

**GUAM EDUCATIONAL  
TELECOMMUNICATIONS CORPORATION**  
(A Public Corporation)

Financial Statements

September 30, 2003 and 2002

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Trustees  
Guam Educational Telecommunications Corporation:

We have audited the accompanying balance sheets/statements of net assets of Guam Educational Telecommunications Corporation (a public corporation) as of September 30, 2003 and 2002, and the related statements of revenues, expenditures and changes in fund balances/activities for the years then ended. These financial statements are the responsibility of the management of Guam Educational Telecommunications Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 Guam Educational Telecommunications Corporation as of September 30, 2003 and 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in notes 2 and 3, Guam Educational Telecommunications Corporation has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of September 30, 2002 and for the year then ended.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 2004 on our consideration of Guam Educational Telecommunications Corporation's internal control structure and on its compliance with 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.

*Buys & Conner, A.C.*

February 9, 2004

## Management's Discussion And Analysis

This discussion and analysis of Guam Educational Telecommunications Corporation (KGTF) is intended to give an overview of our financial performance for the year ended September 30, 2003. This analysis should be read in conjunction with following financial statements, related footnotes and required supplementary information.

### Financial Statements

KGTF'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 Assets which identifies the nature and amount of an entity's available resources (assets) and obligations (liabilities) at a specific point in time. Net Assets represents the amount by which an entity's assets exceed its liabilities and represents resources available to fund future operations. The Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities is another required statement. This statement provides information about the entity's sources of revenue and nature of the related expenses during the period being reported on. 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, 2003 and 2002, as presented in the statement of net assets and the changes in net assets. The nature of these statements is explained in the preceding paragraph.

#### *Statement of Net Assets*

|                            | <u>2003</u>        | <u>2002</u>        |
|----------------------------|--------------------|--------------------|
| Capital assets             | \$ 858,604         | \$1,136,023        |
| Long-term assets           | 484,427            | 493,794            |
| Current and other assets   | <u>879,319</u>     | <u>796,822</u>     |
| Total assets               | <u>\$2,222,350</u> | <u>\$2,426,639</u> |
| Long-term liabilities      | \$ 484,427         | \$ 493,794         |
| Other liabilities          | <u>645,005</u>     | <u>528,053</u>     |
| Total liabilities          | <u>\$1,129,432</u> | <u>\$1,021,847</u> |
| Net assets                 |                    |                    |
| Invested in capital assets | \$ 858,604         | \$1,136,023        |
| Unrestricted               | <u>234,314</u>     | <u>268,769</u>     |
| Total net assets           | <u>\$1,092,918</u> | <u>\$1,404,792</u> |

Total net assets decreased by approximately \$300,000, which represents an approximate decrease of 23%. This decrease once again results primarily to depreciation expense. Depreciation expense for the current year was \$293,701, which accounts for the 27% decrease in capital assets, which is the main reason for the decrease in total net assets. The overall cash position for KGTF improved slightly as current and other assets increased by approximately 11%. This in essence indicates that KGTF has more cash available than in prior years to fund daily operations. However, this increase is insignificant given the fact that KGTF will have to obtain significant funding to comply with the FCC mandate requiring a digital conversion by the year 2006. This matter is discussed more fully in the succeeding paragraphs.

Other liabilities increased by approximately 23%. However, this increase results primarily from unexpended grant monies, which represent deferred revenues. Therefore there is no significant increase in true liabilities.

*Statement of Activities*

|  | <u>2003</u>            | <u>2002</u>            |
|--|------------------------|------------------------|
| Local appropriation                          | \$ 396,838             | \$ 464,299             |
| Community Service Grant                      | 464,946                | 508,915                |
| Contributions and other                      | 247,684                | 261,885                |
| Interest income                              | <u>8,771</u>           | <u>17,516</u>          |
| <br>Total revenues                           | <br>1,118,239          | <br>1,252,615          |
| <br>Program services                         | <br>89,919             | <br>102,763            |
| Supporting services                          | 1,046,493              | 1,192,732              |
| Depreciation expense                         | <u>293,701</u>         | <u>270,655</u>         |
| <br>Total expenses                           | <br>1,430,113          | <br>1,566,150          |
| <br>Deficiency of revenues over expenditures | <br>(311,874)          | <br>(313,535)          |
| <br>Net assets beginning of year             | <br><u>1,404,792</u>   | <br><u>1,718,327</u>   |
| <br>Net assets at end of year                | <br><u>\$1,092,918</u> | <br><u>\$1,404,792</u> |

Total revenues decreased by approximately 11%. Again a proper analysis of this decrease should exclude the local appropriation and community service grants as these revenues and related expenses are recognized in equal amounts as the expenses are incurred. The true decrease results from a drop in revenues recognized from fundraising efforts and overall contributions as well as declining interest rates, which adversely affected earnings on the time certificates of deposit.

