

GOVERNMENT OF GUAM RETIREMENT FUND

FINANCIAL STATEMENTS

September 30, 2005 and 2004

(Together with Independent Auditors' Report Thereon)

GOVERNMENT OF GUAM RETIREMENT FUND

SEPTEMBER 30, 2005 AND 2004

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INDEPENDENT AUDITORS' REPORT

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, 2005 and 2004 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, 2005 and 2004, 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 April 20, 2006 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information listed as supplemental schedules on pages 34 to 40 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Fund's management. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burgin & Cooney, P.C.

Tamuning, Guam
April 20, 2006

GOVERNMENT OF GUAM RETIREMENT FUND
Management's Discussion & Analysis
For the Years Ended September 30, 2005 and 2004

As management of the Government of Guam Retirement Fund (the "Fund"), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for fiscal years ended September 30, 2005 and 2004.

Highlights

- Based on the September 30, 2004 actuarial valuation issued on August 2, 2005, the actuarially determined contribution rate for the fiscal year ended September 30, 2006 is 26% of covered payroll, while the established statutory rate is 20.81%. However, Fund Management contends that the 20.81% will not generate the revenue necessary to cover required annuities and operational expenses resulting in the need to continue to obtain cash drawdowns.

It should also be noted that the September 30, 2004 actuarial valuation indicated that the Fund has a funded ratio of 47.9% at September 30, 2004 compared to 46.2% at September 30, 2003. The Fund is in the process of having an actuarial assessment performed for the fiscal year ended September 30, 2005.

- Public Law (PL) 27-106, passed in September 2004, lifted the freeze on salary increments effective for the fiscal year ended September 30, 2005. The freeze on increments during the five previous fiscal years had a significant impact on both employee and employer contributions received by the Fund.
- The privatization of the Guam Telephone Authority effective January 1, 2005 resulted in a decrease in the number of active members in both the Defined Benefit and Defined Contributions Plans and a corresponding decrease in both employer and member contributions.
- The total number of active members participating in the Defined Benefit Plan decreased by 8.1% from 4,897 at September 30, 2004 to 4,502 at September 30, 2005.
- The total number of active members participating in the Defined Contribution Plan increased by 3.7% from 5,481 at September 30, 2004 to 5,685 at September 30, 2005.
- The total number of annuitants receiving retirement benefits increased by 1.1% from 6,726 at September 30, 2004 to 6,800 at September 30, 2005.

Highlights, continued

- At September 30, 2005 net assets held in trust for pension benefits totaled approximately \$1.49 billion compared to \$1.43 billion at September 30, 2004. The net assets are available for payment of monthly retirement benefits and other qualified distributions to the Fund's participants. The increase of \$52.7 million resulted primarily from the appreciation of the fair value of the Fund investments due to equity market increases. The rate of return on investments was 10.1% and 9.3% for the fiscal years ended September 30, 2005 and 2004, respectively.
- Interest income on fixed income investments dropped by \$7.7 million due to the shift in asset focus during fiscal year 2003 to common stocks to take advantage of a rebounding equities market.
- Dividend income increased by \$1.10 million due to the continued strengthening of economic conditions and slightly increased corporate earnings.
- As of September 30, 2005, the Guam Public School System (GPSS) and the Guam Memorial Hospital Authority (GMHA) had significant outstanding receivables for both employer and member contributions including interest and penalties. These receivables represent contributions not remitted to the Fund for various pay periods during the fiscal years ended September 30, 1998 through 2004. Employer and member contribution receivables as of September 30, 2005 for GPSS and GMHA totaled \$16.7M and \$9.3M, respectively. Interest and penalty charges continue to accrue on the outstanding balances. PL 27-106 appropriated \$1.2M to the Fund for GMHA employees who applied for retirement as of Fiscal Year 2004. Of this appropriation, \$600,000 was collected by the Fund in FY05.

Beginning Fiscal Year 2005, the Board of Trustees directed management to stop accepting applications for retirement from delinquent Government of Guam agency employees. As a result, employees from GPSS and GMHA were not allowed to retire, even if the Agency paid all delinquent contributions, interest and penalties on behalf on those employees. This led to the passage of PL 28-38 in June of 2005. Under this law, the Treasurer of Guam must remit interest-only payments monthly to the Fund for the outstanding GPSS and GMHA obligations. Monthly payments totaling \$192,955 and \$190,501 for GPSS 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 five years, payments for GPSS and GMHA will resume per 4GCA Section 8137. In addition, Agencies must stay current with contribution payments in order for employees to continue to be allowed to retire.

- The Guam Memorial Hospital Authority had an outstanding note as of September 30, 2005. The balance of the note plus interest and penalties totaled \$6.53 million as of September 30, 2005. The Fund established a reserve of \$8.0 million in fiscal year 2000 due to the uncertainty of collection of this note balance; however, Fund Management continues collection efforts in this matter.

Highlights, continued

- Supplemental benefits and medical, dental, and life insurance premiums, to be funded by the General Fund and various Government of Guam autonomous agencies as authorized by Public Law 27-106 for fiscal year 2004, were collected by the Fund prior to distribution to annuitants and third party vendors.

