

OFFICE OF PUBLIC ACCOUNTABILITY
Doris Flores Brooks, CPA, CGFM
Public Auditor

2013 FEB 21 AM 9:09

February 20, 2013

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina' Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

Office of the Speaker
Judith T. Won Pat, Ed. D.
Date 2/21/13
Time 8:15 AM
Received by FSM
32-13-131

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Guam Educational Telecommunications Corporation's (PBS Guam) Fiscal Year (FY) 2012 audited Financial Statements, Report on Compliance and Internal Controls, Management Letter, and Letter to Those Charged with Governance. Attached are our highlights of the audit report.

For your convenience, you may also view and download the report in its entirety at www.guamopa.org.

Senseramente,

for Doris Flores Brooks, CPA, CGFM
Public Auditor

GUAM LEGISLATURE
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**GUAM EDUCATIONAL TELECOMMUNICATIONS
CORPORATION**

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

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

SEPTEMBER 30, 2012

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

Year Ended September 30, 2012
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Educational Telecommunications Corporation:

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 year ended September 30, 2012, which collectively comprise the Corporation's basic financial statements. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the respective 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Guam Educational Telecommunications Corporation and are not intended to present fairly the financial position and results of operations of the Department of Chamorro Affairs in conformity with accounting principles generally accepted in the United States of America.

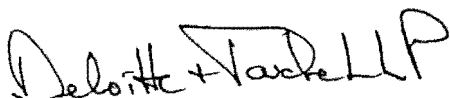
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Guam Educational Telecommunications Corporation as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2013, on our consideration of the Corporation'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 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. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The comparative financial statement information on pages 24 and 25 is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 statement information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of employees and salaries on page 26 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

February 13, 2013

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

Management's Discussion and Analysis
Year Ended September 30, 2012

This discussion and analysis of Guam Educational Telecommunications Corporation (dba PBS GUAM/KGTF) is intended to give an overview of our financial performance for the year ended September 30, 2012. This analysis should be read in conjunction with the respective financial statements, related footnotes and required supplementary information.

Financial Statements

Promulgated by U.S. Governmental Accounting Standards Board (GASB), the financial statements prepared for PBS GUAM/KGTF are in accordance with generally accepted accounting principles and standards.

Required financial statements include a Governmental Funds Balance Sheet/Statement of Net Assets that identifies the characteristics and value of an entity's available resources (assets) as well as its obligations (liabilities) for FY2012. The Net Assets represents the amount by which an entity's assets exceed its liabilities and represent resources available to fund future operations. The Statement of Governmental 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 expenditures/expenses during the period reporting period. 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, 2012 and 2011, 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>2012</u>	<u>2011</u>
Capital assets	\$ 2,428,906	\$ 2,431,221
Current and other assets	<u>698,823</u>	<u>791,261</u>
Total assets	<u>\$ 3,127,729</u>	<u>\$ 3,222,482</u>
Long-term liabilities	\$ 80,693	\$ 79,899
Other liabilities	<u>218,589</u>	<u>300,814</u>
Total liabilities	<u>299,282</u>	<u>380,713</u>
Net assets:		
Invested in capital assets	2,428,906	2,431,221
Unrestricted	<u>399,541</u>	<u>410,548</u>
Total net assets	<u>2,828,447</u>	<u>2,841,769</u>
	<u>\$ 3,127,729</u>	<u>\$ 3,222,482</u>

Capital assets marginally decreased by \$2,315 due to the acquisition of related assets, totaling \$173,082, which is a part of the station's digital conversion less current year depreciation expense of \$175,397. Current assets decreased by approximately 12% or \$92,438, primarily due to a decrease in cash balance. Total liabilities decreased by 21% or \$81,431, attributed to a decrease in deferred revenues associated with unexpended grant funds. The decrease in total net assets is primarily caused by the resultant changes as reflected above.

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

Management's Discussion and Analysis
Year Ended September 30, 2012

Statement of Activities

	<u>2012</u>	<u>2011</u>
Revenues:		
Local appropriation	\$ 553,121	\$ 621,057
Community Service Grant	711,579	750,588
Contribution and other	351,490	434,118
DDF/NTIA Grant	140,032	140,735
Interest Income	<u>10,448</u>	<u>5,476</u>
Total revenues:	<u>1,766,670</u>	<u>1,951,974</u>
Expenses:		
Program service	212,524	199,745
Supporting service	1,392,071	1,570,811
Depreciation expense	<u>175,397</u>	<u>170,852</u>
Total expenses	<u>1,779,992</u>	<u>1,941,408</u>
Change in net assets	13,322	10,566
Net assets beginning of year	<u>2,841,769</u>	<u>2,831,203</u>
Net assets at the end of the year	\$ <u>2,828,447</u>	\$ <u>2,841,769</u>

Total revenues reflect a significant decrease of 9.5% or \$185,304, which is attributed to the NTIA Grant award for upgrades of station equipment, local appropriation and contributions and other revenue.

Total operating expenses also decreased by a significant margin, approximately 8.3% or \$161,416, which primarily accounts for a decrease in supporting service. Related expenses and revenues are recognized in approximate equal amounts as the expenses are incurred.

Governmental Funds

PBS GUAM/KGTF 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/KGTF's financing requirements. In particular, unreserved fund balance may serve as a useful measure of PBS GUAM/KGTF'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 \$480,234 a decrease of \$10,213 compared with the prior year unreserved fund balance.

Budgetary Highlights

PBS GUAM/KGTF 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/KGTF utilizes a budget for internal purposes and benchmarks for future projections, forecasting, and strategic planning.