Total operating expenses decreased by approximately 9%, reflecting various cost cutting measures implemented by management in light of the declining revenues.

## **Budgetary Highlights**

KGTF does not prepare a budget and actual analysis as only certain items are funded by GovGuam and a legally adopted budget is not required for the entity as a whole.

## **Capital Assets**

KGTF has approximately \$858,000 invested in capital assets. This represents a net decrease of approximately \$290 thousand, or 9% over the previous year. Once again this decrease results primarily from depreciation expense. The actual composition and the activity within these accounts are presented in more detail in the notes to the financial statements. There were no significant capital asset outlays in the current year.

The Federal Communications Commission has mandated that KGTF transmit a digital signal by the year 2006. KGTF has continued to move forward to meet this mandate by engaging the engineering firm of Hammet & Edison, Inc. The funding for this study was made available through a grant offered by the Corporation for Public Broadcasting (CPB). The completion of this study played a major part in securing a \$500,000 grant from CPB. All that remains in the grant approval process is for an actual creation of a contract by CPB. While it is expected that a full digital conversion will cost approximately \$3–4 million, this \$500,000 grant will allow KGTF to purchase and install a digital transmitter and antenna. It is anticipated that the installation of the new equipment will be completed in July of 2004. This will allow KGTF to be in compliance with the FCC mandate to broadcast a digital signal. The funding for the remainder of the digital conversion project has yet to be identified although management still intends to approach the local government to provide the match of the amount needed.

## **Economic Factors**

Guam has been in economic recession since 1998, with unemployment reaching as high as 18%. While efforts have been made to stimulate economic activity in Guam's tourism industry, many events beyond Guam have weighed down economic growth. Beginning with the Asian economic crisis in 1997 through numerous natural disasters and the scare of SARS and the Iraq war in 2003, Guam's tourism industry has been unable to achieve consistent and steady growth. Beginning in July 2003, Guam's economy began to show signs of stability, as visitor arrivals gradually increased and unemployment dropped to 13%.

While there is optimism within the business community with regard to the overall economic environment and consumer confidence is on the rise, economic recovery is still in its early stages. It is important to note, however, that the signs of economic recovery are stronger than anticipated by both the Government of Guam as well as economists within the local and regional community.

The severe economic recession has had a severe impact on revenues into the Government of Guam. Over the past three years, revenues have declined to approximately 60% of government revenues in 1997. To adjust to the sharp decline in revenues, the Government of Guam has been forced to adjust agency appropriations. For fiscal year 2004, KGTF's General Fund

appropriation was reduced by \$45,000. Because of this reduction, KGTF has been exploring other means to fund operation shortfalls.

In addition to the impact that the economic hardships have presented in terms of local government funding, it also has severely affected the level of private contributions to KGTF. Sustaining an already declining level of private support continues to remain a significant challenge.

Over the past 14 months, KGTF has continually streamlined its operations in order to reduce the overall cost operations. While we have managed to reduce costs, we still face significant funding shortfalls, which should be anticipated until such time that Guam's economy is in full recovery and government revenues increase.

### **Contacting KGTF**

This report is designed to assist Guam residents, taxpayers and contributors with an overview of KGTF's finances and to show KGTF's accountability for the money it receives. If you have a question about this report or need additional financial information, contact KGTF at 734-2207, or visit our office in Mangilao, Guam.



