

**GUAM EDUCATIONAL TELECOMMUNICATIONS
CORPORATION**

**(A COMPONENT UNIT OF THE
GOVERNMENT OF GUAM)**

**FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2013

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Year Ended September 30, 2013
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Educational Telecommunications Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Guam Educational Telecommunications Corporation (PBS Guam), a component unit of the Government of Guam, as of and for the fiscal year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise PBS Guam's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the PBS Guam's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PBS Guam's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Guam Educational Telecommunications Corporation as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of PBS Guam's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

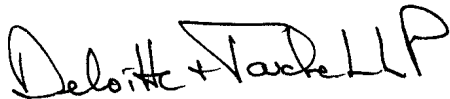
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PBS Guam's basic financial statements. The comparative financial information on pages 23 through 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative financial information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative financial information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2014, on our consideration of PBS Guam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PBS Guam's internal control over financial reporting and compliance.

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

February 27, 2014

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Management's Discussion and Analysis
Year Ended September 30, 2013

This discussion and analysis of Guam Educational Telecommunications Corporation (dba PBS GUAM) is intended to give an overview of our financial performance for the year ended September 30, 2013. This analysis should be read in conjunction with the following financial statements, related footnotes and required supplementary information.

Financial Statements

PBS GUAM's financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB). The required financial statements include a Governmental Funds Balance Sheet/Statement of Net Position that identifies the characteristics and value of an entity's available resources (assets) and as well as its obligations (liabilities) at a specific point in time. Net Position represents the amount by which an entity's assets exceed its liabilities and represent resources available to fund future operations. The Statement of Government Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities is an additional required statement. This particular statement provides information about the entity's sources of revenue and nature of the related expenses during the period being reported. It reflects the entity's ability to recover costs associated with providing services.

Financial Analysis

Our analysis is based on the following condensed financial data for the years ended September 30, 2013 and 2012, as presented in the Statement of Net Position and the Changes in Net Position. The nature of these statements is explained in the preceding paragraph.

Statement of Net Position

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|---------------------|---------------------|
| <u>ASSETS</u> | | |
| Capital assets | \$ 2,259,666 | \$ 2,428,906 |
| Current and other assets | <u>482,393</u> | <u>698,823</u> |
| Total assets | \$ <u>2,742,059</u> | \$ <u>3,127,729</u> |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Liabilities: | | |
| Long-term liabilities | \$ 65,304 | \$ 80,693 |
| Other liabilities | <u>79,916</u> | <u>218,589</u> |
| Total liabilities | <u>145,220</u> | <u>299,282</u> |
| Net position: | | |
| Net investment in capital assets | 2,241,666 | 2,428,906 |
| Unrestricted | <u>355,173</u> | <u>399,541</u> |
| Total net position | <u>2,596,839</u> | <u>2,828,447</u> |
| | \$ <u>2,742,059</u> | \$ <u>3,127,729</u> |

Capital assets decreased by \$169,240 or 7% due to the acquisition of related assets, totaling \$4,610, less station depreciation expense of \$173,850. Current assets decreased by approximately 31% or \$216,430 primarily due to a decrease in cash balances used for operations. Total liabilities decreased by 51% or \$154,062, which was attributed to a decrease in the balance associated with unexpended grant funds. The decrease in total net position is primarily caused by the resultant changes as reflected above.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Management's Discussion and Analysis
Year Ended September 30, 2013

Statement of Activities

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|---------------------|---------------------|
| Revenues: | | |
| Local Appropriation | \$ 541,428 | \$ 553,121 |
| Community Service Grant | 809,074 | 711,579 |
| Contributions and other | 361,521 | 351,450 |
| DDF/NTIA | - | 140,032 |
| Interest Income | 3,543 | 10,488 |
| Total Revenues | <u>1,715,566</u> | <u>1,766,670</u> |
| Expenses: | | |
| Program service | 239,780 | 212,524 |
| Supporting service | 1,533,544 | 1,392,071 |
| Depreciation expense | <u>173,850</u> | <u>175,397</u> |
| Total Expenses | <u>1,947,174</u> | <u>1,779,992</u> |
| Change in net position | (231,608) | (13,322) |
| Net position beginning of year | <u>2,828,447</u> | <u>2,841,769</u> |
| Net position at the end of the year | <u>\$ 2,596,839</u> | <u>\$ 2,828,447</u> |

Total revenues decreased by 2.89% or \$51,104, which is attributed to no NTIA Grant received in the current year.

Total expenses increased by 9.39% or \$167,182, which primarily accounts for an increase in supporting program services.

Governmental Funds

PBS GUAM utilizes fund accounting practices to provide information on a near-term inflow, outflow and balances of spendable resources. Such information is useful in assessing PBS GUAM's financing requirements. In particular, fund balance may serve as a useful measure of PBS GUAM's net resources available for spending at the end of the fiscal year. The General Fund helps supplement funds received by the Corporation of Public Broadcasters (CPB). At the end of the current fiscal year, the assigned fund balance amounted to \$402,477, a decrease of \$77,757 compared with the prior year fund balance.

