

GOVERNMENT OF GUAM RETIREMENT FUND

FINANCIAL STATEMENTS

September 30, 2020 and 2019

(Together with Independent Auditors' Report Thereon)

GOVERNMENT OF GUAM RETIREMENT FUND

September 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Government of Guam Retirement Fund:

Report on the Financial Statements

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") which comprise the statement of plan net position and statement of changes in plan net position as of and for the year ended September 30, 2020, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Government of Guam Retirement Fund as of September 30, 2020, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in note 14 to the financial statements, the Fund determined that the worldwide COVID-19 situation may negatively affect its investments and the changes in net assets available for pension benefits. Due to the significant uncertainties caused by COVID-19, the Fund is unable to reasonably estimate the ultimate financial impact. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 22, the Schedule of Changes in Net Pension Liability on pages 61 and 62, the Schedule of Employer Allocations by Component Unit on pages 63 and 64, the Schedule of Contributions on page 65, the Schedule of Investment Returns on page 66, the Schedule of Changes in Total Other Post Employment Benefits (OPEB) Liability on page 67, the Schedule of Other Post Employment Benefits (OPEB) Liability on page 68, and the Schedule of Employer Contributions (OPEB) on page 69 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying information listed as supplemental schedules on pages 70 to 75 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules on pages 70 to 75 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.

Such 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 schedules on pages 70 to 75 are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2021, on our consideration of the Government of Guam Retirement 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* in considering Government of Guam Retirement Fund's internal control over financial reporting and compliance.

Bryce A. Comm, P.C.

Tamuning, Guam
February 26, 2021

GOVERNMENT OF GUAM RETIREMENT FUND

Management’s Discussion and Analysis

September 30, 2020

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 year ended September 30, 2020. 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

- **DB Plan and DC Plan Investments**

During the first quarter of 2020 (December 31, 2019), the DB Plan investment portfolio posted a positive return of 5.17%, compared to the 2019 annual return of 3.17%. The DC Plan also ended the first quarter on a strong note with investments totaling \$378 million, compared to the September 30, 2019 balance of \$354 million.

Conditions changed materially however in February 2020 when COVID-19 became a global pandemic. Governments around the world implemented unprecedented lockdowns and restrictions on activity, plunging the global economy into recession and resulting in equity markets recording their most rapid fall ever. As such, for the second quarter of 2020 (quarter ended March 31, 2020), the DB Plan posted a negative return of 16.13%, while the DC Plan investments dropped to \$319 million, a decline in market value of approximately \$60 million.

Although COVID-19 continued to spread around the world over the remainder of the fiscal year, governments rapidly deployed large fiscal stimulus programs, while central banks slashed interest rates and significantly expanded asset purchase programs, enabling economies to build a bridge to recovery. As such, the DB Plan posted returns of 12.64% and 5.02% respectively, for the third and fourth quarters of 2020. Ending fiscal year 2020 with an annual return of 4.33%. The DC Plan investments also recovered ending the third quarter at \$375 million, and ending the fourth quarter (fiscal year ended September 30, 2020), at \$395 million.

Defined Benefit Plan		Defined Contribution Plan	
Period	Rate of Return	As of	Investment Balance (in millions)
Fiscal Year Ended 9/30/2019	3.17%	9/30/2019	\$354
Quarter Ended 12/31/2019	5.17%	12/31/2019	\$378
Quarter Ended 3/31/2020	-16.13%	3/31/2020	\$319
Quarter Ended 6/30/2020	12.64%	6/30/2020	\$375
Quarter Ended 9/30/2020	5.02%	9/30/2020	\$395
Fiscal Year Ended 9/30/2020	4.33%		

GOVERNMENT OF GUAM RETIREMENT FUND

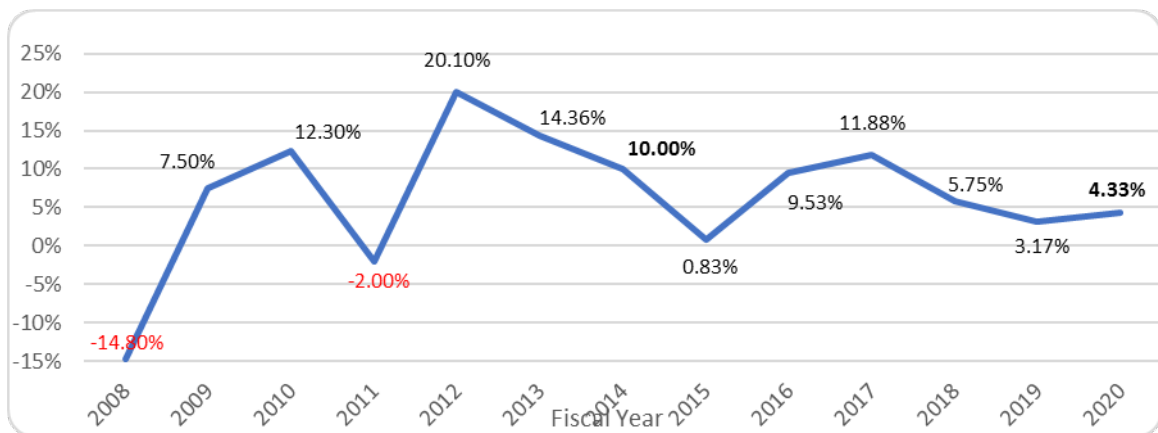
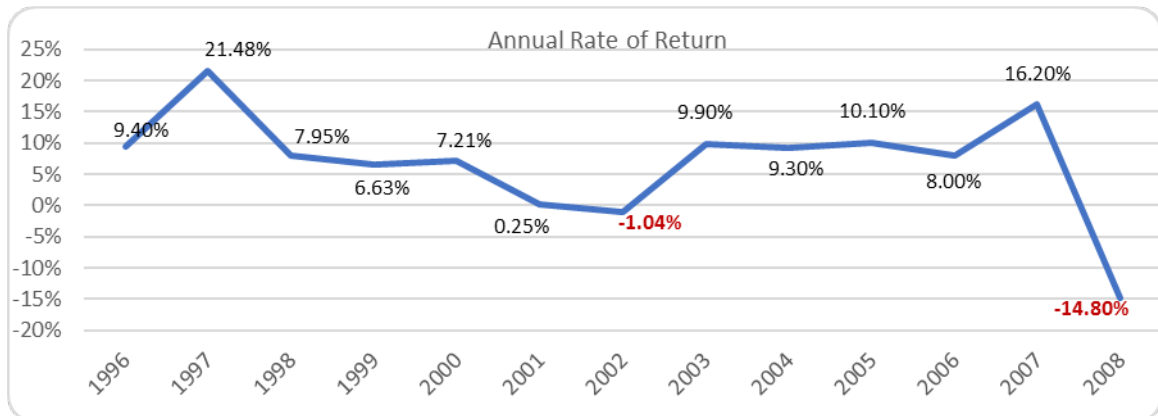
Management's Discussion and Analysis, continued

September 30, 2020

(1) Financial Highlights, continued

The COVID-19 global pandemic caused unprecedented volatilities in the financial markets. While periods of extreme market volatility can be alarming, the Fund stayed focused on the long-term investment horizon and prudently managed investments in both the DB and DC Plans. These efforts contributed to a strong recovery during the second half of the fiscal year. It is important to remember that the Fund has weathered periods of market volatility and uncertainty in the past. Since the portfolio's inception, the Fund has endured and survived extreme market events stemming from terrorists attacks and global financial crises. The Fund continues to manage the fund in the same disciplined manner as it has in the past.

The annual rate of return for the DB Plan investments from 1996 to 2020 are reflected below. Over that period, there have been three years with negative returns, all of which occurred in the last sixteen years. GGRF investment returns averaged 8.02% percent from 1995 through 2020.



GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(1) Financial Highlights, continued

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

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. The unfunded liability decreased from \$1.18 billion (based on the 2018 actuarial valuation) to \$1.16 billion (based on the 2019 actuarial valuation), and the actuarially determined contribution rate increased from 26.28% to 26.97%.

The primary reason for the increase in the contribution rate was due to the net recognition of investment gains and losses over the last three years. The increase was partially offset by some actuarial gains due to demographic experience that differed from the actuarial assumptions, and due to assumption changes adopted from the 2011 to 2015 experience study.

The defined benefit payroll for the 2019-20 fiscal year was \$353 million compared with \$351 million for the 2018-19 fiscal year. The \$353 million includes \$251 million for the DB 1.75 Plan Payroll. The total defined benefit and defined contribution payroll for the 2019-20 and 2018-19 fiscal years were both approximately \$523 million compared with \$513.9 million for the 2017-18 fiscal year, an increase of approximately 1.8%.

The unfunded liability has grown from \$552 million at September 30, 1995 to \$1.16 billion at September 30, 2019. This represents a decrease in the security ratio, from 66.5% in 1997 to 64.13% in 2019, and an increase in the unfunded liability ratio from 33.5% in 1995 to 35.87% in 2019. The security ratio is the ratio of assets to liabilities.

GOVERNMENT OF GUAM RETIREMENT FUND

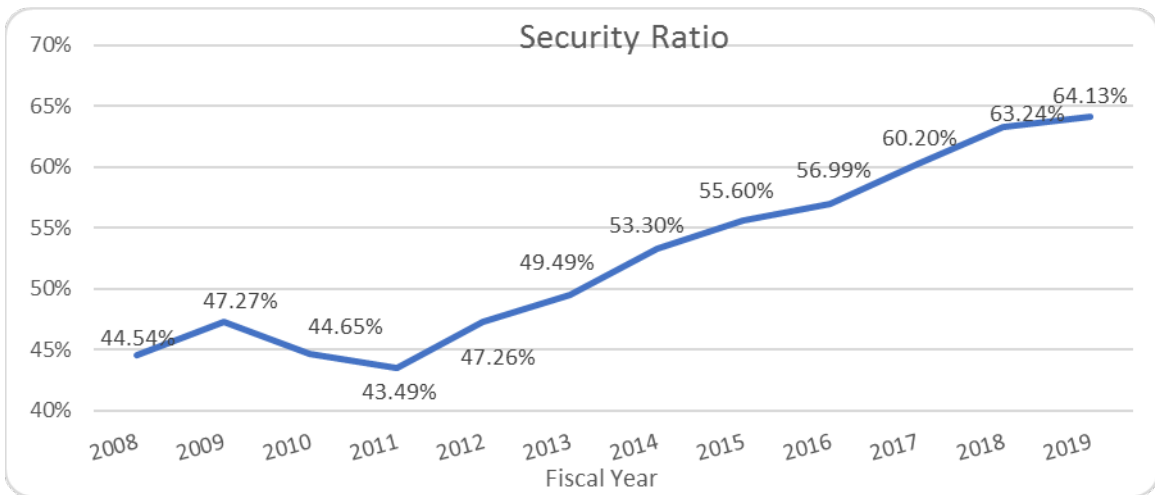
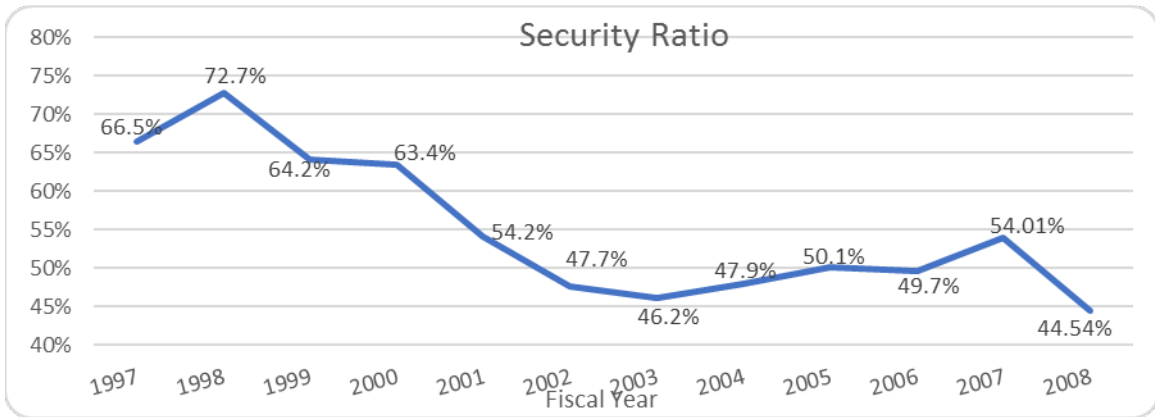
Management's Discussion and Analysis, continued

September 30, 2020

(1) Financial Highlights, continued

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

As indicated below, the **security ratio** (fund assets as a percentage of accrued liability) for the past twenty-four years has ranged from 43.49% to 72.7%, representing an average of 52.31% 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 range from 60% to 90%, with many concentrated around 70%. GGRF has a lower security ratio than most U.S. funds.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(1) Financial Highlights, continued

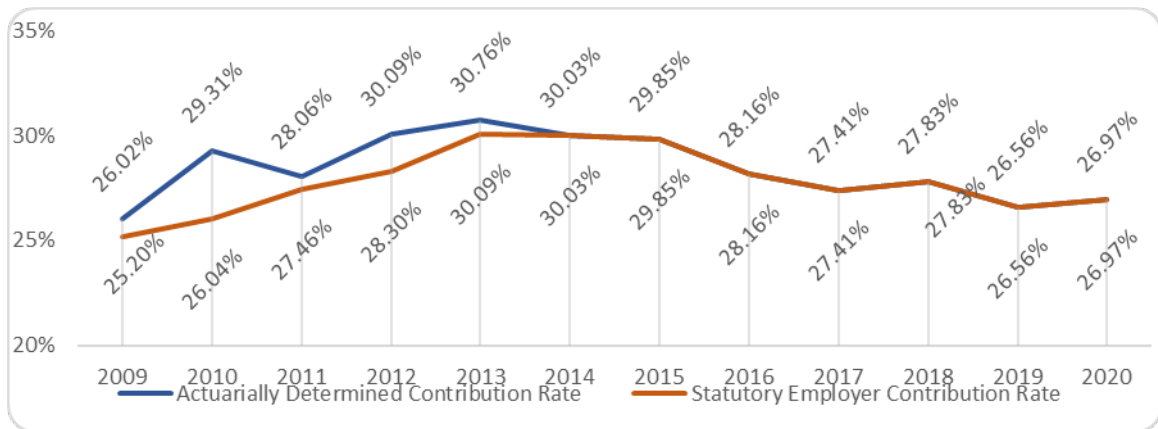
- **Critical Issue – Impact of Market Volatility on the DB Plan Unfunded Liability, Continued**

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 2019 valuation, there are 13.58 years remaining in the funding period.

