

REPUBLIC OF PALAU SOCIAL SECURITY  
RETIREMENT FUND  
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Republic of Palau Social Security Retirement Fund:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Republic of Palau Social Security Retirement Fund (the Fund), a component unit of the Republic of Palau, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of changes in net position for the years then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Republic of Palau Social Security Retirement Fund as of September 30, 2014 and 2013, and the changes in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards 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. This supplementary information is the responsibility of the Fund's management. 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 Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The Combining Statement of Net Position and the Combining Statement of Changes in Net Position as of and for the year ended September 30, 2014 (pages 30 and 31), the Schedule of Administrative Deductions for the years ended September 30, 2014 and 2013 (page 32) and the Schedule of Investments as of September 30, 2014 (pages 33 through 37) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Net Position, the Combining Statement of Changes in Net Position, the Schedule of Administrative Deductions and the Schedule of Investments are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Position, the Combining Statement of Changes in Net Position, the Schedule of Administrative Deductions and the Schedule of Investments are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Deloitte & Touche LLC*

April 1, 2015



*Republic of Palau*  
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**Management Discussion and Analysis  
Years Ended September 30, 2014 and 2013**

This Management Discussion and Analysis (MD&A) of the Republic of Palau Social Security Administration's (the Fund) financial performance and condition for the fiscal year ended September 30, 2014 is to provide the readers with management's view as to what is critical to an understanding of the Fund's historical performance and its future prospects. It is intended to be read in conjunction with the independent auditors' report as provided herein.

**Organization:**

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 Fund was created on May 28, 1987 by Republic of Palau Public Law (RPPL) 2-29 as codified in Title 41 of the Palau National Code Annotated (PNCA), as amended. The Fund's Board of Trustees is incorporated under the *Social Security Act of 1987* (the Act) to administer the Fund as an agency of the Republic of Palau (ROP). The main role of the Board of Trustees is to provide for a Social Security Fund in ROP in which persons covered may be ensured security without hardship and complete loss of income at an old age or during disability and further, to provide survivor's insurance for their spouse and children. The Fund is compulsory, self-supporting and self-financing. It is not to be financed from public funds (except to the extent that the government, in its capacity as an employer, makes contribution to the system as required under the Act).

**The Board of Trustees:**

The President of ROP appoints five board members to serve as the Board of Trustees for four-year terms subject to Senate confirmation. The Board of Trustees appoints the Administrator who manages and operates the Fund under guidance of the Board. The Administrator serves as an ex-officio member of the Board. The Board of Trustees elects its own officers to the posts of Chairman, Vice Chairman and Secretary/Treasurer to serve for the duration of their term. Any change of two or more Trustees requires an election of new officers within six months of the new installation. The Trustees of the Fund during the year were:

<b>Board Member</b>	<b>Officers/Title</b>	<b>Appointed</b>	<b>Expiration</b>
Ms. Florencia Rirou	Chairman	08/19/11	08/19/15
Mrs. Lillian G. Uludong	Vice Chairman	08/25/11	08/25/15
Ms. Johana Ngiruchelbad	Secretary/Treasurer	10/28/11	10/28/15
Mr. Francis E. Meyar	Member	10/11/11	10/11/15
Mrs. Evalista N. Kyota	Member	03/14/12	03/14/16

## **Human Resources:**

The Fund's policies and strategies are implemented through the Administrator and a management team. The Fund is organized by five functional areas: Information Systems, Finance and Accounting, Employer Service, Member Service and Healthcare Fund Services. The Administrator has authority over all positions of the Fund except for services under contract. The Fund had one part-time and twenty-nine full-time employees, including the Administrator, at the end of fiscal year 2014. The employee turnover was at 23% in 2014, a decrease of 8% from prior year. The two new positions planned for next year will optimize operations of the Fund in terms of areas where focus and attention to productivity will be of vital importance to the improvement of the Fund.

## **Contributions:**

All employees and employers working and domiciled in ROP contribute 6% of remuneration to the Fund. The self-employed rate is 12% based on a minimum remuneration of \$300 per quarter. The maximum amount of remuneration per quarter from one employer by any one employee is \$5,000. The maximum amount of remuneration will increase to \$6,000 on October 1, 2015, \$8,000 on October 1, 2017 and will cease by October 1, 2020. A self-employed individual with an employee shall receive as remuneration in any quarter, twice the amount paid to the highest paid employee in that quarter, subject to maximum remuneration. A self-employed individual without an employee shall receive in any quarter as remuneration, 10% of his gross revenue in the preceding calendar year. A self-employed individual with less than \$10,000 of gross revenue from the preceding year shall not be assessed any contribution but is required to file a report or opt to contribute to the Fund at the minimum remuneration of \$300 per quarter. Any officer of a corporation is considered self-employed if the corporation does not have employees and is required to declare gross revenue from the preceding year for remuneration as determined under self-employed individuals.

Contributions are remitted to the Fund on a quarterly basis, except for self-employed individuals, who may remit on an annual or quarterly basis, and the National Government, who opted to remit on a bi-weekly basis. Funding is mainly derived from contributions, enabling the Fund to meet monthly benefit payments and operation costs. Any excess funds available are invested in the Fund's asset portfolio.

Contributions to the Republic of Palau Social Security Retirement Fund (SSRF) and the Healthcare Fund (HCF) in fiscal years 2014 and 2013 were \$17,238,016 and \$15,677,617, respectively, an increase of 10% from the prior year. Of total contributions, 67% represents contributions to SSRF and 33% represents contributions to HCF. Positive contributions were mainly due to strong collections during the year, increases in labor and minimum wage and the addition of new members to the National Health Insurance (NHI) under voluntary and self-employed individuals. Contributions to SSRF increased by 9% from the prior fiscal year while contributions to HCF increased by 13%. Table 1 provided below indicates contributions to SSRF and Table 2 indicates contributions to HCF for the past five years.

## Contributions, Continued:

**Table 1 SSRF Contributions by Sector:**

Year	Government	%	Private	%	Self-Employed	%	Penalties and Interest	%	Total	%
2010	\$ 4,906,754	45%	\$ 4,941,945	46%	-	0%	\$ 963,412	9%	\$ 10,812,111	100%
2011	\$ 5,427,457	49%	\$ 4,946,438	44%	-	0%	\$ 730,260	7%	\$ 11,104,155	100%
2012	\$ 5,193,020	48%	\$ 5,066,100	46%	-	0%	\$ 628,481	6%	\$ 10,887,601	100%
2013	\$ 5,125,514	48%	\$ 5,178,087	49%	-	0%	\$ 318,203	3%	\$ 10,621,804	100%
2014	\$ 5,528,930	48%	\$ 5,827,710	50%	-	0%	\$ 178,893	2%	\$ 11,535,533	100%

**Table 2 HCF Contributions by Sector:**

Year	Government	%	Private	%	Self-Employed	%	Penalties and Interest	%	Total	%
2010	\$ -	0%	\$ -	0%	\$ -	0%	\$ -	0%	\$ -	0%
2011	\$ 2,372,821	52%	\$ 2,143,869	47%	\$ 44,434	1%	\$ 18,548	0%	\$ 4,579,672	100%
2012	\$ 2,597,993	53%	\$ 2,225,673	45%	\$ 77,074	2%	\$ 4,674	0%	\$ 4,905,414	100%
2013	\$ 2,638,006	52%	\$ 2,327,455	46%	\$ 81,742	2%	\$ 8,610	0%	\$ 5,055,813	100%
2014	\$ 2,958,075	52%	\$ 2,593,723	46%	\$ 138,216	2%	\$ 12,469	0%	\$ 5,702,483	100%

**Table 3 Combined Contributions by Sector:**

Year	Government	%	Private	%	Self-Employed	%	Penalties and Interest	%	Total	%
2010	\$ 4,906,754	45%	\$ 4,941,945	46%	\$ -	0%	\$ 963,412	9%	\$ 10,812,111	100%
2011	\$ 7,800,278	50%	\$ 7,090,307	45%	\$ 44,434	0%	\$ 748,808	5%	\$ 15,683,827	100%
2012	\$ 7,791,013	49%	\$ 7,291,773	46%	\$ 77,074	1%	\$ 633,155	4%	\$ 15,793,015	100%
2013	\$ 7,763,520	49%	\$ 7,505,542	48%	\$ 81,742	1%	\$ 326,813	2%	\$ 15,677,617	100%
2014	\$ 8,487,005	49%	\$ 8,421,433	49%	\$ 138,216	1%	\$ 191,362	1%	\$ 17,238,016	100%

## Member Services:

Total active members of the Fund as of fiscal year 2014 were 11,975 which is an increase of 512 over the previous year, a growth of 4%. Consequently, there has been an upward trend of benefit recipients to active members for the last five years and it currently stands at 26%. This means that approximately 74% of members are contributing to the Fund and are expected to receive benefits in the future. The majority of members receiving benefits are retirees at 61%, followed by survivor dependents (inclusive of spouse and dependents) at 37% and disability members with 2% as indicated in the table below.

ACTIVE MEMBERS			CURRENT MEMBERS RECEIVING BENEFITS				(% to Active Members)
YR	Members	% of Change	Retirement	Survivor (Dependents)	Disability	Total	
2010	11,315	-3%	1,490	1,072	67	2,629	23%
2011	11,086	-2%	1,532	1,072	65	2,669	24%
2012	11,044	-0%	1,601	1,036	66	2,703	24%
2013	11,463	4%	1,753	1,147	61	2,961	26%
2014	11,975	4%	1,850	1,143	66	3,059	26%

Total active employers as of fiscal year 2014 were 2,338, a decrease of 260 compared to fiscal year 2013. New employers registered during the year were 391 with 264 remaining active and filing, 58 active and non-filing and 69 closed at year end. There were 2,624 non-filing employers inclusive of informal or domestic helper employers at the end of fiscal year 2014. The Employer Service Section of the Fund continues to audit and consistently pursue actions against all non-filers.

