



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

March 5, 2014

Honorable Judith T. Won Pat, Ed.D.
Speaker
I Mina Trentai Dos Na Liheslaturan Guåhan
155 Hesler Place
Hagatna, Guam 96910

32-14-1374
Office of the Speaker
Judith T. Won Pat, Ed. D.
Date 3.6.14
Time 8:25am
Received by: [Signature]

Dear Speaker Won Pat:

Hafa Adai! Transmitted herewith is the Guam Educational Telecommunications Corporation (PBS Guam) Fiscal Year (FY) 2013 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 reports.

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

Senseramente,

Doris Flores Brooks, CPA, CGFM
Public Auditor

GUAM LEGISLATIVE
CORPORATION

2014 MAR -6 AM 9:22
[Signature]

ACKNOWLEDGMENT RECEIPT
ISSUED BY: [Signature]
9:42 AM
3/5/14

RECEIPT ACKNOWLEDGED:

By: _____

Date: _____

1374

Deloitte.

| Company Name | Address |
|--------------|-----------------------------------|
| Company A | 1000 Main St, New York, NY 10001 |
| Company B | 2000 Main St, New York, NY 10002 |
| Company C | 3000 Main St, New York, NY 10003 |
| Company D | 4000 Main St, New York, NY 10004 |
| Company E | 5000 Main St, New York, NY 10005 |
| Company F | 6000 Main St, New York, NY 10006 |
| Company G | 7000 Main St, New York, NY 10007 |
| Company H | 8000 Main St, New York, NY 10008 |
| Company I | 9000 Main St, New York, NY 10009 |
| Company J | 10000 Main St, New York, NY 10010 |

**GUAM EDUCATIONAL TELECOMMUNICATIONS
CORPORATION**

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

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

SEPTEMBER 30, 2013

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

Year Ended September 30, 2013
Table of Contents

| | <u>Page No.</u> |
|--|-----------------|
| I. INDEPENDENT AUDITORS' REPORT | 1 |
| II. MANAGEMENT'S DISCUSSION AND ANALYSIS | 3 |
| III. BASIC FINANCIAL STATEMENTS: | |
| Governmental Funds Balance Sheet/Statement of Net Position | 8 |
| Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities | 9 |
| Notes to Financial Statements | 10 |
| IV. OTHER SUPPLEMENTARY INFORMATION: | |
| Governmental Funds Balance Sheet/Schedule of Net Position | 23 |
| Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Schedule of Activities | 24 |
| Supplemental Schedule of Employees and Salaries | 25 |
| V. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL | |
| 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 <i>Government Auditing Standards</i> | 26 |

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Educational Telecommunications Corporation:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

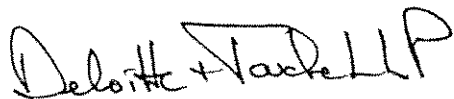
Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

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

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

February 27, 2014

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

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

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

Financial Statements

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

Financial Analysis

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

Statement of Net Position

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

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

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

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

Statement of Activities

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

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

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

Governmental Funds

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

Budgetary Highlights

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

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

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

Capital Assets

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

Economic Factors

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

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

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

Institutional Factors

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

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

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

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

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

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

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

Contacting PBS GUAM/KGTF's Financial Management

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

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

Governmental Funds Balance Sheet/Statement of Net Position
September 30, 2013

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

See accompanying notes to financial statements.

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

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

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

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2013

(1) Organization

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

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

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

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

(2) Summary of Significant Accounting Policies

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

Government-wide and Fund Financial Statements

Government-wide Financial Statements:

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

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

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

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Government-wide and Fund Financial Statements, Continued

Government-wide Financial Statements, Continued:

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

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

Fund Financial Statements:

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

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

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

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

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

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Government-wide and Fund Financial Statements, Continued

Fund Financial Statements, Continued:

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

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

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

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting, Continued

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

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

Budget

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

Cash and Cash Equivalents

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

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

Receivables

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

Prepaid Items

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

Restricted Assets

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

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

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Capital Assets

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

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

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

Estimated useful lives for depreciable assets are as follows:

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

Deferred Outflows of Resources

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

In-kind Contributions and Donated Volunteer Services

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

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

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Income Taxes

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

Compensated Absences

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

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

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

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

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

Unexpended Grant Revenues

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

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

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

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

Fund Balance

Governmental fund balances are classified as follows:

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

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

A formal minimum fund balance policy has not been adopted.

