

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

Financial Statements

September 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

Burger & Comer, P. C.
Hengi Plaza, Suite 104
278 South Marine Corps Drive
Tamuning, Guam 96913

TABLE OF CONTENTS

<u>Description</u>	<u>Page No.</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Governmental Funds Balance Sheet/Statement of Net Assets	10
Statements of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities	11
September 2006 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	12
September 2005 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	13
September 2006 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	14
September 2005 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16-29
Supplemental Schedule of Employees and Salaries	30
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31-35

BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

The Board of Trustees
Guam Educational Telecommunications Corporation:

We have audited the accompanying balance sheets/statements of net assets of Guam Educational Telecommunications Corporation (a public corporation) as of September 30, 2006 and 2005, and the related statements of revenues, expenditures and changes in fund balances/activities for the years then ended. These financial statements are the responsibility of the management of Guam Educational Telecommunications Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam Educational Telecommunications Corporation as of September 30, 2006 and 2005, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information listed as supplemental schedules on page 30 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2007 on our consideration of Guam Educational Telecommunications Corporation's internal control structure and on its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Buque & Lerner, P.C.

March 5, 2007

Management's Discussion And Analysis

This discussion and analysis of Guam Educational Telecommunications Corporation (KGTF) is intended to give an overview of our financial performance for the year ended September 30, 2006. This analysis should be read in conjunction with the following financial statements, related footnotes and required supplementary information.

Financial Statements

KGTF's financial statements are prepared in accordance with U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

The required financial statements include a Governmental Funds Balance Sheet/ Statement of Net Assets that identifies the nature and amount of an entity's available resources (assets) and obligations (liabilities) at a specific point in time. Net Assets represents the amount by which an entity's assets exceed its liabilities and represents resources available to fund future operations. The Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities is another required statement. This statement provides information about the entity's sources of revenue and nature of the related expenses during the period being reported on. It reflects the entity's ability to recover costs associated with providing services.

Financial Analysis

Our analysis is based on the following condensed financial data for the years ended September 30, 2006 and 2005, as presented in the statement of net assets and the changes in net assets. The nature of these statements is explained in the preceding paragraph.

Statement of Net Assets

	<u>2006</u>	<u>2005</u>
Capital assets	\$ 481,341	\$ 485,160
Long-term assets	56,680	38,469
Current and other assets	<u>1,549,668</u>	<u>1,469,455</u>
Total assets	<u>\$2,087,689</u>	<u>\$1,993,084</u>
Long-term liabilities	\$ 56,680	\$ 38,469
Other liabilities	<u>1,057,470</u>	<u>1,074,352</u>
Total liabilities	<u>\$ 1,114,150</u>	<u>\$1,112,821</u>
Net assets		
Invested in capital assets	\$ 481,341	\$ 485,160
Unrestricted	<u>492,198</u>	<u>395,103</u>
Total net assets	<u>\$ 973,539</u>	<u>\$ 880,263</u>

Capital assets decreased by approximately \$4,000. Prior periods indicated large reductions in the carrying value of capital assets. During 2006 capital outlays of \$148,985 almost completely offset depreciation expense of \$152,804 resulting in a small change in carrying value. Current and other assets increased by approximately 6% due primarily to the acquisition of new grants which have yet to be expended. There was only a nominal increase in total liabilities. The increase in total net assets is primarily caused by the increase in current assets as described above.

Statement of Activities

	<u>2006</u>	<u>2005</u>
Local appropriation	\$ 578,361	\$ 596,296
Community Service Grant	872,966	559,572
Contributions and other	368,527	371,394
Interest income	<u>2,546</u>	<u>6,157</u>
 Total revenues	 1,822,400	 1,533,419
 Program services	 123,290	 98,392
Supporting services	1,453,030	1,279,982
Depreciation expense	<u>152,804</u>	<u>169,655</u>
 Total expenses	 1,729,124	 1,548,029
 Excess / (Deficiency) of revenues over expenditures	 93,276	 (14,610)
 Net assets beginning of year	 <u>880,263</u>	 <u>894,873</u>
 Net assets at end of year	 <u>\$ 973,539</u>	 <u>\$ 880,263</u>

Total revenues increased by approximately 19%. Again a proper analysis of this increase should exclude the local appropriation and community service grants as these revenues and related expenses are recognized in approximately equal amounts as the expenses are incurred. There is only a nominal decrease in other revenue generating activities.

Total operating expenses increased by approximately 12%. However as noted above, the increase in many account balances are also reflected in the revenue accounts above.

