

**GUAM EDUCATIONAL TELECOMMUNICATIONS
CORPORATION**

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

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

SEPTEMBER 30, 2010

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Guam Educational Telecommunications Corporation:

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 year ended September 30, 2010, which collectively comprise the Corporation's basic financial statements. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

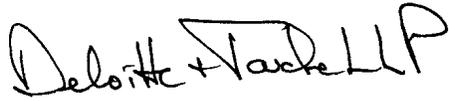
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2010, and the respective changes in financial position thereof for the year 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 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Corporation. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules on pages 23 through 25 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplemental schedules are the responsibility of the Corporation's management. The 2010 information in such schedules has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2011, on our consideration of the Corporation'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

January 21, 2011

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

Management's Discussion and Analysis
Year Ended September 30, 2010

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, 2010. This analysis should be read in conjunction with the following financial statements, related footnotes and additional 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 Assets that identifies the characteristics and value of an entity's available resources (assets) as well as its obligations (liabilities) at a specific point in time. Net Assets 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.

Financial Analysis

Our analysis is based on the following condensed financial data for the years ended September 30, 2010 and 2009, 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>2010</u>	<u>2009</u>
Capital assets	\$ 2,420,404	\$ 2,611,734
Current and other assets	<u>821,387</u>	<u>750,660</u>
Total assets:	<u>\$ 3,241,791</u>	<u>\$ 3,362,394</u>
Long-term liabilities	\$ 85,102	\$ 85,102
Other liabilities	<u>325,486</u>	<u>241,779</u>
Total liabilities:	<u>410,588</u>	<u>326,881</u>
Net assets		
Invested in capital assets	2,420,404	2,611,734
Unrestricted	<u>410,799</u>	<u>423,779</u>
Total net assets:	<u>2,831,203</u>	<u>3,035,513</u>
	<u>\$ 3,241,791</u>	<u>\$ 3,362,394</u>

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

Management's Discussion and Analysis
Year Ended September 30, 2010

Capital assets decreased by approximately 7%, or \$191,330 due to the retirement and related depreciation of assets as part of the digital conversion. However, current assets increased by approximately 9%, or \$70,727, a result of an increase in restricted cash balances. Total liabilities increased by 26%, or \$83,707, attributed to deferred revenues associated with unexpended grant funds. The decrease in total net assets is primarily caused by the increase in current liabilities as reflected above.

Statement of Activities

	<u>2010</u>	<u>2009</u>
Revenues:		
Local appropriation	\$ 609,501	\$ 596,280
Community Service Grant	621,874	770,261
Contributions and other	360,467	410,286
DDF Grant	-	2,462,673
Interest income	<u>6,253</u>	<u>12,385</u>
Total revenue:	<u>1,598,095</u>	<u>4,251,885</u>
Expenses:		
Program services	200,349	239,911
Supporting services	1,409,952	1,508,294
Depreciation expense	<u>192,104</u>	<u>212,241</u>
Total expense:	<u>1,802,405</u>	<u>1,960,446</u>
Change in net assets	(204,310)	2,291,439
Net assets beginning of year	<u>3,035,513</u>	<u>744,074</u>
Net assets at the end of the year	\$ <u>2,831,203</u>	\$ <u>3,035,513</u>

Total revenues reflect a large decrease primarily due to prior year (2009) DDF Grant award, which did not carry into 2010. This reduction reflects the decrease in both contributions and interest income as a result of economic conditions and challenges in securing underwriting and sponsorship revenues.

Total operating expenses increased by a small margin, approximately 8%. Related expenses and revenues are recognized in approximate equal amounts as the expenses are incurred.

Governmental Funds

PBS Guam utilizes fund accounting to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing PBS Guam's financing requirements. In particular, unreserved 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 is the chief operating fund of PBS Guam. At the end of the current fiscal year, the unreserved fund balance amounted to \$495,901, a decrease of 3% or \$12,980 compared with the prior year unreserved fund balance.

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

Management's Discussion and Analysis
Year Ended September 30, 2010

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.

Capital Assets

PBS GUAM has \$2,420,404 invested in capital assets. This represents a decrease of approximately 7% over the previous year, primarily from the retirement of equipment as a consequence of the digital conversion. The actual composition and the activity within these accounts are presented in more detail in the notes to the financial statements.

The Digital Television Transition and Public Safety Act of 2005 requires PBS GUAM to stop broadcasting in analog and begin digital transmission by February 17, 2009. On February 14, 2009, three days in advance of the transition deadline, PBS GUAM met the DDF project schedule and began its digital transmission on Guam. Today, viewers are afforded better viewing experience, and the station plans to capitalize on the opportunities for other broadcasting services including emergency responder services.

