

**GOVERNMENT OF GUAM RETIREMENT FUND**

**FINANCIAL STATEMENTS**

**September 30, 2014 and 2013**

**(Together with Independent Auditors' Report Thereon)**

# GOVERNMENT OF GUAM RETIREMENT FUND

September 30, 2014 and 2013

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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 and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Government of Guam Retirement Fund's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Government of Guam Retirement Fund as of September 30, 2014 and 2013, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government of Guam Retirement Fund's basic financial statements. The accompanying information listed as supplemental schedules on pages 57 to 67 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules on pages 57 to 67 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in

accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules on pages 57 to 67 are fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedules on page 68 present information about the Government of Guam Deferred Compensation Plan. This information is not a required part of the basic financial statements and is not included in the financial statements. The assets of this plan belong solely to the plan participants, and they are fully vested in such assets. We have not audited this information and we do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2015, on our consideration of the Government of Guam Retirement 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Government of Guam Retirement Fund's internal control over financial reporting and compliance.



Tamuning, Guam  
February 20, 2015

# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis

September 30, 2014 and 2013

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, 2014 and 2013. 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 Position**

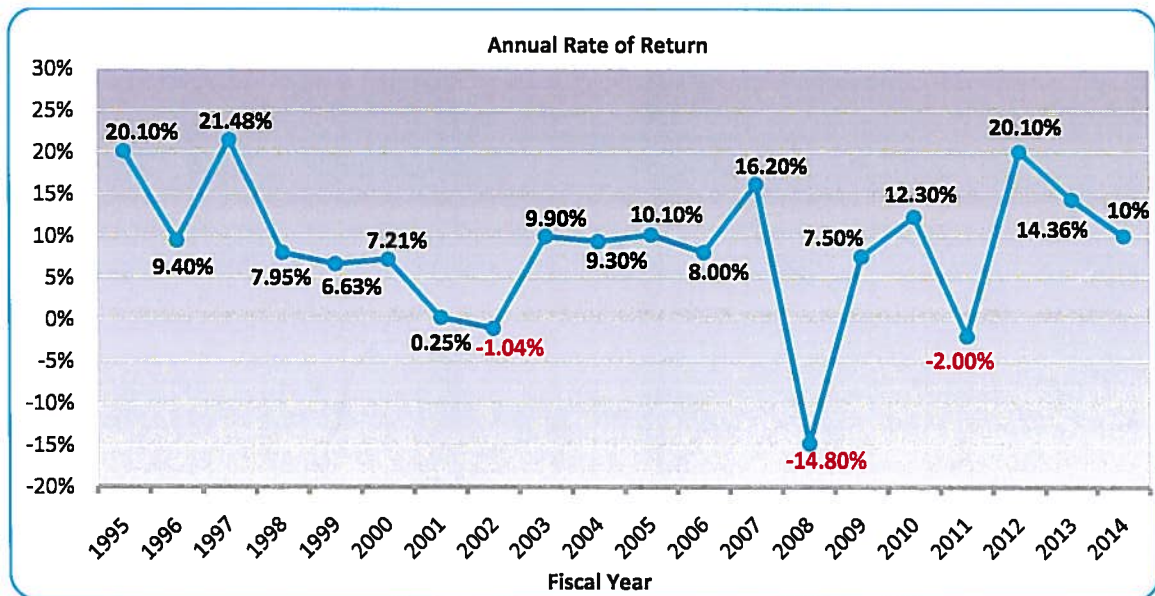
For 2014, net position of the Defined Benefit Plan (DB Plan) increased by \$94.3M or 6.0%, while net position of the Defined Contribution Plan (DC Plan) increased by \$47.4M or 13.8%.

- **Impact of Market Volatility on the DB Plan and DC Plan Investments**

Following the 2008 investment losses, the global markets showed signs of recovery over the last six years.

For 2014, **DC Plan** investments totaled \$388M compared to the \$340.4M and \$295.3M in 2013 and 2012, respectively.

For 2014, the **DB Plan** investment portfolio posted a positive return of 10%, compared to 2013's return of 14.36%, and 2012's return of 20.10%.



GGRF investment returns averaged 8.6% percent from 1995 through 2014. Over that period, there have been three years with negative returns, all of which occurred in the last ten years.



# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### (1) Financial Highlights, continued

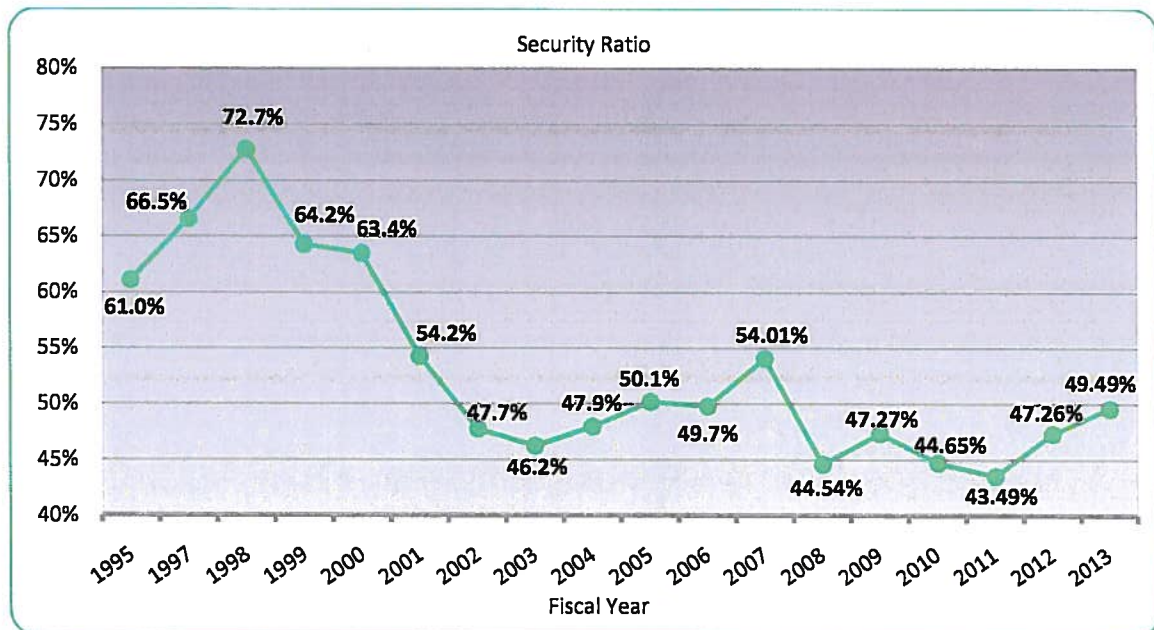
- **Critical Issue – Impact of Market Volatility on the DB Plan Unfunded Liability**

The unfunded liability decreased from \$1.48 billion (based on the 2012 actuarial valuation) to \$1.44 billion (based on the 2013 actuarial valuation). This resulted in a corresponding decrease in the actuarially determined contribution rate from 30.03% to 29.85%. The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date.

When the 2014 actuarial valuation is finalized in March 2015, the actuarially determined contribution rate is estimated to be 28.50%. However, it should be noted that this is a rough estimate, which could change significantly. The actuarially determined contribution rate is expected to be lower than the 2014 actuarial rate of 29.85%, due to favorable investment returns in the fiscal year ending September 30, 2014, and an increase in total payroll. However, the 2014 actuarial valuation is not yet completed, and the actuarially determined contribution rate could be higher or lower than 28.50%, due to other contributing factors.

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 \$1.44 billion at September 30, 2013. This represents a decrease in the security ratio, from 61.0% in 1995 to 49.5% in 2013, and an increase in the unfunded liability ratio from 39% in 1995 to 50.5% in 2013. The security ratio is the ratio of assets to liabilities.

As indicated below, the **security ratio** (fund assets as a percentage of accrued liability) for the past eighteen years has ranged from 43.49% to 72.7%, representing an average of 53% per year.



# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### **(1) Financial Highlights, continued**

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

According to our actuary Milliman Inc., security ratios for public pension funds vary depending upon the assumed rate of future investment returns as well as the period over which investment gains and losses are recognized. In addition, security ratios for public pension plans in the U.S. tend to be between 60% to 90%, with many concentrated around 70%. GGRF has a lower security ratio than most U.S. funds.

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 2013 valuation, there are 17.58 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 the Government of Guam ("GovGuam") 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 both the current and past Administrations and the Guam Legislature for its efforts towards attaining full funding.

According to Milliman Inc., employer contribution rates vary widely among public pension funds due to the level of benefits provided, the security ratio (funded percentage), the assumed rate of future investment returns, and the period of time over which unfunded liabilities are amortized. In addition, typical employer contribution rates range from 12.5% to 35% or more. GGRF's contribution rate is at the high end of the range, due to a lower security ratio (funded percentage) than most other funds.



# GOVERNMENT OF GUAM RETIREMENT FUND

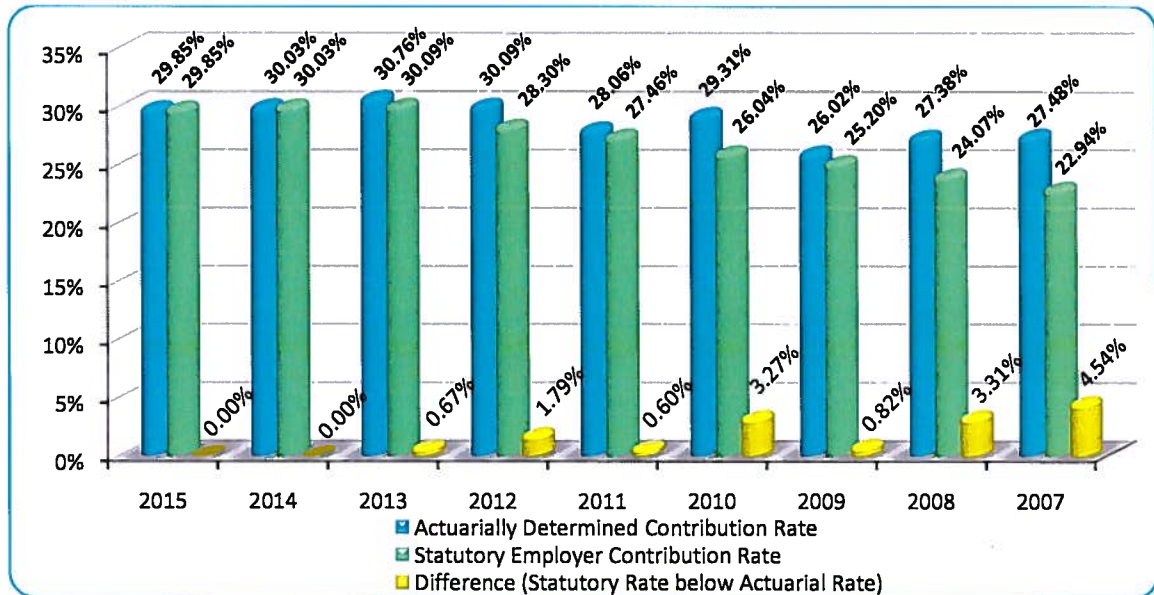
## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### (1) Financial Highlights, continued

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

A comparison of the actuarially determined contribution rates versus the statutory employer contribution rates for 2007 to 2014 are reflected below.



