# GOVERNMENT OF GUAM RETIREMENT FUND

FINANCIAL STATEMENTS

September 30, 2010 and 2009

(Together with Independent Auditors' Report Thereon)

**GOVERNMENT OF GUAM RETIREMENT FUND**

September 30, 2010 and 2009

BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Government of Guam Retirement Fund:

We have audited the accompanying financial statements of the Government of Guam Retirement Fund (the "Fund"), a component unit of the Government of Guam, administered by the Government of Guam Retirement Fund Board of Trustees (the "Board") as of September 30, 2010 and 2009 and for the years then ended. These financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Fund administered by the Board as of September 30, 2010 and 2009, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2011 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

P.O. Box 504053 Saipan, MP 96950 Phone: (670) 235-8722 · Fax: (670) 235-6905
http://www.saipancpa.com

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 24 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 Boards, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information listed as supplemental schedules on pages 52 to 59 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Burger & Comer, P.C.

Tamuning, Guam
February 11, 2011

**GOVERNMENT OF GUAM RETIREMENT FUND**

Management's Discussion and Analysis

September 30, 2010 and 2009

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, 2010 and 2009. This narrative should be reviewed in conjunction with the financial statements and related notes, which follow this section. It provides management's insight into the results of operations of the last two fiscal years, and highlights specific factors that contributed to those results.

## (1) Financial Highlights

- **Impact of Market Volatility on Net Assets**
  For 2010, net assets of the Defined Benefit Plan (DB Plan) increased by $80.7 million or 6.4%, while net assets of the Defined Contribution Plan (DC Plan) increased by $34.2 million or 17.9%.

- **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 two years.

  For 2010, **DC Plan** investments totaled $222.2M compared to the $187.2M and $161.8M in 2009 and 2008, respectively.

  For 2010, the **DB Plan** investment portfolio posted a positive return of 12.3%, compared to 2009's return of 7.5%, and 2008's negative return of 14.8%.


GGRF investment returns averaged 8.2% percent from 1995 through 2010. Over that period, there have only been two years with negative returns, both of which occurred in the last nine years.

## (1) Financial Highlights, continued

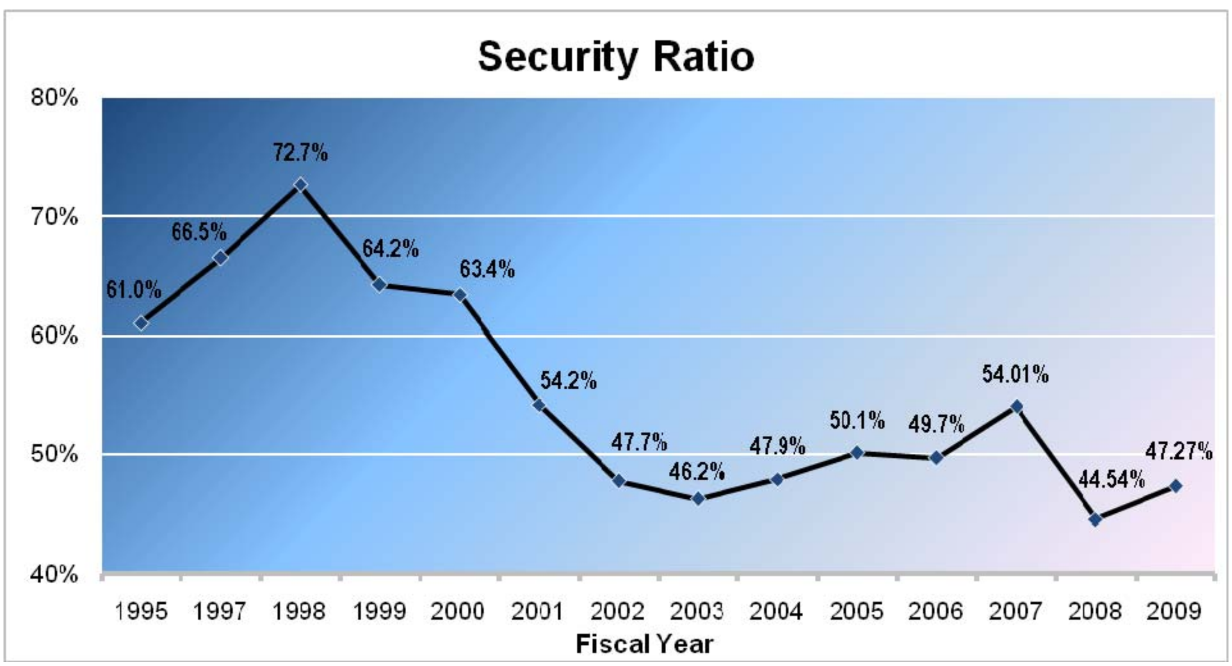
- **Critical Issue – Impact of Market Volatility on the DB Plan Unfunded Liability**

The unfunded liability decreased from $1.54 billion (based on the 2008 actuarial valuation) to $1.44 billion (based on the 2009 actuarial valuation). This resulted in a corresponding decrease in the actuarially determined contribution rate from 29.31% to 28.06%. 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 2010 actuarial valuation is finalized in April 2011, the actuarially determined contribution rate is expected to be 29.2%. The increase from the 2009 actuarial rate of 28.06% is due to the final recognition of the investment loss from 2008. In the 2009 valuation, the asset valuation method was changed to one in which investment gains/losses relative to the assumed investment return are phased in over a period of 3 years.

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, 2009. This represents a decrease in the security ratio, from 61.0% in 1995 to 47.3% in 2009, and an increase in the unfunded liability ratio from 39% in 1995 to 52.7% in 2009. The security ratio is the ratio of assets to liabilities. The increase in this ratio reflects a slight improvement in GGRF's ability to meet future benefit obligations.

As indicated below, the **security ratio** (fund assets as a percentage of accrued liability) for the past fourteen years has ranged from 44.5% to 72.7%, representing an average of 54.9% per year.



**(1) Financial Highlights, continued**

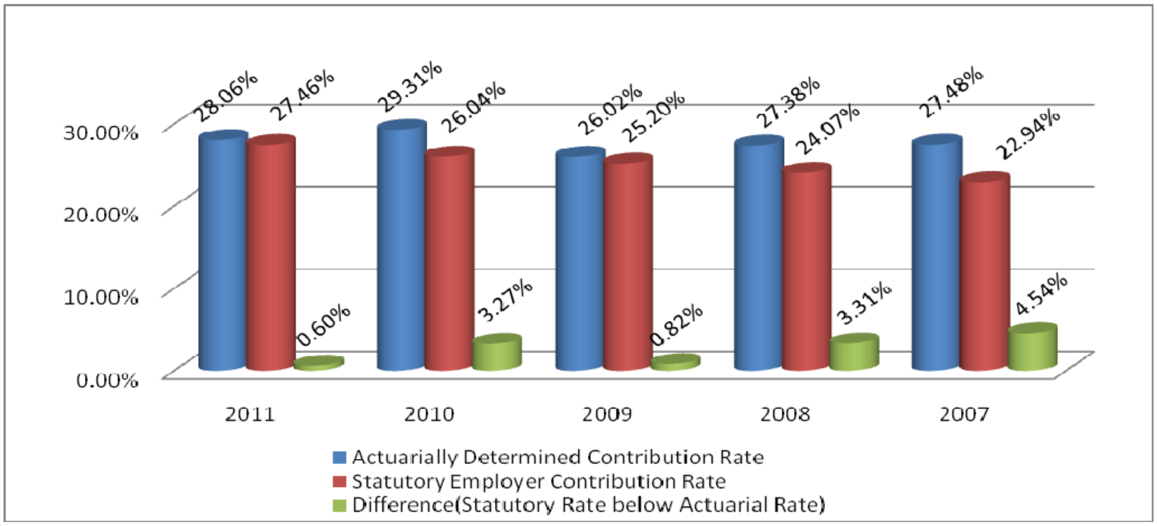
- **Critical Issue – Impact of Market Volatility on the DB Plan Unfunded Liability, Continued**

  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 2009 valuation, there are 21.58 years remaining in the funding period. As stated in prior years' Management's Discussion and Analysis (MD&A), "the unfunded liability is now so large that it simply cannot be ignored or put off for future generations to contend with. The longer Gov Guam defers its obligation to provide full funding, the worse the problem becomes".

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

  While full funding has not occurred, management commends the Guam Legislature for its efforts towards attaining full funding (1) with the Passage of Public Law 28-150 in 2007, and (2) by maintaining the provisions of that law in the 2009, 2010 and 2011 Budget Bills (Public Laws 29-113, 30-55 and 30-196).

  A comparison of the actuarially determined contribution rates versus the statutory employer contribution rates for 2007 to 2011 are reflected below.




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. Management encourages the Guam Legislature to continue to narrow the gap, through increases in the employer contribution rate, until the actuarially determined contribution rate is reached.

**(1) Financial Highlights, continued**

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

  As noted in last years' MD&A the GGRF Board is still considering alternative plan designs, which may include DB Plan features, to enhance the retirement benefits available to DC Plan members.

  With member ("participant") balances averaging less than $40,000 most participants will not have enough saved to generate a reliable stream of retirement income to: 1) support their basic needs, 2) allow them to maintain a comfortable standard of living, and 3) last their lifetime.

  The Board recognizes the need for participants to adequately *save and plan* for generating a reliable stream of retirement income. They are also cognizant that:

  1. Most participants are not saving enough;
  2. Many 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;
  3. Participant account balances are not protected from adverse market conditions; and
  4. Participants can exhaust their assets during retirement.