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 continue to provide full funding each year.

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 2020 are reflected below.



Pursuant to 4GCA Chapter 8, Section 8137, if future contributions equal the actuarially determined contribution rate, and plan investments earn 7% each year, the DB Plan is expected to become fully funded in 2031. Public Law 33-186 extended this period by 2 years to 2033. 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. For 2014 to 2020, the statutory rate is equal to the actuarially determined contribution rate. Management encourages the Guam Legislature to continue to set the statutory rate at the actuarially determined contribution rate until full funding is achieved.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(1) Financial Highlights, continued

- **Governmental Accounting Standards Board (GASB) Statement No. 73.**

The Government of Guam and all component units must present pension information related to supplemental benefits and cost of living allowances (COLA). These benefits are not funded through the accumulation of assets purchased with employer or member contributions; rather, they are funded by Legislative appropriations with the General Fund as funding source. The supplemental benefit is an amount which, when added to a retiree's annuity, increases the annual annuity to Forty Thousand Dollars (\$40,000). This supplemental annuity only applies to retirees who retired under the defined benefit plan. The COLA payment has increased from an annual amount of \$1,800 in fiscal year 2014 to \$2,000 per retiree starting in fiscal year 2015. The COLA benefit applies to both defined benefit retirees and defined contribution retirees.

In accordance with GASB Statement No. 73, as of September 30, 2020 and 2019, GGRF recorded net pension liability of \$6,276,250 and \$5,670,345, respectively.

- **Governmental Accounting Standards Board (GASB) Statement No. 74.**

The Government of Guam contributes a portion of the medical and dental premiums, based on a schedule of semi-monthly rates, and reimburses certain Medicare premiums to eligible retirees. Retirees are also required to pay a portion of the medical and dental insurance premiums. Retirees and surviving spouses do not share in the cost of the basic life insurance benefit. This benefit applies to both defined benefit retirees and defined contribution retirees.

In accordance with GASB Statement No. 74, as of September 30, 2020 and 2019, GGRF recorded net OPEB liability of \$11,398,171 and \$8,466,261, respectively. This reflects postemployment medical, dental, and life insurance benefits of retirees, spouses, children, and survivors.

(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 components:

1. Basic Financial Statements,
2. Notes to the Basic Financial Statements,
3. Required Supplementary Information,
4. Other Supplementary Schedules.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(2) Description of the Financial Statements, continued

Collectively, this information presents the net position held in trust for pension benefits. This financial position also summarizes the changes in net position held in trust for pension benefits for the year then ended. The information in these components is briefly summarized as follows:

- **Basic Financial Statements**

The Fiduciary Net Position is presented for September 30, 2020, with comparative information at September 30, 2019 and 2018. These financial statements reflect resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. The Statement of Changes in Fiduciary Net Position is presented for the year ended September 30, 2020, with comparative information for the years ended September 30, 2019 and 2018. These financial statements reflect the changes in resources available to pay benefits to members, including retirees and beneficiaries, for fiscal years 2020, 2019 and 2018.

- **Notes to the Basic Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Information in the Notes to the Basic Financial Statements includes the following: a general description of GGRF, a summary of significant accounting policies, a description of deposit and investment risk, an explanation of property and equipment, information about net pension liability of the Agencies and information about pension plan participation.

- **Required Supplementary Information**

The Required Supplementary Information consists of the following schedules: changes in net pension liability, net pension liability by agency, employer contributions, and the annual money-weighted rate of return, net of investment expense.

- **Other Supplementary Schedules**

Other schedules include schedules of administrative and general expenses, personnel costs, personnel count, receivables by GovGuam Agency, and other receivables.

(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.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(3) Defined Benefit Plan, continued

DB Plan Net Position as of September 30, 2020, 2019 and 2018 are as follows:

	2020	2019	2018	Increase (Decrease) From 2019 to 2020	
				\$	%
Cash and Equivalents	\$2,898,149	\$4,785,288	\$4,803,854	(1,887,139)	-39.4%
Receivables	29,665,175	36,966,752	46,486,789	(7,301,577)	-19.8%
Investments	1,978,798,494	2,030,169,954	2,011,346,795	(51,371,460)	-2.5%
Property and Equipment	563,726	590,963	651,708	(27,237)	-4.6%
Deferred Outflows	3,625,861	1,294,716	1,471,110	2,331,145	180.1%
Total Assets	2,015,551,405	2,073,807,673	2,064,760,256	(58,256,268)	-2.8%
Total Liabilities	34,275,614	69,273,337	27,006,733	(34,997,723)	-50.5%
Deferred Inflows	3,112,473	8,538,207	4,875,248	(5,425,734)	-63.5%
Net Assets, End of Year	1,978,163,318	1,995,996,129	2,032,878,275	(17,832,811)	-0.9%
Net Assets, Beginning of Year	1,995,996,129	2,032,878,275	1,768,849,322		
Transfers from DC	0	0	229,076,137		
Net Increase (Decrease) in Net Position	(\$17,832,811)	(\$36,882,146)	\$34,952,816		

During 2020, DB Plan net position decreased by \$17.8 million, compared to the \$36.9 million decrease in the prior year. As of September 30, 2020, the supplemental/COLA benefits advanced receivable totaled approximately \$8.1 million. Over \$130 million in supplemental/COLA benefits were advanced to GovGuam by GGRF in the late 1990s. During 2020 and 2019, 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.

DB Plan Investments as of September 30, 2020, 2019 and 2018 are as follows:

	2020	2019	2018	Increase (Decrease) From 2019 to 2020	
				\$	%
Common Stocks	\$1,267,204,906	\$1,290,830,469	\$1,363,025,724	(23,625,563)	-1.8%
U.S. Government Securities	238,056,397	227,713,814	207,209,221	10,342,583	4.5%
Corporate Bonds and Notes	379,706,900	378,643,717	341,684,213	1,063,183	0.3%
Money Market Funds	59,103,305	70,248,164	26,130,425	(11,144,859)	-15.9%
Mutual Funds	34,726,986	62,733,790	73,297,212	(28,006,804)	-44.6%
Total	\$1,978,798,494	\$2,030,169,954	\$2,011,346,795	(51,371,460)	-2.5%

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.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(3) Defined Benefit Plan, continued

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

GGRF's target allocation versus the market allocation as of September 30, 2020, is as follows:

	Target Allocation	Market Allocation	Over/(Under)
Domestic Large Cap Equity	30.0%	30.5%	0.50%
International Equity	20.0%	19.2%	-0.80%
Fixed Income	24.0%	23.2%	-0.80%
Global Real Estate (REITs)	2.5%	2.0%	-0.50%
Risk Parity	8.0%	8.1%	0.10%
High Yield	8.0%	8.7%	0.70%
Global Equity	7.5%	7.0%	-0.50%
Cash	0%	1.3%	1.30%
Total	100%	100%	0.00%

The table below shows portfolio returns and indices, which are reflective of the market environment for 2020 and 2019. Investment in Global Equity began in 2020.

	2020	2019
Total Portfolio	4.33%	-3.17%
Blended Index	4.92%	6.91%
Total Domestic Equity	9.91%	-0.81%
Benchmark Index	11.48%	17.60%
International Equity	4.56%	-2.34%
Benchmark Index	3.38%	1.76%
Total Fixed Income	6.84%	9.19%
Benchmark Index	6.54%	-1.22%
High Yield	1.59%	2.99%
Benchmark Index	3.20%	3.05%
Global REITs	-13.58%	5.21%
Benchmark Index	-18.58%	3.88%
Risk Parity	3.41%	2.37%
Benchmark Index	-4.02%	3.06%
Global Equity	-3.71%	-
Benchmark Index	9.57%	-

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

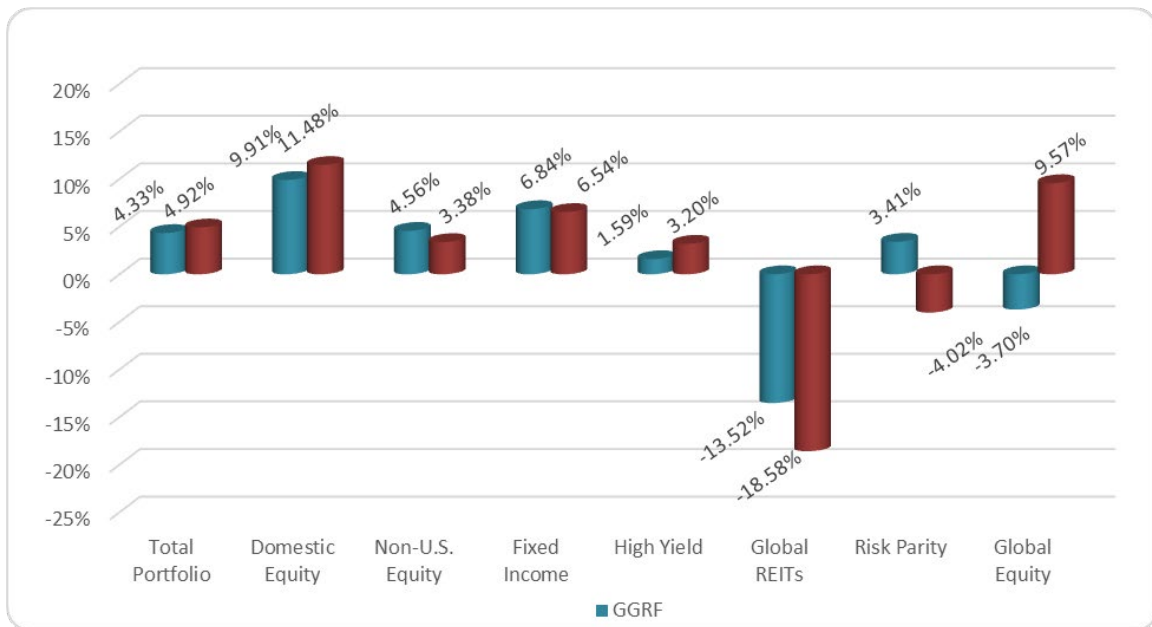
September 30, 2020

(3) Defined Benefit Plan, continued

Total Portfolio Return

For 2020, the total performance of the GGRF Portfolio 4.33% underperformed the benchmark index with a return of 4.92%.

The following reflects the 2020 investment performance for the total portfolio, and for each investment mandate.



GOVERNMENT OF GUAM RETIREMENT FUND

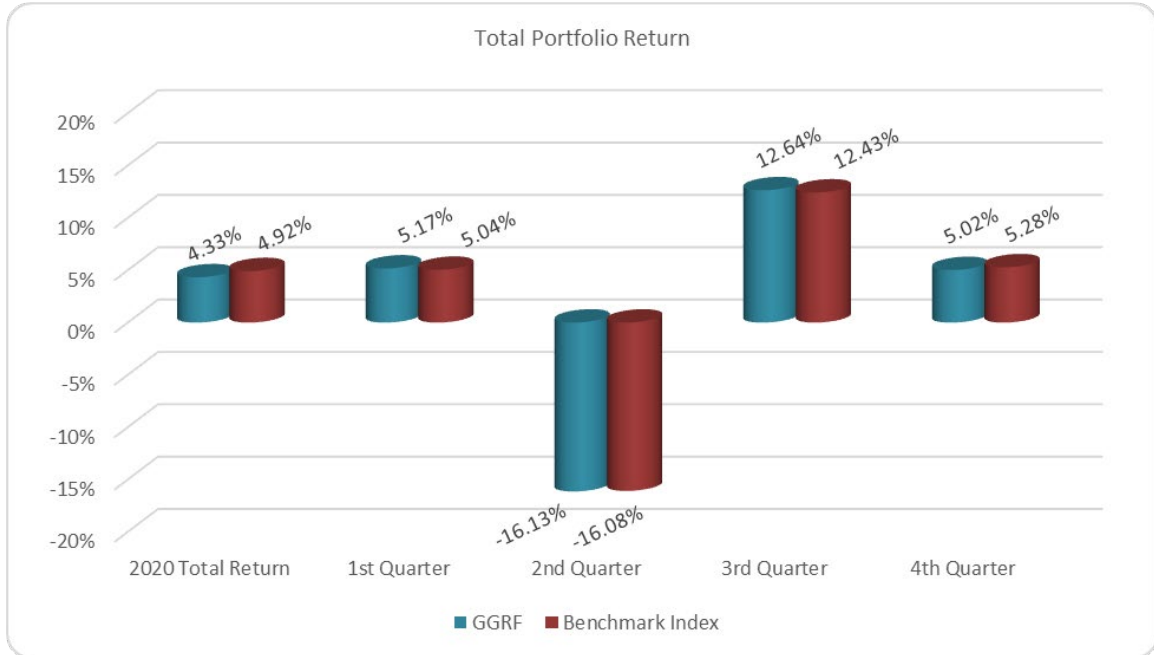
Management’s Discussion and Analysis, continued

September 30, 2020

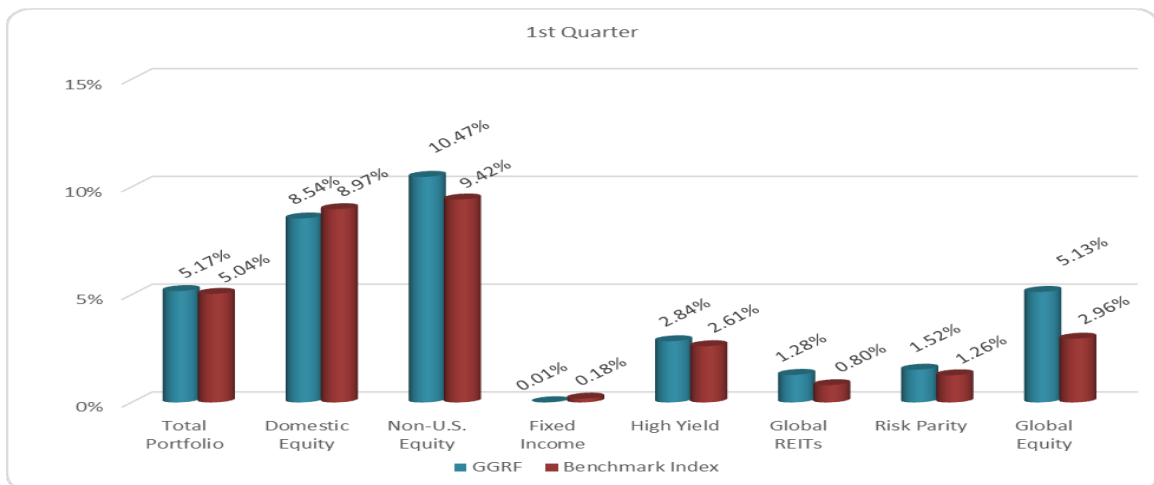
(3) Defined Benefit Plan, continued

2020 Portfolio Returns by Quarter

The following reflects the 2020 total and quarterly returns.