Budgetary Highlights

PBS GUAM does not prepare a total operating budget and actual analysis as only certain items are funded by the Government of Guam and a legally adopted budget is not required for the entity as a whole. PBS GUAM utilizes a budget for internal purposes and benchmarks for future projections, forecasting, and strategic planning.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Management's Discussion and Analysis
Year Ended September 30, 2013

Capital Assets

With completion of digital transmitter and MCO, PBS GUAM is prepared to expand its services. Our MCO can handle two program streams, and our digital transmitter can broadcast two high definition and two standard definition channels. National programming on our primary channel has been optimized. However, investment in capital equipment stalled in 2013, with only \$4,610 in outlays recorded. Facility and equipment needs were itemized, but grant applications were unsuccessful. Local production is hampered by legacy cameras, aging editing suites and studio controls. Attracting tenants to lease excess capacity on our broadcast tower depends on dependable climate control and power. Capital equipment replacement is needed to keep pace with technology, the opportunity for expanded service over four channels, and create a significant new revenue stream.

Economic Factors

Like other rural PBS affiliate stations throughout the country, PBS Guam/KGTF continues to face revenue challenges. PBS Guam operated under a net deficit in Fiscal Year 2013. Revenues declined compared to the previous year, and PBS Guam drew upon its reserves to cover obligations.

Guam's economy remains poised for significant expansion. The long-awaited military buildup stalled throughout FY2013, but has recently regained momentum with support in national appropriations and international agreements. Military construction allocations have increased from FY2012 levels. Guam's tourism market is celebrating its 50th year, and enjoying significant diversification from the historical preponderance of Japanese tourists. Tourist arrivals overall continued to climb in 2013. New hotel construction promises additional rooms during 2014. The Government of Guam finished fiscal year 2013 with a surplus, and its bond rating has been upgraded. Guam's economy is growing in confidence.

With growing expectation of success in the coming year, corporate supporters of PBS Guam are expected to increase their underwriting, sponsorship and other fundraising support.

Institutional Factors

PBS Guam has steadily advanced its mission of providing high quality noncommercial programming for Guam residents over recent years. Improvements in digital broadcasting, physical plant and staff skills have contributed to a competitive service. Management has continued to pursue grant funding for needed production equipment upgrades to complete the digital service envisioned with the conversion of its transmitter facilities from analog to digital.

As described in some detail in last year's Management Discussion, PBS Guam staffing is nearly complete, with Development, Engineering and Grant /Educational Outreach devoting professional effort to extend public television services to our community. A young MCO staff is becoming adept at mastering the new switching equipment, and Programming staff uses new software to coordinate local insertions to a daily schedule of network programs acquired via satellite. Studio and Production staff were augmented by two new individuals, whose private sector experience with updated equipment contribute greatly to advancing the station's local production capabilities. Current technology in studio and production equipment is badly needed to employ skills of experienced staff to their fullest potential. Difficulty in retaining qualified Producer staff services is leading management to consider recruiting independent producers to handle priority in-house projects. Administration services are capably handled, with appreciation for guidance and reassurance provided by annual financial audits.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Management's Discussion and Analysis
Year Ended September 30, 2013

The governing Board of Trustees reconvened in November 2013, its new members meeting with a quorum for the first time in over two years. The Governor's reorganization Advisory No. 6 of October 2011 had placed PBS Guam within the administrative purview of the Department of Chamorro Affairs. The new Board expressed itself concerning its statutory role and responsibilities, and obtained assurances that Advisory No. 6 would not be effectuated. A new Station Manager was appointed in January 2014, with prior CPB-related experience as manager and executive producer at Public Radio for Guam, KPRG-FM, and as a long-time KPRG volunteer host and producer. PBS Guam therefore proceeds in 2014 with new governance and management leadership in place.

New management has examined strategic plans of the past several years, and adopted a similar approach to addressing the continuing requirements of PBS Guam. A strategic capital equipment plan is needed to upgrade studio and production capabilities for local programming in high-definition quality, per national PBS standards. The KGTF studio needs renovation. The Mangilao facility requires a complete electrical system overhaul, including segregation of administrative, air conditioning and operational circuits, reassignment of circuit panels and an emergency generator. Before KGTF can realize lease source income from available space in its transmitter facility in Barrigada Heights, air-conditioning must be replaced and an emergency generator installed. Also envisioned under previous management, and supported by the new station manager are activation of additional digital broadcast channels on current equipment. KGTF's Channel 12.2 can now carry additional network programming as well as a new schedule of locally produced non-commercial, educational shows. The newly-inaugurated Guamanian Channel, intended as a showcase for Government of Guam executive branch agencies and as a public access channel, signed on in December 2013 and could be broadcast by PBS Guam via its standard-definition Channel 12.3 to homes not connected via GTA or Docomo wired services. Similarly, the Legislative or National Weather Service channels could be carried island-wide on Channel 12.4. Broadcast translator frequencies and sites can be leased to serve viewers beyond our Barrigada transmission capability, in Agat, Piti, Merizo, and The Northern Mariana Islands. Each additional broadcast service to island residents can be carried on current equipment. Additional channels will fulfill goals established under previous management in accordance with PBS Guam's statutory and programmatic purpose, and will open new avenues for community support through corporate underwriting, sponsorship and membership.