  If participants are left without adequate income when they retire, Gov Guam 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 better chance of retiring with sufficient retirement assets to support their basic needs, allow them to maintain a comfortable standard of living, and last their lifetime.

  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.

**(1) Financial Highlights, continued**

- **Critical Issue – Enhancing the Retirement Benefits of DC Plan Members, Continued**

In addition, DB Plans help sustain local economies by providing sufficient and steady retirement benefits for a significant portion of the workforce, unlike DC Plans that could slow the local economy, since a larger number of retirees would likely receive much lower retirement benefits.

The Board has made some changes to the investment options available to DC participants, but in light of the average investment balances, the continued volatility of the investment environment, and the difference in benefits between the existing DB Plan and the DC plan, it appears that more drastic measures must be taken to improve the sustainability of the DC Plan. This may include amongst others one or more of the following:

1. Increasing the employer and employee contribution rates to the DC Plan,
2. Supplementing the DC Plan with a New DB Plan,
3. Replacing the DC Plan with a New DB Plan,
4. Making the 457 Plan mandatory and adding an employer matching contribution,
5. Adding a Social Security component.

As noted earlier, the GGRF Board is still considering alternative plan designs, which may include DB Plan features, to enhance the retirement benefits available to DC Plan members. Upon completion of its assessment the Board expects to make changes, within its purview, to the DC Plan. However, changes requiring legislative action will be brought to the attention of the Guam Legislature, for its consideration.

Management further notes that similar to the unfunded liability issue this DC Plan issue cannot be ignored or put off for future generations to contend with. However, Management also recognizes that in light of Gov Guam's current financial condition changes to the DC Plan must not only be cost beneficial to DC Plan members but to Gov Guam as a whole.

**(1) Financial Highlights, continued**

- **Critical Issue – Impact of Late Contributions by GMHA**

  As summarized below, as of September 30, 2010 GMHA was delinquent in the remittance of both member and employer contributions to GGRF for both the DB and DC Plans.

| | **Total** |
|---|---|
| DB Plan | $1,095,694 |
| DC Plan (50% Member and 50% Employer) | 122,306 |
| **Total** | **$1,218,000** |
| | |
| Member Contribution | $ 155,241 |
| Employer Contribution | 305,680 |
| Employer Contribution for Unfunded Liability | 751,149 |
| Interest & Penalties | 5,930 |
| **Total** | **$1,218,000** |

On November 12, 2010, GGRF filed a petition for Writ of Mandate with the Superior Court of Guam to order GMHA to remit delinquent member and employer contributions, plus interest and penalties to GGRF. *As of February 4, 2011, GMHA owes GGRF a total of $5.6M consisting of approximately $4.6M for the DB Plan and $1.0M for the DC Plan.*

Not only does GMHA's failure to make timely remittances have a negative effect on GGRF, but also on GMHA and its employees as noted below:

1. GMHA's delinquency has resulted in GGRF liquidating DB Plan investments in order to cover benefit payments. Continued non-remittance of contributions by GMHA will undoubtedly result in continued liquidations by GGRF. However, those assets should remain in the investment portfolio to generate investment income.

2. GMHA's delinquency prevents eligible GMHA employees from retiring in accordance with Public Law 28-38, which requires the full remittance of contributions.

3. In addition to applicable interest, GGRF assess a 1% penalty for DB contributions not paid within 10 working days after the issuance of the payroll checks.

4. DC contributions not deposited timely may result in harm to the member's account. In addition, GMHA exposes itself to both civil and criminal liability. GMHA employees can seek enforcement assistance through the Guam Department of Labor and through the U.S. Department of Labor, Employment Standards Administration, Wage and Hour Division.

**(1) Financial Highlights, continued**

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

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

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

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

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

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

  GGRF's Response to Concerns Above:

  GGRF Management clarifies that GGRF's share of the unfunded liability is not reflected on the statement of net assets for the simple reason that an entity should not report a liability to itself. If GGRF were to utilize separate financial statements for the pension plan and another for operational purposes, the consolidated financial statements would require elimination entries since the pension liability will be recorded as a payable under operations, and a receivable for the pension plan. Thus, if GGRF were to record the liability, it will be improperly reflected on the "statement of plan net assets" as it will result in a reduction in the "net assets held in trust for pension benefits". It should be noted however, that GGRF's share of the unfunded liability based on the 2009 and 2008 valuations, are $5,379,500 and $5,459,394, respectively.

**<u>(1) Financial Highlights, continued</u>**

- **"Interest-Only" Payments for GDOE and GMHA**

  During 2010, GGRF continued to receive "interest-only" payments in accordance with the provisions of Public Law 28-38, as amended by Public Law 29-19. GGRF received payments totaling $2,315,460 and $2,286,012 for the Guam Department of Education (GDOE) and the Guam Memorial Hospital Authority (GMHA), respectively.

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

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

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

- $**21 million Bond Proceeds for GDOE and GMHA**

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

  <u>GMHA's Concerns Relative to the Application of the $10.5 Million</u> **–** In its 2009 MD&A, Management of GMHA stated that:

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

  In the footnotes to its 2010 and 2009 financial statements, GMHA Management also stated that:

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

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

**(2) Description of the Financial Statements**

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

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

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

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

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

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

- **The Statement of Plan Net Assets** reports the assets available to pay future benefits to retirees, and any liabilities that are owed as of the statement date. The resulting net assets represent the value of assets held in trust for benefit payments.

- **The Statement of Changes in Plan Net Assets** shows the results of financial transactions that occurred during the fiscal year, where additions less deductions equal the net increase or net decrease in net assets.

- **The Notes to the Financial Statements** provide additional information that is essential for a comprehensive understanding of the data provided in the financial statements. The notes describe the accounting and administrative policies under which GGRF operates, and also provides additional information for selected financial statement items. The notes also include a discussion of the actuarial assumptions relevant to the Schedule of Funding Progress and the Schedule of Employer Contributions.

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

Additional information is included in the following required supplementary schedules:

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

- **The Schedule of Employer Contributions** presents historical information showing the required annual employer contributions to be paid by employers for the employees participating in the DB Plan, and the actual performance of Gov Guam in meeting this requirement.

**(3) Defined Benefit Plan**

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

**DB Plan Net Assets** as of September 30, 2010, 2009 and 2008 are as follows (in millions):

| | **2010** | **2009** | **2008** | **$ Increase (Decrease) from 2009 to 2010** | **% Increase (Decrease) from 2009 to 2010** |
|---|---|---|---|---|---|
| Cash and Equivalents | $ 1.7 | $ 2.9 | $ 3.8 | $ (1.2) | -41.4% |
| Receivables | 176.3 | 114.6 | 133.5 | 61.7 | 53.8% |
| Investments | 1,180.6 | 1,164.3 | 1,126.2 | 16.3 | 1.4% |
| Property and Equipment | 1.0 | 0.9 | 1.0 | 0.1 | 11.1% |
| **Total Assets** | **1,359.6** | **1,282.7** | **1,264.5** | **76.9** | **6.0%** |
| Total Liabilities | 13.2 | 17.0 | 15.9 | (3.8) | -22.4% |
| **Net Assets, End of Year** | **1,346.4** | **1,265.7** | **1,248.6** | **80.7** | **6.4%** |
| Net Assets, Beginning of Year | 1,265.7 | 1,248.6 | 1,516.1 | | |
| **Net Increase (Decrease) in Net Assets** | **$ 80.7** | $ **17.1** | $ **(267.5)** | | |

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

During 2010, DB Plan net assets increased by $80.7 million or 6.4% from the prior year. The market value of DB Plan investments increased by $16.3 million, ending the year at $1.18 billion.

Receivables decreased by $61.7 million due primarily to the increase in amounts due from brokers for unsettled trades as of September 30, 2010.

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

As of September 30, 2010, the supplemental/COLA benefits advanced and the employer share of ERIP totaled approximately $67.6 million and $15,227, respectively. Had these funds remained with GGRF's investment managers, they would have grown substantially. These receivables are being collected by GGRF over a twenty year period, without interest.

During 2010 and 2009, the outstanding balance of the supplemental/COLA benefits advanced was reduced by 1.2016% of the employer contributions of covered payroll. The employer share of the ERIP receivable was reduced by 1.31% of the employer contributions of covered payroll.

During 2010, DB Plan liabilities decreased by $3.8 million due primarily to the decrease in amounts due to brokers for unsettled trades as of September 30, 2010.

**DB Plan Investments** as of September 30, 2010, 2009 and 2008 are as follows (in millions):

| | 2010 | 2009 | 2008 | $ Increase (Decrease) from 2009 to 2010 | % Increase (Decrease) from 2009 to 2010 |
|---|---|---|---|---|---|
| Common Stocks | $ 684.0 | $ 557.7 | $ 531.0 | $ 126.3 | 22.6% |
| U.S. Government Securities | 168.6 | 196.5 | 257.2 | -27.9 | -14.2% |
| Corporate Bonds and Notes | 192.9 | 210.6 | 206.3 | -17.7 | -8.4% |
| Money Market Funds | 21.3 | 22.5 | 36.5 | -1.2 | -5.3% |
| Mutual Funds | 113.8 | 177.0 | 95.2 | -63.2 | -35.7% |
| **Total** | **$ 1,180.6** | $ **1,164.3** | $ **1,126.2** | $ **16.3** | **1.4%** |

## (3) Defined Benefit Plan, continued

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

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

GGRF's asset allocation strategy adopted in 2005, 2006, and 2009 are as follows:

| | **Asset Allocation Adopted in 2009** | **Asset Allocation Adopted in 2006** | **Asset Allocation Adopted in 2005** |
|---|---|---|---|
| Domestic Large Cap Equity | 30.0% | 30% | 38% |
| Domestic Small Cap Equity | 10.0% | 10% | - |
| International Developed Markets | 9.25% | 12% | 13% |
| International Small Cap | 5.0% | 5% | 3% |
| International Emerging Markets | 5.75% | 3% | 3% |
| Fixed Income Aggregate | 30.0% | 30% | 39% |
| Real Estate (REITs) | 10.0% | 10% | - |
| Non-U.S. Fixed Income | - | - | 4% |
| **Total** | **100%** | **100%** | **100%** |

In August 2006, the Board adopted a new asset allocation strategy to include investments in domestic small cap equity and real estate investment trusts (REITs). The allocation was further revised in 2010 to change the allocations to the international developed markets and international emerging markets mandates. Implementation of the asset allocation strategy continues to be in transition, pending either the procurement of investment management services for, funding of, and/or rebalancing of, each mandate. Therefore, the 2010 and 2009 investment portfolio performance does not fully reflect the current asset allocation.

