GOVERNMENT OF GUAM RETIREMENT FUND

FINANCIAL STATEMENTS

September 30, 2011 and 2010

(Together with Independent Auditors' Report Thereon)

GOVERNMENT OF GUAM RETIREMENT FUND

September 30, 2011 and 2010

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BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Government of Guam Retirement Fund:

We have audited the accompanying financial statements of the Government of Guam Retirement Fund (the "Fund"), a component unit of the Government of Guam, administered by the Government of Guam Retirement Fund Board of Trustees (the "Board") as of and for the years ended September 30, 2011 and 2010. These financial statements are the responsibility of the Fund's management. 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, 2011 and 2010, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2012 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 of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

P.O. Box 504053, Saipan, MP 96950 • Phone: (670) 235-8722/8723 • Fax: (670) 235-6905
http://www.saipancpa.com

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Boards, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information listed as supplemental schedules on pages 53 to 60 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedules on pages 53 to 60 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Burger & Comer, P.C.

Tamuning, Guam
February 14, 2012

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis

September 30, 2011 and 2010

Management of the Government of Guam Retirement Fund ("GGRF") offers readers of the financial statements the following discussion and analysis of GGRF's financial activities for the fiscal years ended September 30, 2011 and 2010. This narrative should be reviewed in conjunction with the financial statements and related notes, which follow this section. It provides management's insight into the results of operations of the last two fiscal years, and highlights specific factors that contributed to those results.

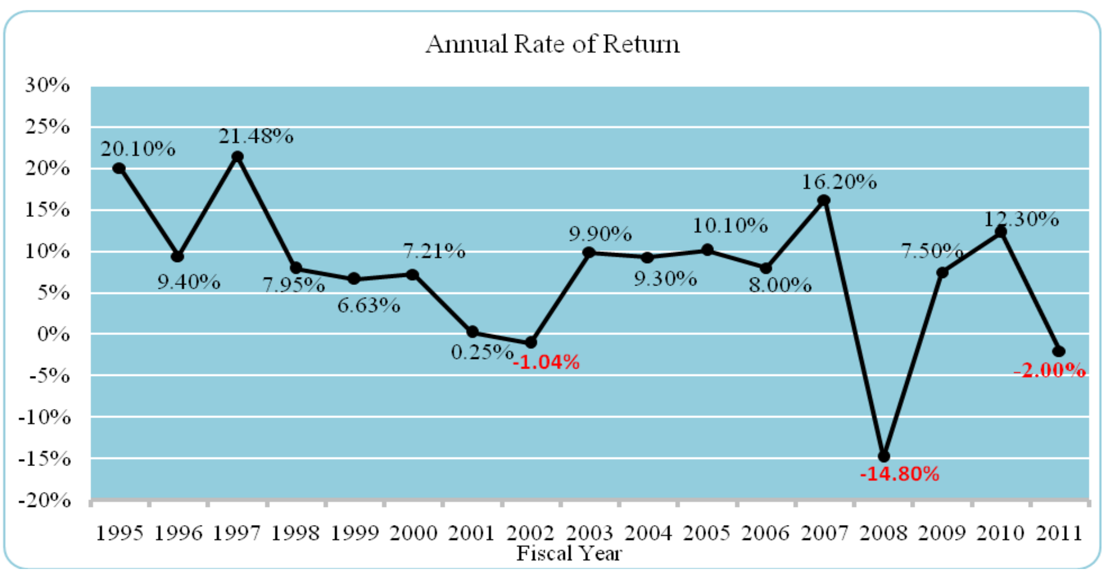
(1) Financial Highlights

- **Impact of Market Volatility on Net Assets**
  For 2011, net assets of the Defined Benefit Plan (DB Plan) decreased by $80.6 million or 6.0%, while net assets of the Defined Contribution Plan (DC Plan) increased by $13.3 million or 5.9%.

- **Impact of Market Volatility on the DB Plan and DC Plan Investments**
  Following the 2008 investment losses, the global markets showed signs of recovery over the last three years.

  For 2011, **DC Plan** investments totaled $234.3M compared to the $222.2M and $187.2M in 2010 and 2009, respectively.

  For 2011, the **DB Plan** investment portfolio posted a negative return of 2.0%, compared to 2010's return of 12.3%, and 2009's return of 7.5%.



GGRF investment returns averaged 7.6% percent from 1995 through 2011. Over that period, there have been three years with negative returns, both of which occurred in the last ten years.

(1) Financial Highlights, continued

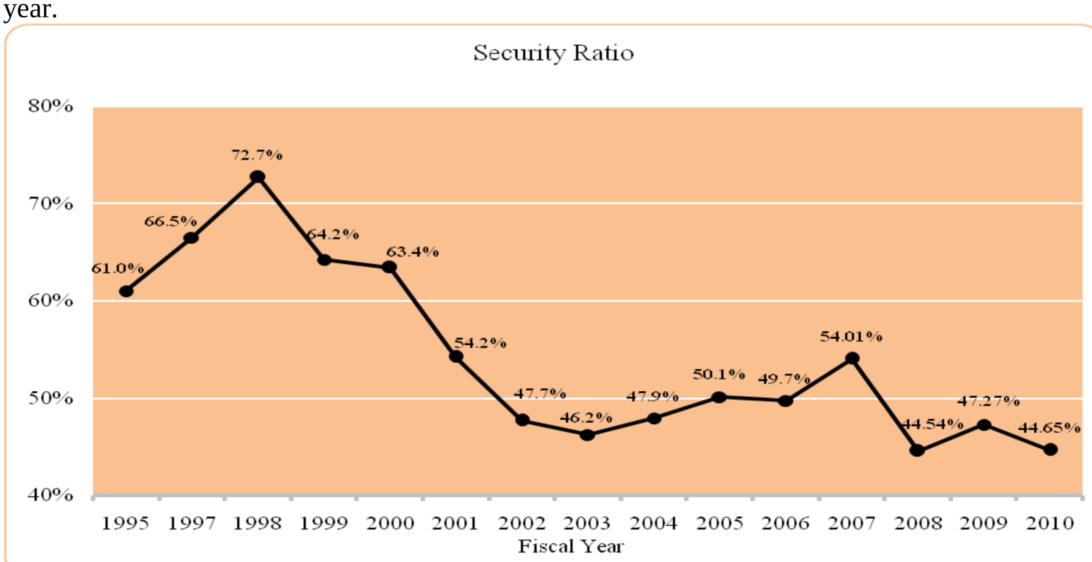
- **Critical Issue – Impact of Market Volatility on the DB Plan Unfunded Liability**

The unfunded liability increased from $1.44 billion (based on the 2009 actuarial valuation) to $1.54 billion (based on the 2010 actuarial valuation). This resulted in a corresponding increase in the actuarially determined contribution rate from 28.06% to 30.09%. The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date.

When the 2011 actuarial valuation is finalized in April 2012, the actuarially determined contribution rate is expected to be 31.44%. The increase from the 2010 actuarial rate of 30.09% is due to the: continued underfunding of the DB Plan, the negative 2.0% return of the DB Plan in 2011, the assumed increase of 3.5% in payroll contributions, and the increase in survivor annuities effective October 1, 2011 (in accordance with Public Law 31-77).

As noted in prior year reports, underfunding of the DB Plan continues to be an ongoing problem. The unfunded liability has grown from $552 million at September 30, 1995 to $1.54 billion at September 30, 2010. This represents a decrease in the security ratio, from 61.0% in 1995 to 44.7% in 2010, and an increase in the unfunded liability ratio from 39% in 1995 to 55.3% in 2010. The security ratio is the ratio of assets to liabilities. The increase in this ratio reflects a slight improvement in GGRF's ability to meet future benefit obligations.

As indicated below, the **security ratio** (fund assets as a percentage of accrued liability) for the past fifteen years has ranged from 44.5% to 72.7%, representing an average of 54.3% per year.



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

(1) Financial Highlights, continued

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

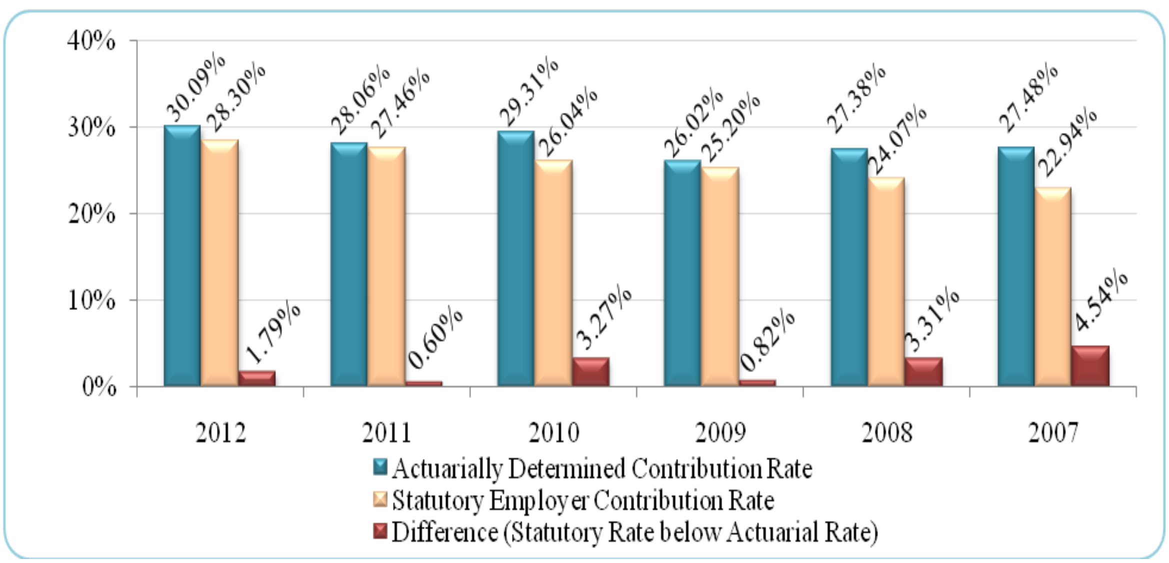
  Pursuant to 4 GCA Chapter 8, Section 8137, the unfunded liability is to be completely funded within 80 years from May 1, 1951. Based on the 2010 valuation, there are 20.58 years remaining in the funding period. As stated in prior years' Management's Discussion and Analysis (MD&A), "the unfunded liability is now so large that it simply cannot be ignored or put off for future generations to contend with. The longer Gov Guam defers its obligation to provide full funding, the worse the problem becomes".

