

**GOVERNMENT OF GUAM RETIREMENT FUND**

Financial Statements

September 30, 2002 and 2001

(Together with Independent Auditors' Report Thereon)

# GOVERNMENT OF GUAM RETIREMENT FUND

September 30, 2002

## Table of Contents

	<u>Pages</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Statement of Plan Net Assets	9
Statement of Changes in Plan Net Assets	10
Footnotes to Financial Statements	11-25
Schedule of Funding Progress	26
Schedule of Employer Contributions	27
Supplementary Schedule of Administrative and General Expenses	28
Supplementary Schedule of Personnel Costs	29
Supplementary Schedule of Receivables by Agency – Defined Benefit Plan	30

**INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Government of Guam Retirement Fund:

We have audited the accompanying financial statements of the Government of Guam Retirement Fund (the Fund), a component unit of the Government of Guam, administered by the Government of Guam Retirement Fund Board of Trustees (the Board) as of September 30, 2002 and 2001 and for the years then ended. These financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Fund administered by the Board as of September 30, 2002 and 2001, 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.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information listed as supplemental schedules on pages 26 to 31 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Fund's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2003 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Bauer & Connor, P.C.*

Tamuning, Guam  
December 31, 2003

## **Management's Discussion & Analysis**

As management of the Government of Guam Retirement Fund, we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for fiscal years ended September 30, 2002 and 2001.

### **Financial Highlights**

- The net assets held in trust for pension benefits totaled approximately \$1.34 billion at September 30, 2002 compared to \$1.41 billion at September 30, 2001. The net assets are available for payment of monthly retirement benefits and other qualified distributions to the Fund's participants. The decrease of \$70 million resulted primarily from the depreciation of the fair value of the Fund's investments due to equity market decreases affecting the year ended September 30, 2002 and 2001. Additionally, an increase in benefit payments and a decrease in contributions received for the year ended September 30, 2002 also contributed to the decrease.
- Interest income dropped from a total of \$56.1 million in 2001 to \$48.89 million in 2002 because of the general decrease in interest rates in the U.S.
- The total number of active members participating in the Fund decreased by 5% from 6,099 at September 30, 2001 to 5,775 at September 30, 2002. The number of retirees at September 30, 2002 was 6,536, a 0.32% decrease from the prior year where the number of retirees was 6,557.
- The funded ratio of the Fund was 47.7% at September 30, 2002 compared to 54.2% at September 30, 2001. This resulted from liability gains of \$44 million and asset losses of \$124 million as computed by the Fund's actuary.

### **Overview of the Financial Statements**

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

#### **Defined Benefit Plan**

The Defined Benefit Plan provides for retirement, disability, and survivor benefits to members of the plan prior to October 1, 1995 (all government employees required to participate in the DC Plan after October 1, 1995). Under this plan, retirement benefits are based on age and/or years of credited service and an average of the three (3) highest annual salaries received by a member during the years of credited service, or six thousand dollars (\$6,000), whichever is greater.

- The basic retirement benefit is computed as the sum of an amount equal to two (2%) percent of the average annual salary for each of the first ten years of creditable service and two and one-half (2.5%) percent of average annual salary for each year or part thereof of credited service over ten years and an amount equal to twenty dollars (\$20) multiplied by each year of credited service, the total of which is reduced by an amount

equal to one hundredth of one percent (.01%) of said total for each one dollar (\$1) that a member's average annual salary exceeds six thousand dollars (\$6,000). The basic annuity is limited to a maximum of eighty five percent (85%) of the average salary, and cannot be less than one thousand two hundred dollars (\$1,200) per year.

- Members under the age of sixty-five (65) with six (6) or more years of credited service who are not entitled to receive disability payments from the United States Government are eligible to receive sixty-six and two-thirds percent (66-2/3%) of the average of their three highest annual salaries received during the years of credited services.
- In the event of death of a member who completed three (3) years of total service, the following benefits are payable:
  1. Spouse – Annual benefit is equal to fifty percent (50%) of the disability or service retirement benefit earned by the member.
  2. Minor Children – Basic benefit is two thousand one hundred and sixty dollars (\$2,160) per year for a minor child up to eighteen (18) years of age (age 21, if a full time student).