**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
(A Public Corporation)

Governmental Funds Balance Sheet/Statement of Net assets

September 30, 2003 and 2002

|  | <u>General Fund</u> | <u>Adjustments</u>  | 2003<br><u>Statement of<br/>Net Assets</u> | 2002<br><u>Statement of<br/>Net Assets</u> |
|--|---------------------|---------------------|--|--|
| <u>Assets</u>  |                     |                     |  |  |
| Cash   | \$ 372,388          | -                   | 372,388                                    | 19,986                                     |
| Time certificates of deposit                         | 458,592             | -                   | 458,592                                    | 715,001                                    |
| Accounts receivable                                  | 48,339              | -                   | 48,339                                     | 52,159                                     |
| Prepaid expenses                                     | -                   | -                   | -  | 9,676                                      |
| Capital assets, net                                  | -                   | 858,604             | 858,604                                    | 1,136,023                                  |
| Receivable for unfunded retirement fund contribution | -                   | 429,800             | 429,800                                    | 429,800                                    |
| Receivable for annual leave                          | -                   | 54,627              | 54,627                                     | 63,994                                     |
| Total assets   | <u>\$ 879,319</u>   | <u>\$ 1,343,031</u> | <u>\$ 2,222,350</u>                        | <u>\$ 2,426,639</u>                        |
| <u>Liabilities</u>                                   |                     |                     |  |  |
| Accounts payable                                     | 82,450              | -                   | 82,450                                     | 78,131                                     |
| Accrued liabilities                                  | 42,268              | -                   | 42,268                                     | 35,480                                     |
| Unfunded retirement fund contribution payable        | -                   | 429,800             | 429,800                                    | 429,800                                    |
| Long term portion of annual leave                    | -                   | 54,627              | 54,627                                     | 63,994                                     |
| Deferred revenue                                     | 38,695              | -                   | 38,695                                     | 47,628                                     |
| Deferred support - unexpended grant funds            | 481,592             | -                   | 481,592                                    | 366,814                                    |
| Total liabilities                                    | <u>645,005</u>      | <u>484,427</u>      | <u>1,129,432</u>                           | <u>1,021,847</u>                           |
| <u>Fund Balances/Net Assets</u>                      |                     |                     |  |  |
| Fund balances:                                       |                     |                     |  |  |
| General fund   | <u>234,314</u>      | <u>(234,314)</u>    | <u>-</u>                                   | <u>-</u>                                   |
| Total fund balances                                  | <u>234,314</u>      | <u>(234,314)</u>    | <u>-</u>                                   | <u>-</u>                                   |
| Total liabilities and fund balances                  | <u>\$ 879,319</u>   |                     |  |  |
| Net assets :   |                     |                     |  |  |
| Invested in capital assets                           |                     | 858,604             | 858,604                                    | 1,136,023                                  |
| Unrestricted   |                     | 234,314             | 234,314                                    | 268,769                                    |
|  |                     | <u>\$ 1,092,918</u> | <u>\$ 1,092,918</u>                        | <u>\$ 1,404,792</u>                        |

The accompanying notes are an integral part of these financial statements.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
(A Public Corporation)

Statements of Governmental Fund Revenues, Expenditures  
and Changes in Fund Balance/Statements of Activities