Consequently, new assets are being acquired with the continued assistance and grant support from the Corporation for Public Broadcasting. Assets are also being secured through PBS support, such as the construction of a new satellite by the office facility. This will allow PBS GUAM to receive national programs via satellite.

Economic Factors

Two major economic industries on Guam are tourism and the military. Preliminary reports in 2010 reflect a positive upturn in tourism. Also, the activities surrounding the U.S. military build-up on Guam have contributed to an economic upswing, offering continued optimism. However, corporations remain cautiously optimistic, and share limited marketing funds for non-profit support, such as PBS GUAM who greatly depend on public support. Hence, corporate support remains low compared to previous periods. Major public funders of public television recognize the economic hardships faced by small public television stations and augment with small grants to continue the digital momentum and maintain programs. Local outreach efforts in FY 2010 aimed to grow public support and new funding sources. The membership program is slowly increasing its patronage from individual, family and corporate supporters. New educational outreach and awareness campaigns aid in building patronage for public television.

Institutional Factors

Today, viewers are afforded better viewing experience through the digital transmission, and the station has opportunities for other broadcasting services to include emergency responder services and additional channels. This essentially will require further financial support for new technology and skill sets. Management continues its grant applications to further its capabilities resulting from the digital transmission.

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

Management's Discussion and Analysis
Year Ended September 30, 2010

PBS GUAM had initially secured a 20-year term lease with the Government of Guam's Chamorro Land Trust Commission (CLTC) for 6,000 square meters in Barrigada Heights for the new tower, transmitter building and antennae site. This site was considered a superior site for the construction of the new tower and transmitter facility. The CLTC had initially provided a waiver in the monthly lease for the first two years. Management has attempted to reach an agreement with the CLTC to do a trade for production and broadcasting services. This would aid in reducing the station's liabilities. To date, the station still awaits the decision from the CLTC.

Another important factor to note is the efforts by management to improve operations. This included the hiring of a new Development Director 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. The production department had changes in the leadership of local production, which meant changes in program development, as well as related projected and actual production revenues.

The Grant / Educational Outreach Coordinator was tasked to oversee the progress and improvement of the digital and technological efforts. The Coordinator continues to manage the files of the station's federal grants and reporting requirements. Grant reports and new grant applications were written since her hire, and two subsequent grants have been awarded to the station to support the digital transition. Note that the responsibility of educational outreach was recognized as a better fit for the Membership coordinator.

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.

The station operations are being redesigned to ensure growth and sustainability during the new digital era, as well as to survive economic and administrative changes. Efforts are underway to modernize and expand its facilities and equipment to meet the digital era, limited by available funds raised by the station.

Advancing the station included necessary expenses in line with improvements in the production department and supporting the new membership program, though cost reduction and recycling measures continue and is enforced by management. Management continues to work on improving the accounting process, to include a new accounting structure to improve accountability and the management of limited resources.

Summary

Aligning with its mission and with its existing resources, PBS GUAM continues to provide the people of Guam with programming and services of the highest quality, using media to educate, inspire, entertain, and express the diversity of perspectives. Through quality programming, PBS GUAM strives to empower individuals to achieve their potential and strengthen the social, democratic, and cultural health of Guam and the nation. In order to accomplish this, plans are being developed to further attain public and individual support. Furthermore, with the anticipated digital transmission capabilities, PBS GUAM will continue to bring free and accessible programming and services of the highest quality to everyone.

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

Management's Discussion and Analysis
Year Ended September 30, 2010

Contacting PBS GUAM's Financial Management

This financial report is designed to provide our community and others a general overview of PBS GUAM'S finances and to demonstrate its accountability for the money it collects. If you have questions about this report or needs additional financial information, contact the General Manager at P. O. Box 21449, GMF, Guam 96921 or via email at PBS_GUAM12@ite.net.

