

**GUAM EDUCATIONAL TELECOMMUNICATIONS  
CORPORATION**

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

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

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**SEPTEMBER 30, 2016**

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

Year Ended September 30, 2016  
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## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Guam Educational Telecommunications Corporation:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Guam Educational Telecommunications Corporation (PBS GUAM), a component unit of the Government of Guam, as of and for the fiscal year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise PBS GUAM's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Guam Educational Telecommunications Corporation as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 as well as the Schedule of Proportional Share of the Net Pension Liability on page 27 and the Schedule of Pension Contributions on page 28, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of PBS GUAM's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

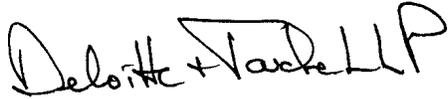
Management has omitted the Schedule of Funding Progress and Actuarial Accrued Liability – Post Employment Benefits Other Than Pension that accounting principles generally accepted in the United States of America require to be presented to supplement that basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB who considers it to be essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PBS GUAM's basic financial statements. The comparative financial information on pages 29 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The comparative financial information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative financial information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2017, on our consideration of PBS GUAM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PBS GUAM's internal control over financial reporting and compliance.

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

March 23, 2017

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION  
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Management's Discussion and Analysis  
Year Ended September 30, 2016

This discussion and analysis of Guam Educational Telecommunications Corporation (dba PBS GUAM) is intended to give an overview of our financial performance for the year ended September 30, 2016. This analysis should be read in conjunction with the following financial statements, related footnotes and required supplementary information.

**Financial Statements**

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

***Statements of Net Position***

	<u>2015</u>	<u>2016</u>
<b><u>ASSETS AND DEFERRED OUTFLOWS</u></b>		
Capital assets	\$ 1,983,785	\$ 1,849,678
Current and other assets	<u>306,534</u>	<u>315,586</u>
Total assets	2,290,319	2,165,264
Deferred outflows of resources	<u>115,495</u>	<u>165,468</u>
Total assets and deferred outflows	\$ <u>2,405,814</u>	\$ <u>2,330,732</u>
<b><u>LIABILITIES AND DEFERRED INFLOWS</u></b>		
Liabilities:		
Long-term liabilities	\$ 911,285	\$ 1,088,941
Other liabilities	<u>98,988</u>	<u>93,896</u>
Total liabilities	1,010,273	1,182,837
Deferred inflows of resources	<u>79,630</u>	<u>-</u>
Total assets and deferred inflows	<u>1,809,903</u>	<u>1,182,837</u>
<b><u>NET POSITION</u></b>		
Net position:		
Net investment in capital assets	1,983,785	1,849,678
Unrestricted	<u>(667,874)</u>	<u>(701,783)</u>
Total net position	<u>1,315,911</u>	<u>1,147,895</u>
Total liabilities, deferred inflows and net position	\$ <u>2,405,814</u>	\$ <u>2,330,732</u>

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Capital assets decreased by \$134,107 due to station depreciation expense of \$180,929 less the acquisition of related assets totaling \$46,822. Current assets increased by 3% or \$9,052 primarily due to increase in lease receivables with a radio company. Total liabilities increased by 17% or \$172,564, attributed to increase in pension liability. The decrease in total net position in primarily caused by the resultant changes as reflected above.

**Statements of Activities**

	<u>2015</u>	<u>2016</u>
Revenues:		
Local Appropriation	\$ 622,645	\$ 573,814
Corporation for Public Broadcasting Grants	739,493	695,521
Contributions and other	342,074	315,074
Interest Income	<u>809</u>	<u>746</u>
Total revenues	<u>1,705,021</u>	<u>1,585,155</u>
Expenses:		
Program service	213,838	176,929
Supporting service	1,392,544	1,395,313
Depreciation expense	<u>189,841</u>	<u>180,929</u>
Total expenses	<u>1,796,223</u>	<u>1,753,171</u>
Change in net position	(91,202)	(168,016)
Net position beginning of year	<u>1,407,113</u>	<u>1,315,911</u>
Net position at the end of the year	\$ <u>1,315,911</u>	\$ <u>1,147,895</u>

Total revenue decreased by 7% or \$119,866, which is largely attributed to Corporation for Public Broadcasting (CPB) Grants, Local Appropriation, and In-kind Contributions. Total operating expenses decreased by approximately 2% or \$43,052, which is primarily due to decrease in employee count.