Supplemental benefits and medical, dental, and life insurance premiums that were supposed to be funded by the General Fund and various Government of Guam autonomous agencies as authorized by Public Law 26-152, were paid by the Fund during the period from October 1, 2002 through December 15, 2002. These benefits amounted to \$8.96 million. These payments ceased after December 15, 2002 based on a court order prohibiting the Fund from advancing these payments without receipt of the appropriated amounts from the funding agencies identified by Public Law 26-152. The Fund collected approximately \$4.31 million of these advanced payments during the fiscal year ended September 30, 2005. The remaining balance of supplemental benefits authorized by Public Law 26-152 for the fiscal year ended September 30, 2003, which is owed by the Government of Guam and its autonomous agencies to annuitants that retired from their respective agencies, amounted to approximately \$8.1 million.

Overview of the Financial Statements

The Fund's purpose is to provide retirement annuities and other benefits to employees of the Government of Guam. The Fund administers two plans: the Defined Benefit Plan and the Defined Contribution Plan.

Defined Benefit Plan

The Defined Benefit Plan (DB) 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. Under the DB Plan, retirement benefits are based on age and/or years of credited service and an average of the three (3) highest annual salaries received by a member during the years of credited service, or six thousand dollars (\$6,000), whichever is greater.

- The basic retirement benefit is computed as the sum of an amount equal to two percent (2%) of the average annual salary for each of the first ten years of creditable 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 and 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 one 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 salary, and cannot be less than one thousand two hundred dollars (\$1,200) per year.

Overview of the Financial Statements, continued

- Members under the age of sixty-five (65) with six (6) 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 the years of credited services.
- In the event of death of a member, while in service, who completed three (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 two thousand one hundred sixty dollars (\$2,160) per year for a minor child up to eighteen (18) years of age (age 24, if a full time student).

Defined Contribution Plan

The Defined Contribution Plan (DC) was created by Public Law 23-42:3 to provide an individual account retirement system for any person who is employed by the Government of Guam. This plan is a single-employer pension plan and is the only plan for all new employees whose employment commences on or after October 1, 1995. This plan is administered by BenefitsCorp.

The Fund's financial statements include a Statement of Plan Net Assets, a Statement of Changes in Plan Net Assets and Notes to the Financial Statements. Also included is certain required and other supplementary information.

The Board of Trustees, which until 2004 consisted of five (5) members and now consists of seven (7) members, is responsible for the administration and operation of the Fund. The Fund is accounted for as a blended component unit, fiduciary fund type, and pension trust fund of the Government of Guam.

The *statement of plan net assets* presents information on the Fund's assets and liabilities and the resulting *net assets held in trust for pension benefits*. This statement reflects the Fund's investments, at fair value, along with cash and cash equivalents, receivables and other assets and liabilities.

The *statement of changes in plan net assets* presents information showing how the Fund's net assets held in trust for pension benefits changed during the years ended September 30, 2005 and 2004. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income is also presented showing income from investments, interest and dividends.

Overview of the Financial Statements, continued

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

The *other supplementary information* presents a schedule of funding progress and employer contributions at September 30, 2005 based on the Fund's latest actuarial valuation. Additionally, schedules of certain expenses and fees paid at September 30, 2005 and 2004 are also presented. The *other supplementary information* is presented for additional analysis of the financial statements.

Financial Analysis

The following are the condensed Schedules of Plan Net Assets and Changes in Plan Net Assets for the Government of Guam Retirement Fund for the fiscal years ended September 30, 2005 and 2004.

CONDENSED SCHEDULE OF PLAN NET ASSETS	(\$ millions)	
	September 30, 2005	2004
Cash and cash equivalents	\$ 5.4	\$ 6.6
Receivables	164.3	181.2
Investments	1,353.7	1,287.7
Property and equipment	<u>1.3</u>	<u>1.3</u>
Total Assets	1,524.7	1,476.8
Accounts payable and accrued expenses	4.7	4.7
Due to brokers for unsettled trades	6.0	7.4
Other liabilities	<u>28.5</u>	<u>31.8</u>
Total Liabilities	<u>39.2</u>	<u>43.9</u>
Net Assets Held in Trust for Benefits	<u>\$ 1,485.5</u>	<u>\$ 1,432.9</u>

Financial Analysis, continued

CONDENSED SCHEDULE OF CHANGES IN PLAN NET ASSETS	(\$ millions)	
	September 30,	
	<u>2005</u>	<u>2004</u>
Employer contributions	\$ 71.0	\$ 69.0
Member contributions	27.0	27.6
Net investment income	<u>136.3</u>	<u>119.6</u>
Total Additions	234.3	216.2
Retirement, death, survivor benefits, and insurance	161.7	156.8
Refunds and withdrawals	15.5	17.4
Administrative expenses	<u>4.5</u>	<u>4.5</u>
Total Deductions	<u>181.7</u>	<u>178.7</u>
Net Increase in Plan Net Assets	52.6	37.5
Net Assets Available for Benefits, Beginning of Year	1,432.9	1,398.2
Prior period adjustment (Refer to Note 11)	<u>0</u>	<u>(2.8)</u>
Net Assets Available for Benefits, End of Year	<u>\$ 1,485.5</u>	<u>\$ 1,432.9</u>