#### **Defined Contribution Plan**

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

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

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

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

The *statement of changes in plan net assets* presents information showing how the Fund's net assets held in trust for pension benefits changed during the years ended September 30, 2002 and 2001. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income is also presented showing income from investments, interest and dividends.

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

The *other supplementary information* presents a schedule of funding progress and employer contributions at September 30, 2002. Additionally, schedules of certain expenses and fees paid at September 30, 2002 and 2001 are also presented. The *other supplementary information* is presented for additional analysis of the financial statements.

### **Financial Analysis**

The following are the condensed Schedules of Plan Net Assets and Changes in Plan Net Assets for the Government of Guam Retirement for the fiscal years ended September 30, 2002 and 2001.

<b>CONDENSED SCHEDULE OF PLAN NET ASSETS</b>	<b>(\$ millions)</b>	
	<b>September 30, 2002</b>	<b>2001</b>
Cash and cash equivalents	\$ 5.7	\$ 9.6
Receivables	223.3	176.9
Investments	1,194.4	1,290.3
Property and equipment	<u>1.4</u>	<u>1.6</u>
<b>Total Assets</b>	<b>1,424.8</b>	<b>1,478.4</b>
Accounts payable and accrued expenses	5.5	4.8
Due to brokers for unsettled trades	28.2	5.1
Other liabilities	<u>45.6</u>	<u>54.4</u>
<b>Total Liabilities</b>	<b><u>79.3</u></b>	<b><u>64.3</u></b>
<b>Net Assets Held in Trust for Benefits</b>	<b><u>\$ 1,345.5</u></b>	<b><u>\$ 1,414.1</u></b>

<b>CONDENSED SCHEDULE OF CHANGES IN PLAN NET ASSETS</b>	<b>(\$ millions)</b>	
	<b>September 30, 2002</b>	<b>2001</b>
Employer contributions	\$ 70.0	\$ 72.9
Member contributions	31.1	32.3
Net investment income (loss)	<u>(8.8)</u>	<u>1.4</u>
<b>Total Additions</b>	<b>92.3</b>	<b>106.6</b>
Retirement, death, survivor benefits, and insurance	146.9	144.9
Refunds and withdrawals	13.3	12.6
Administrative expenses	<u>3.9</u>	<u>3.5</u>
<b>Total Deductions</b>	<b><u>164.1</u></b>	<b><u>161</u></b>
<b>Total Changes in Plan Net Assets</b>	<b><u>\$ 1,345.5</u></b>	<b><u>\$ 1,414.1</u></b>

For the year ended September 30, 2002 Fund assets decreased \$68.6 million or 1.05% from the prior year primarily due to the decrease in investments of \$95.9 million. Receivables increased \$46.4 million at the end of the fiscal year due primarily to the recording of balances due from the Government of Guam General Fund relating to payments made to annuitants for supplemental annuities and cost of living allowance (COLA) as authorized by Public Law 25-72. The outstanding supplemental and COLA balance is being reduced by a portion of the employer contribution received. The percentage used for reduction was 1.2016% for the year ended September 30, 2002 and 1.25% for the year ended September 30, 2001. Fund liabilities increased \$15 million at the end of the fiscal year due primarily to a \$23.1 million increase in payables for pending purchases of securities. There was also a decrease of \$8.8 in other liabilities due primarily to the recognition as revenue of \$4.4 million dollars of previously deferred revenues. This relates to payments received from annuitants and amortization of the employers' share under the Early Retirement Incentive Program (ERIP). This program was established by Public Law 24-327 and the outstanding balance owed by the Government of Guam General Fund is reduced by a portion of the employer contribution received. The percentage of reduction was 1.31% for the year ended September 30, 2002 and 1.12% for the year ended September 30, 2001.

Total additions to plan assets of \$92.3 million dollars is significantly less than prior year due to the depreciation of the fair value of investments and the decline in member and employer contributions. Total deductions from plan net assets increased \$3.1 million for the year as a result of a 1.4% increase in retirement, death and survivor benefits.