**Governmental Funds**

PBS GUAM utilizes fund accounting practices to provide information on a near-term inflow, outflow and balances of spendable resources. Such information is useful in assessing PBS GUAM's financing requirements. In particular, fund balance may serve as a useful measure of PBS GUAM's net resources available for spending at the end of the fiscal year. The General Fund helps supplement funds received from CPB. At the end of the current fiscal year, the assigned fund balance amounted to \$221,690; an increase of \$14,144 compared with the prior year fund balance.

**Budgetary Highlights**

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

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Management's Discussion and Analysis  
Year Ended September 30, 2016

**Capital Assets and Long-Term Obligations**

In fiscal year 2016, PBS GUAM remained committed to upgrading its equipment and facilities. We invested \$41,200 in production gear and fiber optic cable that gives our team the capability to set a mobile full HD to 4K multi-cam production suite with the ability to record, broadcast and stream simultaneously to the viewing audience. Our production was stalled due to a reduction in our development staff and the position not being immediately filled. We had a few producers pull out of production and our General Manager resigned. We did, however, see an increase in interest by independent producers, education professionals, and the general public after new leadership was established.

For additional information concerning capital assets, please refer to Note 3 to the financial statements. PBS Guam does not have long-term debt. Please refer to Note 4 to the financial statements for additional information on long-term obligations.

**Economic Factors**

For over 46 years, PBS Guam KGTF TV12 had been Guam's recognized leader in high quality children's programming and long-form local programming. In true appreciation, thousands of Guam's elementary school children contributed over \$45,000 to support KGTF's continued operation during our 2016 Family Read-A-Thon Contest. We also actively promote PBS Learning Media and Teacher Line to augment educator effectiveness. PBS Guam is a publicly supported, recognized, valued educational institution of and for the people of Guam.

In an effort to increase public awareness and the benefit public television brings to the local community, the station organized community support from new and existing corporate supporters and partners. The objective is to extend the outreach to the island community who may not be able to watch public programming. For current viewers, the events provide opportunities that go beyond the programs found on public television in hopes to educate and inspire. In 2016, PBS Guam organized various events in which we partnered with businesses and/or other government agencies knowing the importance of being out in the community.

**Institutional Factors**

PBS Guam continues to promote its mission of providing high quality non-commercial programming for Guam residents. Our improvements in digital broadcasting, physical plant and staff skills have promoted a competitive service, but content distribution technology advances ever faster.

Stations face many different financial and technical challenges, but we're all centered on one common dilemma; how to maintain local broadcast facilities when much of the equipment is reaching the end of its life and there is no path to fund replacements or upgrade.

Another important factor to note is the efforts by management to improve operations. This included hiring a new Development Director and Development Associate to lead changes in underwriting, sponsorship and membership development. The Director is tasked to improve development efforts to help retain, gain and increase financial support from the community.

A Grant / Educational Outreach Coordinator is tasked to oversee the progress and improvement of the digital and technological efforts by finding new federal grants and continues to manage the files of the station's federal grants and reporting requirements.

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Goals that continue into the following fiscal year include: (1) the distribution of content on multiple platforms; (2) growing public television's audience and patronage through membership development, offering new local and national programs, and program enhancements such as Educational Initiative Programs; and (3) increasing public television's resources through new funding sources and additional grants. Efforts continue to further expand its outreach efforts to inform the public about the quality educational programs and resources offered by PBS GUAM, most of which are free.

PBS Guam leads the production industry on island, with the full capability to shoot, record, live-switch and stream in full 1080p High Definition or 4K High Resolution. PBS Guam was part of a successful team that produced and executed live event coverage, broadcast and streaming, of the 2016 Festival of Pacific Art. With its well experienced staff and cutting edge production needs. From community orientated content, educational programs, in studio productions to live event coverage. PBS Guam has the resources and team to ensure we meet and surpass all production needs we are presented with.

**Summary**

PBS Guam continues to face challenges of rapid technological and market change with existing staff and facilities, and rollout of upgraded production and distribution capabilities. Increased community support and funding is necessary to keep pace with technology and fulfill PBS Guam's mission to serve unmet broadcast needs of the community, and PBS' national branding to "Be More."

