

REPUBLIC OF PALAU SOCIAL SECURITY
RETIREMENT FUND

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Republic of Palau Social Security Retirement Fund:

We have audited the accompanying statements of net assets of the Republic of Palau Social Security Retirement Fund (the Fund), a component unit of the Republic of Palau, as of September 30, 2010 and 2009, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2010 and 2009, and its changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Fund's basic financial statements. The Combining Statement of Net Assets and the Combining Statement of Changes in Net Assets as of and for the year ended September 30, 2010 (pages 20 and 21), the Schedule of Administrative Deductions for the years ended September 30, 2010 and 2009 (page 22) and the Schedule of Investments as of September 30, 2010 (pages 23 through 27) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This additional information is the responsibility of the Fund's management. The Combining Statement of Net Assets, the Combining Statement of Changes in Net Assets, the Schedule of Administrative Deductions and the Schedule of Investments have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2011, on our consideration of internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

April 7, 2011



Republic of Palau
SOCIAL SECURITY ADMINISTRATION

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Management's Discussion and Analysis
Year Ended September 30, 2010

Background:

The Republic of Palau Social Security Administration (the Fund) is descended from the Trust Territory Social Security System (TTSSS), which was established on July 1, 1968. The TTSSS ended when the Trust Territory of the Pacific Islands Government devolved into four separate entities. The Republic of Palau (ROP) enacted Republic of Palau Public Law (RPPL) 2-29, the *Social Security Act of 1987*, which established the Palau Social Security Trust Fund (the Trust Fund) that took over ROP's share of assets and liabilities of the TTSSS. At that time, the assets of the Trust Fund were \$4,418,671 with 13,000 members. In fiscal year 1993, the Fund had its first actuarial valuation performed, which determined that the Trust Fund had \$8.7 million in assets, \$29 million in unfunded liability and 22,265 registered members. Over the years, the Fund has registered over 63,752 members cumulatively, with total assets for fiscal year ended September 30, 2010 of \$77,034,434.

Organization:

The Fund is under the general supervision of a five-member Board of Trustees, who are appointed by the President with the advice and consent of the Senate of ROP. The Fund was established by the enactment of RPPL 2-29, revised in 1991 by RPPL 3-64, to provide for retirement, survivor's, disability and death benefits to covered wage earners and self-employed persons and their qualified survivors.

Funding:

The employee contribution rate increased from 5% to 6% beginning on October 1, 2001, with a matching 6% from employers. Self-employed persons pay 12%, with a minimum creditable wage of \$300 and a maximum taxable wage of \$3,000 per quarter. On October 1, 2007, the maximum taxable wage increased to \$4,000 per quarter and then again to \$5,000 per quarter on October 2, 2008 with the passage of RPPL 7-32.

Overview of Financial Statements:

The Fund's net assets for the year ended September 30, 2010 was \$76,644,006 as compared to \$71,842,368 for fiscal year 2009 and \$66,902,188 for fiscal year 2008, which was due mainly to gains in the Fund's investments. The Fund's investments continue to recover from the 2008 losses.

Statements of Net Assets:

	<u>FY10</u>	<u>FY09</u>	<u>FY08</u>
Total assets	\$ 77,034,434	\$ 72,223,403	\$ 67,278,384
Total liabilities	<u>390,428</u>	<u>381,035</u>	<u>376,196</u>
Net assets held in trust for benefits and other purposes	<u>\$ 76,644,006</u>	<u>\$ 71,842,368</u>	<u>\$ 66,902,188</u>

Statements of Changes in Net Assets:

	<u>FY10</u>	<u>FY09</u>	<u>FY08</u>
Total additions	\$ 15,032,948	\$ 14,585,129	\$ 1,403,987
Total deductions	<u>10,231,310</u>	<u>9,644,949</u>	<u>8,553,868</u>
Changes in net assets	4,801,638	4,940,180	(7,149,881)
Net assets at beginning of year	<u>71,842,368</u>	<u>66,902,188</u>	<u>74,052,069</u>
Net assets at end of year	<u>\$ 76,644,006</u>	<u>\$ 71,842,368</u>	<u>\$ 66,902,188</u>

Fixed Assets:

At September 30, 2010, 2009, and 2008, the Fund had \$328,395, \$337,700 and \$398,160 respectively, in fixed assets, net of accumulated depreciation where applicable, including land, building and improvements, office furniture and equipment and vehicles, which represent a net decrease in 2010 of \$9,305 or 3% over 2009 and \$60,460 or 15% in 2009 as compared to 2008. See note 7 to the financial statements for more information on the Fund's fixed assets.