#### **Additions to Plan Net Assets**

Additions for the year ended September 30, 2002 were \$92.3 million, a \$14.3 million decrease from the prior year due primarily to a net investment loss of \$8.8 million and a decline in member and employer contribution of \$4.1 million dollars. At September 30, 2002 the total number of active members was 5,775 compared to 6,099 at September 30, 2001, a decrease of 5%.

#### **Deductions to Plan Net Assets**

For the year ended September 30, 2002 total deductions to increased \$3.1 million over the prior year due to a 1.4% increase in retirement, death, and survivor benefits as the average monthly benefit increased for retirees. At September 30, 2002 the total number of annuitants receiving retirement benefits was 6,536 compared to 6,557 at September 30, 2001, a decrease of 0.32%. Refunds and withdrawals increased as more participants withdrew contributions during the period compared to the prior year. The 11.4% increase in administrative expenses is a result of increased legal expenses as compared to the prior year.



## **Investments**

The investment portfolio is reported by asset type which comprises the investment managers' portfolios including cash equivalents. A summary of the Fund's investments for the fiscal years ended September 30, 2002 and 2001 is as follows:

<b>INVESTMENT PORTFOLIO</b>	<b>(\$ millions)</b>	
	<b>September 30,</b>	
	<b><u>2002</u></b>	<b><u>2001</u></b>
Common Stocks	\$ 348.9	\$ 424.4
U.S. Government Securities	369.8	350.0
Corporate Bonds and Notes	376.2	381.9
Money Market Funds	28.5	72.8
Mutual Funds	65.9	57.2
Other	<u>5.1</u>	<u>4.0</u>
<b>Total managed investments</b>	<b>1,194.4</b>	<b>1,290.3</b>
Cash and equivalents	<u>5.7</u>	<u>9.6</u>
<b>Total Investments and cash</b>	<b><u>1,200.1</u></b>	<b><u>1,299.9</u></b>

For the fiscal year ended September 30, 2002 the Fund's managed investments, for the most part, reflect the investment environment with fixed income components providing above average results. The Fund experienced a loss on investment of 1.04% for the fiscal year ended September 30, 2002. While the Fund's fixed income component gained 5.65%, this was offset by reductions for the cash flow requirements of the Fund for operations. The largest loss component was investment in common stocks with a loss on investment of 17.8%.

## **Economic Factors**

### **Funding**

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the Fund at September 30, 2002 and 2001 were 47.7% and 54.2% respectively. The actuarially determined rate for contributions for the years ended September 30, 2002 and 2001 were 32.02% and 25.24%, respectively. The established statutory rates at September 30, 2002 and 2001 were 19.8016 and 23.91%, respectively.

### **Plan Amendments**

There were no amendments affecting either the Defined Benefit or the Defined Contribution Plans noted for the fiscal year ended September 30, 2002.