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Governmental Funds Balance Sheet/Statement of Net Position  
September 30, 2016

	General Fund	Adjustments (Note 2)	Statement of Net Position
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>			
Cash and cash equivalents	\$ 274,823	\$ -	\$ 274,823
Receivables, net of allowance for uncollectible accounts of \$36,587	40,044	-	40,044
Restricted assets:			
Cash and cash equivalents	719	-	719
Capital assets:			
Nondepreciable capital assets	-	18,000	18,000
Capital assets, net of accumulated depreciation	-	1,831,678	1,831,678
Total assets	315,586	1,849,678	2,165,264
Deferred outflows of resources:			
Deferred outflows from pension	-	165,468	165,468
Total assets and deferred outflows of resources	\$ 315,586	2,015,146	2,330,732
<u>LIABILITIES</u>			
Accounts payable	\$ 25,129	-	25,129
Other liabilities and accruals	8,679	-	8,679
Unexpended grant revenues	60,088	-	60,088
Long-term liabilities:			
Due within one year	-	16,222	16,222
Due after one year	-	1,072,719	1,072,719
Total liabilities	93,896	1,088,941	1,182,837
Commitments and contingencies			
<u>FUND BALANCE/NET POSITION</u>			
Fund balance:			
Assigned - supporting services	221,690	(221,690)	-
Total fund balance	221,690	(221,690)	-
Total liabilities and fund balance	\$ 315,586		
Net position:			
Net investment in capital assets		1,849,678	1,849,678
Unrestricted		(701,783)	(701,783)
Total net position		\$ 1,147,895	\$ 1,147,895

See accompanying notes to financial statements.

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Statement of Governmental Fund Revenues, Expenditures and  
Changes in Fund Balance/Statement of Activities  
Year Ended September 30, 2016

	General Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Corporation for Public Broadcasting grants	\$ 695,521	\$ -	\$ 695,521
Government of Guam appropriation	573,814	-	573,814
In-kind contributions	133,226	-	133,226
Fundraising	40,760	-	40,760
Contributions and other income	81,501	-	81,501
Underwriting	34,166	-	34,166
Interest	746	-	746
Other	25,421	-	25,421
Total revenues	1,585,155	-	1,585,155
Expenditures/expenses:			
Program services:			
Station production	126,509	-	126,509
Station upgrade	50,420	-	50,420
Capital outlays	46,822	(46,822)	-
Supporting services:			
Program broadcasting	491,385	-	491,385
Contractual services	92,300	-	92,300
Development and promotion	47,000	-	47,000
Supplies and materials	9,535	-	9,535
Local appropriations:			
Personnel services	360,030	(12,531)	347,499
Fringe benefits	145,300	60,584	205,884
Utilities	68,484	-	68,484
In-kind expenditures/expenses	133,226	-	133,226
Unallocated depreciation	-	180,929	180,929
Total expenditures/expenses	1,571,011	182,160	1,753,171
Excess of revenues over expenditures	14,144	(14,144)	
Changes in net position		(168,016)	(168,016)
Fund balance/net position:			
Beginning of the year	207,546	-	1,315,911
End of the year	\$ 221,690	\$ -	\$ 1,147,895

See accompanying notes to financial statements.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION  
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Notes to Financial Statements  
September 30, 2016

(1) Organization

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

PBS GUAM's license with the Federal Communications Commission was renewed through February 1, 2023 with the condition that the station will only broadcast digital television.

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

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

(2) Summary of Significant Accounting Policies

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

Government-wide and Fund Financial Statements

Government-wide Financial Statements:

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

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

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

Government-wide and Fund Financial Statements, Continued

Government-wide Financial Statements, Continued:

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

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

Fund Financial Statements:

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

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

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

Total fund balance - governmental funds		\$ 221,690
Add:		
Capital assets	4,497,587	
Accumulated depreciation	(2,647,909)	
Deferred outflow of resources	<u>165,468</u>	
		2,015,146
Less:		
Compensated absences payable	(50,078)	
DCRS sick leave liability	(11,660)	
Net pension liability	<u>(1,027,203)</u>	
		<u>(1,088,941)</u>
Total net position - governmental activities		\$ <u>1,147,895</u>