A partnership was forged in 2013 with Hurao, Inc., a new FM licensee dedicated to perpetuation of the Chamorro language. PBS Guam provided in-kind assistance to help Hurao meet FCC license requirements, and will continue to help Hurao design its production facility, train volunteers and develop a significant broadcast presence. Besides addressing PBS Guam's mandate, our goal is to host Hurao at our Barrigada facility as a paying tenant. Management pledges to work closely with the Board to set priorities, approve project budgets, and endorse policies that build upon the staff and facility assets of PBS Guam to improve and extend our broadcast and educational services. Management will also recommend to the Board the creation of a new private foundation to address donor-specific purposes, such as capital equipment replacement, program development and facility expansion.

Contacting PBS GUAM/KGTF's Financial Management

This financial report is designed to provide our community and others a general overview of PBS GUAM/KGTF's finances and to demonstrate its accountability for the money it collects. If you have questions about this report or needs additional financial information, contact the General Manager at P. O. Box 21449, GMF, Guam 96921 or via email at kgtf12@teleguam.net.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Governmental Funds Balance Sheet/Statement of Net Position
September 30, 2013

| | General Fund | Adjustments (Note 2) | Statement of Net Position |
|---|-----------------|-------------------------|------------------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 327,385 | \$ - | \$ 327,385 |
| Receivables, net of allowance for uncollectible accounts of \$20,710 | 33,226 | - | 33,226 |
| Restricted assets: | | | |
| Cash and cash equivalents | 121,782 | - | 121,782 |
| Capital assets: | | | |
| Nondepreciable capital assets | - | 18,000 | 18,000 |
| Capital assets, net of accumulated depreciation | - | 2,241,666 | 2,241,666 |
| Total assets | \$ 482,393 | 2,259,666 | 2,742,059 |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ 26,761 | - | 26,761 |
| Other liabilities and accruals | 26,288 | - | 26,288 |
| Unexpended grant revenues | 26,867 | - | 26,867 |
| Long-term liabilities: | | | |
| Due within one year | - | 21,244 | 21,244 |
| Due after one year | - | 44,060 | 44,060 |
| Total liabilities | 79,916 | 65,304 | 145,220 |
| Commitments and contingencies | | | |
| <u>FUND BALANCE/NET POSITION</u> | | | |
| Fund balance: | | | |
| Assigned - supporting services | 402,477 | (402,477) | - |
| Total fund balance | 402,477 | (402,477) | - |
| Total liabilities and fund balance | \$ 482,393 | | |
| Net position: | | | |
| Net investment in capital assets | | 2,241,666 | 2,241,666 |
| Unrestricted | | 355,173 | 355,173 |
| Total net position | | \$ 2,596,839 | \$ 2,596,839 |

See accompanying notes to financial statements.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Year Ended September 30, 2013

| | General Fund | Adjustments (Note 2) | Statement of Activities |
|---|-----------------|-------------------------|----------------------------|
| Revenues: | | | |
| Community service grant | \$ 809,074 | \$ - | \$ 809,074 |
| Government of Guam appropriation | 541,428 | - | 541,428 |
| In-kind contributions | 150,010 | - | 150,010 |
| Fundraising | 60,344 | - | 60,344 |
| Contributions and other income | 45,652 | - | 45,652 |
| Underwriting | 80,715 | - | 80,715 |
| Interest | 3,543 | - | 3,543 |
| Other | 24,800 | - | 24,800 |
| | 1,715,566 | - | 1,715,566 |
| Expenditures/expenses: | | | |
| Program services: | | | |
| Station production | 154,854 | - | 154,854 |
| Station upgrade | 83,339 | - | 83,339 |
| Capital outlays | 6,197 | (4,610) | 1,587 |
| Supporting services: | | | |
| Program broadcasting | 554,505 | - | 554,505 |
| Contractual services | 146,759 | - | 146,759 |
| Development and promotion | 144,407 | - | 144,407 |
| Supplies and materials | 11,825 | - | 11,825 |
| Local appropriations: | | | |
| Personnel services | 310,432 | (15,389) | 295,043 |
| Fringe benefits | 127,938 | - | 127,938 |
| Utilities | 103,057 | - | 103,057 |
| In-kind expenditures/expenses | 150,010 | - | 150,010 |
| Unallocated depreciation | - | 173,850 | 173,850 |
| | 1,793,323 | 153,851 | 1,947,174 |
| Total expenditures/expenses | 1,793,323 | 153,851 | 1,947,174 |
| Deficiency of revenues under expenditures | (77,757) | 77,757 | |
| Changes in net position | | (231,608) | (231,608) |
| Fund balance/net position: | | | |
| Beginning of the year | 480,234 | - | 2,828,447 |
| End of the year | \$ 402,477 | \$ - | \$ 2,596,839 |

See accompanying notes to financial statements.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2013

(1) Organization

Guam Educational Telecommunications Corporation (PBS GUAM), a component unit of the Government of Guam, currently operates Guam's Public Broadcasting Service (PBS) station (PBS GUAM Channel 12). PBS GUAM was established as a public corporation by Public Law 12-194 as approved on January 2, 1975. The purpose of PBS GUAM is to present educational television to the people of Guam and to involve the people of Guam in its activities to the maximum extent possible.