At September 30, 2005, Fund assets increased by almost \$48 million or 3.3% from the prior year due primarily to a \$66 million increase in investments, which was offset by a \$15.9 million decrease in receivables. The decrease in receivables was due primarily to the collection of balances due from the Government of Guam General Fund relating to payments made to annuitants for supplemental annuities and cost of living allowance (COLA) as authorized by Public Law 25-72 and the collection of balances relating to the Early Retirement Incentive Program (ERIP) as authorized by Public Law 24-327.

The outstanding supplemental and COLA balance is being reduced by a portion of the employer contribution received. The percentage used for reduction was 1.2016% for the fiscal years ended September 30, 2005 and 2004 respectively. The outstanding balance owed by the Government of Guam General Fund relating to the ERIP is reduced by a portion of the employer contribution received. The percentage of reduction was 1.31% for the fiscal years ended September 30, 2005 and 2004.

Overall, Fund liabilities decreased \$4.7 million at September 30, 2005. The decrease was due primarily to the recognition of revenues as payments were received from annuitants under the ERIP as well as the amortization of receivable balances owed by the Government of Guam General Fund relating to the ERIP and supplemental/COLA benefits.

Financial Analysis, continued

Additions to Plan Net Assets

Additions for the year ended September 30, 2005 totaled \$234.3 million. The \$18.1 million increase from the prior year was due primarily to a \$23.9 million increase in appreciation in fair value of investments and a \$7.7 million decrease in interest income.

Deductions to Plan Net Assets

For the year ended September 30, 2005 total deductions increased \$3.0 million over the prior year due primarily to a 3.12% increase in benefit payments to age, service, and survivor annuitants as the average monthly benefit increased for retirees. Refunds and withdrawals also decreased 10.91% as fewer participants withdrew contributions during the period compared to the prior year.

Investments

The investment portfolio is reported by asset type which comprises the investment managers' portfolios including cash equivalents. A summary of the Fund's investments for the fiscal years ended September 30, 2005 and 2004 is as follows:

INVESTMENT PORTFOLIO	(\$ millions)	
	September 30,	
	<u>2005</u>	<u>2004</u>
Common Stocks	\$ 641.6	\$ 590.5
U.S. Government Securities	307.9	280.0
Corporate Bonds and Notes	231.6	272.3
Money Market Funds	45.4	38.7
Mutual Funds	120.3	99.9
Other	<u>6.9</u>	<u>6.1</u>
Total managed investments	1,353.7	1,287.7
Cash and equivalents	<u>5.4</u>	<u>6.6</u>
Total Investments and cash	<u>1,359.1</u>	<u>1,294.2</u>

For the fiscal year ended September 30, 2005 the Fund's managed investments, for the most part, reflect management expectations as the asset focus was shifted in fiscal year 2003 to common stocks to take advantage of a rebounding equities market. The Fund experienced a gain on investment of 10.1% for the fiscal year ended September 30, 2005 based on its strategic investment allocation. While the Fund experienced this gain, this was offset by reductions for the cash flow requirements of the Fund for operations and retiree annuities.

Economic Factors

Funding

- A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The actuarially determined rate for contributions for the years ended September 30, 2004 and 2003 were 26.00% and 24.89% respectively. The established statutory rate at September 30, 2005 and 2004 was 20.81%.
- The actuarial study for the fiscal year ended September 30, 2004 indicates that the Fund's security ratio (ratio between assets available to provide benefits and the actuarially determined pension liability) is expected to increase from 46.1% to 47.9% as of the fiscal year ended September 30, 2005 with minimal increases to 101.4% by the fiscal year ended September 30, 2043. It is important to note that this projection takes into account two significant assumptions:
 1. Government payroll is assumed to increase 3.5% per year.
 2. Investment earnings are assumed to be 7.0% per year.

The two assumptions should be given careful consideration. The Government of Guam did not authorize employee increments for the previous five (5) fiscal years. The freeze on increments was lifted as of fiscal year ended September 30, 2005. The freeze had a significant impact on both the employee and employer contributions received by the Fund. The second assumption should also be given careful consideration as investment earnings will fluctuate significantly year after year depending on the investment mix adopted at any given point in time. The last point to consider is that the Defined Benefit Plan has been closed to new membership since October 1, 1995. As such, contributions received by this plan may continue to decline in future years.

Plan Amendments

There were no amendments affecting either the Defined Benefit or the Defined Contribution Plans noted for the fiscal year ended September 30, 2004 (the date of the actuarial valuation).

Other

Other than changes in the fair value of Fund assets as may be impacted by the stock and bond markets, no other matters are known by management to have a significant impact on the operations or financial position of the Fund.

Requests for Information

This financial report is designed to provide a general overview of the Fund's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of the Government of Guam Retirement Fund, 424A Route 8, Maite, Guam 96910.

