

GOVERNMENT OF GUAM RETIREMENT FUND

FINANCIAL STATEMENTS

September 30, 2009 and 2008

(Together with Independent Auditors' Report Thereon)

GOVERNMENT OF GUAM RETIREMENT FUND

September 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Government of Guam Retirement Fund:

We have audited the accompanying financial statements of the Government of Guam Retirement Fund (the "Fund"), a component unit of the Government of Guam, administered by the Government of Guam Retirement Fund Board of Trustees (the "Board") as of September 30, 2009 and 2008 and for the years then ended. These financial statements are the responsibility of the management of the Fund. 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, the financial statements referred to above present fairly, in all material respects, the financial status of the Fund administered by the Board as of September 30, 2009 and 2008, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2010 on our consideration of the Fund'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 and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information listed as supplemental schedules on pages 50 to 57 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Fund's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Bruno + Comer, P.C.".

Tamuning, Guam
February 12, 2010

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis

September 30, 2009 and 2008

Management of the Government of Guam Retirement Fund ("GGRF") offers readers of the financial statements the following discussion and analysis of GGRF's financial activities for the fiscal years ended September 30, 2009 and 2008. This narrative should be reviewed in conjunction with the financial statements and related notes, which follow this section. It provides management's insight into the results of operations of the last two fiscal years, and highlights specific factors that contributed to those results.

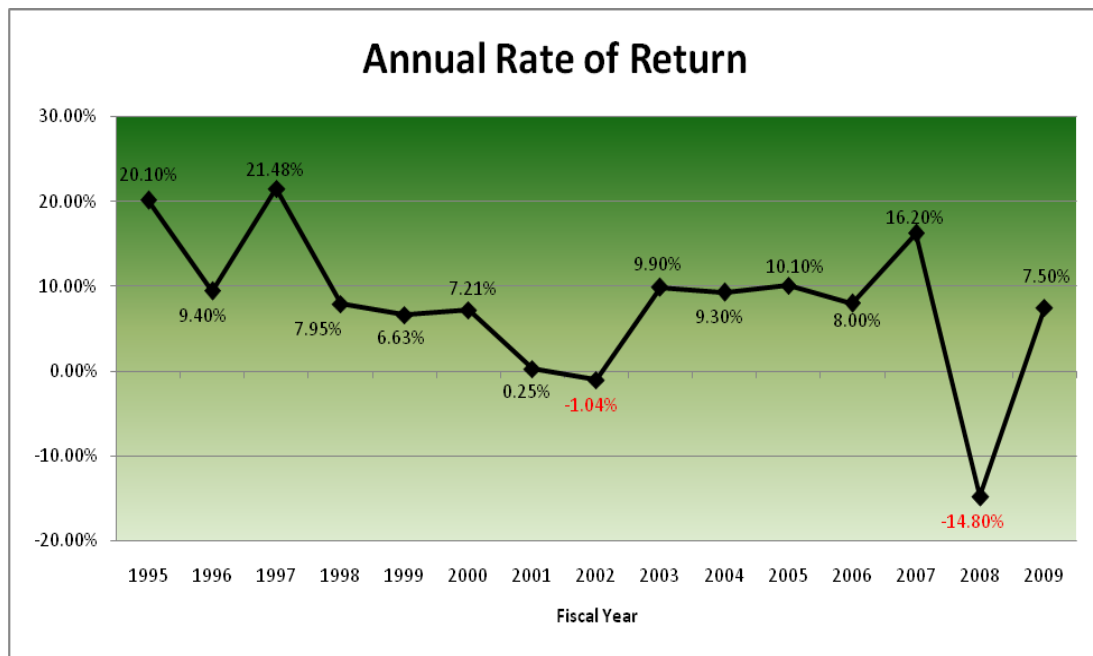
(1) Financial Highlights

- **Impact of Market Volatility on Net Assets**

For 2009, net assets of the Defined Benefit Plan (DB Plan) increased by \$17.1 million or 1.1%, while net assets of the Defined Contribution Plan (DC Plan) increased by \$26.2 million or 15.9%. In contrast, due to the volatility of the financial markets in 2008, net assets of the DB Plan decreased by \$267.5 million or 17.6%, while net assets of the DC Plan decreased by \$13.3 million or 7.5%.

- **Impact of Market Volatility on the DB Plan Rate of Return**

For 2009, the DB Plan investment portfolio posted a positive return of 7.5%, compared to 2008's negative return of 14.8%. Due to the volatility of the financial markets in 2008, GGRF experienced negative returns for the first time in six years.



GGRF investment returns averaged 7.9% percent from 1995 through 2009. Over that period, there have only been two years with negative returns, both of which occurred in the last eight years.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(1) Financial Highlights, continued

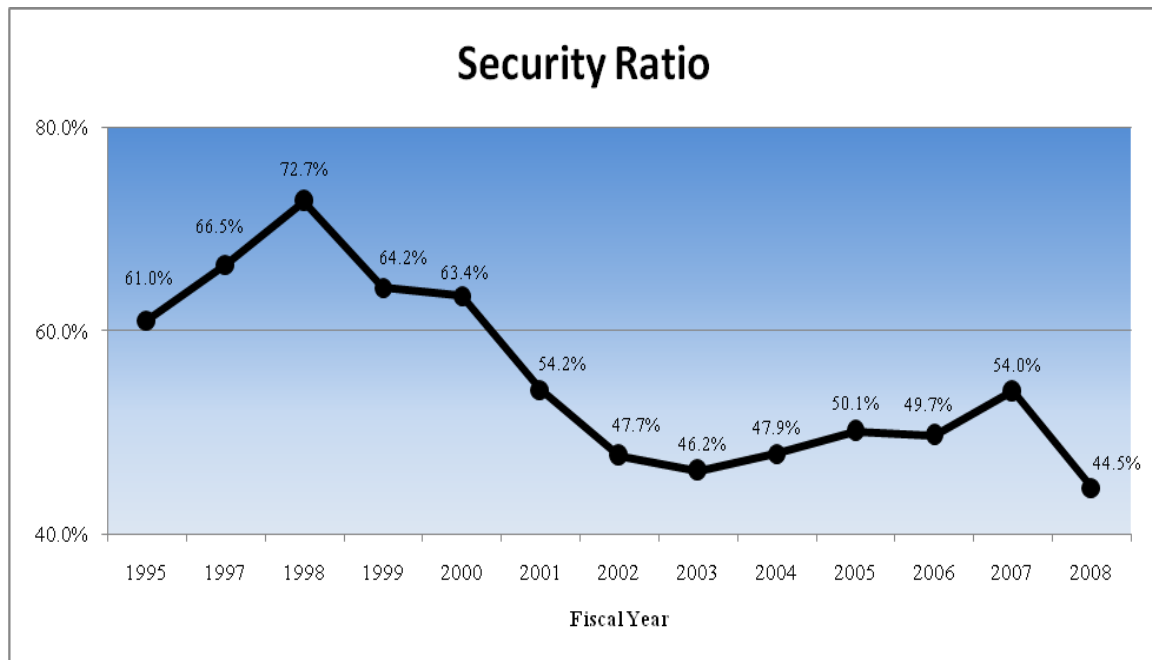
- **Critical Issue – Impact of Market Volatility on the DB Plan Unfunded Liability**

The 2008 investment losses resulted in an increase in the unfunded liability from \$1.23 billion (based on the 2007 actuarial valuation) to \$1.51 billion (based on the 2008 actuarial valuation). This resulted in a corresponding increase in the actuarially determined contribution rate from 26.02% to 29.31%.

When the 2009 actuarial valuation is finalized in April 2010, the actuarially determined contribution rate is expected to be in the range of 30.0%.

As noted in prior year reports, underfunding of the DB Plan continues to be an ongoing problem. The unfunded liability has grown from \$552 million at September 30, 1995 to \$1.51 billion at September 30, 2008. This represents a decrease in the security ratio, from 61.0% in 1995 to 44.5% in 2008, and an increase in the unfunded liability ratio from 39% in 1995 to 55.5% in 2008.

As indicated below, the **security ratio** (fund assets as a percentage of accrued liability) for the past thirteen years has ranged from 44.5% to 72.7%, representing an average of 55.5% per year.



GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(1) Financial Highlights, continued

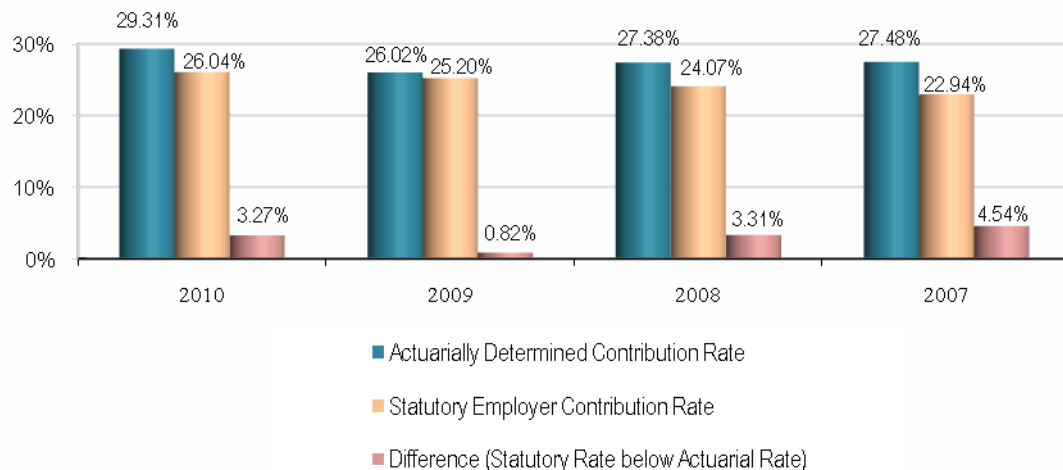
- **Critical Issue – Impact of Market Volatility on the DB Plan Unfunded Liability**

Pursuant to 4 GCA Chapter 8, Section 8137, the unfunded liability is to be completely funded within 80 years from May 1, 1951. Based on the 2008 valuation, there are 22.58 years remaining in the funding period. As stated in prior years' Management's Discussion and Analysis (MD&A), "the unfunded liability is now so large that it simply cannot be ignored or put off for future generations to contend with. The longer Gov Guam defers its obligation to provide full funding, the worse the problem becomes".

Management continues to recommend that the Guam Legislature fully fund the actuarially determined contribution rate each year. The uncertainties in the investment markets, and the years remaining in the funding period underscores the need for the Guam Legislature to fully recognize the magnitude of the problem and provide full funding each year.

While full funding has not occurred, management commends the Guam Legislature for its efforts towards attaining full funding (1) with the Passage of Public Law 28-150 in 2007, and (2) by maintaining the provisions of that law in the 2009 and 2010 Budget Bills (Public Laws 29-113, and 30-55).

A comparison of the actuarially determined contribution rates versus the statutory employer contribution rates for 2010, 2009, 2008, and 2007 are reflected below.



As reflected above, for 2009, 2008, and 2007, the Guam Legislature's efforts toward full funding have definitely narrowed the gap between the statutory and actuarially determined contribution rate. The increase in the gap from .82% in 2009 to 3.27% in 2010 is due largely to the negative return of 14.8% in 2008. Despite the increase, management encourages the Guam Legislature to continue to narrow the gap through unrelenting support of Public Law 28-150, which mandates an increase of the employer contribution rate over a 5-year period until the actuarially determined contribution rate is reached.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(1) Financial Highlights, continued

- **Designation by DOA of the DB Plan as a “Cost-Sharing Multiple-Employer Plan”**

In a December 2009 memorandum, the Director of the Department of Administration (DOA) announced they have taken the position that the DB Plan is a “cost-sharing multiple-employer” plan, and as such, will reflect the unfunded pension liability as a footnote to their financial statements in accordance with paragraphs 19 and 20 of Governmental Accounting Standards Board (GASB) Statement No. 27. DOA indicated that the changes will be effective October 1, 2008, and reflected in all Government of Guam Fiscal Year 2009 financial statements.

The GGRF Board of Trustees (the “Board”), however, maintains that the DB Plan has operated as a “single-employer plan” since its inception, and will be treated as such until the Board finds it necessary to change the status of the Plan.

The Board noted that the DB Plan is a “single-employer plan”, based on 1) provisions of 4GCA §8138 and 8139, 2) input from the Fund’s legal counsel and auditor, and 3) comments of the Governmental Accounting Standards Board (GASB). The Board also noted that since the general administration and operation of the Fund lies with the Board pursuant to 4 G.C.A. §8138(a), so does the authority to determine the status of the DB Plan. The Director of the Department of Administration is not a Trustee of the Fund, nor is he or she tasked with, or authorized to perform, the duties of the Board in accordance with 4GCA §8139.