If future contributions equal the actuarially determined contribution rate, and plan investments earn 7% each year, the DB Plan is expected to become fully funded in 2031. As reflected above, the Guam Legislature's efforts toward full funding since 2007 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. For 2014 and 2013, the statutory rate of 29.85% and 30.03% is equal to the actuarially determined contribution rate based on the 2013 and 2012 actuarial valuations. Management encourages the Guam Legislature to continue to set the statutory rate at the actuarially determined contribution rate until full funding is achieved.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### **(1) Financial Highlights, continued**

- **Critical Issue – Enhancing the Retirement Benefits of DC Plan Employees**

The Board in performing their due diligence reviewed the benefit levels of both the Defined Benefit Plan and the Defined Contribution Plan.

As noted in prior years' MD&A, the Board recognizes the need for DC Plan members ("participants") to adequately *save and plan* for generating a reliable stream of retirement income. However, with DC Plan participants balances averaging less than \$40,000, most participants will not have enough saved to: 1) support their basic needs, 2) allow them to maintain a comfortable standard of living, and 3) last their lifetime.

The Board is cognizant that many participants lack the basic knowledge of investment concepts and practices needed to generate an investment return that will ensure an adequate source of income for retirement. In addition, participant account balances are not protected from adverse market conditions.

If participants are left without adequate income when they retire, GovGuam may find itself subsidizing their costs of living through public assistance programs. As such, providing *retirement income security* may reduce the likelihood that DC retirees will need to rely on public assistance during retirement. It is only logical then to enact measures that provide participants a reasonable opportunity to build sufficient post-retirement benefit levels.

Unlike the DB Plan which provides a guaranteed retirement benefit for the life of the member, the DC Plan provides no guaranteed benefit. The retirement benefit of DC Plan members depends on the amount of money accumulated in their participant account at retirement.

In light of the above, the Board has implemented changes within its purview, to the DC Plan. The Board has also considered alternative plan designs to enhance the retirement benefits available to DC Plan members, fully recognizing that in light of GovGuam's current financial condition, changes to the DC Plan must not only be cost beneficial to DC Plan members but to GovGuam as a whole.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### **(1) Financial Highlights, continued**

- **Critical Issue – Proposed Hybrid Plan Legislation**

#### **DC Plan Alternatives**

Several years ago, the Board established a working committee with the objective of developing plan design alternatives that would provide members a reasonable opportunity to build sufficient post-retirement benefit levels, while also balancing GovGuam's budgetary needs and obligations.

The committee's extensive analysis involved consideration of a comprehensive and detailed study of alternative retirement plans and arrangements, prepared as part of an analysis of funding requirements and retirement benefit levels of participants in the DC Plan and future GovGuam employees. The analysis was based upon the DB Plan Actuarial Valuation as of September 30, 2008, and updated through September 30, 2013. The alternatives included the following:

1. Transitioning to Social Security;
2. Combining the DC Plan with a Social Security Component; and
3. Offering a Hybrid Plan

#### **Social Security**

The committee first considered transitioning into Social Security and found the following:

- It is widely acknowledged that Social Security benefit payments are intended as a supplement to other retirement plans and personal retirement savings, as it provides a base level of retirement income, on average replacing about 40% of preretirement income. As such, the program alone would not provide current DC Plan members a reasonable opportunity to build sufficient post-retirement benefit levels.
- The uncertainty surrounding the future of Social Security raises questions as to the reliability of the program as a sole source of retirement income. Its trust fund has already started to pay out more in benefits than it receives in taxes. Many economists expect major changes to the system, including cuts in benefits, increases in the tax rate, or a combination of the two.
- In addition, to be eligible to receive Social Security benefits, participants will be required to contribute for forty (40) quarters, or the equivalent of 10 years. Current DC Plan participants who transition to Social Security will not receive service credit for GovGuam service already rendered.

In summary, considering the low-level of pre-retirement income replacement that Social Security provides on average, the uncertainty surrounding the future of the program, and the potentially adverse effect on participants who will not receive service credit for GovGuam service already rendered, transitioning into Social Security is not a favorable option.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### (1) Financial Highlights, continued

- **Critical Issue – Proposed Hybrid Plan Legislation**

#### Combined DC and Social Security vs. Hybrid Plan

As summarized in the table below, the costs of *combining the existing DC Plan with a Social Security component* was compared to the costs for *a Hybrid Plan*:

	Social Security	Defined Contribution	Total Social Security + DC	Hybrid	Difference
Employer's Normal Cost	6.2%	5.0%	11.2%	4.8%	6.4%
Employee Cost	<u>6.2%</u>	<u>5.0%</u>	<u>11.2%</u>	<u>9.5% + 1%</u>	<u>.7%</u>
Total Cost as % of Pay	12.4%	10.0%	22.4%	15.3%	7.1%

The employer contribution rate for the Hybrid Plan would be 6.4% lower than the combined DC Plan and Social Security component. The employee contribution rate for the Hybrid Plan would be .7% lower than the combined DC Plan and Social Security component. The employee contribution for the Hybrid Plan consists of 9.5% to the Hybrid Plan and a mandatory 1% to the 457 Deferred Compensation Plan

Based on the above, *the Hybrid Plan is projected to be cheaper by 7.1% of compensation. As such, it was deemed to be the most viable option*, as it combines a defined benefit "floor" of benefits determined by a formula based on years of service and salary, along with a salary reduction deferred compensation account program.

#### Hybrid Plan

The committee worked with GGRF's legal counsel and actuaries to determine the best hybrid plan design with the objective of providing employees with a guaranteed minimum benefit at retirement, while also enabling them to maximize their overall retirement savings during their employment years by allowing them to manage a component of their retirement savings.

The proposed hybrid plan combines a defined benefit component with a deferred compensation account. Under the proposed plan:

1. All new employees and their employers will be required to contribute a certain percent of the employee's wages to GGRF (similar to current retirement contributions).
2. Mandatory participation will be required for all new employees. Voluntary participation in certain circumstances for current DC Plan participants.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### **(1) Financial Highlights, continued**

- **Critical Issue – Proposed Hybrid Plan Legislation**

#### **Hybrid Plan Bill**

The proposed legislation to establish a Hybrid Plan was finalized and submitted to the Committee on Appropriations, Taxation, Public Debt, Banking, Insurance, Retirement & Land (the "Committee") on April 20, 2012. A public hearing on the legislation, introduced as **Bill No. 453-31**, was held on August 14, 2012. The Bill however, was not acted on by the 31<sup>st</sup> Guam Legislature.

#### **Other Provisions of Bill No. 453-31:**

**DB Plan Annual Increments** --- As previously noted, the Board also reviewed the benefit levels and policies of the DB Plan. The proposed legislation provides for an increase of the automatic "sliding scale" increments to basic retirement and disability annuities of DB Plan retirees, which have remained static at levels set almost thirty-years ago.

**Extension of Amortization Period** --- Based on the expected increase in the unfunded liability resulting from the implementation of the Hybrid Plan legislation, a one-time five year extension of the amortization period for the unfunded liability is required and included accordingly.

During 2013, the Committee requested updated (based on the 2012 valuation) and additional information on the proposed Hybrid Plan, prior to reintroducing the Bill. GGRF transmitted updated and additional information provided by our Actuary to the Committee in 2014.

#### **Update – 2014 Audit**

On June 6, 2014 revised legislation, **Bill No. 394-32**, to establish a Hybrid Plan was transmitted to the Committee. The Committee considered different benefit options, the corresponding effect on the contribution rate, its' impact to the unfunded liability, and comparison of costs between the proposed DB Plan component and a Social Security component. Upon the passing of the Honorable Vicente 'Ben' C. Pangelinan in July 2014, Vice-Speaker Benjamin 'B.J.' Cruz was named Chairman of the Committee.

Public hearings on Bill No. 394-32 were held in September 2014. The Bill was reported out of Committee and discussed in a Legislative Special Session. GGRF was present during the Committee as a whole on October 17, 2014 to provide additional information and answer questions. On October 21, 2014, the Bill was referred back to Committee to give the public and the Legislature additional time to review supplemental reports provided by GGRF. On November 6, 2014, Vice Speaker Cruz held a round table discussion.

On January 20, 2015, Vice-Speaker Cruz held a round table discussion to discuss the Hybrid Bill which was reintroduced as **Bill No. 002-33**. As a result of the discussions, additional round table discussions and public hearings will be conducted, within the next 30 days.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### **(1) Financial Highlights, continued**

- **Implementation of Governmental Accounting Standards Board (GASB) Statement No. 67 and 68.**

The 2014 financial statements, notes to the financial statements, and required supplementary information were prepared in conformity with GASB Statement No. 67, *Financial Reporting for Pension Plans*.

As more fully discussed in the notes to the financial statements, GASB 68 will require employers to reflect the unfunded liability directly on their financial statements as a liability effective for fiscal year ending September 30, 2015. In the Government of Guam government-wide financial statements this means an additional net pension liability of approximately \$1.329 billion based on the 2013 actuarial valuation.

The implementation of this statement will require a restatement upon implementation. As of October 1, 2014, the net pension liability that GGRF will record upon implementation of this statement is about \$4.4 million.

#### GASB 68 - Net Pension Liability By Agency

GGRF has included unaudited information regarding the GovGuam Agencies' proportionate share of the net pension liability. In the future, this information will be used for financial statement purposes.

### **(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 components:

1. Basic Financial Statements,
2. Notes to the Basic Financial Statements,
3. Required Supplementary Information,
4. Other Supplementary Schedules.

Collectively, this information presents the net position held in trust for pension benefits. This financial position also summarizes the changes in net position held in trust for pension benefits for the year then ended. The information in these components is briefly summarized as follows:

- **Basic Financial Statements**

The Fiduciary Net Position is presented for September 30, 2014, with comparative information at September 30, 2013. These financial statements reflect resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. The Statement of Changes in Fiduciary Net Position is presented for the year ended September 30, 2014, with comparative information for the year ended September 30, 2013. These financial statements reflect the changes in resources available to pay benefits to members, including retirees and beneficiaries, for fiscal years 2014 and 2013.



# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### **(2) Description of the Financial Statements, continued**

- **Notes to the Basic Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Information in the Notes to the Basic Financial Statements includes the following: a general description of GGRF, a summary of significant accounting policies, a description of deposit and investment risk, an explanation of property and equipment, information about net pension liability of the Agencies and information about pension plan participation.

- **Required Supplementary Information**

The Required Supplementary Information consists of the following schedules: changes of net pension liability, net pension liability by agency, employer contributions, and the annual money-weighted rate of return, net of investment expense.

- **Other Supplementary Schedules**

Other schedules include schedules of administrative and general expenses, personnel costs, personnel count, receivables by GovGuam Agency, and other receivables.

### **(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 Position** as of September 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012	Increase (Decrease)	
				From 2013 to 2014	
				\$	%
Cash and Equivalents	7,222,269	4,202,543	3,398,096	3,019,726	71.9%
Receivables	62,868,722	75,327,011	79,061,779	(12,458,289)	-
Investments	1,608,851,551	1,531,927,416	1,420,573,628	76,924,135	5.0%
Prepaid expenses	32,265	94,075	0	(61,810)	-
Property and Equipment	1,000,103	802,844	908,472	197,259	65.7%
Total Assets	1,679,974,910	1,612,353,889	1,503,941,975	67,621,021	24.6%
Total Liabilities	11,334,103	37,998,106	60,267,911	(26,664,003)	-
<b>Net Assets, End of Year</b>	<b>1,668,640,807</b>	<b>1,574,355,783</b>	<b>1,443,674,064</b>	<b>94,285,024</b>	<b>6.0%</b>
Net Assets, Beginning of Year	1,574,355,783	1,443,674,064	1,265,825,510		
<b>Net Increase (Decrease) in Net Position</b>	<b>94,285,024</b>	<b>130,681,719</b>	<b>177,848,554</b>		

# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### **(3) Defined Benefit Plan, continued**

During 2014, DB Plan net position increased by \$94.3 million or 6% from the prior year. DB Plan investments increased by \$77 million ending the year at \$1.6 billion.