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Notes to Financial Statements  
September 30, 2016

(2) Summary of Significant Accounting Policies, Continued

Government-wide and Fund Financial Statements, Continued

Fund Financial Statements, Continued:

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

Net change in fund balance - governmental funds		\$ 14,144
<p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:</p>		
Capital outlays	\$ 46,822	
Depreciation expense	<u>(180,929)</u>	(134,107)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. For the current year, these activities consist of:</p>		
Change in compensated absences	(1,319)	
Change in DCRS sick leave liability	13,850	
Net pension liability	<u>(60,584)</u>	<u>(48,053)</u>
Change in net position - governmental activities		\$ <u>(168,016)</u>

Measurement Focus and Basis of Accounting

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

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

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

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Notes to Financial Statements  
September 30, 2016

(2) Summary of Significant Accounting Policies, Continued

Measurement Focus and Basis of Accounting, Continued

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

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

Budget

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

Cash and Cash Equivalents

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

For purposes of the balance sheet/statement of net position, cash and cash equivalents is defined as cash on hand and cash held in demand accounts. As of September 30, 2016, the carrying amount of cash and cash equivalents was \$275,542 and the corresponding bank balance was \$279,201. Of the bank balance amount, \$100,922 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and \$178,279 is maintained in credit unions subject to National Credit Union Administration (NCUA) insurance. As of September 30, 2016, all bank deposits are fully insured.

Receivables

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

Restricted Assets

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

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Notes to Financial Statements  
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(2) Summary of Significant Accounting Policies, Continued

Capital Assets

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

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

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

Estimated useful lives for depreciable assets are as follows:

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

Deferred Outflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. PBS GUAM has determined the differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and pension contributions made subsequent to the measurement date qualify for reporting in this category.

In-kind Contributions and Donated Volunteer Services

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

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Notes to Financial Statements  
September 30, 2016

(2) Summary of Significant Accounting Policies, Continued

Income Taxes

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

Compensated Absences

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

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

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

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

Public Law 26-86 allows members of the Defined Contribution Retirement System to receive a lump sum payment of one-half of their accumulated sick leave upon retirement. PBS GUAM has accrued an estimated liability of \$11,660 at September 30, 2016 for potential future sick leave payments as a result of this law. However, this amount is an estimate and actual payout may be materially different than estimated.

Unexpended Grant Revenues

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

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Notes to Financial Statements  
September 30, 2016

(2) Summary of Significant Accounting Policies, Continued

Pensions

Pensions are required to be recognized and disclosed in the government-wide financial statements using the accrual basis of accounting. PBS GUAM recognizes a net pension liability for the pension plan in which it participates, which represents PBS GUAM's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a single employer plan, measured as of the fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Deferred Inflows of Resources

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

Fund Balance

Governmental fund balances are classified as follows:

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

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

A formal minimum fund balance policy has not been adopted.

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Notes to Financial Statements  
September 30, 2016

(2) Summary of Significant Accounting Policies, Continued

Estimates

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

New Accounting Standards

During the fiscal year ended September 30, 2016, PBS GUAM implemented the following pronouncements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements  
September 30, 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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Notes to Financial Statements  
September 30, 2016

(3) Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	October 1, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2016</u>
Non-depreciable capital assets:				
Land improvements	\$ <u>18,000</u>	\$ _____ -	\$ _____ -	\$ <u>18,000</u>
Depreciable capital assets:				
Buildings and improvements	346,609	-	-	346,609
Broadcasting equipment	3,110,619	-	(46,656)	3,063,963
Studio, antenna, transmitter, and other equipment	351,006	43,222	(40,845)	353,383
Furniture and fixtures	199,713	3,600	(5,567)	197,746
Transportation equipment	<u>424,818</u>	_____ -	_____ -	<u>424,818</u>
	4,432,765	46,822	(93,068)	4,386,519
Less accumulated depreciation	<u>(2,466,980)</u>	<u>(180,929)</u>	<u>93,068</u>	<u>(2,554,841)</u>
	<u>1,965,785</u>	<u>(134,107)</u>	_____ -	<u>1,831,678</u>
	\$ <u>1,983,785</u>	\$ <u>(134,107)</u>	\$ _____ -	\$ <u>1,849,678</u>

