

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

Financial Statements

September 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Trustees  
Guam Educational Telecommunications Corporation:

We have audited the accompanying balance sheets/statements of net assets of Guam Educational Telecommunications Corporation (a public corporation) as of September 30, 2005 and 2004, 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, 2005 and 2004, 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 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 31, 2006 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.

Burger & Comer, P.C.

January 31, 2006

## 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, 2005. 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, 2005 and 2004, 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>2005</u>	<u>2004</u>
Capital assets	\$ 485,160	\$ 632,012
Long-term assets	38,469	37,284
Current and other assets	<u>1,469,455</u>	<u>1,214,001</u>
Total assets	<u>\$1,993,084</u>	<u>\$1,883,297</u>
Long-term liabilities	\$ 38,469	\$ 37,284
Other liabilities	<u>1,074,352</u>	<u>951,140</u>
Total liabilities	<u>\$ 1,112,821</u>	<u>\$ 988,424</u>
Net assets		
Invested in capital assets	\$ 485,160	\$ 632,012
Unrestricted	<u>395,103</u>	<u>262,861</u>
Total net assets	<u>\$ 880,263</u>	<u>\$ 894,873</u>

Capital assets decreased by approximately \$150,000, which represents an approximate decrease of 24%. This decrease results primarily from the net effect of capital outlays of \$19,375 and depreciation expense of \$169,655. This decrease is offset by a 21% increase in current and other assets of approximately \$255,000. This increase results from a significant increase in receivables, the majority of which is due from the Government of Guam. Furthermore trade receivables also increased as KGTF has become more aggressive in promoting its various revenue generating activities. Other liabilities increased by approximately \$123,000 (13%) almost exclusively due to an increase in deferred revenues related to community service grants. Overall there was a nominal decrease on total net assets.

*Statement of Activities*

	<u>2005</u>	<u>2004</u>
Local appropriation	\$ 596,296	\$ 498,634
Community Service Grant	559,572	599,564
Contributions and other	371,394	299,533
Interest income	<u>6,157</u>	<u>5,695</u>
Total revenues	1,533,419	1,403,426
Program services	98,392	101,265
Supporting services	1,279,982	1,201,989
Depreciation expense	<u>169,655</u>	<u>298,217</u>
Total expenses	1,548,029	1,601,471
Deficiency of revenues over expenditures	( 14,610)	(198,045)
Net assets beginning of year	<u>894,873</u>	<u>1,092,918</u>
Net assets at end of year	<u>\$ 880,263</u>	<u>\$ 894,873</u>

Total revenues increased by approximately 9%. 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 equal amounts as the expenses are incurred. The true increase results from an increase in in-kind contributions and an increase in contributions and other revenues.

Total operating expenses decreased by approximately 3%. This decrease results primarily from the decrease in depreciation expense due to limited capital outlays and an aging depreciation base.

**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 \$150,000, or 24% 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 and broadcast equipment.

The latest Federal Communications Commission mandate stipulates 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 grant from CPB to cover the purchase and installation of a new digital antenna and transmitter system. Upon the execution of the contract and the receipt of funds, KGTF sought out additional grant funds to address the existing tower's reinforcement upgrade. We were successful in applying for the Digital Distribution Fund Round 7 Grant from the Corporation for Public Broadcasting (CPB) for an additional \$100,000. The intent was to immediately prioritize the tower upgrade project and proceed with our digital conversion plan. However, in the course of completing the tower structural analysis, KGTF was made aware that very substantial work would be needed on the existing tower to make it suitable for a DTV antenna and that the tower elevation was poor. It was recommended that KGTF build a new tower at a different site and we went forward seeking FCC approval for an extension of our construction permit and site change application. At this time, KGTF has secured approval from the Board of Directors for the Chamorro Land Trust for a long-term lease for 6000 square meters in Barrigada Heights, as well as 929 square meters in Merizo for our new and future tower and antenna sites. We are now in communications with the CPB about the changes in location and budgetary requirements in order to continue with the digitization process.

## **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.

In fiscal year 2005, KGTF's General Fund appropriation was increased by \$100,000 from the previous year. In addition, private and in-kind contributions to KGTF have increased by \$72,486 from the previous year.