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

  While full funding has not occurred, management commends the Guam Legislature for its efforts towards attaining full funding.

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

  A comparison of the actuarially determined contribution rates versus the statutory employer contribution rates for 2007 to 2012 are reflected below.



(1) Financial Highlights, continued

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

  As reflected above, the Guam Legislature's efforts toward full funding since 2007 have definitely narrowed the gap between the statutory and actuarially determined contribution rate. The increase in the gap from .82% in 2009 to 3.27% in 2010 is due largely to the negative return of 14.8% in 2008. Management encourages the Guam Legislature to continue to narrow the gap, through increases in the employer contribution rate, until the actuarially determined contribution rate is reached.

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

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

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

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

  1. Most participants are not saving enough;
  2. Many lack the basic knowledge of investment concepts and practices needed to generate an investment return that will ensure an adequate source of income for retirement;
  3. Participant account balances are not protected from adverse market conditions; and
  4. Participants can exhaust their assets during retirement.

  If participants are left without adequate income when they retire, Gov Guam may find itself subsidizing their costs of living through public assistance programs. As such, providing *retirement income security* may reduce the likelihood that DC retirees will need to rely on public assistance during retirement.

  It is only logical then to enact measures that provide participants a better chance of retiring with sufficient retirement assets to support their basic needs, allow them to maintain a comfortable standard of living, and last their lifetime.

(1) Financial Highlights, continued

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

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

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

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

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

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

(1) Financial Highlights, continued

- **Critical Issue – Issuance of General Obligation Bond for Repayment of Outstanding Contributions**

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

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

In accordance with ***Public Law 30-196***, passed in September 2010, the interest-only payments for GDOE and GMHA shall be equal to the outstanding liability multiplied by one twelfth of the most recent historical five (5) year average annual rate of return of the DB Plan investment portfolio, inclusive of performance which yielded negative returns.

As discussed in the prior year's MD&A, as of September 30, 2010 GMHA was delinquent in its remittance of fiscal year 2010 member and employer contributions to GGRF for both the DB and DC Plans. Due to continued delinquencies, on November 12, 2010 GGRF filed a petition for Writ of Mandate with the Superior Court of Guam to order GMHA to remit delinquent contributions, plus interest and penalties to GGRF.

Impact of Late Contributions by GMHA

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

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

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

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

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

(1) Financial Highlights, continued

- **Critical Issue – Issuance of General Obligation Bond for Repayment of Outstanding Contributions, continued**

In addition to GMHA's growing delinquencies to the GGRF as of May 2011, the General Fund also faced a budget shortfall, which threatened the continuation of health benefits and government operations, if not resolved.

In June 2011, ***Public Law 31-74*** was passed, mandating the following:

1. A reduction in the statutory employer contribution rate from 27.46% to 21.44% for agencies receiving appropriations from *I Liheslaturan Guåhan* and for Federally-funded programs, between June 4, 2011 and September 30, 2011.

2. That the GGRF Board and the Governor of Guam enter into the "Health Insurance Bailout Agreement of FY2011" reducing the contribution rate accordingly. This Agreement was entered into on June 15, 2011.

3. An amendment to Public Law 28-38 to include "interest-only" payments on 1) GMHA's fiscal year 2011 delinquent **DB Plan employer and member contributions**, and 2) the savings from the reduction of the government contribution rate.

4. That GMHA remit to GGRF, for fiscal year 2011 delinquent **DC Plan employer and member contributions**:

   a. All of the savings arising from the reduction in the statutory employer contribution rate, for the payment of the delinquent contributions.

   b. Additional GMHA funds as needed to ensure that the entire amount is remitted to GGRF by September 30, 2011.

   As of September 30, 2011, GMHA had a remaining balance on the delinquent contributions totaling approximately $296,000. These delinquent contributions were fully paid by GMHA as of October 13, 2011.

(1) Financial Highlights, continued

- **Critical Issue – Issuance of General Obligation Bond for Repayment of Outstanding Contributions, continued**

5. That "*I Maga'låhen Guåhan* shall include the re-financing of the outstanding principal and interest owed to the Government of Guam Retirement Fund herein in the next General Obligation Bond "Bond" issue of the government of Guam."

   Management of GGRF notes the following:

   a. On November 2011, a Bond was issued. However, it did not include repayment of amounts owed to GGRF in accordance with Public Law 31-74.

   b. GGRF has been in communication with *I Maga'låhen Guåhan* to determine when the next Bond will be issued and plans for repayments to GGRF. During a February 20, 2012 meeting with the GGRF Director and members of the Board of Trustees *I Maga'låhen Guåhan* indicated that repayments to GGRF will be included in the next Bond issue.

   c. Management encourages immediate issuance of a Bond for repayment, otherwise Agencies included in the statutory contribution rate reduction including GDOE and GMHA may be deemed delinquent in the remittance of such contributions to GGRF. If deemed delinquent, GGRF will be forced to suspend retirements by employees of these Agencies until such amounts are paid in full.

(1) Financial Highlights, continued

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

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

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

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

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

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

GGRF's Response to Concerns Above:

GGRF Management clarifies that GGRF's share of the unfunded liability is not reflected on the statement of net assets for the simple reason that an entity should not report a liability to itself. If GGRF were to utilize separate financial statements for the pension plan and another for operational purposes, the consolidated financial statements would require elimination entries since the pension liability will be recorded as a payable under operations, and a receivable for the pension plan. Thus, if GGRF were to record the liability, it will be improperly reflected on the "statement of plan net assets" as it will result in a reduction in the "net assets held in trust for pension benefits". Based on both the 2010 and 2009 actuarial valuations, GGRF's share of the unfunded liability totaled approximately $5 million.

(2) Description of the Financial Statements

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

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

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

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

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

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

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

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

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

(2) Description of the Financial Statements, continued

Additional information is included in the following required supplementary schedules:

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

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

(3) Defined Benefit Plan

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

DB Plan Net Assets as of September 30, 2011, 2010 and 2009 are as follows (in millions):

	2011	2010	2009	Increase (Decrease) From 2010 to 2011	
				$	**%**
Cash and Equivalents	5,010,155	1,672,894	2,874,238	3,337,261	199.5%
Receivables	107,079,981	176,337,763	114,590,064	(69,257,782)	-39.3%
Investments	1,204,425,169	1,180,581,565	1,164,309,483	23,843,604	2.0%
Prepaid expenses	0	40,542	19,835	(40,542)	-100.0%
Property and Equipment	967,746	1,034,371	964,374	(66,625)	-6.4%
Total Assets	1,317,483,051	1,359,667,135	1,282,757,994	(42,184,084)	-3.1%
Total Liabilities	51,657,541	13,214,958	16,985,354	38,442,583	290.9%
Net Assets, End of Year	**1,265,825,510**	**1,346,452,177**	**1,265,772,640**	**(80,626,667)**	**-6.0%**
Net Assets, Beginning of Year	1,346,452,177	1,265,772,640	1,248,631,469		
Net Increase (Decrease) in Net Assets	**(80,626,667)**	**80,679,537**	**17,141,171**		

(3) Defined Benefit Plan, continued

During 2011, DB Plan net assets decreased by $80.6 million or 6.0% from the prior year. DB Plan investments increased by $23.8 million ending the year at $1.2 billion. Receivables decreased by $69.3 million consisting of a $71.5 million decrease in amounts due from brokers for unsettled trades as of September 30, 2011, a 5.8 million decrease in Supplemental/COLA benefits receivable, and a $7.9 million increase in the net employer contributions receivable.

As of September 30, 2011, the supplemental/COLA benefits advanced receivable totaled approximately $61.8 million. Over $130 million in supplemental/COLA benefits were advanced to Gov Guam by GGRF in the late 1990s. During 2011 and 2010, the outstanding balance of the supplemental/COLA benefits advanced was reduced by 1.2016% of the employer contributions of covered payroll. These receivables are being collected by GGRF over a twenty year period, without interest. Had these funds remained with GGRF's investment managers, they would have grown substantially.

As of September 30, 2011, employer contributions receivable, includes GMHA's delinquent 2011 contributions, and receivables arising from the savings generated by the reduction in the statutory employer contribution rate in accordance with Public Law 31-74, as previously discussed.

During 2011, DB Plan liabilities increased by $38.4 million due primarily to a $32.9 million increase in amounts due to brokers for unsettled trades as of September 30, 2011, and a $5.3 million increase in deferred revenue arising from the reduction in the statutory employer contribution in accordance with Public Law 31-74.

DB Plan Investments as of September 30, 2011, 2010 and 2009 are as follows (in millions):

	2011	**2010**	**2009**	**Increase (Decrease) From 2010 to 2011**	
				$	**%**
Common Stocks	688,984,305	684,028,213	557,712,039	4,956,092	0.7%
U.S. Government Securities	167,582,279	168,578,770	196,463,854	(996,491)	-0.6%
Corporate Bonds and Notes	195,167,909	192,887,162	210,626,549	2,280,747	1.2%
Money Market Funds	58,355,513	21,269,147	22,526,943	37,086,366	174.4%
Mutual Funds	94,335,163	113,818,273	176,980,098	(19,483,110)	-17.1%
Total	**1,204,425,169**	**1,180,581,565**	**1,164,309,483**	**23,843,604**	**2.0%**

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

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

(3) Defined Benefit Plan, continued

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

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

In August 2006, the Board adopted a new asset allocation strategy to include investments in domestic small cap equity and real estate investment trusts (REITs). The allocation was further revised in 2009 to change the allocations to the international developed markets and international emerging markets mandates.