## Benefit Payments:

The types of benefits provided under the Fund are: 1) old-age insurance benefits, also known as retirement benefits; 2) surviving insurance benefits for spouse and dependents; 3) disability insurance benefits; and 4) lump sum benefits. The minimum basic monthly benefit is \$148 and the maximum limit of the basic monthly benefit is equivalent to the highest monthly average wage over twelve of forty quarters preceding retirement. The retirement age for old-age insurance benefits is 60 or higher for those who were born on or before 09/30/55. The retirement age will increase to 62 effective 10/01/15 for those who were born from 10/01/55 to 09/30/58. The retirement age will be set at 63 effective 10/01/20 for those who were born on or after 10/01/58. Surviving spouse insurance benefits are for unemployed surviving spouses at 60% of basic benefits of the deceased insurance benefits subject to earnings test if employed and 100% if at retirement age and unmarried. The surviving child insurance benefits are for surviving children 18 years or younger and surviving children over 18 years and up to 22 years if a full-time student, subject to 15% of the deceased basic benefit insurance. Disability insurance benefits are for persons who are disabled and are fully or permanently insured. The basic benefit exceeds 80% of 1/12 of the highest annual remuneration up to a limit of \$6,000 per annum preceding the disability with certain criteria established under guidelines. The lump sum benefits are paid after the death of a member at 6% of cumulative earnings less any amount of benefits received to date of the deceased to a legally appointed representative if there are no surviving beneficiaries. A person who is retired and unmarried may continue to receive retirement and surviving insurance benefits under certain conditions.

Benefit payments for SSRF and the Prior Service Benefits Program increased by \$3,700,436 or 35% from \$10,484,891 in fiscal year 2013 to \$14,185,327 in fiscal year 2014. The increase in benefits had an imbalance effect on contributions that experienced a growth of 9%, resulting in a negative variance of 26%. This trend may continue until fiscal year 2020 when maximum remuneration will cease and with a slight adjustment in retirement age that will take effect in fiscal year 2015. The Fund's emphasis moving forward is to collect past due contributions and ensure that benefit entitlements comply with guidelines. The bulk of benefit payments was mainly for retirement at 71%, followed by survivors at 26%, disability at 3% and lump sum at 0%. The breakdown of benefit payments and percentage to total funds released for the last five years is as follows:

## SSRF Benefit Payments:

Year	Retirement	%	Survivors	%	Disability	%	Lump Sum	%	Total	%
2010	\$ 6,341,956	72%	\$ 2,049,131	23%	\$ 353,272	4%	\$ 57,494	1%	\$ 8,801,853	100%
2011	\$ 6,757,232	73%	\$ 2,125,799	23%	\$ 350,558	4%	\$ 56,691	0%	\$ 9,290,280	100%
2012	\$ 7,183,114	74%	\$ 2,191,211	22%	\$ 333,458	3%	\$ 73,149	1%	\$ 9,780,932	100%
2013	\$ 7,766,793	74%	\$ 2,268,508	22%	\$ 346,140	3%	\$ 103,450	1%	\$ 10,484,891	100%
2014	\$ 9,999,182	71%	\$ 3,752,691	26%	\$ 371,277	3%	\$ 62,177	0%	\$ 14,185,327	100%

HCF reimbursed insurance benefits under two programs: 1) the NHI and 2) the Medical Savings Account (MSA) refunds for foreign laborers. HCF reimbursed the Belau National Hospital (BNH) for inpatient and referral patient billings under the NHI. HCF also reimbursed outpatient billings for on-island treatment at various medical clinics and BNH outpatient services under the MSA. NHI reimbursements to off-island clinics are limited to clinics with some form of agreement between the medical referral program and hospitals outside of Palau. There were nine medical centers in the Philippines and the Republic of China, Taiwan who serviced off-island referral cases from Palau. All private clinics in Palau participate in the MSA program. Reimbursement of insurance benefits complies with the established sliding fee schedule of BNH and the Medical Referral Committee (MRC) and HCF guidelines.



### Benefit Payments, Continued:

Insurance benefit reimbursements increased by \$932,190 from \$3,774,230 in fiscal year 2013 to \$4,706,420 in fiscal year 2014. The increase of 25% is mainly due to the rising trend of referral cases and the active usage of the MSA for on-island private clinics. HCF supports the growth and expansion of private clinics on-island and provides the ease of access for any participant to be provided health care outside of Palau when treatment cannot be adequately provided in Palau. Details of insurance benefit reimbursements since inception and referral cases are indicated below:

### HCF Benefit Payments:

Year	NHI	%	MSA	%	Total	%
2010	\$ -	0%	\$ -	0%	\$ -	0%
2011	\$ 465,577	66%	\$ 243,424	34%	\$ 709,001	100%
2012	\$ 1,371,461	56%	\$ 1,093,191	44%	\$ 2,464,652	100%
2013	\$ 1,822,027	48%	\$ 1,952,203	52%	\$ 3,774,230	100%
2014	\$ 2,435,412	52%	\$ 2,271,008	48%	\$ 4,706,420	100%

### Medical Referral Program/NHI Off-Island Referrals from FY 2011 to FY 2014:

Referral Site	2011	2012	2013	2014	Total
Philippines	66	115	76	80	337
Taiwan	0	0	71	129	200
Total	66	115	147	209	537

### Prior Service Retirement:

Funding for the Prior Service Benefits Program (the PSBP) relies on U.S. government appropriations from the U.S. Department of the Interior (the USDOT). As a result of a meeting held between the Prior Service Benefit Board and staff in Washington, D.C. earlier in 2014, \$800,000 was made possible to fund Cost of Living Adjustments (COLA) for all benefit payees. Allocation to ROP was received in June 2014 and each benefit payee received a one-time COLA adjustment of \$200. Further discussion with the USDOT is ongoing for future increases of benefits. At September 30, 2014 and 2013, the amount available for future benefit payments under the PSBP amounted to \$92,618 and \$110,149, respectively. The agreement between the Prior Service Trust Fund Administration Board and the USDOT allows the Fund to accept the liability based on the amount of funding received and does not accept any future obligations to pay future benefits unless funding continues from U.S. government appropriations. As of September 30, 2014, total members receiving benefits under the PSBP were 236, a decrease from 241 in fiscal year 2013.

## Healthcare Fund:

The National Healthcare Financing Act (the NHFA) was created on May 7, 2010 under RPPL 8-14 as codified in Title 41 Chapter 9 of the PNCA. NHFA was created to meet ROP's constitutional responsibility under Article VI of the Constitution to provide health care for all residents of Palau in a duly governed and managed system that will ensure that no person is denied access to the healthcare system or turned away for lack of money. The Fund's Board of Trustees appoints the Administrator to serve as HCF Administrator responsible for administration of the MSA and the NHI subject to the supervision and oversight of the National Healthcare Governing Committee (the NHGC). The powers and duties of the NHGC under the Act are to provide an orderly means to finance and deliver comprehensive healthcare coverage to the people of ROP. The NHGC has additional powers as outlined in the Act but most importantly, is the authority to promulgate laws, procedures, policies, rules and regulations necessary to carry out the functions of the NHFA.

As of September 30, 2014, the members of the NHGC by virtue of their position and title in the respective ROP agencies were as follows:

<b>Member</b>	<b>Representative</b>
Mr. Elbuchel Sadang, Chairman	Minister of Finance
Mr. Gregorio Ngirmang, Vice Chairman	Minister of Health
Mrs. Leilani N. Reklai	Governors Association
Dr. Victor Yano	Chamber of Commerce
Ms. Ulai Teltull	Administrator

All employees and employers working and domiciled in ROP contribute a total of 5% of remuneration to the HCF. The employees' share of 2.5% goes directly to each individual MSA while the employers' share of 2.5% goes into the NHI fund. An initial capital of \$50,000 was advanced by the Fund in May 2010 and contributions began on October 1, 2010. On April 1, 2011, after two quarters of contributions, benefits under the healthcare insurance commenced. HCF celebrated its 3<sup>rd</sup> anniversary in fiscal year 2014 and an Actuarial Valuation Report was commissioned to review the universal healthcare system. As of September 30, 2014, total members under the NHI were 15,928 or 91% of a total population of 17,501 based on a mini-census in 2013. Total members under the MSA were 14,618 or 84% of the total population. The 9% considered without insurance coverage is mainly for persons of age ranging from 18 to 59 who are unemployed and unmarried with some adjustments for movement of people coming to Palau for employment and those leaving Palau.

ROP provides 100% subsidized healthcare insurance for all citizens over 60 years of age and the unemployed including those with disabilities. Voluntary participation is available for a quarterly premium of \$29.

## Healthcare Fund, Continued:

Since inception of the program, there has been an increasing upward trend of off-island patient referral cases. Data indicates that patient referrals under the NHI went from 66 cases in 2011 to 209 cases in 2014 and is expected to reach 280 in 2015. Patients referred for off-island medical treatment require approval of the MRC. The quarterly threshold of the NHI reimbursement is \$300,000 and during fiscal year 2014, the threshold was temporarily increased to \$500,000 based on a long list of patients on referral that were evacuated during the 2<sup>nd</sup> quarter of 2014. One of the initiatives taken in 2014 by the governing committee after much consideration was the increase of the NHI coverage to \$35,000 effective April 2014, including ease of coverage to those who were age 60, unemployed and later identified to add under government subsidy. A public awareness was initiated by state visits and talk shows to encourage members to determine the status of their enrollment and to ensure that their spouse and children are duly enrolled as their dependents. The result is coverage that grew to 91% at the end of the fiscal year.