During the **first quarter** of 2020, the GGRF portfolio returned 5.17%, compared to the benchmark return of 5.04%, ranking at the 38th percentile of Wilshire’s peer group universe for the quarter. Domestic Equity underperformed its benchmark, most other mandates outperformed their respective benchmarks.



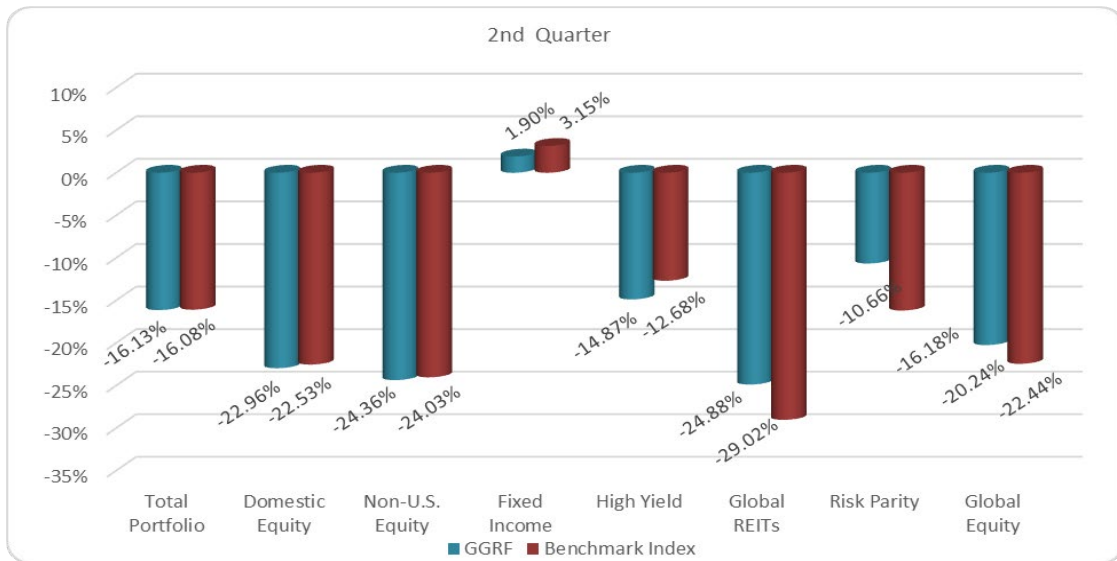
GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

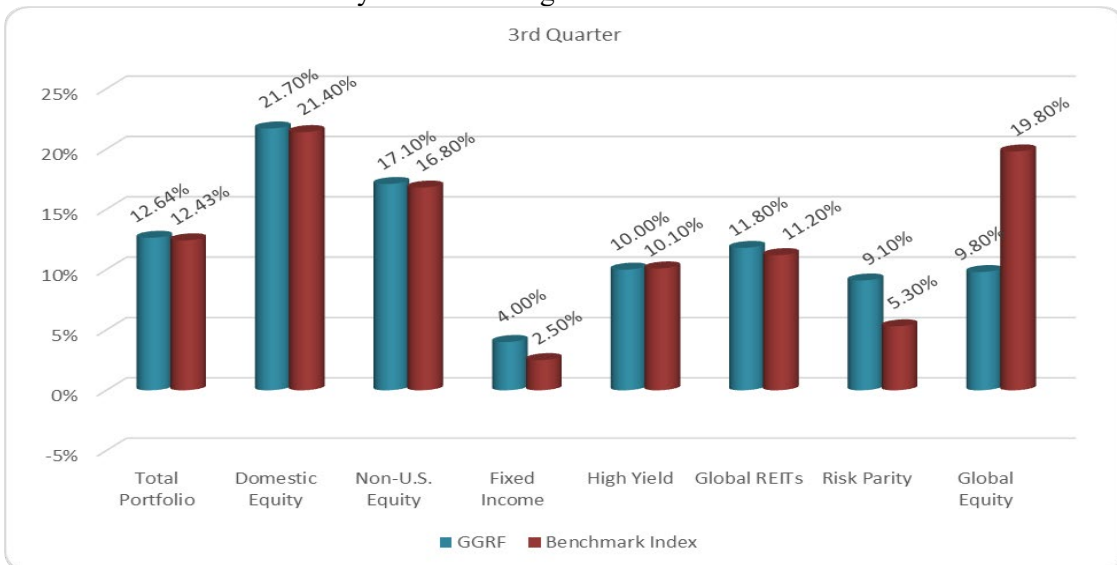
September 30, 2020

(3) Defined Benefit Plan, continued

- During the **second quarter**, the GGRF portfolio had a negative 16.1% return, compared to the benchmark return of negative 16.08%, ranking at the 90th percentile of Wilshire's peer group universe for the quarter. Global REITs, Risk Parity and Global Equity outperformed their respective benchmarks.



- During the **third quarter**, the GGRF portfolio returned 12.64%, outperforming the benchmark index of 12.43%, and ranking at the 37th percentile of Wilshire's peer group universe for the quarter. Global Equity struggled to add value against the benchmark, while Fixed Income and Risk Parity added value against their benchmarks.



GOVERNMENT OF GUAM RETIREMENT FUND

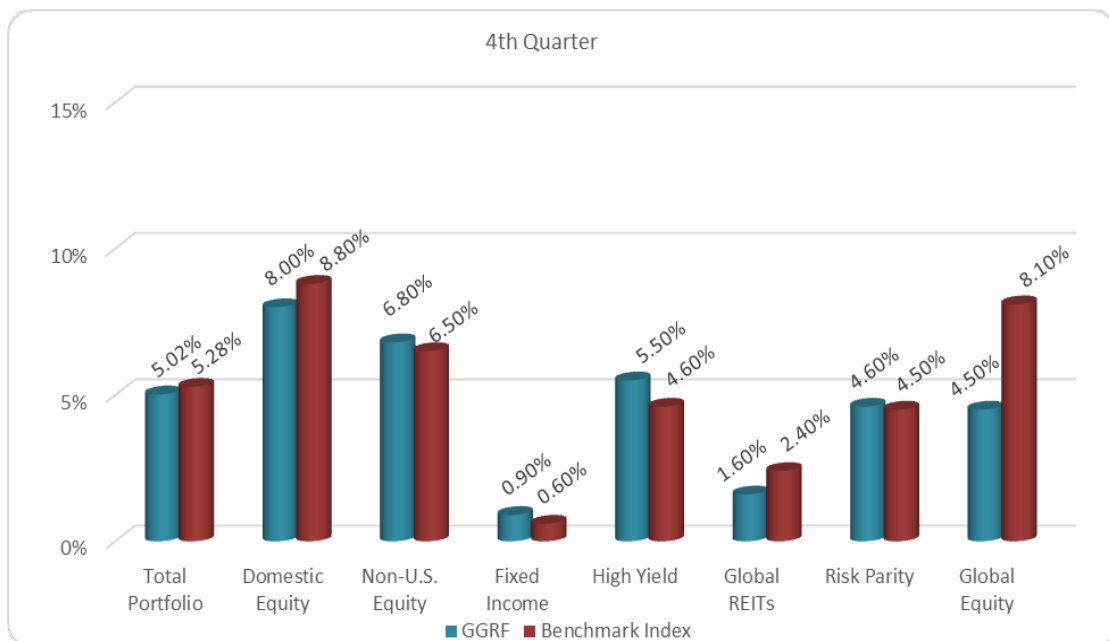
Management's Discussion and Analysis, continued

September 30, 2020

(3) Defined Benefit Plan, continued

During the **fourth quarter**, the GGRF portfolio returned 5.02%, underperforming the benchmark index of 5.28%, and ranking at the 27th percentile of Wilshire's peer group universe for the quarter.

Domestic and Global Equity were the primary detractors, both of which underperformed their benchmarks. International Equity, Fixed Income, and High Yield added value against their benchmarks.



Mitigating the Effects of Market Volatility through Diversification

GGRF's 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 GGRF's investment consultant, Wilshire Consulting consistently evaluates the relative performance of each mandate and individual managers, and rebalances the portfolio accordingly.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(3) Defined Benefit Plan, continued

Additions and Deductions to DB Plan Net Position for the years ended September 30, 2020, 2019 and 2018 are as follows:

	2020	2019	2018	Increase (Decrease) From 2019 to 2020	
				\$	%
				Net Appreciation in Fair Value of Investments	\$43,652,957
Interest, Dividends & Other Investment Income	41,830,207	43,397,011	39,497,620	(1,566,804)	-3.6%
Less Investment Expenses	4,604,148	5,402,151	5,574,493	(798,003)	-14.8%
Net Investment Income	80,879,016	56,758,490	104,481,675	24,120,526	42.5%
Employer Contributions	115,264,178	114,278,095	127,072,864	986,083	0.9%
Member Contributions	25,864,221	27,012,032	28,895,275	(1,147,811)	-4.2%
Total Contributions	141,128,399	141,290,127	155,968,139	(161,728)	-0.1%
Total Additions	222,007,415	198,048,617	260,449,814	23,958,798	12.1%
Benefit Payments	233,929,231	227,829,152	219,043,804	6,100,079	2.7%
Refunds	1,981,775	2,717,659	1,793,906	(735,884)	-27.1%
Interest on Refunds	320,196	617,745	516,037	(297,549)	-48.2%
Administrative Expenses	3,609,024	3,766,207	4,143,251	(157,183)	-4.2%
Total Deductions	239,840,226	234,930,763	225,496,998	4,909,463	2.1%
Net Increase (Decrease) in Net Position	(\$17,832,811)	(\$36,882,146)	\$34,952,816		

Additions to DB Plan Net Position

During 2020, the net appreciation in fair value of investments increased by \$24.9 M from the 2019 total, while interest, dividends and other investment income decreased by \$1.6 M from the 2019 total.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(3) Defined Benefit Plan, continued

Deductions to DB Plan Net Position

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 2020, deductions totaled \$239 million, an increase of 2.1% over 2019.

Benefit payments to current retirees and their beneficiaries over the last two years averaged 97% of total deductions. For 2020, benefit payments increased by \$6.1 million or 2.7%, consisting of a \$6.0 million increase in age and service annuities, a \$300,000 increase in survivor annuities, and a \$200,000 decrease in disability annuities. 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.

DB Plan membership as of September 30, 2020, 2019 and 2018 is as follows:

	2020	2019	2018	Increase (Decrease) from 2019 to 2020
Retirees and Beneficiaries Receiving Benefits	7,414	7,360	7,252	54
Terminated Members entitled to, but not Receiving Benefits	3,123	3,162	3,134	(39)
Active - DB Members	1,415	1,605	1,845	(190)
Active - DB 1.75 Members	2,898	3,040	3,226	(142)
Total Membership	14,850	15,167	15,457	(317)

Liquidations

During 2020, \$93 million in investments were liquidated in order to meet benefit payment obligations, compared to \$86 million in 2019. The \$93M and \$86M included \$35.1M and \$41.7M of interest and dividend income, respectively. The increase in 2020 liquidations is due largely to the increase in pension payroll from \$228 million in 2019 to \$234 million in 2020.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(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 Position as of September 30, 2020, 2019 and 2018 are as follows:

	2020	2019	2018	Increase (Decrease) From 2019 to 2020	
				\$	%
Cash and Equivalents	\$4,782,863	\$3,940,460	\$3,936,893	842,403	21.4%
Receivables	1,463,539	1,317,026	1,279,430	146,513	11.1%
Investments	394,945,071	354,007,009	346,567,620	40,938,062	11.6%
Property and Equipment	13,786	13,942	14,948	(156)	-1.1%
Deferred Outflows	246,112	158,706	156,007	87,406	100.0%
Total Assets	401,451,371	359,437,143	351,954,898	42,014,228	11.7%
Total Liabilities	1,674,195	1,427,757	1,892,122	246,438	17.3%
Deferred Inflows	143,113	149,600	74,644	(6,487)	100.0%
Net Assets, End of Year	399,634,063	357,859,786	349,988,132	41,774,277	11.7%
Net Assets, Beginning of Year	357,859,786	349,988,132	536,566,067		
Transfers to DB Plan	0	0	229,076,137		
Net Increase (Decrease) in Net Assets	\$41,774,277	\$7,871,654	\$42,498,202		

During 2020, DC Plan net position increased by approximately \$41.8 million or 11.7%. During 2018, approximately \$229 million was transferred from the DC Plan to the DB 1.75 Plan for employees who elected to transfer to the DB 1.75 Plan effective January 1, 2018.