The table below shows portfolio returns and indexes, which are reflective of the market environment for 2011 and 2010.

	2011	2010
Total Portfolio	**-2.0%**	**12.3%**
Blended Index	-1.62%	9.6%
Total Domestic Equity	**-1.85%**	**12.2%**
Benchmark: S&P 500 Index	-0.12%	10.2%
International Equity	**-12.14%**	**9.8%**
Benchmark: MSCI EAFE	-10.40%	3.3%
Total Fixed Income	**4.03%**	**8.9%**
Benchmark: Barclays Capital Aggregate	5.26%	8.2%
Total REITs	**.82%**	**33.6%**
Dow Jones US Select Real Estate Security Index	1.76%	30.1%

(3) Defined Benefit Plan, continued

To come into compliance with the asset allocation strategy, the Board fully funded the Domestic Small Cap Equity mandates in 2011, and the Real Estate Investment Trust (REITs) mandates in 2010. GGRF's target allocation versus the market allocation as of September 30, 2011, is as follows:

	Target Allocation (Adopted in 2010)	Market Allocation	Over/(Under) Target Allocation
Domestic Large Cap Equity	30%	31.2%	1.20%
Domestic Small Cap Equity	10%	8.8%	-1.20%
International Developed Markets	9.25%	9.21%	-0.04%
International Small Cap	5%	3.33%	-1.67%
International Emerging Markets	5.75%	4.72%	-1.03%
Fixed Income Aggregate	30%	31.6%	1.56%
Real Estate (REITs)	10%	10.7%	0.73%
Cash	0%	0.4%	0.45%
Total	100%	100.00%	0.00%

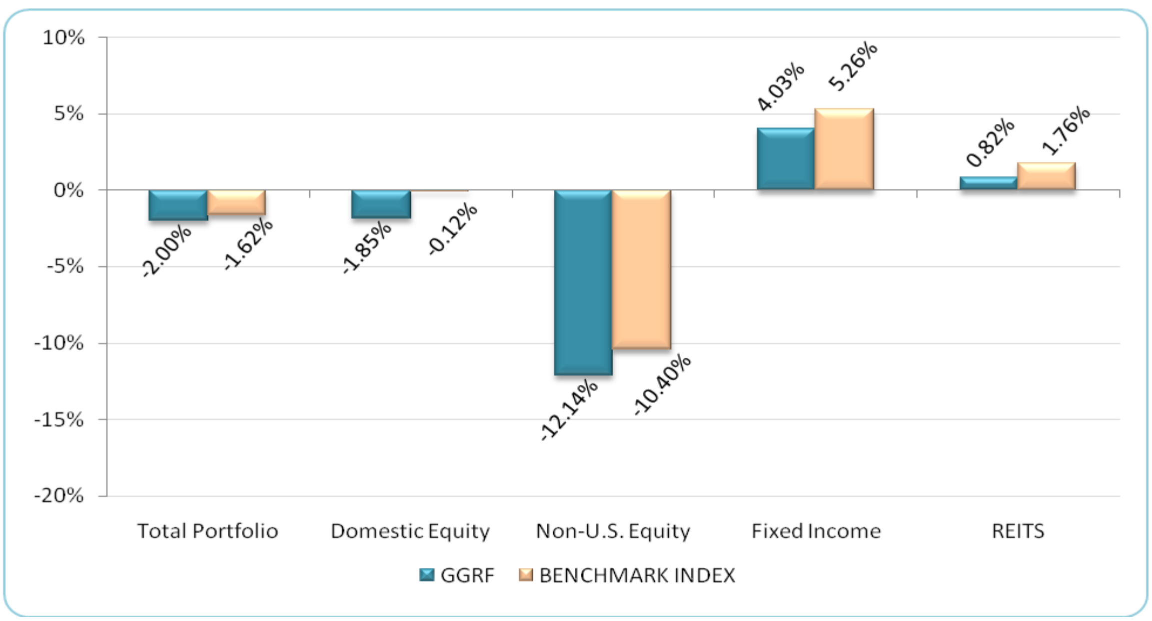
(3) Defined Benefit Plan, continued

Total Portfolio Return

For 2011, the total performance of the GGRF Portfolio (negative 2.0%) trailed both the median of a peer group of other U.S. based public funds with a positive return of .73%, and the benchmark index with a negative return of 1.62%. GGRF ranked at the 94th percentile compared to the benchmark index at the 93rd percentile.

Investment returns can vary widely from year to year. According to Milliman Inc., investment returns for a specific fiscal year depends upon the timing of the fiscal year end. Most U.S. public pension funds have a June 30 fiscal year end and their results for the year ending June 30, 2011, were more favorable because they did not reflect investment declines that occurred between July 1, 2011 and September 30, 2011. For the 12 months ending September 30, 2011, the S&P 500 index rose 1.1%, international equities fell -10.4%, and fixed income investments rose 5.3%. Most funds with a balanced portfolio probably earned somewhere between -2% and +2% for the 12 months ending September 30, 2011.

For 2011, the returns for all mandates were also below their benchmarks. The following reflects the 2011 investment performance for the total portfolio, and for each investment mandate.



GOVERNMENT OF GUAM RETIREMENT FUND

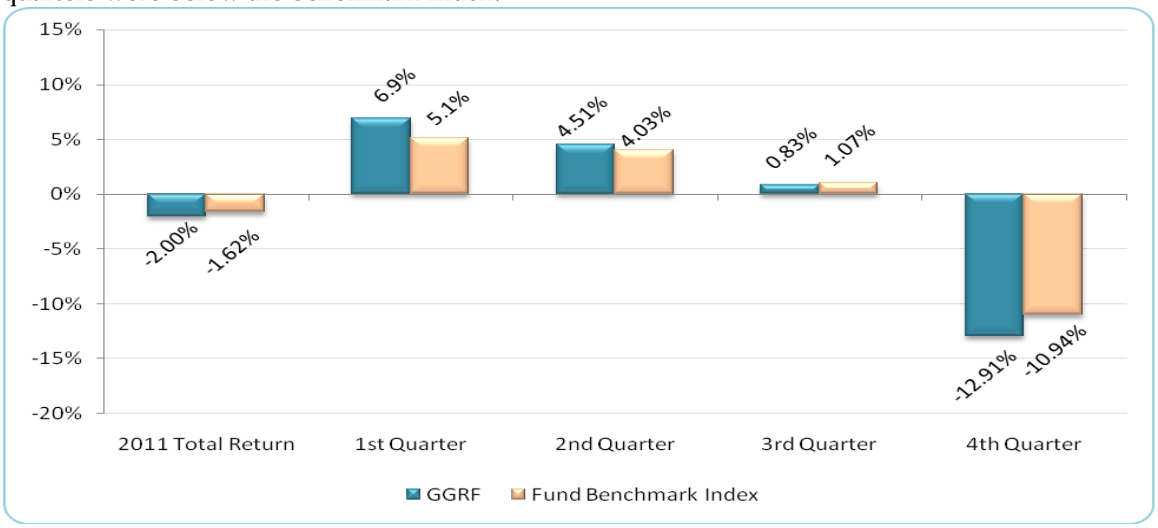
Management's Discussion and Analysis, continued

September 30, 2011 and 2010

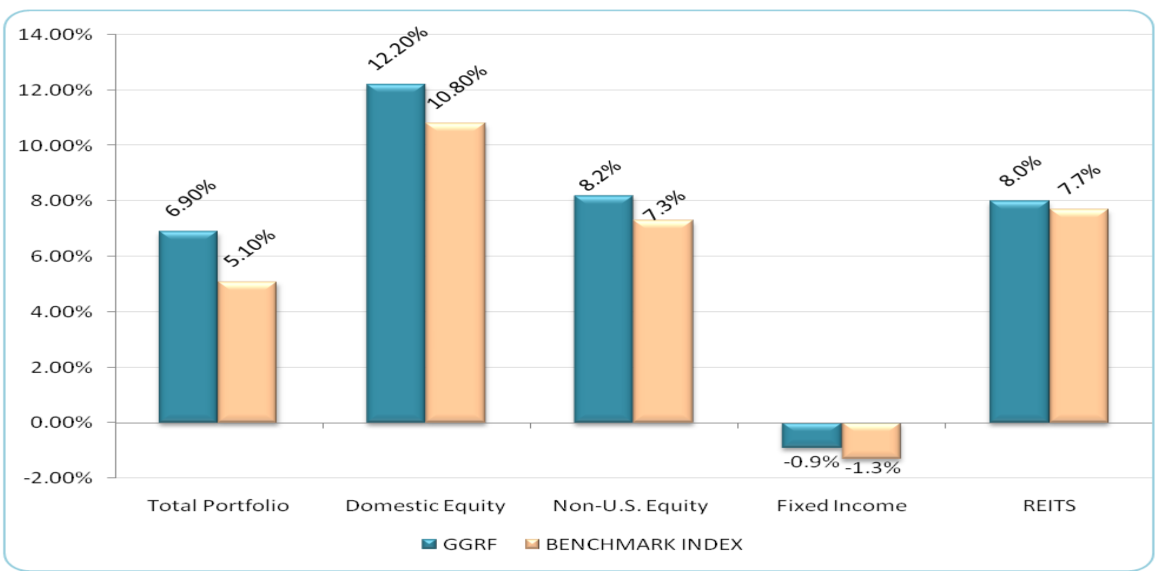
(3) Defined Benefit Plan, continued

2011 Portfolio Returns by Quarter

The following reflects the 2011 total and quarterly returns. The portfolio returns for the first and second quarter were above the benchmark index, while the returns for the third and fourth quarters were below the benchmark index.