The following is an update of KGTF TV-12's management strategy for addressing its financial and public awareness needs in FY2005.

**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.

Status: 1) KGTF launched a monthly public affairs program entitled “ViewPoint” that address in-depth news and entertainment, as well as Local TV Specials about specific government and/or community services. 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, as well as the “Buhay Pinoy” Filipino program. 3) KGTF will be launching in March 2006, the “Hafa Adai Guam USA” cultural program featuring Chamorro Artist Johnny Sablan as its host. 3) KGTF TV-12 has begun 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, Guam Public School System, Department of Public Works, Guam Council Arts and Humanity , 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 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, as well as nationwide with PBS.

Status: 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”. One example is the “Young Writers and Illustrators Contest” that we hold in conjunction with the “Reading Rainbows” national TV program. Through outlets like the GPSS, private schools and the Guam Public Library, over 400 children from the first to the third grade participate in this program every year. Another example would be the live televised town hall meeting KGTF held at the UOG Lecture Hall on the “Secret Guam Study” in conjunction with our public affairs program “ViewPoint”, as well as continued collaboration with GCC for student internships in communications and video production. 2) In addition, KGTF has written for federal grants teaming up with the Guam Public Library and were successful in obtaining a \$25,000 grant from the Citibank foundation to develop a computer center at the Hagatna Library for public use and KGTF community outreach. 3) Also in 2005, KGTF teamed up with the Pacific Islanders in Communications (PIC) organization and hosted a “Producers Academy” 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 expend our “Friends of KGTF” membership.

Status: 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 PSA’s. We have created a staff position “Development Director – Community Relations and Viewer Marketing to concentrate in this area. 2) We continue to hold fund-raising

events and have developed presentations for small gatherings throughout the year to raise donations and public awareness of KGTF-12 programming. (Intellectual and Active Groups like the Medical Association, the Bar Association, Rotary, Women's Groups, Ethnic Non-Profits, Faith-Based Organizations, etc.) 3) KGTF is about to invest in a computerized data management system to help maintain and attract annual giving from individual donors, this is to enhance and build our "Friends of KGTF" membership, as the national average of 50% of all donations raised by Public Television Stations are collected through its membership, i.e., individual donors.

***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.

Status: 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 3<sup>rd</sup> quarter FY2006. 2) We have been successful in seeking out additional federal grants to upgrade our production facility and sound stage. In FY2005 for a Department of Commerce –National Telecommunications Information Administration (NTIA) Grant and were awarded \$198,000 for digital upgrade of studio and production equipment for use in FY2006. 4) By upgrading our plant, KGTF can better provide services based on availability, to outside productions that need to rent out our studio.

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, 2005 and 2004

	<u>General Fund</u>	<u>Adjustments</u>	2005 <u>Statement of Net Assets</u>	2004 <u>Statement of Net Assets</u>
<u>Assets</u>				
Cash	\$ 688,033		688,033	850,239
Restricted cash	330,888		330,888	330,062
Time certificates of deposit	272,935		272,935	4,600
Accounts receivable	177,599		177,599	29,100
Capital assets, net	-	485,160	485,160	632,012
Receivable for annual leave	-	38,469	38,469	37,284
Total assets	<u>\$ 1,469,455</u>	<u>523,629</u>	<u>1,993,084</u>	<u>1,883,297</u>
<u>Liabilities</u>				
Accounts payable	107,999		107,999	87,667
Accrued liabilities	49,281		49,281	41,811
Long term portion of annual leave	-	38,469	38,469	37,284
Deferred revenue	19,543		19,543	21,529
Deferred support - unexpended DDF grant funds	326,532		326,532	329,960
Deferred support - unexpended grant funds	570,997		570,997	470,173
Total liabilities	<u>1,074,352</u>	<u>38,469</u>	<u>1,112,821</u>	<u>988,424</u>
<u>Fund Balances/Net Assets</u>				
Fund balances:				
General fund	395,103	(395,103)	-	-
Total fund balances	<u>395,103</u>	<u>(395,103)</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,469,455</u>			
Net assets :				
Invested in capital assets		485,160	485,160	632,012
Unrestricted		395,103	395,103	262,861
		<u>\$ 880,263</u>	<u>880,263</u>	<u>894,873</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, 2005 and 2004