Estimates

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

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

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

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

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

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

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

Notes to Financial Statements
September 30, 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

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

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

(3) Capital Assets

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

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

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

Notes to Financial Statements
September 30, 2013

(4) Long-term Obligations

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

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

(5) Funding Sources

Government of Guam (GovGuam) Appropriation

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

Community Service Grants

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

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

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

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

Notes to Financial Statements
September 30, 2013

(5) Funding Sources, Continued

Community Service Grants, Continued

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

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

(6) Employee Retirement Plans

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

Defined Benefit Plan

Plan Description:

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

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

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

Notes to Financial Statements
September 30, 2013

(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

Funding Policy:

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

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

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

Defined Contribution Retirement System (DCRS)

Contributions into the DCRS plan by members are based on an automatic deduction of 5% of the member's regular base pay. The contribution is periodically deposited into an individual annuity account within the DCRS. Employees are afforded the opportunity to select from different annuity accounts available under the DCRS.

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

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

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

Notes to Financial Statements
September 30, 2013

(6) Employee Retirement Plans, Continued

Other Post Employment Benefits

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

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

(7) Lease Commitments

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

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

(8) Risk Management

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

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

Governmental Funds Balance Sheet/Schedule of Net Position

September 30, 2013

(With comparative totals as of September 30, 2012)

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

See Accompanying Independent Auditors' Report.

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

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

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

See Accompanying Independent Auditors' Report.

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

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

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

See Accompanying Independent Auditors' Report.

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

Board of Trustees
Guam Educational Telecommunications Corporation:

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

Internal Control Over Financial Reporting

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

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

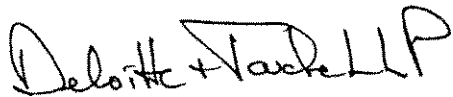
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

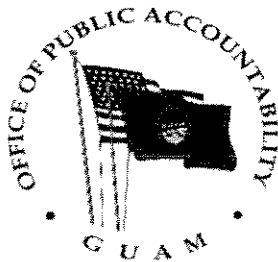
As part of obtaining reasonable assurance about whether PBS Guam's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

February 27, 2014



**Guam Educational Telecommunications Corporation
(PBS Guam)
FY 2013 Financial Highlights**

February 28, 2014

The Guam Educational Telecommunications Corporation (dba PBS Guam) continued its decline in net position (net income), closing Fiscal Year (FY) 2013 with a decrease of \$231 thousand (K) compared to the decrease of \$13K in FY 2012. PBS received an unmodified (clean) opinion from independent auditors, Deloitte & Touche, LLP. PBS is to be commended for its sixth year that the auditors have not identified any material weaknesses and/or significant deficiencies in its Report on Internal Control Over Financial Reporting and Compliance. A separate management letter was issued, which contained four comments related to PBS Guam's fixed assets, procurement procedures, non-payroll expenditures and its Board of Trustee's lack of quorum. Auditors made four adjustments which had a cumulative effect of increasing net position by \$1,373.

Decrease in Revenues

PBS Guam's main sources of income derive from grants, government appropriations, and fundraising efforts that would support upgrades and enhancements to the station. Altogether, grants were 47% or \$809K of PBS Guam's revenues and government appropriations made up 32% or \$541K. In FY 2013, revenues decreased by \$51K from \$1.8 million (M) in FY 2012 to \$1.7M. This decrease was due mainly to the non-receipt of the National Telecommunications and Information Administration (NTIA) grants for FY 2013 from \$140K in FY 2012 and included fundraising efforts that declined by 30%, or \$25K from \$86K in FY 2012 to \$60K in FY 2013. Contributions and other income declined by 34% or \$24K, from \$69K in FY 2012 to \$46K in FY 2013. No NTIA grants were received for FY 2013 due to the delay of its approval (affected by budget sequestrations of the federal government).