The past fiscal year was quite challenging in terms of fundraising efforts, underwriting and production efforts at the station. Realizing the challenges of 2011, PBS GUAM/KGTF committed to spending only what it brought in for the year. Revenue had to match expenses relative to committing station funds.

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

Management's Discussion and Analysis
Year Ended September 30, 2012

Capital Assets

With the Digital Television Transition and Public Safety Act of 2005 completed a couple of years ago, PBS GUAM/KGTF's capital assets marginally decreased by \$2,315 due to the acquisition of related assets totaling \$173,082, which was a part of the station's digital conversion less current year depreciation expense of \$175,397. The actual composition and the activity within these accounts are presented in more detail in the notes to the financial statements.

Growing the capacity of the station, today, PBS GUAM/KGTF has state-of the art digital broadcast switcher, monitor, and all required software applications to provide a crisper broadcast feed to viewers. Additionally, the satellite installed in 2011 allows PBS GUAM/KGTF to provide a delayed broadcast of programs by nine (9) hours. The station is duplicating the national program line-up so that individuals who re-locate from the U.S. to Guam can continue to appreciate PBS programs. This slight change to the station's programming is to capitalize on the projected increase of the island's population attributable to continued discussions of an increase in military presence on Guam and related businesses.

Executing the final phase of automation for the MCO, the station now has traffic (Programming) and the Development Department with the ability to provide the master control operators with up-to-date programming/underwriting information for their daily line-up. Upgrades to the MCO section of PBS GUAM/KGTF was funded by the CPB and NTIA grants. The station's new equipment upgrades provides opportunities for broadcasting services for private and public sector entities, which include the emergency responder services. Discussions continue within the management team to explore these possibilities for the station.

Economic Factors

Like other rural PBS stations in the nation, PBS GUAM/KGTF continues to face challenges relative to funding. Fortunate for the station, we are not like more than 60 percent of public television and radio stations operating with budget deficits. As our finances remain stable, PBS GUAM/KGTF continues to seek grants available through CPB, a private nonprofit which acts as the steward of the federal investment in public broadcasting. In addition to CPB grants, PBS GUAM/KGTF will continue to seek other funding sources to help support and fund upgrades and enhancements to the station.

With optimism returning to the island relative to Guam/CNMI's military buildup, this provides underwriting opportunities and donations for the station. According the First Hawaiian Bank's economic analysis of the Territory, Guam's economy looks promising for 2013. Tourism officials expect 2013 to show better results at year end as efforts are made to grow visitor numbers out of China and Russia. The increase in visitors will provide the needed injection of businesses to reinvest their money on island. As most businesses have seen a decrease in sales over the past several years, one of the first business expenses that is either reduced or eliminated is a company's advertising budget. With a more positive outlook for 2013, selling underwriting or seeking sponsorship for PBS GUAM/KGTF should be quite better for FY2013 compared to FY2012.

Local outreach efforts in FY 2010 aimed to grow public support and new funding sources. The membership program is slowly increasing its patronage from individual, family and corporate supporters. New educational outreach and awareness campaigns aid in building patronage for public television.

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

Management's Discussion and Analysis
Year Ended September 30, 2012

Institutional Factors

Today, viewers are afforded better viewing experience through digital transmission, and the station has opportunities for other broadcasting services to include emergency responder services and additional channels. This essentially will require further financial support for new technology and skill sets. Management continues its grant applications to further its capabilities resulting from the digital transmission.

Another important factor to note is the efforts by management to improve operations. This included the hiring of a new Development Director to lead changes in underwriting, sponsorship and membership development. The Director is tasked to improve development efforts to help retain, gain and increase financial support from the community. In addition to the new Development Director, the station also hired a new Development Associate with years of experience at a local and international level. The dynamics of the Development Department allowed for the first time in over 42-years to have a sales kit to aggressively promote underwriting and production services of the station.

The Grant / Educational Outreach Coordinator was tasked to oversee the progress and improvement of the digital and technological efforts. The Coordinator continues to manage the files of the station's federal grants and reporting requirements. Another initiative that the Coordinator will take on is building a mobile classroom that will allow PBS GUAM/KGTF to expose its educational programs to the community – building greater awareness and value in the community.

Other personnel changes include the hiring of a new Chief TV Engineer set to start on January 11, 2013. This Chief TV Engineer has experience in public television/radio stations in the U.S. and has had experience in supporting grant applications for station growth. Additionally, the Chief TV Engineer will restore the station's ability to reinstall the microwave – increasing PBS GUAM/KGTF's ability to provide live remotes without using the OB (Outdoor Broadcasting) Van.

Goals that continue into the following fiscal year include, (1) growing public television's audience and patronage through membership development, offering new local and national programs, and program enhancements such as Educational Initiative Programs; and (2) increasing public television's resources through new funding sources and additional grants. Efforts continue to further expand its outreach efforts to inform the public about the quality educational programs and resources offered by PBS GUAM, most of which are free.

The station operations are being redesigned to ensure growth and sustainability during the new digital era, as well as to survive economic and administrative changes. Efforts continue to modernize and expand its facilities and equipment to meet the digital era, limited by available funds raised by the station.

Advancing the station included necessary expenses in line with improvements in the production department and supporting the new membership program. Though, cost reduction and recycling measures continue and is enforced by management. Management continues to work on improving the accounting process, to include a new accounting structure to improve accountability and the management of limited resources.