DC Plan investments include core mutual funds, and target date funds. 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.

Employee contributions to the DC Plan are based on an automatic deduction of 6.2% 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 6.2% 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(4) Defined Contribution Plan, continued

Additions and Deductions to DC Plan Net Position for the years ended September 30, 2020, 2019 and 2018 are as follows:

	2020	2019	2018	Increase (Decrease) From 2019 to 2020	
				\$	%
Net Appreciation in Fair Value of Investments	\$13,037,292	(\$29,958,355)	\$18,863,481	42,995,647	-143.5%
Interest, Dividends & Other Investment Income	19,364,839	37,815,522	25,252,853	(18,450,683)	-48.8%
Less Investment Expenses	134,045	153,266	124,098	(19,221)	-12.5%
Net Investment Income	32,268,086	7,703,901	43,992,236	24,564,185	318.9%
Employer Contributions	16,503,922	14,974,134	15,917,364	1,529,788	10.2%
Member Contributions	16,456,479	14,875,867	15,824,443	1,580,612	10.6%
Total Contributions	32,960,401	29,850,001	31,741,807	3,110,400	10.4%
Total Additions	65,228,487	37,553,902	75,734,043	27,674,585	73.7%
Refunds	21,688,909	28,088,482	31,159,183	(6,399,573)	-22.8%
Administrative Expenses	1,765,301	1,593,766	2,076,658	171,535	10.8%
Total Deductions	23,454,210	29,682,248	33,235,841	(6,228,038)	-21.0%
Net Increase (Decrease) in Net Position	\$41,774,277	\$7,871,654	\$42,498,202		

Additions (deductions) to DC Plan Net Position

During 2020, the net appreciation in fair value of investments increased by \$43 million from the 2019 total, while interest dividends and other investment income decreased by \$18.5 million from the 2019 total. The \$18.5 million decrease in interest income was due to a combination of market fluctuations and participants' investment choices changing. In terms of market fluctuations, the market has moved further into a low income and yield environment. Bond yields decreased dramatically, particularly in the year ending 9/30/2020. For example, the US 10 year Treasury yield fell from 2.69% on 9/30/2018 to 1.66% on 9/30/2019 and 0.69% on 9/30/2020. Similar moves took place in other fixed income markets. This impacted both US and International Fixed Income, as well as stable value and the Target Date Funds (TDF). Dividend yields for equity didn't decrease as dramatically. Relative to participant investment choices, the allocations to various funds changed dramatically in 2020 with the implementation of managed accounts. This resulted in significant amounts reallocated away from the Target Date Funds.

During 2020, refunds totaled \$21.7 million, a decrease of 22.8% from 2019. Refunds of member contributions are at the discretion of the member and vary from year to year.

GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

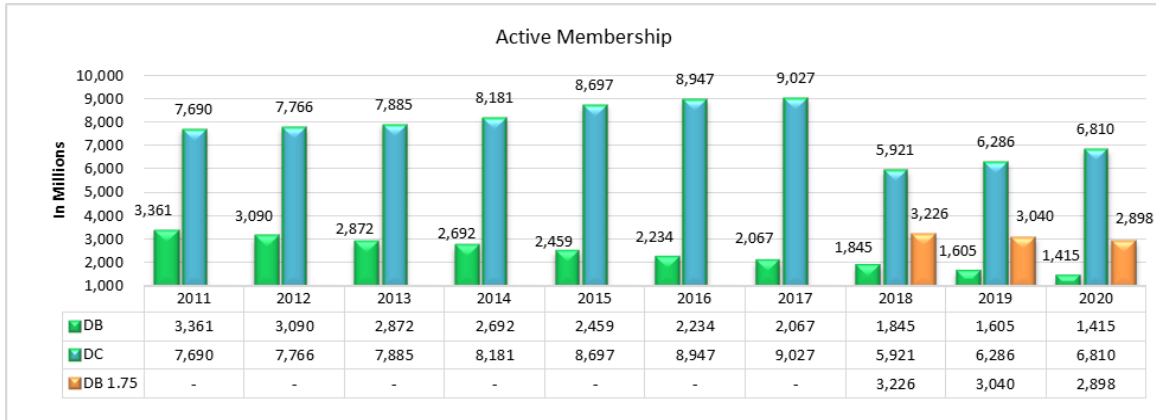
September 30, 2020

(4) Defined Contribution Plan, continued

DC Plan membership as of September 30, 2020, 2019 and 2018 is as follows:

	2020	2019	2018	Increase (Decrease) from 2018 to 2019
Active (Contributing) Members	6,810	6,286	5,921	524
Inactive (Non-Contributing) Members with Account Balances	6,820	6,505	6,270	315
Total Membership	13,630	12,791	12,191	839

(5) Future Outlook



Active membership in the DB and DB 1.75 Plans will continue to decrease as members retire, while membership in the DC Plan will continue to increase as a result of the recruitment of new employees. The decrease in the DC Plan in 2018 was due to the transfer of DC Plan participants to the DB 1.75 Plan.

The corresponding increases (decreases) in Member Payroll is reflected below.



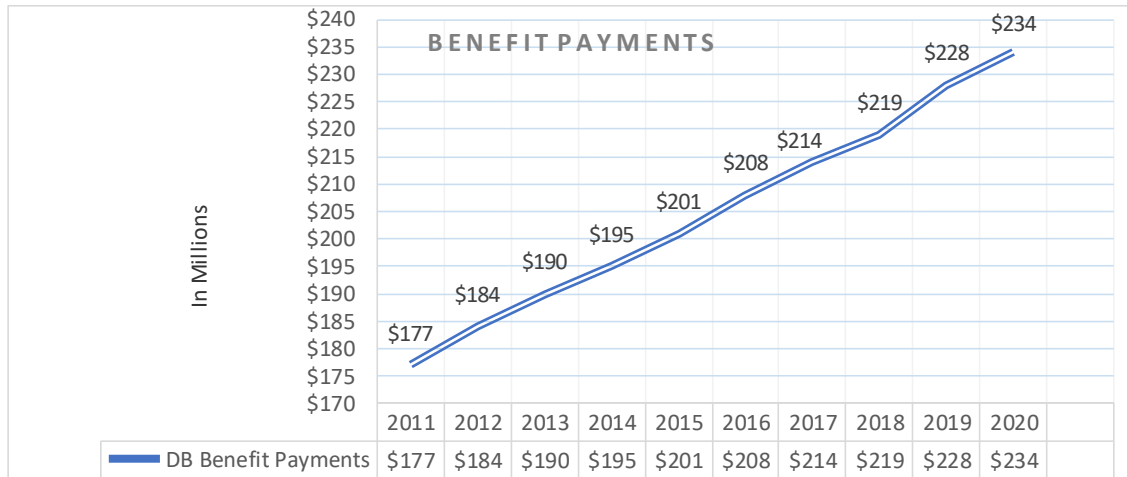
GOVERNMENT OF GUAM RETIREMENT FUND

Management's Discussion and Analysis, continued

September 30, 2020

(5) Future Outlook, continued

DB Benefit Payments



The number of retired DB and DB 1.75 members has increased from 7,085 in 2009, to an estimated 7,414 in 2020. Annual benefit payments have also increased from \$171.5 million in 2009, to an estimated \$234 million in 2019. **Looking ahead**, benefit payments for DB retirees are expected to increase as active members continue to retire.

Defined Benefit Plan

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

1. Ensuring payment of 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 GGRF and managing the investments.

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

Looking Forward

As we enter Fiscal Year 2021, our focus will be to continue to navigate the rapidly changing economy by working with our Investment Consultants (for both the DB and DC Plans) to continue to strengthen the Fund. It should be noted that the DB Plan investments posted a positive return of 10.33% for the quarter ended December 31, 2020, while DC Plan investments increased to \$439 million.

GOVERNMENT OF GUAM RETIREMENT FUND

Statement of Fiduciary Net Position

September 30, 2020 (with Comparative Totals for 2019)

<u>ASSETS</u>	Defined <u>Benefit</u>	Defined <u>Contribution</u>	2020 <u>Total</u>	2019 <u>Total</u>
Investments, at fair value:				
Common and preferred stocks	\$ 1,267,204,906	-	1,267,204,906	1,290,830,469
U.S. Government securities	238,056,397	-	238,056,397	227,713,814
Corporate bonds and notes	379,706,900	-	379,706,900	378,643,717
Money market funds	59,103,305	-	59,103,305	70,248,164
Mutual funds	34,726,986	388,746,656	423,473,642	409,982,625
DC plan forfeitures	-	6,198,415	6,198,415	6,758,174
Total investments	<u>1,978,798,494</u>	<u>394,945,071</u>	<u>2,373,743,565</u>	<u>2,384,176,963</u>
Receivables:				
Contributions, Interest & Penalties:				
Employer contributions, net	3,875,120	658,926	4,534,046	4,208,804
Employer contributions, unfunded liability	2,797,404	-	2,797,404	1,947,253
Member contributions	1,441,620	657,445	2,099,065	1,926,527
Interest and penalties on contributions	357,601	-	357,601	259,126
Supplemental/Insurance benefits advanced	1,996,097	-	1,996,097	1,996,097
	<u>10,467,842</u>	<u>1,316,371</u>	<u>11,784,213</u>	<u>10,337,807</u>
Member Notes:				
Early Retirement Incentive Program (ERIP)	-	-	-	-
Service Credits	1,968,422	-	1,968,422	2,394,104
	<u>1,968,422</u>	<u>-</u>	<u>1,968,422</u>	<u>2,394,104</u>
Other:				
Deferred receivables - Supplemental/COLA benefits	8,097,077	-	8,097,077	14,339,393
Accrued interest and dividends on investments	5,915,703	-	5,915,703	6,204,386
Other receivables	646,472	147,168	793,640	733,496
Due from brokers for unsettled trades	1,878,165	-	1,878,165	3,589,381
Due from DC plan	691,494	-	691,494	685,211
	<u>17,228,911</u>	<u>147,168</u>	<u>17,376,079</u>	<u>25,551,867</u>
Total receivables	<u>29,665,175</u>	<u>1,463,539</u>	<u>31,128,714</u>	<u>38,283,778</u>
Cash and cash equivalents	2,898,149	4,782,863	7,681,012	8,725,748
Property and equipment	563,726	13,786	577,512	604,905
Total assets	<u>2,011,925,544</u>	<u>401,205,259</u>	<u>2,413,130,803</u>	<u>2,431,791,394</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred outflows of resources from pension	885,080	246,112	1,131,192	617,340
Deferred outflows - OPEB	2,740,781	-	2,740,781	836,082
Total assets and deferred outflows	<u>2,015,551,405</u>	<u>401,451,371</u>	<u>2,417,002,776</u>	<u>2,433,244,816</u>
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	3,955,799	657,948	4,613,747	4,930,852
Due to brokers for unsettled trades	10,888,858	-	10,888,858	50,948,425
Due to DB plan	-	691,494	691,494	685,211
Total current liabilities	<u>14,844,657</u>	<u>1,349,442</u>	<u>16,194,099</u>	<u>56,564,488</u>
Net pension liability	5,951,497	324,753	6,276,250	5,670,345
Net OPEB Liability	11,398,171	-	11,398,171	8,466,261
Total liabilities	<u>32,194,325</u>	<u>1,674,195</u>	<u>33,868,520</u>	<u>70,701,094</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unearned revenue for service credits	2,081,289	-	2,081,289	4,606,105
Deferred inflows from pension	76,376	143,113	219,489	285,817
Deferred inflows - OPEB	3,036,097	-	3,036,097	3,795,885
Total deferred inflows of resources	<u>5,193,762</u>	<u>143,113</u>	<u>5,336,875</u>	<u>8,687,807</u>
Net position restricted for pensions (See required supplemental schedule of funding progress)	<u>\$ 1,978,163,318</u>	<u>\$ 399,634,063</u>	<u>\$ 2,377,797,381</u>	<u>\$ 2,353,855,915</u>

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

GOVERNMENT OF GUAM RETIREMENT FUND

Statement of Changes in Fiduciary Net Position

Year ended September 30, 2020 (with Comparative Totals for 2019)

	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>2020 Total</u>	<u>2019 Total</u>
Investment income				
Net appreciation (decrease) in fair value of investments	\$ 43,652,957	13,037,292	56,690,249	(11,194,725)
Interest	23,805,299	18,088,925	41,894,224	64,059,819
Dividends	17,815,630	-	17,815,630	15,833,624
Other investment income	209,278	1,275,914	1,485,192	1,319,090
	<hr/>	<hr/>	<hr/>	<hr/>
	85,483,164	32,402,131	117,885,295	70,017,808
Less investment expenses	4,604,148	134,045	4,738,193	5,555,417
Net investment income	<hr/>	<hr/>	<hr/>	<hr/>
	80,879,016	32,268,086	113,147,102	64,462,391
Contributions				
Employer	115,264,178	16,503,922	131,768,100	129,252,229
Member	25,864,221	16,456,479	42,320,700	41,887,899
Total contributions	<hr/>	<hr/>	<hr/>	<hr/>
	141,128,399	32,960,401	174,088,800	171,140,128
TOTAL ADDITIONS	222,007,415	65,228,487	287,235,902	235,602,519
Benefit payments				
Age and service annuities	198,200,464	-	198,200,464	192,223,728
Survivor annuities	30,698,130	-	30,698,130	30,369,206
Disability annuities	5,030,637	-	5,030,637	5,236,218
Total benefit payments	<hr/>	<hr/>	<hr/>	<hr/>
	233,929,231	-	233,929,231	227,829,152
Refunds to separated employees and withdrawals	1,981,775	21,688,909	23,670,684	30,806,141
Administrative and general expenses	3,609,024	1,765,301	5,374,325	5,359,973
Interest on refunded contributions	320,196	-	320,196	617,745
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL DEDUCTIONS	239,840,226	23,454,210	263,294,436	264,613,011
Net increase (decrease) in plan net position	(17,832,811)	41,774,277	23,941,466	(29,010,492)
Net position restricted for pensions, beginning of year	1,995,996,129	357,859,786	2,353,855,915	2,382,866,407
Net position restricted for pensions, end of year	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 1,978,163,318	\$ 399,634,063	\$ 2,377,797,381	\$ 2,353,855,915

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

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements

September 30, 2020 and 2019

(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 active 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:

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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(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, 2019, membership is as follows:

Retirees and beneficiaries receiving benefits	7,414
Terminated members entitled to, but not yet receiving benefits	3,123
Active plan members-DB	1,415
Active plan members-DB 1.75	<u>2,898</u>
	<u>14,850</u>

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, 2019, which was issued in May 2020, the actuarially determined contribution rate for the fiscal year ended September 30, 2020 was 26.97% of covered payroll.