(4) Long-term Obligations

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2016, the following changes occurred in liabilities reported as part of PBS GUAM's long-term liabilities in the statement of net position:

	Balance October 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2016	Due Within <u>One Year</u>
Compensated absences	\$ 48,759	\$ 1,319	\$ -	\$ 50,078	\$ 16,222
DCRS sick leave liability	25,510	-	(13,850)	11,660	-
Net pension liability	<u>837,016</u>	<u>190,187</u>	_____ -	<u>1,027,203</u>	_____ -
	<u>\$ 911,285</u>	<u>\$ 191,506</u>	<u>\$ (13,850)</u>	<u>\$ 1,088,941</u>	<u>\$ 16,222</u>

(5) Funding Sources

Government of Guam (GovGuam) Appropriation

PBS GUAM receives an annual appropriation from the Guam Legislature to defray the cost of salaries and related benefits, contractual services and utilities. PBS GUAM submits an annual budget for these items. This appropriation is contingent upon PBS GUAM having matching funds at least equal to the appropriated amount. Any unexpended funds at the end of the fiscal year revert back to GovGuam's General Fund. For the year ended September 30, 2016, the total appropriation was \$573,814.

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Notes to Financial Statements  
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(5) Funding Sources, Continued

Corporation for Public Broadcasting (CPB) Grants

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) and Local Service Grants (LSGs) to qualifying public telecommunications entities based on budget submissions. CSGs and LSGs are used to augment the financial resources of public broadcasting stations and thereby to enhance the quality of programming and expand the scope of public broadcasting services. Each CSG and LSG may be expended over one or two fiscal years as described in the Communications Act, 47 United States Code Annotated Section 396(k)(7), (1983 Supplement). In any event, each grant must be expended within two years of the initial grant authorization.

In addition, CPB distributes other funding, including Interconnection Grants, which are used to pay for interconnection and/or program distribution costs.

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

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

CPB grants received and expended during the year ended September 30, 2016 were as follows:

<u>Grant Year</u>	<u>Grant Name</u>	<u>Grants Received</u>	<u>Beginning Unexpended Portion</u>	<u>Grants Expended</u>	<u>Ending Unexpended Portion</u>
2014	CSG	\$ -	\$ 60,311	\$ 60,311	\$ -
2015	CSG	614,554	-	554,466	60,088
2015	LSG	69,474	-	69,474	-
2015	Interconnection	<u>11,270</u>	<u>-</u>	<u>11,270</u>	<u>-</u>
	Total	<u>\$ 695,298</u>	<u>\$ 60,311</u>	<u>\$ 695,521</u>	<u>\$ 60,088</u>

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Notes to Financial Statements  
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(6) Employee Retirement Plans

Defined Benefit Plan

A. General Information About the Pension Plan:

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

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

*Plan Membership:* As of September 30, 2015, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,197
Terminated employees entitled to benefits but not yet receiving them	4,701
Current members	<u>2,460</u>
	<u>14,358</u>

*Benefits Provided:* The DB Plan provides pension benefits to retired employees generally based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or \$6,000, whichever is greater. Cost-of-living adjustments and other supplemental annuity benefits are provided to members and beneficiaries at the discretion of the Guam Legislature.

Members who joined the DB Plan prior to October 1, 1981 may retire with 10 years of service at age 60 (age 55 for uniformed personnel); or 20 to 24 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 25 years of service at any age.

Members who joined the DB Plan on or after October 1, 1981 and prior to August 22, 1984 may retire with 15 years of service at age 60 (age 55 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 60; or completion of 30 years of service at any age.

Members who joined the DB Plan after August 22, 1984 and prior to October 1, 1995 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or completion of 30 years of service at any age.

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Notes to Financial Statements  
September 30, 2016

(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Upon termination of employment before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. A member who terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years. In the event of disability during employment, members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds of the average of their three highest annual salaries received during years of credited service. The DB Plan also provides death benefits.

*Contributions and Funding Policy:* Contribution requirements of participating employers and active members are determined in accordance with Guam law. Employer contributions are actuarially determined under the One-Year Lag Methodology. Under this methodology, the actuarial valuation date is used for calculating the employer contributions for the second following fiscal year. For example the September 30, 2014 actuarial valuation was used for determining the year ended September 30, 2016 statutory contributions. Member contributions are required at 9.54% of base pay (9.55% in 2015).

