

GOVERNMENT OF GUAM

457 Deferred Compensation Plan

FINANCIAL STATEMENTS

December 31, 2023

(Together with Independent Auditors' Report Thereon)

GOVERNMENT OF GUAM
457 Deferred Compensation Plan

December 31, 2023

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INDEPENDENT AUDITORS' REPORT

To the Participants
Government of Guam 457 Deferred Compensation Plan:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Government of Guam 457 Deferred Compensation Plan (the "Plan"), administered by the Government of Guam Retirement Fund Board of Trustees (the "Fund") which comprise the statement of fiduciary net position and statement of changes in fiduciary net position as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Government of Guam 457 Deferred Compensation Plan's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Government of Guam 457 Deferred Compensation Plan as of December 31, 2023, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit for the Financial Statements section of our report. We are required to be independent of the Government of Guam 457 Deferred Compensation Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Government of Guam 457 Deferred Compensation Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Government of Guam 457 Deferred Compensation Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Government of Guam 457 Deferred Compensation Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2024, on our consideration of the Government of Guam 457 Deferred Compensation Plan'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 the effectiveness of the Government of Guam 457 Deferred Compensation Plan's 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 457 Deferred Compensation Plan's internal control over financial reporting and compliance.



Tamuning, Guam
June 21, 2024

**Government of Guam
457 Deferred Compensation Plan**

Management’s Discussion and Analysis

December 31, 2023

This discussion and analysis of the Government of Guam’s 457 Deferred Compensation Plan’s (the “Plan”) financial performance provides an overview of the Plan’s financial activities for the year ended December 31, 2023. The Government of Guam Retirement Fund (GGRF) Board of Trustees is responsible for the administration of the Plan. Empower Retirement (Empower) is the Trustee and Record Keeper for the Plan. Please read this section in conjunction with the Plan’s financial statements, which follow this section.

The notes to the Financial Statements provide additional information, which is essential to have a full understanding of the basic financial statements.

Highlights

The Plan ended fiscal year ended December 31, 2023 with investments totaling \$149M, compared to the December 31, 2022 balance of \$119.9M. This represented an increase of \$29.1M or 24.2%.

In addition, as reflected in the **Table** below Plan investments increased further during the quarter ended March 31, 2024, from \$149M at December 31, 2023 to \$160.2M. This represented an increase of \$11.2M or 7.5%.

As of	Investment	Rate of Return
	Balance (in millions)	
December 31, 2022	\$119.9	Not Applicable (refer to comments below)
December 31, 2023	\$149.0	
March 31, 2024	\$160.2	

It is not possible to state what the “return” is for the Plan over a particular time period because the Plan is not managed as a single portfolio. Instead, each participant selects their own investment strategy. Therefore, as reflected above, the focus is on the change in the Plan investment balance as an alternative to a “return” over various investment periods.

According to Mercer, our Plan Investment Consultant:

- All investment options in the plan delivered positive returns, with many delivering double digit returns. Following a difficult prior fiscal year, stocks and most other asset classes delivered positive returns during 2023. Investors seeing these positive headline numbers would be mistaken to assume it was smooth sailing as there were several major surprises and significant volatility. During the earlier parts of the year, as major economies were contending with inflation at multi-decade highs, central banks including the US Federal Reserve were increasing interest rates most rapidly in several cycles.

**Government of Guam
457 Deferred Compensation Plan**

Management’s Discussion and Analysis, continued

December 31, 2023

(1) Highlights, continued

- This led to most investors and economists to assume that the US and Global economies would enter a recession, something which remains elusive. Sentiment was also briefly damaged by a number of US regional bank failures, including the second largest bank failure in history, and coincidentally the forced merger of two systemically important banks in Europe. Geopolitics were also front of mind as the conflict in Ukraine continued, another commenced in the Middle East, and US-China relations remain fragile.
- Despite all of these challenges, US and International stocks ended the year higher, while US bonds delivered modestly positive returns. Investors were ultimately encouraged by the US economy not only avoiding recession, but growing strongly, company earnings holding up, significant advances in Artificial Intelligence, and Chinese authorities ending their zero covid strategy before increasing policy stimulus.
- Finally, inflation continued to trend downwards throughout the year, given investors’ confidence that it will return to the Federal Reserve’s 2% target over the medium term.