The administration of the HCF is vested under the Social Security Administrator. The funds were comingled and concentrated in one bank in previous periods earning less interest and not maximizing the value of the investment. The funds were duly segregated in fiscal year 2014 and excess funds were invested by the Board of Trustees in line with the investment policy. While the funds for investments were in transit at September 30, 2014, the settlement and rebalancing took effect in October 2014. At September 30, 2014, HCF's cash and investments were as follows:

Cash	\$ 3,991,992
U.S. Government obligations	1,331,902
Corporate bonds	1,294,985
Money market funds	<u>21,648</u>
Total	\$ <u>6,640,527</u>

## Investments:

The Board of Trustees complies with the revised investment policy adopted in June 2014 that outlined the framework to guide investment managers towards the performance desired, which is to ensure that sufficient assets will be accumulated to pay the statutory benefits of current and future retirees. Contrary to expectations given the global investment climate in the United States of America and international markets, the Fund achieved a portfolio growth of 0.39% for fiscal year 2014 mainly due to rebalancing the portfolio at fiscal year end leaving \$8.8 million of investment funds in transit which were settled in October 2014. The actual portfolio growth is 9.9% slightly above fiscal year 2013. This correlates with investment income of \$8,709,302 as investment return performed well under the diversified portfolio risk.

Year	Portfolio	Investment Income	Growth	ROI (%)
2009	\$ 63,975,898	\$ 4,412,621	6.5227%	6.8973%
2010	\$ 65,893,676	\$ 4,468,348	2.9977%	6.7811%
2011	\$ 66,139,503	\$ 14,660	0.3731%	0.0222%
2012	\$ 76,979,612	\$ 10,335,834	16.3898%	13.4267%
2013	\$ 84,105,755	\$ 7,792,072	9.2572%	9.2646%
2014	\$ 84,435,212	\$ 8,709,302	0.3917%	10.3148%

## **Information Technology (IT):**

The Fund database system was created in visual FoxPro by a consultant based in the Commonwealth of the Northern Mariana Islands. The software in support of this database has reached its life cycle. Microsoft, who initially supported the FoxPro software, no longer supports the software as it has been taken out of the current market and technology for many years. A study of the Fund's IT system was undertaken in June 2012 and in fiscal year 2014, a request for proposal was issued and migration of the Fund's IT system to Microsoft SQL commenced in May 2014. The Fund's investment in the IT system is about \$626,000. Migration is expected to be completed in April 2015 and may be extended given that the source codes were not revealed and the built-in system includes other versions designed for the Federated States of Micronesia and the Republic of the Marshall Islands funds which make it more difficult to separate specific programs for Palau. The consultant hired is considered a professional in FoxPro and has extensive experience in writing programs from FoxPro to Microsoft SQL. The Fund's database is vital information being shared with the Bureau of Planning and Statistics for economic reports, the Civil Service Pension Fund for validating members and the Bureau of National Treasury for audit and collection purposes of business and individual employers.

## **Public Relations:**

The Fund provides and maintains public relations through communications at the Board level and with respective leaders in the legislative and executive branches of ROP. Internal affairs of the Fund are duly reported through local radio stations and newspapers. The Fund's website is [www.ropssa.org](http://www.ropssa.org) and has minimally changed since the departure of a key staff. The access of updating the website was unknown and the Fund experienced challenges and delays in gaining access to update the website. The site is currently undergoing improvement and is expected to be back on line in early 2015. The Fund's quarterly publications prepared and published internally was also set aside as management reorganized and the task will be delegated to the appropriate personnel. The plan is to avail the quarterly publication again depending on the availability of resources in Palau and off-island.

## **Significant Events in 2014:**

The Fund's Board of Trustees welcomed the new Administrator in January 2014. A new Investment Consultant was also selected for a term of five years. All internal policies adopted in fiscal year 2013 were implemented in fiscal year 2014. During the year, the PSBP awarded a COLA to each prior service benefit payee of a one-time amount of \$200. The new investment policy was adopted and the outcome is a diversified portfolio geared to mitigate risks in concentrated investment instruments. Additional investment managers were sourced consistent with the diversified investment portfolio. Relationships with inter-related agencies of the government were established for sharing of data that will help each agency of specific need. The Administrator and the Board of Trustees were met with a tragic event that occurred on the 46<sup>th</sup> anniversary of the Fund which set back some of the initiatives and strategies established at the beginning of the year. The Board of Trustees, the management team and staff recovered and were able to get back on course during the last quarter of 2014. The results were positive collection efforts, improved work conduct and individual performance that stems from training sourced internally and off-island to strengthen the management team and individual knowledge and skills that will help sustain and promote good working relationships and performance in the future.

## Subsequent Events:

RPPL 9-35, effective on November 1, 2014, created a special group of benefit payees for adjustment to ensure that all benefits were duly accorded no less than the \$50 benefit increase as previously set forth under RPPL 9-11 and RPPL 9-12. RPPL 9-35 further changed the percentage of annual gross earnings to 10% for self-employed individuals initially established at 25% of annual gross earnings under RPPL 9-11 and RPPL 9-12. System modifications are in progress due to RPPL 9-35, the change of retirement age that will take effect in October 1, 2015 and the increase of maximum remuneration that was not part of the system modification in fiscal year 2013. The Fund's actuarial report was received in September 2014 and going forward, the report will be available annually instead of every four years as in the past. Unpredicted changes to the Social Security Act from leadership have prompted the Board of Trustees to ensure that an actuarial valuation is performed annually to ensure that the Fund and leadership are made aware of the impact of any legislation to the Fund. The actuarial valuation is scheduled to commence in April 2015. Finally, the investment of HCF was effective in October 2014.

## Financial Performance (Overview):

The Fund's net position for the year ended September 30, 2014 was \$105,531,785 as compared to \$100,027,523 for fiscal year 2013 and \$92,295,101 for fiscal year 2012, which was due mainly to gains in the Fund's investments. The Fund's investments continue to perform positively.

## Statements of Net Position:

	2014	2013	2012 (As Restated)
Assets:			
Cash	\$ 12,893,872	\$ 7,897,122	\$ 3,197,088
Investments	84,435,212	84,105,755	76,979,612
Receivables, net	8,642,888	9,139,834	12,217,205
Prepaid expense	45,054	23,954	8,375
Property, plant and equipment, net	<u>298,263</u>	<u>306,136</u>	<u>336,801</u>
Total assets	<u>106,315,289</u>	<u>101,472,801</u>	<u>92,739,081</u>
Liabilities:			
Benefits payable	750,815	1,353,974	313,886
Accrued liabilities and accounts payable	<u>32,689</u>	<u>91,304</u>	<u>130,094</u>
Total liabilities	<u>783,504</u>	<u>1,445,278</u>	<u>443,980</u>
<b>Net position held in trust for benefits and other purposes</b>	<b>\$ <u>105,531,785</u></b>	<b>\$ <u>100,027,523</u></b>	<b>\$ <u>92,295,101</u></b>

## Statements of Changes in Net Position:

Additions:			
Contributions, net	\$ 17,179,193	\$ 15,616,045	\$ 15,464,187
Investment income, net	8,709,302	7,792,072	10,335,834
Other income	<u>246,757</u>	<u>232,505</u>	<u>302,965</u>
Total additions	<u>26,135,252</u>	<u>23,640,622</u>	<u>26,102,986</u>
Deductions:			
Benefit payments	18,891,747	14,259,121	12,245,584
Other	<u>1,739,243</u>	<u>1,649,079</u>	<u>1,676,049</u>
Total deductions	<u>20,630,990</u>	<u>15,908,200</u>	<u>13,921,633</u>
<b>Change in net position</b>	<b>5,504,262</b>	<b>7,732,422</b>	<b>12,181,353</b>
Net position at beginning of year	<u>100,027,523</u>	<u>92,295,101</u>	<u>80,113,748</u>
<b>Net position at end of year</b>	<b>\$ <u>105,531,785</u></b>	<b>\$ <u>100,027,523</u></b>	<b>\$ <u>92,295,101</u></b>

**Contributions Receivable:**

The Fund’s contribution receivable for the year ended September 30, 2014 was \$5,721,580 as compared to \$6,132,022 for fiscal year 2013 and \$8,810,256 for fiscal year 2012. Of total contributions receivables, \$4,992,916 or 87% represents the SSRF and \$728,664 or 13% represents HCF. Contributions receivables for the SSRF include \$2,890,816 of past due or delinquent employers and \$2,102,100 of accrued tax receivable due a month after the quarter end. The allowance for doubtful accounts is \$2,657,033 which indicates that 92% of delinquent accounts were fully provided for as they exceed more than one year in arrears. The total percentage of contributions receivables to total contributions was 33% in fiscal year 2014 compared to 39% in fiscal year 2013.

Year	Total Cont	A/R Cont	% to TC	Provision	% to A/R
2010	\$ 10,812,111	\$ 4,545,900	42%	\$ 1,371,034	30%
2011	\$ 15,683,827	\$ 7,803,519	50%	\$ 1,412,941	18%
2012	\$ 15,793,015	\$ 8,810,256	56%	\$ 2,599,988	30%
2013	\$ 15,677,617	\$ 6,132,022	39%	\$ 2,642,384	43%
2014	\$ 17,238,016	\$ 5,721,580	33%	\$ 2,657,033	46%

**Fixed Assets:**

At September 30 2014, 2013 and 2012, the Fund had \$298,263, \$306,136 and \$336,801, respectively, in fixed assets, net of accumulated depreciation where applicable, including land, building improvements, office furniture and equipment and vehicles, which represent a net decrease in 2014 of \$7,873 or 3% over 2013 and in 2013 of \$30,665 or 9% over 2012. Major capital investments for fiscal year 2014 include computer system upgrades and an HCF vehicle. See note 7 to the financial statements for more information on the Fund’s property, plant and equipment.