As a result of actuarial valuations performed as of September 30, 2014, 2013, and 2012, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2016, 2015 and 2014, respectively, have been determined as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Normal costs (% of DB Plan payroll)	15.86%	15.92%	16.61%
Employee contributions (DB Plan employees)	<u>9.54%</u>	<u>9.55%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.32%</u>	<u>6.37%</u>	<u>7.11%</u>
Employer portion of normal costs (% of total payroll)	1.94%	2.05%	2.39%
Unfunded liability cost (% of total payroll)	<u>22.42%</u>	<u>24.09%</u>	<u>24.01%</u>
Government contribution as a % of total payroll	<u>24.36%</u>	<u>26.14%</u>	<u>26.40%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>28.16%</u>	<u>29.85%</u>	<u>30.03%</u>
Employee	<u>9.54%</u>	<u>9.55%</u>	<u>9.50%</u>

PBS GUAM's contributions to the DB Plan for the years ended September 30, 2016, 2015 and 2014 were \$68,965 \$53,396 and \$54,643, respectively, which were equal to the statutorily required contributions for each year.

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Notes to Financial Statements  
September 30, 2016

(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

*Actuarial Assumptions:* Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	16.58 years
Asset Valuation Method:	3-year smoothed market value
Inflation:	2.75%
Total payroll growth:	3.00% per year
Salary Increases:	4.50% to 7.50%
Expected Rate of Return:	7.00%
Discount Rate:	7.00%
Retirement age:	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality:	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information:	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007-2011, and was first reflected in the actuarial valuation as of September 30, 2012.

*Discount Rate:* The total pension liability is calculated using a discount rate of 7.0% that is a blend of the expected investment rate of return and a high quality bond index rate. There was no change in the discount rate since the previous year. The expected investment rate of return applies for as long as the plan assets (including future contributions) are projected to be sufficient to make the projected benefit payments. If plan assets are projected to be depleted at some point in the future, the rate of return of a high quality bond index is used for the period after the depletion date.

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Notes to Financial Statements  
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(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

*Discount Rate Sensitivity Analysis:* The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate <u>6.0%</u>	Current Discount Rate <u>7.0%</u>	1% Increase in Discount Rate <u>8.0%</u>
Net Pension Liability	\$ <u>1,248,118</u>	\$ <u>1,027,203</u>	\$ <u>837,173</u>

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

*Pension Liability:* At September 30, 2016, PBS GUAM reported a liability of \$1,027,203 for its proportionate share of the net pension liability. PBS GUAM's proportion of the net pension liability was based on projection of PBS GUAM's long-term share of contributions to the pension plan relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2016, PBS Guam's proportion was 0.0750%.

*Pension Expense:* For the year ended September 30, 2016, PBS GUAM recognized pension expense of \$165,827.

*Deferred Outflows and Inflows of Resources:* At September 30, 2016, PBS GUAM reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 12,882	\$ -
Net difference between projected and actual earnings on pension plan investments	11,608	-
Contributions subsequent to the measurement date	111,257	-
Changes in proportion and difference between PBS GUAM contributions and proportionate share of contributions	<u>29,721</u>	<u>-</u>
	<u>\$ 165,468</u>	<u>\$ -</u>

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Notes to Financial Statements  
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(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

B. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2016 will be recognized in pension expense as follows:

<u>Year Ended</u> <u>September 30</u>	
2017	\$ 36,498
2018	\$ (6,105)
2019	\$ 8,496
2020	\$ 15,322

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions for the DCRS plan for the year ended September 30, 2016 are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular pay is deposited into the DCRS. The remaining amount is contributed towards the unfunded liability of the defined benefit plan.

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

PBS GUAM's contributions to the DCRS Plan for the years ended September 30, 2016, 2015 and 2014 were \$51,398, \$63,215 and \$46,191, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$42,292, \$52,628 and \$38,501 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2016, 2015 and 2014, respectively.

Other Post Employment Benefits

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain postretirement healthcare benefits to retirees who are members of the GovGuam Retirement Fund. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. For the years ended September 30, 2016, 2015 and 2014, PBS GUAM's contributions to this Plan amounted to \$17,639, \$31,265 and \$29,674, respectively, equal to the statutorily required contributions for each year.