Based on the actuarial valuation as of September 30, 2018, which was issued in April 2019, the actuarially determined contribution rate for the fiscal year ended September 30, 2019 was 26.28% of covered payroll.

The established statutory rates at September 30, 2020 and 2019, were 26.28% and 26.56%, respectively, of covered payroll.

Retirement, Disability and Survivor Benefits

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

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(2) Description of the Defined Benefit Plan, continued

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.

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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(2) Description of the Defined Benefit Plan, continued

Survivor

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

1. Spouse – annual benefit is equal to sixty percent (60%) of the disability or service retirement benefit earned by the member.
2. Minor children – Basic benefit is \$2,880 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 terminates 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.

DB 1.75 Plan

In accordance with Public Law 33-186:

The Defined Benefit 1.75% Plan became effective on January 1, 2018. DB 1.75 Plan members are required to contribute 9.5% of their base salary to the DB 1.75 Plan and 1% of base salary to the 457 Plan, and are fully vested for benefits upon attaining five (5) years of credited service. Members may retire with full benefits at age 62 and 5 years of credited service, or at age 55 with 25 years of credited service with reduced benefits, or at age 60 and 5 years of credited service without survivor benefits.

The DC Plan member and employer contribution rates increased from five percent (5%) to six and two-tenths percent (6.2%), effective January 1, 2018.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(3) Description of the Defined Contribution Retirement System

Purpose

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

Membership

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

Existing members of the DB plan with less than 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.

At September 30, 2019, membership is as follows:

Active contributing members	6,810
Inactive members with account balances	<u>6,820</u>
	<u>13,630</u>

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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(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, 2019 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 accounting principles generally accepted in the United States of America 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.

Cash

At September 30, 2020, the GGRF has cash balances in banks of approximately \$8.3 million, of which \$250,000 is insured by the Federal Deposit Insurance Corporation, and of which includes approximately \$1.3M in outstanding checks. The remaining balances are collateralized by securities held by a trustee in the name of the financial institution.

Investments

Investments include U.S. Federal Government and agency obligations, foreign government obligations, real estate, commercial mortgages, corporate debt, 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(4) Summary of Significant Accounting Policies, continued

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, 2018. In addition, the Fund has selected investment managers who are given authority to purchase and sell securities in accordance with the following guidelines:

- A. Investment managers may invest in U.S. and non-U.S. common stocks, American Depository Receipts (ADRs), convertible bonds, preferred stocks, fixed-income securities, mutual funds and short-term securities.
 - 1. U.S. equities:
 - a. Equity holdings are restricted to readily marketable securities of corporations that are actively traded on the major U.S. exchanges and over the counter.
 - b. Common and preferred stock:
 - i. The issuing institution has reported a profit in at least four of the five fiscal years preceding the date of investment, or alternatively, in at least seven of the ten fiscal years preceding the date of investment.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(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 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(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:

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(4) Summary of Significant Accounting Policies, continued

- 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 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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(4) Summary of Significant Accounting Policies, continued

- 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.

Investment policy

GGRF's investment policy in regard to the allocation of invested assets is established by mandates of public laws as enacted from time to time, as codified at 4GCA Title 4, Chapter 9, Article 1. GGRF's strategic asset allocation is based on the Fund's time horizon, risk tolerances, investment objectives, and asset class preferences.

The following was the Board's adopted asset allocation policy as of September 30, 2020:

Asset Class	Target Allocation
U.S. Equities (Large Cap)	26.00%
U.S. Equities (Small Cap)	4.00%
Non-U.S. Equities	20.00%
Global Equity	7.50%
U.S. Fixed Income (Aggregate)	24.00%
High Yield Bonds	8.00%
Risk Parity	8.00%
Global Real Estate (REITs)	2.50%
	100.00%

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(4) Summary of Significant Accounting Policies, continued

Rate of return

Based on the September 30, 2019 Actuarial Valuation, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.85%. The money-weighted rate of return expresses investment performance, net of investment expense.

Due to/from Brokers

Amounts due to/from brokers for unsettled trades consists of securities purchased or sold, which have not yet settled.

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, 2019).

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, 2019.

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, 2019), and the expected date of payment.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(4) Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

During the years ended September 30, 2019 and 2020, the Fund implemented the following GASB pronouncements

- In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations. GASB Statement No. 83 was effective for the fiscal year ending September 30, 2019. The implementation of this statement did not have a material impact on the Fund's financial statements.
- In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 is effective for reporting periods after December 15, 2018. Management does not believe that the implementation of this statement had a material effect on the financial statements.
- In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. Management does not believe that the implementation of this statement had a material effect on the financial statements.
- In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement had a material effect on the financial statements.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(4) Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

- In June 2017, GASB issued Statement No. 87, *Leases*, which is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 will be effective for the fiscal year ending September 30, 2021. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
- In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
- In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
- In January 2020, GASB issued Statement No. 92, *Omnibus 2020*, which improves the consistency of authoritative literature and enhances the comparability in the application of accounting and financial reporting requirements. The amended guidance applies to all state and local governments. Statement No. 92 amends the accounting and financial reporting requirements for specific issues related to: Leases, Intra-entity transfers of assets, Postemployment benefits, Government acquisitions, and Reinsurance recoveries. GASB Statement No. 92 was effective for fiscal year ending September 30, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(4) Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- In March 2020, GASB issued statement No. 93, *Replace of Interbank Offered Rates*, which addresses those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate. The provisions of Statement No. 93 are effective for periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
- In March 2020, GASB issued statement No. 94, *Public-private and Public-Public Partnerships and Availability Payment Arrangements*, to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The provisions of Statement No. 94, are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Statement No. 95 did not extend this implementation date. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
- In May 2020, GASB issued statement No. 95, *Postponement of the effective Dates of Certain Authoritative Guidance*, to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(4) Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- GASB Statement No. 95, continued:

In accordance with the provisions of Statement No. 95, the effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

The effective date Statement No. 87, *Leases* was postponed by 18 months:

- In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The provisions of Statement No. 96 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Management does not believe that the implementation of this statement will have a material effect on the financial statements.
- In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which is intended to improve the consistency of the reporting of fiduciary component units, and enhance the comparability in the application of accounting and financial reporting requirements for deferred compensation plans. The provisions in Statement No. 97 that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. Earlier application is encouraged. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(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 \$31,857 in 2020, and \$65,924 in 2019.

(5) Net Pension Liability and Funded Status

Funded Status

The unfunded actuarial accrued liability is used to determine funding requirements. As of the most recent actuarial valuations (September 30, 2019 and 2018), the DB plan had the following funded status:

	<u>2020</u>	<u>2019</u>
Actuarial value of assets	\$ 2,065,952,121	\$ 2,021,908,019
Actuarial accrued liability (AAL)	<u>3,221,309,677</u>	<u>3,197,101,503</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>1,155,357,556</u>	\$ <u>1,175,193,484</u>
Security Ratio (Funded ratio)	64.13%	63.20%

GASB 67

GASB 67 introduced some new terms for government sponsored pension plans. These are similar to the terms previously used, but have new names:

- Total Pension Liability (TPL) = Actuarial Accrued Liability
- Fiduciary Net Position (FNP) = Market Value of Assets
- Net Pension Liability (NPL) = Total Pension Liability (TPL) less Fiduciary Net Position (FNP)

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(5) Net Pension Liability and Funded Status, continued

The Net Pension Liability is similar to what was previously called the Unfunded Actuarial Accrued Liability. However, the Net Pension Liability is calculated using the Market Value of Assets instead of the Actuarial Value of Assets. For GGRF, the Actuarial Value of Assets recognizes excess investment gains and losses over a 3 year period while the Market Value of Assets recognizes gains and losses immediately.

As reflected above, the Security Ratio for GGRF is calculated as the Actuarial Value of Assets divided by the Actuarial Accrued Liability. The security ratio based on the 2019 valuation was 64.13%.

GASB 67 requires the disclosure of the Fiduciary Net Position as a percentage of Total Pension Liability. This is similar to the security ratio, but uses the Market Value of Assets instead of the Actuarial Value of Assets.

Net Pension Liability

The components of the collective net pension liability of the participating component units at September 20, 2020 (based on the 2019 valuation) were as follows:

DEFINED BENEFIT PLAN

	Retirement <u>Annuity</u>	COLA and Supplemental <u>Annuity</u>	<u>Combined</u>
Total pension liability	\$ 3,217,236,208	324,192,725	3,541,428,933
Plan fiduciary net position	<u>2,002,773,533</u>	<u>-</u>	<u>2,002,773,533</u>
Net pension liability	\$ <u>1,214,462,675</u>	<u>324,192,725</u>	<u>1,538,655,400</u>
 Plan fiduciary net position as a percentage of total pension liability	 62.25%	 -0-%	 56.55%

DEFINED CONTRIBUTION PLAN

	Retirement <u>Annuity</u>	COLA and Supplemental <u>Annuity</u>	<u>Combined</u>
Total pension liability	\$ -	59,884,407	59,884,407
Plan fiduciary net position	<u>-</u>	<u>-</u>	<u>-</u>
Net pension liability	\$ <u>-</u>	<u>59,884,407</u>	<u>59,884,407</u>
 Plan fiduciary net position as a percentage of total pension liability	 -0-%	 -0-%	 -0-%

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(5) Net Pension Liability and Funded Status, continued

The actuarial valuation of the Fund involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Employers' Net Pension Liability presents multi-year trend information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. These schedules are presented in the Required Supplementary Information section. The Total Pension Liability as of September 30, 2020, is based on the results of an actuarial valuation date of September 30, 2019.

A summary of the actuarial assumptions as of the latest actuarial valuation is shown 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.
Investment Income:	7% per year.
Salary Increase:	Graduated based on service with the Government ranging from 4.0% for service in excess of 20 years to 7.5% for service from zero to five years
Total Payroll Growth:	2.75%
Mortality:	RP 2000 Healthy table set forward 3 years for males and set forward 2 year for females
Disability:	1974-78 SOA LTD Non-Jumbo, with rates reduced by 50% for males and 75% for females
Retirement Age:	50% probability of retirement at earliest age of eligibility for unreduced retirement benefits; 20% per year thereafter until age 75, 100% at age 75
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 2.75% per year.
Amortization Period:	In accordance with 4GCA§8137, complete funding is to be achieved by April 30, 2031. Public Law 33-186 extended this period by 2 years to 2033. At September 30, 2019 the remaining period is 13.58 years.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(5) Net Pension Liability and Funded Status, continued

Long-term expected rate of return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The Fund has a target asset allocation based on the investment policy adopted by the Board of Trustees. The target allocation and best estimates of the expected nominal return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Nominal Return</u>	<u>Component Return</u>
U.S. Equities (large cap)	26%	6.81%	1.77%
U.S. Equities (small cap)	4%	8.12%	0.32%
Non-U.S. Equities	17%	8.33%	1.42%
Non-U.S. Equities (emerging markets)	3%	10.28%	0.31%
U.S. Fixed Income (aggregate)	24%	3.87%	0.93%
Risk parity	8%	5.56%	0.45%
High yield bonds	8%	5.45%	0.44%
Global Real Estate (REITs)	5%	8.01%	0.40%
Global Equity	5%	7.44%	0.37%
Expected average return for one year			6.40%
Expected geometric mean (50 years)			5.85%

Discount rate – Pension Liability For Retirement Benefits

The discount rate used to measure the total pension liability for retirement benefits was 7%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(5) Net Pension Liability of Employers, continued

Discount rate – Ad hoc Supplemental Benefits and Cost of Living Allowance (COLA)

The discount rate used to measure the Ad hoc Supplemental Benefits and Cost of Living Allowance (COLA) was a municipal bond rate of 2.66%. This rate was used as these two benefits are not funded with the accumulation of assets; they have been funded historically through appropriations from the Government of Guam

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability as of September 30, 2019, calculated using the current discount rate of 7.0% for the defined benefit plan retirement annuities and 2.66% for the Supplement/COLA benefits in both the defined benefit plan and the defined contribution plan, as well as the net pension liability calculated using a discount rate that is one percentage point (1.0%) lower (6.0%) or 1% (8.0%) higher than the current rate:

DEFINED BENEFIT PLAN - Retirement Benefits:

	1% Decrease 6.0%	Current Discount Rate 7.0%	1% Increase 8.0%
Total Pension Liability	\$3,535,972,805	\$3,217,236,208	\$2,942,956,053
Plan Fiduciary Net Position	2,002,773,533	2,002,773,533	2,002,773,533
Net Pension Liability	<u>\$1,533,199,272</u>	<u>\$1,214,462,675</u>	<u>\$940,182,520</u>

DEFINED BENEFIT PLAN - Ad Hoc COLA and Supplemental Annuity:

	1% Decrease 1.66%	Current Discount Rate 2.66%	1% Increase 3.66%
Total Pension Liability	\$357,668,692	\$324,192,725	\$295,651,995
Plan Fiduciary Net Position	-	-	-
Net Pension Liability	<u>\$357,668,692</u>	<u>\$324,192,725</u>	<u>\$295,651,995</u>

DEFINED CONTRIBUTION PLAN - Ad Hoc COLA and Supplemental Annuity:

	1% Decrease 1.66%	Current Discount Rate 2.66%	1% Increase 3.66%
Total Pension Liability	\$67,860,576	\$59,884,407	\$53,056,820
Plan Fiduciary Net Position	-	-	-
Net Pension Liability	<u>\$67,860,576</u>	<u>\$59,884,407</u>	<u>\$53,056,820</u>

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(5) Net Pension Liability of Employers, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2020, the Fund reported a liability of \$6,276,250 for its proportionate share of the net pension liability. The Fund's proportion of the net pension liability was based on projection of the Fund's long-term share of contributions to the pension plan relative to the projected contributions of GovGuam and GovGuam's component units, actuarially determined. At September 30, 2020 the Fund's proportion of the GovGuam overall liability was .40%.