As of September 30, 2014, the supplemental/COLA benefits advanced receivable totaled approximately \$44.8 million. Over \$130 million in supplemental/COLA benefits were advanced to GovGuam by GGRF in the late 1990s. During 2014 and 2013, the outstanding balance of the supplemental/COLA benefits advanced was reduced by 1.2016% of the employer contributions of covered payroll. These receivables are being collected by GGRF over a twenty year period, without interest. Had these funds remained with GGRF's investment managers, they would have grown substantially.

During 2014, DB Plan liabilities decreased by \$26.7 million due largely to a \$26.1 million decrease in amounts due to brokers for unsettled trades as of September 30, 2014.

**DB Plan Investments** as of September 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012	Increase (Decrease) From 2013 to 2014	
				\$	%
Common Stocks	1,061,632,545	969,334,249	831,846,693	92,298,296	9.5%
U.S. Government Securities	216,830,055	189,991,596	202,542,843	26,838,459	14.1%
Corporate Bonds and Notes	144,343,162	166,735,779	180,336,742	(22,392,617)	-13.4%
Money Market Funds	30,336,838	49,016,947	64,696,700	(18,680,109)	-38.1%
Mutual Funds	155,708,951	156,848,845	141,150,650	(1,139,894)	-0.7%
<b>Total</b>	<b>1,608,851,551</b>	<b>1,531,927,416</b>	<b>1,420,573,628</b>	<b>76,924,135</b>	<b>5.0%</b>

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.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Management's Discussion and Analysis, continued

September 30, 2014 and 2013

**(3) Defined Benefit Plan, continued**

GGRF's target allocation versus the market allocation as of September 30, 2014, is as follows:

	Target Allocation	Market Allocation	Over/(Under)
<b>Domestic Large Cap Equity</b>	30%	37.6%	7.60%
<b>Domestic Small Cap Equity</b>	10%	11.2%	1.20%
<b>International Developed Markets</b>	9.25%	8.5%	-0.75%
<b>International Small Cap</b>	5%	4.9%	-0.10%
<b>International Emerging Markets</b>	5.75%	4.8%	-0.95%
<b>Fixed Income Aggregate</b>	30%	23.0%	-7.00%
<b>Real Estate (REITs)</b>	10%	9.7%	-0.30%
<b>Cash</b>	0%	0.3%	0.30%
<b>Total</b>	100%	100%	0.00%

The table below shows portfolio returns and indices, which are reflective of the market environment for 2014 and 2013.

	2014	2013
<b>Total Portfolio</b>	10.0%	14.36%
Blended Index	9.45%	12.55%
<b>Total Domestic Equity</b>	14.88%	24.82%
Benchmark: S&P 500 Index	15.14%	23.15%
<b>International Equity</b>	2.45%	18.45%
Benchmark: MSCI EAFE	4.10%	17.45%
<b>Total Fixed Income</b>	5.11%	-0.80%
Benchmark: Barclays Capital Aggregate	3.96%	-1.68%
<b>Total REITs</b>	14.06%	4.59%
Dow Jones US Select Real Estate Security Index	13.48%	5.47%

# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

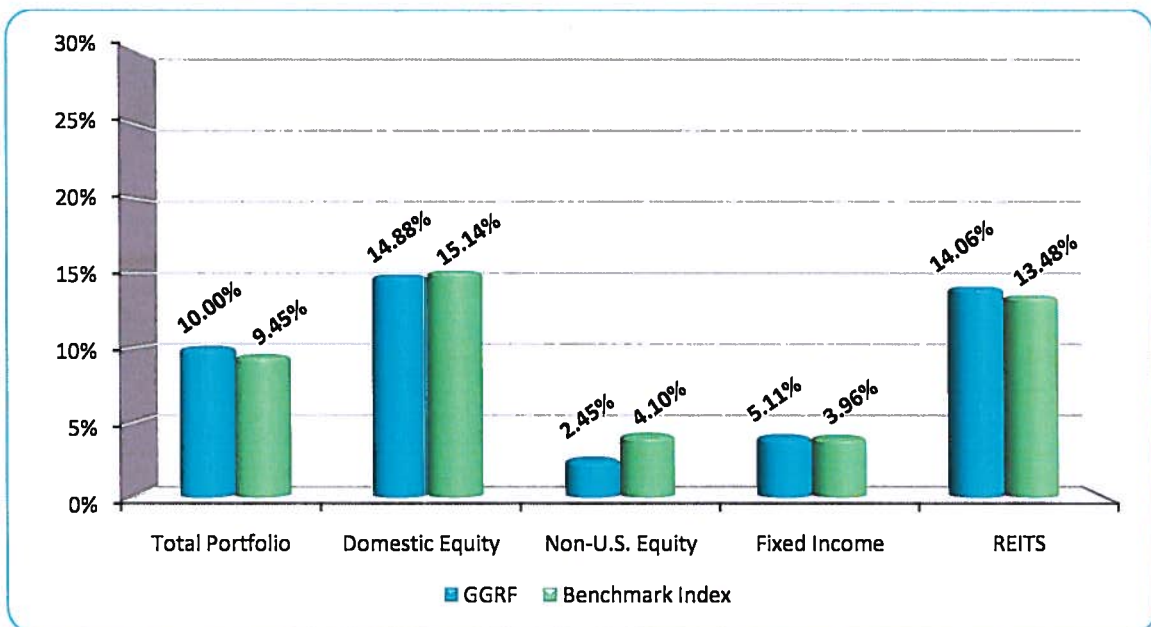
September 30, 2014 and 2013

### **(3) Defined Benefit Plan, continued**

#### **Total Portfolio Return**

For 2014, the total performance of the GGRF Portfolio (10%) outperformed both the median of a peer group of other U.S. based public funds with a return of 10.17%, and the benchmark index with a return of 9.45%. The GGRF Portfolio ranked at the 55<sup>th</sup> percentile of Wilshire's peer group universe.

For 2014, the fixed income and REITs mandates outperformed their respective benchmark indices. The domestic equity and non-U.S. equity mandates underperformed their benchmarks. The following reflects the 2014 investment performance for the total portfolio, and for each investment mandate.



# GOVERNMENT OF GUAM RETIREMENT FUND

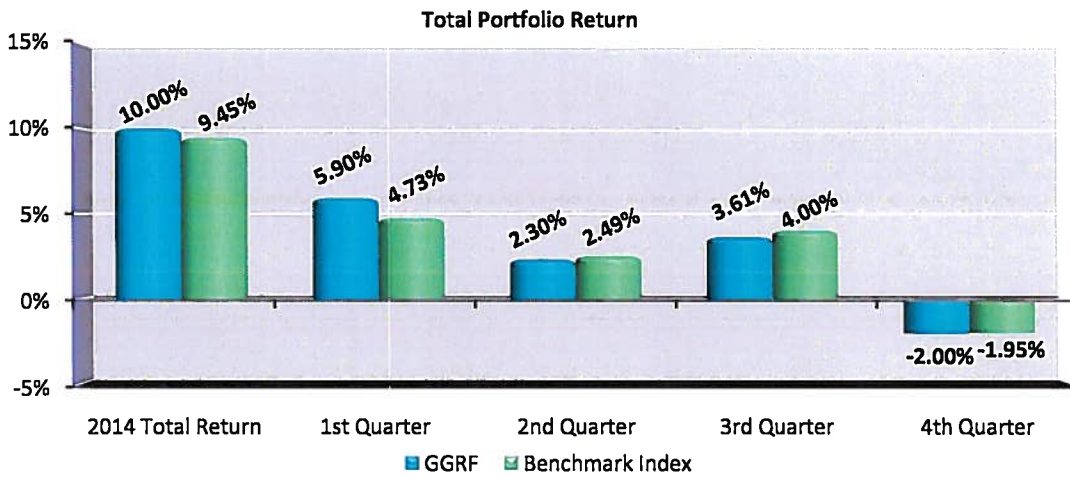
## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

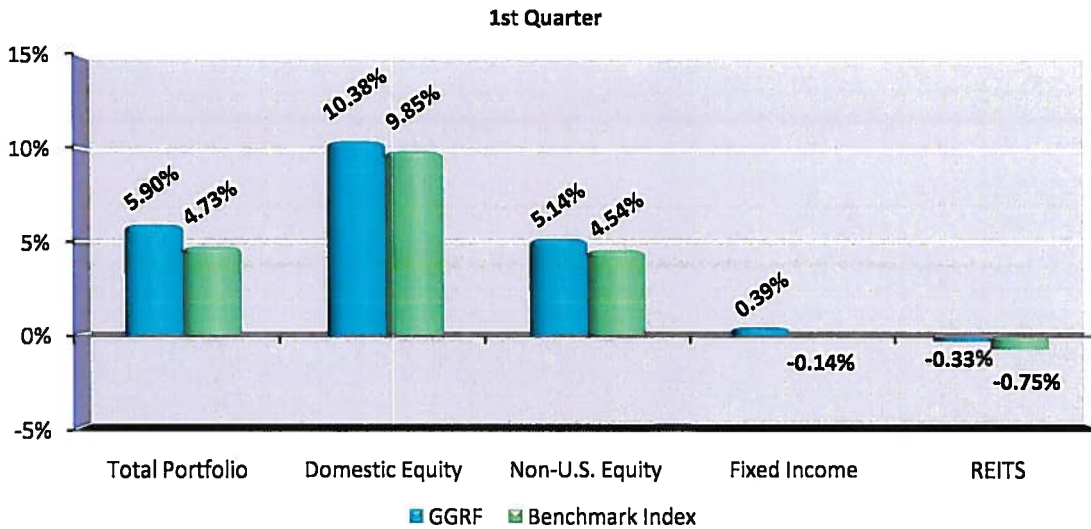
### (3) Defined Benefit Plan, continued

#### 2014 Portfolio Returns by Quarter

The following reflects the 2014 total and quarterly returns. The portfolio return for the first quarter was above the benchmark index. Returns for all other quarters were below their respective benchmark indices.



- During the **first quarter** of 2014, the GGRF Portfolio outperformed its benchmark index, and ranked at the 18<sup>th</sup> percentile of Wilshire's peer group universe. All mandates outperformed their respective benchmark indices.