Budgetary Highlights

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

Capital Assets

KGTF has approximately \$481,000 invested in capital assets. This represents a net decrease of approximately \$4,000, or 1% over the previous year. Once again this decrease results primarily from depreciation expense. The actual composition and the activity within these accounts are presented in more detail in the notes to the financial statements. Significant capital asset outlays in the current year were comprised primarily of upgrades to studio, transportation and broadcast equipment.

The Federal Communications Commission mandate stipulates that KGTF transmit a digital signal by February 9, 2009. In FY2006, KGTF completed the execution process for a long-term lease with the Government of Guam's Chamorro Land Trust Commission (CLTC) for 6000 square meters in Barrigada Heights for our new tower and antenna site for a period of 20 years. We sought Federal Communications Commission (FCC) approval to move the existing DTV channel 5 authorizations to Barrigada Heights as a superior site for the construction of the new tower and transmitter facility. This change would involve Federal Aviation Administration (FAA) approval and a FCC filing freeze waiver. KGTF then filed an application to extend the station's construction permit in order to have the additional time now required to address site change and subsequent construction activity. Later in May 2006, KGTF filed another FCC 386 Digital Channel Election form to request for its ultimate DTV channel changed from Channel 5 to Channel 12.

We then proceeded with a height investigation of existing towers located at Barrigada Heights, Guam and compiled an application to the FAA seeking approval for maximum allowable height for the new KGTF tower. This lengthy application approval process with the FAA took the remaining of the year to complete. We now have FAA approval for a 157-foot AGL tower height.

With the approval of the CLTC land lease, KGTF contracted land clearing and debris removal to prepare the tower site for a subsurface soil investigation. Furthermore, KGTF recently submitted an application for additional funding support with the DDF Round 10 to assist the rechannelization and final DTV transition process. The station now awaits the outcome of its application with the Corporation for Public Broadcasting (CPB).

Economic Factors

Guam's economy continues to show signs of recovery. The tourism industry has shown growth in visitor arrivals. Optimism within the business community continues to grow with respect to the overall economy and the anticipation of increased military presence.

KGTF TV-12 continues to grow its operational strength and fund-raising capability with the intent of increasing its reach and fulfill its mission as a public broadcasting entity. The following information is the latest in programs and outreach whose outcomes were realized in FY2006.

Strategy I: Position KGTF-TV-12 as the SOURCE FOR POSITIVE, PUBLIC INFORMATION AND EDUCATION about government services and community activities

through our locally produced PUBLIC AFFAIRS PROGRAM AND local TV Specials by working closely with Government of Guam Agencies and the Governor's communications office and the local community.

1) KGTF continues its monthly public affairs program entitled "ViewPoint" that addresses in-depth news and entertainment, as well as Local TV Specials about specific government and/or community services. Most notable in 2006 were the local community panel discussions on the "Gambling Initiative" and the "Coalition 21 – Raising the Drinking Age Initiative".

2) KGTF continues to produce the "Academic Challenge Bowl" in partnership with the Gifted and Talented Educational Program (GATE) with the Guam Public School System (GPSS), as well as the "Buhay Pinoy" Filipino program.

3) KGTF launched in March 2006, the "Hafa Adai Guam USA" cultural program featuring Chamorro Artist Johnny Sablan as its host. This program has continued to grow in support of the Chamorro language and culture and has participated in events where the Chamorro language is promoted i.e. the 2006 University of Guam Charter Day Chamorro Language Competition and the Chamorro Soap Opera short video production in collaboration with UOG's Chamorro language class. On a cultural note, KGTF through our Hafa Adai program has engaged in producing a mini-documentary on the Chamorro Veterans' "Return to Vietnam" a healing story currently in production.

4) KGTF TV-12 continues to revive its video production services for educational and informational videos by re-establishing its relationships with all the agencies they have done work with in the past, agencies like Department of Public Health and Social Services, GPSS, Department of Public Works, Guam Council on the Arts and Humanity Agency (CAHA), Guam Police Department, Department of Vocational Rehabilitation, Department of Parks and Recreation, Guam Environmental Protection Agency, Guam Energy Office, Department of Agriculture, Superior Court of Guam, Guam International Airport Authority, University of Guam, and Civil Defense/Homeland Security, among others.

Strategy II: Magnify our presence in the Guam community as the source for SMART, INTELLECTUAL TELEVISION with and through strategic relationships built with GPSS, Guam Community College, UOG and the Guam Public Library System (GPLS), as well as nationwide with Public Broadcast System (PBS).