At September 30, 2020 and 2019, the Fund reported deferred outflows of resources and deferred inflows of resources as follows:

	Total 2020		Total 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$48,694	\$55,921	\$37,829	\$2,406
Net difference between projected and actual earnings on pension plan investments	171,193	-	-	80,059
Changes of assumptions	175,414	48,341	31,359	66,381
Contributions subsequent to the measurement date	504,796		537,397	-
Changes in proportion and difference between GGRF contributions and proportionate share	231,095	115,227	10,755	136,971
	<u>\$1,131,192</u>	<u>\$219,489</u>	<u>\$617,340</u>	<u>\$285,817</u>

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(5) Net Pension Liability of Employers, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2020 will be recognized in pension expense (recovery) as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2021	(\$172,934)
2022	(47,351)
2023	49,409
2024	(34,998)
2025	-
Thereafter	-
	(\$205,874)

(6) Deposit and Investment Risk Disclosure

Cash and investments as of September 30, 2020 are classified in the accompanying statement of plan net assets as follows:

	<u>DB Plan</u>	<u>DC Plan</u>
Cash and cash equivalents	\$ 2,898,149	4,782,863
Common stocks	1,267,204,906	-
U.S. government securities	238,056,397	-
Corporate bonds and notes	379,706,900	-
Money market funds	59,103,305	-
Mutual funds	<u>34,726,986</u>	<u>394,945,071</u>
Total cash and investments	\$ <u>1,981,696,643</u>	<u>399,727,934</u>

Cash and investments as of September 30, 2019 are classified in the accompanying statement of plan net assets as follows:

	<u>DB Plan</u>	<u>DC Plan</u>
Cash and cash equivalents	\$ 4,785,288	3,940,460
Common stocks	1,290,830,469	-
U.S. government securities	227,713,814	-
Corporate bonds and notes	378,643,717	-
Money market funds	70,248,164	-
Mutual funds	<u>62,733,790</u>	<u>354,007,009</u>
Total cash and investments	\$ <u>2,034,955,242</u>	<u>357,947,469</u>

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(6) 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, 2020 by maturity:

<u>Investment Type</u>	<u>Remaining Maturity in Years</u>				<u>Total</u>
	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>Greater than 10</u>	
U.S. Treasury securities	\$ -	3,029,999	25,877,795	76,693,314	105,601,108
Federal Agency securities	37,793,799	43,909,981	4,089,607	46,661,902	132,455,289
Corporate bonds and notes	<u>2,942,957</u>	<u>131,118,567</u>	<u>171,677,135</u>	<u>73,968,241</u>	<u>379,706,900</u>
Totals	\$ <u>40,736,756</u>	<u>178,058,547</u>	<u>201,644,537</u>	<u>197,323,457</u>	<u>617,763,297</u>

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(6) 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, 2020, the Fund held mortgage-backed securities valued at approximately \$55.6 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.

The Fund's credit quality distribution for debt securities at September 30, 2020 is as follows:

<u>Investment Type</u>	Standard & Poor's /Moody's <u>Credit Rating</u>	<u>Amount</u>	-
Government Bonds	Aaa/Aa/A	\$ 190,054,403	
Corporate Bonds	Baa/Ba/B	154,041,208	
Corporate Bonds	Caa/Ca/C	151,487,619	
U.S. Government Guaranteed	Not Rated	56,140,814	
Not Rated	Not Rated	<u>66,039,253</u>	
		<u>\$617,763,297</u>	

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(6) 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, 2020, 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, 2020, the Fund held approximately \$35 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, 2020:

Canada	\$ 11 million
United Kingdom	4
Netherlands	4
Australia	2
Germany	2
Japan	2
Others – 12 countries	<u>10</u>
Total	\$ <u>35</u> million

At September 30, 2020, 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, 2020 was approximately \$139 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, 2020:

Japanese Yen	\$ 43 million
Euros	31
Swiss Franc	17
Australian Dollar	14
British Pound	11
Swedish Krona	9
Danish Krone	7
Others – 6 countries	<u>7</u>
Total	\$ <u>139</u> million

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(6) Deposit and Investment Risk Disclosure, continued

Investments at Fair Value

GASB 72 requires all investments be categorized under a fair value hierarchy. The Fund determines fair value of its investments based upon both observable and unobservable inputs. The Fund categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America – levels within the hierarchy are as follows:

- Level 1 – quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – inputs (other than quoted prices included within Level 1) that are observable for an asset or liability, either directly or indirectly. These inputs can include quoted prices for similar assets or liabilities in active or inactive markets, or market-corroborated inputs.
- Level 3 – unobservable inputs for an asset or liability, which generally results in a government using the best information available and may include the government’s own data.

The remaining investments not categorized under the fair value hierarchy are shown at NAV. These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners’ capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

Investment	Fair Value Sep. 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity Securities:			
Domestic equity	995,983,517	995,983,517	0
International Equity	271,221,389	271,221,389	0
Total equity securities	1,267,204,906	1,267,204,906	0
Debt Securities:			
U.S. Treasury Securities	105,601,108	0	105,601,108
Federal Agency Securities	132,455,289	0	132,455,289
Corporate Bonds and Notes	379,706,900	0	379,706,900
	617,763,297	0	617,763,297
Other	93,830,291	93,830,291	0
Total Investments By Fair Value Level	1,978,798,494	1,361,035,197	617,763,297

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(6) 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.

(7) Related Party Transactions

At September 30, 2020 and 2019, GGRF was owed employer and member contributions, and interest and penalties receivable by various Government of Guam agencies. At September 30, 2020 and 2019, employer contributions receivable including the unfunded liability totaled \$7,331,450 and \$6,156,057, respectively; member contributions receivable totaled \$1,441,620 and \$1,926,527, respectively; and interest and penalties receivable totaled \$357,061 and \$259,126, respectively.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(8) Property, Equipment and Land

Property, equipment and land at September 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Building	\$ 1,290,889	\$ 1,290,889
Improvements	825,985	825,985
Land	439,428	439,428
Equipment	508,362	503,898
Automobiles	22,732	22,732
Furniture and fixtures	15,887	15,887
Other	7,000	7,000
	<u>3,110,283</u>	<u>3,105,819</u>
Less: Accumulated depreciation	<u>(2,532,771)</u>	<u>(2,500,914)</u>
	<u>\$ 577,512</u>	<u>\$ 604,905</u>

(9) Supplemental Annuities and COLA Payments

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

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

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

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

Beginning in fiscal year 2000, the receivable for supplemental annuities and COLA payments is being reduced by a portion of the employer contributions received. The percentage used for fiscal years 2020 and 2019 was 1.2016% of covered payroll.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(9) Supplemental Annuities and COLA Payments, continued

At September 30, 2020 and 2019, the GGRF had Supplemental/COLA benefits receivable of \$8,097,077 and \$14,339,393, 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.

For financial statement presentation purposes these receivables are reflected as Deferred Assets in the Statements of Fiduciary Net Position. 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
2012		(5,500,000)		56,300,000
2013		(5,500,000)		50,800,000
2014		(6,000,000)		44,800,000
2015		(6,200,000)		38,600,000
2016		(6,000,000)		32,600,000
2017		(6,100,000)		26,500,000
2018		(6,000,000)		20,500,000
2019		(6,200,000)		14,300,000
2020		(6,200,000)		8,100,000
	\$ 125,200,000	\$ (117,100,000)	\$ -	

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(10) DB 1.75 Repayment of Contributions for Service Credit

Relative to the implementation of the DB 1.75 Plan effective January 1, 2018, members who elected to participate in the Plan were allowed to repay contributions, which were previously withdrawn as members of the DC Plan, in order to obtain credit for service to which the withdrawals relate. To reclaim such service, members are required to repay to the Retirement Fund the a) total amount(s) withdrawn, plus b) interest commencing on the date(s) of the withdrawal(s) to the date of repayment. The repayment shall be made by (1) single cash payment, (2) transfer of the members' Excess Account Balance in the DC Plan, if any, (3) transfer of funds from the members' Deferred Compensation account, if applicable, (4) installment payments to the Retirement Fund in accordance with established rules, or (5) any combination of option numbers 2, 3, and 4. By no later than June 30, 2018, as applicable, full payment or arrangements for repayment in installments, were required to be made with the Retirement Fund.

At September 30, 2020 and 2019, the amount owed under these notes was \$1,968,422 and \$2,394,104, respectively. There is a corresponding unearned revenue account to offset these notes receivable, since contribution income is recognized on a cash basis as amounts are collected from the members.

(11) 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, 2020 and 2019, the GGRF had \$1,996,097 in Supplemental/insurance benefits receivable from three Government of Guam agencies.

(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.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(13) Other Post-Employment Benefits (OPEB) Liability

GovGuam, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a cost-sharing multiple employer defined benefit plan to provide certain post-retirement healthcare benefits to retirees who are members of the GGRF. Under the Plan, known as the GovGuam Group Health Insurance Program, GovGuam provides medical, dental, and life insurance coverage. The retiree medical and dental plans are fully-insured products provided through insurance companies. GovGuam shares in the cost of these plans, with GovGuam's contribution amount set each year at renewal. Current statutes prohibit active and retired employees from contributing different amounts for the same coverage. As such, GovGuam contributes substantially more to the cost of retiree healthcare than to active healthcare. For the life insurance plan, GovGuam provides retirees with \$10,000 of life insurance coverage through an insurance company. Retirees do not share in the cost of this coverage. Because the Plan consists solely of GovGuam's firm commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated.

During the years ended September 30, 2020 and 2019, the Fund's required contributions to this plan totaled approximately \$256,306 and \$222,904 for each year, respectively.

The effective date for GASB 75 is for fiscal years beginning after June 15, 2017, which is the fiscal year ending September 30, 2018 for the Government of Guam.

GASB 75 allows for measurement of the Total OPEB Liability no earlier than the end of the employer's prior fiscal year and no later than the end of the employer's current fiscal year, consistently applied from period to period. The Government of Guam has elected to report results under GASB 75 with a measurement date of September 30, 2019 for the September 30, 2020 reporting date, the earliest measurement date permitted.

Plan Administration

The Government of Guam administers the retiree health care benefits program – an agent-multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible employees.

Plan Membership

At September 30, 2019, OPEB membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments ¹	7,462
Inactive plan members entitled to put not yet receiving benefit payments	0
Active plan members	10,832
	<u>18,294</u>

¹Per paragraph 34a of GASB 74 and further clarified by Question 4.67 of the 2017-2 GASB 74 Implementation Guide, the total shown for inactive plan members or beneficiaries currently receiving benefit payments does not include covered spouses or other dependents.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(13) Other Post-Employment Benefits (OPEB) Liability, continued

Benefits Provided

The Government of Guam provides postemployment medical, dental and life insurance benefits to Government retirees, spouses, children, and survivors. Active employees and retirees who waive medical and dental coverage are considered eligible for the life insurance benefit only. GovGuam contributes a portion of the medical and dental premiums, based on a schedule of semi-monthly rates, and reimburses certain Medicare premiums to eligible retirees. Retirees may also pay a portion of the medical and dental insurance premiums, depending on the plan and coverage selected.

Contributions

No employer contributions are assumed to be made since an OPEB trust has not been established.

Actuarial assumptions

The total OPEB liability determined by an actuarial valuation as of September 30, 2019, rolled forward to the measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Discount rate	2.66%, net of investment expenses, including inflation
Healthcare cost trend rate (Non-Medicare)	13.5% for FY2019, 6.75% for FY2020, decreasing 0.25% per year to an ultimate rate of 4.25% for FY2030 and later years.
Healthcare cost trend rate (Medicare)	-25% for FY2019, 6.75% for FY2020, decreasing 0.25% per year to an ultimate rate of 4.25% for FY2030 and later years.
Healthy Retiree mortality rates	RP-2000 Combined Healthy Mortality table, set forward 3 years and 2 years for males and females, respectively.
Disabled Retiree mortality rates	RP-2000 Disabled Mortality Table for males and females.

Discount rate

The discount rate used to measure the total OPEB liability was 2.66%. The projection of cash flows used to determine the discount rate assumed that contributions from the Government will be made in accordance with the plan's funding policy. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the 2.66% municipal bond rate was applied to all periods to determine the total OPEB liability.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(13) Other Post-Employment Benefits (OPEB) Liability, continued

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability calculated using the current discount rate of 2.66%, as well as what the total OPEB liability would be if it were calculated using a discount rate 1-percentage point lower (1.66%) or 1-percentage point higher (3.66%) than the current rate:

	<u>1% Decrease</u> 1.66%	<u>Discount Rate</u> 2.66%	<u>1% Increase</u> 3.66%
Total OPEB Liability	\$ 3,050,148,330	2,553,523,376	2,158,806,147

Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the total OPEB liability calculated using the current healthcare cost trend rates as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost</u> <u>Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 2,075,018,286	2,553,523,376	3,187,541,959

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2020, the Fund reported a liability of \$11,398,171 for its proportionate share of the OPEB Liability. The basis of the Fund's allocation of the collective OPEB amount is based on the Total OPEB Liability as of the end of the measurement period. At September 30, 2020, the Fund's proportion of the Total OPEB Liability was .45%.