PBS GUAM's license with the Federal Communications Commission was renewed through February 1, 2015 with the condition that the station will only broadcast digital television.

On October 6, 2011, the Governor of Guam issued Reorganization Advisory No. 6 whereby PBS GUAM was merged into the Department of Chamorro Affairs along with the Hagatna Restoration and Development Authority, Guam Council on the Arts and Humanities Agency, and Guam Public Library System. The accompanying financial statements relate solely to those accounting records maintained by PBS GUAM, and do not incorporate any accounts related to other departments or agencies within the Department of Chamorro Affairs.

PBS GUAM is governed by a nine-member Board of Trustees, who shall be appointed by the Governor of Guam with the advice and consent of the Guam Legislature. Accordingly, PBS GUAM is a component unit of the Government of Guam.

(2) Summary of Significant Accounting Policies

The accompanying basic financial statements of PBS GUAM have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

Government-wide and Fund Financial Statements

Government-wide Financial Statements:

The Statement of Net Position presents PBS GUAM's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- Net investment in capital assets consist of capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, to indicate that management does not consider them to be available for general operations. They often have restrictions that are imposed by management, but can be removed or modified.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Government-wide and Fund Financial Statements, Continued

Government-wide Financial Statements, Continued:

The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of PBS GUAM's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of PBS GUAM.

Fund Financial Statements:

PBS GUAM uses one governmental fund to report on its financial position and results of operations. The operations of this fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

Separate financial statements are provided for governmental funds. PBS GUAM presents a balance sheet and a statement of revenues, expenditures and changes in fund balances for its governmental fund. The ending fund balance on the balance sheet is then reconciled to the ending governmental net position.

Adjustments required to reconcile total governmental fund balance to net position of governmental activities in the Statement of Net Position are as follows:

| | | |
|--|--------------------|---------------------|
| Total fund balance - governmental funds | | \$ <u>402,477</u> |
| Add: | | |
| Capital assets | 4,647,730 | |
| Accumulated depreciation | <u>(2,388,064)</u> | |
| | | <u>2,259,666</u> |
| Less: | | |
| Compensated absences payable | (61,141) | |
| DCRS sick leave liability | <u>(4,163)</u> | |
| | | <u>(65,304)</u> |
| Total net position - governmental activities | | \$ <u>2,596,839</u> |

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Government-wide and Fund Financial Statements, Continued

Fund Financial Statements, Continued:

Adjustments required to reconcile net change in total governmental fund balance to change in net position of governmental activities in the Statement of Activities are as follows:

| | |
|---|-------------|
| Net change in fund balance - governmental funds | \$ (77,757) |
|---|-------------|

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:

| | | |
|----------------------|------------------|-----------|
| Capital outlays | \$ 4,610 | |
| Depreciation expense | <u>(173,850)</u> | |
| | | (169,240) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. For the current year, these activities consist of:

| | | |
|---------------------------------------|--------------|---------------|
| Decrease in compensated absences | 10,988 | |
| Decrease in DCRS sick leave liability | <u>4,401</u> | |
| | | <u>15,389</u> |

| | |
|--|---------------------|
| Change in net position - governmental activities | \$ <u>(231,608)</u> |
|--|---------------------|

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements account for the general governmental activities of PBS GUAM and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, PBS GUAM considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from investment income and other items that are not allocated to specific programs.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting, Continued

Unrestricted contributions and grants are recorded as revenue in the statement of revenues, expenditures, and changes in fund balances when received (in the case of contributions) or when approved by the grantor agency (in the case of grants).

Restricted grants received are initially recorded as unexpended grant revenues until funds are expended. Revenues are then recognized equal to expenditures incurred during the period in the statement of governmental fund revenues, expenditures and changes in fund balances/net position.

Budget

An annual appropriated budget has not been formally adopted on a legal basis or a basis consistent with GAAP. Accordingly, a budget to actual presentation is not required or presented.

Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, PBS GUAM's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. PBS GUAM does not have a deposit policy for custodial credit risk.

For purposes of the balance sheet/statement of net position, cash and cash equivalents is defined as cash on hand and cash held in demand accounts. As of September 30, 2013, the carrying amount of cash and cash equivalents was \$449,167 and the corresponding bank balance was \$463,514. Of the bank balance amount, \$219,289 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and \$244,225 is maintained in credit unions subject to National Credit Union Administration (NCUA) insurance. As of September 30, 2013, all bank deposits are fully insured.