### **Other**

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

### **Requests for Information**

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

**GOVERNMENT OF GUAM RETIREMENT FUND**

Statement of Plan Net Assets

September 30, 2002 and 2001

<u>ASSETS</u>	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>Total 2002</u>	<u>Total 2001</u>
Investments, at fair value:				
Common stocks	\$ 348,941,716	-	348,941,716	424,437,915
U.S. Government securities	369,781,797	-	369,781,797	349,995,394
Corporate bonds and notes	376,218,434	-	376,218,434	381,857,654
Money market funds	28,490,623	-	28,490,623	72,774,792
Mutual funds	-	65,864,770	65,864,770	57,181,389
DC plan forfeitures	-	<u>5,106,242</u>	<u>5,106,242</u>	<u>4,039,273</u>
Total investments	<u>1,123,432,570</u>	<u>70,971,012</u>	<u>1,194,403,582</u>	<u>1,290,286,417</u>
Receivables:				
Employer contributions, net	23,119,737	1,436,223	24,555,960	12,182,825
Member contributions	10,804,989	262,899	11,067,888	6,246,951
Accrued investment income	10,155,834	-	10,155,834	11,722,775
Due from brokers for unsettled trades	15,399,194	-	15,399,194	8,883,863
Note receivable from GMHA, net (note 5)	-	-	-	-
Notes receivable for service credits	8,837,608	-	8,837,608	9,071,704
Notes receivable - ERIP	13,487,082	-	13,487,082	14,364,938
Receivable - ERIP employer's share	21,644,375	-	21,644,375	24,927,244
Supplemental/COLA benefits receivable	106,513,203	-	106,513,203	82,625,533
Other receivables	11,217,914	-	11,217,914	6,469,132
Due from DC plan	<u>420,993</u>	<u>-</u>	<u>420,993</u>	<u>420,993</u>
Total receivables	<u>221,600,929</u>	<u>1,699,122</u>	<u>223,300,051</u>	<u>176,915,958</u>
Cash and cash equivalents	3,227,194	2,473,825	5,701,019	9,583,462
Property and equipment	<u>1,425,433</u>	<u>-</u>	<u>1,425,433</u>	<u>1,562,115</u>
Total assets	<u>1,349,686,126</u>	<u>75,143,959</u>	<u>1,424,830,085</u>	<u>1,478,347,952</u>
 <u>LIABILITIES</u>				
Bank overdraft	1,306,081	-	1,306,081	2,136,672
Deferred revenue for service credits	43,969,065	-	43,969,065	48,363,887
Accounts payable and accrued expenses	2,558,891	2,928,812	5,487,703	4,829,115
Insurance premiums payable	-	-	-	222,712
Due to brokers for unsettled trades	28,162,721	-	28,162,721	5,124,234
Due to DB plan	<u>-</u>	<u>420,993</u>	<u>420,993</u>	<u>420,993</u>
Total liabilities	<u>75,996,758</u>	<u>3,349,805</u>	<u>79,346,563</u>	<u>61,097,613</u>
Net assets available for benefits	<u>\$ 1,273,689,368</u>	<u>71,794,154</u>	<u>1,345,483,522</u>	<u>1,417,250,339</u>

See accompanying notes to financial statements.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Statement of Changes in Plan Net Assets

September 30, 2002 and 2001

	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>Total 2002</u>	<u>Total 2001</u>
<b>Investment income</b>				
Net appreciation (depreciation) in fair value of investments	\$ (57,671,173)	(5,650,194)	(63,321,367)	(61,285,088)
Interest	46,432,832	2,456,996	48,889,828	56,109,106
Dividends	7,457,745	-	7,457,745	8,462,434
Other investment income	<u>728,673</u>	<u>304,798</u>	<u>1,033,471</u>	<u>1,083,611</u>
	(3,051,923)	(2,888,400)	(5,940,323)	4,370,063
Less investment expenses	<u>2,825,072</u>	<u>-</u>	<u>2,825,072</u>	<u>3,005,405</u>
<b>Net investment income</b>	<u>(5,876,995)</u>	<u>(2,888,400)</u>	<u>(8,765,395)</u>	<u>1,364,658</u>
<b>Contributions</b>				
Employer	62,567,070	7,453,414	70,020,484	72,940,326
Member	<u>23,643,131</u>	<u>7,468,501</u>	<u>31,111,632</u>	<u>32,275,464</u>
<b>Total contributions</b>	<u>86,210,201</u>	<u>14,921,915</u>	<u>101,132,116</u>	<u>105,215,790</u>
<b>TOTAL ADDITIONS</b>	80,333,206	12,033,515	92,366,721	106,580,448
<b>Benefit payments</b>				
Age and service annuities	124,500,190	-	124,500,190	123,120,531
Disability annuities	9,205,129	-	9,205,129	9,418,140
Survivor annuities	12,893,926	-	12,893,926	12,063,240
Insurance	<u>332,562</u>	<u>-</u>	<u>332,562</u>	<u>308,179</u>
<b>Total benefit payments</b>	<u>146,931,807</u>	<u>-</u>	<u>146,931,807</u>	<u>144,910,090</u>
<b>Refunds to separated employees and withdrawals</b>	8,272,760	5,005,365	13,278,125	12,550,238
<b>Balances transferred to DC plan</b>	2,753,945	(2,753,945)	-	-
<b>Administrative and general expenses</b>	<u>2,932,685</u>	<u>990,921</u>	<u>3,923,606</u>	<u>3,527,705</u>
<b>TOTAL DEDUCTIONS</b>	<u>160,891,197</u>	<u>3,242,341</u>	<u>164,133,538</u>	<u>160,988,033</u>
Net increase (decrease) in plan net assets	(80,557,991)	8,791,174	(71,766,817)	(54,407,585)
Net assets available for benefits, beginning of year	<u>1,354,247,359</u>	<u>63,002,980</u>	<u>1,417,250,339</u>	<u>1,471,657,924</u>
Net assets available for benefits, end of year	<u>\$ 1,273,689,368</u>	<u>71,794,154</u>	<u>1,345,483,522</u>	<u>1,417,250,339</u>