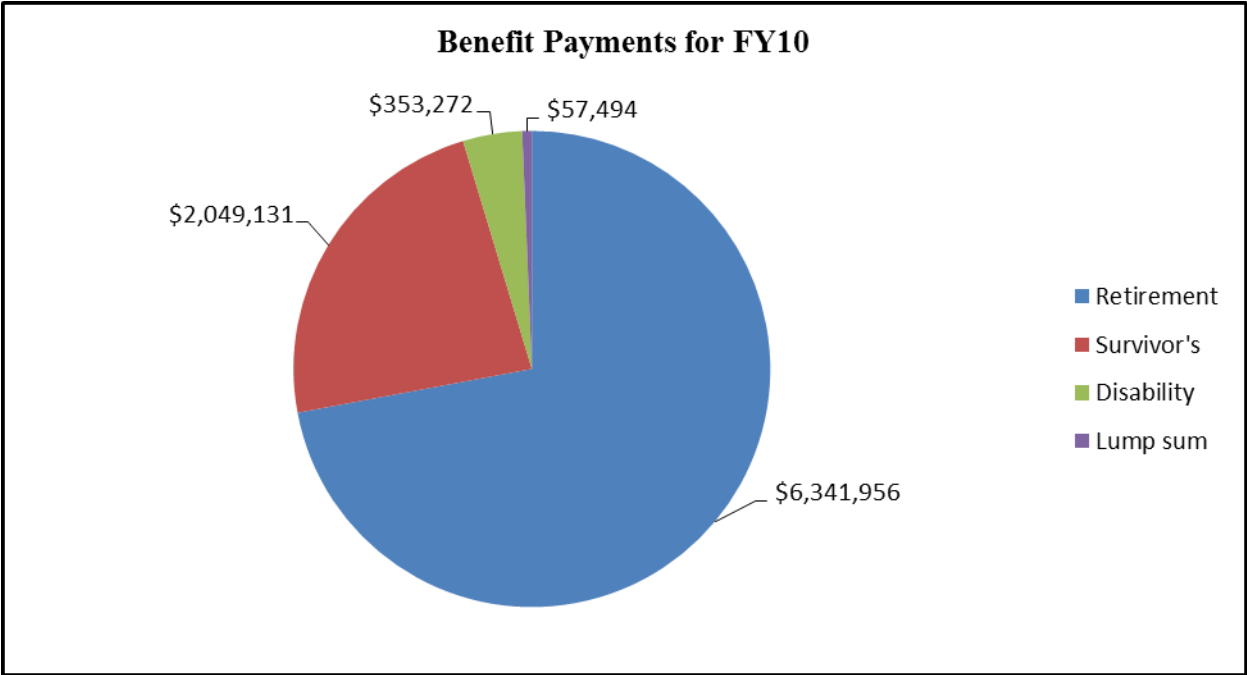
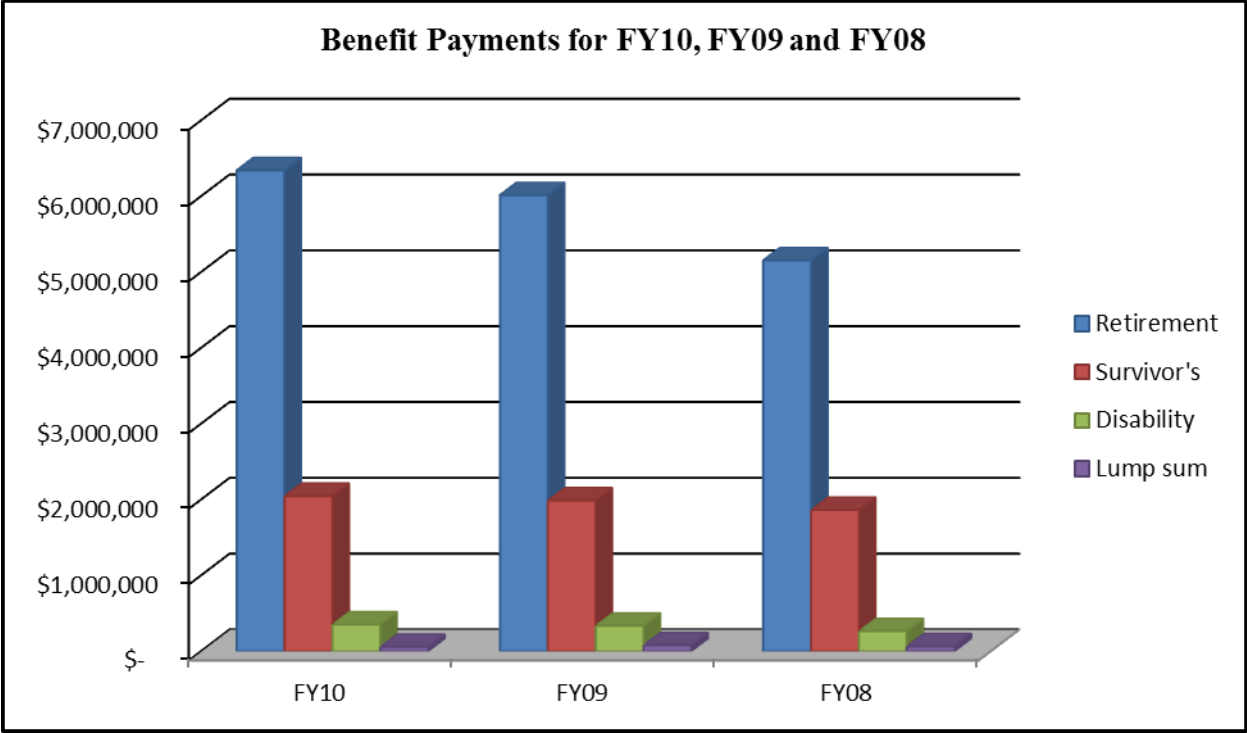
Benefit Payments:

Retirement benefits are paid to qualified workers who are fully insured as defined by law. Disability benefits are payable to qualified workers who are fully and currently insured. Benefits are also paid to the surviving spouse of deceased workers and their children, 18 years or younger or 22 if full-time students. Lump sum death benefits are paid after the death of an employee contributor and no survivor is eligible to receive monthly cash benefits.

Total benefit payments increased by 5% in 2010 from \$8,419,498 to \$8,801,853, as compared to 15% in 2009 and 17% in 2008.

The breakdown of benefit payments for fiscal years 2010, 2009 and 2008 are as follows:

<u>Benefit Type</u>	<u>FY10</u>	<u>FY09</u>	<u>FY08</u>
Retirement	\$ 6,341,956	\$ 6,013,986	\$ 5,154,679
Survivor's	\$ 2,049,131	\$ 1,989,400	\$ 1,863,794
Disability	\$ 353,272	\$ 336,168	\$ 265,581
Lump sum	\$ 57,494	\$ 79,944	\$ 53,622



Actuarial Valuation:

The Fund is planning to order an actuarial valuation for the fiscal year ended September 30, 2010.

Additionally, there are three proposed legislations in the OEK (Olbiil Era Kelulau) which, in our opinion, would have negative impacts on the Fund, as follows:

1. Senate Bill No. 8-176 seeks to reduce the wage earners Social Security tax by 1%, from 6% to 5%. The 1% will be diverted to the Healthcare Fund (HCF), created under RPPL 8-14. This proposed legislation will adversely affect both the Fund and the HCF because the Fund has a maximum taxable wage of \$5,000 per quarter and the HCF has no such ceiling.
2. House Bill No. 8-123 seeks to remove the requirement for an actuarial study before amending the Social Security Act.
3. House Bill No. 8-124 seeks to remove the “Earnings Test” for beneficiaries of retirement, survivor’s and disability benefits.

The passage of the above bills will adversely affect the Fund’s cash flow and may increase the Fund’s unfunded liability.

Economic Outlook:

No factors have come to our attention that impact changes in the economic outlook to date.

Contacting the Fund’s Management:

The financial report is designed to provide a general overview of the Fund’s finances and to demonstrate the Fund’s accountability for the money it receives. The Management’s Discussion and Analysis for the year ended September 30, 2009 is set forth in the report on the audit of the Fund’s financial statements which is dated March 3, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements. If you have questions about the 2009 or 2008 reports, or need additional information, please contact the Fund’s Administrator at the Republic of Palau Social Security Retirement Fund, P.O. Box 679, Koror, Republic of Palau 96940, or e-mail administration@ropssa.org or call 488-2457.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Net Assets
September 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash	\$ 1,248,962	\$ 426,998
Investments:		
Corporate stock	35,187,468	32,117,514
U.S. Government obligations	16,709,082	21,232,727
Corporate bonds	11,606,580	8,671,198
Money market funds and other short-term investments	2,390,546	1,954,459
Total investments	<u>65,893,676</u>	<u>63,975,898</u>
Receivables:		
Loan	6,000,000	4,500,000
Contributions	4,545,900	3,398,474
Accrued interest and dividends	361,657	368,995
Advance and other	24,282	34,350
	10,931,839	8,301,819
Less allowance for doubtful accounts	<u>(1,371,034)</u>	<u>(825,113)</u>
Total receivables, net	<u>9,560,805</u>	<u>7,476,706</u>
Prepaid expense	2,596	6,101
Property, plant and equipment, net	<u>328,395</u>	<u>337,700</u>
Total assets	<u>77,034,434</u>	<u>72,223,403</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Benefits payable	283,599	301,089
Accrued liabilities and accounts payable	106,829	79,946
Total liabilities	<u>390,428</u>	<u>381,035</u>
Contingencies		
Net assets:		
Held in trust for benefits and other purposes	<u>\$ 76,644,006</u>	<u>\$ 71,842,368</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Changes in Net Assets
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Additions:		
Contributions:		
Government employees	\$ 4,906,754	\$ 5,095,554
Private employees	4,941,945	4,635,156
Penalties and interest	963,412	295,973
	<u>10,812,111</u>	<u>10,026,683</u>
Less bad debts	(545,921)	(197,294)
Total contributions, net	<u>10,266,190</u>	<u>9,829,389</u>
Investment income:		
Net increase in the fair value of investments	2,429,052	2,369,598
Interest	1,565,267	1,583,400
Dividends	474,029	459,623
Total investment income, net	<u>4,468,348</u>	<u>4,412,621</u>
Other income	298,410	343,119
Total additions	<u>15,032,948</u>	<u>14,585,129</u>
Deductions:		
Benefit payments:		
Retirement	6,341,956	6,013,986
Survivor's	2,049,131	1,989,400
Disability	353,272	336,168
Lump sum	57,494	79,944
Total benefit payments	<u>8,801,853</u>	<u>8,419,498</u>
Administrative	1,016,598	905,681
Investment management fee	237,977	151,815
Fund custodian fee	122,981	107,495
Depreciation	51,901	60,460
Total deductions	<u>10,231,310</u>	<u>9,644,949</u>
Change in net assets	4,801,638	4,940,180
Net assets at beginning of year	<u>71,842,368</u>	<u>66,902,188</u>
Net assets at end of year	<u>\$ 76,644,006</u>	<u>\$ 71,842,368</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(1) Organization and Purpose

The Republic of Palau Social Security Retirement Fund (the Fund), a component unit of the Republic of Palau, was created under Republic of Palau Public Law (RPPL) No. 2-29, passed into law on May 28, 1987, and revised by RPPL No. 3-64, passed into law on December 20, 1991, and began operations in a transition phase on October 1, 1987. The Fund is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the Republic of Palau. The Fund provides retirement, disability and death benefits to qualified individuals and their survivors. Additionally, the Fund is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program (see note 3). Accordingly, the Fund established the Prior Service Fund to account for activities under this program. Further, the Fund was appointed responsibility under 41 PNC, Section 723 for the administration and operation of the Medical Savings Fund and the Palau Health Insurance (see note 4).

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Fund prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as additions to net assets in the quarter employee earnings are paid. Benefits are recognized as deductions from net assets when the corresponding liabilities are incurred regardless of when payment is made.

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 net assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2010 and 2009, the Fund has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The Fund has not experienced any losses in such accounts.

Cash

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the Fund or its agent in the Fund's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Fund's name; or

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Fund's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Fund does not have a deposit policy for custodial credit risk.

For the purposes of the statements of net assets, cash is defined as cash on hand and cash held in demand accounts. Money market funds held by the Fund's investment agent are considered investments.

As of September 30, 2010 and 2009, cash was \$1,248,962 and \$426,998, respectively, and the corresponding bank balance was \$908,254 and \$484,633, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of \$250,000 were FDIC insured. Accordingly, the deposits are exposed to custodial credit risk. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the Fund or its agent in the Fund's name;
- Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in the Fund's name; or
- Category 3 Investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Fund's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

The Fund's investment policy governs the investment of assets of the Fund as follows:

- (1) Cash
 - (A) Short-term investment funds;
 - (B) U.S. Treasury and agency obligations;
 - (C) Commercial paper rated by two nationally recognized rating agencies and at least one of the ratings is A1 or P1;
 - (D) Repurchase agreements with a maximum maturity of 180 days from financial institutions or securities dealers qualified to do business as set forth below. The repurchase agreements must be collateralized at least 102% with allowable securities as set forth in the Fund's investment policy, except in the case of "due bills" which are collateralized by the financial institution's or dealer's entire inventory:
 - a) Banks must have achieved a Bankwatch/International Bank Credit Analyst rating of B or better for bank investments.
 - b) Brokers/Dealers must appear on the Primary Government Dealer list; and
 - (E) Certificates of deposit or banker's acceptances issued by financial institutions with commercial paper rating of at least P1 by Moody's Investor Service (Moody's) or A1 by Standard & Poor's (S&P).
- (2) U.S. Fixed Income
 - (A) Bonds, notes, and passthrough securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
 - (B) U.S. corporate bonds and nonconvertible preferred stock rated BBB-/Baa3 or better by Moody's, S&P 500 or Fitch;
 - (C) Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
 - (D) Debt issued by foreign entities in the U.S. provided that both principal and interest are payable in U.S. dollars and provided that such debt is rated BBB-/Baa3 or better by Moody's, S&P 500 or Fitch;
 - (E) The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by the investment manager; and
 - (F) No type of security that has been in the market for less than ten years may be purchased without prior written approval of the Fund's Board of Trustees.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

(3) U.S. Large Cap Equities

- (A) Common stock and convertible securities of U.S. Corporations provided they are listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or National Association of Securities Dealers Automated Quotation (NASDAQ) with a market capitalization (at time of purchase) that falls within the range of the Russel 1000 Index;
- (B) American Depository Receipts (ADRs) that are listed on the NYSE, AMEX, or NASDAQ provided the total investment in these securities does not exceed 10% of the total assets managed by the Fund's investment manager at the time of purchase and such investments are in industries and areas of the market that the Fund's investment manager already has proven expertise;
- (C) Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and
- (D) An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

(4) International Equities

- (A) Equity securities of Corporations provided they are listed on the stock exchange of countries included in the MSCI EAFE Index;
- (B) Equity securities of companies from countries included in the MSCI EMF Index are allowed, provided that the total investment in these companies does not exceed 15% of the total market value of the assets managed by the Fund's investment manager;
- (C) ADR's, EDR's and GDR's relating to any of the above are allowable; and
- (D) Portfolios shall be diversified among issuers, industry classifications and countries. The market value of the equity holdings in a single corporation should not exceed 5% of the market value of the portfolio under management by the Fund's investment manager.