Concerns Relative to GGRF’s Non-Reporting of the Unfunded Liability:

All government entities in the past have recorded the unfunded liability on their respective financial statements. It was pointed out to the Office of Public Accountability that GGRF has never recorded an unfunded liability.

GGRF’s Response to Concerns Above:

GGRF Management clarifies that GGRF’s share of the unfunded liability is not reflected on the statement of net assets for the simple reason that an entity should not report a liability to itself. If GGRF were to utilize separate financial statements for the pension plan and another for operational purposes, the consolidated financial statements would require elimination entries since the pension liability will be recorded as a payable under operations, and a receivable for the pension plan. Thus, if GGRF were to record the liability, it will be improperly reflected on the “statement of plan net assets” as it will result in a reduction in the “net assets held in trust for pension benefits”. It should be noted however, that GGRF has requested, and is awaiting its Actuary’s determination of GGRF’s share of the unfunded liability.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(1) Financial Highlights, continued

"Interest-Only" Payments for GDOE and GMHA

During 2009, GGRF continued to receive "interest-only" payments in accordance with the provisions of Public Law 28-38, as amended by Public Law 29-19. GGRF received payments totaling \$2,315,460 and \$2,286,012 for the Guam Department of Education (GDOE) and the Guam Memorial Hospital Authority (GMHA), respectively.

GMHA's Concerns Relative to the "interest-only" payments - In its 2009 Management Discussion and Analysis, GMHA Management stated that:

*"...approximately \$11M should have been credited towards the Hospital's retirement liability. The Retirement Fund has not treated the payments from the General Fund as interest payments but **as recovery or opportunity cost**. Hospital management is concerned as to the manner in which the interest-only payments are being applied by the Retirement Fund. Despite this inconsistency, in the mean time, Hospital employees are able to retire when so desired."*

In response to GMHA's statements above - GGRF Management clarifies that Public Law 28-38, and Public Law 27-106 as incorporated therein, provides for the retirement of eligible employees of GMHA, and GDOE, upon the complete remittance of "interest-only" payments **and** the respective agency's employer and employee contributions including interest and penalties pursuant to 4 GCA §8137(c). Since the "interest-only" payments are required **in addition to** §8137(c) interest and penalties, GGRF maintains that such payments are in fact ***recovery or opportunity cost***, and have been ***consistently recorded as income*** to the GGRF ***since July 2005***.

• **\$21 million Bond Proceeds for GDOE and GMHA**

On July 2, 2009, the Fund received \$21 million from the General Fund, in partial payment of GMHA and GDOE contributions receivable (including interest and penalties). Of the \$21 million, \$10,541,146 was allocated to the GMHA and \$10,458,854 was allocated to the GDOE.

GMHA's Concerns Relative to the Application of the \$10.5 Million - In its 2009 MD&A, Management of GMHA stated that:

"Over \$10.5M of the Hospital's \$17M liability was retired in July 2009. The Retirement Fund, without consulting the Hospital, applied over 90% of the bond monies towards interest and penalties, with only \$360K of the bond monies going towards the principal."

In the footnotes to its 2009 financial statements, GMHA Management also stated that:

"GMHA has in the accompanying financial statements accepted the application of the bond proceeds. However, GMHA is requesting an accounting of these payments. Due to the uncertainty surrounding the ultimate outcome of this matter, any adjustments that may result from this matter will be made prospectively."

In response to GMHA's statements above - GGRF Management clarifies ***that in accordance with Generally Accepted Accounting Principles (GAAP)***, 1) the \$10.5M was first applied to outstanding interest and penalties, then to the outstanding principal balances, and 2) GGRF will continue to accrue interest and penalties on the outstanding principal balances until such balances are paid in full.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(2) Description of the Financial Statements

This section of the MD&A is intended to serve as an introduction to the GGRF financial statements, which include the following:

1. The Statement of Plan Net Assets,
2. The Statement of Changes in Plan Net Assets, and
3. The Notes to the Financial Statements.

In accordance with the requirements of GASB Statement No. 25 *"Financial Reporting for Defined Benefit Pension Plans"* this report also includes the following schedules:

1. Schedule of Funding Progress, and
2. Schedule of Employer Contributions

This report also contains schedules of administrative and general expenses, personnel costs, personnel count, other receivables, and schedules of receivables by Gov Guam Agency.

As discussed below, the financial statements disclose financial data for both the DB Plan and the DC Plan.

- **The Statement of Plan Net Assets** reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting net assets represent the value of assets held in trust for benefit payments.
- **The Statement of Changes in Plan Net Assets** shows the results of financial transactions that occurred during the fiscal year, where additions less deductions equals the net increase or net decrease in net assets.
- **The Notes to the Financial Statements** provide additional information that is essential for a comprehensive understanding of the data provided in the financial statements. The notes describe the accounting and administrative policies under which GGRF operates, and also provides additional information for selected financial statement items. The notes also include a discussion of the actuarial assumptions relevant to the Schedule of Funding Progress and the Schedule of Employer Contributions.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(2) Description of the Financial Statements, continued

Additional information is included in the following required supplementary schedules:

- **The Schedule of Funding Progress** includes actuarial information about the status of the DB Plan from an ongoing, long-term perspective, and the progress made in accumulating sufficient assets to pay pension benefits when due. Valuation Assets in excess of Actuarial Accrued Liabilities indicate that sufficient assets exist to fund future benefit payments of current DB Plan Members and Retirees. Actuarial Accrued Liabilities in excess of Valuation Assets reflect an Unfunded Actuarial Accrued Liability (UAAL). The UAAL represents the value in current dollars that would need to be accumulated to fund the benefit payments of all active members and retirees as of the date indicated on the schedule. The amortization of the UAAL is calculated as a percentage of total payroll (both DB and DC Plan payroll), which is assumed to grow at 3.5% per year.
- **The Schedule of Employer Contributions** presents historical information showing the required annual employer contributions to be paid by employers for the employees participating in the DB Plan, and the actual performance of Gov Guam in meeting this requirement.

(3) Defined Benefit Plan

The DB Plan provides for retirement, disability, and survivor benefits to members of the Plan prior to October 1, 1995. All new employees whose employment commences on or after October 1, 1995 are required to participate in the DC Plan.

DB Plan Net Assets as of September 30, 2009, 2008 and 2007 are as follows (in millions):

	2009	2008	2007	\$ Increase (Decrease) from 2008 to 2009	% Increase (Decrease) from 2008 to 2009
Cash and Equivalents	\$ 2.9	\$ 3.8	\$ 2.3	\$ (0.9)	-23.7%
Receivables	114.6	133.5	147.8	(18.9)	-14.2%
Investments	1,164.3	1,126.2	1,385.8	38.1	3.4%
Property and Equipment	0.9	1.0	1.0	(0.1)	-10.0%
Total Assets	1,282.7	1,264.5	1,536.9	18.2	1.4%
Total Liabilities	17.0	15.9	20.8	1.1	6.9%
Net Assets, End of Year	1,265.7	1,248.6	1,516.1	17.1	1.4%
Net Assets, Beginning of Year	1,248.6	1,516.1	1,390.9		
Net Increase (Decrease) in Net Assets	\$ 17.1	\$ (267.5)	\$ 125.2		

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(3) Defined Benefit Plan, continued

During 2009, DB Plan net assets increased by \$17.1 million or 1.1% from the prior year. With the rebounding of the financial markets in 2009, the market value of DB Plan investments increased by \$38.1 million, ending the year at \$1.16 billion. In contrast, due to the volatility of the financial markets in 2008, DB Plan investments lost over \$259.6 million in net asset value, ending the year with a market value of approximately \$1.126 billion.

Receivables decreased by \$18.9 million due primarily to the receipt of \$21 million from the General Fund (as more fully discussed in footnote 6) in partial payment of contributions receivable (including interest and penalties) from GMHA and GDOE.

Receivables also decreased due to collections from Gov Guam for supplemental/COLA benefits advanced and for the employer share of the early retirement incentive program ("ERIP"). Over \$130 million in supplemental/COLA benefits were advanced to Gov Guam by GGRF in the late 1990s. In 1999 the Guam Legislature offered employees in the DB Plan the ERIP, as a way to free up revenues that would otherwise have gone to employee's salaries and benefits.

As of September 30, 2009, the supplemental/COLA benefits advanced and the employer share of ERIP totaled approximately \$73 million and \$269,915, respectively. Had these funds remained with GGRF's investment managers, they would have grown substantially. These receivables are being collected by GGRF over a twenty year period, without interest.

During 2009 and 2008, the outstanding balance of the supplemental/COLA benefits advanced was reduced by 1.2016% of the employer contributions of covered payroll. The employer share of the ERIP receivable was reduced by 1.31% of the employer contributions of covered payroll.

During 2009, DB Plan liabilities increased by \$1.1 million due primarily to the increase in amounts due to brokers for unsettled trades as of September 30, 2009.

DB Plan Investments as of September 30, 2009, 2008 and 2007 are as follows (in millions):

	2009	2008	2007	\$ Increase (Decrease) from 2008 to 2009	% Increase (Decrease) from 2008 to 2009
Common Stocks	\$ 557.7	\$ 531.0	\$ 708.5	\$ 26.7	5.0%
U.S. Government Securities	196.5	257.2	273.2	(60.7)	-23.6%
Corporate Bonds and Notes	210.6	206.3	215.2	4.3	2.1%
Money Market Funds	22.5	36.5	40.2	(14.0)	-38.4%
Mutual Funds	177.0	95.2	148.7	81.8	85.9%
Total	\$ 1164.3	\$ 1126.2	\$ 1385.8	\$ 38.1	3.4%

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(3) Defined Benefit Plan, continued

The DB Plan investments provide for long-term growth, while also ensuring a reliable cash flow that meets current pension benefit payments. Equity investments are included for their long-term return and growth characteristics, while fixed income assets control investment risk.

In line with the Board's long-term goal of achieving, at a minimum, a 7.0% rate of return, investments are allocated amongst various asset classes. Each asset class reacts differently under the same market conditions. Often when one asset class has strong returns, another will have lower or even negative returns. This diversification of investments across a number of asset classes ensures a better return under a range of market conditions, while lowering the overall portfolio risk.

GGRF's asset allocation strategy adopted in 2005 and 2006 are as follows:

	Asset Allocation Adopted in 2006	Asset Allocation Adopted in 2005
Domestic Large Cap Equity	30%	38%
Domestic Small Cap Equity	10%	-
International Developed Markets	12%	13%
International Small Cap	5%	3%
International Emerging Markets	3%	3%
Fixed Income Aggregate	30%	39%
Real Estate (REITs)	10%	-
Non-U.S. Fixed Income	-	4%
Total	100%	100%

In August 2006, the Board adopted a new asset allocation strategy to include investments in domestic small cap equity and real estate investment trusts (REITs). Implementation of the 2006 asset allocation strategy continues to be in transition, pending either the procurement of investment management services for, funding of, and/or rebalancing of, each mandate. Therefore, the 2009, 2008 and 2007 investment portfolio performance does not fully reflect the current asset allocation.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(3) Defined Benefit Plan, continued

The table below shows portfolio returns and indexes, which are reflective of the market environment for 2009, 2008, 2007 and 2006.

	2009	2008	2007	2006
Total Portfolio	7.5%	-14.8%	16.2%	8.0%
Blended Index	3.6%	-10.7%	11.5%	8.0%
Public Funds Median	1.0%	-15.0%	16.0%	*
Total Domestic Equity	-0.8%	-19.7%	18.7%	12.3%
Benchmark: S&P 500 Index	-6.9%	-22.0%	16.4%	10.8%
International Equity Developed	4.2%	-31.2%	29.4%	1.9%
Benchmark: MSCI EAFE	3.2%	-30.5%	*	*
International Equity Emerging	23.4%	-29.9%	59.9%	**
Benchmark: MSCI Emerging Markets	19.1%	-33.2%	58.6%	**
Total Fixed Income	9.6%	0.0%	5.4%	4.1%
Benchmark: Barclays Capital Aggregate	10.6%			
Benchmark: Lehman Aggregate		3.7%	5.1%	3.7%

* Information not available.

** Not applicable, Emerging Markets was funded in August 2006.

To come into compliance with the asset allocation strategy, the Board in 2009, partially funded the Domestic Small Cap Equity and the Real Estate Investment Trust (REITs) mandates.