	<u>General Fund</u>	<u>Adjustments</u>	2005 <u>Statement of Activities</u>	2004 <u>Statement of Activities</u>
<b>Support and revenue:</b>				
Local appropriation	\$ 596,296	-	596,296	498,634
Community Service Grant	559,572	-	559,572	599,564
Contributions and other revenues	236,291	-	236,291	170,401
In-kind contribution	127,592	-	127,592	123,723
Donated personal services of volunteers	7,511	-	7,511	5,409
Interest income	6,157	-	6,157	5,695
	<u>1,533,419</u>	<u>-</u>	<u>1,533,419</u>	<u>1,403,426</u>
<b>Total support and revenue</b>				
<b>Expenditures:</b>				
Program services:				
Station production	74,129	-	74,129	70,436
Station upgrade	24,263	-	24,263	30,829
Capital outlays	22,803	(22,803)	-	-
	<u>121,195</u>	<u>(22,803)</u>	<u>98,392</u>	<u>101,265</u>
Supporting services:				
Program broadcasting	442,714	-	442,714	430,140
Development and promotion	133,462	-	133,462	79,484
Contractual services	88,724	-	88,724	88,754
Supplies and materials	16,416	-	16,416	21,010
Local appropriation:				
Personnel services	314,522	-	314,522	324,418
Fringe benefits	90,169	-	90,169	102,920
Utilities	40,304	-	40,304	20,049
Special projects	18,568	-	18,568	6,082
In-kind expenses	127,592	-	127,592	123,723
Donated personal services of volunteers	7,511	-	7,511	5,409
Depreciation expense	-	169,655	169,655	298,217
	<u>1,279,982</u>	<u>169,655</u>	<u>1,449,637</u>	<u>1,500,206</u>
<b>Total expenditures/expenses</b>	<u>1,401,177</u>	<u>146,852</u>	<u>1,548,029</u>	<u>1,601,471</u>
<b>Excess of revenues over expenditures</b>	132,242	(132,242)	-	-
<b>Change in net assets</b>			(14,610)	(198,045)
<b>Fund balances/net assets :</b>				
Beginning of year	262,861	-	894,873	1,092,918
End of year	<u>\$ 395,103</u>	<u>-</u>	<u>880,263</u>	<u>894,873</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, 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**  
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Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

September 30, 2004

Unreserved fund balance	\$ 262,861
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>632,012</u>
Net assets of governmental activities	<u>\$ 894,873</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
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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>
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Change in assets of governmental activities	<u>\$( 14,610)</u>
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**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, 2004

Net change in fund balances – governmental funds	\$ 28,547
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>(226,592)</u>
Change in assets of governmental activities	<u>\$(198,045)</u>

# GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION

(A Public Corporation)

Notes to Financial Statements

September 30, 2005 and 2004

## (1) Organization

Guam Educational Telecommunications Corporation (GETC), a component unit of the Government of Guam, currently operates one television station under the call letters KGTF-TV. GETC was established as a public corporation by Public Law 12-194 as approved on January 2, 1975. The purpose of the Corporation is to present educational television to the people of Guam and to involve the people of Guam in its activities to the maximum extent possible.

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

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

## (2) Summary of Significant Accounting Policies

### Introduction

The accounting and reporting framework and the more significant accounting principles and practices of the Guam Educational Telecommunications Corporation (GETC) are discussed in the following sections of this note. The remaining notes provide explanations and required disclosures relating to GETC's financial activities for the fiscal year ended September 30, 2005. GETC implemented a new reporting model standard beginning October 1, 2001. Also see note 3.

### Basis of Presentation

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

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

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

September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, continued

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

Government-wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of GETC at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of GETC's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function.

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

Fund Financial Statements

During 2005 and 2004, GETC accounted for its financial activities in a single governmental fund. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. GETC's only governmental fund is the general fund which accounts for all financial resources.