1) KGTF continues its direct participation in curriculum enhancement with quality, educational TV programming by working with teachers, professors, and administrators to push what PBS has to offer the educational system, not only with children but also for continuous "Life-Long Learning". In FY2006 CAHA awarded KGTF a grant to pursue activities around the annual Reading Rainbow Young Writers & Illustrators Contest. With the award of \$7,900, KGTF completed five (5) workshops, at different elementary schools and an island wide workshop at the Nieves M. Flores Memorial Library in Hagatna. Each workshop event was facilitated by a project coordinator who led the story writing exercises and was supported by a local artist who assisted children in developing their story illustrations.

During each workshop presentation, story writing techniques, ideas and various illustrative expressions were introduced to the children. After which, a hands-on writing and illustrating brainstorm took place that led each child to create the beginnings of his very own picture book.

Each workshop site was presented with an ample supply of various art tools, including crayons, coloring pencils, paint and paint brushes, color markers and art papers in order to encourage children to complete their stories, and to provide continuing opportunities for teachers to foster children's creative imaginations and story telling skills in their own learning environments.

When contest winners were determined, each one was invited to the KGTF studio to tape a read aloud that was edited with the child's illustrations into a Channel 12 promo. All twelve winners are currently featured in Channel 12, to last until December 2006.

In the end, KGTF saw its greatest increase in contest entries compared to all previous contest years. A total of 419 entries from 22 schools were submitted to KGTF. These schools included Home School, private and Catholic schools, DoDEA, GPSS and daycare centers with kindergarten-aged children.

2) The Citigroup Children's Learning Center grand opening and ribbon-cutting ceremony was held July 2006. The \$25,000 grant project enabled KGTF to establish a partnership with the GPLS and Citibank Guam to create a new children's computer center and develop programs specific to reading and financial literacy. A total of eight computer systems complete with operating software, UPS systems, and headphones were purchased through the grant money, along with adjustable computer tables and chairs for children. The center is now open to the general public and is utilized daily.

3) KQED San Francisco awarded the station with a grant to pursue an educational outreach campaign for educators based on the 6-part PBS documentary Jean-Michel Cousteau: Ocean Adventures. The first episode premiered in April and coincided with the Earth Day – Island Pride Festival in Ypao where KGTF promoted the upcoming series and teachers workshops scheduled for later in 2006.

The first educator workshop was held on September 30th with 35 participants from GPSS/private elementary and secondary schools. The workshop experience provided teachers with curriculum materials from the PBS/Ocean Adventures website, as well as classroom materials designed for local use, which were presented by KGTF's community partners. They included Under Water World, GPSS, the Guam Marine Awareness Foundation, UOG Marine Lab, and National Oceanic and Atmospheric Administration/National Marine Fisheries Service.

4) Again in 2006, KGTF teamed up with the Pacific Islanders in Communications (PIC) organization and hosted a "Producers Academy Part 1 and Part 2" where KGTF staff and local producers were trained to highlight the Guam and Pacific Region story in all aspects of life from socio-economic and cultural aspects, to spiritual and political development. In developing our producing skills, KGTF can then push to get Guam documentaries aired nationally through PIC on all PBS stations to further educate the nation of Guam's unique place in the American family.

Strategy III: GROW OUR VIEWING AND DONOR AUDIENCE through a concerted effort to build and expand our “Friends of KGTF” membership.

1) KGTF has executed a strategic Public Awareness Campaign for Public Television that is on-going year round utilizing radio, print, and direct mail to communicate with viewers in addition to on-air public service announcements. In February of 2006, KGTF brought back the monthly Program Guide, falling under the Direct Mail Campaign. In an effort to boost up awareness of Public Television, KGTF has been sending the monthly Program Guide to various professional organizations such as the Guam Medical Society, the Guam Bar Association and the Chamber of Commerce memberships. Additionally, monthly Program Guides are sent out to new members who call in during Pledge Night to make a donation.

2) KGTF has also tapped into events in the community focusing around PBS programming such as the production of Les Miserables and other Broadway Favorites in concert in March of 2006 in which sponsors of the event were also underwriting programming schedules airing of Great Performances and Austin City Limits.

3) Pledge Night also focused in the area of program awareness through the production of the content of Pledge Night in which local bands/musicians were filmed performing, respectively, and asked to select their favorite episode/artist of Austin City Limits and/or Great Performances.

4) Public Awareness was also achieved in the 35th Anniversary Golf Tournament held on June 24th at Starts Golf Resort with a Who’s Who of local Golfers, professionals in their respective fields, participating in the event. Sponsors such as the Bank of Guam, Nissan, Pacsports, DFS Galleria, and Acanta Mall also became underwriters for the Legends of Golf TV show put together in honor of KGTF’s 35th Anniversary Golf Tournament.

