

GOVERNMENT OF GUAM RETIREMENT FUND

FINANCIAL STATEMENTS

September 30, 2004 and 2003

(Together with Independent Auditors' Report Thereon)

GOVERNMENT OF GUAM RETIREMENT FUND

September 30, 2004 and 2003

Table of Contents

	<u>Pages</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Statement of Plan Net Assets	11
Statement of Changes in Plan Net Assets	12
Footnotes to Financial Statements	13-28
Schedule of Funding Progress	29
Schedule of Employer Contributions	30
Supplementary Schedule of Administrative and General Expenses	31
Supplementary Schedule of Personnel Costs	32
Supplementary Schedule of Other Receivables – Defined Benefit Plan	33
Supplementary Schedule of Receivables by Agency – Defined Benefit Plan	34-35

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, 2004 and 2003 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, 2004 and 2003, 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 March 31, 2005 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 grants 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 29 to 35 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.

Burgess & Connor, P.C.

Tamuning, Guam
March 31, 2005

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

As management of the Government of Guam Retirement 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, 2004 and 2003.

Financial Highlights

- The Fund did not have an actuarial assessment performed in fiscal year 2004, however, the Fund did have an actuarial assessment completed for the fiscal year ended September 30, 2003. This study was issued on March 15, 2005. The actuarially determined contribution rate was 24.89% per this study. The Fund is in the process of having an actuarial assessment performed for the fiscal year ended September 30, 2004.
- The net assets held in trust for pension benefits totaled approximately \$1.44 billion at September 30, 2004 compared to \$1.39 billion at September 30, 2003. The net assets are available for payment of monthly retirement benefits and other qualified distributions to the Fund's participants. The increase of \$37.5 million resulted primarily from the appreciation of the fair value of the Fund investments due to equity market increases affecting the year ended September 30, 2004. The rate of return on investments was 9.3% and 9.9% for the fiscal years ended September 30, 2004 and 2003 respectively.
- Interest income on fixed income investments dropped by \$9.74 million as the asset focus was shifted to common stocks to take advantage of a rebounding equities market.
- Dividend income increased by \$2.96 million due to the strengthening of economic conditions and slightly increased corporate earnings.
- The total number of active members participating in the Defined Benefit Plan decreased by 9.46% from 5,409 at September 30, 2003 to 4,897 at September 30, 2004. The number of retirees at September 30, 2003 was 6,590 and the total number of retirees at September 30, 2004 was 6,726. The Fund added 287 new annuitants in fiscal year 2004. The total number of active members participating in the Defined Contribution Plan increased 2.64% from 5,010 at September 30, 2003 to 5,142 at September 30, 2004.
- The Fund did not have an actuarial assessment performed in fiscal year 2004, but is in the process of having an actuarial assessment performed for the fiscal year ended September 30, 2004. The funded ratio of the Fund per the actuarial valuation was 46.2% at September 30, 2003 compared to 47.7% at September 30, 2002. Although actuarial investment gains totaled \$64.1 million, the Fund incurred liability gains of \$46.8 million. This coupled with fiscal year 2002 liability gains of \$30.5 million and asset losses of \$124 million resulted in the reduction of the Fund's security ratio as computed by the Fund's actuary.
- 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, to be funded by the General Fund and various Government of Guam autonomous agencies as authorized by Public Law 26-152, amounting to \$8.96 million were paid by the Fund for the period from October 1, 2002 through December 15, 2002. 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 \$4.3 million of these advanced payments during fiscal year 2004. The remaining balance of supplemental benefits authorized by Public Law 26-152 for the fiscal year ended September 30, 2003 owed by the Government of Guam and their autonomous agencies to annuitants that retired from their respective agencies amounted to approximately \$8.1 million.

- The following agencies have significant outstanding receivables for “employer and member” contributions including interest and penalties:

Department of Education	\$17.1 million
Guam Memorial Hospital Authority	\$9.7 million

Interest and penalty charges continue to accrue on the outstanding balances.