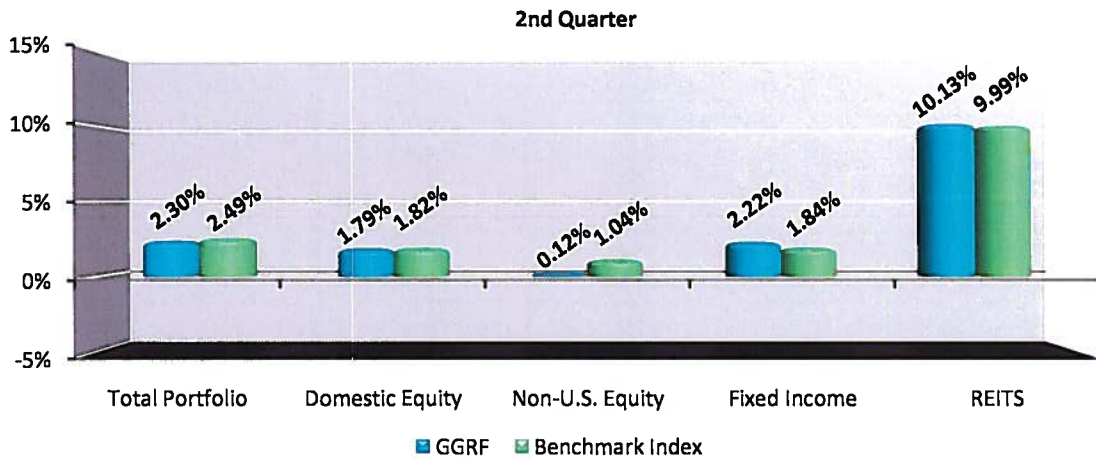
# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

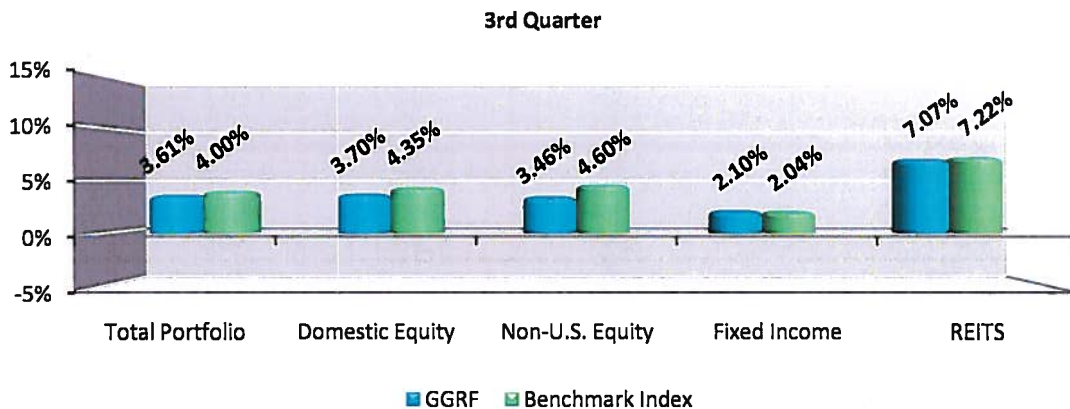
September 30, 2014 and 2013

### (3) Defined Benefit Plan, continued

- During the **second quarter**, the GGRF portfolio underperformed its benchmark mark ranking at the 23<sup>rd</sup> percentile of Wilshire's peer group universe for the quarter. The domestic equity and non-U.S. equity mandates underperformed their relevant benchmarks, others outperformed their benchmark.



- During the **third quarter**, the GGRF portfolio underperformed its benchmark index, ranking at the 58<sup>th</sup> percentile of Wilshire's peer group universe for the quarter. All mandates trailed their respective benchmarks, except fixed income which outperformed its benchmark.





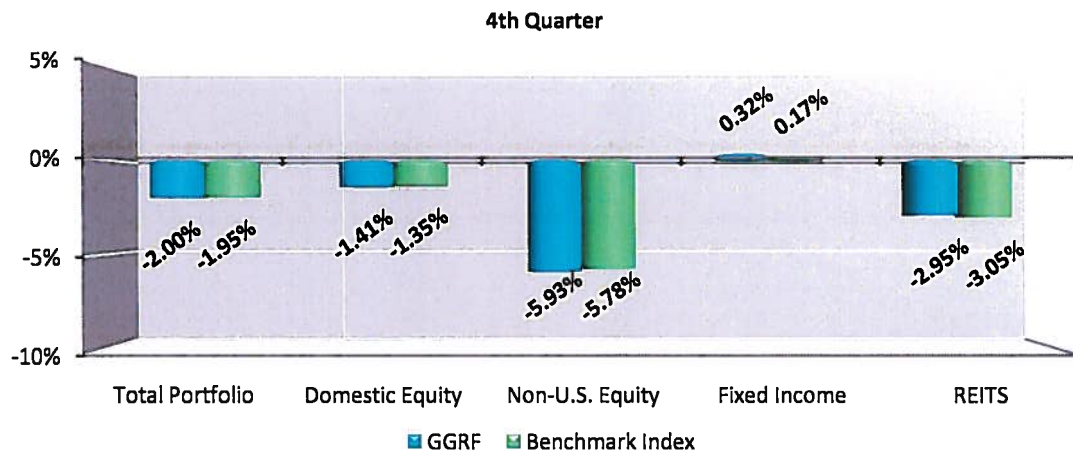
# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### (3) Defined Benefit Plan, continued

- During the **fourth quarter**, the GGRF portfolio underperformed the benchmark index ranking at the 89<sup>th</sup> percentile of Wilshire's peer group universe for the quarter. The domestic equity and non-U.S. equity mandates trailed their indices, others slightly outperformed their indices.



### **Mitigating the Effects of Market Volatility through Diversification**

The 10% return for 2014 and the 2013 return of 14.36% highlight the long-term proven success of strategic asset allocation and diversification in mitigating market volatility. GGRF's portfolio remains fully diversified across the different asset classes. A number of investment managers are utilized within each asset class, allowing the portfolio to achieve broad exposure to the market while minimizing overall risk. This broad diversification serves as the best defense against the uncertainty of volatile investment markets.

To mitigate other risks, the Board, with the guidance of GGRF's investment consultant, Wilshire Consulting consistently evaluates the relative performance of each mandate and individual managers, and rebalances the portfolio accordingly. Wilshire Associates Incorporated replaced Mercer Investment Consulting, Inc. in June of 2011.

## GOVERNMENT OF GUAM RETIREMENT FUND

### Management's Discussion and Analysis, continued

September 30, 2014 and 2013

#### **(3) Defined Benefit Plan, continued**

**Additions and Deductions to DB Plan Net Position** for the years ended September 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012	Increase (Decrease) From 2013 to 2014	
				\$	%
Net Appreciation in Fair Value of Investments	121,293,316	162,486,174	207,622,587	(41,192,858)	-25.4%
Interest, Dividends & Other Investment Income	34,909,348	35,606,858	33,093,456	(697,510)	-2.0%
Less Investment Expenses	5,647,797	5,316,971	4,867,456	330,826	6.2%
<b>Net Investment Income</b>	<b>150,554,867</b>	<b>192,776,061</b>	<b>235,848,587</b>	<b>(42,221,194)</b>	<b>-21.9%</b>
Employer Contributions	129,271,564	117,909,509	116,512,456	11,362,055	9.6%
Member Contributions	16,626,009	16,290,014	16,712,987	335,995	2.1%
<b>Total Contributions</b>	<b>145,897,573</b>	<b>134,199,523</b>	<b>133,225,443</b>	<b>11,698,050</b>	<b>8.7%</b>
<b>Total Additions</b>	<b>296,452,440</b>	<b>326,975,584</b>	<b>369,074,030</b>	<b>(30,523,144)</b>	<b>-9.3%</b>
Benefit Payments	195,128,969	190,280,431	184,380,351	4,848,538	2.5%
Refunds	2,961,749	2,413,061	2,709,194	548,688	22.7%
Interest on Refunds	1,442,661	914,543	1,294,416	528,118	57.7%
Administrative Expenses	2,633,308	2,685,830	2,807,624	(52,522)	-2.0%
Transfers to DC Plan	729	0	33,891	729	0.0%
<b>Total Deductions</b>	<b>202,167,416</b>	<b>196,293,865</b>	<b>191,225,476</b>	<b>5,873,551</b>	<b>3.0%</b>
<b>Net Increase (Decrease) in Net Position</b>	<b>94,285,024</b>	<b>130,681,719</b>	<b>177,848,554</b>		

#### **Additions to DB Plan Net Position**

During 2014, the net appreciation in fair value of investments decreased by \$41.2M from the 2013 total, while interest, dividends and other investment income decreased by \$698,000 from the 2013 total.

During 2014, the employer contribution rate decreased to 29.85% from the 30.03% employer contribution rate in 2013. The resulting \$11.4 million increase in employer contributions was due to the implementation of the Competitive Wage Plan ("Hay Plan"), payment of prior year merit bonuses, and partial payment of retroactive law enforcement salary increases.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### **(3) Defined Benefit Plan, continued**

#### **Deductions to DB Plan Net Position**

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. For 2014, deductions totaled \$202.2 million, an increase of 3% over 2013.

Benefit payments to current retirees and their beneficiaries over the last three years averaged 97% of total deductions. For 2014, benefit payments increased by \$4.8 million or 2.5%, consisting of a \$4.3 million increase in age and service annuities, a \$700,000 increase in survivor annuities, and a \$170,000 decrease in disability annuities. 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.

During 2014, member refunds increased by \$549,000. Refunds of member accounts are at the discretion of the member, and vary from year to year. Administrative expenses totaled \$2.6 million, a decrease of 2.0% over 2013.

**DB Plan membership** as of September 30, 2014, 2013 and 2012 is as follows:

	2014	2013	2012	Increase (Decrease) from 2013 to 2014
Retirees and Beneficiaries Receiving Benefits	7,218	7,195	7,155	23
Terminated Members entitled to, but not yet Receiving Benefits	4,938	5,401	5,507	(463)
Active Plan Members	2,704	2,872	3,090	(168)
<b>Total Membership</b>	<b>14,860</b>	<b>15,468</b>	<b>15,752</b>	<b>(608)</b>

#### **Liquidations**

During 2014, \$49.4 million in investments were liquidated in order to meet benefit payment obligations, compared to \$56.1 million in 2013. The \$49.4M and \$56.1M included \$32M and \$35M of interest and dividend income, respectively. The decrease in 2014 liquidations is due to the increase in employer contributions resulting from the implementation of the Competitive Wage Plan ("Hay Plan"), payment of prior year merit bonuses, and partial payment of retroactive law enforcement salary increases.

## GOVERNMENT OF GUAM RETIREMENT FUND

### Management's Discussion and Analysis, continued

September 30, 2014 and 2013

#### **(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 Position as of September 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012	Increase (Decrease)	
				From	
				2013 to 2014	
				\$	%
Cash and Equivalents	3,528,894	3,234,223	1,504,138	294,671	9.1%
Receivables	915,544	1,207,242	1,147,884	(291,698)	-24.2%
Investments	388,002,289	340,405,495	295,289,064	47,596,794	14.0%
Prepaid expenses	0	0	0	0	0.0%
Property and Equipment	44,260	77,247	105,197	(32,987)	-42.7%
<b>Total Assets</b>	<b>392,490,987</b>	<b>344,924,207</b>	<b>298,046,283</b>	<b>47,566,780</b>	<b>13.8%</b>
Total Liabilities	923,748	725,104	892,273	198,644	27.4%
<b>Net Assets, End of Year</b>	<b>391,567,239</b>	<b>344,199,103</b>	<b>297,154,010</b>	<b>47,368,136</b>	<b>13.8%</b>
Net Assets, Beginning of Year	344,199,103	297,154,010	238,700,762		
<b>Net Increase (Decrease) in Net Assets</b>	<b>47,368,136</b>	<b>47,045,093</b>	<b>58,453,248</b>		

During 2014, DC Plan net position increased by approximately \$47.4 million or 13.8%, due primarily to the increased carrying value of investments.

DC Plan investments include core mutual funds, target date funds and a TIPS fund. 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.