GASB Statement No. 40 requires entities to provide information about the credit risk associated with their investments by disclosing the credit quality ratings.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Fund's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the Fund's name by the Fund's custodial financial institutions at September 30, 2010 and 2009.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The following is a listing of the Fund's fixed income securities at September 30, 2010 and 2009:

Investment Type	Fair Value	2010				Rating
		Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 4,908,791	\$ -	\$ 2,181,362	\$ 1,628,229	\$ 1,099,200	AAA
Other U.S. government obligations	2,089,753	-	883,185	1,064,498	142,070	AAA
Mortgage pass throughs	9,207,973	-	42,721	105,993	9,059,259	AAA
Municipal obligations	502,565	-	-	-	502,565	AA
Corporate bonds	1,527,959	-	451,256	337,593	739,110	AAA
Corporate bonds	2,216,659	278,836	853,953	771,875	311,995	AA
Corporate bonds	5,469,877	20,705	2,692,485	1,746,787	1,009,900	A
Corporate bonds	<u>2,392,085</u>	<u>-</u>	<u>1,340,721</u>	<u>925,049</u>	<u>126,315</u>	BBB
	<u>\$ 28,315,662</u>	<u>\$ 299,541</u>	<u>\$ 8,445,683</u>	<u>\$ 6,580,024</u>	<u>\$ 12,990,414</u>	

Investment Type	Fair Value	2009				Rating
		Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 6,599,655	\$ -	\$ 2,895,574	\$ 1,759,882	\$ 1,944,199	AAA
Other U.S. government obligations	4,992,104	51,515	3,280,638	509,849	1,150,102	AAA
Mortgage pass throughs	8,993,814	-	61,447	145,312	8,787,055	AAA
Collateralized mortgage obligations	535,360	-	-	-	535,360	AAA
Municipal obligations	111,794	-	-	-	111,794	AA
Corporate bonds	1,802,952	-	816,195	309,939	676,818	AAA
Corporate bonds	2,126,003	-	1,119,035	715,190	291,778	AA
Corporate bonds	2,793,292	-	735,888	1,104,647	952,757	A
Corporate bonds	<u>1,948,951</u>	<u>341,859</u>	<u>443,773</u>	<u>897,377</u>	<u>265,942</u>	BBB
	<u>\$ 29,903,925</u>	<u>\$ 393,374</u>	<u>\$ 9,352,550</u>	<u>\$ 5,442,196</u>	<u>\$ 14,715,805</u>	

Receivables and Allowance for Doubtful Accounts

Contribution receivables are due from employers located within the Republic of Palau. These receivables are not collateralized and are non-interest bearing. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts. The allowance is established through a provision for bad debts.

Fixed Assets

The Fund's fixed assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of \$2,500.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

Future Liabilities and Contributions

No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

Accrued Annual Leave

The Fund recognizes costs for accrued annual leave at the time such leave is earned. Unpaid accrued annual leave is included in administrative deductions and accrued liabilities in the accompanying financial statements.

It is the policy of the Fund to record sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. Management has determined that the estimated amount of unused sick leave at September 30, 2010 and 2009 is not material to the financial statements.

Contributions

Contributions to the Fund are governed by RPPL No. 2-29 as revised by RPPL No. 3-64 and amended by RPPL No. 5-34, RPPL No. 6-13, RPPL No. 7-32 and RPPL No. 8-5, which imposes a tax on the quarterly income of every employee within the Republic. There is imposed on the income of every employee a tax equal to a percentage of wages received. The maximum amount of wages received increased from \$4,000 per quarter to \$5,000 per quarter effective October 2, 2008. Every employer is required to contribute an amount equal to that contributed by the employee. With respect to wages paid from October 1, 2001 and thereafter, the rate shall be six percent.

Benefit Payments

Retirement benefits are paid to qualified workers who are fully insured individuals who, as defined by RPPL No. 2-29 and as revised by RPPL No. 3-64, RPPL No. 5-34, RPPL No. 7-32 and RPPL No. 8-5, have attained the age of sixty years, and have filed an application for old age insurance benefits. 60% of basic benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements. Eligible children who are not married and not working may also receive benefits until age eighteen (18) or up until age twenty-two (22) if in school. Eligible children who become disabled before age twenty-two will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

Effective August 2, 2007, the benefit payments paid monthly are computed upon an annual basis of 21.5% of the first \$11,000 of cumulative covered earnings, plus 2.9% of the next \$33,000, plus 1.5% of cumulative covered earnings in excess of \$44,000. The minimum benefit is \$98.00 per month effective April 1, 2007.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2010, the Fund implemented the following pronouncements:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements.
- GASB Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment.
- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect that the implementation of this statement will have on the financial statements of the Fund.

(3) Prior Service Claims

Under the terms of a Prior Service Claim Adjudication Service Agreement between the Trust Territory Prior Service Trust Fund Administration and the Social Security Administration of the Republic of Palau (ROP), the ROP Social Security Administration is to provide for the processing of benefit claims and to assist in the monitoring of continuing eligibility under the Prior Service Benefits Program.

On September 15, 2005, an agreement was entered between the PSTFA Board and the U.S. Department of Interior to delegate the PSTFA Board's obligations to and responsibility for the enrollees eligible for Prior Service Benefits Program to the Social Security Systems of the ROP, the Republic of the Marshall Islands, the Federated States of Micronesia and the Retirement Fund of the Commonwealth of the Northern Mariana Islands. Based on the agreement, the Social Security Administration of each Government shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds.

The Fund received fund allocations of \$136,825 on November 25, 2009, and \$155,090 of total funds received, has been paid as benefits for the year ended September 30, 2010. The Fund assumed administrative functions and received allocations of \$75,994, \$60,319 and \$17,558 from PSTFA on November 5, 2008, May 6, 2009 and August 10, 2009, respectively, and \$157,475 of total funds received has been paid as benefits for the year ended September 30, 2009. However, while the Fund accepts the liability for any amounts received, the Fund does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. At September 30, 2010 and 2009, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$27,397 and \$45,662, respectively.

(4) Medical Savings Fund and Palau Health Insurance System

Pursuant to RPPL No. 8-14, each resident in the Republic of Palau is required to have coverage for healthcare costs. Accordingly, the Medical Savings Fund and the Palau Health Insurance System were established to promote health and social welfare of the citizens of the Republic of Palau. Under 41 PNC, Section 723, the Fund shall be responsible for the general day-to-day administration and operation of the Medical Savings Fund and the Palau Health Insurance. The Fund shall maintain records of all employees and of all contributors, including self-employed persons, in a manner deemed reasonable to the administration and operation of the two systems. As of September 30, 2010, the Fund incurred start-up administrative costs of \$24,950.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(5) Republic of Palau Civil Service Pension Trust Fund

The Fund contributes to the Palau Civil Service Pension Trust Fund (the Pension Fund), a defined benefit, cost-sharing multi-employer pension plan established and administered by the Republic of Palau.

The Pension Fund provides retirement, security and other benefits to employees, and their spouses and dependents of the Republic of Palau, Republic of Palau State Governments and Republic of Palau agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are of credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. RPPL No. 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Fund contributed \$22,372, \$23,719 and \$20,920 for the Pension Fund during the fiscal years 2010, 2009 and 2008, respectively.

Under the provisions of RPPL No. 2-26, the Pension Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law, and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Fund's total payroll for fiscal years 2010 and 2009 was covered in total by the Pension Fund's pension plan.