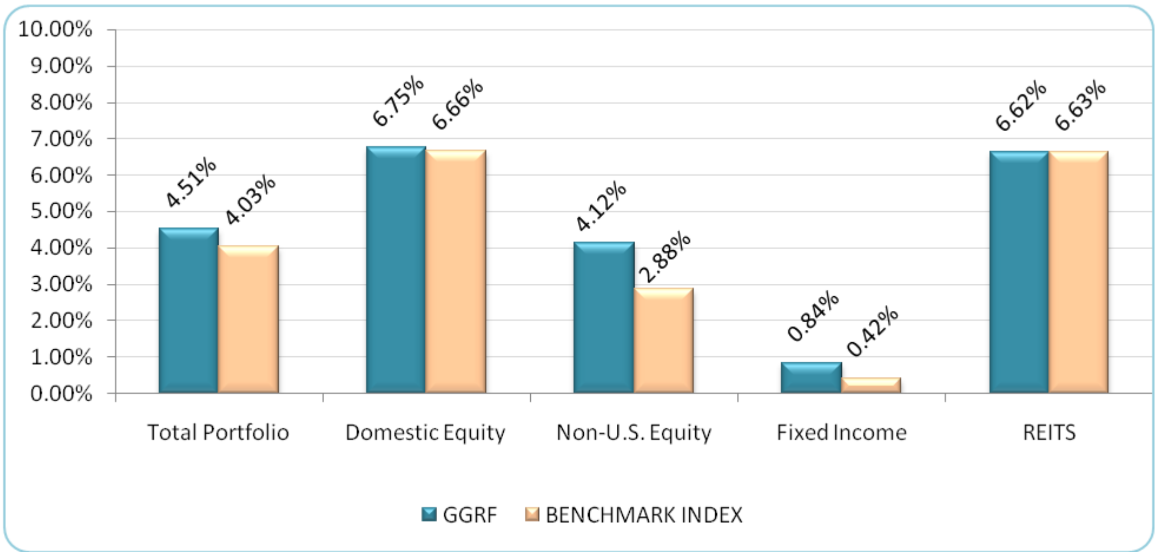


- During the **first quarter** of 2011, the GGRF Portfolio outperformed its benchmark index, and ranked in or near the top third of the Public Funds Universe. All Mandates outperformed their benchmarks.

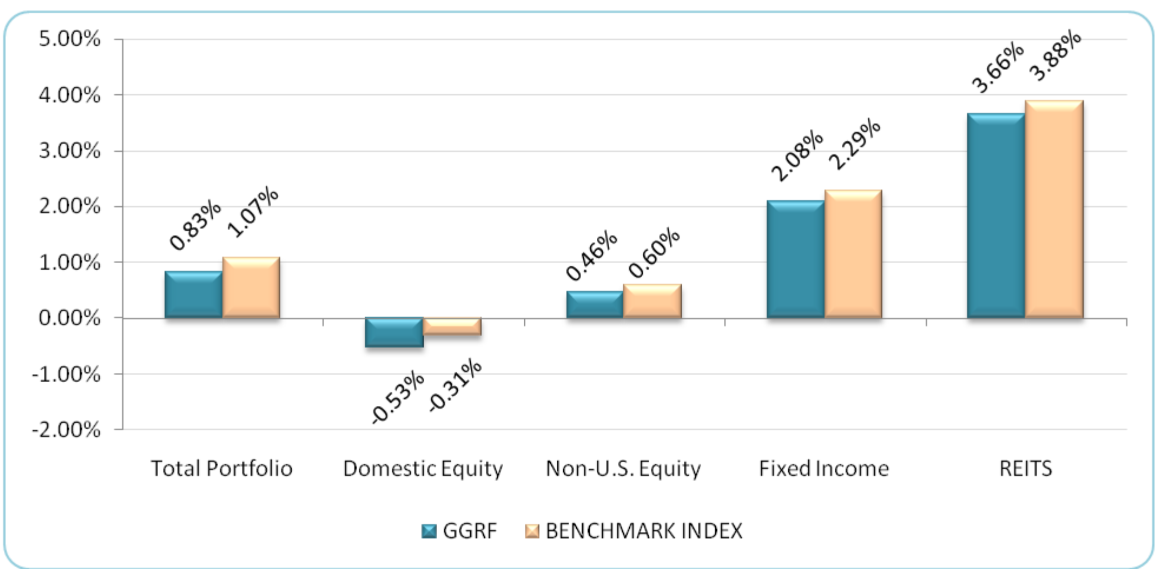


(3) Defined Benefit Plan, continued

- During the **second quarter**, the GGRF portfolio performed well ranking at the top 20th percentile of Wilshire' peer group universe for the quarter. All mandates outperformed their relevant benchmarks except REITs, which only slightly underperformed its benchmark.

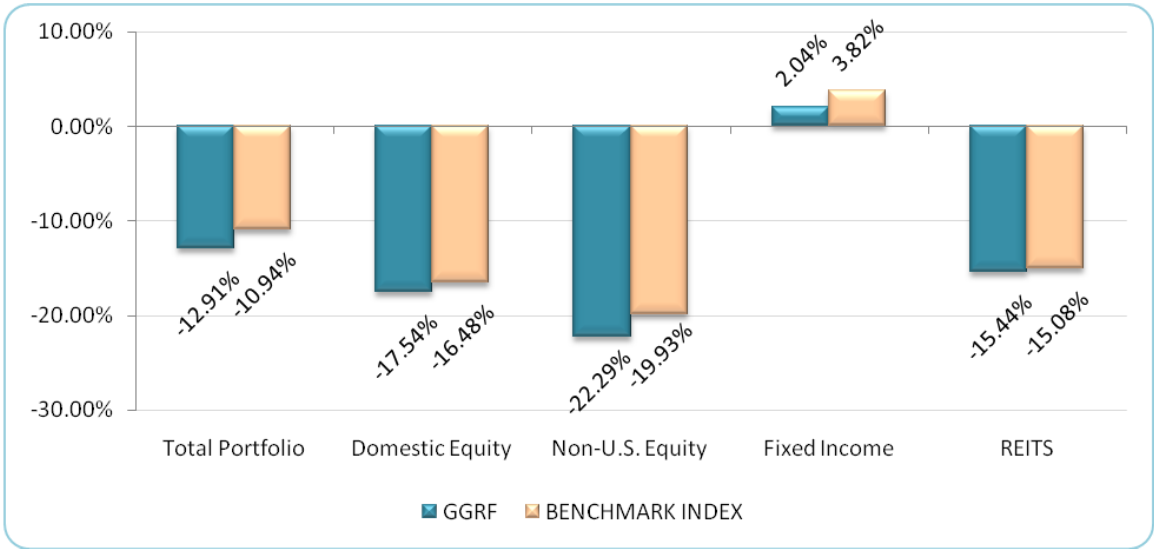


- During the **third quarter**, performance of the GGRF portfolio trailed the benchmark index. With all mandates trailing their respective benchmarks the portfolio ranked at the 79th percentile of Wilshire's peer group universe for the quarter.



(3) Defined Benefit Plan, continued

- During the **fourth quarter**, the GGRF portfolio also trailed the benchmark index, with all portfolios trailing their benchmarks.



Mitigating the Effects of Market Volatility through Diversification
Despite the negative 2.0% return for 2011, the quarterly returns highlight the long-term proven success of strategic asset allocation and diversification in mitigating market volatility. The portfolio remains fully diversified across the different asset classes. A number of investment managers are utilized within each asset class, allowing the portfolio to achieve broad exposure to the market while minimizing overall risk. This broad diversification serves as the best defense against the uncertainty of volatile investment markets.

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

(3) Defined Benefit Plan, continued

Additions and Deductions to DB Plan Net Assets for the years ended September 30, 2011, 2010 and 2009 are as follows (in millions):

	2011	2010	2009	Increase (Decrease) From 2010 to 2011	
				$	%
Net Appreciation in Fair Value of Investments	(46,794,683)	108,837,367	31,783,352	(155,632,050)	-143.0%
Interest, Dividends & Other Investment Income	38,161,152	40,533,708	56,530,021	(2,372,556)	-5.9%
Less Investment Expenses	4,958,871	3,615,702	2,933,886	1,343,169	37.1%
Net Investment Income	**(13,592,402)**	**145,755,373**	**85,379,487**	**(159,347,775)**	**-109.3%**
Employer Contributions	100,343,563	97,732,952	89,482,900	2,610,611	2.7%
Member Contributions	18,081,130	18,020,144	18,583,330	60,986	0.3%
Total Contributions	**118,424,693**	**115,753,096**	**108,066,230**	**2,671,597**	**2.3%**
Total Additions	**104,832,291**	**261,508,469**	**193,445,717**	**(156,676,178)**	**-59.9%**
Benefit Payments	176,716,825	173,808,545	171,508,119	2,908,280	1.7%
Refunds	3,615,187	2,871,814	4,008,697	743,373	25.9%
Interest on Refunds	1,968,048	1,362,795	1,866,299	605,253	44.4%
Administrative Expenses	3,047,424	2,778,942	2,926,931	268,482	9.7%
Bad Debt Recovery	0	0	(4,095,893)	0	0.0%
Transfers to DC Plan	111,474	6,836	90,393	104,638	1531%
Total Deductions	**185,458,958**	**180,828,932**	**176,304,546**	**4,630,026**	**2.6%**
Net Increase (Decrease) in Net Assets	**(80,626,667)**	**80,679,537**	**17,141,171**		

Additions to DB Plan Net Assets

The fair value of investments decreased by $155.6M. Interest, dividends and other investment income includes interest-only payments received from the Gov Guam General Fund for (1) prior years' outstanding contributions receivable from GMHA and GDOE, (2) 2011 delinquent contributions from GMHA, and (3) 2011 receivables arising from the reduction in the statutory employer contribution rate in accordance with Public Law 31-74, as previously discussed.