The Guam Memorial Hospital Authority had an outstanding note amounting to \$5.79 million as of September 30, 2004. The Fund in fiscal year 2000 established a reserve of \$8.0 million due the uncertainty of collection of this note balance; however, Fund Management continues collection efforts in this matter.

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 (DB) and the Defined Contribution (DC).

Defined Benefit Plan

The Defined Benefit Plan provides for retirement, disability, and survivor benefits to members of the plan prior to October 1, 1995 (all government employees required to participate in the DC Plan after October 1, 1995). Under this 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 (2%) percent 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.

- 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 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 21, if a full time student).

Defined Contribution Plan

This plan 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, 2004 and 2003. 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.

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, 2003 based on the Fund's latest actuarial valuation. Additionally, schedules of certain expenses and fees paid at September 30, 2004 and 2003 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, 2004 and 2003.

CONDENSED SCHEDULE OF PLAN NET ASSETS	(\$ millions)	
	September 30, <u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 6.6	\$ 16.2
Receivables	184.1	203.6
Investments	1,287.7	1,222.6
Property and equipment	<u>1.3</u>	<u>1.4</u>
Total Assets	1,479.7	1,443.8
Accounts payable and accrued expenses	4.7	3.7
Due to brokers for unsettled trades	7.4	2.7
Other liabilities	<u>31.8</u>	<u>39.2</u>
Total Liabilities	<u>44.0</u>	<u>45.6</u>
Net Assets Held in Trust for Benefits	<u>\$ 1,435.7</u>	<u>\$ 1,398.2</u>

CONDENSED SCHEDULE OF CHANGES IN PLAN NET ASSETS	(\$ millions)	
	September 30, <u>2004</u>	<u>2003</u>
Employer contributions	\$ 69.0	\$ 68.9
Member contributions	27.6	29.6
Net investment income (loss)	<u>119.6</u>	<u>126.5</u>
Total Additions	216.2	224.9
Retirement, death, survivor benefits, and insurance	156.8	151.1
Refunds and withdrawals	17.4	16.6
Administrative expenses	<u>4.5</u>	<u>4.6</u>

Total Deductions	<u>178.7</u>	<u>172.3</u>
Net Increase in Plan Net Assets	37.5	52.6
Net Assets Available for Benefits, Beginning of Year	1,398.2	1,345.6
Net Assets Available for Benefits, End of Year	\$ <u>1,435.7</u>	\$ <u>1,398.2</u>

For the year ended September 30, 2004 Fund assets increased \$37.5 million or 2.68% from the prior year primarily due to the increase in investments of \$76.4 million. Receivables decreased \$19.5 million at the end of the fiscal year 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 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, 2004 and 2003 respectively. The outstanding balance owed by the Government of Guam General Fund relating to the Early Retirement Incentive Program is reduced by a portion of the employer contribution received. The percentage of reduction was 1.31% for the fiscal years ended September 30, 2004 and 2003.

Although Fund liabilities increased \$4.7 million resulting from payables for pending purchases of securities, overall Fund liabilities decreased \$1.6 million at the end of the fiscal year. Deferred revenues decreased by \$7.0 million due to the recognition of revenues as payments were received from annuitants under the Early Retirement Incentive Program (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.

Total additions to plan assets of \$216.2 million are less than the prior year due to the decline in interest income with a shift of investment focus. Total deductions increased \$6.4 million for the year as a result of a 4.16% increase in benefit payments to age, service, and survivor annuitants.

Additions to Plan Net Assets

Additions for the year ended September 30, 2004 were \$216.2 million, an \$8.8 million decrease from the prior year due primarily to a decrease in interest income of almost \$10 million. The total number of active members participating in the Defined Benefit Plan decreased by 9.46% from 5,409 at September 30, 2003 to 4,897 at September 30, 2004.

The total number of active members participating in the Defined Contribution Plan increased by 2.64% from 5,010 at September 30, 2003 to 5,142 at September 30, 2004.