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

Management's Discussion and Analysis
Year Ended September 30, 2012

Summary

Aligning with its mission and with its existing resources, PBS GUAM/KGTF continues to provide the people of Guam with programming and services of the highest quality, using media to educate, inspire, entertain, and express the diversity of perspectives. Through quality programming, PBS GUAM/KGTF strives to empower individuals to achieve their potential and strengthen the social, democratic, and cultural health of Guam and the nation. In order to accomplish this, plans are being developed to further attain public and individual support. Furthermore, with the anticipated digital transmission capabilities, PBS GUAM/KGTF will continue to bring free and accessible programming and services of the highest quality to everyone.

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
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Governmental Funds Balance Sheet/Statement of Net Assets
September 30, 2012

	General Fund	Adjustments (Note 2)	Statement of Net Assets
<u>ASSETS</u>			
Cash and cash equivalents	\$ 214,672	\$ -	\$ 214,672
Time certificates of deposit	200,000	-	200,000
Receivables, net of allowance for uncollectible accounts of \$20,710	53,768	-	53,768
Due from grantor	40,032	-	40,032
Prepaid items	2,099	-	2,099
Restricted assets:			
Cash and cash equivalents	188,252	-	188,252
Capital assets, net of accumulated depreciation	-	2,428,906	2,428,906
Total assets	\$ 698,823	2,428,906	3,127,729
<u>LIABILITIES</u>			
Accounts payable	\$ 39,283	-	39,283
Other liabilities and accruals	16,971	-	16,971
Deferred revenue - unexpended grant funds	162,335	-	162,335
Long-term liabilities:			
Due within one year	-	22,252	22,252
Due after one year	-	58,441	58,441
Total liabilities	218,589	80,693	299,282
Commitments and contingencies			
<u>FUND BALANCES/NET ASSETS</u>			
Fund balances:			
Assigned - supporting services	480,234	(480,234)	-
Total fund balances	480,234	(480,234)	-
Total liabilities and fund balances	\$ 698,823		
Net assets:			
Invested in capital assets		2,428,906	2,428,906
Unrestricted		399,541	399,541
Total net assets		\$ 2,828,447	\$ 2,828,447

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, 2012

	General Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Community service grant	\$ 711,579	\$ -	\$ 711,579
Government of Guam appropriation	553,121	-	553,121
NTIA grant	140,032	-	140,032
In-kind contributions	126,978	-	126,978
Fundraising	85,753	-	85,753
Contributions and other income	69,342	-	69,342
Underwriting	64,067	-	64,067
Interest	10,448	-	10,448
Other	5,350	-	5,350
Total revenues	1,766,670	-	1,766,670
Expenditures/expenses:			
Program services:			
Station production	126,074	-	126,074
Station upgrade	82,498	-	82,498
Capital outlays	177,034	(173,082)	3,952
Supporting services:			
Program broadcasting	482,918	-	482,918
Contractual services	105,635	-	105,635
Development and promotion	75,203	-	75,203
Fundraising	29,519	-	29,519
Supplies and materials	17,903	-	17,903
Local appropriations:			
Personnel services	333,730	794	334,524
Fringe benefits	103,361	-	103,361
Contractual services	25,490	-	25,490
Utilities	90,540	-	90,540
In-kind expenditures/expenses	126,978	-	126,978
Unallocated depreciation	-	175,397	175,397
Total expenditures/expenses	1,776,883	3,109	1,779,992
Deficiency of revenues under expenditures	(10,213)	10,213	
Changes in net assets		(13,322)	(13,322)
Fund balance/net assets:			
Beginning of the year	490,447	-	2,841,769
End of the year	\$ 480,234	\$ -	\$ 2,828,447

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2012

(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 Assets presents PBS GUAM's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets consist of capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are 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
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)**

Notes to Financial Statements
September 30, 2012

(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 assets.

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

Total fund balance - governmental funds		\$ <u>480,234</u>
Add:		
Capital assets	4,643,120	
Accumulated depreciation	<u>(2,214,214)</u>	
		<u>2,428,906</u>
Less:		
Compensated absences payable	(72,129)	
DCRS sick leave liability	<u>(8,564)</u>	
		<u>(80,693)</u>
Total net assets - governmental activities		\$ <u>2,828,447</u>

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

Notes to Financial Statements
September 30, 2012

(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 assets of governmental activities in the Statement of Activities are as follows:

Net change in fund balance - governmental funds	\$ (10,213)
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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	\$ 173,082	
Depreciation expense	<u>(175,397)</u>	
		(2,315)

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:

Increase in compensated absences	<u>(794)</u>
----------------------------------	--------------

Change in net assets - governmental activities	\$ <u>(13,332)</u>
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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
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Notes to Financial Statements
September 30, 2012

(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 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.

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 and Time Certificates of Deposit

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 assets, cash and cash equivalents is defined as cash on hand, cash held in demand accounts, and short-term investments with a maturity date within three months of the date acquired by PBS GUAM. Deposits maintained in time certificates of deposit with original maturity dates greater than three months are separately classified on the statement of net assets/balance sheet. As of September 30, 2012, the carrying amount of cash and cash equivalents and time certificates of deposit was \$602,924 and the corresponding bank balance was \$609,055. Of the bank balance amount, \$266,281 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and \$342,774 is maintained in credit unions subject to National Credit Union Administration (NCUA) insurance. Noninterest-bearing bank deposits in financial institutions subject to FDIC insurance coverage are temporarily fully insured until December 31, 2012. Interest-bearing bank accounts subject to FDIC insurance coverage and bank deposits subject to NCUA insurance coverage are insured for \$250,000 each. As of September 30, 2012, 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.