## GOVERNMENT OF GUAM RETIREMENT FUND

### Management's Discussion and Analysis, continued

September 30, 2014 and 2013

#### **(4) Defined Contribution Plan, continued**

**Additions and Deductions to DC Plan Net Position** for the years ended September 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012	Increase (Decrease) From 2013 to 2014	
				\$	%
Net Appreciation in Fair Value of Investments	2,866,468	21,082,893	33,922,594	(18,216,425)	-86.4%
Interest, Dividends & Other Investment Income	27,940,934	12,758,557	9,576,083	15,182,377	119.0%
Less Investment Expenses	110,323	106,080	102,000	4,243	4.0%
<b>Net Investment Income</b>	<b>30,697,079</b>	<b>33,735,370</b>	<b>43,396,677</b>	<b>(3,038,291)</b>	<b>-9.0%</b>
Employer Contributions	16,899,085	14,918,185	14,539,406	1,980,900	13.3%
Member Contributions	16,800,484	14,841,024	14,394,176	1,959,460	13.2%
<b>Total Contributions</b>	<b>33,699,569</b>	<b>29,759,209</b>	<b>28,933,582</b>	<b>3,940,360</b>	<b>13.2%</b>
<b>Total Additions</b>	<b>64,396,648</b>	<b>63,494,579</b>	<b>72,330,259</b>	<b>902,069</b>	<b>1.4%</b>
Refunds	15,078,560	14,871,667	12,203,108	206,893	1.4%
Administrative Expenses	1,950,681	1,577,819	1,707,794	372,862	23.6%
Transfer from DB Plan	(729)	0	(33,891)	(729)	0.0%
<b>Total Deductions</b>	<b>17,028,512</b>	<b>16,449,486</b>	<b>13,877,011</b>	<b>579,026</b>	<b>3.5%</b>
<b>Net Increase (Decrease) in Net Position</b>	<b>47,368,136</b>	<b>47,045,093</b>	<b>58,453,248</b>		

#### **Additions to DC Plan Net Position**

During 2014, the net appreciation in fair value of investments decreased by \$18.2 million from the 2013 total, while interest dividends and other investment income increased by \$15.2 million from the 2013 total.

**Deductions to DC Plan Net Position** - During 2014, refunds totaled \$15.1 million, an increase of 1.4% from 2013. Refunds of member contributions are at the discretion of the member and vary from year to year.

**DC Plan membership** as of September 30, 2014, 2013 and 2012 is as follows:

	2014	2013	2012	Increase (Decrease) from 2013 to 2014
Active (Contributing) Members	8,181	7,885	7,766	296
Inactive (Non-Contributing) Members with Account Balances	3,969	3,679	3,491	290
<b>Total Membership</b>	<b>12,150</b>	<b>11,564</b>	<b>11,257</b>	<b>586</b>

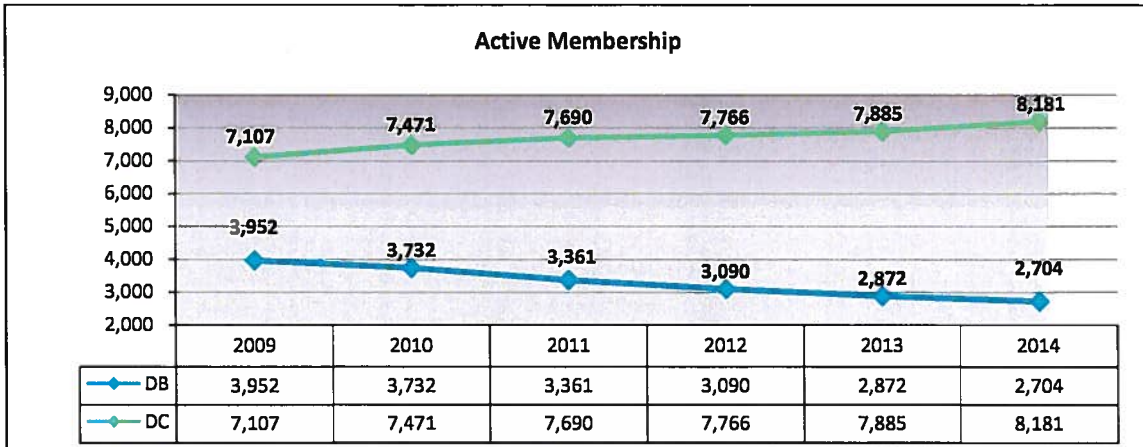
# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### (5) Future Outlook

#### Membership



Active membership in the DB plan decreased from 3,952 in 2009 to 2,704 in 2014. DC plan active membership increased from 7,107 in 2009 to an estimated 8,181 in 2014.

**Looking ahead**, DB membership will continually decline because new employees have been excluded from the plan since 1995. All new employees of the Government of Guam (except those who are ineligible for membership) are mandated to participate in the DC plan. As such, DC plan membership will continue to increase.



As DB plan membership decreases, payroll for DB members likewise will decrease. Conversely, payroll for DC members will increase as membership increases. The payroll for DB members decreased from \$182 million in 2009, to an estimated \$169.9 million in 2014. The payroll for DC members has increased from \$241.8 million in 2009, to an estimated \$335.1 million in 2014.

Total payroll, including both DB and DC members, has increased from \$423.8 million in 2009, to an estimated \$505 million in 2014.



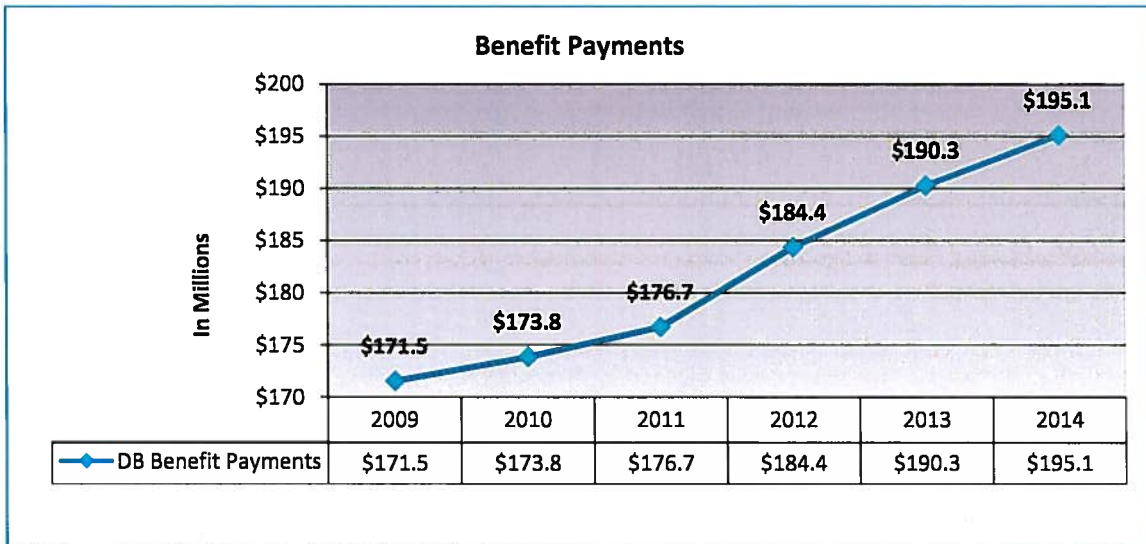
# GOVERNMENT OF GUAM RETIREMENT FUND

## Management's Discussion and Analysis, continued

September 30, 2014 and 2013

### **(5) Future Outlook**

#### **DB Benefit Payments**



The number of retired DB members has increased from 7,085 in 2009, to an estimated 7,218 in 2014. Annual benefit payments have also increased from \$171.5 million in 2009, to an estimated \$195.1 million in 2014. **Looking ahead**, benefit payments for DB retirees are expected to increase as active members continue to retire. Annual benefit payments are expected to peak at around \$255 million in the year 2027, and then slowly decline.

#### **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 payment of 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 GGRF and managing the investments.

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

#### **The Defined Contribution Plan**

As previously discussed, the GGRF Board's proposed legislation to establish the Hybrid Plan, which combines a defined benefit component with a deferred compensation account, was introduced, but not acted on, by the 31<sup>st</sup> and 32<sup>nd</sup> Guam Legislatures; and as such, was reintroduced in the 33<sup>rd</sup> Guam Legislature.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Statement of Fiduciary Net Position

September 30, 2014 and 2013

<u>ASSETS</u>	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>Total 2014</u>	<u>Total 2013</u>
Investments, at fair value:				
Common and preferred stocks	\$ 1,061,632,545	-	1,061,632,545	969,334,249
U.S. Government securities	216,830,055	-	216,830,055	189,991,596
Corporate bonds and notes	144,343,162	-	144,343,162	166,735,779
Money market funds	30,336,838	-	30,336,838	49,016,947
Mutual funds	155,708,951	382,394,769	538,103,720	491,842,178
DC plan forfeitures	-	5,607,520	5,607,520	5,412,162
Total investments	<u>1,608,851,551</u>	<u>388,002,289</u>	<u>1,996,853,840</u>	<u>1,872,332,911</u>
Receivables:				
Contributions, Interest & Penalties:				
Supplemental/COLA benefits receivable	44,785,528	-	44,785,528	50,818,265
Employer contributions, net	1,059,857	415,282	1,475,139	2,622,521
Employer contributions, unfunded liability	2,014,898	-	2,014,898	3,616,088
Member contributions	353,239	414,039	767,278	1,210,593
Interest and penalties on contributions	366,905	-	366,905	274,402
Supplemental/Insurance benefits advanced	3,511,711	-	3,511,711	3,511,711
	<u>52,092,138</u>	<u>829,321</u>	<u>52,921,459</u>	<u>62,053,580</u>
Member Notes:				
Early Retirement Incentive Program (ERIP)	354,600	-	354,600	993,746
Service Credits	756,356	-	756,356	798,635
	<u>1,110,956</u>	<u>-</u>	<u>1,110,956</u>	<u>1,792,381</u>
Other:				
Accrued interest and dividends on investments	3,966,005	-	3,966,005	4,075,645
Other receivables	519,790	86,223	606,013	800,429
Due from brokers for unsettled trades	4,820,165	-	4,820,165	7,627,324
Due from DC plan	359,668	-	359,668	184,894
	<u>9,665,628</u>	<u>86,223</u>	<u>9,751,851</u>	<u>12,688,292</u>
Total receivables	<u>62,868,722</u>	<u>915,544</u>	<u>63,784,266</u>	<u>76,534,253</u>
Cash and cash equivalents	7,222,269	3,528,894	10,751,163	7,436,766
Prepaid expenses	32,265	-	32,265	94,075
Property and equipment	1,000,103	44,260	1,044,363	880,091
Total assets	<u>1,679,974,910</u>	<u>392,490,987</u>	<u>2,072,465,897</u>	<u>1,957,278,096</u>
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	2,832,410	-	2,832,410	2,173,721
Due to brokers for unsettled trades	7,101,618	564,080	7,665,698	33,767,086
Due to DB plan	-	359,668	359,668	184,894
Total liabilities	<u>9,934,028</u>	<u>923,748</u>	<u>10,857,776</u>	<u>36,125,701</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unearned revenue for service credits	1,400,075	-	1,400,075	2,597,509
Total deferred inflows of resources	<u>1,400,075</u>	<u>-</u>	<u>1,400,075</u>	<u>2,597,509</u>
Net position restricted for pensions (See required supplemental schedule of funding progress)	<u>\$ 1,668,640,807</u>	<u>391,567,239</u>	<u>2,060,208,046</u>	<u>1,918,554,886</u>