As discussed in prior years' MD&A, on July 2, 2009 the Fund received $21 million from the General Fund, in partial payment of GMHA and GDOE receivables (including interest and penalties). Of the $21 million, $10,541,146 was allocated to the GMHA and $10,458,854 was allocated to the GDOE. However, since the GMHA and GDOE receivables have not been fully satisfied, the mandated interest payment schedule remains in effect. Non-remittance will cause the processing of retirement applications from employees of GMHA and GDOE to cease.

During 2011, the employer contribution rate increased to 27.46% from the 26.04% employer contribution rate in 2010, resulting in a $2.6 million increase in employer contributions. As previously discussed, the 27.46% was temporarily reduced to 21.44% from June 2011 to September 2011.

(3) Defined Benefit Plan, continued

Deductions to DB Plan Net Assets

GGRF was created to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, elective refunds of contributions to employees who terminate employment, and the cost of administering the Plan. For 2011, deductions totaled $185.5 million an increase of 2.6% over 2010.

Benefit payments to current retirees and their beneficiaries over the last three years averaged 96%. For 2011, benefit payments increased by $2.9 million or 1.7% over 2010. Benefit payments for DB Plan retirees are not affected by the market downturn as they are based on a formula reflecting years of service and average annual salary. DB Plan investments, combined with future earnings and additional member and employer contributions, will be used to pay retirement benefits.

During 2011, member refunds decreased by $743,000. Refunds of member accounts are at the discretion of the member, and vary from year to year. Administrative expenses totaled $3.0 million, an increase of 9.7% over 2010.

DB Plan membership as of September 30, 2011, 2010 and 2009 is as follows:

	2011	2010	2009	Increase (Decrease) from 2010 to 2011
Retirees and Beneficiaries Receiving Benefits	7,082	7,112	7,085	-30
Terminated Members entitled to, but not yet Receiving Benefits	6,466	6,525	6,634	-59
Active Plan Members	3,594	3,732	3,952	-138
Total Membership	**17,142**	**17,369**	**17,671**	**-227**

Liquidations

During 2011, $62.2 million in investments were liquidated in order to meet benefit payment obligations, compared to $54.4 million in 2010. The $62.2M and $54.4M included $32M and $35M of interest and dividend income, respectively. The $7.8 million increase in 2011, is due largely to the delinquent contributions from GMHA in 2011 and the reduction in the employer statutory contribution rate as previously discussed.

(4) Defined Contribution Plan

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

DC Plan Net Assets as of September 30, 2011, 2010 and 2009 are as follows (in millions):

	2011	2010	2009	Increase (Decrease) From 2010 to 2011	
				$	%
Cash and Equivalents	4,249,647	2,922,465	3,108,835	1,327,182	45.4%
Receivables	939,801	1,262,484	1,435,674	(322,683)	-25.6%
Investments	234,301,492	222,220,132	187,180,401	12,081,360	5.4%
Property and Equipment	139,148	138,587	0	561	0.4%
Total Assets	239,630,088	226,543,668	191,724,910	13,086,420	5.8%
Total Liabilities	929,326	1,128,290	548,024	(198,964)	-17.6%
Net Assets, End of Year	**238,700,762**	**225,415,378**	**191,176,886**	**13,285,384**	**5.9%**
Net Assets, Beginning of Year	225,415,378	191,176,886	164,982,206		
Net Increase (Decrease) in Net Assets	**13,285,384**	**34,238,492**	**26,194,680**		

During 2011, DC Plan net assets increased by approximately $13.3 million or 5.9%, due primarily to the increased carrying value of investments.

DC Plan investments include core mutual funds, target date funds and a TIPS fund. The core mutual funds allow members to create their own portfolios based on the type of investments that best fit their time horizon, risk tolerance and investment goals. During 2011, GGRF replaced the American Funds AMCAP Fund R-4 with the Nuveen Winslow Large Cap Growth Fund. During 2010, GGRF replaced the life cycle funds with the BlackRock LifePath Portfolios (Target Date Funds) and added an actively managed Treasury Inflation-Protected Securities (TIPS Fund).

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

(4) Defined Contribution Plan, continued

Additions and Deductions to DC Plan Net Assets for the years ended September 30, 2011, 2010 and 2009 are as follows (in millions):

	2011	2010	2009	Increase (Decrease) From 2010 to 2011	
				$	%
Net Appreciation in Fair Value of Investments	(5,970,107)	15,033,002	8,888,958	(21,003,109)	-139.7%
Interest, Dividends & Other Investment Income	4,911,745	2,624,057	1,587,121	2,287,688	87.2%
Less Investment Expenses	74,000	48,000	0	26,000	54.2%
Net Investment Income	**(1,132,362)**	**17,609,059**	**10,476,079**	**(18,741,421)**	**-106.4%**
Employer Contributions	14,375,673	13,064,853	12,102,755	1,310,820	10.0%
Member Contributions	14,243,599	12,980,904	12,035,467	1,262,695	9.7%
Total Contributions	**28,619,272**	**26,045,757**	**24,138,222**	**2,573,515**	**9.9%**
Total Additions	**27,486,910**	**43,654,816**	**34,614,301**	**(16,167,906)**	**-37.0%**
Refunds	12,716,717	7,837,201	6,857,492	4,879,516	62.3%
Administrative Expenses	1,596,283	1,585,959	1,652,522	10,324	0.7%
Transfer from DB Plan	(111,474)	(6,836)	(90,393)	(104,638)	1530.7%
Total Deductions	**14,201,526**	**9,416,324**	**8,419,621**	**4,785,202**	**50.8%**
Net Increase (Decrease) in Net Assets	**13,285,384**	**34,238,492**	**26,194,680**		

Additions to DC Plan Net Assets - During 2011, employer and employee contributions increased by $1.3 million or 10% over 2010. The increase in contributions is due largely to the increase in the number of DC Plan participants during 2011.

Deductions to DC Plan Net Assets - During 2011, refunds totaled $12.7 million, an increase of 62.3% from 2010. Refunds of member contributions are at the discretion of the member and vary from year to year.

DC Plan membership as of September 30, 2011, 2010 and 2009 is as follows:

	2011	2010	2009	Increase (Decrease) from 2010 to 2011
Active (Contributing) Members	7,690	7,471	7,107	219
Inactive (Non-Contributing) Members with Account Balances	3,174	2,992	2,915	182
Total Membership	**10,864**	**10,463**	**10,022**	**401**

(5) Future Outlook

Defined Benefit Plan

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

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

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

The Defined Contribution Plan

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

GOVERNMENT OF GUAM RETIREMENT FUND

Statement of Plan Net Assets

September 30, 2011 and 2010

ASSETS	Defined Benefit	Defined Contribution	Total 2011	Total 2010
Investments, at fair value:				
Common and preferred stocks	$ 688,984,305	-	688,984,305	684,028,213
U.S. Government securities	167,582,279	-	167,582,279	168,578,770
Corporate bonds and notes	195,167,909	-	195,167,909	192,887,162
Money market funds	58,355,513	-	58,355,513	21,269,147
Mutual funds	94,335,163	228,388,011	322,723,174	330,808,439
DC plan forfeitures	-	5,913,481	5,913,481	5,229,966
Total investments	1,204,425,169	234,301,492	1,438,726,661	1,402,801,697
Receivables:				
Contributions, Interest & Penalties:				
Supplemental/COLA benefits receivable	61,841,261	-	61,841,261	67,636,261
Employer contributions, net	12,153,131	430,936	12,584,067	10,919,006
Employer contributions, unfunded liability	8,861,049	-	8,861,049	2,855,202
Member contributions	4,226,049	430,650	4,656,699	5,142,148
Interest and penalties on contributions	2,622,664	-	2,622,664	1,097,393
Receivable - ERIP employer's share	-	-	-	15,227
Supplemental/Insurance benefits advanced	3,511,711	-	3,511,711	3,511,711
	93,215,865	861,586	94,077,451	91,176,948
Member Notes:				
Early Retirement Incentive Program (ERIP)	3,561,549	-	3,561,549	4,761,094
Service Credits	1,103,793	-	1,103,793	1,527,200
	4,665,342	-	4,665,342	6,288,294
Other:				
Accrued interest and dividends on investments	5,228,841	-	5,228,841	4,461,187
Other receivables	826,088	78,215	904,303	856,536
Due from brokers for unsettled trades	2,679,861	-	2,679,861	74,234,246
Due from DC plan	463,984	-	463,984	583,036
	9,198,774	78,215	9,276,989	80,135,005
Total receivables	107,079,981	939,801	108,019,782	177,600,247
Cash and cash equivalents	5,010,155	4,249,647	9,259,802	4,595,359
Prepaid expenses	-	-	-	40,542
Property and equipment	967,746	139,148	1,106,894	1,172,958
Total assets	1,317,483,051	239,630,088	1,557,113,139	1,586,210,803
LIABILITIES				
Deferred revenue for service credits	12,225,887	-	12,225,887	6,852,502
Accounts payable and accrued expenses	1,713,718	-	1,713,718	2,120,504
Due to brokers for unsettled trades	37,717,936	465,342	38,183,278	4,787,206
Due to DB plan	-	463,984	463,984	583,036
Total liabilities	51,657,541	929,326	52,586,867	14,343,248
Net assets held in trust for pension benefits (See required supplemental schedule of funding progress)	$ 1,265,825,510	238,700,762	1,504,526,272	1,571,867,555