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

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

September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, continued

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

Encumbrances

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

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

September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, continued

Revenue Recognition

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

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

Capital Assets, Depreciation, and Amortization

Items of property and equipment are stated at cost at acquisition date or estimated fair value at the date of receipt in the case of donated property, except as explained below. In accordance with Public Law 12-194, all property, facilities and equipment pertaining to television production were transferred from the Learning Resource Center of the Government of Guam's Department of Education and the University of Guam to GETC. Title to the land on which the station facilities and equipment are located has not been perfected in the name of GETC and is still held in the name of the Department of Education. Certain property items acquired subsequent to the date of transfer are valued at estimated fair value at the date of acquisition where original cost records are not available. Fair market rental value related to this property totaling \$59,100 (\$59,120 at September 30, 2004) is included in in-kind revenues in the accompanying financial statements.

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

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

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

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Notes to Financial Statements, continued

September 30, 2005 and 2004

(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 GETC assets. The extent of the impairment, if any, cannot be determined at this time; consequently any potential losses to GETC have not been presented in the accompanying financial statements.

In-kind Contributions and Donated Volunteer Services

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

Income Taxes

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

Accrued Annual Leave

In previous years, GETC has recognized costs for accrued annual leave at the time such leave is utilized or through lump-sum payment at the time of an employee's termination of employment. Unfunded accrued annual leave for all employees aggregated \$57,169 at September 30, 2005 (\$53,674 at September 30, 2004). 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, 2005, the current portion of annual leave totaled \$18,700 (\$16,390 at September 30, 2004) 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 \$38,469 at September 30, 2005 (\$37,284 at September 30, 2004) and has been accrued and is included as long-term annual leave in the accompanying financial statements.

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

September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, continued

Fund Balances

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

Use of Estimates

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

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

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

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

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

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

September 30, 2005 and 2004

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

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

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

(4) Cash and certificates of deposit

At September 30, 2005, GETC held two time deposits on account (TDOA) with interest rates at 0.5%.

GETC maintains cash balances at several financial institutions located in Guam. Depositors at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At September 30, 2005, GETC had an uninsured cash balance of \$1,097,853.

(5) Changes in Capital Assets

The following is a summary of the changes in capital assets for the years ended September 30, 2005 and 2004:

September 30, 2005:

Balance	Balance			
	<u>10/01/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>9/30/05</u>
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

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

September 30, 2005 and 2004

(5) Changes in Capital Assets, continued

Less accumulated depreciation and amortization	(1,370,279)	<u>169,655</u>	_____ -	(1,539,934)
Investment in capital assets	\$ <u>632,012</u>			<u>485,160</u>

September 30, 2004:

Balance				Balance
	<u>10/01/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>9/30/04</u>
Land improvements	\$ 18,000	-	-	18,000
Buildings and improvements	339,516	257	-	339,773
Studio, antenna, transmitter, other broadcasting equip.	1,040,052	62,820	-	1,102,872
Furniture, fixtures and equip.	132,455	8,548	-	141,003
Transportation equipment	<u>400,643</u>	<u>-</u>	<u>-</u>	<u>400,643</u>
	1,930,666	<u>71,625</u>	<u>-</u>	2,002,291
Less accumulated depreciation and amortization	<u>(1,072,062)</u>	<u>298,217</u>	_____ -	<u>(1,370,279)</u>
Investment in capital assets	\$ <u>858,604</u>			<u>632,012</u>

(6) Funding Sources

Government of Guam Appropriation

GETC receives an annual appropriation from the Guam Legislature to defray the cost of salaries and related benefits, contractual services and utilities. GETC submits an annual budget for these items. This appropriation is contingent upon GETC having matching funds at least equal to the appropriated amount. Any unexpended funds at the end of the fiscal year revert back to the Government of Guam General Fund (GGF). For the year ended September 30, 2005 the total appropriation was \$596,296 (\$498,634 in 2004). An accrual for unpaid payroll of \$11,715 (\$11,515 at September 30, 2004) and \$4,768 (\$7,338 at September 30, 2004) for utilities expense was included in total expenditures. A reduction of \$1,247 (\$17,165 reduction at September 30, 2004) for accrued annual leave was also recorded. Deferred revenue totaling \$19,543 (\$21,529 at September 30, 2004) has been recognized and represents the amount which the GGF will provide to fund the long-term portion of annual leave.