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

**GOVERNMENT OF GUAM RETIREMENT FUND**

Statement of Changes in Fiduciary Net Position

Years ended September 30, 2014 and 2013

	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>Total 2014</u>	<u>Total 2013</u>
<b>Investment income</b>				
Net appreciation in fair value of investments	\$ 121,293,316	2,866,468	124,159,784	183,569,067
Interest	18,663,467	26,663,373	45,326,840	28,797,311
Dividends	15,704,974	-	15,704,974	17,019,088
Other investment income	540,907	1,277,561	1,818,468	2,549,016
	<u>156,202,664</u>	<u>30,807,402</u>	<u>187,010,066</u>	<u>231,934,482</u>
Less investment expenses	5,647,797	110,323	5,758,120	5,423,051
<b>Net investment income</b>	<u>150,554,867</u>	<u>30,697,079</u>	<u>181,251,946</u>	<u>226,511,431</u>
<b>Contributions</b>				
Employer	129,271,564	16,899,085	146,170,649	132,827,694
Member	16,626,009	16,800,484	33,426,493	31,131,038
<b>Total contributions</b>	<u>145,897,573</u>	<u>33,699,569</u>	<u>179,597,142</u>	<u>163,958,732</u>
<b>TOTAL ADDITIONS</b>	296,452,440	64,396,648	360,849,088	390,470,163
<b>Benefit payments</b>				
Age and service annuities	162,794,390	-	162,794,390	158,484,501
Survivor annuities	25,706,384	-	25,706,384	24,997,522
Disability annuities	6,628,195	-	6,628,195	6,798,408
<b>Total benefit payments</b>	<u>195,128,969</u>	<u>-</u>	<u>195,128,969</u>	<u>190,280,431</u>
<b>Refunds to separated employees and withdrawals</b>	2,961,749	15,078,560	18,040,309	17,284,728
<b>Administrative and general expenses</b>	2,634,037	1,949,952	4,583,989	4,263,649
<b>Interest on refunded contributions</b>	1,442,661	-	1,442,661	914,543
<b>TOTAL DEDUCTIONS</b>	<u>202,167,416</u>	<u>17,028,512</u>	<u>219,195,928</u>	<u>212,743,351</u>
Net increase in plan net position	94,285,024	47,368,136	141,653,160	177,726,812
Net position restricted for pensions, beginning of year	<u>1,574,355,783</u>	<u>344,199,103</u>	<u>1,918,554,886</u>	<u>1,740,828,074</u>
Net position restricted for pensions, end of year	<u>\$1,668,640,807</u>	<u>391,567,239</u>	<u>2,060,208,046</u>	<u>1,918,554,886</u>

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

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to Financial Statements

September 30, 2014 and 2013

### **(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 active 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, 2014 and 2013

## **(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, 2014, membership is as follows:

Retirees and beneficiaries receiving benefits	7,218
Terminated members entitled to, but not yet receiving benefits	4,938
Active plan members	<u>2,704</u>
	<u>14,860</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, 2013, which was issued in May 2014, the actuarially determined contribution rate for the fiscal year ended September 30, 2013 was 29.85% of covered payroll. Based on the actuarial valuation as of September 30, 2012, which was issued in April 2013, the actuarially determined contribution rate for the fiscal year ended September 30, 2012 was 30.03% of covered payroll.

The established statutory rate at September 30, 2014 and 2013 was 30.03% and 30.09%, respectively, of covered payroll.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2014 and 2013

## **(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, 2014 and 2013

## **(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 sixty percent (60%) of the disability or service retirement benefit earned by the member.
2. Minor children – Basic benefit is \$2,880 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 terminates after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years.

## **(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, 2014 and 2013

## **(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.

At September 30, 2014, membership is as follows:

Active contributing members	8,181
Inactive members with account balances	<u>3,969</u>
	<u>12,150</u>

### 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, 2014 and 2013

## **(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, 2014 and 2013 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 accounting principles generally accepted in the United States of America 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.

### Cash

At September 30, 2014 and 2013, the GGRF has cash balances in banks of approximately \$10.6 million and \$9.7 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, 2014 and 2013

## **(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.

Northern Trust Company held the investments as custodian in the Fund's name through September 30, 2014. 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, 2014 and 2013

## **(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, 2014 and 2013

## **(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, 2014 and 2013

## **(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, 2014 and 2013

**(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.

Investment policy

GGRF's investment policy in regard to the allocation of invested assets is established by mandates of public laws as enacted from time to time, as codified at 4GCA Title 4, Chapter 9, Article 1. GGRF's strategic asset allocation is based on the Fund's time horizon, risk tolerances, investment objectives, and asset class preferences. The following was the Board's adopted asset allocation policy as of September 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. Equities (Large Cap)	30.00%
U.S. Equities (Small Cap)	10.00%
Non-U.S. Equities	14.25%
Non-U.S. Equities (Emerging Markets)	5.75%
U.S. Fixed Income (Aggregate)	30.00%
Real Estate (REITs)	10.00%
	<u>100.00%</u>

Rate of return

For the year ended September 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 10.04%. The money-weighted rate of return expresses investment performance, net of investment expense.

Due to/from Brokers

Amounts due to/from brokers for unsettled trades consists of securities purchased or sold, which have not yet settled.

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.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2014 and 2013

## **(4) Summary of Significant Accounting Policies, continued**

### **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, 2013).

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, 2013.

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, 2013), and the expected date of payment.

### **New Accounting Standards**

In November 2010 the Governmental Accounting Standards Board (GASB) issued statement number 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances and clarifies the reporting of equity interests in legally separate organizations. This Statement is effective for financial statements for periods beginning after June 15, 2012. Management does not believe that the implementation of this Statement had a material impact on the Fund's financial statements.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2014 and 2013

## **(4) Summary of Significant Accounting Policies, continued**

In December 2010 the GASB issued statement number 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement was issued to incorporate into the GASB authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements: (a) Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), (b) Opinions of the Accounting Principles Board, (c) Accounting Research Bulletins of the American Institute of Certified Public Accountants Committee on Accounting Procedure. This Statement is effective for financial statements for periods beginning after December 15, 2011. Management does not believe that the implementation of this Statement had a material impact on the Fund's financial statements.

In June 2011, the GASB issued statement number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This pronouncement requires the presentation of certain elements of the Statement of Net Position as deferred inflows and outflows of resources in accordance with Concepts Statement No. 4, *Elements of Financial Statements* for transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. This statement is effective for financial statements for periods beginning after December 15, 2011, and earlier application is encouraged. Management has implemented this statement and has presented deferred inflows of resources in the accompanying financial statements.

In June 2011 the GASB issued statement number 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This Statement is effective for financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this Statement had a material impact on the Fund's financial statements.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2014 and 2013

## **(4) Summary of Significant Accounting Policies, continued**

In March 2012, the GASB issued statement number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements, deferred outflows of resources and deferred inflows of resources, such as changes in determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The Statement is effective for financial statements for periods beginning after December 15, 2012. Management has implemented this statement and has presented deferred inflows of resources in the accompanying financial statements.

In March 2012, GASB issued statement number 66, *Technical Corrections – 2012, an amendment of GASB statement number 10 and number 62*. This Statement amends statement number 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. The Statement is effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. Management does not believe that the implementation of this Statement had a material impact on the Fund's financial statements.

GASB Statement No. 67, *Financial Reporting for Pensions*, which was adopted during the fiscal year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. The implementation of GASB No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension liability, determined in accordance with GASB No. 67, is presented in Note 5 and in the Required Supplementary Information.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to Financial Statements, continued

September 30, 2014 and 2013

### **(4) Summary of Significant Accounting Policies, continued**

In June 2012, the GASB issued statement number 68, *Accounting and Financial Reporting for Pensions*. Statement 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Government Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual cost of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Management is currently evaluating the impact, if any, this guidance will have on the Fund's financial statements.

In January 2013, GASB issued statement number 69, *Government Combinations and Disposals of Government Operations*. The Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations. The Statement requires assets acquired and liabilities assumed to be measured at carrying values in a merger or in a transfer of operations, and at their acquisition values in an acquisition. The Statement requires disclosures to be made about government combinations and disposals of government operations so that financial statement users can evaluate the nature and financial effects of those transactions. The Statement is effective for financial statements for periods beginning after December 15, 2013.

In April 2013, GASB issued statement number 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires governments that extend nonexchange financial guarantees to recognize a liability when it is more likely than not that the government will have to make a payment on that guarantee. In addition, the Statement requires a government that issued an obligation that is guaranteed in a nonexchange financial guarantee to report the obligation until legally released as an obligor. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013. Management believes that this statement does not apply to the Fund's financial statements.



# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2014 and 2013

## **(4) Summary of Significant Accounting Policies, continued**

In November 2013, GASB issued statement number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date--an amendment of GASB Statement Number 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement Number 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the financial statements of employers and non-employer contributing entities.

### **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 \$126,318 and \$139,577 in 2014 and 2013, respectively.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Notes to Financial Statements, continued

September 30, 2014 and 2013

**(5) Net Pension Liability and Funded Status**

**Funded Status**

As of the most recent actuarial valuation (September 30, 2013), the DB plan had the following funded status:

Actuarial value of assets	\$ 1,413,025,000
Actuarial accrued liability (AAL)	<u>2,855,364,000</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>1,442,339,000</u>
Security Ratio (Funded ratio)	49.49%
Annual covered payroll	\$ 474,158,000
UAAL as a percentage of covered payroll	304.2%

**GASB 67**

GASB 67 introduced some new terms for government sponsored pension plans. These are similar to the terms previously used, but have new names:

- Total Pension Liability (TPL) = Actuarial Accrued Liability
- Fiduciary Net Position (FNP) = Market Value of Assets
- Net Pension Liability (NPL) = Total Pension Liability (TNP) less Fiduciary Net Position (FNP)

The Net Pension Liability is similar to what was previously called the Unfunded Actuarial Accrued Liability. However, the Net Pension Liability is calculated using the Market Value of Assets instead of the Actuarial Value of Assets. For GGRF, the Actuarial Value of Assets recognizes excess investment gains and losses over a 3 year period while the Market Value of Assets recognizes gains and losses immediately.

The Security Ratio for GGRF is calculated as the Actuarial Value of Assets divided by the Actuarial Accrued Liability. The value as of 9/30/13 was 49.49%. The value as of 9/30/14 is estimated to be 53.29%. GASB 67 requires the disclosure of the Fiduciary Net Position as a % of Total Pension Liability. This is similar to the security ratio, but uses the Market Value of Assets instead of the Actuarial Value of Assets. As reflected on the following page, the NPL as a % of TPL was 53.45% as of 9/30/13 and 56.60% as of 9/30/14. These GASB 67 funded ratios are higher than the Security Ratio because the Market Value of Assets is currently greater than the 3-year smoothed Actuarial Value of Assets.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to Financial Statements, continued

September 30, 2014 and 2013

### **(5) Net Pension Liability and Funded Status, continued**

One other minor difference is that for reporting purposes, the Total Pension Liability is based upon a roll-forward of the liability from the prior year. For example, the Total Pension Liability disclosed as of 9/30/14 is equal to the Actuarial Accrued Liability as of 9/30/13 rolled forward to 9/30/14. This allows the GASB 67 disclosures to be prepared prior to completing the actuarial valuation as of 9/30/14. The Actuarial Accrued Liability as of 9/30/14 will be used to calculate the Security Ratio as of 9/30/14, and will also be rolled-forward to 9/30/15 and used for the GASB 67 disclosures at that time.

#### Net Pension Liability

The net pension liability (i.e., the Government of Guam Retirement Fund's liability determined in accordance with GASB No. 67 less the fiduciary net position) as of September 30, 2014 and 2013, is as shown below.