GGRF's target allocation versus the market allocation as of September 30, 2009, is as follows:

	Target Allocation (Adopted in 2006)	Market Allocation	Over/(Under) Target Allocation
Domestic Large Cap Equity	30%	32.05%	2.05%
Domestic Small Cap Equity	10%	5.73%	-4.27%
International Developed Markets	12%	14.06%	2.06%
International Small Cap	5%	3.53%	-1.47%
International Emerging Markets	3%	5.16%	2.16%
Fixed Income Aggregate	30%	36.17%	6.17%
Real Estate (REITs)	10%	3.30%	-6.70%
Total	100%	100%	0.00%

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

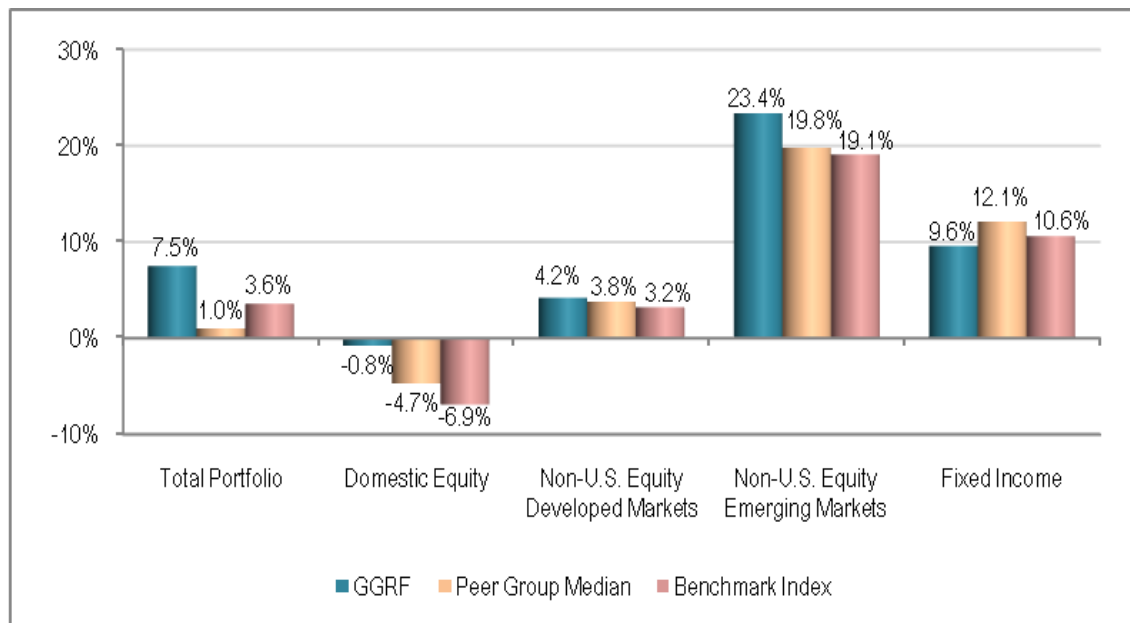
September 30, 2009 and 2008

(3) Defined Benefit Plan, continued

Total Portfolio Return

In 2009, GGRF outperformed the median of a peer group of other U.S. based public funds and the benchmark index. GGRF ranked in the top half of the Public Funds Universe, outperforming 91% of other public funds. The 7.5% posted return is a definitive rebound from the negative 14.8% total return in 2008.

The following reflects the 2009 investment performance for the total portfolio, and for each investment mandate.



Portfolio Returns by Mandate

The domestic equity portfolio return of negative .8% and non-U.S. equity developed markets portfolio return of 4.2% were ahead of their benchmarks at negative 6.9% and 3.2%, respectively. Likewise, the non-U.S. equity emerging markets portfolio returned 23.4%, above its benchmark at 19.1%. The fixed income portfolio return of 9.6%, however, was slightly below the benchmark's 10.6% return. The REITs mandate was partially funded in December 2008. Therefore, the fiscal year-to-date return is not available.

GOVERNMENT OF GUAM RETIREMENT FUND

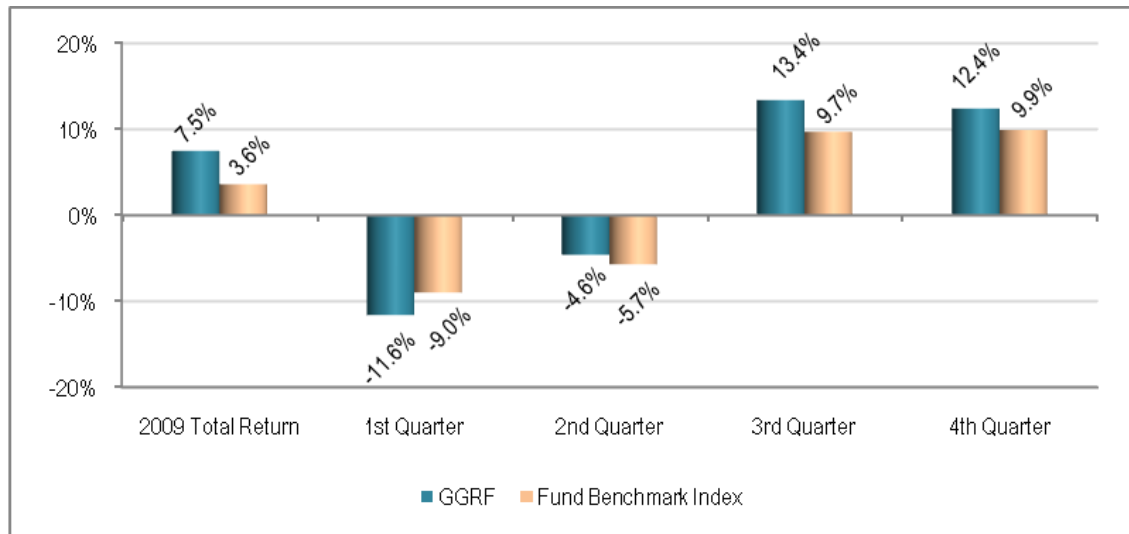
Management's Discussion and Analysis, continued

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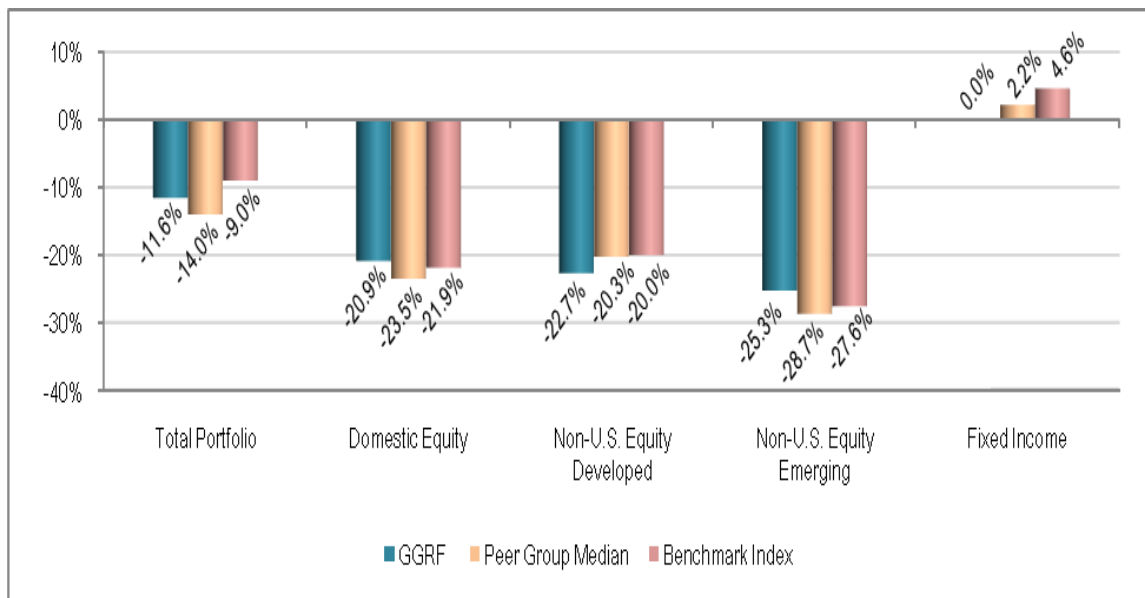
(3) Defined Benefit Plan, continued

2009 Portfolio Returns by Quarter

The following reflects the 2009 total and quarterly returns.



- During the **first quarter** of 2009, the total performance of the GGRF Portfolio was above the median of a peer group of other U.S. based public funds, but below the benchmark index. The domestic equity and the non-U.S. equity portfolios all posted negative returns. The fixed income portfolio was flat at 0.0%.



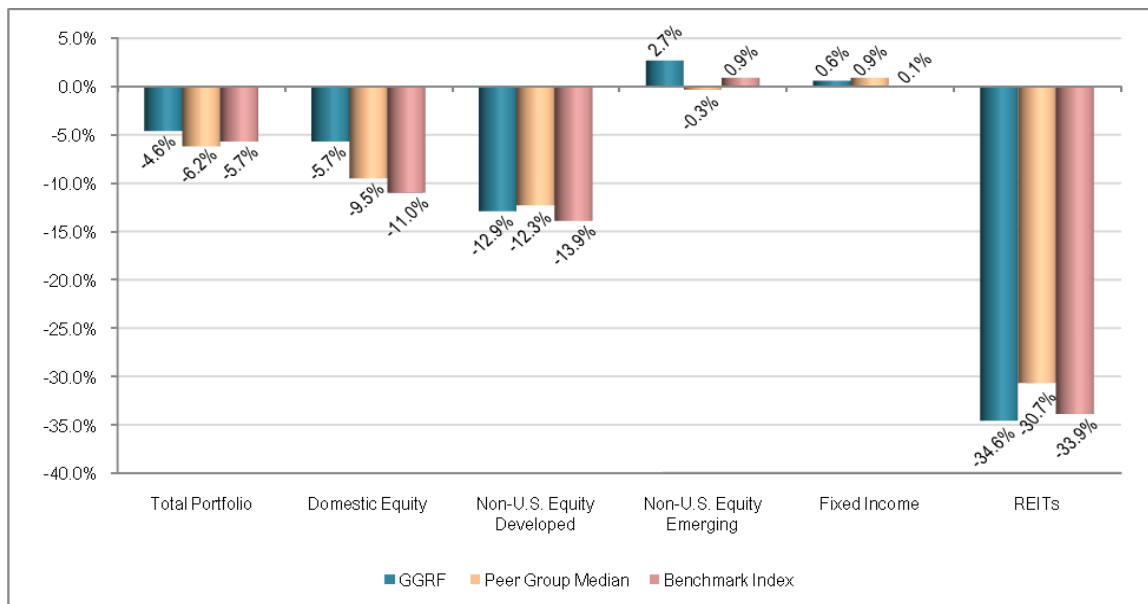
GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

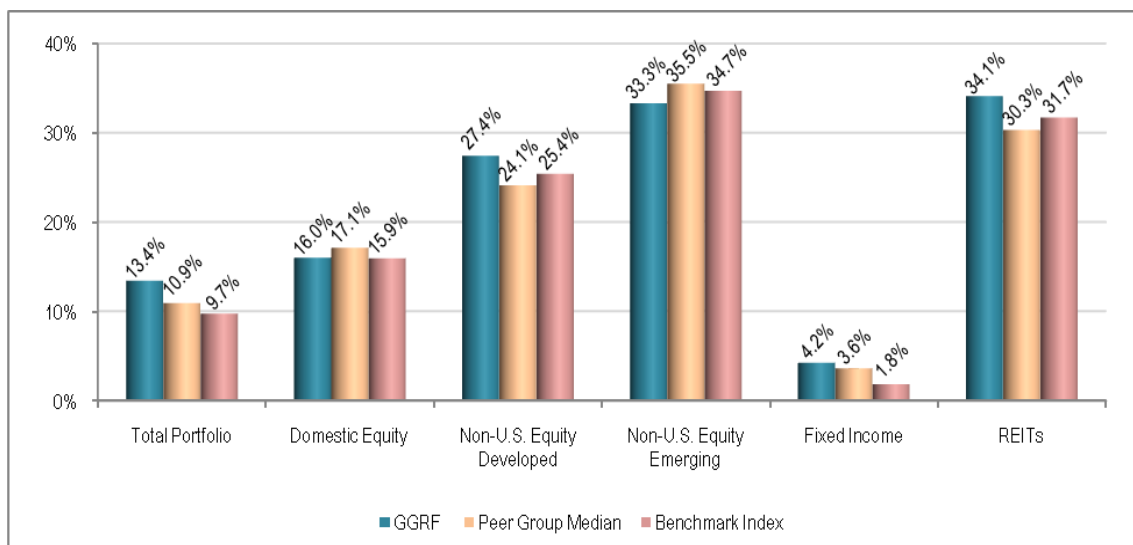
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(3) Defined Benefit Plan, continued

- During the **second quarter**, the GGRF portfolio outperformed the median of a peer group of other U.S. based public funds, and the benchmark index. The domestic equity, non-U.S. equities, and fixed income portfolios were ahead of their respective benchmarks. In contrast, the newly funded REITs portfolio trailed its benchmark.



