

Independent Auditors' Report

The Board of Directors
Guam Educational Telecommunications Corporation:

We have audited the accompanying balance sheets of Guam Educational Telecommunications Corporation (a public corporation) as of September 30, 2001 and 2000, and the related statements of revenues, expenditures and changes in fund balances for the years then ended. These financial statements are the responsibility of the management of Guam Educational Telecommunications Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Guam Educational Telecommunications Corporation as of September 30, 2001 and 2000, and the results of its operations for the years then ended in conformity with auditing standards generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated February 22, 2002 on our consideration of Guam Educational Telecommunications Corporation's internal control structure and on its compliance with laws and regulations.

Burger & Comer, P.C.

February 22, 2002

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION

(A Public Corporation)

Balance Sheet

September 30, 2001 and 2000

	Governmental Fund Type- <u>General Fund</u>	General Fixed Assets Account <u>Group</u>	General Long-Term Debt Account <u>Group</u>	2001 Total (Memorandum <u>Only</u>)	2000 Total (Memorandum <u>Only</u>)
<u>Assets</u>					
Operating assets:					
Cash	\$ 117,905	-	-	117,905	228,779
Time certificates of deposit	754,862	-	-	754,862	502,535
Accounts receivable	64,821	-	-	64,821	151,842
Prepaid expenses	-	-	-	-	1,603
Total operating assets	<u>937,588</u>	-	-	937,588	884,759
Property and equipment	-	2,249,244	-	2,249,244	2,185,750
Amount to be provided for unfunded retirement fund contribution	-	-	429,800	429,800	429,800
Amount to be provided for annual leave	-	-	76,029	76,029	69,011
Total assets	<u>\$ 937,588</u>	<u>2,249,244</u>	<u>505,829</u>	<u>3,692,661</u>	<u>\$ 3,569,320</u>
<u>Liabilities, Equity and Other Credits</u>					
Liabilities:					
Accounts payable	87,042	-	-	87,042	88,352
Accrued liabilities	37,897	-	-	37,897	34,152
Unfunded retirement fund contribution payable	-	-	429,800	429,800	429,800
Long term portion of annual leave	-	-	76,029	76,029	69,011
Deferred revenue	59,493	-	-	59,493	51,003
Deferred support - unexpended grant funds	317,073	-	-	317,073	286,627
Total liabilities	<u>501,505</u>	-	<u>505,829</u>	<u>1,007,334</u>	<u>958,945</u>
Equity and other credits:					
Fund balances:					
Operating funds	436,083	-	-	436,083	424,625
Net investment in property	-	2,249,244	-	2,249,244	2,185,750
Total equity and other credits	<u>436,083</u>	<u>2,249,244</u>	-	<u>2,685,327</u>	<u>2,610,375</u>
Total liabilities, equity and other credits	<u>\$ 937,588</u>	<u>2,249,244</u>	<u>505,829</u>	<u>3,692,661</u>	<u>\$ 3,569,320</u>

See accompanying notes to financial statements.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Statement of Revenues, Expenditures and Changes in Fund Balances

Years Ended September 30, 2001 and 2000

	2001	2000
	General	General
	<u>Fund</u>	<u>Fund</u>
Support and revenue:		
Local appropriation	\$ 493,343	\$ 502,616
Community Service Grant	528,112	445,613
Contributions and other revenues	177,083	260,109
In-kind contribution	160,943	144,367
Donated personal services of volunteers	8,509	20,891
Membership income	500	2,115
Interest income	42,067	37,289
Local capital improvement grant	-	75,000
Total support and revenue	<u>1,410,557</u>	<u>1,488,000</u>
Expenditures:		
Program services:		
Station production	73,039	73,606
Station upgrade	30,115	26,514
Property and equipment costs	63,494	150,852
	<u>166,648</u>	<u>250,972</u>
Supporting services:		
Program broadcasting	396,395	343,607
Development and promotion	97,135	78,370
Contractual services	74,091	60,785
Supplies and materials	16,349	19,818
Local appropriation:		
Personnel services	343,970	337,686
Fringe benefits	61,502	52,227
Utilities	35,305	36,548
Special projects	38,252	35,412
In-kind expenses	160,943	144,367
Donated personal services of volunteers	8,509	20,891
	<u>1,232,451</u>	<u>1,129,711</u>
Total expenditures	<u>1,399,099</u>	<u>1,380,683</u>
Excess of support and revenue over expenditures	11,458	107,317
Fund balances, beginning of year	<u>424,625</u>	<u>317,308</u>
Fund balances, end of year	<u>\$ 436,083</u>	<u>\$ 424,625</u>

See accompanying notes to financial statements.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements

September 30, 2001 and 2000

(1) Organization and Summary of Significant Accounting Policies

Organization

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

GETC's license with the Federal Communications Commission was renewed through April 1, 2006. GETC is subject to the condition that on December 31, 2006, the station will only broadcast digital television.