## (3) Defined Benefit Plan, continued

The table below shows portfolio returns and indexes, which are reflective of the market environment for 2010 and 2009.

| | 2010 | 2009 |
|---|---|---|
| **Total Portfolio** | **12.3%** | **7.5%** |
| Blended Index | 9.6% | 3.6% |
| Public Funds Median | 10.2% | 1.0% |
| | | |
| **Total Domestic Equity** | **12.2%** | **-0.8%** |
| Benchmark: S&P 500 Index | 10.2% | -6.9% |
| | | |
| **International Equity Developed** | **6.6%** | **4.2%** |
| Benchmark: MSCI EAFE | 3.3% | 3.2% |
| | | |
| **International Equity Emerging** | **19.6%** | **23.4%** |
| Benchmark: MSCI Emerging Markets | 20.2% | 19.1% |
| | | |
| **Total Fixed Income** | **8.9%** | **9.6%** |
| Benchmark: Barclays Capital Aggregate | 8.2% | 10.6% |
| Benchmark: Lehman Aggregate | ** | ** |
| | | |
| **Total REITs** | **33.6%** | ** |
| Dow Jones US Select Real Estate Security Index | 30.1% | ** |

** Not applicable / REITs market was funded in 2010.

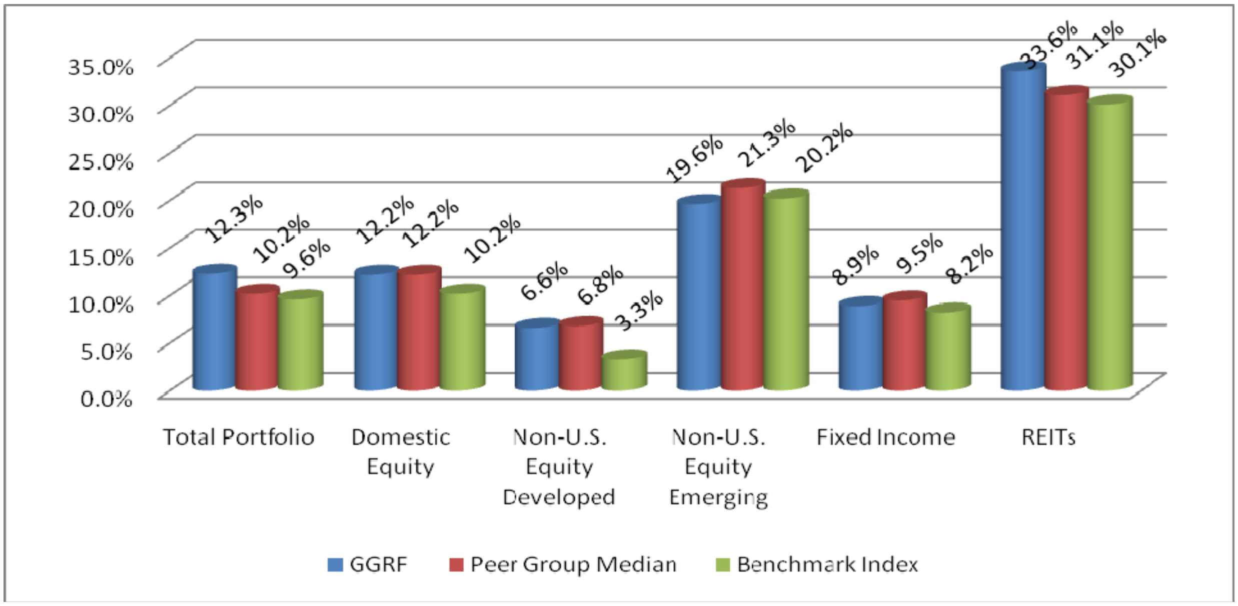
To come into compliance with the asset allocation strategy, the Board in 2010 fully funded the Real Estate Investment Trust (REITs) mandates. GGRF's target allocation versus the market allocation as of September 30, 2010, is as follows:

| | Target Allocation (Adopted in 2010) | Market Allocation | Over/(Under) Target Allocation |
|---|---|---|---|
| Domestic Large Cap Equity | 30% | 32.19% | 2.19% |
| Domestic Small Cap Equity | 10% | 5.72% | -4.28% |
| International Developed Markets | 9.25% | 11.60% | 2.35% |
| International Small Cap | 5% | 3.41% | -1.59% |
| International Emerging Markets | 5.75% | 5.67% | -0.08% |
| Fixed Income Aggregate | 30% | 29.67% | -0.33% |
| Real Estate (REITs) | 10% | 11.74% | 1.74% |
| **Total** | 100% | 100% | 0.00% |

## (3) Defined Benefit Plan, continued

**Total Portfolio Return**
In 2010, GGRF outperformed the median of a peer group of other U.S. based public funds and the benchmark index. GGRF ranked in the top quintile (25%) of the Public Funds Universe, outperforming 86% of other public funds, with a positive return of 12.3%.

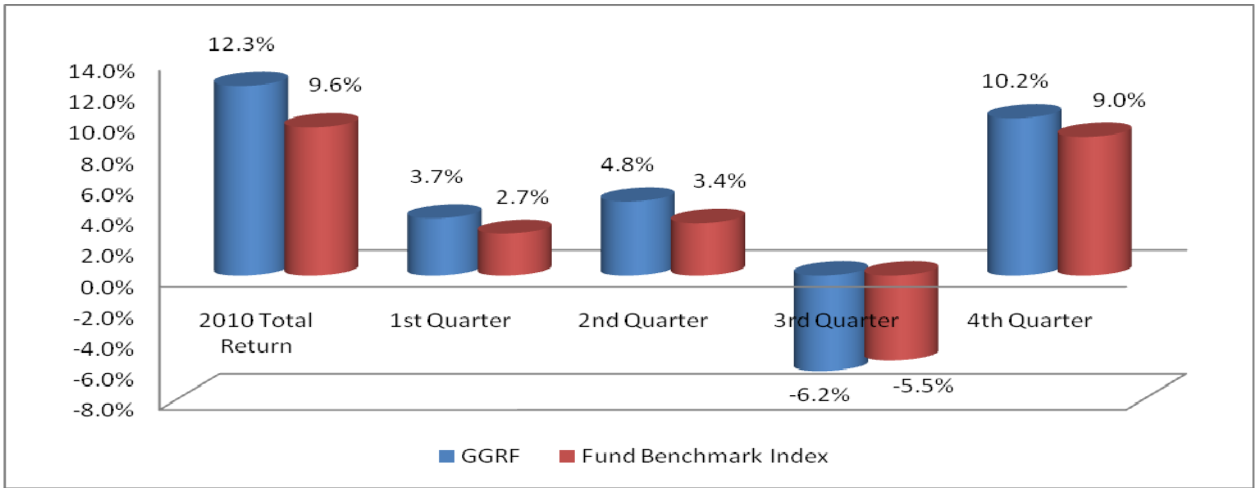
The following reflects the 2010 investment performance for the total portfolio, and for each investment mandate.



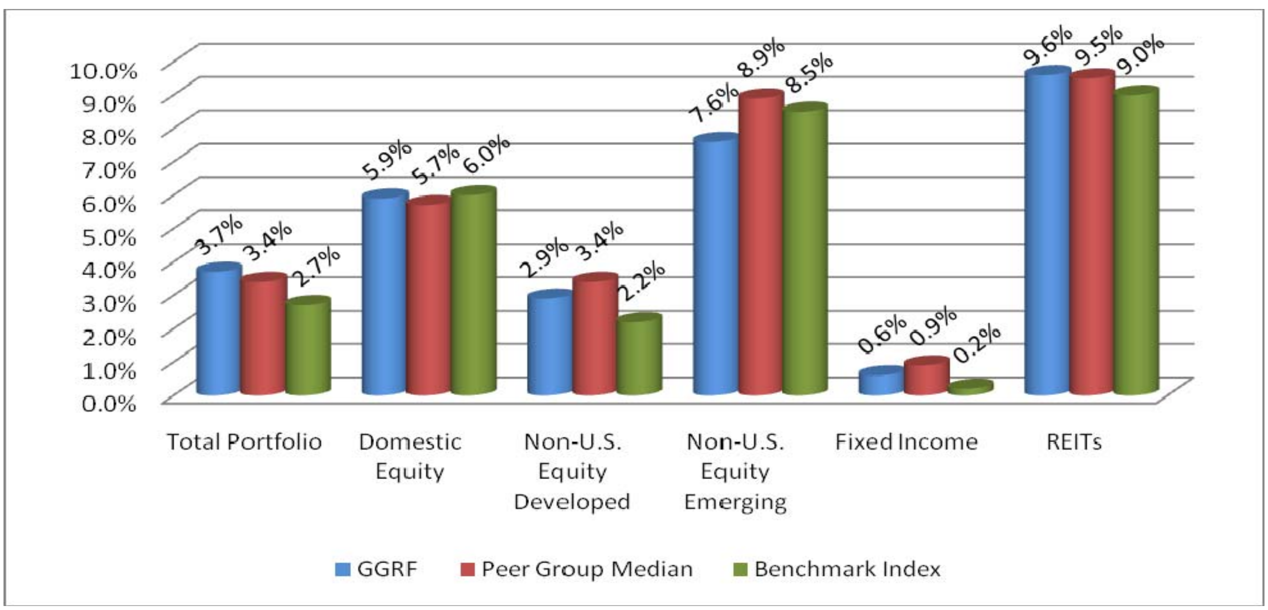

**Portfolio Returns by Mandate**
The domestic equity portfolio return of 12.2% was equal to its benchmark. The non-US equity developed, fixed income and REITs portfolio returns of 6.6%, 8.9% and 33.6%, respectively, were above their benchmark returns of 3.3%, 8.2% and 30.1%, respectively. The non-US equity emerging market portfolio return of 19.6% was below its benchmark return of 20.2%.