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

GOVERNMENT OF GUAM RETIREMENT FUND

Statement of Changes in Plan Net Assets

Years ended September 30, 2011 and 2010

	Defined Benefit	Defined Contribution	Total 2011	Total 2010
Investment income				
Net appreciation (decline) in fair value of investments	$ (46,794,683)	(5,970,107)	(52,764,790)	123,870,369
Interest	20,463,983	4,087,946	24,551,929	29,167,086
Dividends	16,780,298	-	16,780,298	12,761,512
Other investment income	916,871	823,799	1,740,670	1,229,167
	(8,633,531)	(1,058,362)	(9,691,893)	167,028,134
Less investment expenses	4,958,871	74,000	5,032,871	3,663,702
Net investment income	(13,592,402)	(1,132,362)	(14,724,764)	163,364,432
Contributions				
Employer	100,343,563	14,375,673	114,719,236	110,797,805
Member	18,081,130	14,243,599	32,324,729	31,001,048
Total contributions	118,424,693	28,619,272	147,043,965	141,798,853
TOTAL ADDITIONS	104,832,291	27,486,910	132,319,201	305,163,285
Benefit payments				
Age and service annuities	149,023,692	-	149,023,692	146,781,373
Survivor annuities	20,188,068	-	20,188,068	19,265,554
Disability annuities	7,505,065	-	7,505,065	7,761,618
Total benefit payments	176,716,825	-	176,716,825	173,808,545
Refunds to separated employees and withdrawals	3,615,187	12,716,717	16,331,904	10,709,015
Administrative and general expenses	3,047,424	1,596,283	4,643,707	4,364,901
Interest on refunded contributions	1,968,048	-	1,968,048	1,362,795
Balances transferred to DC plan	111,474	(111,474)	-	-
TOTAL DEDUCTIONS	185,458,958	14,201,526	199,660,484	190,245,256
Net increase (decrease) in plan net assets	(80,626,667)	13,285,384	(67,341,283)	114,918,029
Net assets held in trust for pension benefits, beginning of year	1,346,452,177	225,415,378	1,571,867,555	1,456,949,526
Net assets held in trust for pension benefits, end of year	$1,265,825,510	238,700,762	1,504,526,272	1,571,867,555

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

(1) Description of the Fund

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

Purpose

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

(2) Description of the Defined Benefit Plan

Membership

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

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

(2) Description of the Defined Benefit Plan, continued

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

Ineligible Persons

The following employees are not eligible for membership:

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

At September 30, 2010, the latest actuarial valuation date, membership is as follows:

Retirees and beneficiaries receiving benefits	7,082
Terminated members entitled to, but not yet receiving benefits	6,466
Active plan members	3,594
	17,142

Contributions

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

Based on the actuarial valuation as of September 30, 2010, which was issued in April 2011, the actuarially determined contribution rate for the fiscal year ended September 30, 2010 was 30.09% of covered payroll. Based on the actuarial valuation as of September 30, 2009, which was issued in May 2010, the actuarially determined contribution rate for the fiscal year ended September 30, 2009 was 28.06% of covered payroll.

The established statutory rate at September 30, 2011 and 2010 was 27.46% and 26.04%, respectively, of covered payroll. As further discussed in Note 6, the statutory rate was temporarily reduced to 21.44% between June 4, 2011 and September 30, 2011, for agencies receiving appropriations from *I Liheslaturan Guåhan* and for Federally-funded programs.

(2) Description of the Defined Benefit Plan, continued

Retirement, Disability and Survivor Benefits

Under the defined benefit plan, retirement benefits are based on age and/or years of credited service and an average of the three highest annual salaries received by a member during years of credited service, or $6,000, whichever is greater.

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

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

Members who joined the DB plan after August 22, 1984 may retire with 15 years of service at age 65 (age 60 for uniformed personnel); or 25 to 29 years of service regardless of age with a reduced benefit if the member is under age 65; or completion of 30 years of service at any age.

Service Benefit Formula

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

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

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

(2) Description of the Defined Benefit Plan, continued

Disability

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

Survivor

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

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

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

Separation from the DB Plan

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

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

(3) Description of the Defined Contribution Retirement System

Purpose

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

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

Membership

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

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

Contributions

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

Separation from the DCRS

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

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

(4) Summary of Significant Accounting Policies

Method of Accounting

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

(4) Summary of Significant Accounting Policies, continued

Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through September 30, 2011 and 2010 are accrued.

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

Estimates

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

Encumbrances

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

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

Cash

At September 30, 2011 and 2010, the GGRF has cash balances in banks of approximately \$9.9 million and \$6.1 million, respectively, of which \$250,000 is insured by the Federal Deposit Insurance Corporation. The remaining balances are collateralized by securities held by a trustee in the name of the financial institution.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements for comparative purposes. Such reclassifications have no effect on the previously reported net increase in plan net assets.

(4) Summary of Significant Accounting Policies, continued

Investments

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

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

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

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

Northern Trust Company held the investments as custodian in the Fund's name through September 30, 2011. In addition, the Fund has selected investment managers who are given authority to purchase and sell securities in accordance with the following guidelines:

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

   1. U.S. equities:

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

(4) Summary of Significant Accounting Policies, continued

b. Common and preferred stock:
   i. The issuing institution has reported a profit in at least four of the five fiscal years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.
   ii. The issuing institution has paid a cash dividend on its common or capital stock in at least four of the five years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.
   iii. Total cash dividends have not exceeded total earnings in five years preceding the date of investment.
   iv. On the date of investment, the issuer is not in default in payment of principal or interest on any of its publicly held bonds or other evidence of indebtedness, and any contingent interest, cumulative and non-cumulative preferred dividends and dividends on prior common or capital stock have been paid in full.
   v. Preferred stock must also adhere to the following:
      The net earnings of the institution available for fixed charges over a period of five fiscal years preceding the date of investment have averaged per year, and during either of the last two years have been, after depreciation and income taxes, no less than:

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

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

2. U.S. Fixed Income:

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

(4) Summary of Significant Accounting Policies, continued

b. No more than twenty percent (20%) of the market value of the portfolio may be rated less than single "A" quality, unless the manager has specific written authorization. Eighty percent (80%) of the fixed income portfolio must be in bonds of credit quality of no less than "A".

c. Total portfolio quality (capitalization weighted) must maintain an "A" minimum rating.

d. In case such bonds or other evidence of indebtedness are not so rated by two nationally recognized and published rating services, the net earnings available for fixed charges over a period of five fiscal years preceding the date of investment have averaged per year and during either of the last two years have been, after depreciation and taxes, not less than:
   i. Two times its average annual fixed charges over the same period, in the case of any public utility company;
   ii. One and one-half times its average annual fixed charges over the same period, in the case of any financial company; or,
   iii. Three times its average annual fixed charges over the same period, in the case of any other company.

e. With the written petition and subsequent written approval of the Trustees, opportunistic investment bonds issued by national governments other than the United States or foreign corporations may comprise up to six percent (6%) of each fixed-income manager's portfolio. In no case shall these investments exceed three and one-half percent (3.5%) of the total GGRF investments. All non-U.S. securities will be, in the judgment of the investment managers, of credit quality equal to or superior to the standards described above.

3. Non-U.S. Equities

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

(4) Summary of Significant Accounting Policies, continued

ii. The issuing institution has paid a cash dividend on its common or capital stock in at least four of the five years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.

iii. Total cash dividends have not exceeded total earnings in five years preceding the date of investment.

iv. On the date of investment, the issuer is not in default in payment of principal or interest on any of its publicly held bonds or other evidences of indebtedness, and any contingent interest, cumulative and non-cumulative preferred dividends and dividends on prior common or capital stock have been paid in full.

b. Consistent with the desire to maintain broad diversification, allocations to any country, industry or other economic sector should not be excessive.

4. Cash and Cash Equivalents

a. Cash equivalent reserves must consist of cash instruments having a quality rating of A-2, P-2 or higher. Eurodollar Certificates of Deposit, time deposits, and repurchase agreements are also acceptable investment vehicles. All other securities will be, in the judgment of the investment managers, of credit quality equal to or superior to the standards described above.

b. No single issue shall have a maturity of greater than two years.

c. The cash portfolio shall have a maturity of less than one year.

d. Any idle cash not invested by the investment managers shall be invested daily through an automatic sweep managed by the custodian.

B. No investment management organization shall have more than twenty-five percent (25%) of the GGRF's assets under its direction.

C. No individual security of any issuer, other than that of the United States government or Government of Guam, shall constitute more than five percent (5%), at cost, of the total GGRF or of any investment manager's portfolio.

D. Holdings of any issuer must constitute no more than five percent (5%) of the outstanding securities of such issuer.

E. Investments in a registered mutual fund managed by the investment manager are subject to prior approval of the Board of Trustees.

(4) Summary of Significant Accounting Policies, continued

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

Income Taxes

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

Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Fund's provisions to the service members have rendered through the most recent actuarial valuation date (September 30, 2010).

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, 2010.

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, 2010), and the expected date of payment.

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

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

(4) Summary of Significant Accounting Policies, continued

Investment Income:	7% per year.
Salary Increase:	Graded based on service with the Government ranging from 4.0% for service in excess of 20 years to 8.5% for service from zero to five years
Total Payroll Growth:	3.5%
Expenses:	$5,995,000 per year, net of bad debts and recoveries
Mortality:	RP 2000 Healthy table set forward 3 years for males and set forward 1 year for females
Disability:	1974-78 SOA LTD Non-Jumbo
Retirement Age:	50% probability of retirement at earliest age of eligibility for unreduced retirement benefits; 20% per year thereafter until age 70, 100% at age 70
Return of Contributions:	100% withdrawing before retirement with less than 20 years of service assumed to elect a return of contributions. All those who have previously withdrawn assumed to elect a return of contributions. Contributions earn 4.5% interest.
Amortization Method:	Constant percentage of total payroll, which is assumed to grow at 3.5% per year.
Amortization Period:	In accordance with 4GCA8137, complete funding is to be achieved by April 30, 2031. At September 30, 2011 the remaining period is 20.58 years.

New Accounting Standards

In June 2010 the Governmental Accounting Standards Board (GASB) issued statement number 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting and disclosure requirements for certain financial instruments and external investment pools. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. Management does not believe that the implementation of this Statement has a material impact on the Fund's financial statements.

(4) Summary of Significant Accounting Policies, continued

In November 2010 the Governmental Accounting Standards Board (GASB) issued statement number 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances and clarifies the reporting of equity interests in legally separate organizations. This Statement is effective for financial statements for periods beginning after June 15, 2012. Management does not believe that the implementation of this Statement will have a material impact on the Fund's financial statements.

