

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, 2015 AND 2014

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 fiduciary net position as of September 30, 2015 and 2014, and the related statements of changes in fiduciary 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, 2015 and 2014, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in note 2 to the financial statements, during the year ended September 30, 2015, the Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result, the Fund has elected to restate its 2014 financial statements to reflect the implementation of these standards. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 as well as the Schedule of Proportional Share of the Net Pension Liability on page 37 and the Schedule of Pension Contributions on page 38 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 Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position as of and for the year ended September 30, 2015 (pages 39 and 40, respectively), the Schedule of Administrative Deductions for the years ended September 30, 2015 and 2014 (page 41) and the Schedule of Investments as of September 30, 2015 (pages 42 through 45) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Fiduciary Net Position, the Combining Statement of Changes in Fiduciary 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 Fiduciary Net Position, the Combining Statement of Changes in Fiduciary 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 June 23, 2016 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

June 23, 2016



Republic of Palau
SOCIAL SECURITY ADMINISTRATION

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**Management's Discussion and Analysis
Years Ended September 30, 2015 and 2014**

This Management's 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, 2015 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 contributions 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. Terms expired for four Trustees but the Trustees were re-confirmed to the Board during the year. The Trustees of the Fund were:

Board Member	Officers/Title	Appointed	Expiration
Ms. Florencia Rirou	Chairman	07/16/15	07/16/19
Mrs. Lillian G. Uludong	Vice Chairman	07/16/15	07/16/19
Ms. Johana Ngiruchelbad	Secretary/Treasurer	11/03/15	11/03/19
Mr. Francis E. Meyar	Member	11/03/15	11/03/19
Mrs. Evalista N. Kyota	Member	05/04/16	05/04/20

Human Resources:

The Fund's policies and strategies are implemented through the Administrator and a management team. The Fund is organized in 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 a total of thirty-one employees at the end of fiscal year 2015. Two employees were on employment contracts. The employee turnover was 13% in 2015, a decrease of 10% from the prior year. The workforce of the Fund was at full capacity at the end of fiscal year 2015.

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. An option to contribute to the Fund at the minimum remuneration of \$300 per quarter is voluntary. 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. Special consideration was given to the National Government who opted to remit contributions 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. There were no additional funds available to invest in 2015 as benefit payouts exceeded contributions.

Contributions to the Republic of Palau Social Security Retirement Fund (SSRF) and the Healthcare Fund (HCF) in fiscal years 2015 and 2014 were \$19,084,492 and \$17,238,016, respectively, an increase of 11% from the prior year. Of total contributions, 66% represents contributions to SSRF and 34% represents contributions to HCF. SSRF contributions increased in the government sector and in penalties assessed for late filings from the private sector. HCF contributions increased in the private sector and in self-employed individuals. Contributions to SSRF increased by 9.9% from the prior year while contributions to HCF increased by 12.5%. Table 1, provided below, indicates contributions to SSRF and Table 2 indicates contributions to HCF for the past five years while Table 3 provides combined contributions of the two funds.

Contributions, Continued:

Table 1 SSRF Contributions by Sector:

Year	Government	%	Private	%	Self-Employed	%	Penalties and Interest	%	Total	%
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%
2015	\$ 5,543,071	44%	\$ 6,379,404	50%	-	0%	\$ 749,320	6%	\$ 12,671,795	100%

Table 2 HCF Contributions by Sector:

Year	Government	%	Private	%	Self-Employed	%	Penalties and Interest	%	Total	%
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%
2015	\$ 3,032,111	47%	\$ 3,166,073	49%	\$ 182,562	3%	\$ 31,951	1%	\$ 6,412,697	100%

Table 3 Combined Contributions by Sector:

Year	Government	%	Private	%	Self-Employed	%	Penalties and Interest	%	Total	%
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%
2015	\$ 8,575,182	45%	\$ 9,545,477	50%	\$ 182,562	1%	\$ 781,271	4%	\$ 19,084,492	100%

Member Services:

Total active Fund members as of fiscal year 2015 were 12,532 which is an increase of 508 and a growth of 4% over the previous year. The annual growth of the workforce for the past three years has been 4%. There has been a slight reduction of benefit recipients to active members since 2013, which currently stands at 25%. This means that approximately 75% 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				
YR	Members	% of Change	Retirement	Survivor (Dependents)	Disability	Total	(%) to Active Members
2011	11,107	-2%	1,532	1,072	65	2,669	24%
2012	11,065	-0%	1,601	1,036	66	2,703	24%
2013	11,510	4%	1,753	1,147	61	2,961	26%
2014	12,024	4%	1,850	1,143	66	3,059	25%
2015	12,532	4%	1,924	1,157	81	3,162	25%

Total active employers as of calendar year 2015 were 2,114 after the employer identification number (EIN) renewal deadline in February 2016. There were fourteen closed businesses. All businesses who were listed as non-filers had a chance to either file their reports or close their businesses; hence, zero non-filers at December 31, 2015.

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 increased 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's insurance benefits subject to an earnings test if employed and at 100% if at retirement age and unmarried. Surviving spouse insurance benefits will cease if a surviving spouse remarries before retirement age and will be at 60% if remarried at retirement age. 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's 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. 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.

Benefit payments for SSRF and the Prior Service Trust Fund (PSTF) increased by \$802,104 or 6% from \$14,185,327 in fiscal year 2014 to \$14,987,431 in fiscal year 2015. Since fiscal year 2013, the increase in benefits is mainly for SSRF due to legislation. This trend is expected until fiscal year 2020 when maximum remuneration will cease and all wages will be carried at a maximum rate of 12%. The Fund's emphasis has been on collections of past due and current contributions and ensuring compliance of employer filings. The bulk of benefit payments was mainly for retirement at 70%, followed by survivors at 26%, disability at 3% and lump sum at 1%. The breakdown of benefit payments and percentage to total funds released for the last five years is as follows:

SSRF and PSTF Benefit Payments:

Year	Retirement	%	Survivors	%	Disability	%	Lump Sum	%	Total	%
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%
2015	\$ 10,566,429	70%	\$ 3,876,968	26%	\$ 468,049	3%	\$ 75,985	1%	\$ 14,987,431	100%

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. The 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 the HCF Administrator responsible for administration of the Medical Savings Account (MSA) and the National Health Insurance (NHI) subject to the supervision and oversight of the HCF Governing Committee (the HCF GC). The powers and duties of the HCF GC under the NHFA are to provide an orderly means to finance and deliver comprehensive healthcare coverage to the people of ROP. The HCF GC has additional powers as outlined in the NHFA 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, 2015, members of the HCF GC by virtue of their position and title in the respective ROP agencies were as follows:

Member	Representative
Dr. Victor Yano, Chairman	Chamber of Commerce
Mr. Elbuchel Sadang, Vice Chairman	Ministry of Finance
Mr. Gregorio Ngirmang, Member	Ministry of Health
Mrs. Leilani N. Reklai, Member	Governors Association
Ms. Ulai Teltull, Member	Social Security Administration

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 NHI commenced. As of September 30, 2015, total members under the NHI were 16,148 or 92% of a total population of 17,501 based on a mini-census in 2013. Total members under the MSA were 15,247 or 87% of the total population. The remaining 8% uninsured under the NHI are mainly persons below the age of 59, persons unemployed, persons who are no longer a dependent child and persons who are not enrolled under the voluntary program. Voluntary participation carries a quarterly premium of \$38.