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

Notes to Financial Statements  
September 30, 2016

(6) Employee Retirement Plans, Continued

Other Post Employment Benefits, Continued

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

(7) Lease Commitments

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

<u>Year Ending</u> <u>September 30,</u>	
2017	\$ 10,200
2018	10,200
2019	10,200
2020	10,200
2021	10,200
2022 - 2026	51,000
2027 - 2028	<u>20,400</u>
	\$ <u>122,400</u>

(8) Risk Management

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

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
**(A Component Unit of the Government of Guam)**

Required Supplemental Information (Unaudited)  
Schedule of Proportional Share of the Net Pension Liability  
Last 10 Fiscal Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total net pension liability	\$ 1,370,173,934	\$ 1,246,306,754	\$ 1,303,304,636
PBS GUAM's proportionate share of the net pension liability	\$ 1,027,203	\$ 837,016	\$ 915,805
PBS GUAM's proportion of the net pension liability	0.07%	0.07%	0.07%
PBS GUAM's covered-employee payroll**	\$ 356,263	\$ 324,703	\$ 302,727
PBS GUAM's proportionate share of the net pension liability as percentage of its covered employee payroll	288.33%	257.78%	302.52%
Plan fiduciary net position as a percentage of the total pension liability	53.50%	56.60%	53.45%

\* This data is presented for those years for which information is available.

\*\* Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION**  
**(A Component Unit of the Government of Guam)**

Required Supplemental Information (Unaudited)  
Schedule of Pension Contributions  
Last 10 Fiscal Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 101,094	\$ 90,585	\$ 86,933
Contribution in relation to the actuarially determined contribution	<u>111,257</u>	<u>106,025</u>	<u>93,144</u>
Contribution deficiency (excess)	\$ <u>(10,163)</u>	\$ <u>(15,440)</u>	\$ <u>(6,211)</u>
PBS GUAM's covered-employee payroll **	<u>\$ 356,263</u>	<u>\$ 324,703</u>	<u>\$ 302,727</u>
Contribution as a percentage of covered-employee payroll	31.23%	32.65%	30.77%

\* This data is presented for those years for which information is available.

\*\* Covered-employee payroll data from the actuarial valuation date with one-year lag.

See Accompanying Independent Auditors' Report.

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

Governmental Funds Balance Sheet/Schedule of Net Position  
September 30, 2016  
(With comparative totals as of September 30, 2015)

	General Fund		Schedule of Net Position	
	2016	2015	2016	2015
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>				
Cash and cash equivalents	\$ 274,823	\$ 280,385	\$ 274,823	\$ 280,385
Receivables, net	40,044	25,432	40,044	25,432
Restricted assets:				
Cash and cash equivalents	719	717	719	717
Capital assets:				
Nondepreciable capital assets	-	-	18,000	18,000
Capital assets, net of accumulated depreciation	-	-	1,831,678	1,965,785
Total assets	<u>\$ 315,586</u>	<u>\$ 306,534</u>	<u>2,165,264</u>	<u>2,290,319</u>
Deferred outflows of resources:				
Deferred outflows from pension			165,468	115,495
Total assets and deferred outflows of resources			<u>2,330,732</u>	<u>2,405,814</u>
<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>				
Accounts payable	\$ 25,129	\$ 26,697	25,129	26,697
Other liabilities and accruals	8,679	11,980	8,679	11,980
Unexpended grant revenues	60,088	60,311	60,088	60,311
Long-term liabilities:				
Due within one year	-	-	16,222	19,867
Due after one year	-	-	1,072,719	891,418
Total liabilities	<u>93,896</u>	<u>98,988</u>	<u>1,182,837</u>	<u>1,010,273</u>
Deferred inflows of resources:				
Deferred inflows from pension			-	79,630
Total liabilities and deferred inflows of resources			<u>1,182,837</u>	<u>1,089,903</u>
<u>FUND BALANCE/NET POSITION</u>				
Fund balance:				
Assigned - supporting services	221,690	207,546		
Total fund balance	<u>221,690</u>	<u>207,546</u>		
Total liabilities and fund balance	<u>\$ 315,586</u>	<u>\$ 306,534</u>		
Net position:				
Net investment in capital assets			1,849,678	1,983,785
Unrestricted			(701,783)	(667,874)
Total net position			<u>\$1,147,895</u>	<u>\$ 1,315,911</u>

See Accompanying Independent Auditors' Report.