- During the **third quarter**, performance of the GGRF portfolio was above the median of a peer group of other U.S. based public funds and the benchmark index. All mandates posted gains. With the exception of the domestic equity and non-U.S. equity emerging markets portfolios, all others posted returns above the peer group median and the benchmark index.



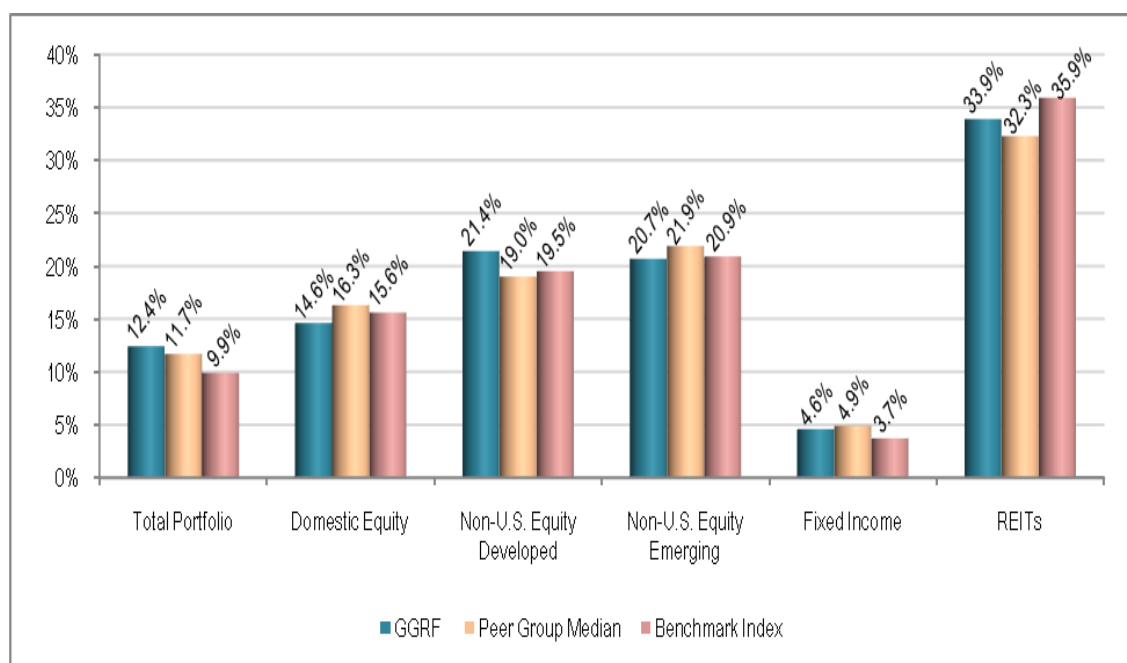
GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(3) Defined Benefit Plan, continued

- During the **fourth quarter**, the GGRF portfolio outperformed the median of a peer group of other U.S. based public funds and the benchmark index. The non-U.S. equity developed-markets and the fixed income portfolios posted gains above their respective benchmark indices. Whereas, the domestic equity, non-U.S. emerging-markets, and REITs portfolios trailed the benchmarks.



Mitigating The Effects of Market Volatility Through Diversification

The 2009 quarterly returns highlight the long-term proven success of strategic asset allocation and diversification in mitigating market volatility. As reflected in the preceding graphs and the total 7.5% portfolio return, GGRF was not drastically affected by the global economic crisis in 2009, in comparison to pension funds of similar asset size.

To mitigate other risks, the Board, with the guidance of the Fund's investment consultant, Mercer Investment Consulting, Inc., consistently evaluates the relative performance of each mandate and individual managers, and rebalance the portfolio accordingly.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(3) Defined Benefit Plan, continued

Additions and Deductions to DB Plan Net Assets for the years ended September 30, 2009, 2008 and 2007 are as follows (in millions):

	2009	2008	2007	\$ Increase (Decrease) from 2008 to 2009	% Increase (Decrease) from 2008 to 2009
Net Appreciation in Fair Value of Investments	\$ 31.7	\$ (241.8)	\$ 153.6	\$ 273.5	-113.1%
Interest, Dividends & Other Investment Income	56.5	53.8	52.5	2.7	5.0%
Less Investment Expenses	(2.9)	(3.5)	(3.1)	0.6	-17.1%
Net Investment Income	85.3	(191.5)	203.0	276.8	-144.5%
Employer Contributions	89.5	83.2	78.1	6.3	7.6%
Member Contributions	18.6	18.4	18.9	0.2	1.1%
Total Contributions	108.1	101.6	97.0	6.5	6.4%
Total Additions	193.4	(89.9)	300.0	283.3	-315.1%
Benefit Payments	171.5	168.7	165.2	2.8	1.7%
Refunds	5.9	5.9	6.7	0.0	0.0%
Administrative Expenses	2.9	3.1	2.8	(0.2)	-6.5%
Transfer to DC Plan	0.0	0.0	0.7	0.0	0.0%
Bad Debt Recovery	(4.0)	(0.1)	(0.6)	(3.9)	3900.0%
Total Deductions	176.3	177.6	174.8	(1.3)	-0.7%
Net Increase (Decrease) in Net Assets	\$ 17.1	\$ (267.5)	\$ 125.2		

Additions to DB Plan Net Assets

Due to the rebounding of the financial markets in 2009 the fair value of investments increased by \$273.5M. In contrast, due to the volatility of the financial markets in 2008, the fair value of investments reflected net depreciation of \$241.8M.

Interest, dividends and other investment income includes interest-only payments received from the Gov Guam General Fund for prior years' outstanding contributions receivable from the GMHA and GDOE. As further discussed in Note 6 of the audited financial statements, monthly interest-only payments totaling \$190,501 and \$192,955 for GMHA and GDOE, respectively, will continue until the outstanding balances for these agencies are fully paid from a general obligation bond or other means.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(3) Defined Benefit Plan, continued

As previously discussed, on July 2, 2009 the Fund received \$21 million from the General Fund, in partial payment of GMHA and GDOE receivables (including interest and penalties). Of the \$21 million, \$10,541,146 was allocated to the GMHA and \$10,458,854 was allocated to the GDOE.

However, since the GMHA and GDOE receivables have not been fully satisfied, the mandated interest payment schedule remains in effect. Non-remittance will cause the processing of retirement applications from employees of GMHA and GDOE to cease.

During 2009, the employer contribution rate increased to 26.02% from the 24.07% employer contribution rate in 2008. This resulted in a \$6.3 million increase in employer contributions in 2009 compared to 2008.

Deductions to DB Plan Net Assets

GGRF was created to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, elective refunds of contributions to employees who terminate employment, and the cost of administering the Plan. Deductions for 2009 totaled \$176.3 million, a decrease of 1.3% over 2008.

Benefit payments to current retirees and their beneficiaries over the last three years averaged 96%. For 2009, benefit payments increased by \$2.8 million or 1.7% over 2008. Benefit payments for DB Plan retirees are not affected by the market downturn as they are based on a formula reflecting years of service and average annual salary. DB Plan investments, combined with future earnings and additional member and employer contributions, will be used to pay retirement benefits.

Similar to 2008, 2009 member refunds totaled \$5.9 million. Refunds of member accounts are at the discretion of the member, and vary from year to year.

Administrative expenses totaled \$2.9 million, a decrease of 6.5% over 2008.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(3) Defined Benefit Plan, continued

DB Plan membership as of September 30, 2009, 2008 and 2007 is as follows:

	2009	2008	2007	Increase (Decrease) from 2008 to 2009	% Inc. (Dec.) from 2008 to 2009
Retirees and Beneficiaries Receiving Benefits	7,085	7,037	7,055	48	-0.68%
Terminated Members entitled to, but not yet Receiving Benefits	6,634	6,738	6,978	(104)	-1.54%
Active Plan Members	3,952	4,061	4,298	(109)	-2.68%
Total Membership	17,671	17,836	18,331	(165)	-0.92%

Liquidations

During 2009, \$47.0 million in investments were liquidated in order to meet benefit payment obligations. The \$47.0 million included \$29 million of interest and dividend income. During 2008, \$60.7 million in investments were liquidated in order to meet benefit payment obligations.

The \$13.7 million decrease in 2009, is due primarily to the increase in employer contributions and the utilization of \$8 million of the \$21 million in Bond Proceeds to meet benefit payment obligations.

(4) Defined Contribution Plan

The DC Plan was created by Public Law 23-42:3. All new employees whose employment commences on or after October 1, 1995 are required to participate in the DC Plan.

DC Plan Net Assets as of September 30, 2009, 2008 and 2007 are as follows (in millions):

	2009	2008	2007	\$ Increase (Decrease) from 2008 to 2009	% Increase (Decrease) from 2008 to 2009
Cash and Equivalents	\$ 3.1	\$ 2.6	\$ 2.8	\$ 0.5	19.2%
Receivables	1.4	1.4	1.1	0.0	0.0%
Investments	187.2	161.8	175.6	25.4	15.7%
Total Assets	191.7	165.8	179.5	25.9	15.6%
Total Liabilities	0.5	0.8	1.2	(0.3)	-37.5%
Net Assets, End of Year	191.2	165.0	178.3	26.2	15.9%
Net Assets, Beginning of Year	165.0	178.3	149.4		
Net Increase (Decrease) in Net Assets	\$ 26.2	\$ (13.3)	\$ 28.9		

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(4) Defined Contribution Plan, continued

During 2009, DC Plan net assets increased by approximately \$26.2 million or 15.9%, due to the increased carrying value of investments resulting from the rebounding of the investment market environment.

DC Plan investments include eleven core mutual funds and five lifecycle funds. The lifecycle funds allow DC Plan members to choose the investment portfolio that best fits their time horizon, risk tolerance and investment goals. The core mutual funds allow members to create their own portfolios based on the type of investments that best fit their time horizon, risk tolerance and investment goals.

Employee contributions to the DC Plan are based on an automatic deduction of 5% of the member's regular base pay. Statutory contributions are determined using the same rates as the DB Plan. Of the amount contributed by the employer, only 5% of the member's regular base pay is deposited into the member's individual account. The remaining amount is contributed towards the unfunded liability of the DB Plan. Members who have completed five years of service are fully vested in employer contributions plus any earnings thereon.

Additions and Deductions to DC Plan Net Assets for the years ended September 30, 2009, 2008 and 2007 are as follows (in millions):

	2009	2008	2007	\$ Increase (Decrease) from 2008 to 2009	% Increase (Decrease) from 2008 to 2009
Net Appreciation in Fair Value of Investments	\$ 8.9	\$ (32.0)	\$ 15.2	\$ 40.9	-127.8%
Interest, Dividends & Other Investment Income	1.6	6.7	4.9	(5.1)	-76.1%
Net Investment Income	10.5	(25.3)	20.1	35.8	-141.5%
Employer and Employee Contributions	24.1	23.3	21.1	0.8	3.4%
Total Additions	34.6	(2.0)	41.2	36.6	-1830.0%
Refunds	6.8	9.4	11.3	(2.6)	-27.7%
Administrative Expenses	1.6	1.9	1.7	(0.3)	-15.8%
Transfers From DB Plan	0.0	0.0	(0.7)	0.0	0.0%
Total Deductions	8.4	11.3	12.3	(2.9)	-25.7%
Net Increase (Decrease) in Net Assets	\$ 26.2	\$ (13.3)	\$ 28.9	\$ 39.5	-297.0%

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(4) Defined Contribution Plan, continued

Additions to DC Plan Net Assets

During 2009, employer and employee contributions increased by \$1.0 million or 4.3% over 2008. The increase in contributions is due largely to the increase in the number of DC Plan participants during 2009.

Deductions to DC Plan Net Assets

During 2009, refunds totaled \$6.8 million, a decrease of 27.7% from 2008. The decrease is attributed in part to the December 2007 amendments to the hardship withdrawal provisions of the DC Plan. In order to promote the accumulation of adequate financial reserves for retirement, the Board limited the criteria for granting hardship withdrawals. The Board-imposed amendments included limiting withdrawals to one within a two year period; requiring participants to demonstrate "immediate and heavy financial need"; limiting withdrawals to 1) incurred medical expenses in excess of 7.5% of the participant's adjusted gross income, 2) for funeral expenses, or 3) to prevent the eviction of the member from, or foreclosure of, the member's primary residence; and disallowing withdrawals for the purchase of a principal residence, for tuition, and for education expenses.