See accompanying notes to financial statements.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Notes to Financial Statements

September 30, 2002 and 2001

### (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 3, Articles 1 and 2 of the Guam Code Annotated (GCA) for more complete information.

#### Purpose

The Government of Guam Retirement Fund was established and became operative on May 1, 1951 to provide retirement annuities and other benefits to employees of the Government of Guam. The Board of Trustees is responsible for the general administration and proper operation of the Fund. The Board of Trustees comprises five members, appointed by the Governor with the advice and consent of the Legislature. Three of the member trustees are employees with at least five years of service credit as members of the GGRF. The GGRF is accounted for as a blended component unit, fiduciary fund type, pension trust fund of the Government of Guam.

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

#### Membership

The Defined Benefit Plan (DB) is a single-employer defined benefit pension plan and membership is mandatory for all employees in the service of the Government of Guam on the operative date. Persons becoming employees after the effective date are members as a condition of employment.

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

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.
- 4.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

### 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, 2001, the latest actuarial valuation date, membership is as follows:

Retirees and beneficiaries receiving benefits	6,557
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>6,099</u>
	<u>12,656</u>

### Contributions

Contributions are set by law. Member contributions are required at 9.5% of base pay. Employer contributions are required at 18.6% of covered payroll for the years ended September 30, 2002 and 2001.

### Retirement, Disability and Survivor Benefits

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

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

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

### Service Benefit Formula

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

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

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

### Disability

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

### Survivor

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

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 21 if a full-time student).

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

### Separation from the DB Plan

Upon complete separation from service before attaining at least 20 years of total service, a member is entitled to receive a refund of total contributions including interest.

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

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

### Purpose

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

### Membership

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

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

### Ineligible Persons

Employees ineligible for membership in the GGRF are also ineligible for membership in the DCRS.



# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

### Contributions

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

### Separation from the DCRS

Any member who leaves government service after attaining 5 years but less than 20 years of total service is entitled to receive their total contribution plus 100% of the employer contribution and any earnings after attaining the age of 55.

Any member who leaves government service below the age of 55, with 5 years but less than 20 years of total service is entitled to receive their total contribution plus any earnings thereon.

## (4) Summary of Significant Accounting Policies

### Method of Accounting

The financial statements presented herein have been prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through September 30, 2002 and 2001 are accrued. With the exception of amounts due from the Guam Memorial Hospital Authority under a promissory note, these contributions are considered to be fully collectible; accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in Government of Guam Code Annotated.

### Cash

At September 30, 2002 and 2001, the GGRF has cash balances in banks of approximately \$4.9 million and \$7.9 million, respectively, of which \$200,000 is insured by the Federal Deposit Insurance Corporation. The remaining balances are collateralized by securities held by a trustee in the name of the financial institution.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

## (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, and equity instruments. Investments are reported at fair value. Security transactions and any resulting gains or losses are accounted for on a trade date basis.

The Fund's investments may be categorized as either (1) insured and registered for which the securities are held by the Fund or its agent in the Fund's name, (2) uninsured and registered for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer or by its trust department or agent but not in the Fund's name. At September 30, 2002 and 2001 all of the Fund's investments are classified in category (1).

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

Commercial mortgages and other loans and municipal revenue bonds have been valued on an amortized cost basis, which approximates market or fair value. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible. Short-term investments are reported at cost, which approximates market value. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk.