Years Ended September 30, 2003 and 2002

|  | General<br><u>Fund</u> | <u>Adjustments</u> | 2003<br>Statement of<br><u>Activities</u> | 2002<br>Statement of<br><u>Activities</u> |
|--|------------------------|--------------------|---|---|
| Support and revenue:                     |                        |                    |   |   |
| Local appropriation                      | \$ 396,838             | -                  | \$ 396,838                                | \$ 464,299                                |
| Community Service Grant                  | 464,946                | -                  | 464,946                                   | 508,915                                   |
| Contributions and other revenues         | 163,096                | -                  | 163,096                                   | 134,838                                   |
| In-kind contribution                     | 82,146                 | -                  | 82,146                                    | 113,024                                   |
| Donated personal services of volunteers  | 2,427                  | -                  | 2,427                                     | 13,963                                    |
| Membership income                        | 15                     | -                  | 15  | 60  |
| Interest income                          | 8,771                  | -                  | 8,771                                     | 17,516                                    |
| Total support and revenue                | <u>1,118,239</u>       | <u>-</u>           | <u>1,118,239</u>                          | <u>1,252,615</u>                          |
| Expenditures:                            |                        |                    |   |   |
| Program services:                        |                        |                    |   |   |
| Station production                       | 64,341                 | -                  | 64,341                                    | 69,997                                    |
| Station upgrade                          | 25,578                 | -                  | 25,578                                    | 32,766                                    |
| Capital outlays                          | 16,282                 | (16,282)           | -   | -   |
|  | <u>106,201</u>         | <u>(16,282)</u>    | <u>89,919</u>                             | <u>102,763</u>                            |
| Supporting services:                     |                        |                    |   |   |
| Program broadcasting                     | 387,438                | -                  | 387,438                                   | 414,262                                   |
| Development and promotion                | 84,390                 | -                  | 84,390                                    | 91,391                                    |
| Contractual services                     | 79,542                 | -                  | 79,542                                    | 99,397                                    |
| Supplies and materials                   | 12,884                 | -                  | 12,884                                    | 11,848                                    |
| Local appropriation:                     |                        |                    |   |   |
| Personnel services                       | 274,187                | -                  | 274,187                                   | 327,860                                   |
| Fringe benefits                          | 51,510                 | -                  | 51,510                                    | 52,675                                    |
| Utilities                                | 37,149                 | -                  | 37,149                                    | 32,182                                    |
| Special projects                         | 34,820                 | -                  | 34,820                                    | 36,130                                    |
| In-kind expenses                         | 82,146                 | -                  | 82,146                                    | 113,024                                   |
| Donated personal services of volunteers  | 2,427                  | -                  | 2,427                                     | 13,963                                    |
| Depreciation expense                     | -                      | 293,701            | 293,701                                   | 270,655                                   |
|  | <u>1,046,493</u>       | <u>293,701</u>     | <u>1,340,194</u>                          | <u>1,463,387</u>                          |
| Total expenditures/expenses              | <u>1,152,694</u>       | <u>277,419</u>     | <u>1,430,113</u>                          | <u>1,566,150</u>                          |
| Deficiency of revenues over expenditures | (34,455)               | 34,455             | -   | -   |
| Change in net assets                     |                        | (311,874)          | (311,874)                                 | (313,535)                                 |
| Fund balances/net assets :               |                        |                    |   |   |
| Beginning of year                        | <u>268,769</u>         | <u>-</u>           | <u>1,404,792</u>                          | <u>1,718,327</u>                          |
| End of year                              | <u>\$ 234,314</u>      | <u>\$ -</u>        | <u>\$ 1,092,918</u>                       | <u>\$ 1,404,792</u>                       |

The accompanying notes are an integral part of these financial statements.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
(A Public Corporation)

Reconciliation of the Governmental Funds to the Statement of Net Assets

September 30, 2003

|   |                     |
|---|---------------------|
| Unreserved fund balance   | \$ 234,314          |
| Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balance from the amounts reported in the Statement of Activities because: |                     |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.   | <u>858,604</u>      |
| Change in assets of governmental activities   | <u>\$ 1,092,918</u> |

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Reconciliation of the Governmental Funds to the Statement of Net Assets

September 30, 2002

|   |                     |
|---|---------------------|
| Unreserved fund balance   | \$ 268,769          |
| Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balance from the amounts reported in the Statement of Activities because: |                     |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.   | <u>1,136,023</u>    |
| Change in assets of governmental activities   | \$ <u>1,404,792</u> |

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund  
Balance of Governmental Funds to the Statement of Activities

September 30, 2003

|   |                     |
|---|---------------------|
| Net change in fund balances – governmental funds  | \$ ( 34,455)        |
| Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balance from the amounts reported in the Statement of Activities because:   |                     |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those Assets is allocated over their estimated useful lives as Depreciation expense. This is the amount by which the Depreciation exceeded capital outlays in the current period | <u>(277,419)</u>    |
| Change in assets of governmental activities   | \$ <u>(311,874)</u> |

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Reconciliation of the Statement of Revenues, Expenditures, And Changes in Fund  
Balance of Governmental Funds to the Statement of Activities

September 30, 2002

|   |                     |
|---|---------------------|
| Net change in fund balances – governmental funds  | \$ (167,314)        |
| Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balance from the amounts reported in the Statement of Activities because:   |                     |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those Assets is allocated over their estimated useful lives as Depreciation expense. This is the amount by which the Depreciation exceeded capital outlays in the current period | <u>(146,221)</u>    |
| Change in assets of governmental activities   | \$ <u>(313,535)</u> |

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
(A Public Corporation)

Notes to Financial Statements

September 30, 2003 and 2002

(1) Organization

Guam Educational Telecommunications Corporation (GETC), a component unit of the Government of Guam, currently operates one television station under the call letters KGTF-TV. GETC was established as a public corporation by Public Law 12-194 as approved on January 2, 1975. The purpose of the Corporation 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.