GOVERNMENT OF GUAM RETIREMENT FUND

Statement of Plan Net Assets

September 30, 2005 and 2004

<u>ASSETS</u>	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>Total 2005</u>	<u>Total 2004</u> (Restated)
Investments, at fair value:				
Common stocks	\$ 641,550,000	-	641,550,000	590,471,874
U.S. Government securities	307,926,251	-	307,926,251	280,041,882
Corporate bonds and notes	231,618,588	-	231,618,588	272,326,917
Money market funds	45,367,251	-	45,367,251	38,729,970
Mutual funds	-	120,356,997	120,356,997	99,947,628
DC plan forfeitures	-	6,915,108	6,915,108	6,148,708
Total investments	<u>1,226,462,090</u>	<u>127,272,105</u>	<u>1,353,734,195</u>	<u>1,287,666,979</u>
Receivables:				
Employer contributions, net	16,863,474	207,481	17,070,955	19,171,983
Member contributions	6,240,707	164,522	6,405,229	7,090,700
Interest and penalties on contributions	5,814,607	-	5,814,607	4,299,453
Accrued interest and dividends on investments	5,563,159	-	5,563,159	5,618,196
Due from brokers for unsettled trades	1,214,130	-	1,214,130	9,467,943
Note receivable from GMHA, net (note 6)	-	-	-	-
Notes receivable for service credits	8,807,252	-	8,807,252	7,635,763
Notes receivable - ERIP	10,185,803	-	10,185,803	11,115,954
Receivable - ERIP employer's share	9,094,642	-	9,094,642	12,625,667
Supplemental/COLA benefits receivable	92,162,185	-	92,162,185	96,475,412
Supplemental/Insurance benefits advanced	1,977,579	-	1,977,579	2,007,735
Retiree supplemental benefits and insurance	2,427,213	-	2,427,213	2,596,624
Other receivables	3,048,065	166,220	3,214,285	2,723,035
Due from DC plan	419,722	-	419,722	419,722
Total receivables	<u>163,818,538</u>	<u>538,223</u>	<u>164,356,761</u>	<u>181,248,187</u>
Cash and cash equivalents	2,622,576	2,788,469	5,411,045	6,567,749
Property and equipment	<u>1,257,365</u>	<u>-</u>	<u>1,257,365</u>	<u>1,352,815</u>
Total assets	<u>1,394,160,569</u>	<u>130,598,797</u>	<u>1,524,759,366</u>	<u>1,476,835,730</u>
<u>LIABILITIES</u>				
Deferred revenue for service credits	28,087,697	-	28,087,697	31,377,384
Accounts payable and accrued expenses	2,989,440	1,689,013	4,678,453	4,732,013
Due to brokers for unsettled trades	6,031,941	-	6,031,941	7,442,975
Due to DB plan	-	419,722	419,722	419,722
Total liabilities	<u>37,109,078</u>	<u>2,108,735</u>	<u>39,217,813</u>	<u>43,972,094</u>
Net assets held in trust for pension benefits (See required supplemental schedule of funding progress)	<u>\$ 1,357,051,491</u>	<u>128,490,062</u>	<u>1,485,541,553</u>	<u>1,432,863,636</u>

Thee 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, 2005 and 2004

	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>Total 2005</u>	<u>Total 2004</u>
Investment income				
Net appreciation in fair value of investments	\$ 90,010,539	10,208,785	100,219,324	76,365,845
Interest	22,929,215	2,653,809	25,583,024	33,283,709
Dividends	12,496,681	-	12,496,681	11,396,669
Other investment income	848,735	466,825	1,315,560	1,941,382
	<u>126,285,170</u>	<u>13,329,419</u>	<u>139,614,589</u>	<u>122,987,605</u>
Less investment expenses	3,305,543	-	3,305,543	3,350,907
Net investment income	<u>122,979,627</u>	<u>13,329,419</u>	<u>136,309,046</u>	<u>119,636,698</u>
Contributions				
Employer	63,282,604	7,720,777	71,003,381	68,957,388
Member	19,362,457	7,665,822	27,028,279	27,618,619
Total contributions	<u>82,645,061</u>	<u>15,386,599</u>	<u>98,031,660</u>	<u>96,576,007</u>
TOTAL ADDITIONS	205,624,688	28,716,018	234,340,706	216,212,705
Benefit payments				
Age and service annuities	137,760,494	-	137,760,494	133,401,910
Disability annuities	8,835,311	-	8,835,311	8,976,389
Survivor annuities	15,087,946	-	15,087,946	14,300,943
Insurance	-	-	-	66,489
Total benefit payments	<u>161,683,751</u>	<u>-</u>	<u>161,683,751</u>	<u>156,745,731</u>
Refunds to separated employees and withdrawals	9,464,772	6,057,880	15,522,652	17,416,949
Interest on refunded contributions	451,636	-	451,636	679,621
Balances transferred to DC plan	444,480	(444,480)	-	-
Administrative and general expenses	<u>2,880,522</u>	<u>1,124,228</u>	<u>4,004,750</u>	<u>3,860,159</u>
TOTAL DEDUCTIONS	<u>174,925,161</u>	<u>6,737,628</u>	<u>181,662,789</u>	<u>178,702,460</u>
Net increase in plan net assets	30,699,527	21,978,390	52,677,917	37,510,245
Net assets held in trust for pension benefits, beginning of year, as previously reported	1,326,351,964	106,511,672	1,432,863,636	1,398,174,123
Adjustment of long-term supplemental receivable (note 11)	-	-	-	(2,820,732)
Net assets held in trust for pension benefits, beginning of year, as adjusted	<u>1,326,351,964</u>	<u>106,511,672</u>	<u>1,432,863,636</u>	<u>1,395,353,391</u>
Net assets held in trust for pension benefits, end of year	<u>\$ 1,357,051,491</u>	<u>128,490,062</u>	<u>1,485,541,553</u>	<u>1,432,863,636</u>