ROP provides 100% subsidized healthcare insurance for all citizens over 60 years of age and the unemployed including those with disabilities. As of September 30, 2015, total government subsidy members were 1,863 or 11% of the population.

HCF reimbursed insurance benefits under two programs: 1) the NHI and 2) the MSA. 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 ten medical centers in the Philippines, the Republic of China, Taiwan and India 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.

Healthcare Fund, Continued:

Insurance benefit reimbursements increased by \$532,654 from \$4,706,420 in fiscal year 2014 to \$5,239,074 in fiscal year 2015. The increase of 11% is mainly due to an increase in medical referrals. While HCF supports the growth and expansion of private clinics on-island and BNH, there remains a large volume of medical services that are not provided by BNH or private clinics in Palau. Details of insurance benefit reimbursements since inception and referral cases are indicated below:

HCF Benefit Payments:

Year	NHI	%	MSA	%	Total	%
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%
2015	\$ 2,908,818	56%	\$ 2,330,256	44%	\$ 5,239,074	100%

Medical Referral Program/NHI Off-Island Referrals from FY 2011 to FY 2015:

Referral Site	2011	2012	2013	2014	2015	Total
Philippines	66	115	76	80	75	412
Taiwan	0	0	71	129	163	363
Total	66	115	147	209	238	775

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 2015, the HCF GC authorized an additional \$700,000 to address the backlog of fifty-five approved cases pending evacuation. At September 30, 2015, \$99,568 was incurred and reimbursed and twenty approved cases are still pending. The remaining \$600,432 reverted back to the Fund and therefore, the authorized additional funding was cancelled. The maximum NHI coverage for each referral case is \$35,000. There has been some concern by the HCF GC related to subsequent approval of coverage to one member that exceeded \$35,000. The HCF GC has identified several gaps in the HCF guidelines that will be revised in fiscal year 2016 to ensure sustainability of the program.

The administration of the HCF is vested under the Social Security Administrator. The funds were comingled and concentrated in one local 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. HCF's cash and investments were as follows:

Cash	\$ 2,187,517
Mutual funds	5,921,326
Money market funds	<u>3,219</u>
Total	\$ <u>8,112,062</u>

Prior Service Retirement:

Funding for the PSTF relies on U.S. government appropriations from the U.S. Department of the Interior (USDOl). In 2014, USDOl approved additional funding for the Cost of Living Adjustments (COLA) for all benefit payees. A one-time COLA adjustment of \$200 was released to all beneficiaries in 2014. The Fund's lobbyist and consultant continue to work with USDOl to increase the minimum benefit and future COLA adjustments. At September 30, 2015 and 2014, the amount available for future benefit payments under the PSTF amounted to \$99,942 and \$92,618, respectively. The agreement between the PSTF Board and USDOl 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, 2015, total members receiving benefits under the PSTF were 213, a decrease from 236 in fiscal year 2014.

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 expected positive growth and return, the market has been challenging in fiscal year 2015. Furthermore, the Trustees withdrew \$3 million from the Fund to cover the shortfall of benefit payouts in the first quarter of fiscal year 2016. This is expected to continue in the next several years if there is no immediate change to legislation or an increase of social security taxes. The Fund realized a portfolio growth of 7.52% for fiscal year 2015 and a negative rate of investment (ROI) of 1.53%. The Fund's performance is viewed as positive as there was no impact on the original cost of the portfolio given the diversified asset allocation and retaining the highly selected and qualified investment managers with different investment styles to minimize risks during ups and downs of each asset class. The Fund's portfolio for the last six years is shown below.

Year	Portfolio	Investment Income (Loss)	Growth	ROI (%)
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%
2015	\$ 90,783,938	\$ (1,385,050)	7.5191%	-1.5257%

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 market and is considered obsolete. 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 was expected to be completed in April 2015 but has been extended to April 2017 due to challenges with complexities of the tailored system, missing source codes including other versions designed for the Federated States of Micronesia and the Republic of the Marshall Islands funds.

Information Technology (IT), Continued:

The consultant hired is professionally skilled in the conversion of 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 and was updated during the year to reflect current operations of the Fund. The website is available for beneficiaries who have relocated outside of Palau and need to be informed of any new regulations or changes to their eligibility.

Significant Events:

The Fund's Board of Trustees took some bold measures in 2015 to ensure that benefits are paid regularly without interruption. Actions taken to improve cash flow during the year were (1) the sale of the Fund's leasehold property; (2) principal receipt from the National Development Bank of Palau's \$1 million loan; and (3) persistent collection of delinquent accounts and employers not filing. New policies and procedures were adopted to strengthen benefit eligibility and employer filings. An annual survey for all beneficiaries was taken and a deadline to submit was enforced to ensure that each beneficiary met the eligibility. EINs were finally renewed for all employers. At the same time, a consultant was contracted to review the core business operational regulations and procedures for streamlining and improvement of the guidelines. Capacity buildup of employees was also invested through training ranging from customer service, human resource management, health care management, claims processing and leadership mentoring. A new disability retirement physician was hired to address the backlog of disability retirement claims. The results were the timely release of eligible benefits, evidence of audit, recovering over payment of benefits in the past, improved legislation of business licensing and conduct of filing and paying contributions to the Fund.

Subsequent Events:

During the last quarter of fiscal year 2015, the Trustees with expiring terms were re-nominated by the President of ROP and re-confirmed to the Board of Trustees by the Ninth OEK. The Trustees further renewed the contract of the Administrator for another term of two years. The Trustees ended the fiscal year with a \$3 million drawdown of the investment portfolio to fund the shortfall of benefits in fiscal year 2016 and the re-balance of the investment asset portfolio including an adjustment to the investment rate of return from 7.5% to 7%. The reduction of the investment rate of return had an impact on the accrued liability of the Fund but the rate is deemed reasonable and within an achievable target based on market conditions and as recommended by the Fund consultant.

Financial Performance (Overview):

During the year ended September 30, 2015, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB Statement Nos. 68 and 71 establish standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local government. The Fund contributes to the Republic of Palau Civil Service Pension Trust Fund (Plan), a defined benefit, cost sharing multi-employer plan as defined by GASB Statement No. 68. The implementation resulted in the recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net pension liability based on the Fund's proportionate share of those of the overall Plan. Refer to note 2 for cumulative change and note 5 for details of GASB Statement No. 68.