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

Governmental Funds Balance Sheet/Schedule of Net Position  
Changes in Fund Balance/Schedule of Activities  
Year Ended September 30, 2016  
(With comparative totals for the year ended September 30, 2015)

	General Fund		Schedule of Activities	
	2016	2015	2016	2015
Revenues:				
Corporation for Public Broadcasting grants	\$ 695,521	\$ 739,493	\$ 695,521	\$ 739,493
Government of Guam appropriation	573,814	622,645	573,814	622,645
In-kind contributions	133,226	164,550	133,226	164,550
Fundraising	40,760	44,406	40,760	44,406
Contributions and other income	81,501	62,480	81,501	62,480
Underwriting	34,166	61,916	34,166	61,916
Interest	746	809	746	809
Other	<u>25,421</u>	<u>8,722</u>	<u>25,421</u>	<u>8,722</u>
Total revenues	<u>1,585,155</u>	<u>1,705,021</u>	<u>1,585,155</u>	<u>1,705,021</u>
Expenditures/expenses:				
Program services:				
Station production	126,509	130,485	126,509	130,485
Station upgrade	50,420	83,353	50,420	83,353
Capital outlays	46,822	19,177	-	-
Supporting services:				
Program broadcasting	491,385	475,017	491,385	475,017
Contractual services	92,300	104,093	92,300	104,093
Development and promotion	47,000	70,131	47,000	70,131
Supplies and materials	9,535	13,451	9,535	13,451
Local appropriations:				
Personnel services	360,030	384,040	347,499	402,243
Fringe benefits	145,300	153,035	205,884	77,489
Utilities	68,484	83,595	68,484	83,595
Contractual services	-	1,975	-	1,975
In-kind expenditures/expenses	133,226	164,550	133,226	164,550
Unallocated depreciation	<u>-</u>	<u>-</u>	<u>180,929</u>	<u>189,841</u>
	<u>1,571,011</u>	<u>1,682,902</u>	<u>1,753,171</u>	<u>1,796,223</u>
Excess of revenues over expenditures	14,144	22,119		
Change in net position			(168,016)	(91,202)
Fund balance/net position:				
Beginning of the year	<u>207,546</u>	<u>185,427</u>	<u>1,315,911</u>	<u>1,407,113</u>
End of the year	<u>\$ 221,690</u>	<u>\$ 207,546</u>	<u>\$ 1,147,895</u>	<u>\$ 1,315,911</u>

See Accompanying Independent Auditors' Report.

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

Supplemental Schedule of Employees and Salaries  
Year Ended September 30, 2016  
(With comparative totals for the year ended September 30, 2015)

	<u>2016</u>		<u>2015</u>	
	<u>Annual</u>	<u>Number of</u>	<u>Annual</u>	<u>Number of</u>
	<u>Payroll</u>	<u>Employees</u>	<u>Payroll</u>	<u>Employees</u>
Expenditures:				
Community Service Grant:				
Program services:				
Station production	\$ 117,329	2	\$ 121,986	3
Station upgrade	47,429	1	78,138	2
Supporting services:				
Program broadcasting	111,934	4	95,085	5
Development and promotion	<u>26,655</u>	<u>1</u>	<u>39,730</u>	<u>1</u>
	<u>\$ 303,347</u>	<u>8</u>	<u>\$ 334,939</u>	<u>11</u>
Government of Guam:				
Local appropriations	<u>\$ 360,030</u>	<u>9</u>	<u>\$ 384,040</u>	<u>10</u>

See Accompanying Independent Auditors' Report.

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

Board of Trustees  
Guam Educational Telecommunications Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Guam Educational Telecommunications Corporation (PBS Guam) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise PBS Guam's basic financial statements, and have issued our report thereon dated March 23, 2017.

### **Internal Control Over Financial Reporting**

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

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

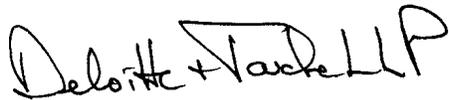
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

## Compliance and Other Matters

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

## Purpose of this Report

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

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

March 23, 2017