

**GUAM EDUCATIONAL TELECOMMUNICATIONS
CORPORATION**

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

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

SEPTEMBER 30, 2015

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

Year Ended September 30, 2015
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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, 2015, 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, 2015, 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.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, PBS GUAM adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective October, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

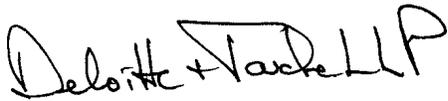
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 as well as the Schedule of Proportional Share of the Net Pension Liability on page 28 and the Schedule of Pension Contributions on page 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

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 30 through 32 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 February 29, 2016, 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 + Touche LLP". The signature is written in a cursive, stylized font.

February 29, 2016

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

Management's Discussion and Analysis
Year Ended September 30, 2015

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, 2015. 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 Government Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities are an additional required statement. This particular statement provides information about the entity's sources of revenue and nature of the related expenses during the period being reported. It reflects the entity's ability to recover costs associated with providing services.

In 2015, PBS Guam adopted GASB Statement No. 68, *Accounting and Financial Report for Pensions— an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date— an amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 establish standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local government. PBS Guam participates in a single-employer pension plan as defined by GASB Statement No. 68. The implementation resulted in the recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net pension liability based on PBS Guam's proportionate share of those of the overall plan. Refer to Note 2 for cumulative change and Note 6 for details of GASB Statement No. 68.

Financial Analysis

Our analysis is based on the following condensed financial data for the years ended September 30, 2015 and 2014, as presented in the Statement of Net Position and the Changes in Net Position. The nature of these statements is explained in the preceding paragraph.

	<u>2015</u>	<u>2014</u> <u>(As Restated)</u>
<i>Statement of Net Position</i>		
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Capital assets	\$ 1,983,785	\$ 2,154,449
Current and other assets	<u>306,534</u>	<u>354,497</u>
Total assets	<u>2,290,319</u>	<u>2,508,946</u>
Deferred outflows from pension	<u>115,495</u>	<u>93,846</u>
Total assets and deferred outflows of resources	\$ <u>2,405,814</u>	\$ <u>2,602,792</u>

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Year Ended September 30, 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2015</u>	<u>2014</u> <u>(As Restated)</u>
Liabilities:		
Long-term liabilities	\$ 911,285	\$ 971,871
Other liabilities	<u>98,988</u>	<u>169,070</u>
Total liabilities	<u>1,010,273</u>	<u>1,140,941</u>
Deferred inflows from pension	<u>79,630</u>	<u>54,738</u>
Total liabilities and deferred inflows of resources	<u>1,089,903</u>	<u>1,195,679</u>
Net position:		
Net investment in capital assets	1,983,785	2,154,449
Unrestricted	<u>(667,874)</u>	<u>(747,336)</u>
Total net position	<u>1,315,911</u>	<u>1,407,113</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>2,405,814</u>	\$ <u>2,602,792</u>

Capital assets marginally decreased by 8% or \$170,664 due to station depreciation expense of \$189,841, less the acquisition of related assets totaling \$19,177. Current and other assets decreased by approximately 13.5% or \$47,963 primarily due to a decrease in cash balances. Total liabilities decreased by 11.5% or \$130,668, attributed to a decrease in deferred revenues associated with unexpended grant funds as well as a decrease in pension liability. The decrease in total net position is primarily caused by the resultant changes as reflected above.

Statement of Activities

	<u>2015</u>	<u>2014</u> <u>(As Restated)</u>
Revenues:		
Local appropriation	\$ 622,645	\$ 620,251
Community Service Grant	739,493	628,687
Contributions and other	342,074	368,012
Interest income	<u>809</u>	<u>3,543</u>
Total revenues	<u>1,705,021</u>	<u>1,620,493</u>
Expenses:		
Program services	213,838	264,595
Supporting services	1,392,544	1,466,257
Depreciation expense	<u>189,841</u>	<u>169,215</u>
Total expenses	<u>1,796,223</u>	<u>1,900,067</u>
Change in net position	(91,202)	(279,574)
Net position beginning of year	<u>1,407,113</u>	<u>1,686,687</u>
Net position at the end of the year	\$ <u>1,315,911</u>	\$ <u>1,407,113</u>

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Year Ended September 30, 2015

The total revenue increase of 5% or \$84,528, is largely attributed to an increase in Community Service Grant for 2015.