First Hawaiian Bank holds the investments as custodian in the Fund's name. In addition, the Fund has selected investment managers who are given authority to purchase and sell securities in accordance with the following guidelines:

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

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

1. U.S. equities:
  - a. Equity holdings are restricted to readily marketable securities of corporations that are actively traded on the major U.S. exchanges and over the counter.
  - b. Common and preferred stock:
    - i. The issuing institution has reported a profit in at least four of the five fiscal years preceding the date of investment, or alternatively in at least seven of the ten fiscal years preceding the date of investment.
    - ii. The issuing institution has paid a cash dividend on its common or capital stock in at least four of the five years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.
    - iii. Total cash dividends have not exceeded total earnings in five years preceding the date of investment.
    - iv. On the date of investment, the issuer is not in default in payment of principal or interest on any of its publicly held bonds or other evidence of indebtedness, and any contingent interest, cumulative and non-cumulative preferred dividends and dividends on prior common or capital stock have been paid in full.
    - v. Preferred stock must also adhere to the following:

The net earnings of the institution available for fixed charges over a period of five fiscal years preceding the date of investment have averaged per year, and during either of the last two years have been, after depreciation and after 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.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

### 2. U.S. Fixed Income:

- b. 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.
- c. 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 equal to or greater than "A".
- d. Total portfolio quality (capitalization weighted) must maintain an "A" minimum rating.
- e. 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 after 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.
- f. 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 or superior to the standards described above.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

### 3. Non-U.S. Equities

- a. Common or capital stock of any institution or entity created or existing under the laws of any foreign country are permissible investments, provided that:
  - i. The issuing institution has reported a profit in at least four of the five fiscal years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.
  - ii. The issuing institution has paid a cash dividend on its common or capital stock in at least four of the five years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.
  - iii. Total cash dividends have not exceeded total earnings in five years preceding the date of investment.
  - iv. On the date of investment, the issuer is not in default in payment of principal or interest on any of its publicly held bonds or other evidences of indebtedness, and any contingent interest, cumulative and non-cumulative preferred dividends and dividends on prior common or capital stock have been paid in full.
- b. Consistent with the desire to maintain broad diversification, allocations to any country, industry or other economic sector should not be excessive.

### 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 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.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

- B. No investment management organization shall have more than twenty-five percent (25%) of the GGRF's assets under its direction.
- C. No individual security of any issuer, other than that of the United States government or Government of Guam, shall constitute more than five percent (5%), at cost, of the total GGRF or of any investment manager's portfolio.
- D. Holdings of any issuer must constitute no more than five percent (5%) of the outstanding securities of such issuer.
- E. Investments in a registered mutual fund managed by the investment manager are subject to prior approval of the Board of Trustees.
- F. The following securities and transactions are not authorized: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; and, short sales origin transactions. Options and futures are restricted, except by petition to the Trustees for approval.

### Income Taxes

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

### Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments, including lump-sum distributions that are attributable under the Fund's provisions to the service members have rendered through the most recent actuarial valuation date (September 30, 2001).

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, 2001.

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, 2001), and the expected date of payment.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

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

Actuarial Cost Method:	Entry age normal
Valuation of Assets:	Market value, including accrued but unpaid contributions, with fixed income investments at amortized cost
Investment Income:	8% per year.
Salary Increase:	Graded based on service with the Government ranging from 4.0% for service in excess of 21 years to 8.5% for service from zero to five years
Total Payroll Growth:	4.5%
Expenses:	Administrative expenses of the prior year. For 2001, assumed to be 1.80% of covered defined benefit payroll
Mortality:	1983 Group Annuity Mortality for males set forward two years for males and no set forward for females
Disability:	1974-78 SOA LTD Non-Jumbo with rates increased for males by 30%
Retirement Age:	80% probability of retirement at earliest age of eligibility for unreduced retirement benefits; remaining are assumed to retire at age 60
Credited Service:	Active participant liabilities and costs loaded by 1.6% for estimated cost of those members purchasing additional credited service in accordance with Fund provisions. Additional 2% for unknown but assumed errors in data files

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

### Estimates

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

### Depreciation

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

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

Administrative expenses include depreciation and amortization expense of \$147,563 and \$(167,030) in 2002 and 2001, respectively. The 2001 negative expense is a result of over-depreciation in previous years.