GETC's license with the Federal Communications Commission was renewed through April 1, 2006. GETC is subject to the condition that on December 31, 2006, the station will only broadcast digital television.

The Corporation is governed by a Board of Trustees, who shall be appointed by the Governor with the advice and consent of the Legislature. Accordingly, GETC is a component unit of the Government of Guam.

(2) Summary of Significant Accounting Policies

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the Guam Educational Telecommunications Corporation (GETC) are discussed in the following sections of this note. The remaining notes provide explanations and required disclosures relating to GETC's financial activities for the fiscal year ended September 30, 2003. GETC implemented a new reporting model standard beginning October 1, 2001. Comparability with reports of all prior fiscal years will be affected. Also see note 3.

Basis of Presentation

GETC's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

The financial statements of GETC are prepared in accordance with generally accepted accounting principles (GAAP). GETC applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. GETC, as a component unit of the Government of Guam, applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Notes to Financial Statements, continued

September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, continued

November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about GETC as a whole.

The statement of net assets presents the financial condition of the governmental activities of GETC at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of GETC'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 GETC.

Fund Financial Statements

During 2003 and 2002, GETC accounted for its financial activities in a single governmental fund. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. GETC's only governmental fund is the general fund which accounts for all financial resources.

The general fund balance is available to GETC for any purpose provided it is expended according to the general laws of the Government of Guam.



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Notes to Financial Statements, continued

September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, continued

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of GETC are included on the statement of net assets.

Fund Financial Statements

The general fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the general fund.

The modified accrual basis of accounting is used by governmental funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means that the amount of the transaction can be determined and “available” means that the amount of the transaction is collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for revenue recognition for all governmental fund type revenues. Expenditures are recorded when the related fund liability is incurred.

Encumbrances

Encumbrances are recorded when purchase orders are issued but not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, continued

Revenue Recognition

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 deferred revenue 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 assets.

Capital Assets, Depreciation, and Amortization

Items of property and equipment are stated at cost at acquisition date or estimated fair value at the date of receipt in the case of donated property, except as explained below. In accordance with Public Law 12-194, all property, facilities and equipment pertaining to television production were transferred from the Learning Resource Center of the Government of Guam's Department of Education and the University of Guam to GETC. Title to the land on which the station facilities and equipment are located has not been perfected in the name of GETC and is still held in the name of the Department of Education. Certain property items acquired subsequent to the date of transfer are valued at estimated fair value at the date of acquisition where original cost records are not available.

GETC's property and equipment with useful lives of more than one year are stated at historical or estimated cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. 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 operations.

Estimated useful lives, in years, for depreciable assets are as follows:

|                                   |               |
|-----------------------------------|---------------|
| Buildings and improvements        | 15 - 30 years |
| Broadcasting equipment            | 3 - 10 years  |
| Studio equipment                  | 3 - 5 years   |
| Furniture, fixtures and equipment | 3 - 5 years   |

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, continued

Impairment of Assets

Federal legislation has been passed which requires the public broadcasting industry to use digital broadcasting equipment by the year 2006. Based on this requirement, there is a potential impairment of GETC assets. The extent of the impairment, if any, cannot be determined at this time; consequently any potential losses to GETC have not been presented in the accompanying financial statements.

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.

Income Taxes

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

Accrued Annual Leave

In previous years, GETC has recognized costs for accrued annual leave at the time such leave is utilized or through lump-sum payment at the time of an employee's termination of employment. Unfunded accrued annual leave for all employees aggregated \$74,203 at September 30, 2003 (\$81,022 at September 30, 2002). Governmental Accounting Standards Board Statement No. 16, Accounting for Compensated Absences, provides that liabilities for vacation leave and other compensated absences, excluding sick leave, will be accrued provided the leave is attributable to past service. During the year ended September 30, 2003, the current portion of annual leave totaled \$19,576 (\$17,078 at September 30, 2002) and has been accrued and is included as a component of accrued liabilities in the accompanying financial statements. The long-term portion of annual leave totaled \$54,627 at September 30, 2003 (\$63,994 at September 30, 2002) and has been accrued and is included as long-term annual leave in the accompanying financial statements.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Notes to Financial Statements, continued

September 30, 2003 and 2002

(2) Summary of Significant Accounting Policies, continued

Fund Balances

Unreserved fund balances for governmental funds represent the amount available for funding future operations. Reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(3) Change in Accounting Principles and Implementation of New Reporting Model

During 2002, GETC implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB Statements No. 33 and 36 establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or modified accrual basis of accounting is required. For revenue recognition to occur on the modified accrual basis, however, the criteria established for accrual basis revenue recognition must be met and the revenue must be available.