The Pension Fund utilizes the actuarial cost method termed "agreement cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Pension Fund's funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

The Fund's October 1, 2009 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants	\$ 56,060,970
Participants in pay status	47,666,805
Participants with vested deferred benefits	<u>1,779,610</u>
Total pension benefit obligation	105,507,385
Net assets available for benefits, at market value	<u>41,254,319</u>
Unfunded benefit obligation	\$ <u>64,253,066</u>

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. The amount of the unfunded liability that the Fund may be liable for has not been determined and is not included as a liability in the accompanying statements of net assets.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(6) Loan Receivable

On August 28, 2003, the Fund entered into a loan agreement with the National Development Bank of Palau (NDBP), an affiliated entity and a component unit of the Republic of Palau. The loan was for \$3,000,000 with a subsequent \$2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time.

On August 7, 2008, the Fund entered into a new agreement to restructure the existing loan with NDBP. The loan ceiling increased to \$6,000,000, which will be disbursed in increments of \$500,000, bearing interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%; provided, however that the interest rate to be charged and paid by NDBP shall not be less than 4.5% nor more than 7.5% after addition of the 0.5% to the prime rate. Outstanding principal plus all unpaid interest are to be paid semi-annually, on or before June 30 and December 31 of each year, effective June 30, 2011 up to December 31, 2025.

The loan receivable from NDBP was \$6,000,000 and \$4,500,000 with interest at 4.5% at September 30, 2010 and 2009, respectively. The loan is collateralized by the full faith and credit of the Republic of Palau Government.

Principal receipts for subsequent years ending September 30 and applicable interest, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 200,000	\$ 267,732	\$ 467,732
2012	400,000	252,690	652,690
2013	400,000	234,000	634,000
2014	400,000	216,000	616,000
2015	400,000	198,000	598,000
2016 - 2020	2,000,000	720,789	2,720,789
2021 - 2025	<u>2,200,000</u>	<u>272,293</u>	<u>2,472,293</u>
	\$ <u>6,000,000</u>	\$ <u>2,161,504</u>	\$ <u>8,161,504</u>

(7) Fixed Assets

A summary of the Fund's fixed assets, at original cost, as of September 30, 2010 and 2009, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2010</u>
Capital assets not being depreciated:					
Land		\$ 207,018	\$ -	\$ -	\$ 207,018
Capital assets being depreciated:					
Building and improvements	30 years	132,315	-	-	132,315
Office furniture and equipment	4 - 13 years	249,166	23,703	-	272,869
Vehicles	2 years	<u>74,252</u>	<u>18,893</u>	<u>(15,950)</u>	<u>77,195</u>
		455,733	42,596	(15,950)	482,379
Less accumulated depreciation		<u>(325,051)</u>	<u>(51,901)</u>	<u>15,950</u>	<u>(361,002)</u>
Total capital assets being depreciated		<u>130,682</u>	<u>(9,305)</u>	<u>-</u>	<u>121,377</u>
Total capital assets, net		\$ <u>337,700</u>	\$ <u>(9,305)</u>	\$ <u>-</u>	\$ <u>328,395</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2010 and 2009

(7) Fixed Assets, Continued

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2009</u>
Capital assets not being depreciated:					
Land		\$ <u>207,018</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>207,018</u>
Capital assets being depreciated:					
Building and improvements	30 years	132,315	-	-	132,315
Office furniture and equipment	4 - 13 years	249,166	-	-	249,166
Vehicles	2 years	98,332	-	(24,080)	74,252
		479,813	-	(24,080)	455,733
Less accumulated depreciation		(288,671)	(60,460)	24,080	(325,051)
Total capital assets being depreciated		191,142	(60,460)	-	130,682
Total capital assets, net		\$ <u>398,160</u>	\$ <u>(60,460)</u>	\$ <u>-</u>	\$ <u>337,700</u>

Land acquired will be exchanged for land upon which the Fund intends to construct an office facility.

(8) Contingencies

The Fund conducts its operations on land without charge in the State of Koror, through a land settlement agreement dated February 3, 1997 between ROP, the Palau Public Lands Authority, the Koror State Government and the Koror State Public Lands Authority. The land settlement agreement stipulates that ROP will retain the use of the land for a term of twenty-five years. The Fund does not have title or a lease agreement for the use of the land.

An actuarial valuation of the Fund has determined that the Fund had an actuarial deficiency of approximately \$63,311,000 as of October 1, 2008. Unless the existing deficiency is corrected, the Fund's cash flow may eventually become negative, which will cause the Fund to become depleted to the point that the Fund will not be able to meet its benefit obligations. The Fund has not developed a formal plan as of September 30, 2010, to correct this potential funding deficiency.

(9) Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund has elected to purchase commercial insurance from independent third parties for the risks of losses to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage during the past three years.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Net Assets
September 30, 2010

<u>ASSETS</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Medical Savings Fund	Elimination	Total
Cash	\$ 1,208,499	\$ 40,463	\$ -	\$ -	\$ 1,248,962
Investments:					
Corporate stock	35,187,468	-	-	-	35,187,468
U.S. Government obligations	16,709,082	-	-	-	16,709,082
Corporate bonds	11,606,580	-	-	-	11,606,580
Money market funds and other short-term investments	2,390,546	-	-	-	2,390,546
Total investments	65,893,676	-	-	-	65,893,676
Receivables:					
Loan	6,000,000	-	-	-	6,000,000
Contributions	4,545,900	-	-	-	4,545,900
Accrued interest and dividends	361,657	-	-	-	361,657
Notes	50,000	-	-	(50,000)	-
Advance and other	24,282	-	-	-	24,282
	10,981,839	-	-	(50,000)	10,931,839
Less allowance for doubtful accounts	(1,371,034)	-	-	-	(1,371,034)
Total receivables, net	9,610,805	-	-	(50,000)	9,560,805
Prepaid expense	2,596	-	-	-	2,596
Property, plant and equipment, net	328,395	-	-	-	328,395
Total assets	77,043,971	40,463	-	(50,000)	77,034,434
<u>LIABILITIES AND NET ASSETS</u>					
Liabilities:					
Benefits payable	245,583	13,066	24,950	-	283,599
Accrued liabilities and accounts payable	106,829	-	-	-	106,829
Notes payable	-	-	50,000	(50,000)	-
Total liabilities	352,412	13,066	74,950	(50,000)	390,428
Net assets:					
Held in trust for benefits and other purposes	\$ 76,691,559	\$ 27,397	\$ (74,950)	\$ -	\$ 76,644,006

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Changes in Net Assets
Year Ended September 30, 2010