5) In October of 2006 Development Staff attended DEVCON 06 in Baltimore, Maryland where they learned more of the details and substance in which Public Television is all about. Development returned with new ideas and implementations some of which have come into fruition this year.

Strategy IV: Grow the Plant by completing the tower upgrade and digital signal to broadcast island-wide. Expand our production capabilities by moving into a larger capacity upgraded facility, and beef up our creative output by continuing to upgrade our equipment with the needed appropriate staff training.

1) We continue work to complete the station tower upgrade and new digital antenna in order to broadcast a digital signal by the end of the 3rd quarter FY2006. We are now awaiting the results for the latest in DDF Round 10 Grant applications from the Corporation for Public Broadcasting

2) KGTF requested funding support from the Department of Commerce/National Telecommunications & Information Administration (NTIA) to purchase and replace the station’s worn analog studio/control room equipment with new digital systems. As of this date, almost all of the equipment requested on the grant proposal has been received by KGTF. Items include

Sony DVCAMS, tripods, Sony LCD monitor and video displays, lighting kits, audio and intercom devices.

3) By upgrading our plant, KGTF can better provide services based on availability, to outside productions that need to rent out our studio.

In conclusion, it is KGTF TV-12's mission to bring to the community of Guam a bright light that beckons truth, trust, integrity, and vision. To see a Guam that transcends the here and now and thrusts us forward to become a better, smarter, and more prosperous community for all our people, from the young pre-school children to the adult life-long learner.

Contacting KGTF

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

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Governmental Funds Balance Sheet/Statement of Net assets

September 30, 2006 and 2005

	<u>General Fund</u>	<u>Adjustments</u>	2006 <u>Statement of Net Assets</u>	2005 <u>Statement of Net Assets</u>
<u>Assets</u>				
Cash	\$ 410,289	-	410,289	688,033
Restricted cash	500,446	-	500,446	330,888
Time certificates of deposit	571,866	-	571,866	272,935
Accounts receivable	67,067	-	67,067	177,599
Capital assets, net	-	481,341	481,341	485,160
Receivable for annual leave	-	56,680	56,680	38,469
Total assets	<u>\$ 1,549,668</u>	<u>538,021</u>	<u>2,087,689</u>	<u>1,993,084</u>
<u>Liabilities</u>				
Accounts payable	98,127	-	98,127	107,999
Accrued liabilities	54,264	-	54,264	49,281
Long term portion of annual leave	-	56,680	56,680	38,469
Deferred revenue	26,775	-	26,775	19,543
Deferred support - unexpended DDF grant funds	298,486	-	298,486	326,532
Deferred support - unexpended grant funds	579,818	-	579,818	570,997
Total liabilities	<u>1,057,470</u>	<u>56,680</u>	<u>1,114,150</u>	<u>1,112,821</u>
<u>Fund Balances/Net Assets</u>				
Fund balances:				
General fund	492,198	(492,198)	-	-
Total fund balances	<u>492,198</u>	<u>(492,198)</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,549,668</u>			
Net assets :				
Invested in capital assets		481,341	481,341	485,160
Unrestricted		492,198	492,198	395,103
		<u>\$ 973,539</u>	<u>973,539</u>	<u>880,263</u>

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

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

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

Years Ended September 30, 2006 and 2005

	General <u>Fund</u>	<u>Adjustments</u>	2006 Statement of <u>Activities</u>	2005 Statement of <u>Activities</u>
Support and revenue:				
Local appropriation	\$ 578,361	-	578,361	596,296
Community Service Grant	872,966	-	872,966	559,572
Other grants	35,502	-	35,502	
Contributions and other revenues	220,506	-	220,506	236,291
In-kind contribution	100,496	-	100,496	127,592
Donated personal services of volunteers	12,023	-	12,023	7,511
Interest income	2,546	-	2,546	6,157
Total support and revenue	<u>1,822,400</u>	<u>-</u>	<u>1,822,400</u>	<u>1,533,419</u>
Expenditures:				
Program services:				
Station production	109,169	-	109,169	74,129
Station upgrade	14,121	-	14,121	24,263
Capital outlays	148,985	(148,985)	-	-
	<u>272,275</u>	<u>(148,985)</u>	<u>123,290</u>	<u>98,392</u>
Supporting services:				
Program broadcasting	475,432	-	475,432	442,714
Development and promotion	151,034	-	151,034	133,462
Contractual services	118,914	-	118,914	88,724
Supplies and materials	25,120	-	25,120	16,416
Local appropriation:				
Personnel services	406,314	-	406,314	314,522
Fringe benefits	116,739	-	116,739	90,169
Utilities	44,930	-	44,930	40,304
Special projects	2,028	-	2,028	18,568
In-kind expenses	100,496	-	100,496	127,592
Donated personal services of volunteers	12,023	-	12,023	7,511
Depreciation expense	-	152,804	152,804	169,655
	<u>1,453,030</u>	<u>152,804</u>	<u>1,605,834</u>	<u>1,449,637</u>
Total expenditures/expenses	<u>1,725,305</u>	<u>3,819</u>	<u>1,729,124</u>	<u>1,548,029</u>
Excess of revenues over expenditures	97,095	(97,095)	-	-
Change in net assets			93,276	(14,610)
Fund balances/net assets :				
Beginning of year	395,103	-	880,263	894,873
End of year	<u>\$ 492,198</u>	<u>-</u>	<u>973,539</u>	<u>880,263</u>