The Fund's fiduciary net position as of September 30, 2015 was \$99,029,152 as compared to \$103,141,475 for fiscal year 2014 and \$97,604,520 for fiscal year 2013, which was due mainly to benefit payments exceeding contributions, the Fund's investment drawdown to meet the shortfall and implementation of GASB Statement Nos. 68 and 71. The Fund's investments increased mainly due to the HCF investment reserve of \$6 million.

Statements of Fiduciary Net Position:

	2015	2014 As Restated	2013 As Restated
Assets and Deferred Outflows of Resources:			
Cash	\$ 4,613,622	\$ 12,893,872	\$ 7,897,122
Investments	90,783,938	84,435,212	84,105,755
Receivables, net	7,508,201	8,642,888	9,139,834
Prepaid expense	124,580	45,054	23,954
Capital assets, net	81,117	298,263	306,136
Deferred outflows of resources from pension	218,492	67,704	-
Total assets and deferred outflows of resources	<u>103,329,950</u>	<u>106,382,993</u>	<u>101,472,801</u>
Liabilities, Deferred Inflows of Resources and Fiduciary Net Position:			
Benefits payable	1,525,366	750,815	1,353,974
Accrued liabilities and accounts payable	100,233	32,689	91,304
Net pension liability	2,432,377	2,274,001	2,423,003
Deferred inflows of resources from pension	242,822	184,013	-
Total liabilities and deferred inflows of resources	<u>4,300,798</u>	<u>3,241,518</u>	<u>3,868,281</u>
Fiduciary net position held in trust for benefits and other purposes	\$ <u>99,029,152</u>	\$ <u>103,141,475</u>	\$ <u>97,604,520</u>

Statements of Changes in Fiduciary Net Position:

Additions:			
Contributions, net	\$ 18,912,830	\$ 17,179,193	\$ 15,616,045
Investment (loss) income, net	(1,385,050)	8,709,302	7,792,072
Other income	161,981	246,757	232,505
Total additions	<u>17,689,761</u>	<u>26,135,252</u>	<u>23,640,622</u>
Deductions:			
Benefit payments	20,226,505	18,891,747	14,259,121
Other	1,575,579	1,706,550	1,649,079
Total deductions	<u>21,802,084</u>	<u>20,598,297</u>	<u>15,908,200</u>
Change in fiduciary net position	(4,112,323)	5,536,955	7,732,422
Fiduciary net position at beginning of year	<u>103,141,475</u>	<u>97,604,520</u>	<u>89,872,098</u>
Fiduciary net position at end of year	\$ <u>99,029,152</u>	\$ <u>103,141,475</u>	\$ <u>97,604,520</u>

Contributions Receivable

The Fund's contribution receivable for the year ended September 30, 2015 was \$6,030,128 as compared to \$5,721,580 for fiscal year 2014 and \$6,132,022 for fiscal year 2013. Of total contributions receivables, \$5,025,804 or 83% represents the SSRF and \$1,004,324 or 17% represents HCF. Contributions receivables for the SSRF includes \$3,196,896 of past due or delinquent employers and \$1,828,908 of accrued tax receivable due a month after the quarter end. The allowance for doubtful accounts of \$2,828,531 represents 87% of delinquent accounts fully provided for as they exceed more than one year in arrears. The total percentage of contributions receivable to total contributions was 32% in fiscal year 2015 which is a decrease of 1% from 33% in fiscal year 2014.

Year	Total Cont	A/R Cont	% to TC	Provision	% to A/R
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%
2015	\$19,084,492	\$ 6,030,128	32%	\$ 2,828,531	47%

Capital Assets:

At September 30 2015, 2014 and 2013, the Fund had \$81,117, \$298,263 and \$306,136, respectively, in capital assets, net of accumulated depreciation where applicable, including building improvements, office furniture and equipment and vehicles, which represent a net decrease in 2015 of \$217,146 or 73% over 2014 from the sale of leasehold property. Major capital investments for fiscal year 2015 include the purchase of computer workstations as part of the ongoing system upgrade. See note 7 to the financial statements for more information on the Fund's capital assets.

Actuarial Valuation:

An actuarial valuation was performed as of October 1, 2014 mainly to assess the system's accrued liabilities and determination of the Fund's funded ratio. The unfunded liability increased due to the increase in benefits as a result of RPPL 9-11 and RPPL 9-12 including a change in the investment rate of return to 7%.

	2014	2013
Total accrued liability	\$ 240,492,000	\$ 201,486,000
Less: market value of assets	(98,040,000)	(93,182,000)
Unfunded accrued liability	\$ 142,452,000	\$ 108,304,000
Funded ratio	41%	46%
Present value of future benefits	\$ 323,623,000	\$ 271,845,000
Less: total value of assets and expected future contributions	(249,278,000)	(224,330,000)
Unfunded present value of future benefits	\$ 74,345,000	\$ 47,515,000

The unfunded accrued liability increased in 2014 by \$34,148,000 and the funding ratio decreased from 46% to 41% from the prior year. The strategic plan of the Board of Trustees is to avoid any drawdown of the investment fund in the future and ensure that asset allocations would positively grow the Fund within the next market cycle (7-10 years). The Fund will be considered sound should the funded ratio reach 79%.

Economic Outlook:

The economic outlook for Palau is favorable with the pace of expansion being moderate according to the International Monetary Fund concluding statement issued in April 2014. The Gross Domestic Produce (GDP) is projected to grow by 5.5% in 2016 driven by a strong growth in tourism, new hotel constructions, a stimulus for infrastructure improvements and other improvements in the external economic environment. However, challenges remain in the safeguarding and sustainability of the natural environment and ensuring that benefits are spread to other sectors of the economy especially to the local owners. Challenges of economic growth in small island nations such as Palau is the remote location, a small population, insufficient infrastructure, restrictive investment regime and vulnerability to natural disasters. The Fund is projecting a growth of 5.5% for fiscal year 2016 consistent with the projected GDP growth.

The Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in the Fund's report on the audit of financial statements, which is dated April 1, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be viewed at the Office of the Public Auditor's website at 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 or call 488-2457.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Fiduciary Net Position
September 30, 2015 and 2014

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2015</u>	<u>2014 (As Restated)</u>
Cash	\$ 4,613,622	\$ 12,893,872
Investments:		
Mutual funds	47,458,777	40,986,780
U.S. Government obligations	15,721,669	14,516,601
Corporate stock	13,610,317	15,526,527
Corporate bonds	13,069,436	12,761,178
Money market funds	923,739	644,126
Total investments	<u>90,783,938</u>	<u>84,435,212</u>
Receivables:		
Contributions	6,030,128	5,721,580
Loan	3,587,578	4,934,525
Accrued interest and dividends	262,958	283,192
Advances and other	456,068	360,624
	<u>10,336,732</u>	<u>11,299,921</u>
Less allowance for doubtful accounts	<u>(2,828,531)</u>	<u>(2,657,033)</u>
Total receivables, net	<u>7,508,201</u>	<u>8,642,888</u>
Prepaid expense	<u>124,580</u>	<u>45,054</u>
Capital assets, net	<u>81,117</u>	<u>298,263</u>
Total assets	<u>103,111,458</u>	<u>106,315,289</u>
Deferred outflows of resources from pension	<u>218,492</u>	<u>67,704</u>
Total assets and deferred outflows of resources	<u>103,329,950</u>	<u>106,382,993</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>		
Liabilities:		
Benefits payable	1,525,366	750,815
Accrued liabilities and accounts payable	100,233	32,689
Net pension liability	2,432,377	2,274,001
Total liabilities	<u>4,057,976</u>	<u>3,057,505</u>
Deferred inflows of resources from pension	<u>242,822</u>	<u>184,013</u>
Total liabilities and deferred inflows of resources	<u>4,300,798</u>	<u>3,241,518</u>
Contingencies		
Fiduciary net position:		
Held in trust for benefits and other purposes	<u>\$ 99,029,152</u>	<u>\$ 103,141,475</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Changes in Fiduciary Net Position
Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> (As Restated)
Additions:		
Contributions:		
Private employees	\$ 9,545,477	\$ 8,421,433
Government employees	8,575,182	8,487,005
Self-employed individuals	182,562	138,216
Penalties and interest	<u>781,271</u>	<u>191,362</u>
	19,084,492	17,238,016
Less bad debts	<u>(171,662)</u>	<u>(58,823)</u>
Total contributions, net	<u>18,912,830</u>	<u>17,179,193</u>
Investment income:		
Net (decrease) increase in the fair value of investments	(2,765,926)	6,512,216
Interest	1,076,400	1,260,353
Dividends	<u>304,476</u>	<u>936,733</u>
Total investment (loss) income, net	<u>(1,385,050)</u>	<u>8,709,302</u>
Other income	<u>161,981</u>	<u>246,757</u>
Total additions	<u>17,689,761</u>	<u>26,135,252</u>
Deductions:		
Benefit payments:		
Retirement	10,566,429	9,999,182
Survivor's	3,876,968	3,752,691
National health insurance	2,908,818	2,435,412
Medical savings account	2,330,256	2,271,008
Disability	468,049	371,277
Lump sum	<u>75,985</u>	<u>62,177</u>
Total benefit payments	20,226,505	18,891,747
Administrative	1,344,938	1,196,459
Investment management fee	114,499	393,765
Fund custodian fee	72,702	63,182
Depreciation	<u>43,440</u>	<u>53,144</u>
Total deductions	<u>21,802,084</u>	<u>20,598,297</u>
Change in fiduciary net position	(4,112,323)	5,536,955
Fiduciary net position at beginning of year	<u>103,141,475</u>	<u>97,604,520</u>
Fiduciary net position at end of year	<u>\$ 99,029,152</u>	<u>\$ 103,141,475</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014, 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Cash

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 fiduciary 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, 2015 and 2014, cash was \$4,613,622 and \$12,893,872, respectively, and the corresponding bank balance was \$4,506,525 and \$5,308,153, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2015 and 2014, 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

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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

(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 Depository Receipts (ADRs) that are listed on the NYSE, AMEX, or NASDAQ provided the total investment in these securities does not exceed 10% of the total assets managed by the Fund's investment manager at the time of purchase and such investments are in industries and areas of the market that the Fund's investment manager already has proven expertise;
- (C) Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and
- (D) An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

(4) International Equities

- (A) Equity securities of Corporations provided they are listed on the stock exchange of countries included in the 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, 2015 and 2014.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The following is a listing of the Fund's fixed income securities at September 30, 2015 and 2014:

Investment Type	Fair Value	2015 Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Treasury notes	\$ 5,122,590	\$ 605,430	\$ 3,071,158	\$ 1,446,002	\$ -	Aaa	AA+
U.S. Treasury bond	1,584,798	-	-	-	1,584,798	Aaa	AA+
Other U.S. government obligations	494,782	-	-	494,782	-	Aaa	AAA
Other U.S. government obligations	189,732	-	-	-	189,732	Aaa	AA+
Other U.S. government obligations	149,398	-	-	27,354	122,044	Aa2	Unrated
Other U.S. government obligations	125,964	-	125,964	-	-	Aa2	AA+
Other U.S. government obligations	201,296	-	201,296	-	-	Aa2	A+
State and local government	7,337,844	180,000	3,385,865	1,543,657	2,228,322	Aaa	AA+
State and local government	515,265	-	-	515,265	-	Aaa	A+
Corporate bonds	121,116	-	-	121,116	-	A1	A
Corporate bonds	585,085	94,963	175,005	315,117	-	A1	A+
Corporate bonds	158,771	-	-	-	158,771	A1	AA
Corporate bonds	122,902	-	-	-	122,902	A1	AA-
Corporate bonds	150,152	-	150,152	-	-	A1	AA+
Corporate bonds	908,166	-	304,239	279,072	324,855	A2	A
Corporate bonds	89,544	-	89,544	-	-	A2	A-
Corporate bonds	195,739	-	195,739	-	-	A2	A+
Corporate bonds	224,266	-	-	224,266	-	A2	BBB+
Corporate bonds	95,542	-	-	-	95,542	A3	A
Corporate bonds	988,091	-	489,274	498,817	-	A3	A-
Corporate bonds	197,784	-	101,079	96,705	-	Aa1	AA
Corporate bonds	699,841	-	226,499	473,342	-	Aa1	AA-
Corporate bonds	179,298	-	-	179,298	-	Aa1	AA+
Corporate bonds	574,222	-	574,222	-	-	Aa1	Unrated
Corporate bonds	733,084	-	-	404,859	328,225	Aa2	AA
Corporate bonds	314,764	-	314,764	-	-	Aa2	AA-
Corporate bonds	986,667	-	503,720	482,947	-	Aa3	AA-
Corporate bonds	305,928	-	305,928	-	-	Aaa	A+
Corporate bonds	184,166	-	-	184,166	-	Aaa	AA+
Corporate bonds	2,024,221	149,997	1,037,045	111,391	725,788	Aaa	AAA
Corporate bonds	869,950	252,455	145,687	471,808	-	Aaa	Unrated
Corporate bonds	476,217	225,590	-	-	250,627	Baa1	A-
Corporate bonds	865,279	-	382,556	482,723	-	Baa1	BBB
Corporate bonds	715,407	-	-	513,159	202,248	Baa1	BBB+
Corporate bonds	107,346	-	107,346	-	-	Baa2	BBB+
Corporate bonds	195,888	-	-	-	195,888	Unrated	AA-
	<u>\$ 28,791,105</u>	<u>\$ 1,508,435</u>	<u>\$ 11,887,082</u>	<u>\$ 8,865,846</u>	<u>\$ 6,529,742</u>		