	<u>2014</u>	<u>2013</u>
Total Pension Liability	\$ 2,871,562,108	\$ 2,855,363,994
Fiduciary Net Position	<u>1,625,255,354</u>	<u>1,526,135,027</u>
Net Pension Liability	\$ <u>1,246,306,754</u>	\$ <u>1,329,228,967</u>
Fiduciary Net Position as a % of the Total Pension Liability	56.60%	53.45%
Covered Payroll (DB and DC)	\$ 504,943,471	\$ 460,347,780
Net Pension Liability as a % of Covered Payroll	246.82%	288.74%
Discount rate	7.00%	7.00%

The actuarial valuation of the Fund involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Employers' Net Pension Liability presents multi-year trend information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. These schedules are presented in the Required Supplementary Information section. The Total Pension Liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to Financial Statements, continued

September 30, 2014 and 2013

### **(5) Net Pension Liability and Funded Status, continued**

A summary of the actuarial assumptions as of the latest actuarial valuation is shown 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:	3-year phase in of gains/losses relative to interest rate assumption.
Investment Income:	7% per year.
Salary Increase:	Graduated based on service with the Government ranging from 4.5% for service in excess of 20 years to 7.5% for service from zero to five years
Total Payroll Growth:	3.0%
Expenses:	\$6,788,000 per year, net of bad debts and recoveries
Mortality:	RP 2000 Healthy table set forward 4 years for males and set forward 1 year for females
Disability:	1974-78 SOA LTD Non-Jumbo, with rates reduced by 50%
Retirement Age:	40% probability of retirement at earliest age of eligibility for unreduced retirement benefits; 15% per year thereafter until age 65, 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 3.0% per year.
Amortization Period:	In accordance with 4GCA§8137, complete funding is to be achieved by April 30, 2031. At September 30, 2013 the remaining period is 17.58 years.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to Financial Statements, continued

September 30, 2014 and 2013

### **(5) Net Pension Liability of Employers, continued**

#### Long-term expected rate of return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equities (Large Cap)	30.00%	5.56%
U.S. Equities (Small Cap)	10.00%	7.33%
Non-U.S. Equities	14.25%	5.70%
Non-U.S. Equities (Emerging Markets)	5.75%	8.55%
U.S. Fixed Income (Aggregate)	30.00%	2.09%
Real Estate (REITs)	10.00%	5.58%
	<u>100.00%</u>	

#### Discount rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Notes to Financial Statements, continued

September 30, 2014 and 2013

**(5) Net Pension Liability of Employers, continued**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability calculated using the discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.0% lower (6.0%) or 1.00% higher (8.0%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability	<u>\$1,597,346,382</u>	<u>\$1,246,306,754</u>	<u>\$981,225,647</u>

**(6) Deposit and Investment Risk Disclosure**

Cash and investments as of September 30, 2014 are classified in the accompanying statement of plan net assets as follows:

	<u>DB Plan</u>	<u>DC Plan</u>
Cash and cash equivalents	\$ 7,222,269	3,528,894
Common stocks	1,061,632,545	-
U.S. government securities	216,830,055	-
Corporate bonds and notes	144,343,162	-
Money market funds	30,336,838	-
Mutual funds	<u>155,708,951</u>	<u>388,002,289</u>
Total cash and investments	\$ <u>1,616,073,820</u>	<u>391,531,183</u>

Cash and investments as of September 30, 2013 are classified in the accompanying statement of plan net assets as follows:

	<u>DB Plan</u>	<u>DC Plan</u>
Cash and cash equivalents	\$ 4,202,543	3,234,223
Common stocks	969,334,249	-
U.S. government securities	189,991,596	-
Corporate bonds and notes	166,735,779	-
Money market funds	49,016,947	-
Mutual funds	<u>156,848,845</u>	<u>340,405,495</u>
Total cash and investments	\$ <u>1,536,129,959</u>	<u>343,639,718</u>



# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to Financial Statements, continued

September 30, 2014 and 2013

### **(6) Deposit and Investment Risk Disclosure, continued**

#### 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.

#### 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, 2014 by maturity:

<u>Investment Type</u>	<u>Remaining Maturity in Years</u>				<u>Total</u>
	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater than 10</u>	
U.S. Treasury securities	\$ 24,080,332	14,699,929	25,371,538	28,875,615	93,027,414
Federal Agency securities	386,252	18,989,872	26,942,634	77,483,883	123,802,641
Corporate bonds and notes	<u>5,958,606</u>	<u>29,229,720</u>	<u>42,592,171</u>	<u>66,562,665</u>	<u>144,343,162</u>
Totals	\$ <u>30,425,190</u>	<u>62,919,521</u>	<u>94,906,343</u>	<u>172,922,163</u>	<u>361,173,217</u>

**GOVERNMENT OF GUAM RETIREMENT FUND**

Notes to Financial Statements, continued

September 30, 2014 and 2013

**(6) Deposit and Investment Risk Disclosure, continued**

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.

At September 30, 2014, the Fund held mortgage-backed securities valued at approximately \$101 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, 2014 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	\$ 93,027,414	Exempt from disclosure
Federal agency securities	N/A	123,802,641	Exempt from disclosure
Money market funds	A-2	30,336,838	AAAm
Corporate medium term notes and U.S. Municipal Obligations	BBB	21,068,139	Aaa
		18,811,183	Aa1-Aa3
		39,916,333	A1-A3
		44,868,282	Baa1-Baa3
		<u>19,679,225</u>	Not rated/cash
		<u>\$ 391,510,055</u>	

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to Financial Statements, continued

September 30, 2014 and 2013

### **(6) Deposit and Investment Risk Disclosure, continued**

#### 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, 2014, 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.

#### 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, 2014, the Fund held approximately \$8.2 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, 2014:

Canada	\$ 2.5 million
Netherlands	2.0
United Kingdom	1.6
Norway	1.1
Sweden	<u>1.0</u>
Total	\$ <u>8.2</u> million

At September 30, 2014, 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, 2014 was approximately \$104 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, 2014:

Euros	\$ 38 million
British Pound	19
Japanese Yen	15
Swiss Franc	10
Others – 8 countries	<u>22</u>
Total	\$ <u>104</u> million

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2014 and 2013

## **(6) 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.

## **(7) Related Party Transactions**

At September 30, 2014 and 2013, GGRF was owed employer and member contributions, and interest and penalties receivable by various Government of Guam agencies. At September 30, 2014 and 2013, employer contributions receivable including the unfunded liability totaled \$3,490,037 and \$6,238,609, respectively; member contributions receivable totaled \$767,278 and \$1,210,593, respectively; and interest and penalties receivable totaled \$366,905 and \$274,402, respectively.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2014 and 2013

## **(8) Property, Equipment and Land**

Property, equipment and land at September 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Building	\$ 1,277,837	1,149,587
Improvements	825,985	713,770
Land	439,428	439,428
Equipment	463,249	451,217
Automobiles	22,732	23,523
Furniture and fixtures	15,887	15,887
Other	<u>7,000</u>	<u>7,000</u>
	3,052,118	2,800,412
Less: Accumulated depreciation	<u>(2,007,755)</u>	<u>(1,920,321)</u>
	<u>\$ 1,044,363</u>	<u>880,091</u>

## **(9) 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.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to Financial Statements, continued

September 30, 2014 and 2013

### **(9) Supplemental Annuities and COLA Payments, continued**

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 2014 and 2013 was 1.2016% of covered payroll.

At September 30, 2014 and 2013, the GGRF had Supplemental/COLA benefits receivable of \$44,785,528 and \$50,818,265, 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.

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

Fiscal Year	Payment of Benefits by GGRF	Collections	Other	Balance
1999	\$ 31,400,000	\$ (4,500,000)	\$ (12,000,000)	\$ 14,900,000
2000	32,300,000	(4,300,000)	12,000,000	54,900,000
2001	34,000,000	(4,700,000)		84,200,000
2002	27,500,000	(3,600,000)		108,100,000
2003		(4,400,000)		103,700,000
2004		(7,200,000)		96,500,000
2005		(4,300,000)		92,200,000
2006		(4,600,000)		87,600,000
2007		(4,600,000)		83,000,000
2008		(5,000,000)		78,000,000
2009		(5,100,000)		72,900,000
2010		(5,300,000)		67,600,000
2011		(5,800,000)		61,800,000
2012		(5,500,000)		56,300,000
2013		(5,500,000)		50,800,000
2014		(6,000,000)		44,800,000
	\$ 125,200,000	\$ (80,400,000)	\$ -	

### **(10) 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.



## GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2014 and 2013

### **(10) Early Retirement Incentive Program (ERIP), continued**

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, 2014 and 2013, the amount owed under these notes was \$354,600 and \$993,746 respectively. There is a corresponding unearned 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 were fully paid as of September 30, 2011.

The receivable for the government's share of required contributions was being reduced by a portion of the employer contributions received. The statutory percentage for fiscal years 2014 and 2013 was 1.31% of covered payroll.

### **(11) 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, 2014 and 2013, the GGRF had \$3,511,711 in Supplemental/insurance benefits receivable from three Government of Guam agencies.

### **(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.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2014 and 2013

## **(13) Other Post-Employment Benefits**

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain post-retirement healthcare benefits to retirees who are members of the GGRF. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

## **(14) Subsequent Events**

The market value of the Fund's invested assets in the DB plan increased from \$1.608 billion at September 30, 2014 to approximately \$1.667 billion at December 31, 2014. This is an increase of \$59 million or about 3.7%. DC plan assets increased from \$388.0 million at September 30, 2014 to \$403.0 million at December 31, 2014. This is an increase of \$15 million or about 3.9%.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Schedule of Changes in Net Pension Liability

September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Total Pension Liability - Beginning of Year</b>	\$ 2,855,363,994	\$ 2,811,399,525
Service cost	5,697,487	4,799,185
Member contributions	16,626,009	16,290,014
Interest on the total pension liability	193,408,727	190,949,402
Changes of benefit terms	-	-
Differences between actual and expected experience with regard to economic or demographic factors	-	25,533,903
Changes of assumptions	-	-
Benefit payments	(199,534,108)	(193,608,035)
Total changes	<u>16,198,115</u>	<u>43,964,469</u>
<b>Total Pension Liability - End of Year</b>	<u>\$ 2,871,562,109</u>	<u>\$ 2,855,363,994</u>
<b>Fiduciary Net Position - Beginning of Year</b>	\$ 1,526,135,027	\$ 1,391,421,887
Contributions from employers	134,106,867	121,940,930
Member contributions	16,626,009	16,290,014
Net investment income	150,599,955	192,776,061
Benefit payments	(199,534,108)	(193,608,035)
Administrative expense	(2,678,396)	(2,685,830)
Total changes	<u>99,120,327</u>	<u>134,713,140</u>
<b>Fiduciary Net Position - End of Year</b>	<u>\$ 1,625,255,354</u>	<u>\$ 1,526,135,027</u>
<b>Net Pension Liability - End of Year</b>	<u>\$ 1,246,306,755</u>	<u>\$ 1,329,228,967</u>
Fiduciary Net Position as a % of Total Pension Liability	56.60%	53.45%
Covered employee payroll	504,943,471	460,347,780
Net Pension Liability as a % of Covered Employee Payroll	246.82%	288.74%

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

See accompanying independent auditors' report.