The Plan has weathered periods of market volatility and uncertainty in the past. Since the portfolio’s inception, the Plan has endured and survived extreme market events stemming from terrorists’ attacks and global financial crises. The GGRF Board of Trustees continues to manage the Plan in the same disciplined manner as it has in the past.

Financial Analysis

The following section provides further detail of activities within the Plan as well as additions and deductions to the Plan. Comparative financial schedules depict the changes between the years 2023 and 2022.

Fiduciary net position as of December 31, 2023 and 2022 are as follows:

	Years Ended December 31,		Increase (Decrease)	% Change
	2023	2022		
<u>Assets</u>				
Investments	\$ 148,966,854	\$ 119,918,315	\$ 29,048,539	24.22%
Receivables:				
Participant Loans	4,964,736	4,360,181	604,555	13.87%
Participant Contributions	754,928	831,505	(76,577)	-9.21%
Total Receivables	5,719,664	5,191,686	527,978	10.17%
Cash	518,548	399,505	119,043	29.80%
Total Assets	155,205,066	125,509,506	29,695,560	23.66%
<u>Liabilities</u>				
	-	-	-	-
Fiduciary Net Position	\$ 155,205,066	\$ 125,509,506	\$ 29,695,560	23.66%

**Government of Guam
457 Deferred Compensation Plan**

Management's Discussion and Analysis, continued

December 31, 2023

Financial Analysis, continued

The \$76,577 decrease in Receivables-Participant contributions resulted as the 2022 receivables of \$832K included \$132K in delinquent receivables due from GMHA in 2022. These delinquent amounts were subsequently paid in January 2023. There were no delinquent contributions as of December 31, 2023.

Plan activities

The total Plan net position at December 31, 2023 was \$155.2M compared to \$125.5M at December 31, 2022, representing an increase of \$29.7M or 23.66%. The \$29.7M is due largely to investment market fluctuations.

Additions and Deductions to Fiduciary Net Position for the years ended December 31, 2023 and 2022 are as follows:

	Years Ended December 31,		Increase (Decrease)	% Change
	2023	2022		
Investment Income:				
Net Appreciation (Depreciation) in Fair				
Value of Investments	\$ 15,845,975	\$ (28,010,161)	\$ 43,856,136	-156.57%
Interest, Dividends & Other	4,977,309	5,106,694	(129,385)	-2.53%
Less Investment Expenses	(533,965)	(512,682)	(21,283)	4.15%
Net investment income	20,289,319	(23,416,149)	43,705,468	-186.65%
Member Contributions	15,825,905	14,687,220	1,138,685	7.75%
Total Additions	36,115,224	(8,728,929)	44,844,153	-513.74%
Deductions:				
Benefits Paid to Participants	(6,419,664)	(5,984,987)	(434,677)	7.26%
Net Increase (Decrease) in Fiduciary Net Position	29,695,560	(14,713,916)	44,409,476	-301.82%
Fiduciary Net Position, beginning of year	125,509,506	140,223,422		
Fiduciary Net position, end of year	\$155,205,066	\$125,509,506		

The money used to pay benefits is accumulated from contributions made by each participant and from income generated from the participant's investments, including investment appreciation and interest/dividends. Due to market fluctuations the fair value of investments increased by \$43.9M, from a negative \$28M at December 31, 2022 to \$15.8M at December 31, 2023. Interest /dividend income decreased by \$129,385 or 2.53% at December 31, 2023.

Government of Guam
457 Deferred Compensation Plan

Management's Discussion and Analysis, continued

December 31, 2023

Financial Analysis, continued

Member contributions to the Plan increased by \$1.1M or 7.75% in 2023. Changes in contributions are due primarily to fluctuations in the average contribution per participant and the number of active plan participants. There were 7,604 active participants with account balances as of December 31, 2023 and 7,158 active participants with account balances as of December 31, 2022.

Benefits paid to participants increased by \$434,677 or 7.26% in 2023. The change in the amount of benefits paid to participants from year to year is attributed to: the number of participants choosing to take lump sum distributions at retirement or upon severance of employment in any one year, changes in the number of participants receiving benefits in the Plan, as well as the size of their account balance.

Outlook

For Fiscal Year 2024, the GGRF Board of Trustees will continue to navigate the rapidly changing economy by working with our Investment Consultant to continue to strengthen the Plan.