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

**2010 Portfolio Returns by Quarter**
The following reflects the 2010 total and quarterly returns.

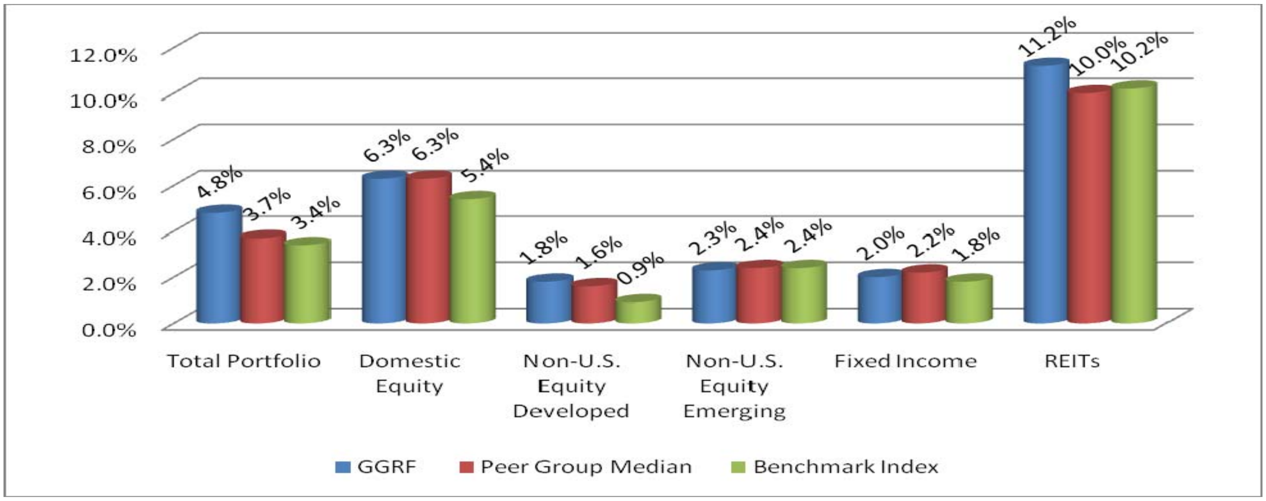



- During the **first quarter** of 2010, the total performance of the GGRF Portfolio was above both the median of a peer group of other U.S. based public funds and the benchmark index. The non-U.S. equity developed, fixed income and REITs portfolios were ahead of their respective benchmarks. The domestic equity and non-U.S. equity emerging market portfolios trailed their benchmarks.

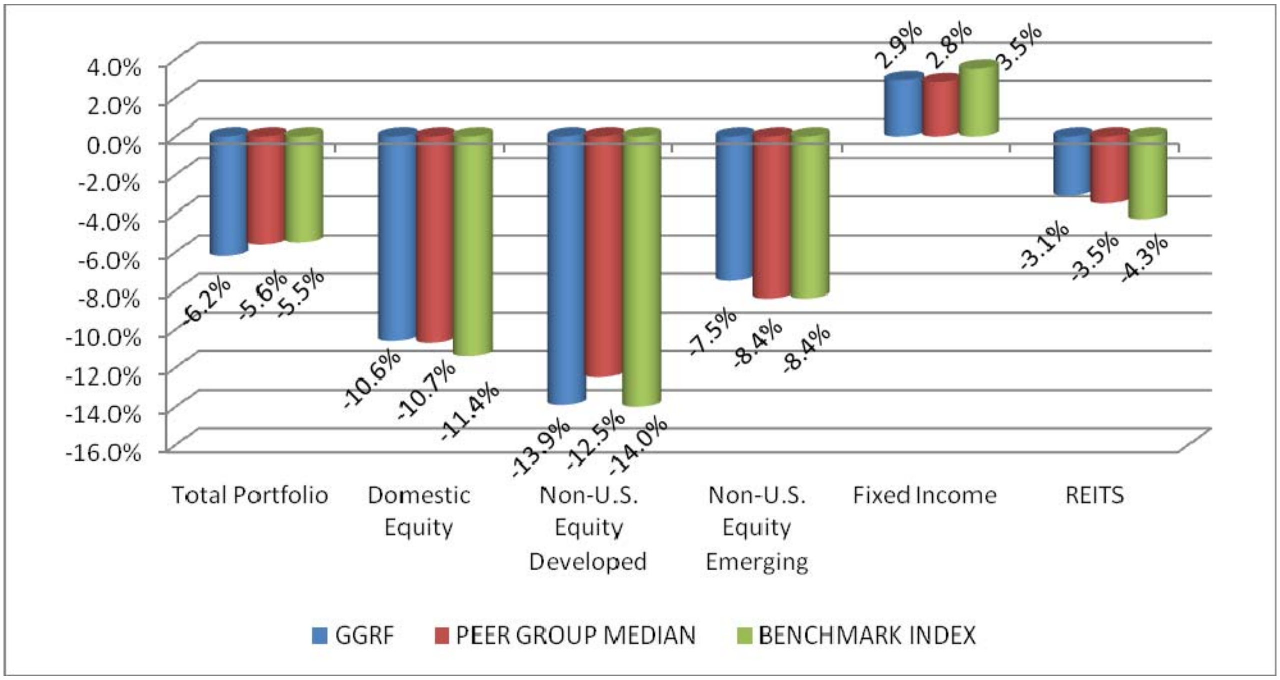


**(3) Defined Benefit Plan, continued**

- During the **second quarter**, the GGRF portfolio outperformed the median of a peer group of other U.S. based public funds, and the benchmark index. With the exception of the non-U.S. emerging market portfolio all mandates were ahead of their benchmarks.

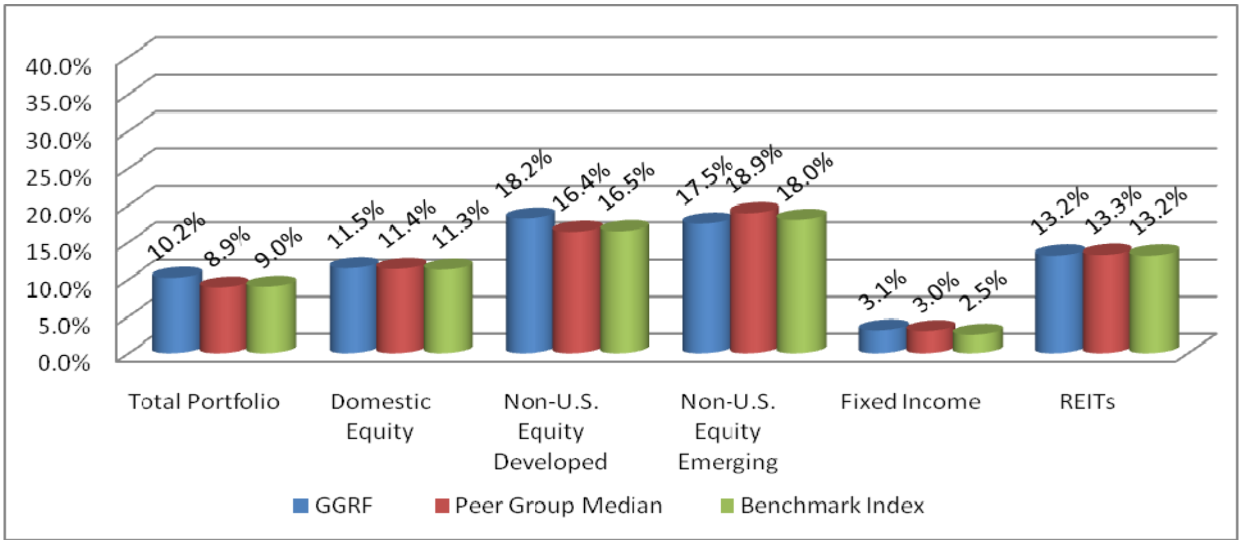



- During the **third quarter**, performance of the GGRF portfolio trailed the median of a peer group of other U.S. based public funds and the benchmark index. With the exception of the fixed income portfolio, all others were ahead of their benchmark index.



## (3) Defined Benefit Plan, continued

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




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

As reflected in the preceding graphs and the total portfolio return of 12.3%, the 2010 quarterly returns highlight the long-term proven success of strategic asset allocation and diversification in mitigating market volatility. The 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 the Fund's investment consultant, Mercer Investment Consulting, Inc., consistently evaluates the relative performance of each mandate and individual managers, and rebalances the portfolio accordingly.