GASB 34 creates new basic financial statements for reporting on GETC's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Notes to Financial Statements, continued

September 30, 2003 and 2002

(3) Change in Accounting Principles and Implementation of New Reporting Model, continued

Requirements in order to comply also include adopting depreciation on capital assets and classifying assets and liabilities as current and non-current.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures. GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

(4) Cash and certificates of deposit

At September 30, 2003, GETC held three certificates of deposit (TCD) and two time deposits on account (TDOA) with interest rates ranging from .50% to 1.3% and maturities through February 1, 2004. If the certificates are withdrawn prior to their maturity, a significant portion or all of the accrued interest could be forfeited.

GETC maintains cash balances at several financial institutions located in Guam. Depositors at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At September 30, 2003, GETC had an uninsured cash balance of \$635,263.

(5) Changes in Capital Assets

The following is a summary of the changes in capital assets for the years ended September 30, 2003 and 2002:

September 30, 2003:

|  | Balance<br><u>10/01/02</u> | <u>Additions</u> | <u>Disposals</u> | Balance<br><u>9/30/03</u> |
|--|----------------------------|------------------|------------------|---------------------------|
| Land improvements  | \$ 18,000                  | -                | -                | 18,000                    |
| Buildings and improvements                                 | 339,516                    | -                | -                | 339,516                   |
| Studio, antenna, transmitter,<br>other broadcasting equip. | 1,035,855                  | 4,197            | -                | 1,040,052                 |
| Furniture, fixtures and equip.                             | 124,984                    | 12,085           | 4,614            | 132,455                   |
| Transportation equipment                                   | <u>400,643</u>             | <u>-</u>         | <u>-</u>         | <u>400,643</u>            |
|  | \$ 1,918,998               | <u>16,282</u>    | <u>4,614</u>     | 1,930,666                 |

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Notes to Financial Statements, continued

September 30, 2003 and 2002

(5) Changes in Capital Assets, continued

|  |           |             |
|--|-----------|-------------|
| Less accumulated depreciation and amortization | (782,975) | (1,072,062) |
|--|-----------|-------------|

|                              |                     |                |
|------------------------------|---------------------|----------------|
| Investment in capital assets | \$ <u>1,136,023</u> | <u>858,604</u> |
|------------------------------|---------------------|----------------|

September 30, 2002:

|  | Balance<br><u>10/01/01</u> | <u>Additions</u> | <u>Disposals</u> | Balance<br><u>9/30/02</u> |
|--|----------------------------|------------------|------------------|---------------------------|
| Land improvements  | \$ 18,000                  | -                | -                | 18,000                    |
| Buildings and improvements                                 | 337,710                    | 1,806            | -                | 339,516                   |
| Studio, antenna, transmitter,<br>other broadcasting equip. | 922,310                    | 113,545          | -                | 1,035,855                 |
| Furniture, fixtures and equip.                             | 115,901                    | 9,083            | -                | 124,984                   |
| Transportation equipment                                   | <u>400,643</u>             | <u>-</u>         | <u>-</u>         | <u>400,643</u>            |
|  | \$ 1,794,564               | <u>124,434</u>   | <u>-</u>         | 1,918,998                 |

|  |           |           |
|--|-----------|-----------|
| Less accumulated depreciation and amortization | (512,320) | (782,975) |
|--|-----------|-----------|

|                              |                     |                  |
|------------------------------|---------------------|------------------|
| Investment in capital assets | \$ <u>1,282,244</u> | <u>1,136,023</u> |
|------------------------------|---------------------|------------------|