Receivables

Receivables are stated net of estimated allowances for uncollectible accounts and are primarily due from businesses and individuals residing on the island of Guam. The allowance for uncollectible accounts primarily represents estimated uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items using the consumption method in both government-wide and fund financial statements.

Restricted Assets

Certain assets are classified as restricted assets because their use is completely restricted through grant agreements or enabling legislation. Specifically, cash and cash equivalents are restricted in that they are not available to be used in current operations.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets, which includes all property, facilities and equipment pertaining to television production transferred from the Learning Resource Center of the Government of Guam's Department of Education and the University of Guam as required under Public Law 12-194, are reported in the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Title to the land on which the station facilities and equipment are located has not been perfected in the name of PBS GUAM and is still held in the name of GovGuam. Fair market rental value related to this property in the amount of \$73,400 is included in in-kind revenues in the accompanying financial statements.

Capital assets are capitalized when the cost of the individual items exceeds \$1,000. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized. Capital assets are depreciated using the straight-line method over their estimated useful lives with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the statement of activities.

Estimated useful lives for depreciable assets are as follows:

| | |
|---|--------------|
| Buildings and improvements | 5 - 15 years |
| Broadcasting equipment | 3 - 10 years |
| Studio, antenna, transmitter, and other equipment | 3 - 5 years |
| Furniture and fixtures | 3 - 13 years |
| Transportation equipment | 3 - 20 years |

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. PBS Guam has no items that qualify for reporting in this category.

In-kind Contributions and Donated Volunteer Services

In-kind contributions and donated personal services of volunteers are recorded as revenue and expense in the accompanying statement of revenues and expenditures. In-kind contributions are recorded at fair value. Donated personal services of volunteers are also recorded at fair value based upon prevailing rates in the region.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Income Taxes

PBS GUAM is exempt from Guam income taxes under Section 501(c) (3) of the Guam Territorial Income Tax Laws.

Compensated Absences

It is PBS GUAM's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since PBS GUAM does not have a policy to pay any amounts when employees separate from service with PBS GUAM. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

In accordance with Public Law 27-5 and Public Law 28-68, employee vacation rates are credited at either 104, 156 or 208 hours per year, depending upon their length of service.

1. One-half day (4 hours) for each full bi-weekly pay period in the case of employees with less than five (5) years of service
2. Three-fourths day (6) hours for each full bi-weekly pay period in the case of employees with more than five (5) years of service but less than fifteen (15) years of service.
3. One (1) day (8 hours) for each full bi-weekly pay period in the case of employees with more than fifteen (15) years of service.

Public Law 27-106 further amended the maximum accumulation of such vacation credits from 480 to 320 hours. Employees who have accumulated annual leave in excess of 320 hours as of February 28, 2003, may carry over their excess and shall use the excess amount of leave prior to retirement or termination from service. Any unused leave over the excess at termination or retirement shall be lost.

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. PBS GUAM has accrued an estimated liability of \$4,163 at September 30, 2013 for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

Unexpended Grant Revenues

In the government-wide financial statements, unexpended grant revenue is recognized as a liability when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, unexpended grant revenue represents monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The unexpended grant revenue in the governmental fund has primarily resulted from grant funds received in advance of eligible expenditures.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. PBS Guam has no items that qualify for reporting in this category.

Fund Balance

Governmental fund balances are classified as follows:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned includes negative fund balances in other governmental funds.

Restricted/committed amounts are spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this. In addition, committed, then assigned, and lastly unassigned amounts of unrestricted fund balance are expended in that order.

A formal minimum fund balance policy has not been adopted.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results may differ from those estimates.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the fiscal year ended September 30, 2013, PBS GUAM implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of PBS Guam.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of PBS Guam.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of PBS Guam.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of PBS Guam.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

| | October 1, <u>2012</u> | <u>Additions</u> | <u>Deletions</u> | September 30, <u>2013</u> |
|--|---------------------------|---------------------|------------------|------------------------------|
| Non-depreciable capital assets: | | | | |
| Land improvements | \$ <u>18,000</u> | \$ _____ | \$ _____ | \$ <u>18,000</u> |
| Depreciable capital assets: | | | | |
| Buildings and improvements | 346,608 | - | - | 346,608 |
| Broadcasting equipment | 3,230,615 | - | - | 3,230,615 |
| Studio, antenna, transmitter, and other equipment | 417,274 | 4,610 | - | 421,884 |
| Furniture and fixtures | 205,805 | - | - | 205,805 |
| Transportation equipment | <u>424,818</u> | _____ | _____ | <u>424,818</u> |
| | 4,625,120 | 4,610 | - | 4,629,730 |
| Less accumulated depreciation | <u>(2,214,214)</u> | <u>(173,850)</u> | _____ | <u>(2,388,064)</u> |
| | <u>2,410,906</u> | <u>(169,240)</u> | _____ | <u>2,241,666</u> |
| | \$ <u>2,428,906</u> | \$ <u>(169,240)</u> | \$ _____ | \$ <u>2,259,666</u> |