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

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

September 30, 2006

Unreserved fund balance	\$ 492,198
Amounts reported for governmental activities in the Balance Sheet differ from the amounts reported in the Statement of Net Assets because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>481,341</u>
Net assets of governmental activities	\$ <u>973,539</u>

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Statement of Activities

September 30, 2006

Net change in fund balances – governmental funds	\$ 97,095
Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balance differ from the amounts reported in the Statement of Activities because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period	(<u>3,819</u>)
Change in assets of governmental activities	\$ <u>93,276</u>

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

September 30, 2005

Unreserved fund balance	\$ 395,103
Amounts reported for governmental activities in the Balance Sheet differ from the amounts reported in the Statement of Net Assets because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>485,160</u>
Net assets of governmental activities	\$ <u>880,263</u>

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balance of Governmental Funds to the Statement of Activities

September 30, 2005

Net change in fund balances – governmental funds	\$ 132,242
Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balance differ from the amounts reported in the Statement of Activities because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period	<u>(146,852)</u>
Change in assets of governmental activities	<u>\$(14,610)</u>

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements

September 30, 2006 and 2005

(1) Organization

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

KGTF's license with the Federal Communications Commission was renewed through April 1, 2007. KGTF is subject to the condition that in the year 2009, the station will only broadcast digital television.

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

(2) Summary of Significant Accounting Policies

Introduction

The accounting and reporting framework and the more significant accounting principles and practices of KGTF are discussed in the following sections of this note. The remaining notes provide explanations and required disclosures relating to KGTF's financial activities for the fiscal year ended September 30, 2006.

Basis of Presentation

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

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

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, continued

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

Government-wide Financial Statements

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

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

Fund Financial Statements

During 2006 and 2005, KGTF accounted for its financial activities in a single governmental fund. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. KGTF's only governmental fund is the general fund which accounts for all financial resources.

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

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, continued

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

Encumbrances

Encumbrances are recorded when purchase orders are issued but not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated. There were no encumbrances at September 30, 2006.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, continued

Revenue Recognition

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

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

Capital Assets, Depreciation, and Amortization

Items of property and equipment are stated at cost at acquisition date or estimated fair value at the date of receipt in the case of donated property, except as explained below. In accordance with Public Law 12-194, all property, facilities and equipment pertaining to television production were transferred from the Learning Resource Center of the Guam Public School System (GPSS, formerly Government of Guam's Department of Education) and the University of Guam to KGTF. Title to the land on which the station facilities and equipment are located has not been perfected in the name of KGTF and is still held in the name of the GPSS. Certain property items acquired subsequent to the date of transfer are valued at estimated fair value at the date of acquisition where original cost records are not available. Fair market rental value related to this property totaling \$64,374 (\$59,100 at September 30, 2005) is included in in-kind revenues in the accompanying financial statements.

KGTF's property and equipment with useful lives of more than one year are stated at historical or estimated cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

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

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

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, continued

Impairment of Assets

Federal legislation has been passed which requires the public broadcasting industry to use digital broadcasting equipment by the year 2009. Based on this requirement, there is a potential impairment of KGTF assets. The extent of the impairment, if any, cannot be determined at this time; consequently any potential losses to KGTF have not been presented in the accompanying financial statements.

In-kind Contributions and Donated Volunteer Services

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

Income Taxes

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

Accrued Annual Leave

In previous years, KGTF has recognized costs for accrued annual leave at the time such leave is utilized or through lump-sum payment at the time of an employee's termination of employment. Unfunded accrued annual leave for all employees aggregated \$77,807 at September 30, 2006 (\$57,169 at September 30, 2005). Governmental Accounting Standards Board Statement No. 16, Accounting for Compensated Absences, provides that liabilities for vacation leave and other compensated absences, excluding sick leave, will be accrued provided the leave is attributable to past service. During the year ended September 30, 2006, the current portion of annual leave totaled \$15,170 (\$18,700 at September 30, 2005) and has been accrued and is included as a component of accrued liabilities in the accompanying financial statements. The long-term portion of annual leave totaled \$56,680 at September 30, 2006 (\$38,469 at September 30, 2005) and has been accrued and is included as long-term annual leave in the accompanying financial statements.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, continued

Fund Balances

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

Use of Estimates

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

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of KGTF.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of KGTF.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(3) Cash and certificates of deposit

At September 30, 2006, KGTF held two time deposits on account (TDOA) with interest rates at 1.65% and one time certificate of deposit with an interest rate of 3.90%.