**Actuarial Valuation:**

An actuarial valuation was performed as of October 1, 2013 mainly to assess the system’s accrued liabilities and determination of the Fund’s funded ratio from the outcome of RPPL 9-11 and RPPL 9-12 (with comparative amounts as of October 1, 2011).

	2013	2011
Total accrued liability	\$ 201,486,000	\$ 168,614,000
Less: market value of assets	(93,182,000)	(77,392,000)
Unfunded accrued liability	\$ 108,304,000	\$ 91,222,000
Funded ratio	46%	46%
Present value of future benefits	\$ 271,845,000	N/A
Less: total value of assets and expected future contributions	(224,330,000)	N/A
Unfunded present value of future benefits	\$ 47,515,000	\$ 61,735,000

The funded accrued liability increased in 2013 due to an increase in benefits. The impact was of a lesser effect as performance of market value of assets improved; however, the funded ratio remained at 46% and strategically, the Fund will be considered sound should the funded ratio reach 79%.

## **Economic Outlook:**

The economy is in modest recovery after contracting in fiscal year 2013 based on the International Monetary Fund concluding statement in April 2014. The estimated growth of the Gross Domestic Product (GDP) was moderate at 1.75% in 2014 to 2015. The GDP is projected to grow by 4% in 2015 with accelerating construction activities and an increase in tourist visitors. Constraints for potential growth of Palau is common to other small island nations such as a narrow economic base, a remote location, a small population, insufficient infrastructure, restrictive investment regime and vulnerability to natural disasters. The Fund is projecting a growth of 4% for fiscal year 2015 consistent with the projected GDP growth.

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the Fund's report on the audit of financial statements, which is dated April 8, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be viewed at the Office of the Public Auditor's website at [www.palauopa.org](http://www.palauopa.org).

## **Contacting the Fund's Financial 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 MD&A is based on past performance and current situations that anticipate future outlook subject to risk and uncertainties. The actual results in the future may differ from these expectations. If you have questions about this report, 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](mailto:administration@ropssa.org) or call 488-2457.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Net Position  
September 30, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Cash	\$ 12,893,872	\$ 7,897,122
Investments:		
Mutual funds	40,986,780	-
Corporate stock	15,526,527	49,294,618
U.S. Government obligations	14,516,601	15,627,273
Corporate bonds	12,761,178	16,684,621
Money market funds and other short-term investments	644,126	2,499,243
Total investments	<u>84,435,212</u>	<u>84,105,755</u>
Receivables:		
Contributions	5,721,580	6,132,022
Loan	4,934,525	5,255,926
Accrued interest and dividends	283,192	391,347
Advance and other	360,624	2,923
	<u>11,299,921</u>	<u>11,782,218</u>
Less allowance for doubtful accounts	<u>(2,657,033)</u>	<u>(2,642,384)</u>
Total receivables, net	<u>8,642,888</u>	<u>9,139,834</u>
Prepaid expense	<u>45,054</u>	<u>23,954</u>
Property, plant and equipment, net	<u>298,263</u>	<u>306,136</u>
Total assets	<u>106,315,289</u>	<u>101,472,801</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Benefits payable	750,815	1,353,974
Accrued liabilities and accounts payable	32,689	91,304
Total liabilities	<u>783,504</u>	<u>1,445,278</u>
Contingencies		
Net position:		
Held in trust for benefits and other purposes	<u>\$ 105,531,785</u>	<u>\$ 100,027,523</u>

See accompanying notes to financial statements.



REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Changes in Net Position  
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Additions:		
Contributions:		
Government employees	\$ 8,487,005	\$ 7,763,520
Private employees	8,421,433	7,505,542
Self-employed individuals	138,216	81,742
Penalties and interest	191,362	326,813
	<u>17,238,016</u>	<u>15,677,617</u>
Less bad debts	(58,823)	(61,572)
Total contributions, net	<u>17,179,193</u>	<u>15,616,045</u>
Investment income:		
Net increase in the fair value of investments	6,512,216	5,389,867
Interest	1,260,353	1,463,760
Dividends	936,733	938,445
Total investment income, net	<u>8,709,302</u>	<u>7,792,072</u>
Other income	<u>246,757</u>	<u>232,505</u>
Total additions	<u>26,135,252</u>	<u>23,640,622</u>
Deductions:		
Benefit payments:		
Retirement	9,999,182	7,766,793
Survivor's	3,752,691	2,268,508
National health insurance	2,435,412	1,822,027
Medical savings account	2,271,008	1,952,203
Disability	371,277	346,140
Lump sum	62,177	103,450
Total benefit payments	<u>18,891,747</u>	<u>14,259,121</u>
Administrative	1,229,152	1,143,758
Investment management fee	393,765	394,216
Fund custodian fee	63,182	55,489
Depreciation	53,144	55,616
Total deductions	<u>20,630,990</u>	<u>15,908,200</u>
Change in net position	5,504,262	7,732,422
Net position at beginning of year	<u>100,027,523</u>	<u>92,295,101</u>
Net position at end of year	<u>\$ 105,531,785</u>	<u>\$ 100,027,523</u>

See accompanying notes to financial statements.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (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 Trust 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). Accordingly, the Fund established the Healthcare Fund to account for activities under the health care program.

## (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 position in the quarter employee earnings are paid. Benefits are recognized as deductions from net position 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 position 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, 2014 and 2013, 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:

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (2) Summary of Significant Accounting Policies, Continued

### Cash, Continued

- 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
- 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 position, 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, 2014 and 2013, cash was \$12,893,872 and \$7,897,122, respectively, and the corresponding bank balance was \$5,308,153 and \$7,741,640, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2014 and 2013, 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

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (2) Summary of Significant Accounting Policies, Continued

### Investments, Continued

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.

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

#### (1) Cash

- (A) Investments in this category must adhere to the guidelines in Rule 2a-7 under the U.S. Securities and Exchange Commission (SEC) Investment Company Act of 1940.

#### (2) Fixed Income

- (A) Bonds, notes, and pass-through securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
- (B) U.S. corporate bonds and nonconvertible preferred stocks;
- (C) Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
- (D) Debt issued by foreign entities; and
- (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.

#### (3) U.S. Equities

- (A) Common stock and convertible securities of U.S. listed 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);
- (B) American Depositary 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;

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (2) Summary of Significant Accounting Policies, Continued

### Investments, Continued

- (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 Morgan Stanley Capital International (MSCI) All Country World excluding US Index;
- (B) ADRs, European Depository Receipts (EDRs) and Global Depository Receipts (GDRs) relating to any of the above are allowable; and
- (C) 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, 2014 and 2013.

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, 2014 and 2013:

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	Fair Value	2014 Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 5,240,590	\$ 677,706	\$ 2,592,448	\$ 993,768	\$ 976,668	Aaa
Other U.S. government obligations	4,379,416	150,574	2,844,560	1,053,598	330,684	Aaa
Other U.S. government obligations	897,392	-	507,545	-	389,847	Unrated
Mortgage pass throughs	2,989,475	-	18,359	94,861	2,876,255	Aaa
State and local government	420,596	-	20,002	203,768	196,826	Aaa
State and local government	599,019	15,050	432,284	27,200	124,485	Aa
State and local government	10,115	-	10,115	-	-	A
Asset-backed securities	175,021	-	175,021	-	-	Aaa
Corporate bonds	1,382,050	44,586	653,267	546,748	137,449	Aaa
Corporate bonds	3,175,811	260,573	1,498,855	1,084,823	331,560	Aa
Corporate bonds	4,570,064	520,075	1,361,736	1,628,014	1,060,239	A
Corporate bonds	2,167,696	-	1,146,469	896,833	124,394	Baa
Corporate bonds	1,270,534	25,064	812,973	-	432,497	Unrated
	<u>\$ 27,277,779</u>	<u>\$ 1,693,628</u>	<u>\$ 12,073,634</u>	<u>\$ 6,529,613</u>	<u>\$ 6,980,904</u>	

  

Investment Type	Fair Value	2013 Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 3,864,945	\$ 977,493	\$ 1,630,159	\$ 742,299	\$ 514,994	Aaa
Other U.S. government obligations	4,604,632	-	2,634,617	986,458	983,557	Aaa
Mortgage pass throughs	3,986,448	3,523	27,613	28,265	3,927,047	Aaa
State and local government	532,514	-	-	-	532,514	Aaa
State and local government	1,562,932	-	227,409	821,562	513,961	Aa
State and local government	1,075,802	-	459,162	365,873	250,767	A
Corporate bonds	2,812,399	227,203	867,634	1,216,847	500,715	Aaa
Corporate bonds	4,468,669	10,017	2,797,229	1,351,110	310,313	Aa
Corporate bonds	6,069,651	561,371	3,154,322	1,357,745	996,213	A
Corporate bonds	3,114,902	320,318	1,859,866	816,117	118,601	Baa
Corporate bonds	219,000	-	-	-	219,000	Unrated
	<u>\$ 32,311,894</u>	<u>\$ 2,099,925</u>	<u>\$ 13,658,011</u>	<u>\$ 7,686,276</u>	<u>\$ 8,867,682</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 for contributions receivable that have been outstanding in excess of one year. Bad debts are written-off against the allowance by the specific identification method.

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 \$1,000.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (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, 2014 and 2013 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, RPPL No. 8-5, RPPL No. 9-11, RPPL No. 9-12 and RPPL No. 9-35, 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 and shall increase to \$6,000 and \$8,000 per quarter effective October 1, 2015 and October 1, 2017, respectively. On October 1, 2020, there will be no maximum amount of remuneration. 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, RPPL No. 8-5, RPPL No. 9-11, RPPL No. 9-12 and RPPL No. 9-35, have attained the age of sixty years on or before September 30, 2015, sixty-two years as of October 1, 2015, or sixty-three years as of October 1, 2020, 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. Effective October 1, 2013, eligible individuals born before January 4, 1954 are receiving full amount of the surviving spouse's benefits along with other benefits. 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.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (2) Summary of Significant Accounting Policies, Continued

### Benefit Payments, Continued

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 per month effective April 1, 2007.