The total expense decrease of 5.5% or \$103,844 is primarily attributed to a decrease in program services and supporting services expense as well as a decrease in pension expense.

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 the Corporation for Public Broadcasting (CPB). At the end of the current fiscal year, the assigned fund balance amounted to \$207,546, an increase of \$22,119 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.

Capital Assets and Long-Term Obligations

In Fiscal Year 2015, PBS Guam remained committed to upgrading its equipment and facilities, but refocused its efforts on priority maintenance of existing assets. The only significant addition to our plant was a \$10,400 modification to start a second broadcast service on Channel 12.2. Two FY2014 initiatives stalled: upgrading of camera and production equipment was deferred, and our request for adjacent space for studio expansion was denied. Our building electrical plant renovations remained pending. We sustained electrical damage to a transmitter power transformer and an encoder, prompting expenditures on replacement parts. The encoder, installed in 2009, is now obsolete. After October 2017, when the television broadcast industry adopts a new standard, ATSC 3.0, we can expect accelerated obsolescence of our transmitter equipment as consumers install new generation receivers.

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.

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Year Ended September 30, 2015

Economic Factors

PBS Guam enjoyed a slight increase in fee-for-service revenues in 2015, tracking Guam's general economic improvement. The long-anticipated military buildup, with corresponding increase in population, has yet to begin. Our high-definition network programming service will be appreciated by new residents of Guam who relocate from other PBS markets, and those households who either choose to forego or are unable to afford wired/fiber cable or digital television service.

PBS Guam competes for over-the-air viewers with five other broadcast stations. Our single channel on local digital television and cable providers competes against networks producing similar content, such as Discovery Communications and Cartoon Network. Most importantly, we now face growing competition from PBS and PBS Kids' on-demand direct delivery network, via PBS.org, Hulu, Roku, Chromecast, and other broadband services, and via wireless digital device apps. The future of program underwriting as major revenue continues to erode as audience abandons us in favor of direct network delivery. Many Guam homes and residents have Internet and wireless service without wired television subscriptions, so our free over-the-air broadcast service remains important to low-income households with elementary school age children. Our children's network programming content comprises two thirds of our broadcast day, and accomplishes a major part of our overall mission.

In seeking to develop a significant local service with independent volunteer producers, storytellers and filmmakers, we compete locally with Docomo Channel 2, KUAM, and Pacific Daily News, and with Internet publishers YouTube and Vimeo.

Institutional Factors

PBS Guam continues to promote its mission of providing high quality noncommercial 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.

The governing Board of Trustees is active again after lacking a quorum for twenty months, with confirmation of two new members late in fiscal year 2015. Its first meeting was held in the last week of November 2015.

We welcomed the primary transmitter of Guam Educational Radio Foundation (KPRG 89.3 FM, Public Radio for Guam) to our facility as a new tenant in August 2015; a lease is pending. The tower and building were originally scaled to accommodate two full-power FM stations. To avoid redefining our relationship with the Chamorro Land Trust, we will limit prospective tenants to non-commercial, educational broadcasters, and total rent revenues to no more than the amount of our annual lease payment. We expect tenants to cover their direct operational costs and a proportional share of common area maintenance costs in addition to rent.

Expanding service to southern Guam, which was anticipated in prior years, is unlikely with the impending FCC rebanding and consolidation of the television broadcast band. Standing up a Saipan translator is still possible. We are exploring with the Office of Civil Defense the repurposing of unused digital capacity on our transmitter for first-responder datacasting, in exchange for in-kind shared capacity building. Service expansion will fulfill PBS Guam's statutory and programmatic purposes, and sustain community support.