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

Notes to Financial Statements
September 30, 2012

(2) Summary of Significant Accounting Policies, Continued

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.

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 \$75,000 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

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
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Notes to Financial Statements
September 30, 2012

(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 \$8,564 at September 30, 2012 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.

Deferred Revenues

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, deferred 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 deferred 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, 2012

(2) Summary of Significant Accounting Policies, Continued

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.

New Accounting Standards

During the year ended September 30, 2012, PBS GUAM implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PBS GUAM.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PBS GUAM.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PBS GUAM.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of PBS GUAM.

In April 2012, GASB issued 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. 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, 2012

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2012, was as follows:

	October 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2012</u>
Non-depreciable capital assets:				
Land improvements	\$ <u>18,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>18,000</u>
Depreciable capital assets:				
Buildings and improvements	346,608	-	-	346,608
Broadcasting equipment	3,071,643	158,972	-	3,230,615
Studio, antenna, transmitter, and other equipment	409,277	7,997	-	417,274
Furniture and fixtures	199,692	6,113	-	205,805
Transportation equipment	<u>424,818</u>	<u>-</u>	<u>-</u>	<u>424,818</u>
	4,452,038	173,082	-	4,625,120
Less accumulated depreciation	<u>(2,038,817)</u>	<u>(175,397)</u>	<u>-</u>	<u>(2,214,214)</u>
	<u>2,413,221</u>	<u>(2,315)</u>	<u>-</u>	<u>2,410,906</u>
	\$ <u>2,431,221</u>	\$ <u>(2,315)</u>	\$ <u>-</u>	\$ <u>2,428,906</u>

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2012

(4) Long-term Obligations

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2012, the following changes occurred in liabilities reported as part of PBS GUAM's long-term liabilities in the statement of net assets:

	Balance October 1, 2011	Additions	Reductions	Balance September 30, 2012	Due Within One Year
Compensated absences	\$ 71,335	\$ -	\$ -	\$ 72,129	\$ 22,252
DCRS sick leave liability	8,564	-	-	8,564	-
	<u>\$ 79,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,693</u>	<u>\$ 22,252</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, 2012, the total appropriation was \$553,121.

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, 2012

(5) Funding Sources, Continued

Community Service Grants, Continued

The Community Service Grants received and expended during the year ended September 30, 2012 were as follows:

<u>Grant Year</u>	<u>Grant Name</u>	<u>Grants Received</u>	<u>Beginning Deferred Portion</u>	<u>Grants Expended</u>	<u>Ending Deferred Portion, Net</u>
2011	CSG	\$ -	\$ 111,639	\$ 111,639	\$ -
2011	TV SAG	-	72,566	72,566	-
2012	CSG	612,739	-	450,404	162,335
2012	DDF	50,000	50,000	140,032	(40,032)
2012	LSG	65,105	-	65,105	-
2012	Interconnection	<u>11,865</u>	<u>-</u>	<u>11,865</u>	<u>-</u>
	Total	<u>\$ 739,709</u>	<u>\$ 234,205</u>	<u>\$ 851,611</u>	<u>\$ 122,303</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.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2012

(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Plan Description, Continued:

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.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2010, 2009, and 2008, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2012, 2011 and 2010, respectively, have been determined by the Guam Legislature as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Normal costs (% of DB Plan payroll)	17.07%	17.00%	18.34%
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>7.57%</u>	<u>7.50%</u>	<u>8.84%</u>
Employer portion of normal costs (% of total payroll)	3.03%	3.03%	3.73%
Unfunded liability cost (% of total payroll)	<u>23.75%</u>	<u>21.75%</u>	<u>22.69%</u>
Government contribution as a % of total payroll	<u>26.78%</u>	<u>24.78%</u>	<u>26.42%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.30%</u>	<u>27.46%</u>	<u>26.04%</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, 2012, 2011 and 2010 were \$51,681, \$75,350 and \$64,488, respectively, which were equal to the required contributions for each year.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2012

(6) Employee Retirement Plans, Continued

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, 2012 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.

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.

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.

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.

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

Notes to Financial Statements
September 30, 2012

(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 September 30,</u>	
2013	\$ 10,200
2014	10,200
2015	10,200
2016	10,200
2017	10,200
2018 - 2022	51,000
2023 - 2027	51,000
2028	<u>10,200</u>
	<u>\$ 163,200</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
(A COMPONENT UNIT OF THE GOVERNMENT OF GUAM)

Governmental Funds Balance Sheet/Schedule of Net Assets

September 30, 2012

(With comparative totals as of September 30, 2011)

	General Fund		Schedule of Net Assets	
	2012	2011	2012	2011
<u>ASSETS</u>				
Cash and cash equivalents	\$ 214,672	\$ 260,006	\$ 214,672	\$ 260,006
Time certificates of deposit	200,000	201,000	200,000	201,000
Receivables, net	53,768	38,840	53,768	38,840
Due from grantor	40,032	-	40,032	-
Prepaid items	2,099	-	2,099	-
Restricted assets:				
Cash and cash equivalents	188,252	191,415	188,252	191,415
Time certificate of deposit	-	100,000	-	100,000
Capital assets, net of accumulated depreciation	-	-	2,428,906	2,431,221
Total assets	\$ 698,823	\$ 791,261	3,127,729	3,222,482
<u>LIABILITIES</u>				
Accounts payable	\$ 39,283	\$ 58,040	\$ 39,283	58,040
Other liabilities and accruals	16,971	8,569	16,971	8,569
Deferred revenue - unexpended grant funds	162,335	234,205	162,335	234,205
Long-term liabilities:				
Due within one year	-	-	22,252	24,162
Due after one year	-	-	58,441	55,737
Total liabilities	218,589	300,814	299,282	380,713
<u>FUND BALANCES/NET ASSETS</u>				
Fund balances:				
Assigned - supporting services	480,234	490,447		
Total fund balances	480,234	490,447		
Total liabilities and fund balances	\$ 698,823	\$ 791,261		
Net assets:				
Invested in capital assets			2,428,906	2,431,221
Unrestricted			399,541	410,548
Total net assets			\$ 2,828,447	\$ 2,841,769