Effective October 1, 2013, the benefit payments paid monthly are computed upon an annual basis of 27% of the first \$11,000 of the cumulative covered earnings, plus 2.9% of the next \$33,000, plus 1.5% of the next \$44,000, plus 0.75% of the cumulative covered earnings in excess of \$500,000. The minimum benefit is \$148 per month.

### New Accounting Standards

During the year ended September 30, 2014, the Fund implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Statement 68 will require the Fund to recognize a net pension liability based on the percentage of the actuarial present value of projected benefit payments allocated to the Fund by the Palau Civil Service Trust Fund (the Pension Fund). The Pension Fund has not communicated amounts to the Fund which may be material and will be recorded on October 1, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.



# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (2) Summary of Significant Accounting Policies, Continued

### New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management does not believe that the implementation of this statement will have a material effect 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.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (3) Prior Service Claims, Continued

The Fund received a fund allocation of \$50,000 on May 23, 2014 and paid benefits of \$142,575 for the year ended September 30, 2014. On October 29, 2014, the Fund received a fund allocation of \$99,116 for the benefits paid for the year ended September 30, 2014. At September 30, 2014, the amount was recorded as other income and other receivable in the accompanying financial statements. The Fund received fund allocations of \$56,100, \$38,000 and \$102,720 on November 20, 2012, March 18, 2013 and August 29, 2013, respectively, and \$103,445 of total funds received, has been paid as benefits for the year ended September 30, 2013. 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, 2014 and 2013, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$92,618 and \$110,149, respectively.

## (4) Healthcare Fund

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 (or collectively known as the Healthcare Fund) were established to promote health and social welfare to 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 Healthcare Fund. 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.

Contributions to the Healthcare Fund are governed by RPPL No. 8-14, which requires each participating employee to pay the minimum contribution of 2.5% of the employees' quarterly pre-tax income. Every participating employer is required to contribute an amount equal to that contributed by the employee. The employees' contribution goes to the employees' Medical Savings Account, while the employers' contribution goes to a pooled account that funds the National Health Insurance. Every participating self-employed individual shall be presumed to receive in any quarter, as remuneration, 10% of the self-employed individual's gross revenue and is required to pay 5% based on that amount on a quarterly basis. There is no maximum limit in contributions to the Healthcare Fund and contributions from self-employed individuals increased to \$138,216 during the year ended September 30, 2014 from \$81,742 during the year ended September 30, 2013. Beginning October 1, 2010, employers began to withhold 2.5% of employee earnings. The Fund started accepting contributions for the Healthcare Fund on January 1, 2011.

Health care benefits are paid only to the participating individuals. Additionally, the Republic of Palau pays subscription costs for coverage under the Healthcare program for unemployed Palauan citizens who are age 60 and above or disabled. Benefit payments for participating individuals started on April 1, 2011. At September 30, 2014 and 2013, total benefits paid amounted to \$4,706,420 and \$3,774,230 of which \$3,564,746 and \$2,111,938, respectively, was paid to the Belau National Hospital, a related party.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

## (5) Republic of Palau Civil Service Pension Trust Fund

The Fund contributes to 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. On April 30, 2013, RPPL 9-2 was enacted which eliminates the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty. 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 \$32,961, \$31,422 and \$39,127 for the Pension Fund during the fiscal years 2014, 2013 and 2012, 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 2014 and 2013 was covered in total by the Pension Fund's pension plan.

The Pension Fund utilizes the actuarial cost method termed "level aggregate cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% 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, 2013 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants	\$ 82,099,216
Participants in pay status	61,865,857
Participants with vested deferred benefits	<u>3,323,468</u>
Total pension benefit obligation	147,288,541
Net assets available for benefits, at market value	<u>34,261,206</u>
Unfunded benefit obligation	\$ <u>113,027,335</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(5) Republic of Palau Civil Service Pension Trust Fund, Continued

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 position.

(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 an agreement to restructure the loan. The loan ceiling increased to \$6,000,000, which is 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 \$4,934,525 and \$5,255,926 with interest at 4.5% at September 30, 2014 and 2013, 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>
2015	\$ 336,025	\$ 218,367	\$ 554,392
2016	350,772	203,620	554,392
2017	367,279	187,113	554,392
2018	383,993	170,399	554,392
2019	401,468	152,924	554,392
2020 - 2024	2,298,025	473,936	2,771,961
2025	<u>796,963</u>	<u>34,625</u>	<u>831,588</u>
	\$ <u>4,934,525</u>	\$ <u>1,440,984</u>	\$ <u>6,375,509</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(7) Fixed Assets

A summary of the Fund's fixed assets, at original cost, as of September 30, 2014 and 2013, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2014</u>
Capital assets not being depreciated:					
Land		\$ <u>207,018</u>	\$ -	\$ -	\$ <u>207,018</u>
Capital assets being depreciated:					
Office furniture and equipment	4 - 13 years	414,177	19,602	(52,330)	381,449
Building and improvements	30 years	132,315	4,098	-	136,413
Vehicles	5 years	<u>77,195</u>	<u>15,900</u>	<u>(12,900)</u>	<u>80,195</u>
		623,687	39,600	(65,230)	598,057
Less accumulated depreciation		<u>(524,569)</u>	<u>(53,144)</u>	<u>70,901</u>	<u>(506,812)</u>
Total capital assets being depreciated		<u>99,118</u>	<u>(13,544)</u>	<u>5,671</u>	<u>91,245</u>
Total capital assets, net		\$ <u>306,136</u>	\$ <u>(13,544)</u>	\$ <u>5,671</u>	\$ <u>298,263</u>
	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2013</u>
Capital assets not being depreciated:					
Land		\$ <u>207,018</u>	\$ -	\$ -	\$ <u>207,018</u>
Capital assets being depreciated:					
Office furniture and equipment	4 - 13 years	389,226	24,951	-	414,177
Building and improvements	30 years	132,315	-	-	132,315
Vehicles	5 years	<u>77,195</u>	<u>-</u>	<u>-</u>	<u>77,195</u>
		598,736	24,951	-	623,687
Less accumulated depreciation		<u>(468,953)</u>	<u>(55,616)</u>	<u>-</u>	<u>(524,569)</u>
Total capital assets being depreciated		<u>129,783</u>	<u>(30,665)</u>	<u>-</u>	<u>99,118</u>
Total capital assets, net		\$ <u>336,801</u>	\$ <u>(30,665)</u>	\$ <u>-</u>	\$ <u>306,136</u>

(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 \$47,515,000 as of October 1, 2013. 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, 2014, to correct this potential funding deficiency.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(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 Position  
September 30, 2014

<u>ASSETS</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Eliminations	Total
Cash	\$ 8,888,170	\$ 13,710	\$ 3,991,992	\$ -	\$ 12,893,872
Investments:					
Mutual funds	40,986,780	-	-	-	40,986,780
Corporate stock	15,526,527	-	-	-	15,526,527
U.S. Government obligations	13,184,699	-	1,331,902	-	14,516,601
Corporate bonds	11,466,193	-	1,294,985	-	12,761,178
Money market funds	622,478	-	21,648	-	644,126
Total investments	<u>81,786,677</u>	<u>-</u>	<u>2,648,535</u>	<u>-</u>	<u>84,435,212</u>
Receivables:					
Contributions	4,992,916	-	728,664	-	5,721,580
Loan	4,934,525	-	-	-	4,934,525
Accrued interest and dividends	276,704	-	6,488	-	283,192
Due from other funds	-	-	300,057	(300,057)	-
Advance and other	132,815	99,116	128,693	-	360,624
	<u>10,336,960</u>	<u>99,116</u>	<u>1,163,902</u>	<u>(300,057)</u>	<u>11,299,921</u>
Less allowance for doubtful accounts	<u>(2,581,447)</u>	<u>-</u>	<u>(75,586)</u>	<u>-</u>	<u>(2,657,033)</u>
Total receivables, net	<u>7,755,513</u>	<u>99,116</u>	<u>1,088,316</u>	<u>(300,057)</u>	<u>8,642,888</u>
Prepaid expense	<u>36,004</u>	<u>-</u>	<u>9,050</u>	<u>-</u>	<u>45,054</u>
Property, plant and equipment, net	<u>243,030</u>	<u>-</u>	<u>55,233</u>	<u>-</u>	<u>298,263</u>
Total assets	<u>98,709,394</u>	<u>112,826</u>	<u>7,793,126</u>	<u>(300,057)</u>	<u>106,315,289</u>
<u>LIABILITIES AND NET POSITION</u>					
Liabilities:					
Benefits payable	371,553	-	379,262	-	750,815
Accrued liabilities and accounts payable	18,204	-	14,485	-	32,689
Due to other funds	279,849	20,208	-	(300,057)	-
Total liabilities	<u>669,606</u>	<u>20,208</u>	<u>393,747</u>	<u>(300,057)</u>	<u>783,504</u>
Net position:					
Held in trust for benefits and other purposes	<u>\$ 98,039,788</u>	<u>\$ 92,618</u>	<u>\$ 7,399,379</u>	<u>\$ -</u>	<u>\$ 105,531,785</u>

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Changes in Net Position  
Year Ended September 30, 2014