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Our Production Department generates tens of thousands of dollars in high-quality non-broadcast video products, in active competition against for-profit video production houses. Adoption of higher local content values in PBS Guam's production and delivery processes, for high definition streaming and video-on-demand via broadband, is necessary to remain relevant and valued into the future. However, investment in on-line distribution equipment and cloud services, fiber optic capacity and management, will not result in a product that is capable of generating immediate income in a cyber market. Among PBS affiliates, there is no generally-accepted or recommended technical package; equipment and standards are grouped around competing, and evolving, proprietary initiatives. While we wait for the delivery market to mature, PBS Guam digitizes its local archive library for eventual access and display.

Major institutional development is anticipated after Fall 2017, when a new broadcast television standard, ATSC 3.0, is adopted. This will be the first overhaul of standards established in 1940. As consumers purchase new screens to take advantage of new visual and aural content, broadcasters will replace transmitter equipment as we did for the transition to digital television. PBS Guam's digital transmitter and associated equipment, installed in 2009 with a projected service life of over 20 years, will be obsolete in half that time.

PBS Guam seeks robust community relationships. Overtures described in the previous year have failed to thrive. Management welcomes the active participation of the Board of Trustees to consider and propose innovative ways to fulfill our mission, and improve and extend our broadcast and educational services. One possibility is the creation of a new private foundation to accommodate private giving support for specific projects, such as capital equipment replacement, broadcast program development or facility expansion.

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".

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Governmental Funds Balance Sheet/Statement of Net Position
September 30, 2015

	General Fund	Adjustments (Note 2)	Statement of Net Position
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>			
Cash and cash equivalents	\$ 280,385	\$ -	\$ 280,385
Receivables, net of allowance for uncollectible accounts of \$36,587	25,432	-	25,432
Restricted assets:			
Cash and cash equivalents	717	-	717
Capital assets:			
Nondepreciable capital assets	-	18,000	18,000
Capital assets, net of accumulated depreciation	-	1,965,785	1,965,785
Total assets	306,534	1,983,785	2,290,319
Deferred outflows of resources:			
Deferred outflows from pension	-	115,495	115,495
Total assets and deferred outflows of resources	\$ 306,534	2,099,280	2,405,814
<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>			
Accounts payable	\$ 26,697	-	26,697
Other liabilities and accruals	11,980	-	11,980
Unexpended grant revenues	60,311	-	60,311
Long-term liabilities:			
Due within one year	-	19,867	19,867
Due after one year	-	891,418	891,418
Total liabilities	98,988	911,285	1,010,273
Deferred inflows of resources:			
Deferred inflows from pension	-	79,630	79,630
Total liabilities and deferred inflows of resources	98,988	990,915	1,089,903
Commitments and contingencies			
<u>FUND BALANCE/NET POSITION</u>			
Fund balance:			
Assigned - supporting services	207,546	(207,546)	-
Total fund balance	207,546	(207,546)	-
Total liabilities and fund balance	\$ 306,534		
Net position:			
Net investment in capital assets		1,983,785	1,983,785
Unrestricted		(667,874)	(667,874)
Total net position		\$ 1,315,911	\$ 1,315,911

See accompanying notes to financial statements.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
Year Ended September 30, 2015