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

Governmental Funds Balance Sheet/Statement of Net Assets
September 30, 2010

	General Fund	Adjustments (Note 2)	Statement of Net Assets
<u>ASSETS</u>			
Cash and cash equivalents	\$ 374,907	\$ -	\$ 374,907
Cash and cash equivalents - restricted	385,609	-	385,609
Receivables, net of allowance for uncollectible accounts of \$20,710	60,871	-	60,871
Capital assets, net of accumulated depreciation	-	2,420,404	2,420,404
Total assets	\$ 821,387	2,420,404	3,241,791
 <u>LIABILITIES</u>			
Accounts payable	\$ 53,527	-	53,527
Other liabilities and accruals	18,269	-	18,269
Deferred revenue - unexpended grant funds	253,690	-	253,690
Long-term liabilities:			
Due within one year	-	24,063	24,063
Due after one year	-	61,039	61,039
Total liabilities	325,486	85,102	410,588
Commitments and contingencies			
 <u>FUND BALANCES/NET ASSETS</u>			
Fund balances:			
Unreserved	495,901	(495,901)	-
Total fund balances	495,901	(495,901)	-
Total liabilities and fund balances	\$ 821,387		
Net assets:			
Invested in capital assets		2,420,404	2,420,404
Unrestricted		410,799	410,799
Total net assets		\$ 2,831,203	\$ 2,831,203

See accompanying notes to financial statements.

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

Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Year Ended September 30, 2010

	General Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Community service grant	\$ 621,874	\$ -	\$ 621,874
Government of Guam appropriation	609,501	-	609,501
Contributions and other grants	245,825	-	245,825
In-kind contributions	103,034	-	103,034
Interest	6,253	-	6,253
Other	11,608	-	11,608
Total revenues	1,598,095	-	1,598,095
Expenditures/expenses:			
Program services:			
Station production	145,770	-	145,770
Station upgrade	54,579	-	54,579
Capital outlays	774	(774)	-
Supporting services:			
Program broadcasting	405,335	-	405,335
Development and promotion	127,453	-	127,453
Contractual services	155,230	-	155,230
Supplies and materials	9,399	-	9,399
Local appropriations:			
Personnel services	366,600	-	366,600
Fringe benefits	102,043	-	102,043
Contractual services	52,977	-	52,977
Utilities	87,881	-	87,881
In-kind expenditures/expenses	103,034	-	103,034
Unallocated depreciation	-	192,104	192,104
Total expenditures/expenses	1,611,075	191,330	1,802,405
Deficiency of revenues under expenditures	(12,980)	12,980	
Changes in net assets		(204,310)	(204,310)
Fund balance/net assets:			
Beginning of the year	508,881	-	3,035,513
End of the year	\$ 495,901	\$ -	\$ 2,831,203

See accompanying notes to financial statements.

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

Notes to Financial Statements
September 30, 2010

(1) Organization

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

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

PBS GUAM is governed by a 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 Assets presents PBS GUAM's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets consist of capital assets, net of accumulated depreciation, plus construction or improvement of those assets.
- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- Unrestricted net assets consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are 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.

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.

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

Notes to Financial Statements
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

Government-wide and Fund Financial Statements, Continued

Government-wide Financial Statements, Continued:

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 assets.

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

Total fund balance - governmental funds		\$ <u>495,901</u>
Add:		
Capital assets	4,472,215	
Accumulated depreciation	<u>(2,051,811)</u>	
		<u>2,420,404</u>
Less:		
Compensated absences payable	(72,129)	
DCRS sick leave liability	<u>(12,973)</u>	
		<u>(85,102)</u>
 Total net assets - governmental activities		 \$ <u><u>2,831,203</u></u>

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

Notes to Financial Statements
September 30, 2010

(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 assets of governmental activities in the Statement of Activities are as follows:

Net change in fund balance - governmental funds	\$ (12,980)
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Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. For the current year, these amounts consist of:

Capital outlays	\$ 774	
Depreciation expense	<u>(192,104)</u>	
		(191,330)
Change in net assets - governmental activities		\$ <u>(204,310)</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.

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.

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

Notes to Financial Statements
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

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 assets, cash and cash equivalents is defined as cash on hand, and cash held in demand accounts. As of September 30, 2010, cash and cash equivalents is \$760,516 and the corresponding bank balance is \$767,387. Of the bank balance amount, \$340,332 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and \$427,055 is maintained in credit unions subject to National Credit Union Administration (NCUA) insurance. As of September 30, 2010, bank deposits in financial institutions subject to FDIC insurance coverage are fully insured in the amount of \$250,000 and bank deposits in the amount of \$352,907 are NCUA insured. PBS GUAM does not require collateralization of its cash deposits; therefore, deposit levels in excess of NCUA coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Receivables

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

Prepaid Items

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

Restricted Assets

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

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

Notes to Financial Statements
September 30, 2010

(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 \$73,700 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

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

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

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

Notes to Financial Statements
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

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 \$12,973 at September 30, 2010 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.