Increase in Expenses

Expenses are comprised of three categories: supporting services, which make up 44% of total expenditures; local appropriations, 27% of total expenditures; and program services, 12% of total expenditures. Personnel in the supporting and program services are funded by various grants. Expenses rose by 9% or \$167K from \$1.8M in FY 2012 to \$1.9M in FY 2013. Expenses for supporting services, which includes program broadcasting, development and promotion, and fundraising, increased by 21% or \$146K, from \$711K in FY 2012 to \$857K in FY 2013 and program services, which includes station production, station upgrade and capital outlays, increased by 12% or \$27K, from \$213K in FY 2012 to \$240K in FY 2013. Local appropriations decreased overall by 5% or \$28K, from \$554K in FY 2012 to \$526K in FY 2013. Included in the local appropriations, utilities increased by 14% or \$13K, from \$91K in FY 2012 to \$103K in FY 2013 while personnel services/fringe benefits decreased by 3.4% or \$15K, from \$438K in FY 2012 to \$423K in FY 2013.



**Guam Educational Telecommunications Corporation
(PBS Guam)
FY 2013 Financial Highlights**

February 28, 2014

The Guam Educational Telecommunications Corporation (dba PBS Guam) continued its decline in net position (net income), closing Fiscal Year (FY) 2013 with a decrease of \$231 thousand (K) compared to the decrease of \$13K in FY 2012. PBS received an unmodified (clean) opinion from independent auditors, Deloitte & Touche, LLP. PBS is to be commended for its sixth year that the auditors have not identified any material weaknesses and/or significant deficiencies in its Report on Internal Control Over Financial Reporting and Compliance. A separate management letter was issued, which contained four comments related to PBS Guam's fixed assets, procurement procedures, non-payroll expenditures and its Board of Trustee's lack of quorum. Auditors made four adjustments which had a cumulative effect of increasing net position by \$1,373.

Decrease in Revenues

PBS Guam's main sources of income derive from grants, government appropriations, and fundraising efforts that would support upgrades and enhancements to the station. Altogether, grants were 47% or \$809K of PBS Guam's revenues and government appropriations made up 32% or \$541K. In FY 2013, revenues decreased by \$51K from \$1.8 million (M) in FY 2012 to \$1.7M. This decrease was due mainly to the non-receipt of the National Telecommunications and Information Administration (NTIA) grants for FY 2013 from \$140K in FY 2012 and included fundraising efforts that declined by 30%, or \$25K from \$86K in FY 2012 to \$60K in FY 2013. Contributions and other income declined by 34% or \$24K, from \$69K in FY 2012 to \$46K in FY 2013. No NTIA grants were received for FY 2013 due to the delay of its approval (affected by budget sequestrations of the federal government).

Increase in Expenses

Expenses are comprised of three categories: supporting services, which make up 44% of total expenditures; local appropriations, 27% of total expenditures; and program services, 12% of total expenditures. Personnel in the supporting and program services are funded by various grants. Expenses rose by 9% or \$167K from \$1.8M in FY 2012 to \$1.9M in FY 2013. Expenses for supporting services, which includes program broadcasting, development and promotion, and fundraising, increased by 21% or \$146K, from \$711K in FY 2012 to \$857K in FY 2013 and program services, which includes station production, station upgrade and capital outlays, increased by 12% or \$27K, from \$213K in FY 2012 to \$240K in FY 2013. Local appropriations decreased overall by 5% or \$28K, from \$554K in FY 2012 to \$526K in FY 2013. Included in the local appropriations, utilities increased by 14% or \$13K, from \$91K in FY 2012 to \$103K in FY 2013 while personnel services/fringe benefits decreased by 3.4% or \$15K, from \$438K in FY 2012 to \$423K in FY 2013.