Deductions to Plan Net Assets

For the year ended September 30, 2004 total deductions increased \$6.4 million over the prior year due to a 4.16% increase in benefit payments to age, service, and survivor annuitants as the average monthly benefit increased for retirees. At September 30, 2004 the total number of annuitants receiving retirement benefits was 6,726 compared to 6,590 at September 30, 2003, an increase of 2.06%. Refunds and withdrawals increased 4.62% as more participants withdrew contributions during the period compared to the prior year. The 4.1% decrease in administrative expenses is a result of reduced salaries expense due to staff departures during fiscal year 2004.

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, 2004 and 2003 is as follows:

INVESTMENT PORTFOLIO	(\$ millions)	
	September 30,	
	<u>2004</u>	<u>2003</u>
Common Stocks	\$ 590.5	\$ 529.5
U.S. Government Securities	280.0	207.1
Corporate Bonds and Notes	272.3	342.4
Money Market Funds	38.7	54.5
Mutual Funds	99.9	83.4
Other	<u>6.1</u>	<u>5.7</u>
Total managed investments	1,287.7	1,222.6
Cash and equivalents	<u>6.6</u>	<u>16.2</u>
Total Investments and cash	<u>1,294.2</u>	<u>1,238.8</u>

For the fiscal year ended September 30, 2004 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 9.3% for the fiscal year ended September 30, 2004 based on its strategic investment allocation. While the Fund experienced this gain, this was still 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 funded ratios of the Fund at

September 30, 2003 and 2002 were 46.2% and 47.7% respectively. The actuarially determined rate for contributions for the years ended September 30, 2003 and 2002 were 24.89% and 20.81% respectively. The Fund did not have an actuarial assessment performed in fiscal year 2004, but is in the process of having an actuarial assessment performed for the fiscal year ended September 30, 2004. The established statutory rate at September 30, 2004 was 20.81% while the established statutory rates for the period from October 1, 2002 through February 28, 2003 was 26% and 18% for the period from March 1, 2003 to September 30, 2003 (as amended by Public Law 27-29).

- The previously noted decrease in funding ratio is primarily due to the impact of market performance and the non-remittance of contributions based on actuarially determined contribution percentages during previous fiscal years.
- The actuarial study for the fiscal year ended September 30, 2003 indicates that the Fund's security ratio (ratio between assets available to provide benefits and the actuarially determined pension liability) is expected to decrease from 46.2% to 46.1% as of the fiscal year ended September 30, 2004 with minimal increases to 101.2% by the fiscal year ended September 30, 2042. 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. This has 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 will 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, 2003 (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, 2004 and 2003

<u>ASSETS</u>	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>Total 2004</u>	<u>Total 2003</u>
Investments, at fair value:				
Common stocks	\$ 590,471,874	-	590,471,874	529,489,480
U.S. Government securities	280,041,882	-	280,041,882	207,036,448
Corporate bonds and notes	272,326,917	-	272,326,917	342,432,781
Money market funds	38,729,970	-	38,729,970	54,539,441
Mutual funds	-	99,947,628	99,947,628	83,411,530
DC plan forfeitures	-	6,148,708	6,148,708	5,722,593
Total investments	<u>1,181,570,643</u>	<u>106,096,336</u>	<u>1,287,666,979</u>	<u>1,222,632,273</u>
Receivables:				
Employer contributions, net	18,331,507	840,476	19,171,983	21,396,128
Member contributions	6,922,201	168,499	7,090,700	8,095,356
Interest and penalties on contributions	4,299,453	-	4,299,453	2,093,749
Accrued interest and dividends on investments	5,618,196	-	5,618,196	7,220,281
Due from brokers for unsettled trades	9,467,943	-	9,467,943	11,152,068
Note receivable from GMHA, net (note 5)	-	-	-	-
Notes receivable for service credits	7,635,763	-	7,635,763	8,807,252
Notes receivable - ERIP	11,115,954	-	11,115,954	12,498,071
Receivable - ERIP employer's share	12,625,667	-	12,625,667	17,080,487
Supplemental/COLA benefits receivable	99,296,144	-	99,296,144	103,675,964
Supplemental/Insurance benefits advanced	4,604,359	-	4,604,359	8,407,000
Other receivables	2,582,849	140,186	2,723,035	2,700,823
Due from DC plan	419,722	-	419,722	419,722
Total receivables	<u>182,919,758</u>	<u>1,149,161</u>	<u>184,068,919</u>	<u>203,546,901</u>
Cash and cash equivalents	4,707,675	1,860,074	6,567,749	16,182,056
Property and equipment	<u>1,352,815</u>	<u>-</u>	<u>1,352,815</u>	<u>1,440,829</u>
Total assets	<u>1,370,550,891</u>	<u>109,105,571</u>	<u>1,479,656,462</u>	<u>1,443,802,059</u>
 <u>LIABILITIES</u>				
Bank overdraft	-	-	-	411,663
Deferred revenue for service credits	31,377,384	-	31,377,384	38,385,810
Accounts payable and accrued expenses	2,557,836	2,174,177	4,732,013	3,679,955
Due to brokers for unsettled trades	7,442,975	-	7,442,975	2,730,786
Due to DB plan	-	419,722	419,722	419,722
Total liabilities	<u>41,378,195</u>	<u>2,593,899</u>	<u>43,972,094</u>	<u>45,627,936</u>
Net assets available for benefits	<u>\$ 1,329,172,696</u>	<u>106,511,672</u>	<u>1,435,684,368</u>	<u>1,398,174,123</u>