## (5) Related Party Transactions

In March 1998, the GGRF accepted a promissory note from Guam Memorial Hospital Authority (GMHA), a component unit of the Government of Guam. The note was originally in the amount of \$9,385,720 and bears interest at the bank's prime rate plus 1%, with a floor amount of 8%. The note was executed for the outstanding balance of a previously executed promissory note and for contributions owed to the GGRF as of February 28, 1998, along with related penalties and interest. Payments were to begin on March 30, 1998. At September 30, 2002 and 2001 the balance on the note was \$6,823,775 and \$7,748,022, respectively. Management established a reserve of \$8,000,000 at September 30, 2000 due to the uncertainty of collection of this balance. The reserve was decreased during the years ended September 30, 2002 and 2001 to equal the balance of the receivable, with a corresponding offset included in bad debt recoveries.



# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

## (6) Property and Equipment and Land

Property and equipment at September 30, 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Building	\$ 1,130,186	1,130,186
Improvements	716,557	705,677
Equipment	712,977	828,598
Land	439,429	439,428
Furniture and fixtures	318,818	318,818
Automobiles	14,678	27,986
Other	<u>5,200</u>	<u>5,200</u>
	3,337,845	3,455,893
Less: Accumulated depreciation	<u>(1,912,412)</u>	<u>(1,893,778)</u>
	\$ <u>1,425,433</u>	<u>1,562,115</u>

## (7) Supplemental Annuities and COLA Payments

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

During the year ended September 30, 1999 the GGRF paid out more than \$31 million for supplemental annuities and COLA payments. The GGRF collected approximately \$18 million during fiscal year 1999 for these payments.

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

During the year ended September 30, 2001 the GGRF paid out \$34.0 million for supplemental annuities and COLA payments. Of the employer contributions received in fiscal year 2001, \$4.0 million was allocated to the reduction of the receivable for these payments.

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

## GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

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.

During fiscal year 1999, the Government of Guam appropriated \$12 million to pay for a portion of the \$31 million that the GGRF paid for supplemental annuities and COLA payments. Public Law 25-122, passed in May 2000, reallocated \$12 million from the payment of supplemental annuities and COLA to regular employer contributions.

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

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 2002 and 2001 was 1.2016% and 1.25% of covered payroll, respectively.

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

Public Law 24-327, as amended by Public Laws 25-2, 25-3, 25-72, 25-74, 25-90, 25-98 and 25-99 became effective December 30, 1998. This law allowed GGRF members with at least twenty years of creditable service to retire and to purchase up to five years of creditable service. Those electing to participate in the ERIP must pay the members' share of the required contribution, plus interest, based on their salary at the time they made the election. Payments can be made in full or can be financed through deductions from annuities over a period not to exceed fifteen years.

The time allowed for making the election and retiring was from December 30, 1998 to January 7, 2000. During this period, approximately eight hundred (800) members elected to participate in this program and signed promissory notes totaling nearly \$15 million. At September 30, 2002 and 2001 the amount owed under these notes was \$13,487,082 and \$14,364,938, 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.

# GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2002 and 2001

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

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 \$21,667,768 and \$24,927,244 at September 30, 2002 and 2001, respectively. This receivable is offset by deferred revenue in the same amount. Contribution income is recognized on a cash basis as amounts are collected from the employer agencies.

The receivable for the government's share of required contributions is being reduced by a portion of the employer contributions received. The statutory percentage for fiscal years 2002 and 2001 was 1.31% and 1.12%, respectively, of covered payroll.