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
Additions:				
Contributions:				
Government employees	\$ 5,528,930	\$ -	\$ 2,958,075	\$ 8,487,005
Private employees	5,827,710	-	2,593,723	8,421,433
Self-employed individuals	-	-	138,216	138,216
Penalties and interest	178,893	-	12,469	191,362
	<u>11,535,533</u>	<u>-</u>	<u>5,702,483</u>	<u>17,238,016</u>
Less bad debts	-	-	(58,823)	(58,823)
Total contributions, net	<u>11,535,533</u>	<u>-</u>	<u>5,643,660</u>	<u>17,179,193</u>
Investment income:				
Net increase in the fair value of investments	6,508,565	-	3,651	6,512,216
Interest	1,232,914	-	27,439	1,260,353
Dividends	936,733	-	-	936,733
Total investment income, net	<u>8,678,212</u>	<u>-</u>	<u>31,090</u>	<u>8,709,302</u>
Other income	<u>86,830</u>	<u>149,116</u>	<u>10,811</u>	<u>246,757</u>
Total additions	<u>20,300,575</u>	<u>149,116</u>	<u>5,685,561</u>	<u>26,135,252</u>
Deductions:				
Benefit payments:				
Retirement	9,932,058	67,124	-	9,999,182
Survivor's	3,677,240	75,451	-	3,752,691
National health insurance	-	-	2,435,412	2,435,412
Medical savings account	-	-	2,271,008	2,271,008
Disability	371,277	-	-	371,277
Lump sum	62,177	-	-	62,177
Total benefit payments	<u>14,042,752</u>	<u>142,575</u>	<u>4,706,420</u>	<u>18,891,747</u>
Administrative	931,191	24,072	273,889	1,229,152
Investment management fee	391,210	-	2,555	393,765
Fund custodian fee	63,182	-	-	63,182
Depreciation	14,050	-	39,094	53,144
Total deductions	<u>15,442,385</u>	<u>166,647</u>	<u>5,021,958</u>	<u>20,630,990</u>
Change in net position	4,858,190	(17,531)	663,603	5,504,262
Net position at beginning of year	<u>93,181,598</u>	<u>110,149</u>	<u>6,735,776</u>	<u>100,027,523</u>
Net position at end of year	<u>\$ 98,039,788</u>	<u>\$ 92,618</u>	<u>\$ 7,399,379</u>	<u>\$ 105,531,785</u>

See accompanying independent auditors' report.



REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions  
 Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Salaries, wages and benefits	\$ 627,867	\$ 635,903
Professional services	188,199	196,628
Board members other expenses	140,813	88,795
Supplies, printing and reproduction	53,739	42,849
Staff development and training	37,043	37,944
Utilities	30,695	24,365
Communications	22,138	19,194
Travel and transportation	20,793	13,638
Credit card processing fees	16,627	17,181
Bank service charge	10,846	11,173
Repairs and maintenance	10,844	6,246
Representation and entertainment	10,189	7,191
Insurance	6,516	5,527
Postage stamps	4,873	3,803
Fuel and oil	4,764	4,122
Furniture and fixtures	4,387	3,459
Special functions	4,214	3,181
Board compensation	2,550	2,550
Office equipment	2,459	-
Dues, subscriptions and registrations	1,574	868
Donations	1,010	400
Miscellaneous	27,012	18,741
	<u>                    </u>	<u>                    </u>
Total administrative deductions	<u>\$ 1,229,152</u>	<u>\$ 1,143,758</u>

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2014

	Cost	Fair Value
<u>Money Market Funds</u>		
Dreyfus Cash Management - Inst - Account #135074870	\$ 202,518	\$ 202,518
Dreyfus Cash Management - Inst - Account #135284958	21,648	21,648
Dreyfus Cash Management - Inst - Account #140340753	285,553	285,553
Dreyfus Cash Management - Inst - Account #140011156	122,455	122,455
Dreyfus Cash Management - Inst - Account #140386608	11,952	11,952
Total Money Market Funds	<u>\$ 644,126</u>	<u>\$ 644,126</u>
<u>U.S. Government Obligations</u>		
US Treasury, 4.25% due on 8/15/2015	\$ 524,790	\$ 502,470
US Treasury, 1.5% due on 6/30/2016	127,485	127,211
US Treasury, 1% due on 3/31/2017	316,133	315,961
US Treasury, 4.25% due on 11/15/2017	128,532	136,836
US Treasury, 2.75% due on 2/15/2019	500,066	497,116
US Treasury N/B 3.125% due on 5/15/2019	752,411	734,243
US Treasury, 2.625% due on 8/15/2020	466,245	465,188
US Treasury, 1.625% due on 11/15/2022	200,559	189,016
US Treasury, 2.5% due on 8/15/2023	799,932	804,752
US Treasury Bonds, 3.5% due on 02/15/2039	1,029,600	976,669
Subtotal - Account#135074870	<u>4,845,753</u>	<u>4,749,462</u>
US Treasury, 0.375% due on 3/15/2015	75,032	75,111
US Treasury, 0.25% due on 8/15/2015	99,957	100,125
US Treasury, 0.875% due on 11/30/2016	100,303	100,367
US Treasury, 0.625% due on 9/30/2017	124,994	123,164
US Treasury, 1.625% due on 3/31/2019	49,757	49,859
US Treasury N/B, 3.125% due on 5/15/2019	42,564	42,503
Subtotal - Account#135284958	<u>492,607</u>	<u>491,129</u>
Total U.S. Treasury	<u>5,338,360</u>	<u>5,240,591</u>
Overseas Private Inv Corp Disc due on 06/21/2016	180,000	180,000
Federal Home Loan Mortgage Corp Unsecured, .7% due on 12/30/2016-2014	249,875	249,263
Federal National Mortgage Association Unsecured, 1% due on 2/27/2017-2015	327,464	324,662
NCUA Guaranteed Notes US Govt Guaranteed, 2.35% due on 6/12/2017	206,688	207,074
Federal Home Loan Mortgage Corp Unsecured, 1.125% due on 6/28/2017-2013	148,332	149,844
Federal Home Loan Mortgage Corp, 1% due on 9/27/2017	313,669	313,208
Federal National Mortgage Association Unsecured, 1.625% due on 11/27/2018	323,965	324,327
Federal Home Loan Mortgage Corp Gold Pool #B13067, 4.5% due on 3/1/2019	16,501	18,359
Federal National Mortgage Association Notes, 4% due on 4/22/2019-2010	35,000	38,304
AID-TUNISIA Unsecured, 1.686% due on 07/16/2019	482,576	472,625
Federal National Mortgage Association Unsecured, 1.6% due on 7/24/2019-2013	200,581	194,808
Federal Home Loan Bank Unsecured Step-Up, 1.25% due on 9/30/2019-2015	257,660	257,956
Federal Home Loan Mortgage Corp Gold Pool #G12121, 5.5% due on 4/1/2021	18,901	20,843
Federal Home Loan Mtge Corp Notes, 2.375% due on 1/13/2022	198,986	198,844
Private Export Funding Secured, 2.8% due on 5/15/2022	479,750	477,522
Tennessee Valley Auth Unsecured, 1.875% due on 8/15/2022	399,626	377,232
Federal National Mortgage Association Pool #935636, 4.0% due on 9/1/2024	71,498	74,018
Federal Farm Credit Bank Unsecured, 2.48% due on 11/21/2024-2013	349,381	330,684
Federal National Mortgage Association Unsecured Multi-Step Note, 1.5% due on 6/28/2027-2013	224,958	221,423
Federal National Mortgage Association Unsecured Multi-Step Note, 1.75% due on 4/25/2028-2013	149,860	143,424
Federal Home Loan Mortgage Corp Pool #C76358, 5% due on 2/1/2033	30,949	33,081
Federal Home Loan Mortgage Corp Pool #C01567, 5% due on 5/1/2033	118,614	127,820
Federal National Mortgage Association Pool #739821, 5% due on 9/1/2033	32,981	35,319
Federal National Mortgage Association Pool #735733, 4.5% due on 10/1/2033	48,581	56,510
Federal National Mortgage Association Pool #725205, 5% due on 3/1/2034	6,661	7,903
Federal Home Loan Mortgage Corp Pool #781958, 5.016% due on 9/1/2034	11,637	12,439
Federal National Mortgage Association Pool #794474, 6% due on 10/1/2034	78,625	89,311
Federal National Mortgage Association Pool #796274, 5.5% due on 12/1/2034	147,836	168,847
Federal National Mortgage Association Pool #810225, 6% due on 1/1/2035	110,210	124,478
Federal National Mortgage Association Pool #735227, 5.5% due on 2/1/2035	24,905	28,715
Federal National Mortgage Association Pool #735228, 5.5% due on 2/1/2035	57,911	67,092
Federal Home Loan Mortgage Corp Gold Pool #G08046, 5.5% due on 3/1/2035	42,388	49,379
Federal National Mortgage Association Pool #814915, 5.5% due on 3/1/2035	95,836	101,974
Federal National Mortgage Association Pool #255670, 5% due on 4/1/2035	21,738	25,354
Federal National Mortgage Association Pool #735502, 6% due on 4/1/2035	23,173	26,512
Federal National Mortgage Association Pool #826966, 5.5% due on 6/1/2035	7,588	8,101
Federal Home Loan Mortgage Corp Gold Pool #A36664, 5% due on 8/1/2035	18,769	22,026
Federal Home Loan Mortgage Corp Gold Pool #A36685, 5% due on 8/1/2035	8,681	10,232
Federal Home Loan Mortgage Corp Pool #G01938, 5.5% due on 9/1/2035	35,420	37,104