	General Fund	Adjustments (Note 2)	Statement of Activities (As Restated)
Revenues:			
Community service grant	\$ 739,493	\$ -	\$ 739,493
Government of Guam appropriation	622,645	-	622,645
In-kind contributions	164,550	-	164,550
Fundraising	44,406	-	44,406
Contributions and other income	62,480	-	62,480
Underwriting	61,916	-	61,916
Interest	809	-	809
Other	8,722	-	8,722
Total revenues	1,705,021	-	1,705,021
Expenditures/expenses:			
Program services:			
Station production	130,485	-	130,485
Station upgrade	83,353	-	83,353
Capital outlays	19,177	(19,177)	-
Supporting services:			
Program broadcasting	475,017	-	475,017
Contractual services	104,093	-	104,093
Development and promotion	70,131	-	70,131
Supplies and materials	13,451	-	13,451
Local appropriations:			
Personnel services	384,040	18,203	402,243
Fringe benefits	153,035	(75,546)	77,489
Utilities	83,595	-	83,595
Contractual services	1,975	-	1,975
In-kind expenditures/expenses	164,550	-	164,550
Unallocated depreciation	-	189,841	189,841
Total expenditures/expenses	1,682,902	113,321	1,796,223
Excess of revenues over expenditures	22,119	(22,119)	
Changes in net position		(91,202)	(91,202)
Fund balance/net position:			
Beginning of the year	185,427	-	1,407,113
End of the year	\$ 207,546	\$ -	\$ 1,315,911

See accompanying notes to financial statements.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(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, deferred outflows of resources, 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
September 30, 2015

(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		\$ <u>207,546</u>
Add:		
Capital assets	4,675,087	
Accumulated depreciation	(2,691,302)	
Deferred outflow of resources	<u>115,495</u>	
		<u>2,099,280</u>
Less:		
Compensated absences payable	(48,759)	
DCRS sick leave liability	(25,510)	
Net pension liability	(837,016)	
Deferred inflow of resources	<u>(79,630)</u>	
		<u>(990,915)</u>
Total net position - governmental activities		\$ <u>1,315,911</u>

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(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	\$	22,119
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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	\$ 19,177		
Depreciation expense	<u>(189,841)</u>		(170,664)

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:

Increase in compensated absences	(3,858)		
Increase in DCRS sick leave liability	(14,345)		
Decrease in net pension liability	<u>75,546</u>		<u>57,343</u>

Change in net position - governmental activities	\$	<u>(91,202)</u>
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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.

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

Notes to Financial Statements
September 30, 2015

(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, 2015, the carrying amount of cash and cash equivalents was \$281,102 and the corresponding bank balance was \$289,127. Of the bank balance amount, \$111,205 is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance and \$177,922 is maintained in credit unions subject to National Credit Union Administration (NCUA) insurance. As of September 30, 2015, 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.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(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.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(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 \$25,510 at September 30, 2015 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.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(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 determined the differences between projected and actual earnings on pension plan investments and changes in proportion and differences between pension contributions and proportionate share of contributions 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.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(2) Summary of Significant Accounting Policies, Continued

Fund Balance, Continued

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.

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, 2015, PBS GUAM implemented the following pronouncements:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The implementation of these statements did have a material effect on the accompanying financial statements resulting in the restatement of beginning net position to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. Net position as of October 1, 2014 for the governmental activities was decreased by \$876,697 to \$1,407,113 as a result of the adoption of GASB Statement No. 68. Refer to Note 6 for more information regarding PBS GUAM's pensions.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The implementation of this statement did not have a material effect on the accompanying financial statements.

GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In February 2015, GASB issued 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 provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements of PBS GUAM.

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 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Management has not evaluated the impact that the implementation of this statement will have on the financial statements of PBS GUAM.

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 not evaluated the impact that the implementation of this statement will have on the financial statements of PBS GUAM.

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 not evaluated the impact that the implementation of this statement will have on the financial statements of PBS GUAM.

In June 2015, GASB issued 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 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 provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements of PBS GUAM.

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Notes to Financial Statements
September 30, 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 of PBS GUAM.