(5) Future Outlook

Defined Benefit Plan

The GGRF Board will revisit on an annual basis, the asset allocation policy, related statutes, and the overall structure for managing GGRF assets, to ensure assets are managed in accordance with the following objectives:

1. Ensuring all benefit and expense obligations when due.
2. Maximizing expected return within reasonable and prudent risk levels.
3. Maximizing the probability of achieving the actuarial rate of return assumption.
4. Controlling costs of administering the Fund and managing the investments.

Relative to the above objectives, the Board will perform quarterly investment performance reviews and rebalance GGRF's investment portfolio accordingly.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2009 and 2008

(5) Future Outlook, continued

The Defined Contribution Plan

The GGRF Board is considering **alternative plan designs**, which may include Defined Benefit Plan features, to enhance the retirement benefits available to DC Plan members.

Effective April 14, 2010, the BlackRock LifePath Portfolios (**Target Date Funds**) will be replacing the existing Profile Portfolios (Target Risk Funds) as the default fund for the Government of Guam's Defined Contribution Retirement System 401(a) Plan and 457 Deferred Compensation Plan Participants.

Target date funds are special mutual funds in the hybrid category, structured to address some date in the future, such as retirement. The asset mix (stocks, bonds, cash equivalents) in the portfolio adjusts automatically according to a selected time frame. The fund's investment objective changes over time, with its allocation moving to more conservative investments as the target date approaches. Unlike a target date fund, the investment objective of target risk funds remain consistent over time.

An actively managed **Treasury Inflation-Protected Securities (TIPS) fund** will also be added to the menu of investment options offered to Defined Contribution Retirement System 401(a) Plan and 457 Deferred Compensation Plan Participants.

TIPS are marketable securities that provide protection against inflation. The principal of a TIPS rises with inflation and falls with deflation, as measured by the Consumer Price Index. TIPS pay interest at a fixed rate every six months. Because the rate is applied to the adjusted principal, interest payments can vary in amount from one period to the next. But like the principal, interest payments rise with inflation and fall with deflation. At maturity, investors receive the adjusted principal or the original principal, whichever is greater — protecting against both inflation and deflation.

GOVERNMENT OF GUAM RETIREMENT FUND

Statement of Plan Net Assets

September 30, 2009 and 2008

<u>ASSETS</u>	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>Total 2009</u>	<u>Total 2008</u>
Investments, at fair value:				
Common and preferred stocks	\$ 557,712,039	-	557,712,039	531,049,327
U.S. Government securities	196,463,854	-	196,463,854	257,225,870
Corporate bonds and notes	210,626,549	-	210,626,549	206,308,433
Money market funds	22,526,943	-	22,526,943	36,492,500
Mutual funds	176,980,098	182,131,944	359,112,042	251,232,211
DC plan forfeitures	-	5,048,457	5,048,457	5,722,743
Total investments	1,164,309,483	187,180,401	1,351,489,884	1,288,031,084
Receivables:				
Contributions, Interest & Penalties:				
Supplemental/COLA benefits receivable	72,993,528	-	72,993,528	78,085,596
Employer contributions, net	10,413,984	485,808	10,899,792	13,987,630
Member contributions	4,650,500	485,124	5,135,624	6,478,791
Interest and penalties on contributions	232,941	-	232,941	10,077,564
Receivable - ERIP employer's share	269,915	-	269,915	2,168,379
Supplemental/Insurance benefits advanced	4,311,138	-	4,311,138	4,328,570
Note receivable from GMHA	-	-	-	4,095,893
Reserve for note receivable from GMHA	-	-	-	(4,095,893)
	92,872,006	970,932	93,842,938	115,126,530
Member Notes:				
Early Retirement Incentive Program (ERIP)	5,947,312	-	5,947,312	7,056,299
Service Credits	2,285,674	-	2,285,674	2,909,255
	8,232,986	-	8,232,986	9,965,554
Other:				
Accrued interest and dividends on investments	4,426,240	-	4,426,240	5,249,384
Other receivables	2,738,706	464,742	3,203,448	3,146,951
Due from brokers for unsettled trades	6,045,882	-	6,045,882	850,640
Due from DC plan	274,244	-	274,244	529,347
	13,485,072	464,742	13,949,814	9,776,322
Total receivables	114,590,064	1,435,674	116,025,738	134,868,406
Cash and cash equivalents	2,874,238	3,108,835	5,983,073	6,407,845
Prepaid expenses	19,835	-	19,835	-
Property and equipment	964,374	-	964,374	1,036,025
Total assets	1,282,757,994	191,724,910	1,474,482,904	1,430,343,360
<u>LIABILITIES</u>				
Deferred revenue for service credits	8,965,445	-	8,965,445	12,517,759
Accounts payable and accrued expenses	3,353,328	273,780	3,627,108	1,546,590
Due to brokers for unsettled trades	4,666,581	-	4,666,581	2,135,989
Due to DB plan	-	274,244	274,244	529,347
Total liabilities	16,985,354	548,024	17,533,378	16,729,685
Net assets held in trust for pension benefits (See required supplemental schedule of funding progress)	\$1,265,772,640	191,176,886	1,456,949,526	1,413,613,675

The accompanying notes are an integral part of these financial statements.

GOVERNMENT OF GUAM RETIREMENT FUND

Statement of Changes in Plan Net Assets

Years ended September 30, 2009 and 2008

	Defined <u>Benefit</u>	Defined <u>Contribution</u>	Total <u>2009</u>	Total <u>2008</u>
Investment income				
Net appreciation (decline) in fair value of investments	\$ 31,783,352	8,888,958	40,672,310	(273,562,210)
Interest	43,096,056	969,261	44,065,317	46,190,334
Dividends	10,381,191	-	10,381,191	11,313,550
Other investment income	3,052,774	617,860	3,670,634	2,784,957
	<u>88,313,373</u>	<u>10,476,079</u>	<u>98,789,452</u>	<u>(213,273,369)</u>
Less investment expenses	2,933,886	-	2,933,886	3,541,598
Net investment income	<u>85,379,487</u>	<u>10,476,079</u>	<u>95,855,566</u>	<u>(216,814,967)</u>
Contributions				
Employer	89,482,900	12,102,755	101,585,655	94,675,571
Member	18,583,330	12,035,467	30,618,797	29,941,143
Total contributions	<u>108,066,230</u>	<u>24,138,222</u>	<u>132,204,452</u>	<u>124,616,714</u>
TOTAL ADDITIONS	193,445,717	34,614,301	228,060,018	(92,198,253)
Benefit payments				
Age and service annuities	145,113,609	-	145,113,609	143,290,225
Survivor annuities	18,346,271	-	18,346,271	17,173,563
Disability annuities	8,048,239	-	8,048,239	8,245,070
Total benefit payments	<u>171,508,119</u>	<u>-</u>	<u>171,508,119</u>	<u>168,708,858</u>
Refunds to separated employees and withdrawals	4,008,697	6,857,492	10,866,189	13,897,823
Administrative and general expenses	2,926,931	1,652,522	4,579,453	4,838,147
Interest on refunded contributions	1,866,299	-	1,866,299	1,376,549
Balances transferred to DC plan	90,393	(90,393)	-	-
Recovery of bad debt - GMHA	<u>(4,095,893)</u>	<u>-</u>	<u>(4,095,893)</u>	<u>(109,726)</u>
TOTAL DEDUCTIONS	<u>176,304,546</u>	<u>8,419,621</u>	<u>184,724,167</u>	<u>188,711,651</u>
Net increase (decrease) in plan net assets	17,141,171	26,194,680	43,335,851	(280,909,904)
Net assets held in trust for pension benefits, beginning of year	<u>1,248,631,469</u>	<u>164,982,206</u>	<u>1,413,613,675</u>	<u>1,694,523,579</u>
Net assets held in trust for pension benefits, end of year	<u>\$1,265,772,640</u>	<u>191,176,886</u>	<u>1,456,949,526</u>	<u>1,413,613,675</u>

The accompanying notes are an integral part of these financial statements.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements

September 30, 2009 and 2008

(1) Description of the Fund

The following brief description of the Government of Guam Retirement Fund (GGRF) is provided for general information purposes only. Members should refer to Title 4, Chapter 8, Articles 1 and 2 of the Guam Code Annotated (GCA) for more complete information.

Purpose

The Government of Guam Retirement Fund was established and became operative on May 1, 1951 to provide retirement annuities and other benefits to employees of the Government of Guam. The Board of Trustees (the "Board") is responsible for the general administration and proper operation of the Fund. With the passage of Public Law 27-43, effective November 14, 2003 the Board of Trustees comprises seven members, four of whom are elected and three of whom are appointed by the Governor with the advice and consent of the Legislature. Two of the elected members must be GGRF retirees domiciled in Guam. These two members are elected by GGRF retirees. The other two elected members must be GGRF members with at least five years of employment by the Government of Guam. These two members are elected by GGRF members. The GGRF is accounted for as a blended component unit, fiduciary fund type, pension trust fund of the Government of Guam.

(2) Description of the Defined Benefit Plan

Membership

The Defined Benefit Plan (DB) is a single-employer defined benefit pension plan and membership is mandatory for all employees in the service of the Government of Guam on the operative date. The DB plan provides for retirement, disability, and survivor benefits to members of the Plan prior to October 1, 1995. All new employees whose employment commences on or after October 1, 1995 are required to participate in the Defined Contribution Plan.

The following employees have the option of accepting or rejecting membership and become members only upon submission of a written request to the Board for membership:

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(2) Description of the Defined Benefit Plan, continued

1. Employees hired for a definite agreed term or who at the time of employment are not domiciled on Guam.
2. Employees of a public corporation of the Government of Guam or of the University of Guam.
3. Any employee whose employment is purely temporary, seasonal, intermittent or part time.

Ineligible Persons

The following employees are not eligible for membership:

1. Persons whose services are compensated on a fee basis.
2. Independent contractors.
3. Persons whose employment is for a specific project.
4. Persons who are employed in the Senior Citizens Community Employment Program.

At September 30, 2008, the latest actuarial valuation date, membership is as follows:

Retirees and beneficiaries receiving benefits	7,085
Terminated members entitled to, but not yet receiving benefits	6,634
Active plan members	<u>3,952</u>
	<u>17,671</u>

Contributions

Contributions are set by law. Member contributions are required at 9.5% of base pay.

Based on the actuarial valuation as of September 30, 2008, which was issued in June 2009, the actuarially determined contribution rate for the fiscal year ended September 30, 2008 was 29.31% of covered payroll.

Based on the actuarial valuation as of September 30, 2007, which was issued in July 2008, the actuarially determined contribution rate for the fiscal year ended September 30, 2008 was 26.02% of covered payroll.

The established statutory rate at September 30, 2009 and 2008 was 25.20% and 24.07%, respectively, of covered payroll.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(2) Description of the Defined Benefit Plan, continued

Retirement, Disability and Survivor Benefits

Under the defined benefit plan, retirement benefits are 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.

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

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

Members who joined the DB plan after August 22, 1984 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.

Service Benefit Formula

The basic retirement benefit is computed as the sum of the following:

1. An amount equal to two percent (2%) of the average annual salary for each of the first ten years of credited service and two and one-half percent (2.5%) of average annual salary for each year or part thereof of credited service over ten years.
2. An amount equal to twenty dollars (\$20) multiplied by each year of credited service, the total of which is reduced by an amount equal to a hundredth of one percent (.01%) of said total for each one dollar (\$1) that a member's average annual salary exceeds six thousand dollars (\$6,000).

The basic annuity is limited to a maximum of eighty-five percent (85%) of the average annual salary, and cannot be less than one thousand two hundred dollars (\$1,200) per year.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(2) Description of the Defined Benefit Plan, continued

Disability

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 percent (66-2/3%) of the average of their three highest annual salaries received during years of credited service.

Survivor

In the event of death of a member who completed at least 3 years of total service, the following benefits are payable:

1. Spouse – annual benefit is equal to fifty percent (50%) of the disability or service retirement benefit earned by the member.
2. Minor children – Basic benefit is \$2,160 per year for a minor child up to 18 years of age (age 24 if a full-time student).

Separation from the DB Plan

Upon complete separation from service before attaining at least 25 years of total service, a member is entitled to receive a refund of total contributions including interest. Public Law 27-68 raised the time frame under which a refund was available from 20 years to 25 years, effective February 6, 2004.

A member who withdraws 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.