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2014

	Cost	Fair Value
<u>U.S. Government Obligations, Continued</u>		
Federal Home Loan Mortgage Corp Pool #A37876, 5% due on 9/1/2035	97,224	102,923
Federal National Mortgage Association Pool #735897, 5.5% due on 10/1/2035	45,796	51,882
Federal National Mortgage Association Pool #828856, 5.5% due on 10/1/2035	49,491	57,861
Government National Mtg Corp Pool #648503, 5.5% due on 11/15/2035	19,222	22,225
Federal Home Loan Mortgage Corp Pool #G01960, 5% due on 12/1/2035	51,058	54,057
Federal National Mortgage Association Pool #745089, 6% due on 12/1/2035	23,052	26,664
Federal National Mortgage Association Pool #868936, 6% due on 5/1/2036	173,842	179,532
Federal Home Loan Mortgage Corp Pool #A49906, 5% due on 6/1/2036	36,239	40,356
Federal Home Loan Mortgage Corp Pool #A61533, 5% due on 6/1/2036	20,021	21,358
Federal National Mortgage Association Pool #867452, 6.5% due on 6/1/2036	19,885	22,314
Federal National Mortgage Association Pool #882694, 6.5% due on 6/1/2036	16,185	18,910
Federal National Mortgage Association Pool #903749, 6% due on 10/1/2036	14,184	16,008
Federal Home Loan Mortgage Corp Gold Pool #A55326, 6% due on 12/1/2036	27,594	30,952
Federal Home Loan Mortgage Corp Pool #1G1406 ARM, 5.905% due on 12/1/2036	17,366	18,509
Federal National Mortgage Association Pool #904915, 5.5% due on 12/1/2036	19,536	21,533
Federal National Mortgage Association Pool #905678, 5.5% due on 12/1/2036	78,894	84,835
Federal Home Loan Mortgage Corp Good Pool #H00452, 5.5% due on 1/1/2037	32,981	36,631
Federal National Mortgage Association Pool #910473, 5.542% due on 1/1/2037	11,636	12,331
Federal Home Loan Mortgage Corp Good Pool #A60299, 6.5% due on 5/1/2037	23,977	26,582
Federal National Mortgage Association Pool #AA3553, 5% due on 2/1/2039	33,347	35,835
GNMA Mortgage Pool CTFS Pool #701940, 4.5% due on 6/15/2039	388,853	411,854
Federal Home Loan Mortgage Corp Pool #A88454, 4.5% due on 9/1/2039	169,915	175,969
Government National Mortgage Association Pool #737442, 4% due on 9/15/2040	363,569	374,936
	<hr/>	<hr/>
Subtotal - Account#135074870	7,291,641	7,450,674
NCUA Guaranteed Notes Unsecured, 1.4% due on 6/12/2015	25,473	25,204
Federal Home Loan Mtge Corp Unsecured, 0.5% due on 8/28/2015	125,281	125,370
Federal Home Loan Mtge Corp Unsecured, 0.75% due on 10/5/2016-2013	200,177	199,790
Federal Farm Credit Bank Unsecured, .62% due on 10/11/2016-2013	149,870	149,765
NCUA Guaranteed Notes US Govt Guaranteed, 2.35% due on 6/12/2017	51,989	51,768
Federal Home Loan Mtge Corp, 1% due on 9/27/2017	144,512	144,175
Federal National Mtge Assoc Unsecured, 1.625% due on 11/27/2018	24,920	24,948
Federal Home Loan Mortgage Corp Unsecured Step Up, 1% due on 12/27/2018-2014	14,980	15,021
Federal Home Loan Bank Unsecured Step-Up, 1.25% due on 9/30/2019-2015	54,505	54,568
Overseas Private Inv Corp Unsecured Floating, 0.11% due on 7/15/2025	25,000	25,000
	<hr/>	<hr/>
Subtotal - Account#135284958	816,707	815,609
Total U.S. Government Agencies	<hr/>	<hr/>
	8,108,348	8,266,283
Hawaii St Hwy Rev Highway Revenue Txbl-Ser C, 1.2% due on 1/1/2017	125,000	124,666
New York NY Taxable Build Amer BDS-F-1 4.937% due on 12/1/2019	275,000	307,618
Utility Debt Securitization Auth NY Txbl-Restructuring-Ser T, 2.042% due on 6/15/2021-2019	199,998	203,768
Honolulu City & CNTY Wastewtr Sys Rev Build America Bonds, 4.643% due on 7/1/2022-2020	25,000	27,200
Honolulu City & CNTY Wastewtr Sys Rev Build America Bonds Taxable-First BD-Ser B Issuer Subsidiary, 6.114% due on 7/1/2029-2019	110,000	124,485
Hawaii St HSG Fin & Dev Corp SF Mtge Purchase Revenue Txbl-FNMA MBS Pass-thru Program Ser, A 2.6% due on 7/1/2037	205,739	196,826
	<hr/>	<hr/>
Subtotal - Account#135074870	940,737	984,563
New York ST Mtge Agy Homeowner Mtge Revenue Ser 172 1.304% 04/01/2015	15,000	15,050
North Bend Washington WTR & SWR Revenue ULID #6 2% 08/01/2017	10,113	10,114
	<hr/>	<hr/>
Subtotal - Account#135284958	25,113	25,164
Total U.S. Municipal Obligations	<hr/>	<hr/>
	965,850	1,009,727
Total U.S. Government Obligations	<hr/>	<hr/>
	\$ 14,412,558	\$ 14,516,601
<u>Corporate Bonds</u>		
Wells Fargo Company Sub Notes, 5% due on 11/15/2014	\$ 205,776	\$ 201,068
Royal Bank of Canada Unsecured, 1.15% due on 03/13/2015	169,993	170,440
General Electric Capital Corp Sr Unsecured, 6.9% due on 9/15/2015	277,415	265,480
Landesbk Baden-Wurtt NY Subordinated, 5.05% due on 12/30/2015	266,582	260,910
PPG Industries Inc Sr Unsecured, 1.9% due on 1/15/2016	225,223	228,087
Wells Fargo Company SR Unsecured Floating, 0.7636% due on 7/20/2016	150,000	150,863
American Honda Finance Unsecured Fltg Rt, 0.3516% due on 9/2/2016	90,000	90,007
John Deere Capital Corp Sr Unsecured, 1.05% due on 10/11/2016	174,828	175,401
Ryder System Inc Notes, 5.85% due on 11/1/2016	248,860	273,243
Becton Dickinson & Co SR Unsecured, 1.75% due on 11/08/2016	87,350	86,419
Toyota Motor Credit Corp. SR Unsecured, 2.05% due on 1/12/2017	206,658	204,512
European Investment Bank SR Unsecured, 1.75% due on 3/15/2017	329,233	331,120

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2014

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
World Omni Automobile Lease Sec Ser 2014-A CL A2A, .71% due on 3/15/2017	174,991	175,021
General Electric Capital Corp SR Unsecured Fltg, 0.5136% due on 5/15/2017-2017	150,000	150,270
Total Capital Intl SA SR Unsecured, 1.55% due on 06/28/2017	149,829	151,070
Unilever Capital Corp SR Unsecured, 0.85 due on 8/2/2017	174,124	173,185
American Express Credit SR Unsecured Floating Rate, .5341% due on 9/22/2017	85,101	84,949
Harris Corp SR Unsecured, 5.95% due on 12/1/2017	424,676	451,020
Chevron Corp SR Unsecured, 1.104% due on 12/5/2017-2017	100,000	99,042
Wells Fargo Company SR Unsecured, 5.625% due on 12/11/2017	179,629	201,514
Partnerre Finance Company Guarnt, 6.875% due on 6/1/2018	278,586	321,919
Morgan Stanley SR Unsecured, 7.3% due on 5/13/2019	149,776	178,914
Disney (Walt) Company SR Unsecured Floating, 0.5436% due on 5/30/2019	200,000	200,460
Toronto-Dominion Bank SR Unsecured, 2.125% due on 7/2/2019	74,908	74,319
NA Development Bank SR Unsecured, 4.375% due on 02/11/2020	431,489	428,624
International Business Machines SR Unsecured, 1.625% due on 5/15/2020	99,365	95,782
Ebay Inc SR Unsecured, 3.25% due on 10/15/2020	364,019	368,546
Wal-Mart Stores Inc Senior Notes, 3.25% due on 10/25/2020	214,290	223,918
Intel Corp SR Unsecured, 3.3% due on 10/1/2021	305,809	308,550
Burlington Northern Inc SR Unsecured, 8.75% due on 2/25/2022	232,927	232,269
Autozone Inc SR Unsecured, 3.7% due on 4/15/2022-2022	128,914	127,341
Shell International SR Unsecured, 2.375% due on 8/21/2022	99,658	96,338
Marathon Oil Corp SR Unsecured, 2.8% due on 11/1/2022-2022	402,761	382,816
CVS/Caremark Corp SR Unsecured, 2.75% due on 12/1/2022-2022	149,821	143,121
Chevron Corp SR Unsecured, 2.355% due on 12/5/2022-2022	100,000	95,230
Comcast Corp SR Unsecured, 2.85% due on 1/15/2023	237,327	244,960
JP Morgan Chase & Co. SR Unsecured, 3.2% due on 1/25/2023	322,636	317,259
Landesbank Baden-Wuerttemerg Subordinated, 7.625% due on 2/01/2023	452,411	437,032
Berkshire Hathaway Inc Sr Unsecured, 3% due on 2/11/2023	173,700	173,871
Apple Inc SR Unsecured, 2.4% due on 5/3/2023	185,594	174,930
Microsoft Corp SR Unsecured, 3.625% due on 12/15/2023	104,508	109,716
Invesco Finance PLC SR Unsecured, 4% due on 1/30/2024	148,981	156,431
Colgate Palmolive Co SR Unsecured, 3.25% due on 3/15/2024	114,339	116,282
Total Capital Intl SA SR Unsecured, 3.75% due on 4/10/2024	99,249	102,679
Novartis Capital Corp SR Unsecured, 3.4% due on 5/6/2024	99,299	101,574
Goldman Sachs Group Inc SR Unsecured, 3.85% due on 7/8/2024-2024	250,013	243,554
Golondrina Leasing LLC Sink FD GTD Export Import Bank of USA, 1.822% due on 5/3/2025	202,039	196,163
Inter-American Development Bank Notes, 6.75% due on 7/15/2027	134,018	137,449
Pharmacia Corporation Debentures, 6.75% due on 12/15/2027	146,159	160,162
GTE FLA Inc SR Unsecured, 6.86% due on 2/1/2028	213,989	236,334
Apache Finance Canada Company Guaranteed, 7.75% due on 12/15/2029	180,686	212,361
Burlington Resources Fin Company Guaranteed, 7.4% due on 12/1/2031	338,249	356,842
Dominion Resources Inc SR Notes Ser F Putable 8/15, 5.25% due on 8/1/2033	109,176	124,393
Alabama Power Co Bonds Ser 1, 5.65% due on 3/15/2035-2015	325,006	330,873
Wal-Mart Stores Inc SR Unsecured, 6.5% due on 8/15/2037	252,457	331,560
	<u>11,192,427</u>	<u>11,466,193</u>
Subtotal - Account#135074870		
Bank of Nova Scotia N Y AGY SR Unsecured, 1.85% due on 01/12/2015	10,000	10,045
Intl Business Machines Sr Unsecured, 0.55% due on 2/6/2015	75,006	75,075
Wells Fargo Company SR Unsecured, 1.25% due on 02/13/2015	22,994	23,078
Royal Bank of Canada Unsecured, 1.15% due on 03/13/2015	5,000	5,013
Credit Suisse New York SR Unsecured, 3.5% due on 03/23/2015	29,987	30,449
Rio Tinto Fin USA PLC Sr Unsecured Floating, 0.7841% due on 6/19/2015	25,000	25,064
Microsoft Corp Senior Notes, 1.625% due on 09/25/2015	44,791	44,586
Alabama Power Co SR Unsecured, 0.55% due on 10/15/2015	49,992	49,979
Shell International SR Unsecured, 0.625% due on 12/4/2015	49,994	50,028
Landesbk Baden-Wurtt NY Subordinated, 5.05% due on 12/30/2015	26,771	26,091
PPG Industries Inc Sr Unsecured, 1.9% due on 1/15/2016	15,009	15,206
John Deere Capital Corp Sr Unsecured, 0.75% due on 1/22/2016	24,986	25,062
Berkshire Hathaway Inc SR Unsecured, 0.8% due on 2/11/2016	49,998	50,179
National Rural Utilities Sr Unsecured Floating, 0.4846% due on 5/27/2016	25,000	25,034
Wells Fargo Company SR Unsecured Floating, 0.7636% due on 07/20/2016	15,000	15,086
American Honda Finance Unsecured Fltg Rt, 0.3516% due on 9/2/2016	15,000	15,001
Interamerican Develop Bk Unsecured, 0.625% due on 9/12/2016	24,987	24,958
John Deere Capital Corp Sr Unsecured, 1.05% due on 10/11/2016	14,985	15,034
BP Capital Markets PLC Company Guarant, 2.248% due on 11/1/2016	30,282	30,772
Becton Dickinson & Co SR Unsecured, 1.75% due on 11/08/2016	20,391	20,334
BHP Finance USA Ltd Company Guarant, 1.875% due on 11/21/2016	22,181	22,448
Toyota Motor Credit Corp. SR Unsecured, 2.05% due on 01/12/2017	25,832	25,564
European Investment Bank SR Unsecured, 1.75% due on 3/15/2017	10,130	10,188
World Omni Automobile Lease Sec Ser 2014-A CL A2A, 0.71% due on 3/15/2017	19,999	20,002
Berkshire Hathaway Fin Company Guarnt, 1.6% due on 5/15/2017	51,159	50,548