Investment Type	Fair Value	2014 Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Treasury notes	\$ 5,240,590	\$ 677,706	\$ 2,592,448	\$ 993,768	\$ 976,668	Aaa	AA+
Other U.S. government obligations	5,276,808	150,574	3,352,105	1,053,598	720,531	Aaa	AA+
Mortgage pass throughs	2,989,475	-	18,359	94,861	2,876,255	Aaa	AA+
State and local government	15,050	15,050	-	-	-	Aa1	Unrated
State and local government	583,969	-	432,284	27,200	124,485	Aa2	Unrated
State and local government	196,826	-	-	-	196,826	Aaa	AA+
State and local government	203,768	-	-	203,768	-	Aaa	AAA
State and local government	20,002	-	20,002	-	-	Aaa	Unrated
State and local government	10,115	-	10,115	-	-	Unrated	A+

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	Fair Value	2014, Continued Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
Asset-backed securities	175,021	-	175,021	-	-	Aaa	Unrated
Corporate bonds	768,143	30,449	49,979	-	687,715	A1	A
Corporate bonds	675,497	-	366,947	308,550	-	A1	A+
Corporate bonds	160,163	-	-	-	160,163	A1	AA
Corporate bonds	415,750	265,480	150,270	-	-	A1	AA+
Corporate bonds	989,367	-	620,820	368,547	-	A2	A
Corporate bonds	94,943	-	94,943	-	-	A2	A-
Corporate bonds	439,906	23,078	416,828	-	-	A2	A+
Corporate bonds	232,269	-	-	232,269	-	A2	BBB+
Corporate bonds	806,961	201,068	132,204	473,689	-	A3	A
Corporate bonds	804,304	25,064	321,919	244,960	212,361	A3	A-
Corporate bonds	425,095	-	233,527	191,568	-	Aa1	AA
Corporate bonds	388,332	-	285,653	102,679	-	Aa1	AA-
Corporate bonds	174,930	-	-	174,930	-	Aa1	AA+
Corporate bonds	453,852	-	453,852	-	-	Aa1	Unrated
Corporate bonds	10,045	10,045	-	-	-	Aa2	A+
Corporate bonds	830,075	-	100,726	397,789	331,560	Aa2	AA
Corporate bonds	893,479	250,528	425,095	217,856	-	Aa3	AA-
Corporate bonds	196,163	-	-	-	196,163	Aaa	AA+
Corporate bonds	658,017	44,586	366,266	109,716	137,449	Aaa	AAA
Corporate bonds	724,033	-	287,001	437,032	-	Aaa	Unrated
Corporate bonds	486,848	-	243,293	243,555	-	Baa1	A-
Corporate bonds	783,400	-	273,243	510,157	-	Baa1	BBB
Corporate bonds	594,141	-	451,020	143,121	-	Baa1	BBB+
Corporate bonds	199,714	-	199,714	-	-	Baa2	BBB+
Corporate bonds	124,394	-	-	-	124,394	Baa2	BBB+
Corporate bonds	236,334	-	-	-	236,334	Unrated	AA-
	<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>		

Receivables and Allowance for Doubtful Accounts

Contributions receivable 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.

Deferred Outflows of Resources

In addition to assets, the statements of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Fund has determined the changes in assumption, changes in proportion and difference between the Fund's contributions and proportionate share of contributions and pension contributions made subsequent to the measurement date qualify for reporting in this category.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

Capital Assets

The Fund's capital 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.

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, 2015 and 2014 is not material to the financial statements.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Fund has determined the changes in assumption, differences between projected and actual earnings on pension plan investments and changes in proportion and difference between the Fund's contributions and proportionate share of contributions qualify for reporting in this category.

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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

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.

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.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Fund recognizes a net pension liability for the defined benefit pension plan, which represents the Fund's proportional share of excess total pension liability over the pension plan assets - actuarially calculated - of a single employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2015, the following pronouncements were implemented:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. The implementation of these statements had a material effect on the accompanying financial statements resulting in the restatement of the Fund's fiscal year 2014 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68.

	As Previously Reported	Adjustment	As Restated
As of October 1, 2013:			
Fiduciary net position	\$ <u>100,027,523</u>	\$ <u>(2,423,003)</u>	\$ <u>97,604,520</u>
For the year ended September 30, 2014:			
Administrative and general expense	\$ <u>1,229,152</u>	\$ <u>(32,693)</u>	\$ <u>1,196,459</u>
Change in fiduciary net position	\$ <u>5,504,262</u>	\$ <u>32,693</u>	\$ <u>5,536,955</u>
As of September 30, 2014:			
Deferred outflows from pension	\$ <u>-</u>	\$ <u>67,704</u>	\$ <u>67,704</u>
Net pension liability	\$ <u>-</u>	\$ <u>(2,274,001)</u>	\$ <u>(2,274,001)</u>
Deferred inflows from pension	\$ <u>-</u>	\$ <u>(184,013)</u>	\$ <u>(184,013)</u>
Fiduciary net position	\$ <u>105,531,785</u>	\$ <u>(2,390,310)</u>	\$ <u>103,141,475</u>

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(3) Prior Service Claims

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

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

The Fund received a fund allocation of \$108,000 on August 21, 2015 and paid benefits of \$87,119 for the year ended September 30, 2015. 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. 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, 2015 and 2014, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$99,942 and \$92,618, 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(4) Healthcare Fund, Continued

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 \$182,562 during the year ended September 30, 2015 from \$138,216 during the year ended September 30, 2014. 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, 2015 and 2014, total benefits paid amounted to \$5,239,074 and \$4,706,420 of which \$2,966,071 and \$3,564,746, respectively, was paid to the Belau National Hospital, a related party.

(5) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: The Fund contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a defined benefit, cost sharing multi-employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2.

A single actuarial valuation report is performed annually covering all plan members and the same contribution rate applies to each employer. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the Plan's Administrator at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call (680) 488-2523.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Plan Membership. As of September 30, 2014, the date of the most recent valuation, plan membership consisted of the following:

Inactive members currently receiving benefits	1,356
Inactive members entitled to but not yet receiving benefits	206
Active members	<u>3,107</u>
Total members	<u>4,669</u>

Pension Benefits. Retirement benefits are paid to members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions.

Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated 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.