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

**Additions and Deductions to DB Plan Net Assets** for the years ended September 30, 2010, 2009 and 2008 are as follows (in millions):

| | 2010 | 2009 | 2008 | $ Increase (Decrease) from 2009 to 2010 | % Increase (Decrease) from 2009 to 2010 |
|---|---|---|---|---|---|
| Net Appreciation in Fair Value of Investments | $ 108.8 | $ 31.7 | $ (241.8) | $ 77.1 | 243.2% |
| Interest, Dividends & Other Investment Income | 40.5 | 56.5 | 53.8 | (16.0) | -28.3% |
| Less Investment Expenses | (3.6) | (2.9) | (3.5) | (0.7) | 24.1% |
| **Net Investment Income** | **145.7** | **85.3** | **(191.5)** | **60.4** | **70.8%** |
| | | | | | |
| Employer Contributions | 97.7 | 89.5 | 83.2 | 8.2 | 9.2% |
| Member Contributions | 18.0 | 18.6 | 18.4 | (0.6) | -3.2% |
| **Total Contributions** | **115.7** | **108.1** | **101.6** | **7.6** | **7.0%** |
| | | | | | |
| **Total Additions** | **261.4** | **193.4** | **(89.9)** | **68.0** | **35.2%** |
| | | | | | |
| Benefit Payments | 173.8 | 171.5 | 168.7 | 2.3 | **1.3%** |
| Refunds | 4.2 | 5.9 | 5.9 | (1.7) | **-28.8%** |
| Administrative Expenses | 2.7 | 2.9 | 3.1 | (0.2) | **-6.9%** |
| Bad Debt Recovery | 0.0 | (4.0) | (0.1) | 4.0 | **-100.0%** |
| **Total Deductions** | **180.7** | **176.3** | **177.6** | **4.4** | **2.5%** |
| | | | | | |
| **Net Increase (Decrease) in Net Assets** | **$ 80.7** | **$ 17.1** | **$ (267.5)** | | |

**Additions to DB Plan Net Assets**

Due to the rebounding of the financial markets in 2010 the fair value of investments increased by $77.1M.

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

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

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

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

During 2010, the employer contribution rate increased to 26.04% from the 25.20% employer contribution rate in 2009, resulting in an $8.2 million increase in employer contributions.

## Deductions to DB Plan Net Assets

GGRF was created to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, elective refunds of contributions to employees who terminate employment, and the cost of administering the Plan. Deductions for 2010 totaled $180.7 million, an increase of 4.4% over 2009.

Benefit payments to current retirees and their beneficiaries over the last three years averaged 96%. For 2010, benefit payments increased by $2.3 million or 1.3% over 2009. 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 2010 member refunds decreased by $1.7 million. Refunds of member accounts are at the discretion of the member, and vary from year to year.

Administrative expenses totaled $2.7 million, a decrease of 6.9% over 2009.

## (3) Defined Benefit Plan, continued

**DB Plan membership** as of September 30, 2010, 2009 and 2008 is as follows:

| | 2010 | 2009 | 2008 | Increase (Decrease) from 2009 to 2010 | % Inc. (Dec.) from 2009 to 2010 |
|---|---|---|---|---|---|
| Retirees and Beneficiaries Receiving Benefits | 7,112 | 7,085 | 7,037 | 27 | -0.38% |
| Terminated Members entitled to, but not yet Receiving Benefits | 6,525 | 6,634 | 6,738 | (109) | -1.64% |
| Active Plan Members | 3,732 | 3,952 | 4,061 | (220) | -5.57% |
| **Total Membership** | **17,369** | **17,671** | **17,836** | **(302)** | **-1.71%** |

**Liquidations**
During 2010, $54.3 million in investments were liquidated in order to meet benefit payment obligations, compared to $47.0 million in 2009. The $54.3M and $47.0M included $35.1M and $29M of interest and dividend income, respectively.

The $7.3 million increase in 2010, is due the utilization of $8 million of the $21 million in Bond Proceeds to meet benefit payment obligations during 2009.

## (4) Defined Contribution Plan

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

**DC Plan Net Assets** as of September 30, 2010, 2009 and 2008 are as follows (in millions):

| | 2010 | 2009 | 2008 | $ Increase (Decrease) from 2009 to 2010 | % Increase (Decrease) from 2009 to 2010 |
|---|---|---|---|---|---|
| Cash and Equivalents | $ 2.9 | $ 3.1 | $ 2.6 | $ -0.2 | -6.5% |
| Receivables | 1.3 | 1.4 | 1.4 | -0.1 | -7.1% |
| Investments | 222.2 | 187.2 | 161.8 | 35 | 18.7% |
| Property and Equipment | 0.1 | - | - | - | - |
| **Total Assets** | **226.5** | **191.7** | **165.8** | **34.8** | **18.2%** |
| Total Liabilities | 1.1 | 0.5 | 0.8 | 0.6 | 120.0% |
| **Net Assets, End of Year** | **225.4** | **191.2** | **165.0** | **34.2** | **17.9%** |
| Net Assets, Beginning of Year | 191.2 | 165.0 | 178.3 | | |

| | | | |
|---|---|---|---|
| **Net Increase (Decrease) in Net Assets** | **$ 34.2** | $ **26.2** | $ **-13.3** |

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

During 2009, DC Plan net assets increased by approximately $34.2 million or 17.9%, due to the increased carrying value of investments resulting from the rebounding of the investment market environment.

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. During 2010, GGRF replaced the life cycle funds with the BlackRock LifePath Portfolios (Target Date Funds) and added an actively managed Treasury Inflation-Protected Securities (TIPS Fund).

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

**Additions and Deductions to DC Plan Net Assets** for the years ended September 30, 2010, 2009 and 2008 are as follows (in millions):

| | **2010** | **2009** | **2008** | **$ Increase (Decrease) from 2009 to 2010** | **% Increase (Decrease) from 2009 to 2010** |
|---|---|---|---|---|---|
| Net Appreciation in Fair Value of Investments | $ 15.0 | $ 8.9 | $ (32.0) | $ 6.1 | 68.5% |
| Interest, Dividends & Other Investment Income | 2.6 | 1.6 | 6.7 | 1.0 | 62.5% |
| **Net Investment Income** | **17.6** | **10.5** | **(25.3)** | 7.1 | **67.6%** |
| **Employer and Employee Contributions** | **26.0** | **24.1** | **23.3** | 1.9 | 7.9% |
| | | | | | |
| **Total Additions** | **43.6** | **34.6** | **(2.0)** | 9.0 | **26.0%** |
| | | | | | |
| Refunds | 7.8 | 6.8 | 9.4 | 1.0 | **14.7%** |
| Administrative Expenses | 1.6 | 1.6 | 1.9 | 0.0 | **-** |
| **Total Deductions** | **9.4** | **8.4** | **11.3** | 1.0 | **11.9%** |
| | | | | | |
| **Net Increase (Decrease) in Net Assets** | **$ 34.2** | **$ 26.2** | **$ (13.3)** | **$** 8.0 | **30.5%** |

## (4) Defined Contribution Plan, continued

### Additions to DC Plan Net Assets

During 2010, employer and employee contributions increased by $1.9 million or 7.9% over 2009. The increase in contributions is due largely to the increase in the number of DC Plan participants during 2010.

### Deductions to DC Plan Net Assets

During 2010, refunds totaled $7.8 million, an increase of 14.7% from 2009. Refunds of member contributions are at the discretion of the member and vary from year to year.

## (5) Future Outlook

### Defined Benefit Plan

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

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

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

### The Defined Contribution Plan

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

**GOVERNMENT OF GUAM RETIREMENT FUND**

Statement of Plan Net Assets

September 30, 2010 and 2009

| ASSETS | Defined Benefit | Defined Contribution | Total 2010 | Total 2009 |
|---|---|---|---|---|
| Investments, at fair value: | | | | |
| Common and preferred stocks | $ 684,028,213 | - | 684,028,213 | 557,712,039 |
| U.S. Government securities | 168,578,770 | - | 168,578,770 | 196,463,854 |
| Corporate bonds and notes | 192,887,162 | - | 192,887,162 | 210,626,549 |
| Money market funds | 21,269,147 | - | 21,269,147 | 22,526,943 |
| Mutual funds | 113,818,273 | 216,990,166 | 330,808,439 | 359,112,042 |
| DC plan forfeitures | - | 5,229,966 | 5,229,966 | 5,048,457 |
| Total investments | 1,180,581,565 | 222,220,132 | 1,402,801,697 | 1,351,489,884 |
| Receivables: | | | | |
| Contributions, Interest & Penalties: | | | | |
| Supplemental/COLA benefits receivable | 67,636,261 | - | 67,636,261 | 72,993,528 |
| Employer contributions, net | 10,353,465 | 565,541 | 10,919,006 | 10,899,792 |
| Member contributions | 4,576,642 | 565,506 | 5,142,148 | 5,135,624 |
| Interest and penalties on contributions | 1,097,393 | - | 1,097,393 | 232,941 |
| Receivable - ERIP employer's share | 15,227 | - | 15,227 | 269,915 |
| Supplemental/Insurance benefits advanced | 3,511,711 | - | 3,511,711 | 4,311,138 |
| | 87,190,699 | 1,131,047 | 88,321,746 | 93,842,938 |
| Member Notes: | | | | |
| Early Retirement Incentive Program (ERIP) | 4,761,094 | - | 4,761,094 | 5,947,312 |
| Service Credits | 1,527,200 | - | 1,527,200 | 2,285,674 |
| | 6,288,294 | - | 6,288,294 | 8,232,986 |
| Other: | | | | |
| Accrued interest and dividends on investments | 4,461,187 | - | 4,461,187 | 4,426,240 |
| Other receivables | 3,580,301 | 131,437 | 3,711,738 | 3,203,448 |
| Due from brokers for unsettled trades | 74,234,246 | - | 74,234,246 | 6,045,882 |
| Due from DC plan | 583,036 | - | 583,036 | 274,244 |
| | 82,858,770 | 131,437 | 82,990,207 | 13,949,814 |
| Total receivables | 176,337,763 | 1,262,484 | 177,600,247 | 116,025,738 |
| Cash and cash equivalents | 1,672,894 | 2,922,465 | 4,595,359 | 5,983,073 |
| Prepaid expenses | 40,542 | - | 40,542 | 19,835 |
| Property and equipment | 1,034,371 | 138,587 | 1,172,958 | 964,374 |
| Total assets | 1,359,667,135 | 226,543,668 | 1,586,210,803 | 1,474,482,904 |
| LIABILITIES | | | | |
| Deferred revenue for service credits | 6,852,502 | - | 6,852,502 | 8,965,445 |
| Accounts payable and accrued expenses | 1,575,250 | 545,254 | 2,120,504 | 3,627,108 |
| Due to brokers for unsettled trades | 4,787,206 | - | 4,787,206 | 4,666,581 |
| Due to DB plan | - | 583,036 | 583,036 | 274,244 |
| Total liabilities | 13,214,958 | 1,128,290 | 14,343,248 | 17,533,378 |
| Net assets held in trust for pension benefits (See required supplemental schedule of funding progress) | $ 1,346,452,177 | 225,415,378 | 1,571,867,555 | 1,456,949,526 |