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

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements

September 30, 2005 and 2004

(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 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. Prior to November 14, 2003 the Board of Trustees comprised five members, appointed by the Governor with the advice and consent of the Legislature. Three of those member trustees were employees with at least five years of service credit as members of the GGRF. 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, 1992 are required to participate in the Defined Contribution Plan.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(2) Description of the Defined Benefit Plan, continued

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:

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, 2004, the latest actuarial valuation date, membership is as follows:

Retirees and beneficiaries receiving benefits	6,822
Terminated members entitled to, but not yet receiving, benefits	6,489
Active plan members	<u>5,113</u>
	<u>18,424</u>

Contributions

Contributions are set by law. Member contributions are required at 9.5% of base pay. During the year ended September 30, 2003 the Guam Legislature mandated an employer contribution rate of 26% of covered payroll from October 1, 2002 to February 28, 2003. This rate was dropped to 18.6% effective March 1, 2003. The rate was increased to 20.81% in the first full pay period ending in October 2003.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(2) Description of the Defined Benefit Plan, continued

The actuarial valuation as of September 30, 2004 was issued in August 2005. The actuarially determined contribution rate was 26.0% of covered payroll. The actuarial valuation as of September 30, 2003 was issued in March 2005. The actuarially determined contribution rate was 24.89% of covered payroll.

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 after 10 years of service at age 60 (age 55 for uniformed personnel) or completion of 25 years of service at any age. Members may retire after 20 years of service regardless of age with a reduced benefit.

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.

Disability

Members under the age of sixty-five 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(2) Description of the Defined Benefit Plan, continued

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 receives 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.

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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

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

Existing members of the DB plan with less than twenty 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 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.

Ineligible Persons

Employees ineligible for membership in the DB plan are also ineligible for membership in the DCRS.

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 but less than 20 years of total service is entitled to receive their total contribution plus 100% of the employer contribution and any earnings thereon after attaining the age of 55.

Any member who leaves government service below the age of 55, with 5 years but less than 20 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.

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, 2005 and 2004 are accrued.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(4) Summary of Significant Accounting Policies, continued

With the exception of amounts due from the Guam Memorial Hospital Authority under a promissory note, these contributions are considered to be 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.

Cash

At September 30, 2005 and 2004, the GGRF has cash balances in banks of approximately \$6.8 million and \$9.9 million, respectively, of which \$200,000 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.

Investments

Investments include U.S. Federal Government and agency obligations, foreign government obligations, real estate, commercial mortgages, corporate debt, and equity instruments. Investments are reported at fair value. Security 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, have 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(4) Summary of Significant Accounting Policies, continued

First Hawaiian Bank holds the investments as custodian in the Fund's name. 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.

- 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:

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(4) Summary of Significant Accounting Policies, continued

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.
 - 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(4) Summary of Significant Accounting Policies, continued

- 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.
 - 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(4) Summary of Significant Accounting Policies, continued

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.
 - 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, 2004).

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(4) Summary of Significant Accounting Policies, continued

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, 2004.

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, 2004), 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. Were the Fund to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Actuarial Cost Method:	Entry age normal
Valuation of Assets:	Market value, including accrued but unpaid contributions, with fixed income investments at amortized cost
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:	\$2,599,657 per year, net of bad debts and recoveries
Mortality:	1994 U.S. Uninsured Pensioners for Males set forward two years for males and no set forward for females

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(4) Summary of Significant Accounting Policies, continued

Disability:	1974-78 SOA LTD Non-Jumbo with rates increased for males by 30%
Retirement Age:	50% probability of retirement at earliest age of eligibility for unreduced retirement benefits; 20% per year thereafter until age 70, 100% at age 70
Return of Contributions:	100% withdrawing before retirement with less than 20 years of services assumed to elect a return of contributions. All those who have previously withdrawn assumed to elect a return of contributions.

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.

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 \$95,449 and \$118,735 in 2005 and 2004, respectively.