Outlook for PBS Guam

In prior years, the PBS Board did not meet on a regular basis due to a lack of quorum. PBS successfully filled four of the nine required member positions for its Board of Trustees. This governing Board of Trustees reconvened in November 2013 with its new members meeting with a quorum for the first time in over two years, and a new Station Manager was appointed in January 2014.

New management has examined strategic plans of the past several years. A strategic capital equipment plan is needed to upgrade studio and production capabilities for local programming in high-definition quality. There is no annual equipment replacement budget and the new general manager has stated that he would like to see a budget of \$403K annually to keep up to date with technology. In FY 2013, PBS had requested \$403K from USDA (United States Department of Agriculture) to replace capital equipment, which was unsuccessful. PBS now proceeds in 2014 with new governance and general manager in place.

For a more detailed discussion on PBS GUAM's operations, refer to the Management's Discussion and Analysis in the audit report at www.guamopa.org and www.pbsguam.org.



Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

February 27, 2014

Mr. Darryl Taggerty
General Manager
Guam Educational Telecommunications Corporation
P.O. Box 21449
Hagatna, GU 96921

Dear Mr. Taggerty:

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, 2013 (on which we have issued our report dated February 27, 2014), 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, 2013, that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated February 27, 2014, on our consideration of PBS Guam's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The 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, 2013 that we wish to bring to your attention:

(1) Non-payroll expenditures

Of eighteen non-payroll expenditures tested totaling \$90,514, one item lacked invoices supporting reimbursement.

| <u>Date</u> | <u>Description</u> | <u>Amount</u> |
|-------------|------------------------------------|---------------|
| 11/23/2012 | Software/Hardware Reimbursement | \$ 377 |

We recommend that management strengthen controls over document safekeeping.

(2) Procurement Procedures

For purchases greater than \$500, PBS Guam's procurement procedures require three price quotations. Of eighteen non-payroll expenditures tested totaling \$90,514, one item lacked three quotes which indicated an absence of documentation supporting the basis of vendor selection.

| <u>Date</u> | <u>Description</u> | <u>Amount</u> |
|-------------|------------------------------------|---------------|
| 11/23/2012 | Software/Hardware Reimbursement | \$ 658 |

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

(3) Fixed Assets Monitoring

Of thirty-three fully-depreciated assets tested totaling \$347,743, ten totaling \$37,633 were not in use or were not locatable.

We recommend that management perform periodic physical inventories of fixed assets and reconcile those inventories to the accounting records.

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 PBS Guam 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, 2013 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.

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.



Deloitte & Touche LLP
361 S. Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: 1-671-646-3884
Fax: 1-671-649-4932
www.deloitte.com

February 27, 2014

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, 2013, 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 27, 2014.

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 November 20, 2013. 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 each opinion unit in PBS Guam’s basic financial statements and the accompanying supplementary information and to disclaim an opinion on the required supplementary information for the year ended September 30, 2013 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, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

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, 2013, 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 2013 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 2013 financial statements. During the year ended September 30, 2013, 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. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

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

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.

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

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

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 2013 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 2013 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 2013.

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 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 27, 2014, 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 27, 2014.

* * * * *

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,

Deloitte + Touche LLP

| Journal Entries - AJE | | | |
|-----------------------|---|----------|----------|
| # | Name | Debit | Credit |
| | 1 AJE To record prior period AD | | |
| 1200-1049 | Accumulated Depreciation | - | 2,268.26 |
| 5640-5101 | Depreciation Expense | 1,814.61 | - |
| 5640-5101 | Depreciation Expense | 453.65 | - |
| | | 2,268.26 | 2,268.26 |
| | To record depreciation expense for prior period for building improvements | | |
| | 2 AJE To record depreciation expense | | |
| 1200-1049 | Accumulated Depreciation | - | 819.02 |
| 1200-1049 | Accumulated Depreciation | - | 194.68 |
| 1200-1049 | Accumulated Depreciation | - | 1,814.61 |
| 5640-5101 | Depreciation Expense | 819.02 | - |
| 5640-5101 | Depreciation Expense | 194.68 | - |
| 5640-5101 | Depreciation Expense | 1,814.61 | - |
| | | 2,828.31 | 2,828.31 |
| | To record depreciation expense for FY13 | | |
| | 3 AJE To correct beginning balance | | |
| 4020-4019 | PF-Miscellaneous Income | - | 6,470.00 |
| 3002-3002 | Fund Balance-Plant | 6,470.00 | - |
| | | 6,470.00 | 6,470.00 |
| | To correct beginning balance to agree with prior year audited balance | | |