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

Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

GETC uses a governmental fund type and two account groups to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain GETC functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. They are concerned only with the measurement of financial position and are not involved with the measurement of results of operations.

GETC's governmental fund is used to account for the collection and disbursement of earmarked monies and is defined as a general fund which represents funds available for support of GETC functions.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2001 and 2000

The General Long-Term Debt Account Group is used to account for long-term liabilities, which includes the unfunded retirement fund contribution for GETC's Government of Guam employees and the long-term portion of annual leave.

The General Fixed Assets Account Group is used to account for fixed assets used in governmental fund type operations for control purposes. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date of donation.

Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a flow of expendable financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

Encumbrances

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

Revenue Recognition

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

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2001 and 2000

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 revenues, expenditures and changes in fund balances.

Property and Equipment

Items of property and equipment are stated at cost at acquisition date or estimated fair value at the date of receipt in the case of donated property, except as explained below. In accordance with Public Law 12-194, all property, facilities and equipment pertaining to television production were transferred from the Learning Resource Center of the Government of Guam's Department of Education and the University of Guam to GETC. Title to the land on which the station facilities and equipment are located has not been perfected in the name of GETC and is still held in the name of the Department of Education. Certain property items acquired subsequent to the date of transfer are valued at estimated fair value at the date of acquisition where original cost records are not available.

In accordance with generally accepted accounting principles for certain governmental entities, no depreciation has been provided on property and equipment. Costs of repairs and maintenance are charged to operating expense as incurred.

Impairment of Assets

Federal legislation has been passed which requires the public broadcasting industry to use digital broadcasting equipment by the year 2006. Based on this requirement, there is a potential impairment of GETC assets. The extent of the impairment, if any, can not be determined at this time; consequently any potential losses to GETC have not been presented in the accompanying financial statements.

In-kind Contributions and Donated Volunteer Services

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

Income Taxes

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

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2001 and 2000

Accrued Annual Leave

In previous years, GETC has recognized costs for accrued annual leave at the time such leave is utilized or through lump-sum payment at the time of an employee's termination of employment. Unfunded accrued annual leave for all employees aggregated \$94,758 at September 30, 2001 (\$87,526 at September 30, 2000). Governmental Accounting Standards Board Statement No. 16, Accounting for Compensated Absences, provides that liabilities for vacation leave and other compensated absences, excluding sick leave, will be accrued provided the leave is attributable to past service. During the year ended September 30, 2001, the current portion of annual leave totaled \$18,729 (\$18,515 at September 30, 2000) and has been accrued and is included as a component of accrued liabilities in the accompanying financial statements. The long-term portion of annual leave totaled \$76,029 (\$69,011 at September 30, 2000) and has been accrued and is included as long-term annual leave in the accompanying financial statements.

Fund Equity

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

Use of Estimates

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

Memorandum Only – Total Columns

Total columns on the combined financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns represent the combination of the figures presented for each fund or account group and do not represent consolidated financial information.

(2) Cash and certificates of deposit

At September 30, 2001, GETC held eight certificates of deposit (TCD) and two time deposits on account (TDOA) with interest rates ranging from 3.0% to 7.09% and

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2001 and 2000

maturities through April 6, 2002. If the certificates are withdrawn prior to their maturity, a significant portion or all of the accrued interest could be forfeited.

GETC maintains cash balances at several financial institutions located in Guam. Depositors at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At September 30, 2001, GETC had an uninsured cash balance of \$156,410.

(3) Property and equipment

The property and equipment under the general fixed assets account group consists of the following:

September 30, 2001

<u>General Fixed Assets</u> <u>Account Group</u>	Balance <u>10/01/00</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>9/30/01</u>
Land improvements	\$ 18,000	-	-	18,000
Buildings and improvements	363,370	1,300	-	364,670
Studio, antenna, transmitter, other broadcasting equip.	1,071,498	48,888	-	1,120,386
Furniture, fixtures and equip.	136,264	13,306	-	149,570
Transportation equipment	<u>596,618</u>	<u>-</u>	<u>-</u>	<u>596,618</u>
Total	\$ <u>2,185,750</u>	<u>63,494</u>	<u>-</u>	<u>2,249,244</u>

September 30, 2000

<u>General Fixed Assets</u> <u>Account Group</u>	Balance <u>10/01/99</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>9/30/00</u>
Land improvements	\$ 18,000	-	-	18,000
Buildings and improvements	360,936	2,434	-	363,370
Studio, antenna, transmitter, other broadcasting equip.	1,015,029	140,769	84,300	1,071,498
Furniture, fixtures and equip.	129,419	6,845	-	136,264
Transportation equipment	<u>596,618</u>	<u>-</u>	<u>-</u>	<u>596,618</u>
Total	\$ <u>2,120,002</u>	<u>150,048</u>	<u>84,300</u>	<u>2,185,750</u>