Reclassifications

Certain 2004 figures in the accompanying financial statements have been reclassified to conform to the 2005 presentation.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(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, 2005 are classified in the accompanying financial statements as follows:

	Defined Benefit <u>Plan</u>	Defined Contribution <u>Plan</u>
Statement of plan net assets:		
Cash and cash equivalents	\$ 2,622,576	2,788,469
Common stocks	641,550,000	-
U.S. government securities	307,926,251	-
Corporate bonds and notes	231,618,588	-
Money market funds	45,367,251	-
Mutual funds	<u>-</u>	<u>127,272,105</u>
Total cash and investments	\$ <u>1,229,084,666</u>	<u>130,060,574</u>

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

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

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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(5) Deposit and Investment Risk Disclosure, continued

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 by maturity:

<u>Investment Type</u>	<u>Remaining Maturity in Months</u>				<u>Total</u>
	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>	
U.S. Treasury notes	\$ 35,841,419	12,396,107	66,421,748	83,594,656	198,253,930
Federal agency securities	-	15,112,500	8,247,465	86,312,356	109,672,321
Corporate medium term notes	<u>14,194,507</u>	<u>7,335,768</u>	<u>46,498,262</u>	<u>163,590,051</u>	<u>231,618,588</u>
Totals	\$ <u>50,035,926</u>	<u>34,844,375</u>	<u>121,167,475</u>	<u>333,497,063</u>	<u>539,544,839</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

The Fund has invested in mortgage backed securities, which are more sensitive to fluctuations in interest rates than already indicated in the information provided above. Such securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates. At September 30, 2005 the Fund held mortgage-backed securities valued at approximately \$116 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, 2005 for each investment type for both the DB and DC plans.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(5) Deposit and Investment Risk Disclosure, continued

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Amount</u>	<u>Rating as of Year End</u>
U.S. Treasury notes	N/A	\$ 189,648,144	Exempt from disclosure
Federal agency securities	N/A	91,275,447	Exempt from disclosure
Money market funds	A-2	\$ 45,367,251	AAAm
Corporate medium term notes	BBB	\$ 89,507,107	Aaa
		18,228,717	Aa1-Aa3
		31,121,371	A1-A3
		65,026,598	Baa1-Baa3
		1,506,118	Ba1-Ba3
		<u>53,231,337</u>	Not rated/cash
		<u>\$ 584,912,090</u>	

Concentration of Credit Risk

The Fund's investment policy contains limits on the amount that can be invested in any one issuer. At September 30, 2005 the Fund did not hold any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Fund investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2005 the Fund held approximately \$12.8 million in corporate bonds issued by companies organized in various foreign countries. Of the \$12.8 million, approximately \$3.3 million was issued by Canadian companies, \$1.0 million by Chilean companies, \$600,000 by Japanese companies, \$2.7 million by Korean companies, and \$5.2 million by various European companies.

At September 30, 2005 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, 2005 was approximately \$143 million. Of this total, approximately \$98 million relates to companies whose functional currency is the Euro, \$24 million relates to companies whose functional currency is the Japanese yen, and the remaining \$21 million relates to companies representing eight separate functional currencies.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(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, 2005 and 2004, the Fund had employer and member contributions receivables from various Government of Guam Agencies. These receivables represent contributions not remitted to the Fund for various pay periods during the fiscal years ended September 30, 1988 through 2004. As of September 30, 2005 and 2004, employer contributions receivable totaled \$17,070,955 and \$19,171,983, respectively; member contributions receivable totaled \$6,405,229 and \$7,090,700, respectively; and interest and penalties receivable totaled \$5,814,607 and \$4,299,453, respectively.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(6) Related Party Transactions, continued

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.

A significant portion of the employer and member contributions receivables represent contributions from the Guam Public School System (GPSS) and Guam Memorial Hospital Authority (GMHA). As of September 30, 2005 and 2004, receivables from GPSS including interest and penalties totaled approximately \$16.7M and \$17.1M, respectively. As of September 30, 2005 and 2004, receivables from GMHA including interest and penalties totaled approximately \$9.3M and \$9.7M, respectively.

Public Law 28-38, passed in June 2005, requires that the General Fund remit interest only payments monthly to the Fund for the aforementioned receivables from GPSS and GMHA. The law indicates that monthly payments totaling \$192,955 and \$190,501 for GPSS 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 five years, payments for GPSS and GMHA will resume per 4GCA Section 8137. During the fiscal year ended September 30, 2005, the Fund received payments totaling \$578,865 and \$571,503 for GPSS and GMHA, respectively.

In March 1998, the GGRF accepted a promissory note from GMHA, a component unit of the Government of Guam. The note was originally in the amount of \$9,385,720 and bears interest at the bank's prime rate plus 1%, with a floor amount of 8%. The note was executed for the outstanding balance of a previously executed promissory note and for contributions owed to the GGRF as of February 28, 1998, along with related penalties and interest. Payments were to begin on March 30, 1998. At September 30, 2005 and 2004 the balance on the note was \$5,503,118 and \$5,788,134, respectively.