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

**GOVERNMENT OF GUAM RETIREMENT FUND**

Statement of Changes in Plan Net Assets

Years ended September 30, 2010 and 2009

| | Defined Benefit | Defined Contribution | Total 2010 | Total 2009 |
|---|---|---|---|---|
| **Investment income** | | | | |
| Net appreciation (decline) in fair value of investments | $ 108,837,367 | 15,033,002 | 123,870,369 | 40,672,310 |
| Interest | 26,991,531 | 2,175,555 | 29,167,086 | 44,065,317 |
| Dividends | 12,761,512 | - | 12,761,512 | 10,381,191 |
| Other investment income | 780,665 | 448,502 | 1,229,167 | 3,670,634 |
| | 149,371,075 | 17,657,059 | 167,028,134 | 98,789,452 |
| Less investment expenses | 3,615,702 | 48,000 | 3,663,702 | 2,933,886 |
| **Net investment income** | 145,755,373 | 17,609,059 | 163,364,432 | 95,855,566 |
| **Contributions** | | | | |
| Employer | 97,732,952 | 13,064,853 | 110,797,805 | 101,585,655 |
| Member | 18,020,144 | 12,980,904 | 31,001,048 | 30,618,797 |
| **Total contributions** | 115,753,096 | 26,045,757 | 141,798,853 | 132,204,452 |
| **TOTAL ADDITIONS** | 261,508,469 | 43,654,816 | 305,163,285 | 228,060,018 |
| **Benefit payments** | | | | |
| Age and service annuities | 146,781,373 | - | 146,781,373 | 145,113,609 |
| Survivor annuities | 19,265,554 | - | 19,265,554 | 18,346,271 |
| Disability annuities | 7,761,618 | - | 7,761,618 | 8,048,239 |
| **Total benefit payments** | 173,808,545 | - | 173,808,545 | 171,508,119 |
| **Refunds to separated employees and withdrawals** | 2,871,814 | 7,837,201 | 10,709,015 | 10,866,189 |
| **Administrative and general expenses** | 2,778,942 | 1,585,959 | 4,364,901 | 4,579,453 |
| **Interest on refunded contributions** | 1,362,795 | - | 1,362,795 | 1,866,299 |
| **Balances transferred to DC plan** | 6,836 | (6,836) | - | - |
| **Recovery of bad debt - GMHA** | - | - | - | (4,095,893) |
| **TOTAL DEDUCTIONS** | 180,828,932 | 9,416,324 | 190,245,256 | 184,724,167 |
| Net increase (decrease) in plan net assets | 80,679,537 | 34,238,492 | 114,918,029 | 43,335,851 |
| Net assets held in trust for pension benefits, beginning of year | 1,265,772,640 | 191,176,886 | 1,456,949,526 | 1,413,613,675 |
| Net assets held in trust for pension benefits, end of year | $1,346,452,177 | 225,415,378 | 1,571,867,555 | 1,456,949,526 |

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

## (1) Description of the Fund

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

### Purpose

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

## (2) Description of the Defined Benefit Plan

### Membership

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

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

## (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, 2009, the latest actuarial valuation date, membership is as follows:

| | |
|---|---|
| Retirees and beneficiaries receiving benefits | 7,112 |
| Terminated members entitled to, but not yet receiving benefits | 6,525 |
| Active plan members | 3,732 |
| | 17,369 |

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, 2009, which was issued in May 2010, the actuarially determined contribution rate for the fiscal year ended September 30, 2009 was 28.06% of covered payroll.

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

The established statutory rate at September 30, 2010 and 2009 was 26.04% and 25.20%, respectively, of covered payroll.

## (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.

## (2) Description of the Defined Benefit Plan, continued

Disability

Members under the age of 65 with six or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty six and two-thirds percent (66-2/3%) of the average of their three highest annual salaries received during years of credited service.

Survivor

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

1. Spouse – annual benefit is equal to fifty percent (50%) of the disability or service retirement benefit earned by the member.

2. Minor children – Basic benefit is $2,160 per year for a minor child up to 18 years of age (age 24 if a full-time student).

Separation from the DB Plan

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

A member who withdraws after completing at least 5 years of service has the option of leaving contributions in the GGRF and receiving a service retirement benefit upon attainment of the age of 60 years.

## (3) Description of the Defined Contribution Retirement System

Purpose

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

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

Membership

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

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

Contributions

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

Separation from the DCRS

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

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

## (4) Summary of Significant Accounting Policies

Method of Accounting

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

## (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, 2010 and 2009 are accrued.

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

### Estimates

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

### Encumbrances

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

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

### Cash

At September 30, 2010 and 2009, the GGRF has cash balances in banks of approximately $6.1 million and $6.7 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.

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

Investments

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

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

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

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

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

A. Investment managers may invest in U.S. and non-U.S. common stocks, American Depository 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.

## (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.

## (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.

**(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.

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

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

Income Taxes

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

Actuarial Present Value of Accumulated Plan Benefits

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

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

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

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

| | |
|---|---|
| Actuarial Cost Method: | Entry age normal |
| Valuation of Assets: | 3-year phase in of gains/losses relative to interest rate assumption. |

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

| | |
|---|---|
| Investment Income: | 7% per year. |
| Salary Increase: | Graded based on service with the Government ranging from 4.0% for service in excess of 20 years to 8.5% for service from zero to five years |
| Total Payroll Growth: | 3.5% |
| Expenses: | $5,729,000 per year, net of bad debts and recoveries |
| Mortality: | 1994 RP 2000 Healthy table set forward 3 years for males and set forward 1 year for females |
| Disability: | 1974-78 SOA LTD Non-Jumbo |
| Retirement Age: | 50% probability of retirement at earliest age of eligibility for unreduced retirement benefits; 20% per year thereafter until age 70, 100% at age 70 |
| Return of Contributions: | 100% withdrawing before retirement with less than 20 years of service assumed to elect a return of contributions. All those who have previously withdrawn assumed to elect a return of contributions. Contributions earn 4.5% interest. |
| Amortization Method: | Constant percentage of total payroll, which is assumed to grow at 3.5% per year. |
| Amortization Period: | In accordance with 4GCA8137, complete funding is to be achieved by April 30, 2031. At September 30, 2010 the remaining period is 21.58 years. |

New Accounting Standards

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

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

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

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

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

Depreciation

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

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

Administrative expenses include depreciation and amortization expense of $68,589 and $71,651 in 2010 and 2009, respectively.

## (5) Deposit and Investment Risk Disclosure

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

Cash and investments as of September 30, 2010 are classified in the accompanying statement of plan net assets as follows:

| | DB Plan | DC Plan |
|---|---|---|
| Cash and cash equivalents | $ 1,672,894 | 2,922,465 |
| Common stocks | 684,028,213 | - |
| U.S. government securities | 168,578,770 | - |
| Corporate bonds and notes | 192,887,162 | - |
| Money market funds | 21,269,147 | - |
| Mutual funds | 113,818,273 | 222,220,132 |
| Total cash and investments | $ 1,182,254,459 | 225,142,597 |

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

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

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.

## (5) Deposit and Investment Risk Disclosure, continued

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the Fund's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Fund's DB plan investments at September 30, 2010 by maturity:

| | Remaining Maturity in Years | | | | |
|---|---|---|---|---|---|
| Investment Type | Less than 1 | 1 to 5 | 6 to 10 | Greater than 10 | Total |
| U.S. Treasury securities | $ - | 7,352,832 | - | 196,789 | 7,549,621 |
| Federal Agency securities | 15,681,692 | 37,719,499 | 21,467,858 | 77,467,223 | 152,336,272 |
| Corporate bonds and notes | 9,488,009 | 56,120,781 | 77,421,900 | 58,549,349 | 201,580,039 |
| Totals | $ 25,169,701 | 101,193,112 | 98,889,758 | 136,213,361 | 361,465,932 |

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.