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(13) Other Post-Employment Benefits (OPEB) Liability, continued

At September 30, 2020 and 2019, the Fund reported deferred outflows of resources and deferred inflows of resources as follows:

	Total 2020		Total 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$2,484,475	\$1,062,773	\$836,082	\$1,405,096
Differences between expected and actual experience	-	1,494,433	-	1,935,203
Changes in proportion and difference between GGRF contributions and proportionate share	256,306	478,891	-	455,586
	\$2,740,781	\$3,036,097	\$836,082	\$3,795,885

The OPEB Expense and deferred outflows and inflows of resources primarily result from changes in the components of the Total OPEB liability (TOL). Most changes in the TOL are included in the OPEB Expense in the period of the change, including service cost, interest on total OPEB liability and changes in benefit terms. Other changes in the total OPEB liability are included in OPEB Expense over the current and future periods. These include the effects on the total OPEB liability of changes of economic and demographic assumptions and differences between expected and actual experience.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at September 30, 2020 will be recognized in OPEB expense (recovery) as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2021	\$203,481
2022	(52,825)
2023	(52,825)
2024	(52,825)
2025	(52,825)
Thereafter	(287,497)
	(\$295,316)

GOVERNMENT OF GUAM RETIREMENT FUND

Notes to Financial Statements, continued

September 30, 2020 and 2019

(14) Subsequent Events

Investments

The market value of the Fund's invested assets in the DB plan increased from \$1.9 billion at September 30, 2020 to approximately \$2.1 billion at December 31, 2020. This is an increase of \$143 million, or about 7.2%. DB Plan investments posted a positive return of 10.33% for the quarter ended December 31, 2020.

DC plan assets increased from \$395 million at September 30, 2020 to \$439 million at December 31, 2020. This is an increase of \$44 million, or about 11.2%.

These increases are due largely to market fluctuations as a result of COVID-19, as further discussed below.

COVID-19

On March 11, 2020, the World Health Organization (WHO) officially declared the Coronavirus (COVID-19) a global pandemic amid a rapid escalation in the number of affected countries, confirmed cases, and deaths. The WHO recommended that containment measures be adopted globally. On March 13, 2020, President Donald J. Trump declared a national emergency in the United States.

The Fund's offices were closed to visitors beginning in March 2020 and were not opened to visitors until January 2021. During the time the offices were closed, the Fund did provide limited services to its Members and Retirees, while implementing social distancing measures. The pandemic is expected to negatively impact the Plan's investments and net position. However, the ultimate financial impact cannot be reasonably estimated at this time.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Changes in Net Pension Liability - DB Plan

September 30, 2013 to 2019

	2013 <u>Valuation</u>	2014 <u>Valuation</u> <i>(See Note 1)</i>	2015 <u>Valuation</u>	2016 <u>Valuation</u>	2017 <u>Valuation</u>	2018 <u>Valuation</u>	2019 <u>Valuation</u>
Total Pension Liability - Beginning of Year	\$ 2,811,399,525	\$ 2,829,439,663	\$ 3,112,295,398	\$ 3,249,042,023	\$ 3,245,313,070	\$ 3,189,586,194	\$ 3,501,413,210
Service cost	21,089,199	22,323,496	23,167,161	22,042,055	19,309,007	38,775,474	37,800,095
Member contributions	-	-	-	-	-	-	-
Interest on the total pension liability	190,558,974	191,594,023	213,116,889	210,570,472	210,182,547	206,798,237	231,018,790
Changes of benefit terms	-	-	-	-	-	313,869,755	-
Differences between actual and expected experience with regard to economic or demographic factors	-	27,739,034	58,338,457	-19,460,258	-11,851,500	11,243,579	-16,876,866
Changes of assumptions	-	-	71,752,411	17,912,379	-33,969,738	-14,202,705	41,761,635
Benefit payments	-193,608,035	-199,534,108	-229,628,293	-234,793,601	-239,397,192	-244,657,324	-253,687,931
Total changes	<u>18,040,138</u>	<u>42,122,445</u>	<u>136,746,625</u>	<u>-3,728,953</u>	<u>-55,726,876</u>	<u>311,827,016</u>	<u>40,015,723</u>
Total Pension Liability - End of Year	<u>\$ 2,829,439,663</u>	<u>\$ 2,871,562,108</u>	<u>\$ 3,249,042,023</u>	<u>\$ 3,245,313,070</u>	<u>\$ 3,189,586,194</u>	<u>\$ 3,501,413,210</u>	<u>\$ 3,541,428,933</u>
Fiduciary Net Position - Beginning of Year	\$ 1,391,421,887	\$ 1,526,135,027	\$ 1,625,255,354	\$ 1,576,428,084	\$ 1,647,181,257	\$ 1,759,189,680	\$ 2,032,344,992
Contributions from employers	121,940,930	134,106,867	159,053,013	148,395,481	148,981,296	159,154,291	144,101,751
Member contributions	16,290,014	16,626,009	15,245,935	13,812,825	13,476,517	28,895,275	27,012,032
Net investment income	192,776,061	150,599,955	9,560,987	146,235,031	192,765,573	93,616,115	56,758,490
Benefit payments	(193,608,035)	(199,534,108)	(229,628,293)	(234,793,601)	(239,397,192)	(244,657,324)	(253,687,931)
Administrative expense	(2,685,830)	(2,678,396)	(3,058,912)	(2,896,563)	(3,817,771)	(3,794,742)	(3,755,801)
Changes of benefit terms	-	-	-	-	-	239,941,697	-
Total changes	<u>134,713,140</u>	<u>99,120,327</u>	<u>-48,827,270</u>	<u>70,753,173</u>	<u>112,008,423</u>	<u>273,155,312</u>	<u>-29,571,459</u>
Fiduciary Net Position - End of Year	<u>\$ 1,526,135,027</u>	<u>\$ 1,625,255,354</u>	<u>\$ 1,576,428,084</u>	<u>\$ 1,647,181,257</u>	<u>\$ 1,759,189,680</u>	<u>\$ 2,032,344,992</u>	<u>\$ 2,002,773,533</u>
Net Pension Liability - End of Year	<u>\$ 1,303,304,636</u>	<u>\$ 1,246,306,754</u>	<u>\$ 1,672,613,939</u>	<u>\$ 1,598,131,813</u>	<u>\$ 1,430,396,514</u>	<u>\$ 1,469,068,218</u>	<u>\$ 1,538,655,400</u>
Fiduciary Net Position as a % of Total Pension Liability	53.94%	56.60%	48.52%	50.76%	55.15%	58.04%	56.55%
Covered employee payroll	\$ 460,347,780	\$ 504,943,471	\$ 511,366,411	\$ 506,322,283	\$ 508,300,483	\$ 513,866,473	\$ 509,497,662
Net Pension Liability as a % of Covered Employee Payroll	283.11%	246.82%	327.09%	315.64%	281.41%	285.89%	301.99%

Note 1 - Liabilities are shown in this column as originally reported as of 9/30/14, without regards to Ad Hoc COLAs or Supplemental Annuity Payments.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Changes in Net Pension Liability - DC Plan

September 30, 2013 to 2019

	2013 <u>Valuation</u>	2014 <u>Valuation</u>	2015 <u>Valuation</u>	2016 <u>Valuation</u>	2017 <u>Valuation</u>	2018 <u>Valuation</u>	2019 <u>Valuation</u>
Total Pension Liability - Beginning of Year	\$ n/a	\$ n/a	\$ 46,880,986	\$ 52,115,736	\$ 61,688,067	\$ 62,445,490	\$ 49,342,424
Service cost	n/a	n/a	2,623,748	3,074,446	3,136,456	1,963,058	1,779,688
Member contributions	n/a	n/a	-	-	-	-	-
Interest on the total pension liability	n/a	n/a	1,885,957	1,851,695	1,957,356	2,310,669	2,098,759
Changes of benefit terms	n/a	n/a	-	-	-	(17,328,556)	-
Differences between actual and expected experience with regard to economic or demographic factors	n/a	n/a	(587,552)	1,265,643	1,904,493	5,034,446	(1,471,219)
Changes of assumptions	n/a	n/a	2,510,997	4,802,047	(4,594,882)	(3,208,683)	9,978,755
Benefit payments	n/a	n/a	(1,198,400)	(1,421,500)	(1,646,000)	(1,874,000)	(1,844,000)
Total changes	<u>n/a</u>	<u>n/a</u>	<u>5,234,750</u>	<u>9,572,331</u>	<u>757,423</u>	<u>(13,103,066)</u>	<u>10,541,983</u>
Total Pension Liability - End of Year	<u>\$ n/a</u>	<u>\$ n/a</u>	<u>\$ 52,115,736</u>	<u>\$ 61,688,067</u>	<u>\$ 62,445,490</u>	<u>\$ 49,342,424</u>	<u>\$ 59,884,407</u>
Fiduciary Net Position - Beginning of Year	\$ n/a	\$ n/a	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions from employers	n/a	n/a	1,198,400	1,421,500	1,646,000	1,874,000	1,844,000
Member contributions	n/a	n/a	-	-	-	-	-
Net investment income	n/a	n/a	-	-	-	-	-
Benefit payments	n/a	n/a	(1,198,400)	(1,421,500)	(1,646,000)	(1,874,000)	(1,844,000)
Administrative expense	n/a	n/a	-	-	-	-	-
Total changes	<u>n/a</u>	<u>n/a</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fiduciary Net Position - End of Year	<u>\$ n/a</u>	<u>\$ n/a</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Pension Liability - End of Year	<u>\$ n/a</u>	<u>\$ n/a</u>	<u>\$ 52,115,736</u>	<u>\$ 61,688,067</u>	<u>\$ 62,445,490</u>	<u>\$ 49,342,424</u>	<u>\$ 59,884,407</u>
Fiduciary Net Position as a % of Total Pension Liability	n/a	n/a	0.00%	0.00%	0.00%	0.00%	0.00%
Covered employee payroll	n/a	n/a	355,895,521	365,069,550	376,785,976	264,475,579	235,505,301
Net Pension Liability as a % of Covered Employee Payroll	n/a	n/a	14.64%	16.90%	16.57%	18.66%	25.43%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Employer Allocations by Component Unit - DB Plan

For the year ended September 30, 2019

DEFINED BENEFIT PLAN

<u>Component Unit (Employer)</u>	<u>Expected Defined Benefit Plan Contributions</u>	<u>% Share</u>	<u>Allocated Net Pension Liability for Retirement Annuity Only</u>	<u>Ad hoc COLA/ Supplemental Annuity Contributions</u>	<u>% Share</u>	<u>Allocated Net Pension for Ad Hoc COLA and Supplemental Annuity</u>	<u>Combined Allocated Net Pension Liability</u>
Government of Guam General Fund	\$ 33,218,401	27.52%	\$ 334,179,012	\$ 8,472,174	37.58%	\$ 121,827,170	\$ 456,006,182
Office of the Attorney General	2,547,868	2.11%	25,631,698	137,664	0.61%	1,979,561	27,611,259
Mayors' Council of Guam	1,670,231	1.38%	16,802,619	108,139	0.48%	1,555,006	18,357,625
Department of Chamorro Affairs	293,414	0.24%	2,951,762	6,000	0.03%	86,278	3,038,040
Guam Educational Telecommunications Corporation	67,234	0.06%	676,378	4,000	0.02%	57,519	733,897
Government of Guam Retirement Fund	483,945	0.40%	4,868,514	75,311	0.33%	1,082,943	5,951,457
Guam Community College	2,973,483	2.46%	29,913,409	605,782	2.69%	8,710,956	38,624,365
Guam Department of Education	34,897,118	28.91%	351,067,002	6,312,264	28.00%	90,768,342	441,835,344
Guam Economic Development Authority	413,001	0.34%	4,154,814	26,713	0.12%	384,125	4,538,939
Guam Housing and Urban Renewal Authority	1,184,249	0.98%	11,913,613	153,845	0.68%	2,212,240	14,125,853
Guam Housing Corporation	288,543	0.24%	2,902,759	55,598	0.25%	799,484	3,702,243
Guam International Airport Authority	3,093,261	2.56%	31,118,382	205,210	0.91%	2,950,852	34,069,234
Guam Legislature	485,912	0.40%	4,888,302	381,125	1.69%	5,480,460	10,368,762
Guam Memorial Hospital Authority	10,476,256	8.68%	105,391,734	1,434,619	6.36%	20,629,361	126,021,095
Guam Power Authority	6,884,945	5.70%	69,262,940	1,143,962	5.07%	16,449,816	85,712,756
Guam Visitors Bureau	417,450	0.35%	4,199,571	24,000	0.11%	345,112	4,544,683
Guam Waterworks Authority	3,998,221	3.31%	40,222,332	894,758	3.97%	12,866,333	53,088,665
Judiciary of Guam	4,855,154	4.02%	48,843,127	476,895	2.12%	6,857,604	55,700,731
Port Authority of Guam	4,654,686	3.86%	46,826,407	943,955	4.19%	13,573,770	60,400,177
Office of Public Accountability	155,334	0.13%	1,562,669	6,000	0.03%	86,278	1,648,947
University of Guam	7,662,544	6.35%	77,085,631	1,077,181	4.78%	15,489,515	92,575,146
	<u>\$ 120,721,250</u>	<u>100.00%</u>	<u>\$ 1,214,462,675</u>	<u>\$ 22,545,195</u>	<u>100.00%</u>	<u>\$ 324,192,725</u>	<u>\$ 1,538,655,400</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Employer Allocations by Component Unit - DC plan