See accompanying notes to financial statements.

GOVERNMENT OF GUAM RETIREMENT FUND

Statement of Changes in Plan Net Assets

Years ended September 30, 2004 and 2003

	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>Total 2004</u>	<u>Total 2003</u>
Investment income				
Net appreciation in fair value of investments	\$ 72,376,615	3,989,230	76,365,845	76,513,477
Interest	31,092,905	2,190,804	33,283,709	43,029,812
Dividends	11,396,669	-	11,396,669	8,441,013
Other investment income	<u>1,522,685</u>	<u>418,697</u>	<u>1,941,382</u>	<u>1,259,034</u>
	116,388,874	6,598,731	122,987,605	129,243,336
Less investment expenses	<u>3,350,907</u>	<u>-</u>	<u>3,350,907</u>	<u>2,727,823</u>
Net investment income	<u>113,037,967</u>	<u>6,598,731</u>	<u>119,636,698</u>	<u>126,515,513</u>
Contributions				
Employer	61,561,461	7,395,927	68,957,388	68,903,887
Member	<u>20,176,135</u>	<u>7,442,484</u>	<u>27,618,619</u>	<u>29,573,784</u>
Total contributions	<u>81,737,596</u>	<u>14,838,411</u>	<u>96,576,007</u>	<u>98,477,671</u>
TOTAL ADDITIONS	194,775,563	21,437,142	216,212,705	224,993,184
Benefit payments				
Age and service annuities	133,401,910	-	133,401,910	128,189,391
Disability annuities	8,976,389	-	8,976,389	9,276,164
Survivor annuities	14,300,943	-	14,300,943	13,617,180
Insurance	<u>66,489</u>	<u>-</u>	<u>66,489</u>	<u>-</u>
Total benefit payments	156,745,731	-	156,745,731	151,082,735
Refunds to separated employees and withdrawals	11,443,283	5,973,666	17,416,949	16,647,937
Interest on refunded contributions	679,621	-	679,621	546,733
Balances transferred to DC plan	1,789,948	(1,789,948)	-	-
Administrative and general expenses	<u>2,599,657</u>	<u>1,260,502</u>	<u>3,860,159</u>	<u>4,025,178</u>
TOTAL DEDUCTIONS	<u>173,258,240</u>	<u>5,444,220</u>	<u>178,702,460</u>	<u>172,302,583</u>
Net increase in plan net assets	21,517,323	15,992,922	37,510,245	52,690,601
Net assets available for benefits, beginning of year	<u>1,307,655,373</u>	<u>90,518,750</u>	<u>1,398,174,123</u>	<u>1,345,483,522</u>
Net assets available for benefits, end of year	<u>\$ 1,329,172,696</u>	<u>106,511,672</u>	<u>1,435,684,368</u>	<u>1,398,174,123</u>

See accompanying notes to financial statements.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements

September 30, 2004 and 2003

(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 two who 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. Persons becoming employees after the effective date are members as a condition of employment.