## (5) Deposit and Investment Risk Disclosure, continued

At September 30, 2010, the Fund held mortgage-backed securities valued at approximately $80 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, 2010 for each investment type.

| Investment Type | Minimum Legal Rating | Amount | Rating as of Year End |
|---|---|---|---|
| U.S. Treasury securities | N/A | $ 72,112,154 | Exempt from disclosure |
| Federal agency securities | N/A | 96,466,616 | Exempt from disclosure |
| Money market funds | A-2 | 21,269,147 | AAAm |
| Corporate medium term notes and | BBB | 27,423,637 | Aaa |
| U.S. Municipal Obligations | | 33,348,292 | Aa1-Aa3 |
| | | 87,029,507 | A1-A3 |
| | | 19,042,598 | Baa1-Baa3 |
| | | 26,043,128 | Not rated/cash |
| | | $ 382,735,079 | |

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, 2010, 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.

## (5) Deposit and Investment Risk Disclosure, continued

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2010, the Fund held approximately $5.1 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, 2010:

| | |
|---|---|
| Canada | $ 1,985,000 |
| United Kingdom | 1,777,000 |
| Netherlands | 1,317,000 |
| Total | $ 5,079,000 |

At September 30, 2010, 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, 2010 was approximately $74 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, 2010:

| | |
|---|---|
| Euros | $ 32 million |
| Japanese Yen | 13 |
| Swiss Franc | 7 |
| British Pound | 8 |
| Others – 9 countries | 14 |
| Total | $ 74 million |

## (5) Deposit and Investment Risk Disclosure, continued

Custodial Credit Risk

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

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

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

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

## (6) Related Party Transactions

At September 30, 2010 and 2009, the Fund was owed employer and member contributions, interest and penalties receivable by various Government of Guam agencies. At September 30, 2010 and 2009, employer contributions receivable totaled $10,919,006 and $10,899,792, respectively; member contributions receivable totaled $5,142,148 and $5,135,624, respectively; and interest and penalties receivable totaled $1,097,393 and $232,941, respectively.

## (6) Related Party Transactions, continued

A significant portion of the employer and member contributions receivable represent amounts due from the Guam Department of Education (GDOE) and Guam Memorial Hospital Authority (GMHA) for various pay periods during the fiscal years ended September 30, 1988 through 2004. For GDOE, the remaining balance represents contributions for the last pay period in September 2010. For GMHA, the remaining balance represents contributions for pay periods in August and September 2010.

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

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

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

At September 30, 2010 and 2009, contributions receivable from GDOE (including interest and penalties) totaled approximately $7.4M and $7.3M, respectively. At September 30, 2010 and 2009, contributions receivable from GMHA (including interest and penalties) totaled approximately $6.1M and $5.4M, respectively.

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

During the fiscal years ended September 30, 2010 and 2009, GGRF received payments pursuant to P.L. 28-38 totaling $2,315,460 and $2,286,012 for GDOE and GMHA, respectively.

## (6) Related Party Transactions, continued

Public Law 30-196, passed in September 2010, further amended Public Law 28-38, requiring that effective October 2010, the Department of Administration compute and recognize interest owed for both the GDOE and GMHA equal to the outstanding liability multiplied by one twelfth (1/12) of the most recent historical five (5) year average annual rate of return of the defined benefit plan investment portfolio, inclusive of performance which yielded negative returns.

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

During 2008, GGRF collected $632,811, from GMHA on the note receivable. As of September 30, 2008, the balance on the note was $4,095,893 for which a 100% reserve was provided. As of September 30, 2008, related interest and penalties on the note totaled $1,921,826. However, since a 100% reserve was provided for the note receivable these interest and penalties were not recorded.

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

## (7) Property, Equipment and Land

Property, equipment and land at September 30, 2010 and 2009 were as follows:

| | 2010 | 2009 |
|---|---|---|
| Building | $ 1,149,587 | 1,149,587 |
| Improvements | 657,899 | 657,899 |
| Land | 439,428 | 439,428 |
| Equipment | 388,892 | 111,719 |
| Automobiles | 23,523 | 23,523 |
| Furniture and fixtures | 15,887 | 15,887 |
| Other | 7,000 | 7,000 |
| | 2,682,216 | 2,405,043 |
| Less: Accumulated depreciation | (1,509,258) | (1,440,669) |
| | $ 1,172,958 | 964,374 |

## (8) Supplemental Annuities and COLA Payments

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

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

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

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

Beginning in fiscal year 2000, the receivable for supplemental annuities and COLA payments is being reduced by a portion of the employer contributions received. The percentage used for fiscal years 2010 and 2009 was 1.2016% of covered payroll.

At September 30, 2010 and 2009 the GGRF had Supplemental/COLA benefits receivable of $67,636,261 and $72,993,528, 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.

## (8) Supplemental Annuities and COLA Payments, continued

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

| | Additions | Reductions | Ending Balance |
|---|---|---|---|
| **Fiscal year 1999** | | | |
| Payment of benefits by GGRF | $ 31,400,000 | - | |
| Collections | - | (4,500,000) | |
| Gov Guam Appropriation | | (12,000,000) | 14,900,000 |
| **Fiscal year 2000** | | | |
| Payment of benefits by GGRF | 32,300,000 | - | |
| Reallocation P.L. 25-72 | 12,000,000 | - | |
| Collections | - | (4,300,000) | 54,900,000 |
| **Fiscal year 2001** | | | |
| Payment of benefits by GGRF | 34,000,000 | - | |
| Collections | - | (4,700,000) | 84,200,000 |
| **Fiscal year 2002** | | | |
| Payment of benefits by GGRF | 27,500,000 | - | |
| Collections | - | (3,600,000) | 108,100,000 |
| **Fiscal year 2003** | | | |
| Collections | - | (4,400,000) | 103,700,000 |
| **Fiscal year 2004** | | | |
| Collections | - | (7,200,000) | 96,500,000 |
| **Fiscal year 2005** | | | |
| Collections | - | (4,300,000) | 92,200,000 |
| **Fiscal year 2006** | | | |
| Collections | - | (4,600,000) | 87,600,000 |
| **Fiscal year 2007** | | | |
| Collections | - | (4,600,000) | 83,000,000 |
| **Fiscal year 2008** | | | |
| Collections | - | (5,000,000) | 78,000,000 |
| **Fiscal year 2009** | | | |
| Collections | - | (5,100,000) | 72,900,000 |
| **Fiscal year 2010** | | | |
| Collections | - | (5,300,000) | 67,600,000 |
| Total Additions & Deductions | $ 137,200,000 | (69,600,000) | |

## (9) Early Retirement Incentive Program (ERIP)

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

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

The time allowed for making the election and retiring was from December 30, 1998 to January 7, 2000. During this period, approximately eight hundred (800) members elected to participate in this program and signed promissory notes totaling nearly $15 million. At September 30, 2010 and 2009, the amount owed under these notes was $4,761,094 and $5,947,312 respectively. There is a corresponding deferred revenue account to offset these notes receivable, since contribution income is recognized on a cash basis as amounts are collected from the retirees.

The government's share of these required contributions has been recognized in the accompanying statement of plan net assets as "Receivable – ERIP employer's share" and amounted to $15,227 and $269,915 at September 30, 2010 and 2009, respectively. This receivable is offset by deferred revenue in an equal amount. Contribution income is recognized on a cash basis as amounts are collected from the employer agencies.

The receivable for the government's share of required contributions is being reduced by a portion of the employer contributions received. The statutory percentage for fiscal years 2010 and 2009 was 1.31% of covered payroll.

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

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

At September 30, 2010 and 2009, the GGRF had $3,511,711 and $4,311,138 respectively in Supplemental/insurance benefits receivable from four Government of Guam agencies.

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

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

These benefits are as follows:

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

## (11) Funded Status

As of the most recent actuarial valuation (September 30, 2009), the DB plan had the following funded status:

| | |
|---|---|
| Actuarial value of assets | $ 1,294,604,000 |
| Actuarial accrued liability (AAL) | 2,738,765,000 |
| Unfunded actuarial accrued liability (UAAL) | $ 1,444,161,000 |
| Funded ratio | 47.27% |
| Annual covered payroll | $ 438,606,000 |
| UAAL as a percentage of covered payroll | 329.3% |

**(11) Funded Status, continued**

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

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

**(12) Risk Management**

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

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

**(13) Subsequent Events**

The market value of the Fund's invested assets in the DB plan increased from $1.181 billion at September 30, 2010 to approximately $1.323 billion at December 31, 2010. This is an increase of $142 million or about 12%. DC plan assets increased from $222.2 million at September 30, 2010 to $241.6 million at December 31, 2010. This is an increase of $19.4 million or about 9%.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Schedule of Funding Progress