KGTF maintains cash balances at several financial institutions located in Guam. Depositors at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At September 30, 2006, KGTF had an uninsured cash balance of \$1,290,610.

(4) Changes in Capital Assets

The following is a summary of the changes in capital assets for the years ended September 30, 2006 and 2005:

September 30, 2006:

	Balance <u>10/01/05</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>9/30/06</u>
Land improvements	\$ 18,000	-	-	18,000
Buildings and improvements	339,773	12,024	-	351,797
Studio, antenna, transmitter, other broadcasting equip.	1,119,826	57,162	-	1,176,988
Furniture, fixtures and equip.	146,852	31,926	-	178,778
Transportation equipment	<u>400,643</u>	<u>47,873</u>	-	<u>448,516</u>
	2,025,094	<u>148,985</u>	<u>-</u>	2,174,079
Less accumulated depreciation and amortization	<u>(1,539,934)</u>	<u>152,804</u>	<u>-</u>	<u>(1,692,738)</u>
Investment in capital assets	\$ <u>485,160</u>			<u>481,341</u>

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(4) Changes in Capital Assets, continued

September 30, 2005:

	Balance 10/01/04	<u>Additions</u>	<u>Disposals</u>	Balance 9/30/05
Land improvements	\$ 18,000	-	-	18,000
Buildings and improvements	339,773	-	-	339,773
Studio, antenna, transmitter, other broadcasting equip.	1,102,872	16,954	-	1,119,826
Furniture, fixtures and equip.	141,003	5,849	-	146,852
Transportation equipment	<u>400,643</u>	<u>-</u>	<u>-</u>	<u>400,643</u>
	\$ 2,002,291	<u>22,803</u>	<u>-</u>	2,025,094
Less accumulated depreciation and amortization	<u>(1,370,279)</u>	<u>169,655</u>	<u>-</u>	<u>(1,539,934)</u>
Investment in capital assets	\$ <u>632,012</u>			<u>485,160</u>

(5) Funding Sources

Government of Guam Appropriation

KGTF receives an annual appropriation from the Guam Legislature to defray the cost of salaries and related benefits, contractual services and utilities. KGTF submits an annual budget for these items. This appropriation is contingent upon KGTF having matching funds at least equal to the appropriated amount. Any unexpended funds at the end of the fiscal year revert back to the Government of Guam General Fund (GGF). For the year ended September 30, 2006 the total appropriation was \$578,361 (\$596,296 in 2005). An accrual for unpaid payroll of \$15,170 (\$11,715 at September 30, 2005) and \$1,950 (\$4,768 at September 30, 2005) for utilities expense was included in total expenditures. A reduction of \$15,340 (\$1,247 reduction at September 30, 2005) for accrued annual leave was also recorded. Deferred revenue totaling \$26,775 (\$19,543 at

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(5) Funding Sources (continued)

September 30, 2005) has been recognized and represents the amount which the GGF will provide to fund the long-term portion of annual leave.

KGTF participated in the budget process for their appropriation for fiscal year 2007. The actual amount approved has not been determined; however, support levels are expected to be approximately \$576,064.

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

Guam Council on the Arts and Humanities Agency Grant

During 2005, KGTF was awarded an \$8,000 grant from the Guam Council on the Arts and Humanities Agency for a project related to strengthening televised promotion and program of the arts. KGTF received \$2,000 in 2006 (\$6,000 in 2005) of the total grant funds and the completed the project. This amount is reflected as a component of other grants in the accompanying statement of net activities.

United Way International Grant

During 2006, KGTF was awarded a \$25,000 grant from United Way International in support of Learning Center-Educational Outreach through Technology and Books program. KGTF completed this project by establishing a computer learning center at a local library. This amount is reflected as a component of other grants in the accompanying statement of net activities.