Management established a reserve of \$8,000,000 at September 30, 2000 due to the uncertainty of collection of this balance. The reserve was decreased during the years ended September 30, 2005 and 2004 to equal the balance of the receivable, with a corresponding offset included in bad debt recoveries.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(7) Property, Equipment and Land

Property, equipment and land at September 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Building	\$ 1,130,186	1,130,186
Improvements	644,501	649,391
Equipment	125,379	821,423
Land	439,428	439,428
Furniture and fixtures	15,886	321,942
Automobiles	39,851	39,851
Other	<u>7,000</u>	<u>12,200</u>
	2,402,231	3,414,421
Less: Accumulated depreciation	<u>(1,144,866)</u>	<u>(2,061,606)</u>
	<u>\$ 1,257,365</u>	<u>1,352,815</u>

(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 General Fund and not of the GGRF. The cost of these benefits is to be paid through increased contributions over a period of twenty years.

During the year ended September 30, 1999 the GGRF paid out approximately \$31.4 million for supplemental annuities and COLA payments. The GGRF collected approximately \$3.2 million from autonomous agencies and approximately \$14.8 million from the general fund during fiscal year 1999 for these payments. The receivable balance at September 30, 1999 was approximately \$14.9 million. Approximately \$1.6 million was reflected as "Other receivables" on the statement of net assets, and \$13.3 as "Supplemental/COLA benefits receivable".

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. Public Law 25-122, passed in May 2000, reallocated \$12 million from the payment of supplemental annuities and COLA to regular employer contributions.

Since the \$12 million collected in fiscal year 1999 was used to reduce the receivable at September 30, 1999, this reallocation required the receivable for supplemental annuities and COLA payments to be increased by \$12 million. The offset was recorded as a reduction of employer contributions receivable from the Government of Guam.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(8) Supplemental Annuities and COLA Payments, continued

During the year ended September 30, 2000 the GGRF paid out about \$32.3 million for supplemental annuities and COLA payments. Of the employer contributions received in fiscal year 2000, about \$4.2 million was allocated to the reduction of the receivable for these payments. The receivable balance at September 30, 2000 was about \$54.9 million.

During the year ended September 30, 2001 the GGRF paid out \$34.0 million for supplemental annuities and COLA payments. Of the employer contributions received in fiscal year 2001, \$4.7 million was allocated to the reduction of the receivable for these payments. The receivable balance at September 30, 2001 was \$84.2 million.

During the year ended September 30, 2002 the GGRF paid out \$27.5 million for supplemental annuities and COLA payments. Of the employer contributions received in fiscal year 2002, \$3.6 million was allocated to the reduction of the receivable for these payments. The receivable balance at September 30, 2002 was \$108.1 million.

During the year ended September 30, 2003 the GGRF paid approximately \$8.96 million in supplemental and COLA benefits. Of the employer contributions received in fiscal year 2003, \$4.44 million was allocated to the reduction of the receivable for these payments. The receivable balance at September 30, 2003 was \$103.7 million.

Of the employer contributions received in fiscal year 2004, \$4.38 million was allocated to the reduction of the receivable for these payments. The receivable balance at September 30, 2004 was \$96.475 million (after prior period adjustment of \$2.8 million discussed in note 11 below).

Of the employer contributions received in fiscal year 2005, \$4.31 million was allocated to the reduction of the receivable for these payments. The receivable balance at September 30, 2005 was \$92.162 million.

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. 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 2005 and 2004 was 1.2016% of covered payroll.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

(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 twenty years of creditable service to retire and to purchase up to five 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 fifteen 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, 2005 and 2004 the amount owed under these notes was \$10,185,803 and \$11,115,954, 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 \$9,094,642 and \$12,625,667 at September 30, 2005 and 2004, 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 2005 and 2004 was 1.31% of covered payroll.

(10) Supplemental/COLA benefit Owed to Retirees 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.

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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2005 and 2004

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

These benefits are as follows:

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

(11) Adjustment of Beginning Net Assets

The DB plan has been carrying a long-term supplemental benefits receivable as discussed in note 8 above. During the year ended September 30, 2005 further analysis of this receivable was performed. This analysis revealed that certain payments collected in 1996 and 1997 had been applied to other accounts. These payments amounted to \$2,820,732. Accordingly, beginning net assets for the fiscal year ended September 30, 2004 have been decreased, as has the receivable.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Funding Progress

September 30, 2005

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%

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Employer Contributions

September 30, 2005

<u>Year ended September 30</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
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	100,758,000	63,486,000	63.0%
2004	116,663,000	63,388,000	54.3%

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Administrative and General Expenses