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(4) Long-term Obligations

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2013, the following changes occurred in liabilities reported as part of PBS GUAM's long-term liabilities in the statement of net position:

| | Balance | | | Balance | |
|---------------------------|------------------|------------------|--------------------|------------------|------------------|
| | October 1, | | | September | Due Within |
| | <u>2012</u> | <u>Additions</u> | <u>Reductions</u> | <u>30, 2013</u> | <u>One Year</u> |
| Compensated absences | \$ 72,129 | \$ - | \$ (10,988) | \$ 61,141 | \$ 21,244 |
| DCRS sick leave liability | <u>8,564</u> | <u>-</u> | <u>(4,401)</u> | <u>4,163</u> | <u>-</u> |
| | <u>\$ 80,693</u> | <u>\$ -</u> | <u>\$ (15,389)</u> | <u>\$ 65,304</u> | <u>\$ 21,244</u> |

(5) Funding Sources

Government of Guam (GovGuam) Appropriation

PBS GUAM receives an annual appropriation from the Guam Legislature to defray the cost of salaries and related benefits, contractual services and utilities. PBS GUAM submits an annual budget for these items. This appropriation is contingent upon PBS GUAM having matching funds at least equal to the appropriated amount. Any unexpended funds at the end of the fiscal year revert back to GovGuam's General Fund. For the year ended September 30, 2013, the total appropriation was \$541,428.

Community Service Grants

The Corporation for Public Broadcasting (CPB) is a private nonprofit grant-making organization responsible for funding more than 1,000 television and radio stations. CPB distributes annual Community Service Grants (CSGs) to qualifying public telecommunications entities based on budget submissions. CSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG may be expended over one or two fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983 Supplement). In any event, each grant must be expended within two years of the initial grant authorization.

In accordance with the Communications Act, funds may be used at the discretion of recipients. Public broadcasters use these funds for purposes relating primarily to production and acquisition of programming. In addition, the grants may be used to sustain activities begun with CSGs awarded in prior years.

PBS GUAM's CSG is reported in the accompanying financial statements under the General Fund. Certain guidelines must be satisfied in connection with application for and use of the grants to meet eligibility and compliance requirements. These guidelines pertain to the use of grant funds, recordkeeping, audits, financial reporting, and licensee status with the FCC.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(5) Funding Sources, Continued

Community Service Grants, Continued

The Community Service Grants received and expended during the year ended September 30, 2013 were as follows:

| <u>Grant Year</u> | <u>Grant Name</u> | <u>Grants Received</u> | <u>Beginning Unexpended Portion</u> | <u>Grants Expended</u> | <u>Ending Unexpended Portion</u> |
|-------------------|-------------------|------------------------|-------------------------------------|------------------------|----------------------------------|
| 2012 | CSG | \$ - | \$ 162,335 | \$ 162,335 | \$ - |
| 2013 | CSG | 600,378 | - | 573,511 | 26,867 |
| 2013 | LSG | 61,075 | - | 61,075 | - |
| 2013 | Interconnection | <u>12,153</u> | <u>-</u> | <u>12,153</u> | <u>-</u> |
| | Total | \$ <u>673,606</u> | \$ <u>162,335</u> | \$ <u>809,074</u> | \$ <u>26,867</u> |

(6) Employee Retirement Plans

Employees of PBS GUAM hired on or before September 30, 1995 are under the Government of Guam Employees' Retirement System (a defined benefit, contributory pension plan). Employees hired after September 30, 1995, are members of the Defined Contribution Retirement System (DCRS). Until December 31, 1999 and for several limited periods after December 31, 1999, those employees who were members of the Defined Benefit (DB) Plan with less than 20 years of service at September 30, 1995, had the option to switch to the DCRS. Otherwise, they remained under the old plan.

Defined Benefit Plan

Plan Description:

PBS GUAM participates in the GovGuam Defined Benefit (DB) Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the GovGuam Retirement Fund (GGRF). The DB Plan provides retirement, disability, and survivor benefits to plan members who enrolled in the plan prior to October 1, 1995. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Guam Legislature. Article 1 of 4 GCA 8, Section 8105, requires that all employees of GovGuam, regardless of age or length of service, become members of the DB Plan prior to the operative date. Employees of a public corporation of GovGuam, which includes PBS GUAM, have the option of becoming members of the DB Plan prior to the operative date. All employees of GovGuam, including employees of GovGuam public corporations, whose employment commences on or after October 1, 1995, are required to participate in the Defined Contribution Retirement System (DCRS). Hence, the DB Plan became a closed group.