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Medical Savings Fund	Total
Additions:				
Contributions:				
Government employees	\$ 4,906,754	\$ -	\$ -	\$ 4,906,754
Private employees	4,941,945	-	-	4,941,945
Penalties and interest	963,412	-	-	963,412
	10,812,111	-	-	10,812,111
Less bad debts	(545,921)	-	-	(545,921)
Total contributions, net	10,266,190	-	-	10,266,190
Investment income:				
Net increase in the fair value of investments	2,429,052	-	-	2,429,052
Interest	1,565,267	-	-	1,565,267
Dividends	474,029	-	-	474,029
Total investment income, net	4,468,348	-	-	4,468,348
Other income	161,585	136,825	-	298,410
Total additions	14,896,123	136,825	-	15,032,948
Deductions:				
Benefit payments:				
Retirement	6,268,706	73,250	-	6,341,956
Survivor's	1,989,762	59,369	-	2,049,131
Disability	353,272	-	-	353,272
Lump sum	57,494	-	-	57,494
Total benefit payments	8,669,234	132,619	-	8,801,853
Administrative	969,177	22,471	24,950	1,016,598
Investment management fee	237,977	-	-	237,977
Fund custodian fee	122,981	-	-	122,981
Depreciation	51,901	-	-	51,901
Total deductions	10,051,270	155,090	24,950	10,231,310
Change in net assets	4,844,853	(18,265)	(24,950)	4,801,638
Net assets at beginning of year	71,796,706	45,662	-	71,842,368
Net assets at end of year	\$ 76,641,559	\$ 27,397	\$ (24,950)	\$ 76,644,006

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions
 Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Salaries, wages and benefits	\$ 530,328	\$ 469,778
Board members other expenses	109,739	117,694
Professional services	89,783	55,848
Staff development and training	39,958	46,136
Travel and transportation	34,533	34,196
Supplies, printing and reproduction	32,127	39,183
Utilities	30,795	25,945
Communications	19,507	18,387
Representation and entertainment	14,461	7,701
Repairs and maintenance	12,113	14,959
Office equipment	8,673	6,657
Fuel and oil	6,311	2,751
Insurance	4,775	6,073
Dues, subscriptions and registrations	1,749	2,170
Board compensation	1,700	2,850
Furniture and fixtures	1,358	7,862
Miscellaneous	<u>78,688</u>	<u>47,491</u>
Total administrative deductions	\$ <u>1,016,598</u>	\$ <u>905,681</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2010

	Cost	Fair Value
<u>Cash and Cash Equivalents</u>		
Cash	\$ 123,713	\$ 123,619
STIP 3: US Treasury & Agency	228,500	228,500
Total Cash and Cash Equivalent - Account#491206600	<u>352,213</u>	<u>352,119</u>
<u>Money Market Funds</u>		
Pacific Capital Cash Assets Trust - Account #135074870	248,095	248,095
Pacific Capital Cash Assets Trust - Account #140340753	221,282	221,282
Pacific Capital Cash Assets Trust - Account #140011107	15,256	15,256
Pacific Capital US Gov't Securities Cash Assets Trust - Account #140011156	1,553,794	1,553,794
Total Money Market Funds	<u>2,038,427</u>	<u>2,038,427</u>
Total Money Market Funds and Other Short-Term Investments	<u>\$ 2,390,640</u>	<u>\$ 2,390,546</u>
<u>U.S. Government Obligations</u>		
US Treasury Notes, 4.75% due on 5/15/2014	\$ 957,311	\$ 1,084,188
US Treasury Notes, 4.25% due on 8/15/2015	1,057,457	1,097,174
US Treasury Notes, 4.25% due on 11/15/2017	540,770	607,483
US Treasury Notes, 3.625% due on 8/15/2019	246,631	274,922
US Treasury Notes, 3.625% due on 2/15/2020	689,317	745,824
US Treasury Bonds, 4.5% due on 08/15/2039	1,027,438	1,099,200
	<u>4,518,924</u>	<u>4,908,791</u>
<u>U.S. Government Agencies</u>		
Federal Home Loan Mortgage Corp Notes, 2.5% due on 4/8/2013	524,475	530,560
Federal Home Loan Mortgage Corp Gold Pool, 4.5% due on 6/1/2014	41,206	42,721
Federal National Mortgage Association Notes, 1.125% due on 12/30/2014	348,950	352,625
Tennessee Valley Auth Notes, 5.5% due on 7/18/2017	204,710	241,010
Federal Home Loan Mortgage Corp Gold Pool, 4.5% due on 3/1/2019	94,600	105,993
Federal National Mortgage Association Notes, 4% due on 4/22/2019	285,000	314,837
Resolution Funding Corp Bonds, 8.875% due on 7/15/2020	516,562	508,652
Federal Home Loan Mortgage Corp Gold Pool, 5.5% due on 4/1/2021	78,541	86,134
Federal National Mortgage Association Notes, 5.5% due on 5/10/2027	124,375	142,070
Federal Home Loan Mortgage Corp Pool, 5% due on 2/1/2033	169,902	174,863
Federal Home Loan Mortgage Corp Pool, 5% due on 5/1/2033	507,096	524,449
Federal National Mortgage Association Pool, 5% due on 9/1/2033	232,450	238,916
Federal National Mortgage Association Pool, 4.5% due on 10/1/2033	179,960	202,987
Federal National Mortgage Association Pool, 5% due on 3/1/2034	27,758	31,612
Federal Home Loan Mortgage Corp Pool, 5.07% due on 9/1/2034	91,669	99,224
Federal National Mortgage Association Pool, 6% due on 10/1/2034	226,960	245,648
Federal National Mortgage Association Pool, 5.5% due on 12/1/2034	689,777	748,722
Federal National Mortgage Association Pool, 6% due on 1/1/2035	342,993	371,263
Federal National Mortgage Association Pool, 5.5% due on 2/1/2035	102,544	113,176
Federal National Mortgage Association Pool, 5.5% due on 2/1/2035	243,396	269,957
Federal National Mortgage Association Pool, 5.5% due on 3/1/2035	385,355	392,321
Federal Home Loan Mortgage Corp Gold Pool, 5.5% due on 3/1/2035	169,821	188,284
Federal National Mortgage Association Pool, 5% due on 4/1/2035	96,227	107,317
Federal National Mortgage Association Pool, 6% due on 4/1/2035	85,417	93,735
Federal National Mortgage Association Pool, 5.5% due on 6/1/2035	42,365	43,329
Federal Home Loan Mortgage Corp Pool, 5% due on 8/1/2035	90,951	92,753
Federal Home Loan Mortgage Corp Gold Pool, 5% due on 8/1/2035	111,468	125,619
Federal Home Loan Mortgage Corp Gold Pool, 5% due on 8/1/2035	49,136	55,381
Federal Home Loan Mortgage Corp Pool, 5% due on 9/1/2035	376,530	380,945
Federal National Mortgage Association Pool, 5.5% due on 10/1/2035	150,065	162,355
Federal National Mortgage Association Pool, 5.5% due on 10/1/2035	159,063	177,585
Federal Home Loan Mortgage Corp, 5% due on 12/1/2035	273,918	277,130
Government National Mtg Corp Pool, 5.5% due on 11/15/2035	69,733	77,514
Federal National Mortgage Association Pool, 6% due on 12/1/2035	82,482	91,140
Federal Home Loan Mortgage Corp Gold Pool, 6% due on 4/1/2036	53,123	58,237