In accordance with the directives of RPPL 5-7, the Board adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Plan. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Currently, normal benefits are paid monthly and are two percent of each member's average monthly salary for each year of credited total service up to a maximum of thirty years total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member's service multiplied by twelve.

The benefit amount that married members or unmarried members receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

<u>Factor</u>	<u>If the Spouse or Beneficiary is:</u>
1.00	21 or more years older than the member
0.95	16 to 20 years older than the member
0.90	11 to 15 years older than the member
0.85	6 to 10 years older than the member
0.80	0 to 5 years younger than the member or 0 to 5 years older than the member
0.75	6 to 10 years younger than the member
0.70	11 to 15 years younger than the member
0.65	16 or more years younger than the member

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit pursuant to RPPL 9-2.

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced according to the following schedule based on the age at which early retirement benefit payments begin:

- $1/12^{\text{th}}$ per year for the first 3 years before age 60;
- plus an additional $1/18^{\text{th}}$ per year for the next 3 years;
- plus an additional $1/24^{\text{th}}$ per year for the next 5 years; and
- plus an additional $1/50^{\text{th}}$ per year for each year in excess of 11 years.

Upon the death of a member or former member with eligible survivors before commencement of the members' normal, early, or late retirement benefits or disability retirement benefits the following shall be payable:

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

Upon the death of a member or former member before commencement of his normal, early, or late retirement benefit or disability retirement benefit leaving no persons eligible for survivor benefits, the following shall be payable:

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

Contributions. Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Plan through payroll deduction.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau must from time to time contribute additional sums to the Plan in order to keep the Plan on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Plan equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Plan.

The Fund's contribution to the Plan for the years ending September 30, 2015, 2014 and 2013 were \$35,205, \$32,961 and \$31,386, respectively, which were equal to the required contributions for the respective years then ended.

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of October 1, 2013, and rolled forward using generally accepted actuarial procedures to the measurement date as of September 30, 2014, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Investment Income:	7.5% per year
Expenses:	\$300,000 each year
Salary Increase:	3.0% per year
Mortality:	RP 2000 Combined Healthy Mortality Table, set forward four years
Disabled Mortality:	PBGC Mortality Table for Disabled Persons receiving Social Security
Retirement Age:	Age 60 and contributed for at least 5 years
Pre-retirement Beneficiary Benefit Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death. 80% of active workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses
Disability:	Rates are from the 2007 US Social Security Trustees Report Intermediate Assumptions
Turnover:	5% per year prior to age 40; none after age 40
Refund of Contributions:	80% of those who terminate and are eligible to receive a refund of their employee contributions in lieu of a future benefit elect to receive the refund.
Workers Included In the Valuation:	Workers indicated in the census as Active or Inactive with a vested benefit.

Investment Rate of Return

The long-term expected rate of return on the Fund's investments of 7.5% was determined using the building-block method, creating a best-estimate range for each asset class.

As of September 30, 2014, the geometric mean rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
Equity	55%	8.8%
Governmental fixed income	35%	5.5%
Corporate fixed income	<u>10%</u>	6.4%
	<u>100%</u>	

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Discount Rate

The discount rate used to measure the total pension liability was 4.22%. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2022 for 2014. For years after 2021, a discount rate of 4.11% is used. This rate is equal to the last Bond Buyer 20-Bond Go Index rate for September.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Fund, calculated using the discount rate of 4.22%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.22%) or 1.00% higher (5.22%) from the current rate.

<u>1% Decrease 3.22%</u>	<u>Current Single Discount Rate Assumption 4.22%</u>	<u>1% Increase 5.22%</u>
\$ 2,733,531	\$ 2,432,377	\$ 2,008,115

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

Pension Liability. At September 30, 2015 and 2014, the Fund reported a liability of \$2,432,377 and \$2,274,001, respectively, for its proportionate share of the net pension liability. The Fund's proportion of the net pension liability was based on the projection of the Fund's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2015 and 2014, the Fund's proportion was 1.1907% and 1.2489%, respectively.

Pension Expense. For the years ended September 30, 2015 and 2014, the Fund recognized pension expense of \$102,151 and \$31,612, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2015 and 2014, the Fund reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(5) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 155,479	\$ 140,129	\$ -	\$ 183,638
Net difference between projected and actual earnings on pension plan investments	-	6,555	-	375
Contribution subsequent to measurement date	35,205	-	32,961	-
Changes in proportion and difference between the Fund's contributions and proportionate share of contributions	<u>27,808</u>	<u>96,138</u>	<u>34,743</u>	<u>-</u>
	<u>\$ 218,492</u>	<u>\$ 242,822</u>	<u>\$ 67,704</u>	<u>\$ 184,013</u>

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2015 will be recognized in pension expense as follows:

Year ending September 30,

2016	\$ (18,261)
2017	\$ (18,261)
2018	\$ (18,261)
2019	\$ (18,171)
Thereafter	\$ 13,419

(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 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 \$3,587,578 and \$4,934,525 with interest at 4.5% at September 30, 2015 and 2014, respectively. The loan is collateralized by the full faith and credit of the Republic of Palau Government.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(6) Loan Receivable, Continued

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>
2016	\$ 267,764	\$ 165,631	\$ 433,395
2017	287,158	146,237	433,395
2018	300,226	133,169	433,395
2019	313,889	119,506	433,395
2020	327,894	105,501	433,395
2021 - 2025	<u>2,090,647</u>	<u>293,025</u>	<u>2,383,672</u>
	\$ <u>3,587,578</u>	\$ <u>963,069</u>	\$ <u>4,550,647</u>

(7) Capital Assets

A summary of the Fund's capital assets, at original cost, as of September 30, 2015 and 2014, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2015</u>
Capital assets not being depreciated:					
Land		\$ 207,018	\$ -	\$ (207,018)	\$ -
Capital assets being depreciated:					
Office furniture and equipment	4 - 13 years	381,449	33,312	(3,550)	411,211
Building and improvements	30 years	136,413	-	-	136,413
Vehicles	5 years	80,195	-	-	80,195
		598,057	33,312	(3,550)	627,819
Less accumulated depreciation		(506,812)	(43,440)	3,550	(546,702)
Total capital assets being depreciated		91,245	(10,128)	-	81,117
Total capital assets, net		\$ 298,263	\$ (10,128)	\$ (207,018)	\$ 81,117
	<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		\$ 207,018	\$ -	\$ -	\$ 207,018
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	77,195	15,900	(12,900)	80,195
		623,687	39,600	(65,230)	598,057
Less accumulated depreciation		(524,569)	(53,144)	70,901	(506,812)
Total capital assets being depreciated		99,118	(13,544)	5,671	91,245
Total capital assets, net		\$ 306,136	\$ (13,544)	\$ 5,671	\$ 298,263

On August 6, 2015, the Fund sold real property (Lot Nos. 044 B17 and 048 B02) located in Ikelau Hamlet, Koror, containing approximately 3,300 square meters, to a third party for \$208,000, resulting in a \$982 gain on sale.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2015 and 2014

(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 \$142,452,000 as of October 1, 2014. 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, 2015, to correct this potential funding deficiency.