(3) Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	October 1, <u>2014</u>	<u>Additions</u>	<u>Deletions</u>	September 30, <u>2015</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	3,185,117	19,177	(93,675)	3,110,619
Studio, antenna, transmitter, and other equipment	479,778	-	(128,772)	351,006
Furniture and fixtures	201,588	-	(1,875)	199,713
Transportation equipment	<u>424,818</u>	_____ -	_____ -	<u>424,818</u>
	4,637,910	19,177	(224,322)	4,432,765
Less accumulated depreciation	<u>(2,501,461)</u>	<u>(189,841)</u>	<u>224,322</u>	<u>(2,466,980)</u>
	<u>2,136,449</u>	<u>(170,664)</u>	_____ -	<u>1,965,785</u>
	\$ <u>2,154,449</u>	\$ <u>(170,664)</u>	\$ _____ -	\$ <u>1,983,785</u>

(4) Long-term Obligations

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2015, the following changes occurred in liabilities reported as part of PBS GUAM's long-term liabilities in the statement of net position:

	Balance			Balance	
	October 1,			September	Due Within
	<u>2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>30, 2015</u>	<u>One Year</u>
Compensated absences	\$ 44,901	\$ 3,858	\$ -	\$ 48,759	\$ 19,867
DCRS sick leave liability	11,165	14,345	-	25,510	-
Net pension liability	<u>915,805</u>	<u>36,688</u>	<u>(115,477)</u>	<u>837,016</u>	<u>-</u>
	<u>\$ 971,871</u>	<u>\$ 54,891</u>	<u>\$ (115,477)</u>	<u>\$ 911,285</u>	<u>\$ 19,867</u>

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(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, 2015, the total appropriation was \$622,645.

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.

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, 2015 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	\$ -	\$ 93,515	\$ 93,515	\$ -
2015	CSG	626,998	-	566,687	60,311
2015	LSG	67,948	-	67,948	-
2015	Interconnection	<u>11,343</u>	<u>-</u>	<u>11,343</u>	<u>-</u>
	Total	<u>\$ 706,289</u>	<u>\$ 93,515</u>	<u>\$ 739,493</u>	<u>\$ 60,311</u>

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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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.

Plan Membership: As of September 30, 2014, the date of the most recent valuation, plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	7,226
Terminated employees entitled to benefits but not yet receiving them	4,941
Current members	<u>2,692</u>
	<u>14,859</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.

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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.

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, 2013 actuarial valuation was used for determining the year ended September 30, 2015 statutory contributions. Member contributions are required at 9.5% of base pay.

As a result of actuarial valuations performed as of September 30, 2013, 2012, and 2011, contribution rates required to fully fund the Retirement Fund liability, as required by Guam law, for the years ended September 30, 2015, 2014 and 2013, respectively, have been determined as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Normal costs (% of DB Plan payroll)	15.92%	16.61%	17.52%
Employee contributions (DB Plan employees)	<u>9.55%</u>	<u>9.50%</u>	<u>9.50%</u>
Employer portion of normal costs (% of DB Plan payroll)	<u>6.37%</u>	<u>7.11%</u>	<u>8.02%</u>
Employer portion of normal costs (% of total payroll)	2.05%	2.39%	3.00%
Unfunded liability cost (% of total payroll)	<u>24.09%</u>	<u>24.01%</u>	<u>24.33%</u>
Government contribution as a % of total payroll	<u>26.14%</u>	<u>26.40%</u>	<u>27.33%</u>
Statutory contribution rates as a % of DB Plan payroll:			
Employer	<u>29.85%</u>	<u>30.03%</u>	<u>30.09%</u>
Employee	<u>9.50%</u>	<u>9.50%</u>	<u>9.50%</u>

**GUAM EDUCATIONAL TELECOMMUNICATIONS CORPORATION
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Notes to Financial Statements
September 30, 2015

(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

PBS GUAM's contributions to the DB Plan for the years ended September 30, 2015, 2014 and 2013 were \$53,396, \$54,643 and \$64,997, respectively, which were equal to the statutorily required contributions for each year.

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.

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Notes to Financial Statements
September 30, 2015

(6) Employee Retirement Plans, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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.

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 2014 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>\$ 1,072,773</u>	<u>\$ 837,016</u>	<u>\$ 658,988</u>

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

Pension Liability: At September 30, 2015, PBS GUAM reported a liability of \$837,016 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, 2015, PBS Guam's proportion was 0.0672%.