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

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

(4) Summary of Significant Accounting Policies, continued

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 $128,389 and $68,589 in 2011 and 2010, respectively.

(5) Deposit and Investment Risk Disclosure

The Governmental Accounting Standards Board issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3* in March 2003, with an effective date for fiscal years beginning after June 15, 2004. Cash and investments as of September 30, 2011 are classified in the accompanying statement of plan net assets as follows:

	DB Plan	DC Plan
Cash and cash equivalents	$ 5,010,155	4,249,647
Common stocks	688,984,305	-
U.S. government securities	167,582,279	-
Corporate bonds and notes	195,167,909	-
Money market funds	58,355,513	-
Mutual funds	94,335,163	234,301,492
Total cash and investments	$ 1,209,435,324	238,551,139

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

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

(5) Deposit and Investment Risk Disclosure, continued

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

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

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the Fund's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Fund's DB plan investments at September 30, 2011 by maturity:

	Remaining Maturity in Years				
Investment Type	Less than 1	1 to 5	6 to 10	Greater than 10	Total
U.S. Treasury securities	$ -	1,171,261	852,263	170,124	2,193,648
Federal Agency securities	32,914,859	4,047,453	25,953,250	96,237,151	159,152,713
Corporate bonds and notes	6,498,863	33,183,695	92,968,840	68,752,429	201,403,827
Totals	$ 39,413,722	38,402,409	119,774,353	165,159,704	362,750,188

(5) Deposit and Investment Risk Disclosure, continued

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

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

At September 30, 2011, the Fund held mortgage-backed securities valued at approximately $79 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, 2011 for each investment type.

Investment Type	Minimum Legal Rating	Amount	Rating as of Year End
U.S. Treasury securities	N/A	$ 59,980,635	Exempt from disclosure
Federal agency securities	N/A	108,806,877	Exempt from disclosure
Money market funds	A-2	58,355,513	AAAm
Corporate medium term notes and	BBB	31,957,023	Aaa
U.S. Municipal Obligations		34,303,527	Aa1-Aa3
		79,597,719	A1-A3
		27,908,114	Baa1-Baa3
		20,196,293	Not rated/cash
		$ 421,105,701	

(5) Deposit and Investment Risk Disclosure, continued

Concentration of Credit Risk

The Fund's investment policy contains limits on the amount that can be invested in any one issuer. At September 30, 2011, the Fund did not hold any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represents 5% or more of total Fund investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2011, the Fund held approximately $5.8 million in corporate bonds issued by companies organized in various foreign countries.

The countries of incorporation and the dollar amount of the bonds issued were as follows at September 30, 2011:

Canada	$ 2,096,000
United Kingdom	989,000
Netherlands	2,742,000
Total	$ 5,827,000

At September 30, 2011, 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, 2011 was approximately $72 million. The functional currencies of the companies that issued the stocks (and the market value in millions of U.S. dollars) were as follows at September 30, 2011:

Euros	$ 28 million
Japanese Yen	12
Swiss Franc	6
British Pound	11
Others – 9 countries	15
Total	$ 72 million

(5) Deposit and Investment Risk Disclosure, continued

Custodial Credit Risk

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

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

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

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

6) Related Party Transactions

At September 30, 2011 and 2010, the Fund was owed employer and member contributions, interest and penalties receivable by various Government of Guam agencies. At September 30, 2011 and 2010, employer contributions receivable including the unfunded liability totaled $21,445,116 and $13,774,208, respectively; member contributions receivable totaled $4,656,699 and $5,142,148, respectively; and interest and penalties receivable totaled $2,622,664 and $1,097,393, respectively.

(6) Related Party Transactions, continued

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

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.

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

The provisions of Public Law 28-38 were further amended by 1) Public Law 30-196 in September 2010, and 2) Public Law 31-74 in June 2011. In accordance with P.L. 30-196, the interest-only payments for GDOE and GMHA retirement liabilities to the Retirement Fund shall be equal to the outstanding liability multiplied by one twelfth of the most recent historical five (5) year average annual rate of return of the Defined Benefit (DB) Plan investment portfolio, inclusive of performance which yielded negative returns.

Public Law 31-74 passed in June 2011, further amended Public Law 28-38 to increase the monthly remittance of interest-only payments to GGRF to include interest payments on:

1. The delinquent DB Plan employer contributions owed to GGRF by GMHA for various pay periods in fiscal year 2011.

2. The contributions owed to GGRF as a result of the temporary reduction in the statutory employer contribution rate from 27.46% to 21.44%, for agencies receiving appropriations from *I Liheslaturan Guåhan* and for Federally-funded programs, between June 4, 2011 and September 30, 2011. In accordance with Public Law 31-74, the GGRF Board and the Governor of Guam entered into the "Health Insurance Bailout Agreement of FY2011" reducing the contribution rate accordingly.

(6) Related Party Transactions, continued

For various pay periods in 2011, GMHA was also delinquent in the remittance of employer and member contributions to GGRF for the DC Plan. In accordance with the Bailout Agreement, GMHA was required to remit to GGRF all of the savings arising from the reduction in the statutory employer contribution rate, for the payment of the delinquent contributions. GMHA was also required to remit additional GMHA funds as needed to ensure that the entire amount is remitted to GGRF by September 30, 2011. As of September 30, 2011, GMHA had a remaining balance on the delinquent contributions totaling approximately $296,000. These delinquent contributions were fully paid by GMHA as of October 13, 2011.

In addition, Public Law 31-74, states "*I Maga'låhen Guåhan* shall include the re-financing of the outstanding principal and interest owed to the Government of Guam Retirement Fund herein in the next General Obligation Bond issue of the government of Guam."

At September 30, 2011 and 2010, contributions receivable (including the unfunded liability, the savings arising from the reduced contribution rate, interest and penalties) totaled approximately $9.1M and $8.1M, respectively for GDOE, and $13.1M and $7.2M, respectively, for GMHA.

Based on the DB Plan Investment Portfolio's rates of return for the preceding five years, GGRF's average rate of return was 5.84%. As such, the calculated "interest-only" payments due from GDOE and GMHA were significantly reduced.

During the fiscal years ended September 30, 2011 and 2010, GGRF received interest-only payments pursuant to P.L. 28-38 totaling approximately $4.6M and $746,000 respectively.

(7) Property, Equipment and Land

Property, equipment and land at September 30, 2011 and 2010 were as follows:

	2011	2010
Building	$ 1,149,587	1,149,587
Improvements	657,899	657,899
Land	439,428	439,428
Equipment	451,217	388,892
Automobiles	23,523	23,523
Furniture and fixtures	15,887	15,887
Other	7,000	7,000
	2,744,541	2,682,216
Less: Accumulated depreciation	(1,637,647)	(1,509,258)
	$ 1,106,894	1,172,958

(8) Supplemental Annuities and COLA Payments

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

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

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

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

(8) Supplemental Annuities and COLA Payments, continued

Beginning in fiscal year 2000, the receivable for supplemental annuities and COLA payments is being reduced by a portion of the employer contributions received. The percentage used for fiscal years 2011 and 2010 was 1.2016% of covered payroll.

At September 30, 2011 and 2010, the GGRF had Supplemental/COLA benefits receivable of $61,841,261 and $67,636,261, respectively. Since the GGRF is simply acting as a paying agent for these benefits, the payment of the benefits and their subsequent collection should not increase or decrease plan net assets.

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

Fiscal Year	Payment of Benefits by GGRF	Collections	Other	Balance
1999	$ 31,400,000	$ (4,500,000)	$ (12,000,000)	$ 14,900,000
2000	32,300,000	(4,300,000)	12,000,000	54,900,000
2001	34,000,000	(4,700,000)		84,200,000
2002	27,500,000	(3,600,000)		108,100,000
2003		(4,400,000)		103,700,000
2004		(7,200,000)		96,500,000
2005		(4,300,000)		92,200,000
2006		(4,600,000)		87,600,000
2007		(4,600,000)		83,000,000
2008		(5,000,000)		78,000,000
2009		(5,100,000)		72,900,000
2010		(5,300,000)		67,600,000
2011		(5,800,000)		61,800,000
	$ 125,200,000	$ (63,400,000)	$ -	

(9) Early Retirement Incentive Program (ERIP)

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

Those electing to participate in the ERIP must pay the members' share of the required contribution, plus interest, based on their salary at the time they made the election.

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

Payments can be made in full or can be financed through deductions from annuities over a period not to exceed 15 years.

The time allowed for making the election and retiring was from December 30, 1998 to January 7, 2000. During this period, approximately eight hundred (800) members elected to participate in this program and signed promissory notes totaling nearly $15 million. At September 30, 2011 and 2010, the amount owed under these notes was $3,561,549 and $4,761,094 respectively. There is a corresponding deferred revenue account to offset these notes receivable, since contribution income is recognized on a cash basis as amounts are collected from the retirees.

The government's share of these required contributions has been recognized in the accompanying statement of plan net assets as "Receivable – ERIP employer's share" and amounted to $15,227 at September 30, 2010 which 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. This receivable was fully paid as of September 30, 2011.

The receivable for the government's share of required contributions was being reduced by a portion of the employer contributions received. The statutory percentage for fiscal years 2011 and 2010 was 1.31% of covered payroll.

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

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

At September 30, 2011 and 2010, the GGRF had $3,511,711 in Supplemental/insurance benefits receivable from three Government of Guam agencies.