GOVERNMENT OF GUAM
457 Deferred Compensation Plan
Statement of Fiduciary Net Position
December 31, 2023

Assets

Investments, at fair value	\$ 148,966,854
Participant loans receivable	4,964,736
Member contributions receivable	754,928
Cash	<u>518,548</u>
Total assets	<u><u>\$ 155,205,066</u></u>

Liabilities

Total liabilities	<u>-</u>
Fiduciary net position	<u><u>\$ 155,205,066</u></u>

See accompanying notes to the financial statements.

GOVERNMENT OF GUAM
457 Deferred Compensation Plan
Statement of Changes in Fiduciary Net Position
Year ended December 31, 2023

Investment Income

Net appreciation in fair value of investments	\$ 15,845,975
Interest and dividend income	<u>4,977,309</u>
	20,823,284
Less investment expenses	<u>533,965</u>
Net investment income	<u>20,289,319</u>

Member contributions	<u>15,825,905</u>
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Total Additions	36,115,224
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Deductions

Benefits paid to participants	<u>6,419,664</u>
Total Deductions	<u>6,419,664</u>

Net increase in fiduciary net position	29,695,560
Fiduciary net position, beginning of year	<u>125,509,506</u>

Fiduciary net position, end of year	<u><u>\$ 155,205,066</u></u>
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See accompanying notes to the financial statements.

Government of Guam
457 Deferred Compensation Plan

Notes to Financial Statements

December 31, 2023

1. Description of the Plan

The following description of the Deferred Compensation Plan (the Plan) of the Government of Guam provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

General

The Government of Guam maintains a nonqualified deferred compensation plan that constitutes an "eligible governmental plan" in accordance with Section 457(b) of the Internal Revenue Code (IRC) and comparable provisions under the Guam Territorial Income Tax Code. The Plan was established and maintained pursuant to Article 3, Chapter 8, Title 4, of the Guam Code Annotated effective May 1, 1999. Effective January 1, 2018, the Plan was amended to comply with the requirements of Public Law No. 33-186 (enacted by the Guam Legislature on September 14, 2016), which established the "Government of Guam Defined Benefit 1.75 Retirement System (DB 1.75 Plan)" as codified in Article 5, Chapter 8, Title 4 of the GCA.

Investment Options are monitored by the Government of Guam Retirement Fund (GGRF or the Fund) Board of Trustees, which comprises seven members, four of whom are elected and three of whom are appointed by the Governor with the advice and consent of the Guam Legislature. Two of the elected members must be GGRF retirees domiciled in Guam. These two members are elected by the GGRF retirees. The other two elected members must be GGRF active members with at least five years of employment with the Government of Guam. These members are elected by GGRF active members.

The Board has full discretionary authority and responsibility for the interpretation of the Plan provisions, the establishment of rules and regulations for the day-to-day administration of the Plan and the selection of investment options.

Participation

Participation in the Plan is voluntary for all employees who are members of the following plans:

- The Government of Guam Defined Benefit Plan ("DB Plan"), and
- The Government of Guam Defined Contribution Retirement System ("DCRS").

Participation in the Plan is mandatory for all employees who are members of the DB 1.75 Plan. These employees are required to contribute a minimum of 1% of their base salary to the Plan.

Government of Guam
457 Deferred Compensation Plan

Notes to Financial Statements, continued

December 31, 2023

1. Description of the Plan, continued

Contributions

Plan participants, including DB 1.75 participants, may contribute up to 100% of their annual compensation not to exceed Internal Revenue Code (IRC) limits. Participants may direct the investment of their accounts in various investment options offered by the Plan. Participants who do not choose an investment option for all or part of their account will be deemed to have elected the default investment alternative under the Plan for that portion of their account balance.

Participant Accounts

Each participant's account is credited with the participant's contributions and allocations of Plan earnings, including interest, dividends, and gains/losses from investments. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participants are immediately vested in their contributions plus actual earnings and less any losses thereon.

Payment of Benefits

On termination of service due to death, disability, separation of service, retirement, or as otherwise permitted by the Plan, a participant may elect to receive a full or partial lump-sum distribution, periodic payments of a dollar certain, periodic payments for a time certain, or periodic payments over the lifetime of the participant.

A participant may also purchase a life or term-certain annuity, or simply leave the money on deposit until the date that they have a minimum annual distribution requirement. The IRS requires a minimum annual distribution to be made no later than April 1 of the calendar year following the later of the calendar year in which the employee attains age 72, or the calendar year in which the employee retires.