KQED, Inc. Grant

During 2006, KGTF was awarded a \$10,000 grant from KQED, Inc. to fund an outreach program to educate communities with respect to the need to better understand and manage the ocean's natural resources. KGTF received \$7,500 of the total grant while expenditures totaled \$2,501 in 2006. The remaining amount of grant funds totaling \$4,999 is reflected as a component of deferred support in the accompanying statement of net assets.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(5) Funding Sources (continued)

United States Department of Commerce Grant

During 2006, KGTF was awarded a \$196,961 grant from United States Department of Commerce through the National Institute for Standards and Technology to upgrade broadcast equipment at the station. KGTF has yet to undertake this project. This amount is reflected as a component of deferred support in the accompanying statement of net assets.

Community Service Grants

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

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

The Federal Communications Commission has mandated that KGTF transmit a digital signal by the year 2009. KGTF has continued to move forward to meet this mandate by securing a \$500,000 Digital Distribution Grant (DDF) from CPB to cover the purchase and installation of a new digital antenna and transmitter system. As of September 30, 2006 KGTF had received \$329,960 and had expended \$28,046 (\$3,428 at September 30, 2005) of the grant monies for soil testing, legal fees and engineering fees. Cash received related to this grant is reflected as restricted cash in the accompanying statement of net assets. During 2006, KGTF inadvertently transferred \$100,000 of these funds to their operating account.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(5) Funding Sources (continued)

KGTF's CSG is reported in the accompanying financial statements under the general fund. Certain guidelines must be satisfied in connection with application for and use of the grants to meet eligibility and compliance requirements. These guidelines pertain to the use of grant funds, recordkeeping, audits, financial reporting, and licensee status with the Federal Communications Commission.

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

September 30, 2006

<u>Grant Year</u>	<u>Grant Name</u>	<u>Grants Received</u>	<u>Grants Expended</u>		<u>Deferred Portion</u>
			<u>2005</u>	<u>2006</u>	
2005	CSG	\$ 525,636	-	525,636	-
2006	CSG	558,342	-	180,484	377,858
2006	Interconnection	11,136	-	11,136	-
2005	TV SAG	114,735	75,374	39,361	-
2006	TV SAG	88,304	-	88,304	-
2004	DDF Grant	<u>329,960</u>	<u>3,428</u>	<u>28,046</u>	<u>298,486</u>
	Total	<u>\$ 1,628,113</u>	<u>78,802</u>	<u>872,967</u>	<u>676,344</u>

September 30, 2005

<u>Grant Year</u>	<u>Grant Name</u>	<u>Grants Received</u>	<u>Grants Expended</u>		<u>Deferred Portion</u>
			<u>2004</u>	<u>2005</u>	
2004	CSG	\$ 477,280	7,107	470,173	-
2005	CSG	525,636	-	-	525,636
2005	Interconnection	10,597	-	10,597	-
2005	TV SAG	114,735	-	75,374	39,361
2004	DDF Grant	<u>329,960</u>	<u>-</u>	<u>3,428</u>	<u>326,532</u>
	Total	<u>\$ 1,458,208</u>	<u>7,107</u>	<u>559,572</u>	<u>891,529</u>

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

(6) Accounts Receivable

Accounts receivable are recorded based upon services provided by KGTF for production of educational programs, public service videos, and fundraising activities as well as amounts due from the Government of Guam related to funding.

At September 30, 2006 receivables consisted of the following:

Government of Guam	\$ 44,829
Trade	<u>76,944</u>
	121,773
Less allowance for doubtful accounts	<u>(54,706)</u>
	<u>\$ 67,067</u>

At September 30 2005 receivables consisted of the following:

Government of Guam	\$ 134,243
Trade	<u>82,062</u>
	216,305
Less allowance for doubtful accounts	<u>(38,706)</u>
	<u>\$ 177,599</u>

(7) Government of Guam Employees' Retirement Plan

All full-time Government of Guam employees are members of the Government of Guam Employees' Retirement System, a defined benefit, multiple employer contributory pension plan (Plan). Effective October 1, 1995, any new employee of the Government of Guam participates in the new Defined Contribution Retirement System (DCRS). Employees with less than 20 years of service at September 30, 1995, and who are members of the defined benefit plan have the option to switch to the DCRS. If this election was not made by September 30, 1999, the employees remain under the old Plan. The Plan and the DCRS (through a third party administrator) are administered by the Government of Guam Retirement Fund to which KGTF contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

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

The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Amendments to the Retirement Fund Law have been passed by the Guam Legislature. The effect of these amendments has not been determined by actuarial survey nor reflected in the accrued amounts at September 30, 2006. Because no reliable information has been available with regard to the unfunded liability of the Plan all amounts previously accrued have been eliminated along with the related receivable. The Government of Guam Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement Fund, 424 Route 8, Maite, Guam 96927, or by calling (671) 475-8900.