(9) Risk Management

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Required Supplemental Information (Unaudited)
 Schedule of Proportional Share of the Net Pension Liability
 Last 10 Fiscal Years*

	<u>2014</u> <u>Valuation</u>	<u>2013</u> <u>Valuation</u>
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 204,281,232	\$ 182,080,332
The Fund's proportionate share of the net pension liability	\$ 2,432,377	\$ 2,274,001
The Fund's proportion of the net pension liability	1.19%	1.25%
The Fund's covered employee payroll**	\$ 441,188	\$ 441,188
The Fund's proportionate share of the net pension liability as a percentage of its covered employee payroll	551.30%	515.42%
Plan fiduciary net position as a percentage of the total pension liability	14.01%	15.84%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Required Supplemental Information (Unaudited)
 Schedule of Pension Contributions
 Last 10 Fiscal Years*

	<u>2014</u> <u>Valuation</u>	<u>2013</u> <u>Valuation</u>
Actuarially determined contribution	\$ 80,184	\$ 78,631
Contribution in relation to the actuarially determined contribution	<u>32,961</u>	<u>31,386</u>
Contribution (excess) deficiency	<u>\$ 47,223</u>	<u>\$ 47,245</u>
The Fund's covered-employee payroll**	<u>\$ 441,188</u>	<u>\$ 441,188</u>
Contribution as a percentage of covered-employee payroll	7.47%	7.11%

* This data is presented for those years for which information is available.

** Covered-employee payroll data from the actuarial valuation date with one-year lag.

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Fiduciary Net Position
September 30, 2015

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Eliminations	Total
Cash	\$ 2,316,205	\$ 109,900	\$ 2,187,517	\$ -	\$ 4,613,622
Investments:					
Mutual funds	41,537,451	-	5,921,326	-	47,458,777
U.S. Government obligations	15,721,669	-	-	-	15,721,669
Corporate stock	13,610,317	-	-	-	13,610,317
Corporate bonds	13,069,436	-	-	-	13,069,436
Money market funds	920,520	-	3,219	-	923,739
Total investments	<u>84,859,393</u>	<u>-</u>	<u>5,924,545</u>	<u>-</u>	<u>90,783,938</u>
Receivables:					
Contributions	5,025,804	-	1,004,324	-	6,030,128
Loan	3,587,578	-	-	-	3,587,578
Accrued interest and dividends	262,958	-	-	-	262,958
Due from other funds	53,330	-	-	(53,330)	-
Advances and other	228,358	-	227,710	-	456,068
	9,158,028	-	1,232,034	(53,330)	10,336,732
Less allowance for doubtful accounts	<u>(2,775,875)</u>	<u>-</u>	<u>(52,656)</u>	<u>-</u>	<u>(2,828,531)</u>
Total receivables, net	<u>6,382,153</u>	<u>-</u>	<u>1,179,378</u>	<u>(53,330)</u>	<u>7,508,201</u>
Prepaid expense	113,985	-	10,595	-	124,580
Capital assets, net	48,618	-	32,499	-	81,117
Total assets	<u>93,720,354</u>	<u>109,900</u>	<u>9,334,534</u>	<u>(53,330)</u>	<u>103,111,458</u>
Deferred outflows of resources from pension	<u>218,492</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>218,492</u>
Total assets and deferred outflows of resources	<u>93,938,846</u>	<u>109,900</u>	<u>9,334,534</u>	<u>(53,330)</u>	<u>103,329,950</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>					
Liabilities:					
Benefits payable	407,758	-	1,117,608	-	1,525,366
Accrued liabilities and accounts payable	78,836	-	21,397	-	100,233
Due to other funds	-	9,958	43,372	(53,330)	-
Net pension liability	2,432,377	-	-	-	2,432,377
Total liabilities	2,918,971	9,958	1,182,377	(53,330)	4,057,976
Deferred inflows of resources from pension	<u>242,822</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>242,822</u>
Total liabilities and deferred inflows of resources	<u>3,161,793</u>	<u>9,958</u>	<u>1,182,377</u>	<u>(53,330)</u>	<u>4,300,798</u>
Fiduciary net position:					
Held in trust for benefits and other purposes	<u>\$ 90,777,053</u>	<u>\$ 99,942</u>	<u>\$ 8,152,157</u>	<u>\$ -</u>	<u>\$ 99,029,152</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Changes in Fiduciary Net Position
Year Ended September 30, 2015

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
Additions:				
Contributions:				
Private employees	\$ 6,379,404	\$ -	\$ 3,166,073	\$ 9,545,477
Government employees	5,543,071	-	3,032,111	8,575,182
Self-employed individuals	-	-	182,562	182,562
Penalties and interest	749,320	-	31,951	781,271
	12,671,795	-	6,412,697	19,084,492
Less bad debts	(194,593)	-	22,931	(171,662)
Total contributions, net	12,477,202	-	6,435,628	18,912,830
Investment income:				
Net decrease in the fair value of investments	(2,692,083)	-	(73,843)	(2,765,926)
Interest	1,075,007	-	1,393	1,076,400
Dividends	304,476	-	-	304,476
Total investment loss, net	(1,312,600)	-	(72,450)	(1,385,050)
Other income	50,065	108,000	3,916	161,981
Total additions	11,214,667	108,000	6,367,094	17,689,761
Deductions:				
Benefit payments:				
Retirement	10,525,627	40,802	-	10,566,429
Survivor's	3,831,045	45,923	-	3,876,968
National health insurance	-	-	2,908,818	2,908,818
Medical savings account	-	-	2,330,256	2,330,256
Disability	467,655	394	-	468,049
Lump sum	75,985	-	-	75,985
Total benefit payments	14,900,312	87,119	5,239,074	20,226,505
Administrative	987,693	13,557	343,688	1,344,938
Investment management fee	114,280	-	219	114,499
Fund custodian fee	69,316	-	3,386	72,702
Depreciation	15,491	-	27,949	43,440
Total deductions	16,087,092	100,676	5,614,316	21,802,084
Change in fiduciary net position	(4,872,425)	7,324	752,778	(4,112,323)
Fiduciary net position at beginning of year	95,649,478	92,618	7,399,379	103,141,475
Fiduciary net position at end of year	<u>\$ 90,777,053</u>	<u>\$ 99,942</u>	<u>\$ 8,152,157</u>	<u>\$ 99,029,152</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions
 Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Salaries, wages and benefits	\$ 800,588	\$ 595,174
Professional services	194,612	188,199
Board members other expenses	78,313	140,813
Staff development and training	56,864	37,043
Supplies, printing and reproduction	51,262	53,739
Travel and transportation	27,968	20,793
Communications	24,577	22,138
Utilities	24,118	30,695
Bank service charge	11,432	10,846
Repairs and maintenance	10,664	10,844
Credit card processing fees	7,320	16,627
Representation and entertainment	4,945	10,189
Postage stamps	4,125	4,873
Fuel and oil	3,968	4,764
Furniture and fixtures	3,962	4,387
Insurance	3,890	6,516
Board compensation	2,500	2,550
Special functions	1,614	4,214
Dues, subscriptions and registrations	1,363	1,574
Donations	1,000	1,010
Office equipment	260	2,459
Miscellaneous	<u>29,593</u>	<u>27,012</u>
 Total administrative deductions	 <u>\$ 1,344,938</u>	 <u>\$ 1,196,459</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2015