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2014

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
Disney (Walt) Company Sr Unsecured, 0.875% due on 5/30/2017	24,955	24,786
Total Capital Intl SA SR Unsecured, 1.55% due on 06/28/2017	50,890	50,357
Ebay Inc Sr Unsecured, 1.35% due on 7/15/2017	50,704	49,791
Bristol Myers Squibb Co Sr Unsecured, 0.875% due on 8/1/2017	49,841	49,365
Unilever Capital Corp Sr Unsecured, 0.85% due on 8/2/2017	66,681	66,305
Shell International SR Unsecured, 1.125% due on 8/21/2017	60,406	59,697
Morgan Stanley Sr Unsecured Variable, 3% due on 8/31/2017	20,167	20,800
American Express Credit Sr Unsecured Floating Rate, 0.5341% due on 9/22/2017	10,012	9,994
Toyota Motor Credit Corp. SR Unsecured, 1.25% due on 10/5/2017	50,057	49,687
General Dynamics Corp Sr Unsecured, 1% due on 11/15/2017	49,928	49,424
Chevron Corp Sr Unsecured, 1.104% due on 12/5/2017-2017	24,804	24,760
JP Morgan Chase & Co Sr Unsecured Variable, 1.1341% due on 1/25/2018	25,000	25,451
NA Development Bank SR Unsecured, 2.3% due on 10/10/2018	24,957	25,228
Colgate Palmolive Co SR Unsecured, 1.75% due on 3/15/2019	49,946	49,550
Disney (Walt) Company Sr Unsecured Floating, 0.5436% due on 5/30/2019	25,000	25,057
Toronto-Dominion Bank SR Unsecured, 2.125% due on 7/2/2019	9,988	9,909
Subtotal - Account#135284958	1,297,810	1,294,985
Total Corporate Bonds	<u>\$ 12,490,237</u>	<u>\$ 12,761,178</u>
<u>Corporate Stock</u>		
Allstate Corp	\$ 190,541	\$ 251,617
American Airlines Group Inc	78,655	70,960
American Express Co	77,642	140,064
American Tower Corp	30,273	93,630
Apple Inc	276,791	372,171
Bank of America Corp	151,409	240,405
Biogen Idec Inc	63,739	176,983
Boeing Co	74,633	159,225
Canadian Pacific Railway Ltd	218,112	373,446
Capital One Financial Corp	160,375	163,240
Celgene Corp	37,236	70,327
Charles Schwab Corp	100,086	214,547
Cisco Systems	82,035	80,544
Citigroup Inc	44,696	84,985
Comcast Corp CL A	164,979	268,900
CVS/Caremark Corp	88,916	206,934
Conocophillips	127,567	137,736
Disney Walt Co	46,290	249,284
Delta Airlines Inc	73,408	79,530
Facebook Inc Cl A	109,028	150,176
Gilead Sciences Inc	46,046	244,835
Google Inc CL A	29,271	192,998
Google Inc CL C	15,133	98,151
Halliburton Co	91,702	180,628
Hewlett-Packard Co	150,553	163,162
Home Depot Inc	75,646	192,654
Honeywell International Inc.	141,527	158,304
Kinder Morgan Inc	77,567	76,680
Johnson & Johnson	110,625	159,885
JP Morgan Chase & Co	70,721	210,840
Macy's Inc.	116,219	116,360
Marsh & McLennan Companies Inc	54,160	83,744
Mastercard Inc Class A	50,273	110,880
McKesson Corp	187,608	213,942
Medtronic Inc	146,738	148,680
Merck & Co Inc	116,482	124,488
Metlife Inc	84,444	80,580
Microsoft Corp	200,906	254,980
Micron Tech Inc	143,871	157,596
Morgan Stanley	169,735	193,592
Ralph Lauren Corp	86,117	82,365
Roche Holdings Ltd Sp Adr	78,855	77,776
Schlumberger Ltd	104,212	172,873
Starwood Hotels and Resorts WW Inc	97,744	108,173
TE Connectivity Ltd	99,666	110,580
Thermo Fisher Scientific, Inc.	75,036	73,020
Time Warner Inc	84,260	75,210
Twenty-First Century Fox, Inc.	88,006	205,740

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2014

	Cost	Fair Value
<u>Corporate Stock, Continued</u>		
Union Pacific Corp	20,097	119,262
United Technologies Corp	62,322	158,400
Subtotal - Account#140011156	<u>5,071,953</u>	<u>7,931,082</u>
AT&T Inc	192,140	239,632
Abbott Laboratories	123,087	195,473
Amgen Inc	154,117	196,644
Celgene Corp	60,365	199,038
Chevron Corp	128,348	190,912
Coca Cola Co	185,951	243,162
Danaher Corp	145,258	288,724
Discovery Communications A	325,592	291,060
Disney Walt Co	216,992	293,799
Dominion Resources Inc/VA	170,959	255,633
Dow Chemical Co	144,588	293,664
Du Pont E.I. De Nemours & Co	190,064	294,216
Eaton Corp PLC	195,183	285,165
Eog Resources Inc	202,231	198,040
Exxon Mobil Corp	142,546	197,505
Fedex Corporation	152,889	290,610
General Electric Co	192,026	289,506
Google Inc CL A	132,774	205,944
Merck & Co. Inc	147,062	231,192
Microsoft Corp	104,156	199,348
Oracle Corp	131,370	195,228
PPL Corporation	199,251	236,448
Pfizer Inc	147,404	230,646
Philip Morris International	243,143	233,520
Qualcomm Inc	130,645	194,402
Schlumberger Ltd	215,497	294,901
Southern Co	187,464	240,075
Starbucks Corp	306,606	301,840
Thermo Fisher Scientific Inc	73,112	194,720
United Technologies Corp	197,912	295,680
Visa Inc CL A Shares	236,615	298,718
Subtotal - Account#140340753	<u>5,375,347</u>	<u>7,595,445</u>
Total Corporate Stock	<u>\$ 10,447,300</u>	<u>\$ 15,526,527</u>
<u>Mutual Funds</u>		
Wilshire Solutions Trust Non US Equity Fund	\$ 22,000,000	\$ 21,968,633
Wilshire Solutions Trust Credit Opportunities Fund	9,000,000	9,018,147
Wilshire Solutions Trust US Equity Fund	10,000,000	10,000,000
Total Mutual Funds - Account#140386608	<u>\$ 41,000,000</u>	<u>\$ 40,986,780</u>

See accompanying independent auditors' report.