A single actuarial valuation is performed annually covering all plan members and the same contribution rate applies to each employer. GGRF issues a publicly available financial report that includes financial statements and required supplementary information for the DB Plan. That report may be obtained by writing to the Government of Guam Retirement Fund, 424 A Route 8, Maite, Guam 96910, or by visiting GGRF's website – www.ggrf.com.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2011, 2010, and 2009, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2013, 2012 and 2011, respectively, have been determined by the Guam Legislature as follows:

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|---------------|---------------|---------------|
| Normal costs (% of DB Plan payroll) | 17.52% | 17.07% | 17.00% |
| Employee contributions (DB Plan employees) | <u>9.50%</u> | <u>9.50%</u> | <u>9.50%</u> |
| Employer portion of normal costs (% of DB Plan payroll) | <u>8.02%</u> | <u>7.57%</u> | <u>7.50%</u> |
| Employer portion of normal costs (% of total payroll) | 3.00% | 3.03% | 3.03% |
| Unfunded liability cost (% of total payroll) | <u>24.33%</u> | <u>23.75%</u> | <u>21.75%</u> |
| Government contribution as a % of total payroll | <u>27.33%</u> | <u>26.78%</u> | <u>24.78%</u> |
| Statutory contribution rates as a % of DB Plan payroll: | | | |
| Employer | <u>30.09%</u> | <u>28.30%</u> | <u>27.46%</u> |
| Employee | <u>9.50%</u> | <u>9.50%</u> | <u>9.50%</u> |

PBS GUAM's contributions to the DB Plan for the years ending September 30, 2013, 2012 and 2011 were \$64,997, \$51,681 and \$75,350, respectively, which were equal to the statutorily required contributions for each year.

Defined Contribution Retirement System (DCRS)

Contributions into the DCRS plan 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.

Statutory employer contributions for the DCRS plan for the year ended September 30, 2013 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the DCRS. The remaining amount is contributed towards the unfunded liability of the defined benefit plan. PBS GUAM's contributions to the DCRS Plan for the years ending September 30, 2013, 2012 and 2011 were \$4,512, \$2,958 and \$3,860, respectively, which were equal to the statutorily required contributions for each year.

Members of the DCRS plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2013

(6) Employee Retirement Plans, Continued

Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. For the years ended September 30, 2013, 2012 and 2011, PBS GUAM's contributions to this Plan amounted to \$31,487, \$24,289 and \$41,071, respectively, equal to the statutorily required contributions for each year.

Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

(7) Lease Commitments

On January 1, 2007, PBS GUAM entered into a twenty-one year lease agreement with the Chamorro Land Trust Commission for property located in Barrigada for the purposes of constructing and operating an antennae site with transmitter building facilities. The terms of the lease require a lease payment of \$850 per month. Total future minimum rentals for subsequent years ending September 30, are as follows:

| <u>Year Ending</u> <u>September 30,</u> | |
|--|-------------------|
| 2014 | \$ 10,200 |
| 2015 | 10,200 |
| 2016 | 10,200 |
| 2017 | 10,200 |
| 2018 | 10,200 |
| 2019 - 2023 | 51,000 |
| 2024 - 2028 | <u>51,000</u> |
| | \$ <u>153,000</u> |

(8) Risk Management

PBS GUAM is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. PBS GUAM has elected to purchase commercial insurance coverage from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Governmental Funds Balance Sheet/Schedule of Net Position
September 30, 2013

(With comparative totals as of September 30, 2012)

| | General Fund | | Schedule of Net Position | |
|---|--------------|------------|--------------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 327,385 | \$ 214,672 | \$ 327,385 | \$ 214,672 |
| Time certificates of deposit | - | 200,000 | - | 200,000 |
| Receivables, net | 33,226 | 53,768 | 33,226 | 53,768 |
| Due from grantor | - | 40,032 | - | 40,032 |
| Prepaid items | - | 2,099 | - | 2,099 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 121,782 | 188,252 | 121,782 | 188,252 |
| Capital assets: | | | | |
| Nondepreciable capital assets | - | - | 18,000 | 18,000 |
| Capital assets, net of accumulated depreciation | - | - | 2,241,666 | 2,410,906 |
| Total assets | \$ 482,393 | \$ 698,823 | 2,742,059 | 3,127,729 |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | \$ 26,761 | \$ 39,283 | 26,761 | 39,283 |
| Other liabilities and accruals | 26,288 | 16,971 | 26,288 | 16,971 |
| Unexpended grant revenues | 26,867 | 162,335 | 26,867 | 162,335 |
| Long-term liabilities: | | | | |
| Due within one year | - | - | 21,244 | 22,252 |
| Due after one year | - | - | 44,060 | 58,441 |
| Total liabilities | 79,916 | 218,589 | 145,220 | 299,282 |
| <u>FUND BALANCE/NET POSITION</u> | | | | |
| Fund balance: | | | | |
| Assigned - supporting services | 402,477 | 480,234 | | |
| Total fund balance | 402,477 | 480,234 | | |
| Total liabilities and fund balance | \$ 482,393 | \$ 698,823 | | |
| Net position: | | | | |
| Net investment in capital assets | | | 2,241,666 | 2,428,906 |
| Unrestricted | | | 355,173 | 399,541 |
| Total net position | | | \$ 2,596,839 | \$ 2,828,447 |