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2010

	Cost	Fair Value
<u>U.S. Government Agencies, Continued</u>		
Federal Home Loan Mortgage Corp Pool, 5% due on 6/1/2036	226,167	240,244
Federal Home Loan Mortgage Corp Pool, 5% due on 6/1/2036	284,135	291,081
Federal National Mortgage Association Pool, 6.5% due on 6/1/2036	102,921	112,951
Federal National Mortgage Association Pool, 6.5% due on 6/1/2036	60,588	65,865
Federal National Mortgage Association Pool, 6% due on 10/1/2036	63,136	68,080
Federal Home Loan Mortgage Corp Gold Pool, 6% due on 12/1/2036	195,731	209,305
Federal Home Loan Mortgage Corp Pool, 5.823% due on 12/1/2036	169,264	181,284
Federal National Mortgage Association Pool, 5.5% due on 12/1/2036	96,942	104,776
Federal National Mortgage Association Pool, 5.5% due on 12/1/2036	333,850	343,021
Federal Home Loan Mortgage Corp Good Pool, 5.5% due on 1/1/2037	112,704	121,204
Federal National Mortgage Association Pool, 5.541% due on 1/1/2037	219,236	236,938
Federal Home Loan Mortgage Corp Good Pool, 6.5% due on 5/1/2037	179,735	192,637
Federal National Mortgage Association Pool, 5% due on 2/1/2039	275,422	281,172
GNMA Mortgage Pool CTFS Pool, 4.5% due on 6/15/2039	657,717	671,201
Federal Home Loan Mortgage Corp Pool, 4.5% due on 9/1/2039	509,506	508,903
	<u>10,715,632</u>	<u>11,297,726</u>
Subtotal - Account#135074870	<u>15,234,556</u>	<u>16,206,517</u>
<u>Municipal Obligations</u>		
First BD-SER B Issuer Subsidiary @ 6.114% due on 7/1/2029	110,000	115,450
Honolulu Hawaii City & CNTY Build America Bonds @ 6.25% 9/1/2031	365,000	387,115
	<u>475,000</u>	<u>502,565</u>
Subtotal - Account#135074870	<u>475,000</u>	<u>502,565</u>
Total U.S. Government Obligations	<u>\$ 15,709,556</u>	<u>\$ 16,709,082</u>
<u>Corporate Bonds</u>		
HSBC Finance Corp SR Unsecured, 6.75% due on 5/15/2011	\$ 18,200	\$ 20,705
General Electric Capital Corp Notes, 5.72% due on 8/22/2011	275,000	278,836
Household Finance Corp Notes, 6.375% due on 10/15/2011	138,562	157,967
Kinder Morgan Energy Partners LP Notes, 7.125% due on 3/15/2012	128,392	134,189
Merrill Lynch & Co SR Unsecured, 0.52281% due 6/5/2012	300,000	295,476
Interamerican Develop Bank SR Unsub, 4.75% due on 10/19/2012	213,860	216,500
General Electric Co Notes, 5% due on 2/1/2013	257,897	271,485
Mercantile Bankshares Corp Sub Notes Ser B, 4.625% due on 4/15/2013	101,696	104,380
Xerox Corp Sr Unsecured, 7.625% due on 6/15/2013	693,481	683,579
American Express Co. Sr Unsecured, 4.875% due on 7/15/2013	735,530	754,126
Georgia Power Company SR Unsecured, 4.9% due on 9/15/2013	151,938	165,605
Pacificorp 1st Mortgage, 5.45% due on 9/15/2013	103,545	111,525
BP Capital Markets Plc SR Unsecured, 5.25% due on 11/7/2013	269,824	294,065
US Bank NA Notes 6.3% due on 2/4/2014	263,167	286,338
European Investment Bank SR Unsub, 2.375% due on 3/14/2014	224,032	234,756
GATX Corp Notes, 8.75% due on 5/15/2014	149,625	177,171
JP Morgan Chase & Co. Bonds, 5.125% due on 9/15/2014	322,239	328,929
Wells Fargo Company Sub Notes, 5% due on 11/15/2014	206,604	215,946
Morgan Stanley SR Unsecured, 4.1% due on 1/26/2015	219,952	227,289
General Electric Capital Corp Sr Unsecured, 6.9% due on 9/15/2015	283,637	296,130
Cisco Systems Notes, 5.5% due on 2/22/2016	119,452	141,558
Smith International Inc Senior Notes, 6% due on 6/15/2016	201,545	241,402
Ryder System Inc Notes, 5.85% due on 11/1/2016	247,243	280,993
Comcast Corp Company Guaranteed, 6.5% due on 1/15/2017	233,058	249,816
Goldman Sachs Group Inc, Sub Notes 5.625% due on 1/15/2017	74,648	79,421
Merrill Lynch & Co Subordinated 5.7% due on 5/2/2017	461,411	475,750
Kimberly Clark Corp Notes, 6.125% due on 8/1/2017	109,667	134,303
JP Morgan Chase Bank Subordinated, 6% due on 10/1/2017	724,820	771,875
Harris Corp SR Unsecured, 5.95% due on 12/1/2017	119,304	229,694
Wells Fargo Company SR Unsecured, 5.625% due on 12/11/2017	179,251	205,018
Partnerre Finance Company Guarnt, 6.875% due on 6/1/2018	277,508	314,602
National Rural Utilities Collateral Trust, 10.375% due on 11/1/2018	345,673	365,165