September 30, 2010

| Actuarial Valuation as of September 30 | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a percentage of covered payroll |
|---|---|---|---|---|---|---|
| 1991 | $ 532,031,000 | $ 1,151,610,000 | $ 619,579,000 | 46.2% | $ 321,580,393 | 192.7% |
| 1992 | 617,737,000 | 1,290,724,000 | 672,987,000 | 47.9% | 345,240,093 | 194.9% |
| 1993 | 703,443,000 | 1,429,839,000 | 726,396,000 | 49.2% | 368,899,793 | 196.9% |
| 1994 | 784,229,000 | 1,423,514,000 | 639,285,000 | 55.1% | 362,944,815 | 176.1% |
| 1995 | 865,014,000 | 1,417,190,000 | 552,176,000 | 61.0% | 356,989,837 | 154.7% |
| 1996 | 1,039,360,000 | 1,621,029,000 | 581,669,000 | 64.1% | 373,494,919 | 155.7% |
| 1997 | 1,213,706,000 | 1,824,868,000 | 611,162,000 | 66.5% | 390,000,000 | 156.7% |
| 1998 | 1,287,157,000 | 1,770,852,000 | 483,695,000 | 72.7% | 407,550,000 | 118.7% |
| 1999 | 1,346,205,000 | 2,096,617,000 | 750,412,000 | 64.2% | 363,710,950 | 206.3% |
| 2000 | 1,348,761,000 | 2,126,150,000 | 777,389,000 | 63.4% | 374,551,304 | 207.6% |
| 2001 | 1,265,001,000 | 2,333,862,000 | 1,068,861,000 | 54.2% | 403,061,000 | 265.2% |
| 2002 | 1,135,666,000 | 2,378,399,000 | 1,242,733,000 | 47.7% | 395,967,000 | 313.8% |
| 2003 | 1,206,911,000 | 2,614,840,000 | 1,407,929,000 | 46.2% | 398,112,000 | 353.7% |
| 2004 | 1,245,305,000 | 2,599,747,000 | 1,354,442,000 | 47.9% | 365,592,000 | 370.5% |
| 2005 | 1,293,564,000 | 2,583,366,000 | 1,289,802,000 | 50.1% | 368,712,000 | 349.8% |
| 2006 | 1,320,914,000 | 2,656,047,000 | 1,335,133,000 | 49.7% | 389,786,000 | 342.5% |
| 2007 | 1,448,655,000 | 2,682,118,000 | 1,233,463,000 | 54.0% | 390,246,000 | 316.1% |
| 2008 | 1,210,960,000 | 2,718,664,000 | 1,507,704,000 | 44.5% | 425,781,000 | 354.1% |
| 2009 | 1,294,604,000 | 2,738,765,000 | 1,444,161,000 | 47.3% | 438,606,000 | 329.3% |

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Schedule of Employer Contributions

September 30, 2010

| Year ended September 30 | Annual Required Contribution | Actual Employer Contribution | Percentage Contributed |
|---|---|---|---|
| 1991 | $ 83,988,000 | $ 51,612,000 | 61.5% |
| 1992 | 88,187,000 | 54,111,000 | 61.4% |
| 1993 | 94,552,000 | 59,117,000 | 62.5% |
| 1994 | 99,280,000 | 80,965,000 | 81.6% |
| 1995 | 67,650,000 | 66,904,000 | 98.9% |
| 1996 | 71,187,000 | 68,969,000 | 96.9% |
| 1997 | 67,521,000 | 81,546,000 | 120.8% |
| 1998 | 61,929,000 | 81,877,000 | 132.2% |
| 1999 | 63,985,000 | 96,134,000 | 150.2% |
| 2000 | 52,463,000 | 85,831,000 | 163.6% |
| 2001 | 75,494,000 | 73,386,000 | 97.2% |
| 2002 | 75,906,000 | 78,087,000 | 102.9% |
| 2003 | 98,630,000 | 63,486,000 | 64.4% |
| 2004 | 115,978,000 | 63,388,000 | 54.7% |
| 2005 | 123,958,000 | 70,658,000 | 57.0% |
| 2006 | 117,041,000 | 85,771,000 | 73.3% |
| 2007 | 113,207,000 | 76,973,000 | 68.0% |
| 2008 | 116,063,000 | 86,806,000 | 74.8% |
| 2009 | 107,009,000 | 92,921,000 | 86.8% |

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Administrative and General Expenses

Years ended September 30, 2010 and 2009

| | Defined Benefit Plan | Defined Contribution Plan | Total 2010 | Total 2009 |
|---|---|---|---|---|
| Salaries and wages | $ 1,138,876 | 429,951 | 1,568,827 | 1,648,253 |
| Third party administrator fees | - | 625,650 | 625,650 | 616,633 |
| Employer's retirement contribution | 295,097 | 111,315 | 406,412 | 408,293 |
| Legal fees | 184,692 | 93,400 | 278,092 | 282,379 |
| Computer program services/maintenance | 218,700 | 24,300 | 243,000 | 243,000 |
| Insurance | 140,527 | 98,865 | 239,392 | 223,689 |
| Bad debt related to notes receivable | 173,997 | - | 173,997 | 168,834 |
| Retiree supplemental/COLA | 126,451 | - | 126,451 | 154,837 |
| Utilities | 46,203 | 49,007 | 95,210 | 99,979 |
| Actuary fees | 42,400 | 31,864 | 74,264 | 212,452 |
| Depreciation | 68,589 | - | 68,589 | 71,651 |
| Postage | 51,076 | 17,056 | 68,132 | 88,755 |
| Travel and transportation | 30,189 | 32,610 | 62,799 | 45,950 |
| Repairs and maintenance | 34,740 | 19,425 | 54,165 | 66,970 |
| Printing and publications | 43,262 | 3,653 | 46,915 | 34,766 |
| Communications | 32,368 | 744 | 33,112 | 32,199 |
| Proxy voting services | 25,000 | - | 25,000 | - |
| Office supplies | 24,195 | 5,297 | 29,492 | 9,117 |
| Audit fees | 21,375 | 7,125 | 28,500 | 28,000 |
| Equipment rental | 16,561 | 8,157 | 24,718 | 20,580 |
| Medicare contribution | 15,419 | 5,821 | 21,240 | 22,327 |
| Board of trustees expenses | 12,978 | 7,208 | 20,186 | 27,613 |
| Training | 11,763 | 5,623 | 17,386 | 12,667 |
| Medical consultant | 8,450 | - | 8,450 | 4,250 |
| Miscellaneous | 7,581 | 8,888 | 16,469 | 42,418 |
| Medical exams | 4,911 | - | 4,911 | 9,081 |
| Computers and software | 3,542 | - | 3,542 | 4,760 |
| | $ 2,778,942 | 1,585,959 | 4,364,901 | 4,579,453 |

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Personnel Costs

Years ended September 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Salaries and wages | $ 1,568,827 | $ 1,648,253 |
| Employer's retirement contribution | 406,412 | 408,293 |
| Medicare contribution | 21,240 | 22,327 |
| | $ 1,996,479 | $ 2,078,873 |
| Average number of employees | 43 | 45 |
| Average cost per employee | $ 46,430 | $ 46,197 |

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, 2010 and 2009

| | Full Time Employees | | |
|---|---|---|---|
| | During FY 2010 | As of September 30, 2010 | Total Salaries & Wages Expended |
| Director's Office | 3 | 3 | $ 150,773 |
| Administrative Services | 6 | 6 | 192,574 |
| Accounting / Investments | 19 | 19 | 732,470 |
| Members and Benefits Services | 15 | 14 | 493,010 |
| | 43 | 42 | $ 1,568,827 |

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

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Other Receivables - Defined Benefit Plan

September 30, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Unfunded liability portion from defined contribution plan | $ 2,855,202 | $ 1,960,589 |
| Benefit overpayments | 492,238 | 548,386 |
| Member rate differential | 211,715 | 208,586 |
| Government contributions for DC plan | 12,032 | 12,032 |
| Other overpayments | 9,114 | 9,114 |
| | $ 3,580,301 | $ 2,738,706 |

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2010

| Agency | Supplemental/ COLA | Employer Contributions | Member Contributions | Interest & Penalties | ERIP Employer's Share | Retiree Supplemental Benefits & Insurance | TOTAL |
|---|---|---|---|---|---|---|---|
| Department of Administration (General Fund) | $ 67,636,261 | 1,299,776 | 491,448 | 239,533 | - | 1,972,414 | 71,639,432 |
| Guam Memorial Hospital Authority | - | 3,939,830 | 1,809,765 | 405,927 | - | 1,507,004 | 7,662,526 |
| Guam Department of Education | - | 4,757,037 | 2,143,178 | 451,933 | - | - | 7,352,148 |
| University of Guam | - | 126,294 | 46,884 | - | - | - | 173,178 |
| Supreme Court of Guam | - | 63,361 | 23,329 | - | - | - | 86,690 |
| Guam Community College | - | 55,594 | 21,063 | - | 15,227 | - | 91,884 |
| Port Authority of Guam | - | 51,057 | 18,779 | - | - | - | 69,836 |
| Guam Airport Authority | - | 41,964 | 15,428 | - | - | - | 57,392 |
| Public Defender Service Corporation | - | 13,348 | 4,870 | - | - | - | 18,218 |
| Guam Power Authority | - | - | - | - | - | 32,293 | 32,293 |
| Guam Visitors Bureau | - | 3,299 | 1,203 | - | - | - | 4,502 |
| Guam Housing Corporation | - | 1,905 | 695 | - | - | - | 2,600 |
| Total | $ 67,636,261 | $ 10,353,465 | $ 4,576,642 | $ 1,097,393 | $ 15,227 | $ 3,511,711 | $ 87,190,699 |

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2009

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

See accompanying independent auditors' report.

BURGER & COMER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

# 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 the financial statements of the Government of Guam Retirement Fund as of and for the years ended September 30, 2010 and 2009, and have issued our report thereon dated February 11, 2011. 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.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Government of Guam Retirement Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government of Guam Retirement Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government of Guam Retirement Fund's internal control over financial reporting.

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 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

P.O. Box 504053 Saipan, MP 96950 Phone: (670) 235-8722 · Fax: (670) 235-6905
http://www.saipancpa.com

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Government of Guam Retirement Fund, in a separate letter dated February 11, 2011.

This report is intended solely for the information and use of management, the Board of Trustees, the Office of the Public Auditor, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Burger & Comer, P.C.

Tamuning, Guam
February 11, 2011