The Retirement Fund has informed KGTF that the Plan's actuary has calculated that an employer contribution rate of 21.81% plus an employee contribution at the statutory rate of 9.5% of covered payroll is required to adequately fund the current cost and amortize the prior service cost over periods of 14 and 40 years, respectively.

The plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 6.5% per annum. The most recent actuarial valuation, performed as of September 30, 2005, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

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

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan. The contribution requirements of plan members may be amended by the Retirement Fund Board of Trustees. KGTF's contributions to the Retirement Fund for the years ending September 30, 2006, 2005, 2004, 2003, and 2002 were \$92,695, \$65,702, \$68,097, \$47,448, and \$47,723, respectively, equal to the required contributions for each year.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2006 and 2005

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

Members of the DCRS who have completed five years of government service and have attained the age of 55 years at termination have a vested balance of 100% of both member and employer contributions plus any earnings thereon. Members who have completed five years of service but have not attained the age of 55 are eligible for the amount of member contributions plus any earnings thereon.

(8) Risk Management

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

Guam Educational Telecommunications Corporation
(A Public Corporation)

Supplemental Schedule of Employees and Salaries

Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Government of Guam:		
Number of employees	11	10
Annual Payroll	<u>\$ 406,314</u>	<u>\$ 314,522</u>
Community Service Grant:		
Number of employees	14	14
Annual Payroll	<u>\$ 325,371</u>	<u>\$ 303,006</u>
Other Benefits	<u>\$ 40,822</u>	<u>\$ 37,007</u>

See accompanying independent auditors' report.

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

To the Board of Trustees
Guam Educational Telecommunications Corporation:

We have audited the accompanying financial statements of the Guam Educational Telecommunications Corporation (KGTF), as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated March 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Guam Educational Telecommunications Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter, which is presented below, involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item No. 3.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards. This item is described as items No. 1, No. 2 and No. 4 in the accompanying Schedule of Findings.

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

Buqu & Gomez, P.C.

March 5, 2007

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Schedule of Findings, continued

September 30, 2006

Finding No. 1

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

Condition Only 9 board meetings were held during the fiscal year ended September 30, 2006.

Cause Lack of quorum.

Effect Lack of compliance with bylaws.

Recommendation Hold regularly scheduled board meeting at regular monthly intervals

Prior year status This finding appears as finding No. 1 in the fiscal year 2005 report.

Auditee response and corrective action plan

KGTF's Board of Trustees was short two board members and is operating with a five member board. They recently have implemented a new board meeting schedule for the third Friday of the month instead of the fourth Friday in order to allow for a back up date in lieu of board meeting postponement.

Finding No. 2

Criteria An entity's accounting system and internal controls should facilitate the processing, summarizing, recording, maintenance and disclosure of financial transactions in accordance with management's assertions.

Condition We noted a variety of insignificant errors in the accounting records.

Cause There was a change in accounting staff during the fiscal year.

Effect Monthly reports submitted to Board members contained inaccuracies of relatively small dollar amount.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Schedule of Findings, continued

September 30, 2006

Recommendation Access to accounting records should be limited to those with a need for such access. Accounting personnel should be screened prior to hiring to ensure that they possess the necessary skills and knowledge to perform their duties. Ongoing training should be provided to accounting staff.

Auditee response and corrective action plan

KGTF has hired a full-time Accountant Technician to work with our accounting software with ongoing training.

Finding No. 3

Criteria Cash which is restricted by the grantor as to use should be segregated from other funds to facilitate proper accounting.

Condition Approximately \$100,000 of the DDF grant was mistakenly transferred to an operating account. Approximately \$196,000 received from the United States Department of Commerce designated for equipment upgrades were not deposited into a separate account.

Cause Clerical error for the transfer and for the deposit made to the wrong account.

Effect The chance of utilizing restricted funds for non-restricted purposes is increased, and accountability for the funds is hindered.

Recommendation Funds obtained through grants and funds that are restricted by donors should be placed in separate accounts.

Auditee response and corrective action plan

Restricted funds will now be placed in a separate account. With the addition of a full-time Accountant Technician, we now cross reference the account numbers before implementing an electronic transfer.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Schedule of Findings, continued

September 30, 2006

Finding No. 4

Criteria Payments made under contracts awarded through a bid process should be made directly to the awardee.

Condition Payments were made directly to a subcontractor of the entity awarded the contract related to the tower construction.

Cause KGTF followed the direction of the prime contractor.

Effect May not be in compliance with procurement law.

Recommendation Make all contractually required payments directly to awardee.

Auditee response and corrective action plan

KGTF will make all payments directly to the prime contractor and have them deal directly with the subcontractor.