Distributions will be net of any federal and state taxes required to be withheld. The participants also have the option of having a direct tax-free rollover to a new employer pension plan or a rollover to an Individual Retirement Account.

Government of Guam
457 Deferred Compensation Plan

Notes to Financial Statements, continued

December 31, 2023

1. Description of the Plan, continued

Participant Loans

Participants may borrow from their accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance. The loans are secured by the balance in the participant's account and bear interest at a reasonable rate of interest to be fixed by the Plan Administrator from time to time. Principal and interest are paid ratably through regular payroll deductions. Loans must be repaid within five years, except for loans used to purchase a principal residence.

2. Summary of Significant Accounting Policies

Basis of Presentation

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. Contributions from employees for service through December 31, 2023 are accrued.

Use of Estimates

The preparation of financial statement in conformity with accounting principles generally accepted in the United States of America requires the Plan administrator to make estimates and assumptions that could affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan's investments are reported at fair value. Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Net realized and unrealized gains and losses are reflected as net appreciation (depreciation) in the accompanying statement of changes in fiduciary net position.

**Government of Guam
457 Deferred Compensation Plan**

Notes to Financial Statements, continued

December 31, 2023

2. Summary of Significant Accounting Policies, continued

Administration of Plan Assets

The Government of Guam Retirement Fund Board of Trustees is responsible for the administration of the Plan. The daily operations of the Plan are administered by the Director who is designated by the Board as the Plan Administrator.

Empower Retirement (Empower) is the trustee and record keeper of the Plan. Empower invests funds received from contributions in accordance with participants' elections, records investment sales, interest income, and makes distribution payments to participants. During the year ended December 31, 2023, the Fund paid \$252,480 in administrative fees to Empower.

Payment of Benefits

Benefits are recorded when paid.

Cash

At December 31, 2023, the Plan had cash balances in banks of \$492,761 which is insured by the Federal Deposit Insurance Corporation up to \$250,000.

Participant Loans

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis.

Loans are in arrears if any payment is missed. If the sum of all payments due in a calendar quarter are not made and payments are not received by the end of the following calendar quarter, the loan will be in default. As a result, the entire outstanding loan balance, including accrued but unpaid interest, shall be deemed distributed and will be tax reported in the calendar year of default.

3. Plan Termination

Although it has not expressed any intent to do so, the Legislature of the Government of Guam may, in its sole discretion, completely discontinue contributions or terminate the Plan by action of the Board of Trustees and direct the Board of Trustees with respect to the disposition of the Trust. The Government of Guam has established the Plan with the bonafide intention and expectation that the Plan shall continue indefinitely.

Government of Guam
457 Deferred Compensation Plan

Notes to Financial Statements, continued

December 31, 2023

4. Tax Status

The Plan is an eligible deferred compensation plan as defined by Section 457 of the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in gross income of the participant only for the taxable year in which such compensation or other income is distributed.

5. Investments

The following table lists the investment options available to participants and the value of each option at December 31, 2023.

Investment Option	Amount
AB Discovery Value Z	\$ 6,130,153
AB Global Fixed Income Fund Z	1,019,361
Empower SF Balanced Fund Institutional	17,849,669
Galliard Wells Fargo Stable Return	5,523,532
Grandeur Peak Intl Stalwarts Instl	187,279
Hartford Total Return Bond R6	19,856,048
Mercer International Equity	14,783,393
Principal Global Real Estate Sec Inst	2,491,541
RBC Emerging Markets Equity R6	3,103,097
State Street Target Retirement Income SL SF Class VI	177,325
State Street Target Retirement 2020 SL SF Class VI	179,181
State Street Target Retirement 2025 SL SF Class VI	154,459
State Street Target Retirement 2030 SL SF Class VI	417,710
State Street Target Retirement 2035 SL SF Class VI	1,596,263
State Street Target Retirement 2040 SL SF Class VI	2,908,663
State Street Target Retirement 2045 SL SF Class VI	1,721,319
State Street Target Retirement 2050 SL SF Class VI	1,843,366
State Street Target Retirement 2055 SL SF Class VI	1,547,227
State Street Target Retirement 2060 SL SF Class VI	537,284
T. Rowe Price Instl Large Cap Growth	6,528,497
Vanguard Inflation-Protected Securities	8,247,869
Vanguard Institutional Index Fund	29,518,413
Vanguard Windsor II Fund	16,431,052
William Blair Small-Mid Cap Growth	6,214,153
Total	\$ 148,966,854

As reflected above, the Plan offered 24 mutual fund options (including 10 target date funds) as of December 31, 2023.