ATTACHMENT I, CONTINUED

| Journal Entries - AJE | | | | |
|---|--|-----------|-----------|--|
| # | Name | Debit | Credit | |
| | 4 AJE To adjust annual/sick leave | | | |
| | Amount to be Provided for Leave | | | |
| 1020-1101 | | - | 10,987.61 | |
| | Long Term Leave | | | |
| 2016-2016 | | 10,987.61 | - | |
| | Amt to provide DC Sick Leave | | | |
| 1020-1104 | | - | 4,401.57 | |
| | DC Sick Leave Liability | | | |
| 2018-2019 | | 4,401.57 | - | |
| | | 15,389.18 | 15,389.18 | |
| | To adjust recorded annual and DC sick leave liability account. | | | |
| I have reviewed the adjustments above and authorize that they be recorded in the General Ledger as of September 30, 2013. | | | | |
| The adjustments are the results of errors and are not the result of fraud or illegal acts. | | | | |
| | | | | |
| | <i>Darryl Taggerty</i> 2/28/14 | | | |
| | Darryl Taggerty General Manager | | | |
| | | | | |
| | <i>Lorraine Hernandez</i> | | | |
| | Lorraine Hernandez Administrative Officer | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |



Guam Educational Telecommunications Corporation

February 27, 2014

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, 2013, 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.

1. 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 position 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. Interfund, 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.
 - l. Fund balance restrictions, commitments, and assignments are properly classified and, if applicable, approved.

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.
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. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2012 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.
7. 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.
8. 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.

9. 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.
10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.
11. Significant assumptions used by us in making accounting estimates are reasonable.
12. 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.
13. We have adopted the provisions of GASB Codification 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 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.

14. Except as listed in Appendix A, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.
15. The Corporation has no plans or intentions that may affect the carrying value or classification of assets and liabilities.
16. 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.
17. 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.

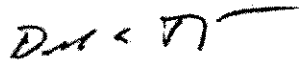
18. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:
 - a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the enterprise vulnerable 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.
19. 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 GASB Codification Section C50, *Claims and Judgments*.
20. 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.
21. The Corporation has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.
22. No department or agency of the Corporation has reported a material instance of noncompliance to us.
23. The Corporation has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.
24. No events have occurred after September 30, 2013, 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.
25. 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 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. Regarding supplementary information:
- a. We are responsible for the fair presentation of the supplementary information in accordance with GASB Codification 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 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.
27. During fiscal year 2013, the Corporation implemented the following pronouncements:
- GASB 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 implementation of this pronouncement did not have a material effect on the financial statements of the Corporation.
 - GASB 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 implementation of this pronouncement did not have a material effect on the financial statements of the Corporation.
 - GASB 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 implementation of this pronouncement did not have a material effect on the financial statements of the Corporation.

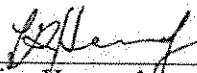
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities. The implementation of this pronouncement did not have a material effect on the financial statements of the Corporation.
28. 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.
 29. 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 the Corporation.
 30. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Corporation.
 31. 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.

32. 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.
33. We have appropriately identified and properly recorded and disclosed in the financial statements, where applicable, all interfund transactions, including repayment terms.
34. 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.
35. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Corporation has been discovered.

Very truly yours,



Darryl Taggerty
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 | (7,635) | | | 7,635 |
| Total Misstatements | (7,635) | | | 7,635 |

APPENDIX B

| PRIOR 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 accumulated depreciation | (2,268) | | | 2,268 |
| Total Misstatements | (2,268) | | | 2,268 |