Pension Expense: For the year ended September 30, 2015, PBS GUAM recognized pension expense of \$29,960.

Deferred Outflows and Inflows of Resources: At September 30, 2015, PBS GUAM reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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Notes to Financial Statements
September 30, 2015

(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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 9,470	\$ -
Net difference between projected and actual earnings on pension plan investments	-	66,127
Contributions subsequent to the measurement date	106,025	-
Changes in proportion and difference between PBS GUAM contributions and proportionate share of contributions	<u>-</u>	<u>13,503</u>
	<u>\$ 115,495</u>	<u>\$ 79,630</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2015 will be recognized in pension expense as follows:

<u>Year Ended September 30</u>		
2016		\$ 23,227
2017		\$ 19,197
2018		\$ 19,197
2019		\$ 8,539

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, 2015 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, 2015, 2014 and 2013 were \$63,215, \$46,191 and \$27,152, respectively, which were equal to the required contributions for the respective years then ended. Of these amounts, \$52,628, \$38,501 and \$22,640 were contributed toward the unfunded liability of the DB Plan for the years ended September 30, 2015, 2014 and 2013, respectively.

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

Notes to Financial Statements
September 30, 2015

(6) Employee Retirement Plans, Continued

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, 2015, 2014 and 2013, PBS GUAM's contributions to this Plan amounted to \$31,265, \$29,674 and \$28,461, respectively, equal to the statutorily required contributions for each year.

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 September 30,</u>	
2016	\$ 10,200
2017	10,200
2018	10,200
2019	10,200
2020	10,200
2021 - 2025	51,000
2026 - 2028	<u>30,600</u>
	\$ <u>132,600</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*

	2015	2014
Total net pension liability	\$ 1,246,306,754	\$ 1,303,304,636
PBS GUAM's proportionate share of the net pension liability	\$ 837,016	\$ 915,805
PBS GUAM's proportion of the net pension liability	0.07%	0.07%
PBS GUAM's covered-employee payroll**	\$ 324,703	\$ 302,727
PBS GUAM's proportionate share of the net pension liability as percentage of its covered employee payroll	257.78%	302.52%
Plan fiduciary net position as a percentage of the total pension liability	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*

	2015	2014
Actuarially determined contribution	\$ 90,585	\$ 86,933
Contribution in relation to the actuarially determined contribution	106,024	93,144
Contribution deficiency (excess)	\$ (15,439)	\$ (6,211)
PBS GUAM's covered-employee payroll **	\$ 324,703	\$ 302,727
Contribution as a percentage of covered-employee payroll	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, 2015
(With comparative totals as of September 30, 2014)

	General Fund		Schedule of Net Position	
	2015	2014	2015	2014
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>				
Cash and cash equivalents	\$ 280,385	\$ 323,895	\$ 280,385	\$ 323,895
Receivables, net	25,432	29,885	25,432	29,885
Restricted assets:				
Cash and cash equivalents	717	717	717	717
Capital assets:				
Nondepreciable capital assets	-	-	18,000	18,000
Capital assets, net of accumulated depreciation	-	-	1,965,785	2,136,449
Total assets	<u>\$ 306,534</u>	<u>\$ 354,497</u>	<u>2,290,319</u>	<u>2,508,946</u>
Deferred outflows of resources:				
Deferred outflows from pension			115,495	93,846
Total assets and deferred outflows of resources			<u>2,405,814</u>	<u>2,602,792</u>
<u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>				
Accounts payable	\$ 26,697	\$ 35,735	26,697	35,735
Other liabilities and accruals	11,980	39,820	11,980	39,820
Unexpended grant revenues	60,311	93,515	60,311	93,515
Long-term liabilities:				
Due within one year	-	-	19,867	19,921
Due after one year	-	-	891,418	951,950
Total liabilities	<u>98,988</u>	<u>169,070</u>	<u>1,010,273</u>	<u>1,140,941</u>
Deferred inflows of resources:				
Deferred inflows from pension			79,630	54,738
Total liabilities and deferred inflows of resources			<u>1,089,903</u>	<u>1,195,679</u>
<u>FUND BALANCE/NET POSITION</u>				
Fund balance:				
Assigned - supporting services	207,546	185,427		
Total fund balance	<u>207,546</u>	<u>185,427</u>		
Total liabilities and fund balance	<u>\$ 306,534</u>	<u>\$ 354,497</u>		
Net position:				
Net investment in capital assets			1,983,785	2,154,449
Unrestricted			(667,874)	(747,336)
Total net position			<u>\$ 1,315,911</u>	<u>\$ 1,407,113</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, 2015
 (With comparative totals for the year ended September 30, 2014)