## GOVERNMENT OF GUAM RETIREMENT FUND

### Schedule of Net Pension Liability By Agency

September 30, 2014

Agency	DB Payroll	DC Payroll	Actuarially Determined Contributions	% Share	Allocated Net Pension Liability
Gov't of Guam General Fund	\$ 53,262,079	\$ 76,735,733	\$ 35,279,555	28.5%	\$ 379,048,855
Attorney General	2,238,654	5,595,752	2,077,585	1.68%	22,321,886
Mayor's Council of Guam	1,101,222	4,457,514	1,449,748	1.17%	15,576,311
Department of Chamorro Affairs	512,918	663,089	320,706	0.26%	3,445,714
KGTF	219,583	83,144	86,933	0.07%	934,021
Gov't of Guam Retirement Fund	643,426	861,856	409,847	0.33%	4,403,458
Guam Community College	4,294,037	7,341,286	3,134,005	2.53%	33,672,222
Guam Department of Education	47,560,470	90,758,752	37,082,317	29.97%	398,418,002
Guam Econ. Dev. Authority	446,884	1,179,015	430,282	0.35%	4,623,015
Guam Housing and UR Authority	1,391,390	2,853,570	1,134,630	0.92%	12,190,636
Guam Housing Corporation	287,848	914,852	316,150	0.26%	3,396,763
Guam Int'l Airport Authority	4,681,595	5,832,594	2,872,090	2.32%	30,858,168
Guam Legislature	358,421	1,700,274	534,448	0.43%	5,742,190
Guam Memorial Hosp. Authority	9,410,618	32,773,399	11,054,501	8.94%	118,771,225
Guam Power Authority	11,032,885	16,229,843	7,391,863	5.97%	79,419,290
Guam Visitors Bureau	333,717	1,031,253	359,157	0.29%	3,858,837
Guam Waterworks Authority	4,245,215	9,488,606	3,658,076	2.96%	39,302,920
Judiciary of Guam	5,888,035	10,296,576	4,355,121	3.52%	46,792,076
Port Authority of Guam	5,497,008	10,222,802	4,218,951	3.41%	45,329,045
Public Auditor	110,632	449,204	145,994	0.12%	1,568,582
University of Guam	10,788,614	16,573,416	7,404,564	5.99%	79,555,751
<b>Total</b>	<b>\$ 164,305,251</b>	<b>\$ 296,042,530</b>	<b>\$ 123,716,523</b>	<b>100.0%</b>	<b>\$ 1,329,228,967</b>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

**Schedule of Contributions**

September 30, 2014

	<u>2014</u>	<u>2013</u>
Actuarially Determined Contribution	\$ 134,107,000	\$ 121,698,000
Actual Employer Contribution	<u>\$ 134,107,000</u>	<u>\$ 121,941,000</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ (243,000)</u>
Covered Payroll	\$ 504,943,000	\$ 460,348,000
Contribution as a % of Covered Payroll	26.56%	26.49%

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Schedule of Investment Returns

September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	10.04%	14.14%

*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

See accompanying independent auditors' report.

## GOVERNMENT OF GUAM RETIREMENT FUND

### Notes to Required Supplementary Information

For the year ended September 30, 2014

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	May 1, 2031 (16.58 years remaining as of September 30, 2014)
Asset valuation method	3-year smoothed market value (effective September 30, 2009)
Inflation	2.75% per year
Total payroll growth	3.00% per year
Salary increases	7.5% per year for the first 5 years of service, 6% for 5-10 years, 5% for 11-15 years and 4.5% for service over 15 years.
Investment rate of return	7.00%, net of investment expenses, including inflation of 2.75%
Retirement age	40% are assumed to retire upon first eligibility for unreduced retirement. Thereafter, the probabilities of retirement are 15% until age 65, 20% from 65-69, and 100% at age 70.
Mortality	RP-2000 healthy mortality table set forward by 4 years for males and 1 year for females. Mortality for disabled lives is the RP 2000 disability mortality table with no set forwards.
Other information	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2007 to 2011, and was first reflected in the actuarial valuation as of September 30, 2012.

See accompanying independent auditors' report.



**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Administrative and General Expenses

Years ended September 30, 2014 and 2013

	Defined Benefit <u>Plan</u>	Defined Contribution <u>Plan</u>	Total <u>2014</u>	Total <u>2013</u>
Salaries and wages	\$ 1,087,014	406,232	1,493,246	1,504,137
Third party administrator fees	-	844,850	844,850	689,940
Employer's retirement contribution	329,052	122,965	452,017	452,677
Insurance	218,183	178,230	396,413	215,797
Legal fees	216,172	65,058	281,230	206,629
Computer program services/maintenance	218,700	24,300	243,000	243,000
Actuary fees	34,014	139,559	173,573	104,950
Retiree supplemental/COLA	149,796	7,682	157,478	124,120
Depreciation	94,127	34,191	128,318	139,577
Utilities	49,816	50,280	100,096	111,865
Repairs and maintenance	33,018	18,823	51,841	54,563
Travel and transportation	19,257	18,310	37,567	32,367
Audit fees	23,250	7,750	31,000	30,000
Printing and publications	22,379	3,064	25,443	20,974
Proxy voting services	25,000	-	25,000	25,000
Board of trustees expenses	15,045	8,467	23,512	16,548
Equipment rental	14,221	7,004	21,225	21,519
Medicare contribution	14,747	5,511	20,258	20,397
Computers supplies and software	13,471	-	13,471	14,987
Communications	11,322	637	11,959	12,459
Medical exams	11,356	-	11,356	6,114
Training	8,085	2,695	10,780	21,560
Miscellaneous	4,763	3,150	7,913	8,504
Medical consultant	7,412	-	7,412	3,187
Office supplies	6,250	829	7,079	12,687
Bad debt related to notes receivable	4,195	-	4,195	139,717
Postage	2,663	1,094	3,757	30,374
	<u>\$ 2,633,308</u>	<u>1,950,681</u>	<u>4,583,989</u>	<u>4,263,649</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Personnel Costs

Years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 1,493,246	\$ 1,504,137
Employer's retirement contribution	452,017	452,677
Medicare contribution	<u>20,258</u>	<u>20,397</u>
	<u>\$ 1,965,521</u>	<u>\$ 1,977,211</u>
Average number of employees	37	38
Average cost per employee	\$ 53,122	\$ 52,032

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, 2014 and 2013

	Full Time Employees		Total Salaries & Wages Expended
	During FY 2014	As of September 30, 2014	
Director's Office	3	3	\$ 152,197
Administrative Services	5	4	155,612
Accounting / Investments	12	12	785,444
Members and Benefits Services	17	16	399,993
	<u>37</u>	<u>35</u>	<u>\$ 1,493,246</u>

	Full Time Employees		Total Salaries & Wages Expended
	During FY 2013	As of September 30, 2013	
Director's Office	3	3	\$ 149,019
Administrative Services	5	4	147,067
Accounting / Investments	18	17	761,092
Members and Benefits Services	13	11	446,959
	<u>39</u>	<u>35</u>	<u>\$ 1,504,137</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

**Supplementary Schedule of Other Receivables - Defined Benefit Plan**

September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Benefit overpayments	\$ 348,869	\$ 494,138
Member rate differential	<u>170,921</u>	<u>164,045</u>
	<u>\$ 519,790</u>	<u>\$ 658,183</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2014

Agency	Supplemental/ COLA	Employer		Employer Contributions (Unfunded Liability)	Member Contributions	Interest & Penalties	Retiree Supplemental Benefits & Insurance	TOTAL
		Contributions	Contributions					
Department of Administration (General Fund)	\$ 44,785,528	830,170	1,518,242	273,357	282,909	1,972,414	49,662,620	
Guam Memorial Hospital Authority	-	109,119	342,802	36,106	-	1,507,004	1,995,031	
Supreme Court of Guam	-	77,936	124,483	25,555	39,512	-	267,486	
Guam Power Authority	-	18,094	1,572	10,454	-	32,293	62,413	
Guam Department of Education	-	5,721	1,978	1,810	44,484	-	53,993	
Guam Housing & Urban Renewal Authority	-	14,735	25,681	4,666	-	-	45,082	
Guam Community College	-	4,082	-	1,291	-	-	5,373	
Port Authority of Guam	-	-	84	-	-	-	84	
Guam Airport Authority	-	-	56	-	-	-	56	
<b>Total</b>	<b>\$ 44,785,528</b>	<b>\$ 1,059,857</b>	<b>\$ 2,014,898</b>	<b>\$ 353,239</b>	<b>\$ 366,905</b>	<b>\$ 3,511,711</b>	<b>\$ 52,092,138</b>	

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2013

Agency	Supplemental/ COLA	Employer Contributions	Employer Contributions (Unfunded Liability)	Member Contributions	Interest & Penalties	Retiree Supplemental Benefits & Insurance	TOTAL
Department of Administration (General Fund)	\$ 50,818,265	697,313	1,020,683	230,046	254,354	1,972,414	54,993,075
Guam Memorial Hospital Authority	-	105,629	326,018	37,432	-	1,507,004	1,976,083
Supreme Court of Guam	-	66,224	101,802	21,498	65	-	189,589
Guam Power Authority	-	-	21	-	-	32,293	32,314
Guam Department of Education	-	1,083,350	1,968,134	345,207	19,983	-	3,416,674
Guam Housing & Urban Renewal Authority	-	20,711	26,242	8,171	-	-	55,124
Guam Community College	-	52,922	79,591	17,301	-	-	149,814
Port Authority of Guam	-	63,245	93,541	19,069	-	-	175,855
Guam Airport Authority	-	-	56	-	-	-	56
<b>Total</b>	<b>\$ 50,818,265</b>	<b>\$ 2,089,394</b>	<b>\$ 3,616,088</b>	<b>\$ 678,724</b>	<b>\$ 274,402</b>	<b>\$ 3,511,711</b>	<b>\$ 60,988,584</b>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

**Deferred Compensation Plan**

**Schedule of Statement of Fiduciary Net Position Information**

September 30, 2014 and 2013

<u>ASSETS</u>	Total <u>2014</u>	Total <u>2013</u>
Investments, at fair value:	\$ 38,647,754	32,613,640
Employee loans receivable	2,154,831	1,928,586
Cash and cash equivalents	<u>117,309</u>	<u>25,606</u>
Total assets	<u>40,919,894</u>	<u>34,567,832</u>
 <u>LIABILITIES</u>		
Accounts payable and accrued expenses	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Net position - Held in trust for benefits	<u>\$ 40,919,894</u>	<u>\$ 34,567,832</u>

**Schedule of Statement of Changes in Fiduciary Net Position Information**

Years ended September 30, 2014 and 2013

	Total <u>2014</u>	Total <u>2013</u>
Additions:		
Member contributions	\$ 6,032,359	5,192,279
Net appreciation in fair value of investments	1,369,006	2,927,377
Interest	<u>1,945,526</u>	<u>973,878</u>
	3,314,532	3,901,255
Less investment expenses	<u>14,509</u>	<u>9,268</u>
Net investment income	<u>3,300,023</u>	<u>3,891,987</u>
Total Additions	<u>9,332,382</u>	<u>9,084,266</u>
Deductions:		
Benefits	<u>2,980,320</u>	<u>2,220,083</u>
Total Deductions	<u>2,980,320</u>	<u>2,220,083</u>
Change in net position	6,352,062	6,864,183
Net position - beginning of year	<u>34,567,832</u>	<u>27,703,649</u>
Net position - end of year	<u>\$ 40,919,894</u>	<u>\$ 34,567,832</u>

See accompanying independent auditors' report.





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**CERTIFIED PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees  
Government of Guam Retirement Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Government of Guam Retirement Fund, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Government of Guam Retirement Fund's basic financial statements, and have issued our report thereon dated February 20, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Government of Guam Retirement Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Government of Guam Retirement Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Government of Guam Retirement Fund's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Government of Guam Retirement Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Tamuning, Guam  
February 20, 2015