Government of Guam
457 Deferred Compensation Plan

Notes to Financial Statements, continued

December 31, 2023

6. Fair Value Measurements

The Plan has the following fair value measurements as of December 31, 2023 (Investments measured at Fair Value):

	Fair Value Measurements Using			
	December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Mutual Funds	\$ 148,966,854	\$148,966,854	-	-
Commingled Funds	-	-	-	-
Total investments by fair value level	\$ 148,966,854	\$148,966,854	-	-

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements.

Funds classified in Level 1 of the fair value hierarchy are valued using prices in active markets for those securities. Funds classified in Level 2 are valued based on evaluated prices using a matrix pricing technique, which is used to value securities based on the securities' relationship to benchmark quoted prices. Level 3 inputs are significant unobservable inputs to the fair value measurement.

In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. Mutual fund investments are valued at the net asset value of shares held by the Plan at year end which are quoted in an active market, and are classified within Level 1 of the valuation hierarchy.

Government of Guam
457 Deferred Compensation Plan

Notes to Financial Statements, continued

December 31, 2023

6. Fair Value Measurements, continued

Plan investments are not FDIC insured, are not guaranteed by any bank, and involve investment risk, including the possible loss of the principal amount invested. Gains and losses (realized and unrealized) included in changes in fiduciary net position for the year ended December 31, 2023 are reported in net appreciation in fair value of investments.

7. Risk and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term would materially affect participant account balances and the amounts reported in the statement of fiduciary net position and the statement of changes in fiduciary net position.

Credit risk exists when there is the possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. Each participant is responsible for determining the risks and commensurate returns of their portfolio. The Plan's investment options consist of diversified mutual funds and therefore do not have credit risk.

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan would not be able to recover the value of its deposits, investments, or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent, but not in the Plan's name. Investments are held in a trust account for the benefit of the Plan. As a result, the investments of the Plan are not exposed to custodial credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment. The Plan invests in mutual funds, including debt-based mutual funds. Such funds are subject to interest rate risk; funds holding bonds with longer maturities are subject to more risk than funds holding bonds with shorter maturities.

Funds with exposure to interest rate risk are as follows:

1. Hartford Total Return Bond R6	\$ 19,856,048
2. Vanguard Inflation-Protected Securities	\$ 8,247,869

Government of Guam
457 Deferred Compensation Plan

Notes to Financial Statements, continued

December 31, 2023

7. Risk and Uncertainties, continued,

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. If 5% or more of the total assets of the Plan are invested with one issuer then the investment is considered to have concentration risk. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds or pools are excluded from concentration or credit risk requirements.

Funds with exposure to concentration of credit risk are as follows:

1. Hartford Total Return Bond R6	\$ 19,856,048
2. Vanguard Inflation-Protected Securities	8,247,869

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The plan's diversified selection of funds encourages the participants to employ diversification, asset allocation, and quality strategies to minimize risks. Each participant is responsible for determining the risks and commensurate returns of their Portfolio.

The Plan's exposure to foreign currency risk is measured by fund allocation to foreign securities. Funds with investments in foreign securities include:

1. AB Global Fixed Income Fund Z	\$ 1,019,361
2. Grandeur Peak Intl Stalwarts Instl	187,279
3. Mercer International Equity	\$ 14,783,393

8. Date of Management's Review

The Fund has evaluated subsequent events through June 21, 2024, which is also the date the financial statements were available to be issued.

Investments

The market value of the Plan's investments increased from \$149 million at December 31, 2023 to \$160.2 million at March 31, 2024. This is an increase of \$29 million, or about 11.2%. The increases are due largely to market fluctuations.

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 Participants
Government of Guam 457 Deferred Compensation Plan

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 457 Deferred Compensation Plan administered by the Government of Guam Retirement Fund Board of Trustees (the "Fund"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Government of Guam 457 Deferred Compensation Plan's basic financial statements, and have issued our report thereon dated June 21, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Government of Guam 457 Deferred Compensation Plan's internal control over financial reporting (internal control) as a basis for designing 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 457 Deferred Compensation Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of Government of Guam 457 Deferred Compensation Plan'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Government of Guam 457 Deferred Compensation Plan'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 financial statement. 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
June 21, 2024