See Accompanying Independent Auditors' Report.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Schedule of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Schedule of Activities
Year Ended September 30, 2012
(With comparative totals for the year ended September 30, 2011)

	General Fund		Schedule of Activities	
	2012	2011	2012	2011
Revenues:				
Community service grant	\$ 711,579	\$ 750,588	\$ 711,579	\$ 750,588
Government of Guam appropriation	553,121	621,057	553,121	621,057
NTIA grant	140,032	140,735	140,032	140,735
In-kind contributions	126,978	123,410	126,978	123,410
Fundraising	85,753	174,937	85,753	174,937
Contributions and other income	69,342	55,855	69,342	55,855
Underwriting	64,067	77,542	64,067	77,542
Interest	10,448	5,476	10,448	5,476
Other	5,350	2,374	5,350	2,374
Total revenues	1,766,670	1,951,974	1,766,670	1,951,974
Expenditures/expenses:				
Program services:				
Station production	126,074	133,245	126,074	133,245
Station upgrade	82,498	59,631	82,498	59,631
Capital outlays	177,034	188,538	3,952	6,869
Supporting services:				
Program broadcasting	482,918	533,628	482,918	533,628
Contractual services	105,635	116,609	105,635	116,609
Development and promotion	75,203	91,603	75,203	91,603
Fundraising	29,519	80,238	29,519	80,238
Supplies and materials	17,903	9,469	17,903	9,469
Local appropriations:				
Personnel services	333,730	373,978	334,524	373,184
Fringe benefits	103,361	105,052	103,361	100,643
Contractual services	25,490	51,029	25,490	51,029
Utilities	90,540	90,998	90,540	90,998
In-kind expenditures/expenses	126,978	123,410	126,978	123,410
Unallocated depreciation	-	-	175,397	170,852
Total expenditures/expenses	1,776,883	1,957,428	1,779,992	1,941,408
Deficiency of revenues under expenditures	(10,213)	(5,454)		
Changes in net assets			(13,322)	10,566
Fund balance/net assets:				
Beginning of the year	490,447	495,901	2,841,769	2,831,203
End of the year	\$ 480,234	\$ 490,447	\$ 2,828,447	\$ 2,841,769

See Accompanying Independent Auditors' Report.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Supplemental Schedule of Employees and Salaries
Year Ended September 30, 2012
(With comparative totals for the year ended September 30, 2011)

	2012		2011	
	Annual Payroll	Number of Employees	Annual Payroll	Number of Employees
Expenditures:				
Community Service Grant:				
Program services:				
Station production	\$ 116,932	3	\$ 122,417	5
Station upgrade	75,737	2	54,185	2
Supporting services:				
Program broadcasting	149,936	9	158,833	7
Development and promotion	64,102	4	85,468	4
	\$ 406,707	18	\$ 420,903	18
Government of Guam:				
Local appropriations	\$ 333,730	9	\$ 373,978	10

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 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, 2012, which collectively comprise PBS Guam's basic financial statements and have issued our report thereon dated February 13, 2013. 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.

Internal Control Over Financial Reporting

Management of PBS Guam is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered PBS Guam's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the respective financial statements, but not for the purpose of expressing an opinion on the effectiveness of PBS Guam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PBS Guam's internal control over financial reporting.

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.

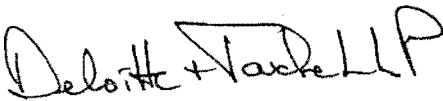
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We noted certain matters that we reported to management of PBS Guam in a separate letter dated February 13, 2013.

This report is intended solely for the information and use of management of the Guam Educational Telecommunications Corporation, the Board of Trustees, the Office of Public Accountability of Guam, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.



February 13, 2013



**Guam Educational Telecommunications Corporation
(PBS GUAM)
FY 2012 Financial Highlights**

February 19, 2013

The Guam Educational Telecommunications Corporation (dba PBS Guam) ended Fiscal Year (FY) 2012 with a decrease in net assets of \$13,322 compared to an increase of \$10,566 in FY 2011. PBS Guam received an unqualified (clean) opinion from independent auditors, Deloitte & Touche, LLP. A separate management letter was issued, which contained five comments related to PBS Guam's internal control over financial reporting and its Board of Trustee's lack of quorum. Auditors proposed eight adjustments which had a cumulative effect of decreasing net assets by \$61,193. Although PBS Guam is not a recipient of federal grants, it is to be commended for its equivalence to a "low-risk auditee" as the auditors have not identified any material weaknesses and significant deficiencies for the past five years.