(3) Description of the Defined Contribution Retirement System

Purpose

The Defined Contribution Retirement System (DCRS) was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed in the Government of Guam. The GGRF Board of Trustees is responsible for the general administration and operation of the fund. The DCRS, by its nature, is fully funded on a current basis from employer and member contributions.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(3) Description of the Defined Contribution Retirement System, continued

Membership

The DCRS is a single-employer pension plan and shall be the single retirement program for all new employees whose employment commences on or after October 1, 1995.

Existing members of the DB plan with less than 20 years of service credit may, upon written election, voluntarily elect membership in the DCRS. This option was available for sixty five (65) months after enactment of the legislation, and is available between March 1 and May 31 of every year, beginning in the year 2002. After making the election to transfer, the employee may not change the election or again become a member of the DB plan.

Contributions

Member and employer contributions are set by law at five percent (5%) of base pay.

Separation from the DCRS

Any member who leaves government service after attaining 5 years of total service is entitled to receive their total contribution plus 100% of the employer contribution and any earnings thereon.

Any member who leaves government service with less than 5 years of total service is entitled to receive their total contribution plus any earnings thereon.

(4) Summary of Significant Accounting Policies

Method of Accounting

The financial statements presented herein have been prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(4) Summary of Significant Accounting Policies, continued

Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through September 30, 2009 and 2008 are accrued.

These contributions are considered fully collectible; accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Guam Code Annotated.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Encumbrances

Encumbrances represent commitments related to contracts not yet performed and are used to control expenditures for the year and to enhance cash management. Encumbrances do not represent expenditures for the period; they represent a commitment to expend resources.

GGRF is a public employees' retirement system and presents its financial statements in accordance with GASB Statement No. 25. Accordingly, GGRF does not record encumbrances.

Cash

At September 30, 2009 and 2008, the GGRF has cash balances in banks of approximately \$6.7 million and \$8.0 million, respectively, of which \$250,000 is insured by the Federal Deposit Insurance Corporation. The remaining balances are collateralized by securities held by a trustee in the name of the financial institution.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(4) Summary of Significant Accounting Policies, continued

Investments

Investments include U.S. Federal Government and agency obligations, foreign government obligations, real estate, commercial mortgages, corporate debt, mutual funds, and equity instruments. Investments are reported at fair value. Securities transactions and any resulting gains or losses are accounted for on a trade date basis.

Investments other than real estate, commercial mortgages and other loans, and municipal revenue bonds are reported at market values determined by the custodial agents. The agent's determination of market values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Commercial mortgages and other loans and municipal revenue bonds have been valued on an amortized cost basis, which approximates market or fair value. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible. Short-term investments are reported at cost, which approximates market value.

For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk.

First Hawaiian Bank held the investments as custodian in the Fund's name through September 30, 2008. The custodial function was transferred to the Northern Trust Company effective October 1, 2008. In addition, the Fund has selected investment managers who are given authority to purchase and sell securities in accordance with the following guidelines:

- A. Investment managers may invest in U.S. and non-U.S. common stocks, American Depositary Receipts (ADRs), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities.

- 1. U.S. equities:

- a. Equity holdings are restricted to readily marketable securities of corporations that are actively traded on the major U.S. exchanges and over the counter.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(4) Summary of Significant Accounting Policies, continued

b. Common and preferred stock:

- i. The issuing institution has reported a profit in at least four of the five fiscal years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.
- ii. The issuing institution has paid a cash dividend on its common or capital stock in at least four of the five years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.
- iii. Total cash dividends have not exceeded total earnings in five years preceding the date of investment.
- iv. On the date of investment, the issuer is not in default in payment of principal or interest on any of its publicly held bonds or other evidence of indebtedness, and any contingent interest, cumulative and non-cumulative preferred dividends and dividends on prior common or capital stock have been paid in full.
- v. Preferred stock must also adhere to the following:

The net earnings of the institution available for fixed charges over a period of five fiscal years preceding the date of investment have averaged per year, and during either of the last two years have been, after depreciation and income taxes, no less than:

 1. Two times its average annual fixed charges, maximum contingent interest and preferred dividend requirements over the same period, in the case of any public utility company; or,
 2. Three times its average annual fixed charges, maximum contingent interest and preferred dividend requirements over the same period, in the case of any other company.

2. U.S. Fixed Income:

- a. All fixed income securities held in the portfolio must have a Moody's, Standard & Poor's and/or a Fitch's credit quality rating of no less than "BBB". U.S. Treasury and U.S. Government agencies are qualified for inclusion in the portfolio.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(4) Summary of Significant Accounting Policies, continued

- b. No more than twenty percent (20%) of the market value of the portfolio may be rated less than single "A" quality, unless the manager has specific written authorization. Eighty percent (80%) of the fixed income portfolio must be in bonds of credit quality of no less than "A".
- c. Total portfolio quality (capitalization weighted) must maintain an "A" minimum rating.
- d. In case such bonds or other evidence of indebtedness are not so rated by two nationally recognized and published rating services, the net earnings available for fixed charges over a period of five fiscal years preceding the date of investment have averaged per year and during either of the last two years have been, after depreciation and taxes, not less than:
 - i. Two times its average annual fixed charges over the same period, in the case of any public utility company;
 - ii. One and one-half times its average annual fixed charges over the same period, in the case of any financial company; or,
 - iii. Three times its average annual fixed charges over the same period, in the case of any other company.
- e. With the written petition and subsequent written approval of the Trustees, opportunistic investment bonds issued by national governments other than the United States or foreign corporations may comprise up to six percent (6%) of each fixed-income manager's portfolio. In no case shall these investments exceed three and one-half percent (3.5%) of the total GGRF investments. All non-U.S. securities will be, in the judgment of the investment managers, of credit quality equal to or superior to the standards described above.

3. Non-U.S. Equities

- a. Common or capital stock of any institution or entity created or existing under the laws of any foreign country are permissible investments, provided that:
 - i. The issuing institution has reported a profit in at least four of the five fiscal years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(4) Summary of Significant Accounting Policies, continued

- ii. The issuing institution has paid a cash dividend on its common or capital stock in at least four of the five years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.
 - iii. Total cash dividends have not exceeded total earnings in five years preceding the date of investment.
 - iv. On the date of investment, the issuer is not in default in payment of principal or interest on any of its publicly held bonds or other evidences of indebtedness, and any contingent interest, cumulative and non-cumulative preferred dividends and dividends on prior common or capital stock have been paid in full.
- b. Consistent with the desire to maintain broad diversification, allocations to any country, industry or other economic sector should not be excessive.

4. Cash and Cash Equivalents

- a. Cash equivalent reserves must consist of cash instruments having a quality rating of A-2, P-2 or higher. Eurodollar Certificates of Deposit, time deposits, and repurchase agreements are also acceptable investment vehicles. All other securities will be, in the judgment of the investment managers, of credit quality equal to or superior to the standards described above.
 - b. No single issue shall have a maturity of greater than two years.
 - c. The cash portfolio shall have a maturity of less than one year.
 - d. Any idle cash not invested by the investment managers shall be invested daily through an automatic sweep managed by the custodian.
- B. No investment management organization shall have more than twenty-five percent (25%) of the GGRF's assets under its direction.
- C. No individual security of any issuer, other than that of the United States government or Government of Guam, shall constitute more than five percent (5%), at cost, of the total GGRF or of any investment manager's portfolio.
- D. Holdings of any issuer must constitute no more than five percent (5%) of the outstanding securities of such issuer.
- E. Investments in a registered mutual fund managed by the investment manager are subject to prior approval of the Board of Trustees.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(4) Summary of Significant Accounting Policies, continued

- F. The following securities and transactions are not authorized: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; and, short sales origin transactions. Options and futures are restricted, except by petition to the Trustees for approval.

Income Taxes

The Fund is a public employees' retirement system and an autonomous agency of the Government of Guam. Accordingly, the Fund is not subject to income taxes.

Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Fund's provisions to the service members have rendered through the most recent actuarial valuation date (September 30, 2008).

Accumulated plan benefits include benefits expected to be paid to (i) retired, disabled, and terminated employees and their beneficiaries, (ii) beneficiaries of employees who have died, and to (iii) present employees and their beneficiaries. Benefits payable under all circumstances - retirement, death, disability, and termination of employment - are included, to the extent they are deemed attributable to employee service rendered through September 30, 2008.

The actuarial present value of accumulated plan benefits is determined by an independent actuarial firm and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawals, or retirement) between the most recent actuarial valuation date (September 30, 2008), and the expected date of payment.

The significant actuarial assumptions used to calculate the actuarial present value of accumulated plan benefits are presented below, and are based on the assumption that the Fund will continue in operation. If the Fund were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Actuarial Cost Method: Entry age normal

Valuation of Assets: Market value, with fixed income investments at amortized cost

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(4) Summary of Significant Accounting Policies, continued

Investment Income:	7% per year.
Salary Increase:	Graded based on service with the Government ranging from 4.0% for service in excess of 20 years to 8.5% for service from zero to five years
Total Payroll Growth:	3.5%
Expenses:	\$3,031,871 per year, net of bad debts and recoveries
Mortality:	1994 U.S. Uninsured Pensioners for Males set forward two years for males and no set forward for females
Disability:	1974-78 SOA LTD Non-Jumbo with rates increased for males by 30%
Retirement Age:	50% probability of retirement at earliest age of eligibility for unreduced retirement benefits; 20% per year thereafter until age 70, 100% at age 70
Return of Contributions:	100% withdrawing before retirement with less than 20 years of service assumed to elect a return of contributions. All those who have previously withdrawn assumed to elect a return of contributions. Contributions earn 4.5% interest.
Amortization Method:	Constant percentage of total payroll, which is assumed to grow at 3.5% per year.
Amortization Period:	In accordance with 4GCA8137, complete funding is to be achieved by April 30, 2031. At September 30, 2009 the remaining period is 21.58 years.

New Accounting Standards

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement were effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GGRF.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(4) Summary of Significant Accounting Policies, continued

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities, note disclosures, and if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement were effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GGRF.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and No. 27*. GASB Statement No. 50 is effective for periods beginning after June 15, 2007. Statement No. 50 requires that certain disclosures be made in the notes to the financial statements. GGRF adopted GASB Statement No. 50 in fiscal year 2008.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of GGRF.

Depreciation

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

Furniture and fixtures	3 years
Automobiles	5 years
Buildings	30 years
Improvements	5-10 years
Equipment	1-5 years

Administrative expenses include depreciation and amortization expense of \$71,651 and \$91,171 in 2009 and 2008, respectively.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(5) Deposit and Investment Risk Disclosure

The Governmental Accounting Standards Board issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3* in March 2003, with an effective date for fiscal years beginning after June 15, 2004.

Cash and investments as of September 30, 2009 are classified in the accompanying statement of plan net assets as follows:

	<u>DB Plan</u>	<u>DC Plan</u>
Cash and cash equivalents	\$ 2,874,238	3,108,835
Common stocks	557,712,039	-
U.S. government securities	196,463,854	-
Corporate bonds and notes	210,626,549	-
Money market funds	22,526,943	-
Mutual funds	<u>176,980,098</u>	<u>187,180,401</u>
Total cash and investments	\$ <u>1,167,183,721</u>	<u>190,289,236</u>

Cash and investments as of September 30, 2008 are classified in the accompanying statement of plan net assets as follows:

	<u>DB Plan</u>	<u>DC Plan</u>
Cash and cash equivalents	\$ 3,808,929	2,598,916
Common stocks	531,049,327	-
U.S. government securities	257,225,870	-
Corporate bonds and notes	206,308,433	-
Money market funds	36,492,500	-
Mutual funds	<u>95,152,521</u>	<u>161,802,433</u>
Total cash and investments	\$ <u>1,130,037,580</u>	<u>164,401,349</u>

Investments Authorized by the Guam Code Annotated and the Fund's Investment Policy

Investments that are authorized by the Guam Code Annotated and by the Fund's investment policy are described in Note 4 above. There are no maximum maturities set for investments, with the exception of cash and cash equivalents as specified in Note 4 above. The only limitation on the maximum percentage of the portfolio that may be invested in any one type is with international government or corporate bonds as specified in Note 4 above. The maximum percentage of each issue that may be made is five percent, as specified in Note 4 above.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(5) Deposit and Investment Risk Disclosure, continued

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Fund manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Fund's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Fund's DB plan investments at September 30, 2009 by maturity:

<u>Investment Type</u>	<u>Remaining Maturity in Years</u>				
	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater than 10</u>	<u>Total</u>
U.S. Treasury securities	\$ -	2,252,720	13,815,338	2,145,271	18,213,329
Federal Agency securities	-	42,280,378	17,192,309	109,247,456	168,720,143
Corporate bonds and notes	<u>5,816,398</u>	<u>49,865,642</u>	<u>90,289,827</u>	<u>74,188,064</u>	<u>220,159,931</u>
Totals	\$ <u>5,816,398</u>	<u>94,398,740</u>	<u>121,297,474</u>	<u>185,580,791</u>	<u>407,093,403</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Fund's investments are typically made in corporate equities, U.S. Treasury obligations, and commercial paper. These types of investments are not more sensitive to interest rate fluctuations than as already indicated above. Investments that are highly sensitive to interest rate fluctuations include Federal agency securities with coupon multipliers that are reset frequently, mortgage-backed securities, and Federal agency securities with interest rates that vary inversely to a benchmark set quarterly.