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

September 30, 2005 and 2004

(6) Funding Sources (continued)

GETC participated in the budget process for their appropriation for fiscal year 2006. The actual amount approved has not been determined; however, support levels are expected to be approximately \$514,000.

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

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 \$6,000 of the total grant funds and has yet to undertake the 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.

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

September 30, 2005 and 2004

(6) Funding Sources (continued)

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 from CPB to cover the purchase and installation of a new digital antenna and transmitter system. At September 30, 2004 KGTF had received \$329,960 and had not expended any of the grant monies. During 2005, KGTF expended \$3,428 of the grant monies for soil testing and engineering fees. Cash received related to this grant is reflected as restricted cash in the accompanying statement of net assets.

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

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

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 Grant	\$ 477,280	7,107	470,173	-
2005	CSG Grant	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>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>

September 30, 2004

<u>Grant Year</u>	<u>Grant Name</u>	<u>Grants Received</u>	<u>Grants Expended</u>		<u>Deferred Portion</u>
			<u>2003</u>	<u>2004</u>	
2003	CSG Grant	\$ 470,134	13,092	457,042	-
2004	CSG Grant	477,280	-	7,107	470,173
2004	Interconnection	10,478	-	10,478	-
2004	TV SAG	100,387	-	100,387	-
2003	Engineering Grant	24,550	-	24,550	-
2004	DDF Grant	<u>329,960</u>	-	-	<u>329,960</u>
	Total	<u>\$ 1,412,789</u>	<u>13,092</u>	<u>599,564</u>	<u>800,133</u>

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

September 30, 2005 and 2004

(7) Accounts Receivable

Accounts receivable are recorded based upon services provided by GETC 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 December 31, 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>

At December 31, 2004 receivables consisted of the following:

Government of Guam	\$ 24,359
Trade	<u>32,447</u>
	56,806
Less allowance for doubtful accounts	<u>( 27,706)</u>
	\$ <u>29,100</u>

(8) 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 GETC contributes based upon a fixed percentage of the payroll for those employees who are members of the Plan.

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

September 30, 2005 and 2004

(8) 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, 2005. 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 GETC that the Plan's actuary has calculated that an employer contribution rate of 20.81% 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, 2004, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

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

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan. The contribution requirements of plan members may be amended by the Retirement Fund Board of Trustees. GETC's contributions to the Retirement Fund for the years ending September 30, 2005, 2004, 2003, 2002, and 2001 were \$65,702, \$68,097, \$47,448, \$47,723, and \$56,645, respectively, equal to the required contributions for each year.

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

September 30, 2005 and 2004

(8) 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.

(9) Risk Management

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

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

To the Board of Trustees  
Guam Educational Telecommunications Corporation:

We have audited the accompanying financial statements of the Guam Educational Telecommunications Corporation (KGTF), as of and for the fiscal year ended September 30, 2005, and have issued our report thereon dated January 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Guam Educational Telecommunications Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter, which is presented below, involving the internal control over financial reporting and its operation that we consider to be 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. 2.

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

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

**Burger & Comer, P.C.**

January 31, 2006

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

September 30, 2002

**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 10 board meetings were held during the fiscal year ended September 30, 2005.

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 2004 report.

Auditee response and corrective action plan

The cause of the cancellation of the Board of Trustees' two regular monthly meetings in April and August of 2005 was a lack of quorum in both instances.

KGTF Board of Trustees' meetings have been consistent for most of the year, a drastic improvement over the previous year, mostly due to a full board membership in place.

**Finding No. 2**

Criteria Supporting documentation for all accounting records must be properly maintained and safeguarded.

Condition The cash receipt book covering most of the first quarter of the current fiscal year could not be located.

Cause Change in accounting staff.

Effect Lack of underlying support for recorded accounting entries.

Recommendation Limit access to accounting records to authorized personnel.

Auditee response and corrective action plan

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

September 30, 2002

The cause of the loss of the cash receipt book was the transition from one accountant to another in July 2005. The accounting section was rearranged and the cash receipt book may have been inadvertently thrown away.

The new accountant is now very aware of the importance of the cash receipt books that are now placed in a designated file cabinet.