See Accompanying Independent Auditors' Report.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Governmental Funds Balance Sheet/Schedule of Net Position
Changes in Fund Balance/Schedule of Activities
Year Ended September 30, 2013
(With comparative totals for the year ended September 30, 2012)

| | General Fund | | Schedule of Activities | |
|---|-------------------|-------------------|------------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Community service grant | \$ 809,074 | \$ 711,579 | \$ 809,074 | \$ 711,579 |
| Government of Guam appropriation | 541,428 | 553,121 | 541,428 | 553,121 |
| NTIA grant | - | 140,032 | - | 140,032 |
| In-kind contributions | 150,010 | 126,978 | 150,010 | 126,978 |
| Fundraising | 60,344 | 85,753 | 60,344 | 85,753 |
| Contributions and other income | 45,652 | 69,342 | 45,652 | 69,342 |
| Underwriting | 80,715 | 64,067 | 80,715 | 64,067 |
| Interest | 3,543 | 10,448 | 3,543 | 10,448 |
| Other | 24,800 | 5,350 | 24,800 | 5,350 |
| | <u>1,715,566</u> | <u>1,766,670</u> | <u>1,715,566</u> | <u>1,766,670</u> |
| Total revenues | | | | |
| Expenditures/expenses: | | | | |
| Program services: | | | | |
| Station production | 154,854 | 126,074 | 154,854 | 126,074 |
| Station upgrade | 83,339 | 82,498 | 83,339 | 82,498 |
| Capital outlays | 6,197 | 177,034 | 1,587 | 3,952 |
| Supporting services: | | | | |
| Program broadcasting | 554,505 | 482,918 | 554,505 | 482,918 |
| Contractual services | 146,759 | 105,635 | 146,759 | 105,635 |
| Development and promotion | 144,407 | 75,203 | 144,407 | 75,203 |
| Fundraising | - | 29,519 | - | 29,519 |
| Supplies and materials | 11,825 | 17,903 | 11,825 | 17,903 |
| Local appropriations: | | | | |
| Personnel services | 310,432 | 333,730 | 295,043 | 334,524 |
| Fringe benefits | 127,938 | 103,361 | 127,938 | 103,361 |
| Contractual services | - | 25,490 | - | 25,490 |
| Utilities | 103,057 | 90,540 | 103,057 | 90,540 |
| In-kind expenditures/expenses | 150,010 | 126,978 | 150,010 | 126,978 |
| Unallocated depreciation | - | - | 173,850 | 175,397 |
| | <u>1,793,323</u> | <u>1,776,883</u> | <u>1,947,174</u> | <u>1,779,992</u> |
| Deficiency of revenues under expenditures | (77,757) | (10,213) | | |
| Change in net position | | | (231,608) | (13,322) |
| Fund balance/net position: | | | | |
| Beginning of the year | 480,234 | 490,447 | 2,828,447 | 2,841,769 |
| End of the year | <u>\$ 402,477</u> | <u>\$ 480,234</u> | <u>\$ 2,596,839</u> | <u>\$ 2,828,447</u> |

See Accompanying Independent Auditors' Report.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Supplemental Schedule of Employees and Salaries
Year Ended September 30, 2013
(With comparative totals for the year ended September 30, 2012)

| | <u>2013</u> | | <u>2012</u> | |
|---------------------------|-------------------|------------------|-------------------|------------------|
| | <u>Annual</u> | <u>Number of</u> | <u>Annual</u> | <u>Number of</u> |
| | <u>Payroll</u> | <u>Employees</u> | <u>Payroll</u> | <u>Employees</u> |
| Expenditures: | | | | |
| Community Service Grant: | | | | |
| Program services: | | | | |
| Station production | \$ 144,121 | 5 | \$ 116,932 | 3 |
| Station upgrade | 77,052 | 2 | 75,737 | 2 |
| Supporting services: | | | | |
| Program broadcasting | 123,474 | 6 | 149,936 | 9 |
| Development and promotion | <u>91,032</u> | <u>3</u> | <u>64,102</u> | <u>4</u> |
| | <u>\$ 435,680</u> | <u>16</u> | <u>\$ 406,707</u> | <u>18</u> |
| Government of Guam: | | | | |
| Local appropriations | <u>\$ 310,432</u> | <u>9</u> | <u>\$ 333,730</u> | <u>9</u> |

See Accompanying Independent Auditors' Report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Guam Educational Telecommunications Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Guam Educational Telecommunications Corporation (PBS Guam) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise PBS Guam's basic financial statements, and have issued our report thereon dated February 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PBS Guam's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PBS Guam's internal control. Accordingly, we do not express an opinion on the effectiveness of PBS Guam's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

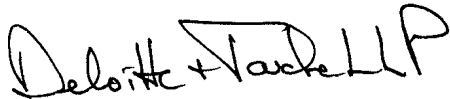
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PBS Guam's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

February 27, 2014