Decrease in Revenues

PBS Guam's main sources of income derive from grants, government appropriations, and efforts in raising funds that would support upgrades and enhancements to the station. Altogether, grants were 48% or \$852 thousand (K) of PBS Guam's revenues and government appropriations made up 31% or \$553K. In FY 2012, revenues decreased by \$185K from \$1.95 million (M) in FY 2011 to \$1.77M. This decrease in revenues included fundraising efforts that declined by 51%, or \$89K from \$175K in FY 2011 to \$86K in FY 2012, consistent with a 63%, or \$51K decrease in expenses due to a one-time fundraising event held in 2011. Government appropriations declined by 11% or \$68K, from \$621K in FY 2011 to \$553K in FY 2012. Other revenue sources that decreased included community service grants, decreasing by 5% or \$39K, and underwriting, decreasing by 17% or \$13K. Revenue sources that increased were contributions and other income, up by 24% or \$13K; interest, up by 91% or \$5K; in-kind contributions, up by 3% or \$3.6K; and others, up by 125% or \$3K.

Decrease in Expenses

PBS responded to the drop in revenue with a more stringent effort to decrease expenses. Expenses decreased by 8% or \$161K from \$1.94M in FY 2011 to \$1.78M in FY 2012. Expenses for fundraising, program broadcasting, personnel services, contractual services, and development and promotion contributed to the overall decrease. Fundraising decreased by 63% or \$51K, from \$80K in FY 2011 to \$30K in FY 2012. Program broadcasting decreased, by 10% or \$51K, from \$534K in FY 2011 to \$483K in FY 2012. Personnel services decreased, by 10% or \$39K, from \$373K in FY 2011 to \$335K in FY 2012. Contractual services decreased by 22% or \$37K from \$168K in FY 2011 to \$131K in FY 2012 and development and promotion expenses decreased by 18% or \$16K from \$92K in FY 2011 to \$75K in FY 2012.

February 13, 2013

Ms. Cathyann Gogue
General Manager
Guam Educational Telecommunications Corporation
P.O. Box 21449
Hagatna, GU 96921

Dear Ms. Gogue:

In planning and performing our audit of the financial statements of the Guam Educational Telecommunications Corporation (PBS Guam), as of and for the year ended September 30, 2012 (on which we have issued our report dated February 13, 2013), 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, we considered PBS Guam's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PBS Guam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PBS Guam's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to PBS Guam's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated February 13, 2013, 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 definition of a deficiency is also set forth in the attached Appendix I.

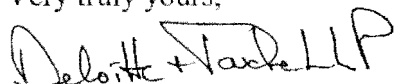
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Office of the Public Accountability - Guam, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of PBS Guam for their cooperation and assistance during the course of this engagement.

Very truly yours,



SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, deficiencies involving PBS Guam's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

(1) Procurement Procedures

For purchases greater than \$1,000, PBS Guam's procurement procedures require three price quotations. Of eighteen non-payroll expenditures tested totaling \$111,977, the following lacked three price quotes and indicated an absence of documentation supporting the basis of vendor selection:

<u>Date</u>	<u>Ref.</u>	<u>Description</u>	<u>Amount</u>
10/19/11	WH# 12263	Gift Certificates	\$ 6,629
11/10/11	Inv# 1111	Monthly ground maintenance	\$ 645
07/26/12	Inv# 12-1130	Monthly accounting services	\$ 975

We recommend that management strengthen controls over the procurement process. Documentation of the efforts made to contact other available vendors should be evident.

(2) Prior Year Audit Adjustments

Ending fund balance of \$490,447 from prior year did not agree to the current year opening fund balance of \$482,595, resulting in a variance of \$7,852. This variance was the result of proposed audit adjustments from prior year not recorded by PBS Guam resulting in an overstatement of accounts payable of \$33,499, an overstatement of accrued wages payable of \$31,577, an overstatement of payroll liabilities of \$2,563, and an understatement of deferred revenue of \$61,138. Furthermore, proposed audit adjustments from prior year for fixed asset additions of \$27,219 were not recorded. Audit adjustments were proposed in the current year to rectify this condition. We recommend that the general ledger be timely updated for proposed audit adjustments.

(3) Revenue Recognition

PBS Guam's accounting policy for revenue recognition relating to restricted grants requires that revenue be recognized when expenditures are incurred. During the year ended September 30, 2012, PBS Guam incurred expenditures under the Digital Distribution Fund (DDF) grant and the Community Service Grant (CSG) of \$140,032 and \$711,579, respectively. Although total recorded revenues amounted to \$851,611, audit adjustments were proposed to recognize a receivable due from grantor for the DDF grant of \$40,032 and a correction of deferred revenue of \$96,896. We recommend that management require that grant revenues be recognized in accordance with established accounting policy and that related receivables/deferred revenue accounts be correctly recorded.

(4) Payroll

Of thirty-one payroll expenditures tested totaling \$35,197, eleven items (check #s 6967, 7034, 7115, 7206, 7209, 7225, 7233, 7325, 7387, 7416 and 7425), indicated that the supporting timesheets were not signed by employees and/or the employee's supervisor. We recommend that management strengthen controls over timesheet approval.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

(1) Board of Trustees

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. No board meetings were held during the year ended September 30, 2012 due to the lack of a quorum because of expired board member terms. We recommend that management petition the Governor of Guam to appoint the seven board members and obtain the advice and consent of the Legislature on these appointments.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

PBS Guam's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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February 13, 2013

The Board of Trustees
Guam Educational Telecommunications Corporation

Dear Members of the Board of Trustees:

We have performed an audit of the financial statements of the Guam Educational Telecommunications Corporation (PBS Guam) as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America (“generally accepted auditing standards”) and have issued our report thereon dated February 13, 2013.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of PBS Guam is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, has been described in our engagement letter dated October 3, 2012. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of PBS Guam’s basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2012 in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”), in all material respects;
- To express an opinion on whether the supplementary information that accompanies the basic financial statements is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole; and
- To report on PBS Guam’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2012 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*; and

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of management and the Board of Trustees are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Trustees of their responsibilities.