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

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

(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, 2003, the latest actuarial valuation date, membership is as follows:

Retirees and beneficiaries receiving benefits	6,809
Terminated plan members entitled to but not yet receiving benefits	7,025
Active plan members	<u>5,657</u>
	<u>19,491</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.

The actuarial valuation as of September 30, 2003 was issued March 15, 2005. The actuarially determined contribution rate was 24.89% of covered payroll. The actuarial valuation as of September 30, 2002 was issued in June 2003. The actuarially determined contribution rate was 20.81% of covered payroll.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

(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 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 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 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 services.

Survivor

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

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

(2) Description of the Defined Benefit Plan, continued

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.

Existing members of the DB plan with less than twenty years 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

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

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, 2004 and 2003 are accrued. 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 Government of Guam Code Annotated.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

(4) Summary of Significant Accounting Policies, continued

Cash

At September 30, 2004 and 2003, the GGRF has cash balances in banks of approximately \$9.9 million and \$16.5 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.

The Fund's investments may be categorized as either (1) insured and registered for which the securities are held by the Fund or its agent in the Fund's name, (2) uninsured and registered for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in the Fund's name. At September 30, 2004 and 2003 all of the Fund's investments are classified in category (1).

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, 2004 and 2003

(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, 2004 and 2003

(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, 2004 and 2003

(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, 2004 and 2003

(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, 2003).

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

(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, 2003.

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, 2003), 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:	\$3,533,184 per year
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, 2004 and 2003

(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 \$118,735 and \$119,101 in 2004 and 2003, respectively.

Reclassifications

Certain reclassifications have been made to the 2003 financial statement figures to conform to the 2004 presentation.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

(5) Related Party Transactions

In March 1998, the GGRF accepted a promissory note from Guam Memorial Hospital Authority (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, 2004 and 2003 the balance on the note was \$5,788,134 and \$6,271,028, 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, 2004 and 2003 to equal the balance of the receivable, with a corresponding offset included in bad debt recoveries.

(6) Property, Equipment and Land

Property, equipment and land at September 30, 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Building	\$ 1,130,186	1,130,186
Improvements	649,391	629,894
Equipment	821,423	814,973
Land	439,428	439,428
Furniture and fixtures	321,942	318,818
Automobiles	39,851	38,201
Other	<u>12,200</u>	<u>12,200</u>
	3,414,421	3,383,700
Less: Accumulated depreciation	<u>(2,061,606)</u>	<u>(1,942,871)</u>
	\$ <u>1,352,815</u>	<u>1,440,829</u>

(7) 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

(7) Supplemental Annuities and COLA Payments, continued

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.

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 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 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 balance at September 30, 2002 was \$108.1 million.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

(7) Supplemental Annuities and COLA Payments, continued

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

In fiscal year 2004, \$4.38 million was allocated to the reduction of the receivable for these payments. The balance at September 30, 2004 was \$99.296 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 2004 and 2003 was 1.2016% of covered payroll.

(8) 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, 2004 and 2003 the amount owed under these notes was \$11,115,954 and \$12,498,071, 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 \$12,625,667 and \$17,080,487 at September 30, 2004 and 2003, respectively.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2004 and 2003

(8) Early Retirement Incentive Program (ERIP), continued

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 2004 and 2003 was 1.31% of covered payroll.