The Fund has invested in mortgage backed securities, which are more sensitive to fluctuations in interest rates than already indicated in the information provided above. Such securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(5) Deposit and Investment Risk Disclosure, continued

At September 30, 2009, the Fund held mortgage-backed securities valued at approximately \$118 million.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by (where applicable) the Guam Code Annotated and the Fund's investment policy, and the actual rating as of September 30, 2009 for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Amount</u>	<u>Rating as of Year End</u>
U.S. Treasury securities	N/A	\$ 64,186,232	Exempt from disclosure
Federal agency securities	N/A	132,277,622	Exempt from disclosure
Money market funds	A-2	22,526,943	AAAm
Corporate medium term notes and U.S. Municipal Obligations	BBB	17,932,461	Aaa
		38,522,941	Aa1-Aa3
		85,664,596	A1-A3
		28,874,301	Baa1-Baa3
		<u>39,632,250</u>	Not rated/cash
		\$ <u>429,617,346</u>	

Concentration of Credit Risk

The Fund's investment policy contains limits on the amount that can be invested in any one issuer. At September 30, 2009, the Fund did not hold any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represents 5% or more of total Fund investments.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(5) Deposit and Investment Risk Disclosure, continued

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2009, the Fund held approximately \$1.8 million in corporate bonds issued by companies organized in various foreign countries.

The countries of incorporation and the dollar amount of the bonds issued were as follows at September 30, 2009:

Germany	\$ 978,000
United Kingdom	553,000
Netherlands	<u>314,000</u>
Total	\$ <u>1,845,000</u>

At September 30, 2009, the Fund held investments (generally U.S. dollar denominated ADRs) in corporate stocks issued by companies organized in various foreign countries. These ADRs are indirectly affected by fluctuations in currency exchange rates.

The market value of these investments at September 30, 2009 was approximately \$114 million. The functional currencies of the companies that issued the stocks (and the market value in millions of U.S. dollars) were as follows at September 30, 2009:

Euros	\$ 50 million
Japanese yen	23
Swiss Franc	11
Australian dollar	7
Others – 9 countries	<u>23</u>
Total	\$ <u>114</u> million

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(5) Deposit and Investment Risk Disclosure, continued

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The Guam Code Annotated and the Fund's investment policy contain legal requirements that limit the exposure to custodial credit risk for deposits and investments, as follows:

The Guam Code Annotated requires that a financial institution secure deposits made by Government of Guam agencies by pledging securities in: "(a) Treasury notes or bonds of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest, (b) any evidence of indebtedness of the government of Guam, (c) Investment certificates of the Federal Home Loan Bank, or (d) such other securities as may be ... approved by the Director of Administration and the Governor of Guam." The fair market value of the pledged securities must be at least ten percent (10%) in excess of the amount of monies deposited with the bank.

Further, to address custodial risk, the Guam Code Annotated requires the custodian to have been in the business of rendering trust custody services for ten or more years, to be organized under the laws of the United States or a state or territory thereof, to have capital and surplus in excess of ten million dollars (\$10,000,000), and to be a member of the Federal Reserve System whose deposits are insured by the Federal Deposit Insurance Corporation. Regardless of the above, any locally chartered bank may act as custodian for the Fund.

(6) Related Party Transactions

At September 30, 2009 and 2008, the Fund was owed employer and member contributions, interest and penalties receivable by various Government of Guam agencies. At September 30, 2009 and 2008, employer contributions receivable totaled \$10,899,792 and \$13,987,630, respectively; member contributions receivable totaled \$5,135,624 and \$6,478,791, respectively; and interest and penalties receivable totaled \$232,941 and \$10,077,564, respectively.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(6) Related Party Transactions, continued

A significant portion of the employer and member contributions receivable represent amounts due from the Guam Department of Education (GDOE) and Guam Memorial Hospital Authority (GMHA) for various pay periods during the fiscal years ended September 30, 1988 through 2004. The remaining balance represents contributions for the pay period ended September 30, 2009.

Interest and penalties continue to accrue on these receivables based on the provisions set forth in 4GCA 8137(c), which states that the Fund will impose interest at a rate equivalent to the average rate of return on its investments from the previous fiscal year and a 1% penalty for delinquent payments.

On July 2, 2009, the Fund received \$21 million from the General Fund in partial payment of contributions receivable (including interest and penalties) from GDOE and GMHA. Of the \$21 million, \$10,458,854 was allocated to the GDOE and \$10,541,146 was allocated to the GMHA.

In accordance with generally accepted accounting principles, the \$21 million was first applied to outstanding interest and penalties, then to the outstanding principal balances. For GDOE, the \$10,458,854 was first applied to outstanding interest and penalties, then to the outstanding balance of contributions receivable. For GMHA, the \$10,541,146 was first applied to outstanding interest and penalties, then to the outstanding note receivable balance, then to the outstanding balance of contributions receivable.

At September 30, 2009 and 2008, contributions receivable from GDOE (including interest and penalties) totaled approximately \$7.3M and \$17.8M, respectively. At September 30, 2009 and 2008, contributions receivable from GMHA (including interest and penalties) totaled approximately \$5.4M and \$9.3M, respectively.

Public Law 28-38, passed in June 2005, as amended by Public Law 29-19 on September 2007, requires that the General Fund remit interest only payments monthly to the GGRF for the aforementioned receivables from GDOE and GMHA. The law indicates that monthly payments totaling \$192,955 and \$190,501 for GDOE and GMHA, respectively, will continue until the outstanding balances for these agencies are fully paid from a general obligation bond or other means. However, if the obligations are not paid within ten years, payments for GDOE and GMHA will resume per 4GCA Section 8137.

During the fiscal years ended September 30, 2009 and 2008, GGRF received payments pursuant to P.L. 28-38 totaling \$2,315,460 and \$2,286,012 for GDOE and GMHA, respectively.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(6) Related Party Transactions, continued

In March 1998, the GGRF accepted a promissory note for \$9,835,720 from GMHA, a component unit of the Government of Guam. The note bears interest at the bank's prime rate plus 1%. The note was executed for the outstanding balance of a previously executed promissory note for contributions owed to GGRF as of February 28, 1998, along with related penalties and interest. At September 30, 2000, management established a 100% reserve for the \$8,000,000 outstanding balance on the note due to uncertainty of collection.

During 2008, GGRF collected \$632,811, from GMHA on the note receivable. As of September 30, 2008, the balance on the note was \$4,095,893 for which a 100% reserve was provided.

As of September 30, 2008, related interest and penalties on the note totaled \$1,921,826. However, since a 100% reserve was provided for the note receivable these interest and penalties were not recorded.

As previously discussed, the balance on the GMHA note receivable and related interest and penalties on the note were fully paid from a portion of the \$10,541,146 allocated to the GMHA.

(7) Property, Equipment and Land

Property, equipment and land at September 30, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Building	\$ 1,149,587	1,149,587
Improvements	657,899	657,899
Land	439,428	439,428
Equipment	111,719	144,809
Automobiles	23,523	39,851
Furniture and fixtures	15,887	15,887
Other	<u>7,000</u>	<u>7,000</u>
	2,405,043	2,454,461
Less: Accumulated depreciation	<u>(1,440,669)</u>	<u>(1,418,436)</u>
	\$ <u>964,374</u>	<u>1,036,025</u>

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(8) Supplemental Annuities and COLA Payments

Public Law 25-72, passed in September 1999, required the payment of supplemental annuities and cost of living allowances (COLA) to retirees. P.L. 25-72 also specified that these payments were an obligation of the employer and not of the GGRF. The cost of these benefits is to be paid through increased contributions over a period of twenty years.

The GGRF paid certain of these benefits on behalf of the General Fund and autonomous agencies, and collected certain amounts from the General Fund and from autonomous agencies. The excess of the amount paid out over the amount collected was recorded as "Supplemental/COLA benefits receivable" by the GGRF.

During fiscal year 1999, the Government of Guam appropriated \$12 million to pay for a portion of the \$31.4 million that the GGRF paid for supplemental annuities and COLA payments.

However, Public Law 25-122, passed in May 2000, reallocated the \$12 million appropriation collected by GGRF to regular employer contributions. Since the \$12 million reduced the receivable balance in fiscal year 1999, this reallocation resulted in a \$12 million increase in the receivable balance in fiscal year 2000. The offset was recorded as a reduction of employer contributions receivable from the Government of Guam for fiscal year 2000.

Beginning in fiscal year 2000, the receivable for supplemental annuities and COLA payments is being reduced by a portion of the employer contributions received. The percentage used for fiscal years 2009 and 2008 was 1.2016% of covered payroll.

At September 30, 2009 and 2008 the GGRF had Supplemental/COLA benefits receivable of \$72,993,528 and \$78,085,596, respectively. Since the GGRF is simply acting as a paying agent for these benefits, the payment of the benefits and their subsequent collection should not increase or decrease plan net assets.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(8) Supplemental Annuities and COLA Payments, continued

A history of the transactions follows (amounts rounded to the nearest hundred thousand):

	Additions	Reductions	Ending Balance
Fiscal year 1999			
Payment of benefits by GGRF	\$ 31,400,000	-	
Collections	-	(4,500,000)	
Gov Guam Appropriation		(12,000,000)	14,900,000
Fiscal year 2000			
Payment of benefits by GGRF	32,300,000	-	
Reallocation P.L. 25-72	12,000,000	-	
Collections	-	(4,300,000)	54,900,000
Fiscal year 2001			
Payment of benefits by GGRF	34,000,000	-	
Collections	-	(4,700,000)	84,200,000
Fiscal year 2002			
Payment of benefits by GGRF	27,500,000	-	
Collections	-	(3,600,000)	108,100,000
Fiscal year 2003			
Collections	-	(4,400,000)	103,700,000
Fiscal year 2004			
Collections	-	(7,200,000)	96,500,000
Fiscal year 2005			
Collections	-	(4,300,000)	92,200,000
Fiscal year 2006			
Collections	-	(4,600,000)	87,600,000
Fiscal year 2007			
Collections	-	(4,600,000)	83,000,000
Fiscal year 2008			
Collections	-	(5,000,000)	78,000,000
Fiscal year 2009			
Collections	-	(5,100,000)	72,900,000
Total Additions & Deductions	\$ 137,200,000	(64,300,000)	

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(9) Early Retirement Incentive Program (ERIP)

Public Law 24-327, as amended by Public Laws 25-2, 25-3, 25-72, 25-74, 25-90, 25-98 and 25-99 became effective December 30, 1998. This law allowed GGRF members with at least 20 years of creditable service to retire and to purchase up to 5 years of creditable service.

Those electing to participate in the ERIP must pay the members' share of the required contribution, plus interest, based on their salary at the time they made the election. Payments can be made in full or can be financed through deductions from annuities over a period not to exceed 15 years.

The time allowed for making the election and retiring was from December 30, 1998 to January 7, 2000. During this period, approximately eight hundred (800) members elected to participate in this program and signed promissory notes totaling nearly \$15 million. At September 30, 2009 and 2008, the amount owed under these notes was \$5,947,312 and \$7,056,299, respectively. There is a corresponding deferred revenue account to offset these notes receivable, since contribution income is recognized on a cash basis as amounts are collected from the retirees.

The government's share of these required contributions has been recognized in the accompanying statement of plan net assets as "Receivable – ERIP employer's share" and amounted to \$269,915 and \$2,168,379 at September 30, 2009 and 2008, respectively. This receivable is offset by deferred revenue in an equal amount. Contribution income is recognized on a cash basis as amounts are collected from the employer agencies.

The receivable for the government's share of required contributions is being reduced by a portion of the employer contributions received. The statutory percentage for fiscal years 2009 and 2008 was 1.31% of covered payroll.

(10) Supplemental/COLA Benefit Owed by Government of Guam Agencies

All Government of Guam agencies are obligated to pay retirees for supplemental and COLA benefits. GGRF paid certain supplemental and COLA benefits for other Government of Guam agencies. GGRF will be reimbursed for these benefit payments; accordingly, these benefit payments are reflected as "Supplemental/insurance benefits advanced" in the accompanying statement of net assets.