Deferred Revenues

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, deferred 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 deferred revenue in the governmental fund has primarily resulted from grant funds received in advance of eligible expenditures.

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

Notes to Financial Statements
September 30, 2010

(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 fiscal year 2010, PBS GUAM implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of PBS GUAM.

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

Notes to Financial Statements
September 30, 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PBS GUAM.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of PBS GUAM.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	October 1, <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2010</u>
Non-depreciable capital assets:				
Land improvements	\$ <u>18,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>18,000</u>
Depreciable capital assets:				
Buildings and improvements	355,603	-	-	355,603
Broadcasting equipment	3,221,354	-	(225,400)	2,995,954
Studio, antenna, transmitter, and other equipment	465,558	-	-	465,558
Furniture and fixtures	187,809	774	-	188,583
Transportation equipment	<u>448,516</u>	<u>-</u>	<u>-</u>	<u>448,516</u>
	4,678,840	774	(225,400)	4,454,214
Less accumulated depreciation	<u>(2,085,106)</u>	<u>(192,104)</u>	<u>225,400</u>	<u>(2,051,810)</u>
	<u>2,593,734</u>	<u>(191,330)</u>	<u>-</u>	<u>2,420,404</u>
	\$ <u>2,611,734</u>	\$ <u>(191,330)</u>	\$ <u>-</u>	\$ <u>2,420,404</u>

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

Notes to Financial Statements
September 30, 2010

(4) Long-term Obligations

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2010, the following changes occurred in liabilities reported as part of PBS GUAM's long-term liabilities in the statement of net assets:

	Balance October 1, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2010</u>	Due Within <u>One Year</u>
Compensated absences	\$ 72,129	\$ 24,441	\$ (24,441)	\$ 72,129	\$ 24,063
DCRS sick leave liability	<u>12,973</u>	<u>-</u>	<u>-</u>	<u>12,973</u>	<u>-</u>
	<u>\$ 85,102</u>	<u>\$ 24,441</u>	<u>\$ (24,441)</u>	<u>\$ 85,102</u>	<u>\$ 24,063</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, 2010, the total appropriation was \$609,501.

Community Service Grants

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

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

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

Notes to Financial Statements
September 30, 2010

(5) Funding Sources, Continued

Community Service Grants, Continued

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

The Community Service Grants received and expended during the year ended September 30, 2010 were as follows:

<u>Grant Year</u>	<u>Grant Name</u>	<u>Grants Received</u>	<u>Beginning Deferred Portion</u>	<u>Grants Expended</u>	<u>Ending Deferred Portion</u>
2009	CSG	\$ 557,850	\$ 151,488	\$ 151,488	\$ -
2010	CSG	620,914	-	375,224	245,690
2010	Interconnection	11,326	-	11,326	-
2010	TV SAG	83,836	-	83,836	-
2010	DDF	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>8,000</u>
	Total	\$ <u>1,281,926</u>	\$ <u>151,488</u>	\$ <u>621,874</u>	\$ <u>253,690</u>

(6) Employee Retirement Plans

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

Defined Benefit Plan

Plan Description:

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

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

Notes to Financial Statements
September 30, 2010

(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

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.

Funding Policy:

As a result of actuarial valuations performed as of September 30, 2008, 2007, and 2006, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2010, 2009 and 2008, respectively, have been determined by the Guam Legislature as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Normal costs (% of DB Plan payroll)	18.34%	17.36%	17.94%
Employee contributions (DB Plan employees)	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>8.84%</u>	<u>7.86%</u>	<u>8.44%</u>
Employer portion of normal costs (% of total payroll)	3.73%	3.70%	3.99%
Unfunded liability cost (% of total payroll)	<u>22.69%</u>	<u>19.68%</u>	<u>20.75%</u>
Government contribution as a % of total payroll	<u>26.42%</u>	<u>23.38%</u>	<u>24.74%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>26.04%</u>	<u>26.33%</u>	<u>24.07%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

PBS GUAM's contributions to the DB Plan for the years ending September 30, 2010, 2009 and 2008 were \$64,488, \$110,603 and \$86,315, respectively, which were equal to the required contributions for each year.

Defined Contribution Retirement System (DCRS)

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

Statutory employer contributions for the DCRS plan for the year ended September 30, 2010 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.

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

Notes to Financial Statements
September 30, 2010

(6) Employee Retirement Plans, Continued

Defined Contribution Retirement System (DCRS), Continued

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.

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.