	General Fund		Schedule of Activities	
	2015	2014	2015	2014
Revenues:				
Community service grant	\$ 739,493	\$ 628,687	\$ 739,493	\$ 628,687
Government of Guam appropriation	622,645	620,251	622,645	620,251
In-kind contributions	164,550	121,430	164,550	121,430
Fundraising	44,406	90,908	44,406	90,908
Contributions and other income	62,480	44,594	62,480	44,594
Underwriting	61,916	85,588	61,916	85,588
Interest	809	3,543	809	3,543
Other	8,722	25,492	8,722	25,492
Total revenues	<u>1,705,021</u>	<u>1,620,493</u>	<u>1,705,021</u>	<u>1,620,493</u>
Expenditures/expenses:				
Program services:				
Station production	130,485	169,923	130,485	169,923
Station upgrade	83,353	94,672	83,353	94,672
Capital outlays	19,177	63,998	-	-
Supporting services:				
Program broadcasting	475,017	487,237	475,017	487,237
Contractual services	104,093	112,172	104,093	112,172
Development and promotion	70,131	154,867	70,131	154,867
Supplies and materials	13,451	12,993	13,451	12,993
Local appropriations:				
Personnel services	384,040	350,254	402,243	341,016
Fringe benefits	153,035	140,980	77,489	107,525
Utilities	83,595	101,356	83,595	101,356
Contractual services	1,975	27,661	1,975	27,661
In-kind expenditures/expenses	164,550	121,430	164,550	121,430
Unallocated depreciation	-	-	189,841	169,215
	<u>1,682,902</u>	<u>1,837,543</u>	<u>1,796,223</u>	<u>1,900,067</u>
Excess (deficiency) of revenues over (under) expenditures	22,119	(217,050)		
Change in net position			(91,202)	(279,574)
Fund balance/net position:				
Beginning of the year	<u>185,427</u>	<u>402,477</u>	<u>1,407,113</u>	<u>1,686,687</u>
End of the year	<u>\$ 207,546</u>	<u>\$ 185,427</u>	<u>\$ 1,315,911</u>	<u>\$ 1,407,113</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, 2015
(With comparative totals for the year ended September 30, 2014)

	<u>2015</u>		<u>2014</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	\$ 121,986	3	\$ 159,196	4
Station upgrade	78,138	2	87,228	2
Supporting services:				
Program broadcasting	95,085	5	119,052	5
Development and promotion	39,730	1	104,481	3
	<u>\$ 334,939</u>	<u>11</u>	<u>\$ 469,956</u>	<u>14</u>
 Government of Guam:				
Local appropriations	<u>\$ 384,040</u>	<u>10</u>	<u>\$ 350,254</u>	<u>9</u>

See Accompanying Independent Auditors' Report.



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**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, 2015, and the related notes to the financial statements, which collectively comprise PBS Guam's basic financial statements, and have issued our report thereon dated February 29, 2016.

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.

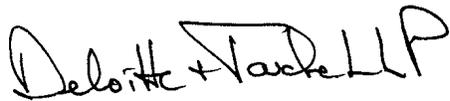
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 + Touche LLP". The signature is written in a cursive, stylized font.

February 29, 2016