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

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

These benefits are as follows:

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

(11) Funded Status

As of the most recent actuarial valuation (September 30, 2010), the DB plan had the following funded status:

Actuarial value of assets	$ 1,245,850,000
Actuarial accrued liability (AAL)	2,790,532,000
Unfunded actuarial accrued liability (UAAL)	$ 1,544,682,000
Funded ratio	44.65%
Annual covered payroll	$ 444,061,000
UAAL as a percentage of covered payroll	347.9%

(11) Funded Status, continued

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

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

(12) Risk Management

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

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

(13) Subsequent Events

The market value of the Fund’s invested assets in the DB plan increased from $1.204 billion at September 30, 2011 to approximately $1.219 billion at December 31, 2011. This is an increase of $15 million or about 1.2%. DC plan assets increased from $234.0 million at September 30, 2011 to $256.0 million at December 31, 2011. This is an increase of $22 million or about 9%.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Funding Progress

September 30, 2011

Actuarial Valuation as of September 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a percentage of covered payroll
1991	$ 532,031,000	$ 1,151,610,000	$ 619,579,000	46.2%	$ 321,580,393	192.7%
1992	617,737,000	1,290,724,000	672,987,000	47.9%	345,240,093	194.9%
1993	703,443,000	1,429,839,000	726,396,000	49.2%	368,899,793	196.9%
1994	784,229,000	1,423,514,000	639,285,000	55.1%	362,944,815	176.1%
1995	865,014,000	1,417,190,000	552,176,000	61.0%	356,989,837	154.7%
1996	1,039,360,000	1,621,029,000	581,669,000	64.1%	373,494,919	155.7%
1997	1,213,706,000	1,824,868,000	611,162,000	66.5%	390,000,000	156.7%
1998	1,287,157,000	1,770,852,000	483,695,000	72.7%	407,550,000	118.7%
1999	1,346,205,000	2,096,617,000	750,412,000	64.2%	363,710,950	206.3%
2000	1,348,761,000	2,126,150,000	777,389,000	63.4%	374,551,304	207.6%
2001	1,265,001,000	2,333,862,000	1,068,861,000	54.2%	403,061,000	265.2%
2002	1,135,666,000	2,378,399,000	1,242,733,000	47.7%	395,967,000	313.8%
2003	1,206,911,000	2,614,840,000	1,407,929,000	46.2%	398,112,000	353.7%
2004	1,245,305,000	2,599,747,000	1,354,442,000	47.9%	365,592,000	370.5%
2005	1,293,564,000	2,583,366,000	1,289,802,000	50.1%	368,712,000	349.8%
2006	1,320,914,000	2,656,047,000	1,335,133,000	49.7%	389,786,000	342.5%
2007	1,448,655,000	2,682,118,000	1,233,463,000	54.0%	390,246,000	316.1%
2008	1,210,960,000	2,718,664,000	1,507,704,000	44.5%	425,781,000	354.1%
2009	1,294,604,000	2,738,765,000	1,444,161,000	47.3%	438,606,000	329.3%
2010	1,245,850,000	2,790,532,000	1,544,682,000	44.7%	444,061,000	347.9%

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Employer Contributions

September 30, 2011

Year ended September 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
1991	$ 83,988,000	$ 51,612,000	61.5%
1992	88,187,000	54,111,000	61.4%
1993	94,552,000	59,117,000	62.5%
1994	99,280,000	80,965,000	81.6%
1995	67,650,000	66,904,000	98.9%
1996	71,187,000	68,969,000	96.9%
1997	67,521,000	81,546,000	120.8%
1998	61,929,000	81,877,000	132.2%
1999	63,985,000	96,134,000	150.2%
2000	52,463,000	85,831,000	163.6%
2001	75,494,000	73,386,000	97.2%
2002	75,906,000	78,087,000	102.9%
2003	98,630,000	63,486,000	64.4%
2004	115,978,000	63,388,000	54.7%
2005	123,958,000	70,658,000	57.0%
2006	117,041,000	85,771,000	73.3%
2007	113,207,000	76,973,000	68.0%
2008	116,063,000	86,806,000	74.8%
2009	107,009,000	92,921,000	86.8%
2010	129,196,000	101,232,000	78.4%

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Administrative and General Expenses

Years ended September 30, 2011 and 2010

	Defined Benefit Plan	Defined Contribution Plan	Total 2011	Total 2010
Salaries and wages	$ 1,169,727	473,097	1,642,824	1,568,827
Third party administrator fees	-	629,400	629,400	625,650
Employer's retirement contribution	308,304	124,639	432,943	406,412
Legal fees	300,227	40,721	340,948	278,092
Insurance	171,607	116,237	287,844	239,392
Computer program services/maintenance	218,700	24,300	243,000	243,000
Bad debt related to notes receivable	193,622	-	193,622	173,997
Retiree supplemental/COLA	140,697	-	140,697	126,451
Depreciation	97,788	30,601	128,389	68,589
Utilities	48,277	50,870	99,147	95,210
Actuary fees	93,026	4,650	97,676	74,264
Postage	50,922	18,126	69,048	68,132
Repairs and maintenance	38,761	21,516	60,277	54,165
Travel and transportation	25,666	20,113	45,779	62,799
Printing and publications	28,324	3,390	31,714	46,915
Communications	30,206	701	30,907	33,112
Audit fees	19,500	6,500	26,000	28,500
Training	18,266	6,739	25,005	17,386
Proxy voting services	25,000	-	25,000	25,000
Medicare contribution	15,757	6,371	22,128	21,240
Board of trustees expenses	11,188	5,894	17,082	20,186
Equipment rental	9,639	4,748	14,387	24,718
Miscellaneous	7,608	6,321	13,929	16,469
Office supplies	8,805	1,349	10,154	29,492
Medical exams	8,844	-	8,844	4,911
Medical consultant	3,625	-	3,625	8,450
Computers and software	3,338	-	3,338	3,542
	$ 3,047,424	1,596,283	4,643,707	4,364,901

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Personnel Costs

Years ended September 30, 2011 and 2010

	2011	2010
Salaries and wages	$ 1,642,824	$ 1,568,827
Employer's retirement contribution	432,943	406,412
Medicare contribution	22,128	21,240
	$ 2,097,895	$ 1,996,479
Average number of employees	41	43
Average cost per employee	$ 51,168	$ 46,430

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

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

Years ended September 30, 2011 and 2010

	Full Time Employees During FY 2011	Full Time Employees As of September 30, 2011	Total Salaries & Wages Expended
Director's Office	3	3	$ 145,518
Administrative Services	6	6	210,333
Accounting / Investments	19	19	822,299
Members and Benefits Services	14	13	464,674
	42	41	$ 1,642,824

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

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Other Receivables - Defined Benefit Plan

September 30, 2011 and 2010

	2011	2010
Benefit overpayments	$ 592,912	$ 492,238
Member rate differential	212,030	211,715
Other	21,146	21,146
	$ 826,088	$ 725,099

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2011

Agency	Supplemental/ COLA	Employer Contributions	Employer Contributions (Unfunded Liability)	Member Contributions	Interest & Penalties	ERIP Employer's Share	Retiree Supplemental Benefits & Insurance	TOTAL
Department of Administration (General Fund)	$ 61,841,261	1,701,519	2,049,608	272,774	267,166	-	1,972,414	68,104,742
Guam Memorial Hospital Authority	-	5,202,666	4,517,459	2,160,194	1,232,892	-	1,507,004	14,620,215
Guam Department of Education	-	4,688,190	1,526,103	1,741,910	1,110,214	-	-	9,066,417
University of Guam	-	211,708	279,134	-	5,594	-	-	496,436
Supreme Court of Guam	-	165,525	238,969	23,226	3,429	-	-	431,149
Guam Community College	-	81,693	117,109	42	2,245	-	-	201,089
Guam Airport Authority	-	47,188	45,983	16,351	-	-	-	109,522
Public Defender Service Corporation	-	24,477	27,010	-	620	-	-	52,107
Guam Power Authority	-	10,101	9	6,077	-	-	32,293	48,480
Guam Visitors Bureau	-	4	136	-	-	-	-	140
Guam Legislature	-	4,844	36,487	-	504	-	-	41,835
Guam Housing & Urban Renewal Authority	-	15,216	23,042	5,475	-	-	-	43,733
Total	$ 61,841,261	$ 12,153,131	$ 8,861,049	$4,226,049	$ 2,622,664	$ -	$ 3,511,711	$ 93,215,865

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2010

Agency	Supplemental/ COLA	Employer Contributions	Employer Contributions (Unfunded Liability)	Member Contributions	Interest & Penalties	ERIP Employer's Share	Retiree Supplemental Benefits & Insurance	TOTAL
Department of Administration (General Fund)	$ 67,636,261	1,299,776	731,322	491,448	239,533	-	1,972,414	72,370,754
Guam Memorial Hospital Authority	-	3,939,830	1,009,346	1,809,765	405,927	-	1,507,004	8,671,872
Guam Department of Education	-	4,757,037	727,600	2,143,178	451,933	-	-	8,079,748
University of Guam	-	126,294	133,803	46,884	-	-	-	306,981
Supreme Court of Guam	-	63,361	74,633	23,329	-	-	-	161,323
Guam Community College	-	55,594	53,273	21,063	-	15,227	-	145,157
Port Authority of Guam	-	51,057	66,160	18,779	-	-	-	135,996
Guam Airport Authority	-	41,964	36,600	15,428	-	-	-	93,992
Public Defender Service Corporation	-	13,348	10,246	4,870	-	-	-	28,464
Guam Power Authority	-	-	9	-	-	-	32,293	32,302
Guam Visitors Bureau	-	3,299	6,658	1,203	-	-	-	11,160
Guam Housing Corporation	-	1,905	5,552	695	-	-	-	8,152
Total	$ 67,636,261	$ 10,353,465	$ 2,855,202	$4,576,642	$1,097,393	$ 15,227	$ 3,511,711	$ 90,045,901

See accompanying independent auditors' report.

BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees
Government of Guam Retirement Fund:

We have audited the financial statements of the Government of Guam Retirement Fund as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated February 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

P.O. Box 504053, Saipan, MP 96950 • Phone: (670) 235-8722/8723 • Fax: (670) 235-6905
http://www.saipancpa.com

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Government of Guam Retirement Fund, in a separate letter dated February 14, 2012.

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

Burger & Comer, P.C.

Tamuning, Guam
February 14, 2012