We considered PBS Guam's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PBS Guam's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PBS Guam's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. During the year ended September 30, 2012, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

As the result of our audit work, we identified matters that resulted in audit adjustments that we believe, either individually or in the aggregate, would have a significant effect on PBS Guam's financial reporting process. Such proposed adjustments, listed in Attachment I, have been recorded in the accounting records and are reflected in the 2012 financial statements. Those proposed adjustments that were not recorded by management are also included in the schedule described in the next paragraph.

In addition, we have attached to this letter, as Appendix A within Attachment II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

SIGNIFICANT ACCOUNTING POLICIES

PBS Guam's significant accounting policies are set forth in Note 2 to PBS Guam's 2012 financial statements. During the year ended September 30, 2012, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by PBS Guam:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

The implementation of these pronouncements did not have a material effect on the financial statements of PBS Guam.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PBS Guam.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PBS Guam.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PBS Guam.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of PBS Guam.

In April 2012, GASB issued 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. 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.

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.

OTHER INFORMATION IN THE ANNUAL REPORTS OF PBS GUAM

When audited financial statements are included in documents containing other information, such as Annual Reports, we will read such other information and consider whether it, or the manner of its presentation, is materially inconsistent with the information, or the manner of its presentation, in the financial statements audited by us. In the event that PBS Guam issues an Annual Report or other documentation that includes the audited financial statements, we will be required to read the other information in PBS Guam's 2012 Annual Report and will inquire as to the methods of measurement and presentation of such information. If we note a material inconsistency or if we obtain any knowledge of a material misstatement of fact in the other information, we will discuss this matter with management and, if appropriate, with the Board of Trustees.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to PBS Guam's 2012 financial statements.

CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2012.

MANAGEMENT’S REPRESENTATIONS

We have made specific inquiries of PBS Guam’s management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations PBS Guam is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment II, a copy of the representation letter we obtained from management.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO OUR INITIAL ENGAGEMENT OR RETENTION

We did not have discussions regarding the application of accounting principles or auditing standards with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances prior to our retention as auditors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of PBS Guam’s management and staff and had unrestricted access to PBS Guam’s senior management in the performance of our audit.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated February 13, 2013, on PBS Guam’s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based upon the audit performed in accordance with *Government Auditing Standards*.

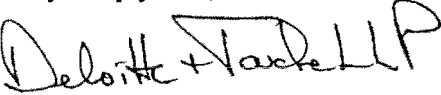
We have also noted certain matters that we reported to management of PBS Guam in a separate letter dated February 13, 2013.

* * * * *

This report is intended solely for the information and use of the Board of Trustees, management, the Office of the Public Accountability of Guam and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the staff and management of PBS Guam for their cooperation and assistance during the course of this engagement.

Very truly yours,



Journal Entries - AJE


#	Name	Debit	Credit
1 AJE To correct CSG revenue account			
2200-2021	CSG Deferred revenue	-	96,895.54
4010-4002	CSG-Community Serv. Grant	96,895.54	-
		<u>96,895.54</u>	<u>96,895.54</u>
To adjust the deferred revenue account for CSG grants received in excess of amounts expended.			
2 AJE To correct beginning balance			
2000-2001	Accounts Payable - PF	43,698.61	-
2000-2001	Accounts Payable - PF	-	10,200.00
2010-2013	Accrued Wages Payable	17,830.02	-
2010-2013	Accrued Wages Payable	13,747.31	-
2010-2015	Payroll Liabilities	2,552.71	-
2200-2021	CSG Deferred revenue	-	66,138.43
2200-2021	CSG Deferred revenue	5,000.00	-
5999-3880	Retained Earnings	-	7,652.33
4020-4019	PF-Miscellaneous Income	1,352.11	-
		<u>84,190.76</u>	<u>84,190.76</u>
To correct beginning balance to agree with prior year audited balance.			
3 AJE To correct deferred rev acct			
4010-4002	CSG-Community Serv. Grant	-	6,864.00
4010-4040	CSG - NTIA	-	50,000.00
2200-2028	NTIA Deferred Revenue	56,864.00	-
		<u>56,864.00</u>	<u>56,864.00</u>
To reverse deferred revenue for NTIA grant received in prior year that was expended in current year.			
4 AJE To capitalize fixed assets			
1200-1042	Building Improvements	27,219.11	-
3002-3002	Fund Balance-Plant	-	27,219.11
		<u>27,219.11</u>	<u>27,219.11</u>
To capitalize fixed assets for prior year audit adjustment.			
5 AJE To correct revenue account			
1100-1019	Accounts Receivable	-	12,000.00
4020-4011	PF-Production	12,000.00	-
		<u>12,000.00</u>	<u>12,000.00</u>
To reverse invalid revenue recorded.			
6 AJE To adjust PY DC sick leave			
1020-1104	Amt to provide DC Sick Leave	-	4,408.80
2018-2019	DC Sick Leave Liability	4,408.80	-
		<u>4,408.80</u>	<u>4,408.80</u>
To adjust recorded DC sick leave liability account.			
7 AJE To record membership services			
2000-2001	Accounts Payable - PF	-	43,432.00
5030-5041	PF-Programming	43,432.00	-
		<u>43,432.00</u>	<u>43,432.00</u>
To record additional membership services programming expenditures.			