(6) Funding Sources

Government of Guam Appropriation

GETC receives an annual appropriation from the Guam Legislature to defray the cost of salaries and related benefits, contractual services and utilities. GETC submits an annual budget for these items. This appropriation is contingent upon GETC having matching funds at least equal to the appropriated amount. Any unexpended funds at the end of the fiscal year revert back to the Government of Guam General Fund (GGF). For the year ended September 30, 2003 the total appropriation was \$396,838 (\$464,299 in 2002). An accrual for unpaid payroll of \$7,798 (\$7,848 at September 30, 2002) and \$5,110 (\$4,674 at September 30, 2002) for utilities expense was included in total expenditures. A reduction of \$8,933 (\$13,646 reduction at September 30, 2002) for accrued annual leave was also recorded. Deferred revenue totaling \$38,695 (\$47,628 at September 30, 2002) has been recognized and represents the amount which the GGF will provide to fund the long-term portion of annual leave.

(6) Funding Sources (continued)

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Notes to Financial Statements, continued

September 30, 2003 and 2002

GETC participated in the budget process for their appropriation for fiscal year 2004. The actual amount approved has not been determined; however, support levels are expected to be less than previous fiscal years as the Government of Guam has experienced a severe revenue crisis and this will most assuredly affect the monies being appropriated to the various agencies.

A Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP budgetary basis) is not presented since only certain expenditures are funded by the Government of Guam and a legally adopted budget is not required for GETC as a whole.

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. 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. CSGs are awarded based on budget submissions. 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.

According to 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. Also, the grants may be used to sustain activities begun with CSGs awarded in prior years.

GETC'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 Federal Communications Commission.

The Community Service Grants received and expended during the two most recent fiscal years were as follows:

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Notes to Financial Statements, continued

September 30, 2003 and 2002

(6) Funding Sources (continued)

September 30, 2003

| <u>Grant Year</u> | <u>Grant Name</u> | <u>Grants Received</u> | <u>Grants Expended</u> |                | <u>Deferred Portion</u> |
|-------------------|-------------------|------------------------|------------------------|----------------|-------------------------|
|                   |                   |                        | <u>2002</u>            | <u>2003</u>    |                         |
| 2002              | CSG Grant         | \$ 474,192             | 107,378                | 366,814        | -                       |
| 2003              | CSG Grant         | 470,134                | -                      | 13,092         | 457,042                 |
| 2003              | Interconnection   | 10,670                 | -                      | 10,670         | -                       |
| 2003              | TV SAG            | 74,370                 | -                      | 74,370         | -                       |
| 2003              | Engineering Grant | <u>24,550</u>          | <u>-</u>               | <u>-</u>       | <u>24,550</u>           |
|                   | Total             | <u>\$ 1,053,916</u>    | <u>107,378</u>         | <u>464,946</u> | <u>481,592</u>          |

September 30, 2002

| <u>Grant Year</u> | <u>Grant Name</u>    | <u>Grants Received</u> | <u>Grants Expended</u> |                | <u>Deferred Portion</u> |
|-------------------|----------------------|------------------------|------------------------|----------------|-------------------------|
|                   |                      |                        | <u>2001</u>            | <u>2002</u>    |                         |
| 2001              | CSG Grant            | \$ 456,007             | 138,934                | 317,073        | -                       |
| 2002              | CSG Grant            | 474,192                | -                      | 107,378        | 366,814                 |
| 2002              | Interconnection      | 6,448                  | -                      | 6,448          | -                       |
| 2002              | TV SAG               | 53,016                 | -                      | 53,016         | -                       |
| 2002              | Ready to Learn Grant | <u>25,000</u>          | <u>-</u>               | <u>25,000</u>  | <u>-</u>                |
|                   | Total                | <u>\$ 1,014,663</u>    | <u>138,934</u>         | <u>508,915</u> | <u>366,814</u>          |

Accounts Receivable

Accounts receivable are recorded based upon services provided by GETC for production of educational programs and various public service videos.

(7) Government of Guam Employees' Retirement Plan

All full-time Government of Guam employees are members of the Government of Guam Employees' Retirement System, a defined benefit, multiple employer contributory pension plan (Plan). Effective October 1, 1995, any new employee of the Government of Guam participates in the new Defined Contribution Retirement System (DCRS). Employees with less than 20 years of service at September 30, 1995, and who are members of the defined benefit plan have the option to switch to the DCRS. If this election was not made by September 30, 1999, the employees remain under the old



**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Notes to Financial Statements, continued

September 30, 2003 and 2002

(7) Government of Guam Employees' Retirement Plan (continued)

Plan. The Plan and the DCRS (through a third party administrator) are administered by the Government of Guam Retirement Fund to which GETC contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Amendments to the Retirement Fund Law have been passed by the Guam Legislature. The effect of these amendments has not been determined by actuarial survey nor reflected in the accrued amounts at September 30, 2003. The Government of Guam Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement Fund, 424 Route 8, Maite, Guam 96927, or by calling (671) 475-8900.