(9) 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 therefore not included in the accompanying financial statements. These benefits are as follows:

	1/31/03 to 9/30/03
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>

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Funding Progress

September 30, 2004

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%

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Employer Contributions

September 30, 2004

<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%

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Administrative and General Expenses

Years ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>DEFINED BENEFIT PLAN</u>		
Salaries and wages	\$1,378,147	1,617,229
Employer's retirement contribution	285,627	326,120
Program services/maintenance	243,000	243,000
Legal fees	222,981	375,185
Insurance	198,651	165,668
Trustee election expenses	157,343	-
Depreciation	118,735	119,101
Postage	83,180	44,583
Utilities	69,950	57,727
Printing and publications	39,204	46,087
Miscellaneous	36,146	34,073
Repairs and maintenance	35,507	77,705
Communications	33,724	32,298
Medical exams	28,138	18,531
Equipment rental	24,663	23,323
Audit fees	24,000	45,000
Computers and software	18,546	61,701
Medicare contribution	18,132	20,158
Actuary fees	18,050	109,593
Retiree supplemental/COLA	17,800	52,001
Office supplies	13,190	14,055
Medical consultant	10,800	10,463
Travel and transportation	6,661	21,448
Training	376	18,135
Bad debts (recoveries)	<u>(482,894)</u>	<u>(552,746)</u>
	<u>\$2,599,657</u>	<u>2,980,438</u>
<u>DEFINED CONTRIBUTION PLAN</u>		
FASCORP administrative fees	721,889	696,635
Other operating expenses	<u>538,613</u>	<u>348,105</u>
	<u>\$1,260,502</u>	<u>1,044,740</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Personnel Costs

Years ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Salaries and wages	\$ 1,378,147	1,617,229
Employer's retirement contribution	285,627	326,120
Medicare contribution	<u>18,132</u>	<u>20,158</u>
	<u>\$ 1,681,906</u>	<u>1,963,507</u>
Average number of employees	42	49
Average cost per employee	\$ 40,045	\$ 40,072

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Other Receivables - Defined Benefit Plan

September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Defined contribution plan start-up costs	\$1,366,209	1,479,240
Benefit overpayments	751,188	729,894
Securities lending	15,492	13,922
Other	1,260	68,404
Employer contributions for non-base pay	38,077	27,337
Other overpayments	22,859	18,887
Unfunded liability portion from defined contribution plan	<u>387,764</u>	<u>15,682</u>
	<u>\$2,582,849</u>	<u>2,353,366</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)	\$ 99,296,144	7,608,501	2,122,006	342,377	109,369,028
Department of Education	-	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>\$ 99,296,144</u>	<u>12,625,667</u>	<u>18,331,507</u>	<u>6,922,201</u>	<u>137,175,519</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2003

Agency	Supplemental/ COLA	ERIP Employer's Share	Employer Contributions	Member Contributions	TOTAL
Department of Administration (General Fund)	\$ 103,675,964	9,010,477	1,540,593	15,371	114,242,405
Department of Education	-	2,820,116	13,088,732	5,006,512	20,915,360
Guam Memorial Hospital Authority	-	535,483	5,786,277	2,797,543	9,119,303
Guam Power Authority	-	1,182,814	(9,120)	77	1,173,771
Guam Community College	-	885,661	32,551	18,341	936,553
Guam Waterworks Authority	-	845,127	21,552	15,120	881,799
Superior Court of Guam	-	350,027	43,209	22,818	416,054
Port Authority of Guam	-	592,700	(4,612)	(47)	588,041
Guam Telephone Authority	-	404,768	(135)	(554)	404,079
University of Guam	-	152,762	12,655	3,201	168,618
Guam Legislature	-	153,108	(30,283)	(8,629)	114,196
Government of Guam Retirement Fund	-	87,575	-	-	87,575
Guam Airport Authority	-	-	(2,531)	2,509	(22)
Guam Housing Corporation	-	19,431	1,638	-	21,069
Guam Mass Transit Authority	-	40,438	-	-	40,438
Guam Economic Development and Commerce Authority	-	-	(168)	(71)	(239)
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>\$ 103,675,964</u>	<u>17,080,487</u>	<u>20,479,533</u>	<u>7,872,191</u>	<u>149,108,175</u>

See accompanying independent auditors' report.