At September 30, 2009 and 2008, the GGRF had \$4,311,138 and \$4,328,570, respectively in Supplemental/insurance benefits receivable from four Government of Guam agencies.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(10) Supplemental/COLA benefit Owed to Retirees by Government of Guam Agencies, continued

In addition to the amounts advanced by GGRF, the various other Government of Guam agencies are obligated to pay retirees for supplemental and COLA benefits. These benefits were not paid by GGRF and are not included in the accompanying financial statements.

These benefits are as follows:

	<u>1/31-9/30/03</u>
General fund line agencies	\$ 3,147,964
Other agencies funded by the general fund:	
Guam Department of Education	2,186,010
Guam Memorial Hospital Authority	492,787
University of Guam	344,631
Guam Waterworks Authority	255,758
Other agencies	522,226
Autonomous agencies:	
Port Authority of Guam	415,236
Guam Power Authority	301,546
Guam Telephone Authority	218,398
Other agencies	<u>166,979</u>
Total	\$ <u>8,051,535</u>

(11) Funded Status

As of the most recent actuarial valuation (September 30, 2008), the DB plan had the following funded status:

Actuarial value of assets	\$ 1,210,960,000
Actuarial accrued liability (AAL)	<u>2,718,663,000</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>1,507,703,000</u>
Funded ratio	44.54%
Annual covered payroll	\$ 425,781,000
UAAL as a percentage of covered payroll	354.1%

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2009 and 2008

(11) Funded Status, continued

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The projection of benefits for financial reporting purposes (AAL) does not explicitly incorporate the potential effects of legal or contractual funding limitations, if applicable.

(12) Risk Management

The Government of Guam Retirement Fund is subject to various risks in the normal course of operations. The Fund protects itself against such risks by purchasing liability insurance from a private company in Guam.

Further, the Fund purchases Directors and Officers Liability insurance from a private company in Guam to protect the Board of Trustees against liability for official actions they take in their capacities as Board members.

(13) Subsequent Events

The market value of the Fund's invested assets in the DB plan increased from \$1.164 billion at September 30, 2009 to approximately \$1.197 billion at December 31, 2009. This is an increase of \$33 million or about 28%. DC plan assets increased from \$187.2 million at September 30, 2009 to \$199.1 million at December 31, 2009. This is an increase of \$11.9 million or about 6%.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Funding Progress

September 30, 2009

Actuarial Valuation as of September 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of covered payroll
1991	\$ 532,031,000	\$ 1,151,610,000	\$ 619,579,000	46.2%	\$ 321,580,393	192.7%
1992	617,737,000	1,290,724,000	672,987,000	47.9%	345,240,093	194.9%
1993	703,443,000	1,429,839,000	726,396,000	49.2%	368,899,793	196.9%
1994	784,229,000	1,423,514,000	639,285,000	55.1%	362,944,815	176.1%
1995	865,014,000	1,417,190,000	552,176,000	61.0%	356,989,837	154.7%
1996	1,039,360,000	1,621,029,000	581,669,000	64.1%	373,494,919	155.7%
1997	1,213,706,000	1,824,868,000	611,162,000	66.5%	390,000,000	156.7%
1998	1,287,157,000	1,770,852,000	483,695,000	72.7%	407,550,000	118.7%
1999	1,346,205,000	2,096,617,000	750,412,000	64.2%	363,710,950	206.3%
2000	1,348,761,000	2,126,150,000	777,389,000	63.4%	374,551,304	207.6%
2001	1,265,001,000	2,333,862,000	1,068,861,000	54.2%	403,061,000	265.2%
2002	1,135,666,000	2,378,399,000	1,242,733,000	47.7%	395,967,000	313.8%
2003	1,206,911,000	2,614,840,000	1,407,929,000	46.2%	398,112,000	353.7%
2004	1,245,305,000	2,599,747,000	1,354,442,000	47.9%	365,592,000	370.5%
2005	1,293,564,000	2,583,366,000	1,289,802,000	50.1%	368,712,000	349.8%
2006	1,320,914,000	2,656,047,000	1,335,133,000	49.7%	389,786,000	342.5%
2007	1,448,655,000	2,682,118,000	1,233,463,000	54.0%	390,246,000	316.1%
2008	1,210,960,000	2,718,664,000	1,507,704,000	44.5%	425,781,000	354.1%

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Employer Contributions

September 30, 2009

Year ended September 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
1991	\$ 83,988,000	\$ 51,612,000	61.5%
1992	88,187,000	54,111,000	61.4%
1993	94,552,000	59,117,000	62.5%
1994	99,280,000	80,965,000	81.6%
1995	67,650,000	66,904,000	98.9%
1996	71,187,000	68,969,000	96.9%
1997	67,521,000	81,546,000	120.8%
1998	61,929,000	81,877,000	132.2%
1999	63,985,000	96,134,000	150.2%
2000	52,463,000	85,831,000	163.6%
2001	75,494,000	73,386,000	97.2%
2002	75,906,000	78,087,000	102.9%
2003	98,630,000	63,486,000	64.4%
2004	115,978,000	63,388,000	54.7%
2005	123,958,000	70,658,000	57.0%
2006	117,041,000	85,771,000	73.3%
2007	113,207,000	76,973,000	68.0%
2008	116,063,000	86,806,000	74.8%

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Administrative and General Expenses

Years ended September 30, 2009 and 2008

	Defined Benefit <u>Plan</u>	Defined Contribution <u>Plan</u>	Total <u>2009</u>	Total <u>2008</u>
Salaries and wages	\$ 1,214,249	434,004	1,648,253	1,545,455
Third party administrator fees	-	616,633	616,633	910,442
Employer's retirement contribution	300,757	107,536	408,293	371,683
Legal fees	165,863	116,516	282,379	341,261
Computer program services/maintenance	118,700	24,300	243,000	243,000
Insurance	131,226	92,463	223,689	238,831
Actuary fees	125,428	87,024	212,452	80,162
Bad debt related to notes receivable	168,834	-	168,834	289,480
Retiree supplemental/COLA	154,837	-	154,837	134,487
Utilities	52,424	47,555	99,979	97,742
Postage	67,501	21,254	88,755	93,952
Depreciation	71,651	-	71,651	91,171
Repairs and maintenance	46,430	20,540	66,970	77,394
Travel and transportation	28,271	17,679	45,950	43,291
Miscellaneous	21,121	21,297	42,418	16,593
Printing and publications	26,107	8,659	34,766	52,329
Communications	31,382	817	32,199	32,953
Audit fees	21,000	7,000	28,000	27,000
Board of trustees expenses	15,412	12,201	27,613	10,438
Medicare contribution	16,446	5,881	22,327	20,876
Equipment rental	13,902	6,678	20,580	24,183
Training	9,493	3,174	12,667	23,198
Office supplies	7,806	1,311	9,117	10,285
Medical exams	9,081	-	9,081	33,628
Computers and software	4,760	-	4,760	14,125
Medical consultant	4,250	-	4,250	14,188
	<u>\$ 2,926,931</u>	<u>1,652,522</u>	<u>4,579,453</u>	<u>4,838,147</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Personnel Costs

Years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Salaries and wages	\$ 1,648,253	\$ 1,545,455
Employer's retirement contribution	408,293	371,683
Medicare contribution	<u>22,327</u>	<u>20,876</u>
	<u>\$ 2,078,873</u>	<u>\$ 1,938,014</u>
Average number of employees	45	44
Average cost per employee	\$ 46,197	\$ 44,046

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Personnel Count - Public Law 28-150: Section 45

Years ended September 30, 2009 and 2008

	Full Time Employees		Total Salaries & Wages Expended
	During FY 2009	As of September 30, 2009	
Director's Office	3	3	\$ 156,870
Administrative Services	6	6	186,103
Accounting / Investments	19	19	779,202
Members and Benefits Services	17	17	526,078
	<u>45</u>	<u>45</u>	<u>\$ 1,648,253</u>

	Full Time Employees		Total Salaries & Wages Expended
	During FY 2008	As of September 30, 2008	
Director's Office	3	3	\$ 146,497
Administrative Services	5	4	162,956
Accounting / Investments	19	19	736,212
Members and Benefits Services	17	17	499,790
	<u>44</u>	<u>43</u>	<u>\$ 1,545,455</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Other Receivables - Defined Benefit Plan

September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Unfunded liability portion from defined contribution plan	\$ 1,960,589	\$1,850,816
Benefit overpayments	548,386	574,339
Member rate differential	208,586	240,575
Government contributions for DC plan	12,032	12,025
Other overpayments	<u>9,114</u>	<u>9,643</u>
	<u>\$ 2,738,706</u>	<u>2,687,398</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2009

Agency	Supplemental/ COLA	Employer Contributions	Member Contributions	Interest & Penalties	ERIP Employer's Share	Retiree Supplemental Benefits & Insurance	Note Receivable GMHA	TOTAL
Department of Administration (General Fund)	\$ 72,993,528	1,129,956	436,703	232,941	-	1,972,560	-	76,765,688
Guam Department of Education	-	5,048,577	2,286,339	-	-	-	-	7,334,916
Guam Memorial Hospital Authority	-	3,700,830	1,719,858	-	-	1,507,004	-	6,927,692
Guam Waterworks Authority	-	45,240	17,292	-	117,266	799,281	-	979,079
Guam Community College	-	57,320	22,023	-	152,649	-	-	231,992
Guam Power Authority	-	112,593	43,990	-	-	32,293	-	188,876
University of Guam	-	133,407	52,651	-	-	-	-	186,058
Supreme Court of Guam	-	57,238	21,569	-	-	-	-	78,807
Port Authority of Guam	-	53,525	20,719	-	-	-	-	74,244
Guam Airport Authority	-	38,916	14,895	-	-	-	-	53,811
Guam Housing and Urban Renewal Authority	-	14,075	5,514	-	-	-	-	19,589
Public Defender Service Corporation	-	12,833	4,838	-	-	-	-	17,671
Guam Legislature	-	6,470	2,975	-	-	-	-	9,445
Guam Visitors Bureau	-	3,004	1,134	-	-	-	-	4,138
Subtotal	72,993,528	10,413,984	4,650,500	232,941	269,915	4,311,138	-	92,872,006
Less: allowance for uncollectible amounts	-	-	-	-	-	-	-	-
Receivables, net of allowance	\$ 72,993,528	10,413,984	4,650,500	232,941	269,915	4,311,138	-	92,872,006

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2008

Agency	Supplemental/ COLA	Employer Contributions	Member Contributions	Interest & Penalties	ERIP Employer's Share	Retiree Supplemental Benefits & Insurance	Note Receivable GMHA	TOTAL
Department of Administration (General Fund)	\$ 78,085,596	1,139,796	466,040	176,687	1,570,350	1,979,769	-	83,418,238
Guam Department of Education	-	7,773,445	3,369,564	6,700,643	-	-	-	17,843,652
Guam Memorial Hospital Authority	-	4,113,886	1,985,313	3,200,234	-	1,507,004	4,095,893	14,902,330
Guam Waterworks Authority	-	44,500	17,735	-	260,643	804,358	-	1,127,236
Guam Power Authority	-	100,708	42,155	-	19,351	37,439	-	199,653
Guam Community College	-	54,127	21,678	-	281,054	-	-	356,859
Port Authority of Guam	-	46,434	18,580	-	36,981	-	-	101,995
University of Guam	-	132,516	53,268	-	-	-	-	185,784
Supreme Court of Guam	-	49,742	20,226	-	-	-	-	69,968
Guam Legislature	-	7,619	3,505	-	-	-	-	11,124
Guam Airport Authority	-	36,074	15,078	-	-	-	-	51,152
Guam Housing and Urban Renewal Authority	-	14,398	5,688	-	-	-	-	20,086
Public Defender Service Corporation	-	12,977	5,225	-	-	-	-	18,202
Guam Visitors Bureau	-	3,123	1,232	-	-	-	-	4,355
Guam Housing Corporation	-	2,108	832	-	-	-	-	2,940
Guam Economic Development and Commerce Authority	-	2,742	1,082	-	-	-	-	3,824
Subtotal	78,085,596	13,534,195	6,027,201	10,077,564	2,168,379	4,328,570	4,095,893	118,317,398
Less: allowance for uncollectible amounts	-	-	-	-	-	-	(4,095,893)	(4,095,893)
Receivables, net of allowance	<u>\$ 78,085,596</u>	<u>13,534,195</u>	<u>6,027,201</u>	<u>10,077,564</u>	<u>2,168,379</u>	<u>4,328,570</u>	<u>-</u>	<u>114,221,505</u>

See accompanying independent auditors' report.