Journal Entries - AJE

#	Name	Debit	Credit
	\$ AJE To record NTIA grant receivable		
1100-1019	Accounts Receivable	40,031.54	
4010-4040	CSG - NTIA		40,031.54
		<u>40,031.54</u>	<u>40,031.54</u>

To record amount due from grantor for DDF grant received after year end for expenditures incurred in FY2012.

I have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of as of September 30, 2012. The adjustments are the result of errors and are not the result of fraud or illegal acts.


 Cathynn Gogge
 General Manager


 Lorraine Hernandez
 Administrative Officer

February 13, 2013

Deloitte & Touche LLP
361 SOUTH MARINE CORPS DRIVE
TAMUNING, GU 96913

We are providing this letter in connection with your audit of the financial statements of the governmental activities and the General Fund of the Guam Educational Telecommunications Corporation (the "Corporation"), a component unit of the Government of Guam (GovGuam), as of and for the year ended September 30, 2012, which collectively comprise the Corporation's basic financial statements for the purpose of expressing an opinion as to whether the basic financial statements present fairly, in all material respects, the financial position, results of operations or changes in fund balances, and cash flows of the Corporation in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

- a. The fair presentation in the basic financial statements of financial position of the governmental activities and the General Fund, in conformity with GAAP.
- b. The design, implementation, and maintenance of programs and controls to prevent and detect fraud, including fraud related to federal awards.
- c. Establishing and maintaining effective internal control over financial reporting.
- d. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a general-purpose government obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.



Guam Educational Telecommunication Corporation

- I. The basic financial statements referred to above are fairly presented in conformity with GAAP. In addition:
 - a. The financial statements include, where applicable, all component units as well as joint ventures with an equity interest, and properly disclose, where applicable, all other joint ventures and other related organizations.
 - b. The financial statements properly classify all funds and activities, including special and extraordinary items.
 - c. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 - d. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - e. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 - f. Inter fund, internal, and intra-government activity and balances have been appropriately classified and reported.
 - g. Deposits are properly classified in the category of custodial credit risk.
 - h. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - i. Required supplementary information is measured and presented within prescribed guidelines.
 - j. Applicable laws and regulations are followed in adopting, approving, and amending budgets.
 - k. Federal awards expenditures have been charged in accordance with applicable cost principles.
2. The Corporation has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Corporation has provided you:
 - a. Financial records and related data for all financial transactions of the Corporation and for all funds administered by the Corporation. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Corporation and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.
 - b. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.



Guam Educational Telecommunication Corporation

4. There has been no:
 - a. Action taken by Corporation management that contravenes the provisions of federal laws and Guam laws and regulations, or of contracts and grants applicable to the Corporation.
 - b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.
5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.
6. The Corporation has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Corporation and do not believe that the financial statements are materially misstated as a result of fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the Corporation involving:
 - a. Management.
 - b. Employees who have significant roles in internal control over financial reporting.
 - c. Others if the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation received in communications from employees, former employees, analysts, regulators, or others.
9. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.
10. Significant assumptions used by us in making accounting estimates are reasonable.
11. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
12. We have adopted the provisions of GASB Codification of Government Accounting and Financial Reporting Standards Section 2100, *Defining the Financial Reporting Entity*. We believe that we have properly identified and reported as a component unit of the Corporation each organization that meets the criteria established in GASB Codification of Government Accounting and Financial Reporting Standards Section 2100, *Defining the Financial Reporting Entity*.

Except where otherwise stated below, matters less than \$7,000 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.



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13. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
14. The Corporation has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
15. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:
 - a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).
 - b. Guarantees, whether written or oral, under which the Corporation is contingently liable.
16. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:
 - a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.
 - b. The effect of the change would be material to the financial statements.
17. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
18. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
19. The Corporation has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
20. The Corporation has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.



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21. No department or agency of the Corporation has reported a material instance of noncompliance to us.
22. The Corporation has identified all derivative instruments as defined by GASB Codification of Government Accounting and Financial Reporting Standards Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section D40.
23. No events have occurred after September 30, 2012, but before the date of this letter, the date the financial statements were available to be issued that require consideration as adjustments to or disclosures in the financial statements.
24. Regarding required supplementary information:
 - a. We confirm that we are responsible for the required supplementary information.
 - b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
25. Regarding supplementary information:
 - a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.
 - c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.
26. During fiscal year 2012, the Corporation implemented the following pronouncements:
 - GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
 - GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which improves financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.



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27. In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.
28. In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve 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 provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.
29. In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance 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. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.
30. In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Corporation.
31. In April 2012, GASB issued 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. 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 the Corporation.
32. 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 the Corporation.
33. 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

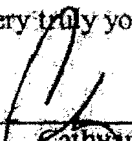


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financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Corporation.

34. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed in the financial statements.
35. The Corporation 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. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the Corporation management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the Corporation reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.
36. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
37. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance-sheet date and have been appropriately reduced to their estimated net realizable value.
38. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Corporation has been discovered.

Very truly yours,



 Cathyann Gogue
 General Manager



 Lorraine Hernandez
 Administrative Officer



APPENDIX A

CURRENT YEAR UNCORRECTED MISSTATEMENTS				
Entry Description	Assets	Liabilities	Net Assets Beg of Year	Revenues & Expenses
	Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
GENERAL FUND:				
To correct understatement of allowance for doubtful debts	(8,763)			8,763
Total Misstatements:	(8,763)			8,763