# GOVERNMENT OF GUAM RETIREMENT FUND

## Schedule of Employer Contributions

September 30, 2002

<u>Year ended September 30</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
1991	95,626,462	47,981,639	50.2%
1992	101,997,881	51,178,569	50.2%
1993	113,004,409	57,762,706	51.1%
1994	108,474,825	66,591,020	61.4%
1995	89,717,590	76,491,049	85.3%
1996	80,204,912	75,976,487	94.7%
1997	64,262,185	67,976,263	105.8%
1998	57,162,473	78,727,824	137.7%
1999	77,663,514	72,120,965	92.9%
2000	85,623,203	68,677,714	80.2%
2001	117,856,000	66,047,627	56.0%

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Years ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Salaries and wages	\$ 1,567,599	1,582,805
Legal fees	336,908	31,930
Employer's retirement contribution	317,401	297,620
Actuary fees	284,089	274,555
Program services/maintenance	243,000	243,000
Interest	230,841	267,007
Insurance	162,297	102,125
Depreciation	147,563	(167,030)
Retiree supplemental/COLA	74,894	-
Repairs and maintenance	72,269	57,314
Printing and publications	62,329	64,340
Utilities	52,555	62,342
Postage	48,443	28,639
Computers and software	44,750	197,765
Communications	33,198	29,954
Audit fees	32,225	29,056
Medical exams	28,521	53,649
Travel and transportation	26,377	26,519
Equipment rental	24,048	18,377
Medicare contribution	19,633	26,032
Medical consultant	13,875	10,950
Office supplies	13,746	9,111
Miscellaneous	12,435	51,078
Training	7,936	4,526
Contract services	-	8,985
Bad debts (recoveries)	<u>(924,247)</u>	<u>(251,978)</u>
	<u>\$ 2,932,685</u>	<u>3,058,671</u>
Administrative expenses - charged to participants	653,755	399,725
Administrative expenses - paid to Benefits Corp	316,782	69,309
Other	<u>20,384</u>	<u>-</u>
	<u>\$ 990,921</u>	<u>469,034</u>

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

Supplementary Schedule of Personnel Costs

Years ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Salaries and wages	\$ 1,567,599	1,582,805
Employer's retirement contribution	317,401	297,620
Medicare contribution	<u>19,633</u>	<u>26,032</u>
	<u>\$ 1,904,633</u>	<u>1,906,457</u>
Average number of employees	49	48
Average cost per employee	\$ 38,870	\$ 39,718

See accompanying independent auditors' report.

**GOVERNMENT OF GUAM RETIREMENT FUND**

September 30, 2002

Agency	Supplemental/ COLA	ERIP Employer's Share	Employer Contributions	Member Contributions	TOTAL
Department of Administration (General Fund)	\$ 106,513,203	10,525,611	4,820,015	2,707,621	124,566,450
Department of Education	-	4,230,073	12,404,582	5,180,401	21,815,056
Guam Memorial Hospital Authority	-	846,187	5,539,039	2,758,112	9,143,338
Guam Power Authority	-	1,466,934	(9,120)	77	1,457,891
Guam Community College	-	1,032,833	38,052	18,905	1,089,790
Guam Waterworks Authority	-	979,828	58,420	26,365	1,064,613
Superior Court of Guam	-	508,107	244,843	117,950	870,900
Port Authority of Guam	-	750,321	(4,612)	(47)	745,662
Guam Telephone Authority	-	595,029	(135)	(554)	594,340
University of Guam	-	426,135	15,399	3,870	445,404
Guam Legislature	-	193,291	7,452	(2,460)	198,283
Guam Airport Authority	-	43,472	5,160	(5,182)	43,450
Guam Housing Corporation	-	29,452	1,638	-	31,090
Guam Mass Transit Authority	-	26,345	-	-	26,345
Guam Economic Development and Commerce Authority	-	14,149	(168)	(71)	13,910
Guam Housing and Urban Renewal Authority	-	-	2,464	2	2,466
Guam Visitors Bureau	-	-	40	-	40
Public Defender Service Corporation	-	-	(3,324)	-	(3,324)
Supreme Court of Guam	-	(23,392)	(8)	-	(23,400)
<b>TOTALS</b>	<b><u>\$ 106,513,203</u></b>	<b><u>21,644,375</u></b>	<b><u>23,119,737</u></b>	<b><u>10,804,989</u></b>	<b><u>162,082,304</u></b>

See accompanying independent auditors' report.