For the year ended September 30, 2019

<u>Component Unit (Employer)</u>	Actual DC Ad hoc COLA Contributions	Allocation Percentage	Allocated Net Pension Liability
Government of Guam General Fund	\$ 628,000	34.06%	\$ 20,394,473
Office of the Attorney General	26,000	1.41%	844,357
Mayors' Council of Guam	54,000	2.93%	1,753,665
Department of Chamorro Affairs	6,000	0.33%	194,852
Guam Educational Telecommunications Corporation	2,000	0.11%	64,951
Government of Guam Retirement Fund	10,000	0.54%	324,753
Guam Community College	28,000	1.52%	909,308
Guam Department of Education	478,000	25.92%	15,523,181
Guam Economic Development Authority	6,000	0.33%	194,852
Guam Housing and Urban Renewal Authority	24,000	1.30%	779,407
Guam Housing Corporation	6,000	0.33%	194,852
Guam International Airport Authority	38,000	2.06%	1,234,060
Guam Legislature	14,000	0.76%	454,654
Guam Memorial Hospital Authority	144,000	7.81%	4,676,440
Guam Power Authority	108,000	5.86%	3,507,330
Guam Visitors Bureau	6,000	0.33%	194,852
Guam Waterworks Authority	40,000	2.17%	1,299,011
Judiciary of Guam	34,000	1.84%	1,104,159
Port Authority of Guam	96,000	5.21%	3,117,626
Office of Public Accountability	-	0.00%	-
University of Guam	96,000	5.21%	3,117,626
	<u>\$ 1,844,000</u>	<u>100.00%</u>	<u>\$ 59,884,407</u>

See notes to GASB 68/73 schedules.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Contributions

September 30, 2013 to 2019

<u>Plan Year Ending September 30</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a % of Covered Payroll</u>
2019	\$ 121,557,000	\$ 121,557,000	\$ -	\$ 509,497,662	23.86%
2018	135,851,000	135,851,000	-	513,866,000	26.44%
2017	125,275,000	125,275,000	-	508,300,000	24.65%
2016	124,419,000	124,419,000	-	506,322,000	24.57%
2015	134,506,000	134,506,000	-	511,366,000	26.30%
2014	134,107,000	134,107,000	-	504,943,000	26.56%
2013	121,698,000	121,941,000	-243,000	460,348,000	26.49%

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported. The methods and assumptions used to determine contribution rates are as follows:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	May 1, 2033 (13.58 years remaining as of September 30, 2019)
Asset valuation method	3-year smoothed market value (effective September 30, 2009)
Inflation	2.50% per year
Total payroll growth	2.75% per year
Salary increases	7.5% per year for the first 5 years of service, 6% for 5-10 years, 5% for 11-15 years and 4.0% for service over 15 years.
Investment rate of return	7.00%, net of investment expenses, including inflation of 2.50%
Retirement age	50% probability of retirement upon first eligibility for unreduced retirement. Thereafter, the probability of retirement is 20% for each year until age 75, and increases to 100% at age 70.
Mortality	RP-2000 healthy morality table (males + 3, females +2). Mortality for disabled lives is the RP 2000 disability mortality (males +6, females +4). Both tables are projected generationally from 2016 using 30% of Scale BB.
Other information	Actuarial assumptions are based upon periodic experience studies. The last experience study reviewed experience from 2011-2015.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Investment Returns

September 30, 2013 to 2019

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Annual money-weighted rate of return, net of investment	14.14%	10.04%	0.60%	9.51%	11.99%	5.54%	2.85%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Changes in Total Other Post Employment Benefits (OPEB) Liability

September 30, 2016 to 2019 Measurement Dates

	<u>2016</u> <u>Valuation</u>	<u>2017</u> <u>Valuation</u>	<u>2018</u> <u>Valuation</u>	<u>2019</u> <u>Valuation</u>
Total OPEB Liability - Beginning of Year	\$ 2,133,923,275	\$ 2,532,753,040	\$ 2,431,048,672	\$ 1,874,970,335
Service cost	87,158,663	108,634,675	96,368,122	74,240,508
Interest	81,647,699	80,151,782	90,927,141	80,558,352
Changes of benefit terms	-	-	-	-
Differences between actual and expected experience	-	-	(522,357,892)	-
Changes of assumptions	270,694,071	(249,820,157)	(175,941,955)	567,709,274
Benefit payments	<u>(40,670,668)</u>	<u>(40,670,668)</u>	<u>(45,073,753)</u>	<u>(43,955,093)</u>
Total Changes	<u>398,829,765</u>	<u>(101,704,368)</u>	<u>(556,078,337)</u>	<u>678,553,041</u>
Total OPEB Liability - End of Year	<u>\$ 2,532,753,040</u>	<u>\$ 2,431,048,672</u>	<u>\$ 1,874,970,335</u>	<u>\$ 2,553,523,376</u>
Covered payroll as of valuation date	\$ 474,098,955	\$ 474,098,955	\$ 494,595,522	\$ 479,551,309
Total OPEB liability as a percentage of covered payroll	534.22%	512.77%	379.09%	532.48%
Discount rate	3.058%	3.63%	4.18%	2.66%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Other Post Employment Benefits (OPEB) Liability

For the year ended September 30, 2019

Component Unit (Employer)	Proportionate Share	Total OPEB Share
<u>Primary Government:</u>		
GovGuam Line Agencies	33.31%	850,519,859
GovGuam Retirement Fund	0.45%	11,398,171
Guam Legislature	0.48%	12,241,758
Guam Department of Education	29.49%	752,994,530
Public Defender Service Corporation	0.57%	14,445,684
Unified Courts of Guam	3.50%	89,327,037
Guam Telephone Authority	0.72%	18,303,694
Total Primary Government	68.52%	1,749,230,733
<u>Component Units:</u>		
Antonio B. Won Pat International Airport Authority	2.48%	63,444,611
Guam Community College	2.23%	56,904,135
Guam Economic Development Authority	0.12%	3,169,860
Guam Housing Corporation	0.29%	7,429,975
Guam Housing and Urban Renewal Authority	0.62%	15,873,373
Guam Memorial Hospital Authority	7.16%	182,956,947
Guam Power Authority	6.34%	161,936,073
Guam Visitors Bureau	0.29%	7,392,672
Guam Waterworks Authority	3.30%	84,163,331
Port Authority of Guam	3.60%	92,013,985
University of Guam	4.93%	125,958,216
KGTF	0.12%	3,049,465
Total Component Units	31.48%	804,292,643
	100.00%	\$2,553,523,376

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Schedule of Employer Contributions (OPEB)

September 30, 2016 to 2019

Plan Year Ending September 30	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2019	\$ 188,140,363	\$ 43,955,093	\$ 144,185,270	\$ 479,551,309	9.17%
2018	\$ 234,228,724	\$ 45,073,753	\$ 189,154,971	\$ 494,595,522	9.11%
2017	\$ 242,141,492	\$ 40,670,668	\$ 201,470,824	\$ 474,098,955	8.58%
2016	\$ 209,503,758	\$ 40,670,668	\$ 168,833,090	\$ 474,098,955	8.58%

Actuarially determined contributions are determined as of October 1, one year prior to the end of the fiscal year in which contributions are reported. Methods and assumptions used to determine contributions are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level dollar amount over 30 years on an open amortization period
Amortization period	30 years
Asset valuation method	Market value
Inflation	2.75%
Healthcare cost trend rates (Non-Medicare)	13.5% for FY2019, 6.75% for FY2020, decreasing 0.25% per year to an ultimate rate of 4.25% for FY2030 and later years.
Healthcare cost trend rates (Medicare)	-25% for FY2019, 6.75% for FY2020, decreasing 0.25% per year to an ultimate rate of 4.25% for FY2030 and later years.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Administrative and General Expenses

September 30, 2020 and 2019

	Defined Benefit Plan	Defined Contribution Plan	Total 2020	Total 2019
Salaries and wages	\$ 1,491,799	439,899	1,931,698	2,046,071
Third party administrator fees	-	879,403	879,403	817,025
OPEB expense	523,729	15,814	539,543	47,749
Pension expense	449,905	80,616	530,521	700,818
Insurance	238,422	176,819	415,241	636,357
Computer program services/maintenance	297,000	33,000	330,000	330,000
Legal fees	180,908	6,418	187,326	113,771
Actuary fees	84,653	-	84,653	156,249
Utilities	42,664	37,833	80,497	89,579
Repairs and maintenance	46,574	26,852	73,426	80,660
Audit fees	42,150	14,050	56,200	57,000
Printing and publications	28,829	6,135	34,964	27,898
Depreciation	29,469	2,388	31,857	65,924
Medicare contribution	21,595	6,367	27,962	29,023
Proxy voting services	25,000	-	25,000	25,000
Postage	18,096	6,224	24,320	23,046
Equipment rental	14,938	7,357	22,295	16,298
COVID - 19 expenses	20,234	-	20,234	-
Communications	17,369	1,648	19,017	18,150
Travel and transportation	8,896	7,568	16,464	23,949
Board of trustees expenses	8,442	5,602	14,044	17,705
Miscellaneous	5,795	7,373	13,168	9,694
Training	2,729	3,035	5,764	10,407
Office supplies	4,628	900	5,528	7,506
Computers supplies and software	3,218	-	3,218	2,452
Medical exams	1,983	-	1,983	7,642
	<u>\$ 3,609,025</u>	<u>1,765,301</u>	<u>5,374,326</u>	<u>5,359,973</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Personnel Costs

September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Salaries and wages	\$ 1,931,698	\$ 2,046,071
Employer's retirement contribution	530,521	700,818
Medicare contribution	<u>27,962</u>	<u>29,023</u>
	<u>\$ 2,490,181</u>	<u>\$ 2,775,912</u>
Average number of employees	41	45
Average cost per employee	\$ 60,736	\$ 61,687

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

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

September 30, 2020 and 2019

	Full Time Employees		Total Salaries & Wages Expended
	During FY 2020	As of September 30, 2020	
Director's Office	2	2	\$ 160,157
Administrative Services	3	3	113,817
Accounting / Investments	22	22	876,705
Members and Benefits Services	15	14	781,019
	<u>42</u>	<u>41</u>	<u>\$ 1,931,698</u>

	Full Time Employees		Total Salaries & Wages Expended
	During FY 2019	As of September 30, 2019	
Director's Office	3	2	\$ 162,907
Administrative Services	6	5	179,206
Accounting / Investments	26	24	1,244,012
Members and Benefits Services	14	13	459,946
	<u>49</u>	<u>44</u>	<u>\$ 2,046,071</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Other Receivables - Defined Benefit Plan

September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Benefit overpayments	\$ 504,210	\$ 451,889
Member rate differential	<u>142,262</u>	<u>142,974</u>
	<u>\$ 646,472</u>	<u>\$ 594,863</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2020

Agency	Employer Contributions	Employer Contributions (Unfunded Liability)	Member Contributions	Interest & Penalties	Retiree Supplemental Benefits & Insurance	TOTAL
Department of Administration (General Fund)	\$1,788,920	\$634,127	\$663,616	\$263,882	\$1,963,804	\$5,314,349
Guam Department of Education	938,244	1,322,338	342,351	73,864	-	2,676,797
Guam Memorial Hospital Authority	174,250	260,043	78,413	1,321	-	514,027
Guam Power Authority	224,899	81,811	81,983	-	32,293	420,986
University of Guam	169,997	142,207	62,715	18,534	-	393,453
Port Authority of Guam	122,585	65,498	44,672	-	-	232,755
Supreme Court of Guam	101,680	82,800	38,334	-	-	222,814
Guam Waterworks Authority	85,056	80,676	31,345	-	-	197,077
Guam Airport Authority	86,315	35,674	31,412	-	-	153,401
Guam Community College	75,491	37,833	27,406	-	-	140,730
Guam Housing & Urban Renewal Authority	68,490	14,348	24,940	-	-	107,778
Public Defender	15,129	17,171	5,576	-	-	37,876
Guam Legislature	9,040	11,150	3,268	-	-	23,458
Guam Economic Development Authority	7,594	7,870	2,745	-	-	18,209
Guam Housing Corp	7,430	3,858	2,844	-	-	14,132
Total	<u>\$ 3,875,120</u>	<u>\$ 2,797,404</u>	<u>\$ 1,441,620</u>	<u>\$ 357,601</u>	<u>\$ 1,996,097</u>	<u>\$ 10,467,842</u>

See accompanying independent auditors' report.

GOVERNMENT OF GUAM RETIREMENT FUND

Supplementary Schedule of Receivables by Agency - Defined Benefit Plan

September 30, 2019

Agency	Employer Contributions	Employer Contributions (Unfunded Liability)	Member Contributions	Interest & Penalties	Retiree Supplemental Benefits & Insurance	TOTAL
Department of Administration (General Fund)	1,764,537	556,789	649,406	161,062	1,963,804	5,095,598
Guam Department of Education	701,471	631,227	254,776	73,876	-	1,661,350
Guam Memorial Hospital Authority	182,059	232,254	80,507	5,654	-	500,474
University of Guam	191,691	133,550	69,834	18,534	-	413,609
Guam Power Authority	195,260	65,364	70,888	-	32,293	363,805
Supreme Court of Guam	106,536	70,486	39,996	-	-	217,018
Port Authority of Guam	117,557	61,411	42,578	-	-	221,546
Guam Waterworks Authority	75,556	77,607	27,430	-	-	180,593
Guam Airport Authority	83,255	32,535	30,082	-	-	145,872
Guam Community College	78,020	35,496	28,127	-	-	141,643
Guam Housing & Urban Renewal Authority	70,491	12,228	25,429	-	-	108,148
Public Defender	16,738	13,282	6,093	-	-	36,113
Guam Visitors Bureau	9,762	4,359	3,492	-	-	17,613
Guam Legislature	10,027	9,799	3,586	-	-	23,412
Guam Housing Corp	6,514	3,788	2,487	-	-	12,789
Guam Economic Development Authority	9,393	7,078	3,360	-	-	19,831
Total	\$ 3,618,867	\$ 1,947,253	\$ 1,338,071	\$ 259,126	\$ 1,996,097	\$ 9,159,414

See accompanying independent auditors' report.

BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the Government of Guam Retirement Fund, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise Government of Guam Retirement Fund's basic financial statements, and have issued our report thereon dated February 26, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Government of Guam Retirement Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Government of Guam Retirement Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Government of Guam Retirement Fund's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Government of Guam Retirement Fund's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bryce A. Comm, P.C.

Tamuning, Guam
February 26, 2021