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>	
2011	\$ 10,200
2012	10,200
2013	10,200
2014	10,200
2015	10,200
2016 – 2020	51,000
2021 – 2025	51,000
2026 – 2028	<u>30,600</u>
	\$ <u>183,600</u>

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

Notes to Financial Statements
September 30, 2010

(8) Risk Management

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

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

Governmental Funds Balance Sheet/Schedule of Net Assets
September 30, 2010
(With comparative totals as of September 30, 2009)

	General Fund		Schedule of Net Assets	
	2010	2009	2010	2009
<u>ASSETS</u>				
Cash and cash equivalents	\$ 374,907	\$ 439,526	\$ 374,907	\$ 439,526
Cash and cash equivalents - restricted	385,609	278,527	385,609	278,527
Receivables, net	60,871	32,607	60,871	32,607
Capital assets, net of accumulated depreciation	-	-	2,420,404	2,611,734
Total assets	\$ 821,387	\$ 750,660	3,241,791	3,362,394
<u>LIABILITIES</u>				
Accounts payable	\$ 53,527	\$ 75,428	\$ 53,527	75,428
Other liabilities and accruals	18,269	14,863	18,269	14,863
Deferred revenue - unexpended grant funds	253,690	151,488	253,690	151,488
Long-term liabilities:				
Due within one year	-	-	24,063	24,750
Due after one year	-	-	61,039	60,352
Total liabilities	325,486	241,779	410,588	326,881
<u>FUND BALANCES/NET ASSETS</u>				
Fund balances:				
Unreserved	495,901	508,881		
Total fund balances	495,901	508,881		
Total liabilities and fund balances	\$ 821,387	\$ 750,660		
Net assets:				
Invested in capital assets			2,420,404	2,611,734
Unrestricted			410,799	423,779
Total net assets			\$ 2,831,203	\$ 3,035,513

See Accompanying Independent Auditors' Report.

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

Schedule of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Schedule of Activities
Year Ended September 30, 2010
(With comparative totals for the year ended September 30, 2009)

	General Fund		Schedule of Activities	
	2010	2009	2010	2009
Revenues:				
Community service grant	\$ 621,874	\$ 770,261	\$ 621,874	\$ 770,261
DDF digital grant	-	2,462,673	-	2,462,673
Government of Guam appropriation	609,501	596,280	609,501	596,280
Contributions and other grants	245,825	283,698	245,825	283,698
In-kind contributions	103,034	114,588	103,034	114,588
Interest	6,253	12,385	6,253	12,385
Other	11,608	12,000	11,608	12,000
Total revenues	1,598,095	4,251,885	1,598,095	4,251,885
Expenditures/expenses:				
Program services:				
Station production	145,770	139,880	145,770	139,880
Station upgrade	54,579	64,656	54,579	64,656
Capital outlays	774	2,514,868	-	35,375
Supporting services:				
Program broadcasting	405,335	495,649	405,335	495,649
Development and promotion	127,453	123,598	127,453	123,598
Contractual services	155,230	178,817	155,230	178,817
Supplies and materials	9,399	11,322	9,399	11,322
Local appropriations:				
Personnel services	366,600	345,688	366,600	351,100
Fringe benefits	102,043	111,279	102,043	87,623
Contractual services	52,977	63,913	52,977	63,913
Utilities	87,881	75,399	87,881	75,399
Retiree healthcare costs	-	6,285	-	6,285
In-kind expenditures/expenses	103,034	114,588	103,034	114,588
Unallocated depreciation	-	-	192,104	212,241
Total expenditures/expenses	1,611,075	4,245,942	1,802,405	1,960,446
Excess (deficiency) of revenues over (under) expenditures	(12,980)	5,943		
Changes in net assets			(204,310)	2,291,439
Fund balance/net assets:				
Beginning of the year	508,881	502,938	3,035,513	744,074
End of the year	\$ 495,901	\$ 508,881	\$ 2,831,203	\$ 3,035,513

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, 2010
(With comparative totals for the year ended September 30, 2009)

	<u>2010</u>		<u>2009</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	\$ 139,395	4	\$ 128,029	4
Station upgrade	51,765	2	58,460	2
Supporting services:				
Program broadcasting	144,234	6	123,828	6
Development and promotion	<u>70,319</u>	<u>3</u>	<u>66,666</u>	<u>3</u>
	<u>\$ 405,713</u>	<u>15</u>	<u>\$ 376,983</u>	<u>15</u>
 Government of Guam:				
Local appropriations	<u>\$ 366,600</u>	<u>10</u>	<u>\$ 345,688</u>	<u>9</u>

See Accompanying Independent Auditors' Report.