recommend that management review the stale dated checks ledger on a quarterly basis, and investigate amounts that are greater than ninety days old for possible adjustment.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

Finding No. 99-4 - Accounts Receivable Active and Accounts Receivable-Inactive

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, 1999 as follows:

GTA:

<u>Description</u>	<u>Per sub ledger (net)</u>	<u>Per G/L (net)</u>	<u>Under (over) stated</u>
1181 A/R active	\$ 2,493,330	\$ 1,918,040	\$ 575,290
1182 A/R inactive	<u>2,298,683</u>	<u>2,565,948</u>	<u>(267,265)</u>
Totals	\$ <u>4,792,013</u>	\$ <u>4,483,988</u>	\$ <u>308,025</u>

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.

<u>Account #</u>	<u>Per subledger</u>	<u>Per G/L</u>	<u>Understated</u>
11813	\$ 1,173,247	\$ 638,909	\$ 534,338

CELL:

<u>Description</u>	<u>Per sub ledger (net)</u>	<u>Per G/L (net)</u>	<u>(Overstated)</u>
1181 A/R active	\$ 834,354	\$ 853,343	\$ (18,989)
1182 A/R inactive	<u>1,005,439</u>	<u>1,048,529</u>	<u>(43,090)</u>
Totals	\$ <u>1,839,793</u>	\$ <u>1,901,872</u>	\$ <u>(62,079)</u>

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.

<u>Account #</u>	<u>Per subledger</u>	<u>Per G/L</u>	<u>(Overstated)</u>
1181200	\$ 635,822	\$ 725,899	\$ (90,077)

Additionally, review of the subsidiary ledgers for Northern Telecom, Inc. and the Treasurer of Guam, indicates that there are unpaid invoices outstanding since FY92 totalling \$33,546.

Prior Year Status:

The above condition is reiterative of conditions identified in the prior year audit of the Guam Telephone Authority.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

Finding No. 99-4 - Accounts Receivable Active and Accounts Receivable-Inactive, Continued

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.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

Finding No. 99-5 - Accrued Accounts Payable

Criteria: The accrued accounts payable subsidiary ledger should be reviewed and reconciled on a quarterly basis.

Condition: During our review of the accrued accounts payable account, we noted that this account had not been reconciled or adjusted for the payment of recorded accruals totaling \$273,004. This condition was properly adjusted as of September 30, 1999 through the audit process.

Cause: The cause of this condition appears to stem from a lack of reconciliation processes due to a change in accounting systems.

Effect: A possible misstatement of the accounts payable account and expense could result from this condition.

Recommendation: We recommend that the accrued accounts payable account be reviewed and reconciled on a quarterly basis.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

Finding No. 99-6 – Accounts Payable

Criteria: The accounts payable account should be reviewed and balances greater than ninety days outstanding examined and resolved.

Condition: During our review of the accounts payable trade account, we noted that forty nine (49%), or \$162,800, of this balance was greater than ninety days outstanding.

Cause: The cause of this condition appears to stem from a lack of reconciliation processes due to a change in accounting systems.

Effect: A possible misstatement of the accounts payable account and expense could result from this condition.

Recommendation: We recommend that the accounts payable account be reviewed and balances greater than ninety days outstanding examined and resolved in a timely manner.

GUAM TELEPHONE AUTHORITY
(A Public Corporation)

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

Finding No. 99-7 – Property, Plant and Equipment

Criteria: The accounting department should be properly informed upon the disposal of capitalized assets.

Condition: The Authority conducted a physical fixed asset inventory on certain categories in the general fixed asset section. This resulted in the write-off of approximately \$707,000 of the net book value of general fixed assets during fiscal year 1999.

Cause: Management conducted a detailed analysis of its continuing property records and then proceeded to conduct a comprehensive inventory of these assets. No comprehensive inventory had previously been conducted.

Effect: Although there is no effect on the financial statements as of September 30, 1999, this condition may result in the possible misstatement of the general fixed assets.

Recommendation: We recommend that survey policies and procedures be reviewed and monitored on a periodic basis.

GUAM TELEPHONE AUTHORITY

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

The status of prior year audit findings are contained within finding numbers 99-1 and 99-4.



INDEPENDENT AUDITORS' MANAGEMENT LETTER REPORT

The Board of Directors
Guam Telephone Authority:

We have audited the financial statements of the Guam Telephone Authority (GTA), as of September 30, 1999, and for the year then ended, and have issued our report thereon dated May 25, 2000. 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, 1999, 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 May 25, 2000, 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 May 25, 2000) 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 May 25, 2000, 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:

- . Procedures 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, 1999, 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, 1999.

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:

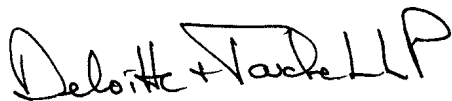
- the reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.34(c)(1);
- the clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.34(c)(2);
- the retirement of plant addressed 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, 1999, 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 99-1 through 99-7 on pages 20 to 27.

* * * * *

This report is intended for the information of Board of Directors and management of GTA and the Rural Utilities Service, Rural Telephone Bank and Federal Financing Bank, 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.



May 25, 2000