Years ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>DEFINED BENEFIT PLAN</u>		
Salaries and wages	\$ 1,445,855	\$ 1,378,147
Employer's retirement contribution	294,654	285,627
Insurance	248,804	198,651
Program services/maintenance	243,000	243,000
Legal fees	203,411	222,981
Actuary fees	112,323	18,050
Depreciation	95,449	118,735
Utilities	67,014	69,950
Postage	64,919	83,180
Retiree supplemental/COLA	64,082	17,800
Travel and transportation	45,200	6,661
Repairs and maintenance	42,068	35,507
Miscellaneous	40,679	36,146
Communications	34,843	33,724
Medical exams	34,384	28,138
Equipment rental	24,371	24,663
Audit fees	24,000	24,000
Medicare contribution	19,351	18,132
Office supplies	17,318	13,190
Printing and publications	15,409	39,204
Training	13,536	376
Medical consultant	9,913	10,800
Computers and software	4,954	18,546
Trustee election expenses	-	157,343
Bad debts (recoveries)	<u>(285,015)</u>	<u>(482,894)</u>
	<u>\$ 2,880,522</u>	<u>2,599,657</u>
<u>DEFINED CONTRIBUTION PLAN</u>		
Third party administrative fees	773,988	721,889
Other operating expenses	<u>350,240</u>	<u>538,613</u>
	<u>\$ 1,124,228</u>	<u>1,260,502</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Personnel Costs

Years ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Salaries and wages	\$ 1,445,855	1,378,147
Employer's retirement contribution	294,654	285,627
Medicare contribution	<u>19,351</u>	<u>18,132</u>
	<u>\$ 1,759,860</u>	<u>1,681,906</u>
Average number of employees	43	42
Average cost per employee	\$ 40,927	\$ 40,045

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Other Receivables - Defined Benefit Plan

September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Defined contribution plan costs	\$ 1,658,970	1,366,209
Benefit overpayments	722,917	751,188
Securities lending	27,086	15,492
Other	-	1,260
Employer contributions for non-base pay	38,751	38,077
Other overpayments	16,927	22,859
Unfunded liability portion from defined contribution plan	<u>583,414</u>	<u>387,764</u>
	<u>\$ 3,048,065</u>	<u>2,582,849</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2005

Agency	Supplemental/ COLA	ERIP Employer's Share	Employer Contributions	Member Contributions	TOTAL
Department of Administration (General Fund)	\$ 92,162,185	6,124,992	1,643,230	122,182	100,052,589
Guam Public School System	-	-	10,064,950	3,648,957	13,713,907
Guam Memorial Hospital Authority	-	-	5,140,174	2,492,757	7,632,931
Guam Power Authority	-	801,561	(9,464)	(97)	792,000
Guam Community College	-	654,156	(5,116)	(1,756)	647,284
Guam Waterworks Authority	-	636,332	23,450	(18,410)	641,372
Port Authority of Guam	-	457,976	(4,612)	(47)	453,317
Guam Telephone Authority	-	187,435	(135)	(554)	186,746
Guam Legislature	-	80,779	(4,358)	(8,629)	67,792
Government of Guam Retirement Fund	-	57,013	-	-	57,013
Superior Court of Guam	-	53,960	839	(3)	54,796
Guam Mass Transit Authority	-	40,438	-	-	40,438
University of Guam	-	-	14,316	3,869	18,185
Guam Airport Authority	-	-	478	2,509	2,987
Guam Housing Corporation	-	-	173	-	173
Guam Visitors Bureau	-	-	40	-	40
Supreme Court of Guam	-	-	(8)	-	(8)
Guam Economic Development and Commerce Authority	-	-	(168)	(71)	(239)
Guam Housing and Urban Renewal Authority	-	-	(315)	-	(315)
TOTALS	<u>\$ 92,162,185</u>	<u>9,094,642</u>	<u>16,863,474</u>	<u>6,240,707</u>	<u>124,361,008</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2004

Agency	Supplemental/ COLA	ERIP Employer's Share	Employer Contributions	Member Contributions	TOTAL
Department of Administration (General Fund)	\$ 96,475,412	7,608,501	2,122,006	342,377	106,548,296
Guam Public School System	-	1,238,160	10,826,681	3,981,185	16,046,026
Guam Memorial Hospital Authority	-	163,151	5,342,715	2,580,817	8,086,683
Guam Power Authority	-	935,469	(9,120)	77	926,426
Guam Community College	-	771,755	(5,251)	(1,822)	764,682
Guam Waterworks Authority	-	740,233	5,365	(326)	745,272
Superior Court of Guam	-	212,690	46,182	20,712	279,584
Port Authority of Guam	-	457,976	(4,612)	(47)	453,317
Guam Telephone Authority	-	254,896	(135)	(554)	254,207
University of Guam	-	-	13,920	2,352	16,272
Guam Legislature	-	78,757	(4,358)	(5,008)	69,391
Guam Airport Authority	-	113,653	(2,531)	2,509	113,631
Guam Housing Corporation	-	-	1,638	-	1,638
Guam Mass Transit Authority	-	9,988	-	-	9,988
Guam Economic Development and Commerce Authority	-	40,438	(168)	(71)	40,199
Guam Housing and Urban Renewal Authority	-	-	2,467	-	2,467
Guam Visitors Bureau	-	-	40	-	40
Public Defender Service Corporation	-	-	(3,324)	-	(3,324)
Supreme Court of Guam	-	-	(8)	-	(8)
TOTALS	<u>\$ 96,475,412</u>	<u>12,625,667</u>	<u>18,331,507</u>	<u>6,922,201</u>	<u>134,354,787</u>

See accompanying independent auditors' report.