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2001 and 2000

(4) Funding Sources

Government of Guam Appropriation

GETC receives an annual appropriation from the Guam Legislature to defray the cost of salaries and related benefits, contractual services and utilities. GETC submits an annual budget for these items. This appropriation is contingent upon GETC having matching funds at least equal to the appropriated amount. Any unexpended funds at the end of the fiscal year revert back to the Government of Guam General Fund (GGF). For the year ended September 30, 2001 the total appropriation was \$493,343 (502,616 in 2000). Accruals for unpaid payroll of \$7,778 (\$6,346 at September 30, 2000) and annual leave of \$7,579 (\$3,466 at September 30, 2000) were included in total expenditures. An additional accrual for utilities expenses for \$6,210 (\$13,096 at September 30, 2000) was also recorded. Deferred revenue totaling \$59,493 (\$51,003 at September 30, 2000) has been recognized and represents the amount which the GGF will provide to fund the long term portion of annual leave.

GETC participated in the budget process for their appropriation for fiscal year 2002. The actual amount approved has not been determined; however, support levels are expected to be less than previous fiscal years as the Government of Guam has experienced a severe revenue crisis and this will most assuredly affect the monies being appropriated to the various agencies.

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

Community Service Grants

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

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2001 and 2000

Supplement). In any event, each grant must be expended within two years of the initial grant authorization.

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

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

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

September 30, 2001

<u>Grant Year</u>	<u>Grant Name</u>	<u>Grants Received</u>	<u>Grants Expended</u>		<u>Deferred Portion</u>
			<u>2000</u>	<u>2001</u>	
2000	CSG Grant	\$ 404,767	118,140	286,627	-
2001	CSG Grant	456,007	-	138,934	317,073
2001	Interconnection	6,034	-	6,034	-
2001	TV SAG	64,517	-	64,517	-
2001	Ready to Learn Grant	<u>32,000</u>	<u>-</u>	<u>32,000</u>	<u>-</u>
	Total	<u>\$ 963,325</u>	<u>118,140</u>	<u>528,112</u>	<u>317,073</u>

September 30, 2000

<u>Grant Year</u>	<u>Grant Name</u>	<u>Grants Received</u>	<u>Grants Expended</u>		<u>Deferred Portion</u>
			<u>1999</u>	<u>2000</u>	
1999	CSG Grant	\$ 339,677	109,510	230,167	-
2000	CSG Grant	404,767	-	118,140	286,627
2000	Interconnection	11,713	-	11,713	-
2000	TV SAG	58,585	-	58,585	-
1999	Ready to Learn Grant	<u>9,000</u>	<u>-</u>	<u>9,000</u>	<u>-</u>
	Total	<u>\$ 823,742</u>	<u>109,510</u>	<u>427,605</u>	<u>286,627</u>

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2001 and 2000

Accounts Receivable

Accounts receivable are recorded based upon services provided by GETC for production of educational programs and various public service videos.

(4) Government of Guam Employees' Retirement Plan

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

The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Amendments to the Retirement Fund Law have been passed by the Guam Legislature. The effect of these amendments has not been determined by actuarial survey nor reflected in the accrued amounts at September 30, 2001 and 2000. The Government of Guam Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Retirement Fund, 424 Route 8, Maite, Guam 96927, or by calling (671) 475-8900.

The Retirement Fund has informed GETC that the Plan's actuary has calculated that an employer contribution rate of 17.12% plus an employee contribution at the statutory rate of 9.5% of covered payroll is required to adequately fund the current cost and amortize the prior service cost over periods of 14 and 40 years, respectively. For the years ended September 30, 2001 and 2000, GETC has credited contributions with 2.555% of covered payroll to provide for the difference between the valuation rate of 17.12% and the employer's contribution rate of 19.675%.

The plan utilizes the actuarial cost method termed "entry age normal" with an assumed rate of return of 8% and an assumed salary scale increase of 6.5% per annum. The most recent actuarial valuation, performed as of September 30, 1995, did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
(A Public Corporation)

Notes to Financial Statements, continued

September 30, 2001 and 2000

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

Employer contributions into the DCRS are based on a statutory amount of 18.6% of the member's regular base pay. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual annuity account. The remaining 13.6% is contributed towards the unfunded liability of the defined benefit plan. The contribution requirements of plan members may be amended by the Retirement Fund Board of Trustees. GETC's contributions to the Retirement Fund for the years ending September 30, 2001, 2000, 1999, 1998, and 1997 were \$56,645, \$47,473, \$58,984, \$54,683, and \$59,393 respectively, equal to the required contributions for each year.

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

(5) Risk Management

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