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2010

	<u>Cost</u>	<u>Fair Value</u>
<u>Corporate Bonds, Continued</u>		
Private Export Funding Secured, 4.375% due on 3/15/2019	298,425	337,593
Morgan Stanley SR Unsecured, 7.3% due on 5/13/2019	149,654	172,527
Duke Capital Corp Senior Notes, 8% due on 10/1/2019	152,061	164,546
Aid Israel US Government Guaranty, 5.5% due on 9/18/2023	309,663	370,284
Pharmacia Corporation Debentures, 6.75% due on 12/15/2027	146,579	155,320
Best Foods Notes, 6.625% due on 4/15/2028	119,392	125,742
Sysco Corp Debentures, 6.5% due on 8/1/2028	96,858	115,369
Apache Finance Canada Company Guaranteed, 7.75% due on 12/15/2029	181,156	198,945
Science Applications Intl Corp Sr Unsecured, 5.5% due on 7/1/2033	182,012	200,368
Dominion Resources Inc SR Notes Ser F Putable 8/15, 5.25% due on 8/1/2033	109,100	126,315
Alabama Power Co., 5.65% due on 3/15/2035	195,394	214,156
Wal-Mart Stores Inc SR Unsecured, 6.5% due on 8/15/2037	252,470	311,995
Pres & Fellows of Harvard Bonds, 6.3% due on 10/1/2037	337,325	368,826
	<u>\$ 10,680,850</u>	<u>\$ 11,606,580</u>
<u>Corporate Stock</u>		
Amazon.Com Inc	\$ 394,194	\$ 408,356
American Tower Corp CL A	347,165	497,222
Apple Inc	245,694	1,560,625
AT&T Inc	379,641	388,960
Bank of America Corp	290,633	368,180
Boeing Co	727,672	785,172
Capital One Financial Corp	248,321	387,590
Celgene Corp	91,279	288,050
Cisco Systems	755,592	915,420
Disney Walt Co	303,883	493,190
Directv CL A	732,182	965,816
Dow Chemical Co.	343,016	414,646
Du Pont E.I. De Nemours & Co	722,668	789,774
Express Scripts	560,869	784,070
Ford Motor Company	633,691	624,240
Goldman Sachs Group Inc	516,996	494,753
Google Inc CL A	829,511	1,231,400
Hewlett-Packard Co	349,139	652,085
Int'l Business Machines	750,486	992,636
JP Morgan Chase & Co	902,133	1,023,814
Las Vegas Sands Corp	259,814	282,285
McDonalds Corp	366,159	372,550
Medco Health Solutions Inc	181,029	281,124
Merck & Co Inc	636,736	647,856
Metlife Inc Inc	523,920	484,470
Netflix Inc	277,751	291,888
Occidental Petroleum Corp	444,932	610,740
Oracle	840,610	990,765
Peabody Energy Corp	623,312	681,239
Philip Morris International	369,118	386,538
Precision Cast Parts Corp	322,928	394,785
Salesforce.Com Inc	183,601	279,500
Schlumberger Ltd	413,845	375,821
Starwood Hotels & Resorts WW Inc	286,547	283,770
Teva Pharmaceutical Inds Ltd Sp ADR	833,433	749,050
Union Pacific Corp	367,992	719,840
United Parcel Service CL B	509,531	513,513
United Technologies Corp	360,629	548,471
Vale SA SP ADR	293,268	315,827
Visa Inc CL A Shares	248,061	274,762
3M Co	682,829	763,048
	<u>19,150,810</u>	<u>24,313,841</u>
Subtotal - Account#140011156		

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2010

	<u>Cost</u>	<u>Fair Value</u>
<u>Corporate Stock, Continued</u>		
Abbott Laboratories	127,550	120,152
American Electric Power Co	195,226	195,642
CVS/Caremark Corp	162,521	166,791
Caterpillar Inc	166,601	228,172
Chevron Corp	200,543	202,625
Cisco Systems	125,293	111,690
Con Edison	198,261	212,168
Danaher Corp	168,194	178,684
Duke Energy Corp	200,622	208,978
Emerson Electric Co	169,171	200,108
Exxon Mobil Corp	202,347	184,196
General Electric Co	170,564	164,125
Hewlett-Packard Co	144,498	122,003
Intel Corp	126,263	115,200
Int'l Business Machines	169,817	174,382
Johnson & Johnson	122,172	117,724
Kellogg Co	92,629	85,867
Kroger Co	200,239	210,102
L-3 Communications Holdings Inc	167,723	137,313
Lilly Eli & Co	122,236	127,855
Loews Corp	170,520	170,550
McDonalds Corp	168,763	201,177
Microsoft Corp	123,317	100,409
Newmont Mining Corp Hldg Co	52,818	75,372
Pfizer Inc	202,208	183,719
Procter & Gamble Co	171,417	167,916
Southern Co	201,029	223,440
United Technologies Corp	168,227	170,952
Wal-Mart Stores Inc	125,921	128,448
3M Co	175,956	182,091
	<hr/>	<hr/>
Subtotal - Account#140340753	4,792,646	4,867,851
<u>Corporate Stock - International Equities</u>		
ABB Ltd Sponsored ADR	168,620	148,262
America Movil Sab De C V Spon ADR Ser L	181,799	179,722
ARM Holdings PLC (GBP)	128,725	446,363
ASML Holding N.V.	44,222	62,433
Cochlear Limited (AUD)	131,190	158,952
Companhia Siderurgica Nacional Spon ADR	92,672	116,622
CSL Ltd (AUD)	160,101	149,434
Deutsche Boerse AG (EUR)	166,044	83,427
Essilor Intl (EUR)	108,691	123,878
Eutelsat Communications (EUR)	113,996	158,451
Getinge AB (SEK) Par	164,875	168,209
Hang Lung PPTYs (HKD)	130,389	180,014
Hengan International Group Co Ltd (HKD)	148,772	383,228
Hon Hai Precision Ind Ltd GDR REG S	52,942	57,593
Hong Kong Land Holdings Ltd (USD)	149,077	235,980
Hyundai Motor Co GDR REG S	55,200	75,168
Keyence Corp (JPY)	35,627	43,505
Li & Fung Ltd (HKD)	163,095	248,663
Li Ning Co Ltd (HKD)	108,324	116,853
Luxottica Group Spa Sponsored ADR	128,854	125,488
Man Group PLC (GBP)	151,600	57,477
Mindray Medical Intl Ltd ADR	75,850	76,882
Mitsui Fudosan Co Ltd (JYP)	95,265	67,461
MTU Aero Engines Holding AG (EUR)	172,396	235,176

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2010

	<u>Cost</u>	<u>Fair Value</u>
<u>Corporate Stock - International Equities, Continued</u>		
Nintendo Ltd ADR	123,872	71,760
Noble Group Ltd (SGD)	151,648	303,840
QBE Insurance Group Ltd (AUD)	130,045	97,000
Qiagen NV	141,486	120,632
Reckitt Benckiser Group LLC (GBP)	173,167	170,563
Roche Holdings AG Basel (CHF)	109,763	81,954
Sage Group PLC (GBP) Par 1	140,827	156,828
Saipem Spa (EUR)	180,702	218,342
Shionogi & Co Ltd (JPY)	59,348	54,908
Siemens AG Spons ADR	70,102	63,240
Societe Generale De Surveil (CHF)	71,937	96,977
Syngenta AG Sponsored ADR	171,460	161,818
Taiwan Semiconductor MFG Co Spon ADR	44,345	48,915
Terumo Corp (JPY)	166,410	169,803
Tesco PLC (GBP)	147,683	115,424
Urbi Desarrollos Urbanos SA (MXN)	129,695	89,861
Wellstream Hldgs PLC (GBP)	140,708	111,882
Woolworths Ltd (AUD)	87,305	120,220
ZTE Corp	53,746	52,568
	<u>5,222,575</u>	<u>6,005,776</u>
Total International Equities - Account#491206600		
Total Corporate Stock	<u>\$ 29,166,031</u>	<u>\$ 35,187,468</u>

See accompanying independent auditors' report.