The Retirement Fund has informed GETC that the Plan's actuary has calculated that an employer contribution rate of 22.52% plus an employee contribution at the statutory rate of 9.5% of covered payroll is required to adequately fund the current cost and amortize the prior service cost over periods of 14 and 40 years, respectively.

The plan utilizes 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, 2001, 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.

Contributions to 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 able 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. The contribution requirements of plan members may be amended by the Retirement Fund Board of Trustees. GETC's contributions to the Retirement Fund for the years ending September 30, 2003, 2002, 2001, 2000, and 1999 were \$47,448, \$47,723, \$56,645, \$47,473, and \$58,984, respectively, equal to the required contributions for each year.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Notes to Financial Statements, continued

September 30, 2003 and 2002

(7) Government of Guam Employees' Retirement Plan (continued)

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 for the amount of member contributions plus any earnings thereon.

(8) Risk Management

GETC is subject to certain risks (e.g., liability claims, motor vehicle accidents) in the normal course of operations. GETC protects itself against these risks by purchasing insurance coverage from private companies.

(9) Net asset Restatement

As referred to in Note (2), GETC adopted various new accounting principles for the year ended September 2002. The impact of this adoption was as follows:

|                                    |                     |
|------------------------------------|---------------------|
| Fund Equity as previously reported | \$ 2,685,326        |
| Implementation of GASB 34          | <u>( 966,999)</u>   |
| Net assets, as restated            | \$ <u>1,718,327</u> |

**Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of the Financial Statements  
Performed in Accordance with  
Government Auditing Standards**

To the Board of Trustees  
Guam Educational Telecommunications Corporation:

We have audited the accompanying financial statements of the Guam Educational Telecommunications Corporation (KGTF), as of and for the fiscal year ended September 30, 2003, and have issued our report thereon dated February 9, 2004. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This item is described as item No. 1 in the accompanying Schedule of Findings.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Guam Educational Telecommunications Corporation'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 one matter, which is presented below, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the entity'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 as item No. 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the audit committee, management and Board of Directors of the Guam Educational Telecommunications Corporation and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Burga & Coors, P.C.*

February 9, 2004

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Schedule of Findings

September 30, 2003

**Finding No. 1**

Criteria Article IV of the GETC bylaws indicate that the Board of Trustees are to meet in a regular session at least once a month at a time and place designated by the chairman.

Condition Only one board meeting were held during the fiscal year ended September 30, 2003.

Cause Lack of quorum due to expired terms of various board members.

Effect No approval or ratification of management actions and activities.

Recommendation Petition the Governor of Guam to appoint the seven board members and obtain the advice and consent of the Legislature on these appointments.

Prior year status This finding appears as finding No. 1 in the fiscal year 2002 report.

Auditee response and corrective action plan Management communicated its concerns with regard to a lack of a full seven-member board to various government officials. However, it was not until January 2004 that a full board was put into place. The board has since met and is making efforts to meet on a monthly basis.

**Finding No. 2**

Criteria The use of purchase orders should be governed by established policies.

Condition Purchase orders are currently being used in an inconsistent manner. It is not readily determinable when purchase orders should be used.

Cause Established procedures do not specifically address the types of transactions requiring purchase orders. Furthermore, current procedures do not contain stratified dollar value limits for authorizations.

Effect Purchases may occur prior to obtaining the proper authorization.

Recommendation Amend existing policies to indicate which purchases require the use of purchase orders and which do not. For example, monthly recurring expenses such as trash collection may not require the use of a purchase order, while management may decide that all other purchases in excess of \$100 will require their use. Policies should state dollar value approval limits for authorization.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
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Schedule of Findings, continued

September 30, 2002

Prior year status This finding appears as finding No. 2 in the fiscal year 2002 report.

Auditee response and corrective action plan The Board of Trustees establishes policies. The recently installed board has undertaken the task of developing formal policies with regard to the use of purchase orders.