



OFFICE OF THE PUBLIC AUDITOR

**Guam Educational Telecommunications Corporation
(KGTF Channel 12)
FY 2006 Financial Highlights**

April 11, 2007

The Guam Educational Telecommunications Corporation, also known as KGTF Channel 12 has consistently issued its annual audit timely before the June 30th deadline. The audited financial statements conducted by Burger and Comer show that KGTF had a \$93,000 increase in net assets (profit) in FY 2006 compared to a net decrease (loss) of \$15,000 in FY 2005. This is the first increase in net assets KGTF has reported since FY 2001. The \$93,000 increase was mainly due to an increase in support and revenues.

KGTF's revenues increased by \$289,000, from \$1.5 million in FY 2005 to \$1.8 million in FY 2006. Revenues are derived from three major sources: Community Service Grants (CSG) and other grants of \$908,000 or 49.9% of total revenue, General Fund appropriation of \$578,000 or 31.7% and contributions of \$221,000 or 12.1%. Although General Fund appropriation and contributions decreased by a combined \$34,000, CSGs and other grants increased by \$349,000 or 62% from FY 2005.

Expenditures for FY 2006 were \$1.7 million, \$181,000 increase from the \$1.5 million expended in FY 2005. Expenditures for personnel services and fringe benefits increased \$118,000 from \$405,000 in FY 2005 to \$523,000 in FY 2006. Expenditures also increased for support services by \$89,000, mainly due to the \$33,000 increase in program broadcasting and \$30,000 increase in contractual services.

The Federal Communications Commission stipulates that KGTF transmit a digital signal by February 2009. Due to the digital requirement, existing equipment may become obsolete. However, the extent of the possible impact on KGTF assets cannot be determined at this time.

KGTF's investments in time certificates of deposit more than doubled from \$273,000 in 2005 to \$572,000 in 2006. These deposits are earning 1.65% to 3.9% interest or revenue, a significant increase over the .5% rate KGTF was earning in FY 2005.

As of September 30, 2006, KGTF had 25 employees, 11 of whom are government employees funded by the General Fund appropriation. The other 14 employees are paid by the Community Service Grant and are not members of the government of Guam retirement system.

In KGTF's report on compliance and internal controls, there were four findings. The first was a repeat finding from the last four years' audits and was related to KGTF's Board of Trustees meeting only nine times during the fiscal year. KGTF's board is required to meet at least once a month. The second finding cited a variety of errors in the accounting records due to the lack of training and turnover in accounting staff. The third finding was related to the co-mingling of restricted funds with other funds, again due to accounting staff turnover. The fourth finding

cited payments that were made directly to a sub-contractor of the entity awarded a contract related to the tower construction. The agreement was with the prime contractor, not the sub-contractor.

Additionally, a Hotline tip to the Office of the Public Auditor alleged expenditures by KGTF on events such as staff luncheons, civic and other membership dues. Upon request, KGTF provided the following information:

From FY 2001 through FY 2006 KGTF spent \$23,316 (FY 2001- \$3,729, FY 2002- \$5,623, FY 2003- \$1,446, FY 2004- \$2,683, FY 2005- \$4,031, FY 2006- \$5,804) on Christmas and Labor Day parties, staff luncheons, civic organization and other membership dues, civic organization meetings, staff meetings, KGTF-client meetings, and staff birthday cakes.

From FY 2002 through FY 2006 KGTF spent \$8,505 (FY 2002- \$1,128, FY 2003- \$220, FY 2004- \$700, FY 2005- \$2,260, FY 2006- \$4,197) on other expenditures such as production crew meals, food expenses for education and community outreach expenses, advisory board and fundraising committee meetings, and board meetings.

Although the financial auditor did not comment on these expenditures, OPA questions its appropriateness as we could not determine if Board approval was obtained. If such expenditures are to continue, OPA urges the KGTF Board of Directors to review the appropriateness of these expenditures. Particularly, the Board should review and approve the spending of the General Manager and other members of management. As a matter of disclosure, the chairman of the board is the stepson of the Public Auditor.

For a more detailed discussion on KGTF's operations, see the Management's Discussion and Analysis.