	Cost	Fair Value
<u>Money Market Funds</u>		
Dreyfus Cash Management - Inst - Account #135074870	\$ 281,994	\$ 281,994
Dreyfus Cash Management - Inst - Account #140386855	3,219	3,219
Dreyfus Cash Management - Inst - Account #140340753	390,322	390,322
Dreyfus Cash Management - Inst - Account #140011156	241,675	241,675
Dreyfus Cash Management - Inst - Account #140386608	6,529	6,529
	<u>\$ 923,739</u>	<u>\$ 923,739</u>
<u>Total Money Market Funds</u>		
<u>U.S. Government Obligations</u>		
US Treasury Notes, 1.5% due on 6/30/2016	\$ 606,396	\$ 605,430
US Treasury Notes, 1% due on 3/31/2017	451,262	453,281
US Treasury Notes, 4.25% due on 11/15/2017	128,067	134,342
US Treasury Notes, 2.75% due on 2/15/2019	583,635	591,237
US Treasury Notes, 3.125% due on 5/15/2019	899,730	899,632
US Treasury Notes, 1.625% due on 6/30/2020	511,546	516,436
US Treasury Notes, 2.625% due on 8/15/2020	463,675	476,230
US Treasury Notes, 1.75% due on 5/15/2023	224,704	223,083
US Treasury Notes, 2.5% due on 8/15/2023	1,181,387	1,222,919
US Treasury Bonds, 3.5% due on 02/15/2039	1,570,764	1,584,798
	<u>6,621,166</u>	<u>6,707,388</u>
<u>Total U.S. Treasury - Account#135074870</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	249,925	250,285
Federal Home Loan Mortgage Corp Notes, 1% due on 3/8/2017	651,003	654,134
NCUA Guaranteed Notes Secured, 2.35% due on 6/12/2017	236,962	236,318
Federal National Mortgage Association Unsecured, 1.625% due on 11/27/2018	449,906	458,046
Federal Home Loan Mortgage Corp Gold Pool #B13067, 4.5% due on 3/1/2019	10,018	10,949
Federal National Mortgage Association Notes, 4% due on 4/22/2019-2010	35,000	38,313
AID-TUNISIA Unsecured, 1.686% due on 07/16/2019	556,425	559,955
Federal National Mortgage Association Unsecured, 1.6% due on 7/24/2019-2013	200,482	202,198
Federal Home Loan Mortgage Corp Unsecured Step-Up, 1% due on 9/30/2019-2015	374,981	375,495
Federal Home Loan Mortgage Corp Unsecured, 1.25% due on 10/2/2019	248,570	249,493
Federal Home Loan Mortgage Corp Unsecured, 1.75% due on 12/16/2019-2015	349,983	350,679
Federal Home Loan Mortgage Corp Gold Pool #G12121, 5.5% due on 4/1/2021	13,219	14,464
Federal Home Loan Bank Unsecured, 2.625% due on 12/10/2021	219,054	217,629
Federal Home Loan Mtge Corp Notes, 2.375% due on 1/13/2022	402,531	411,964
Private Export Funding Secured, 2.8% due on 5/15/2022	505,183	515,265
Tennessee Valley Auth Unsecured, 1.875% due on 8/15/2022	399,669	395,316
Federal National Mortgage Association Pool #935636, 4.0% due on 9/1/2024	55,648	56,531
Federal Farm Credit Bank Unsecured, 2.48% due on 11/21/2024-2013	349,433	347,753
Overseas Private Inv Corp Unsecured Floating, 0.14% due on 7/15/2025	100,000	100,000
Federal Home Loan Mortgage Corp Pool #C76358, 5% due on 2/1/2033	25,950	27,956
Federal Home Loan Mortgage Corp Pool #C01567, 5% due on 5/1/2033	91,730	99,370
Federal National Mortgage Association Pool #739821, 5% due on 9/1/2033	25,646	27,482
Federal National Mortgage Association Pool #735733, 4.5% due on 10/1/2033	39,052	45,702
Federal National Mortgage Association Pool #725205, 5% due on 3/1/2034	5,198	6,172
Federal Home Loan Mortgage Corp Pool #781958, 2.38% due on 9/1/2034	8,909	9,615
Federal National Mortgage Association Pool #794474, 6% due on 10/1/2034	58,498	66,114
Federal National Mortgage Association Pool #796274, 5.5% due on 12/1/2034	112,663	128,718
Federal National Mortgage Association Pool #810225, 6% due on 1/1/2035	83,592	94,287
Federal National Mortgage Association Pool #735227, 5.5% due on 2/1/2035	19,100	22,129
Federal National Mortgage Association Pool #735228, 5.5% due on 2/1/2035	44,171	51,443
Federal Home Loan Mortgage Corp Gold Pool #G08046, 5.5% due on 3/1/2035	33,145	38,289
Federal National Mortgage Association Pool #814915, 5.5% due on 3/1/2035	72,402	77,054
Federal National Mortgage Association Pool #255670, 5% due on 4/1/2035	16,808	19,580
Federal National Mortgage Association Pool #735502, 6% due on 4/1/2035	17,723	20,204
Federal National Mortgage Association Pool #826966, 5.5% due on 6/1/2035	5,413	5,777
Federal Home Loan Mortgage Corp Gold Pool #A36664, 5% due on 8/1/2035	15,345	18,010
Federal Home Loan Mortgage Corp Gold Pool #A36685, 5% due on 8/1/2035	6,856	8,007
Federal Home Loan Mortgage Corp Pool #G01938, 5.5% due on 9/1/2035	26,813	27,865
Federal Home Loan Mortgage Corp Pool #A37876, 5% due on 9/1/2035	70,483	74,098
Federal National Mortgage Association Pool #735897, 5.5% due on 10/1/2035	34,785	39,558
Federal National Mortgage Association Pool #828856, 5.5% due on 10/1/2035	38,337	44,978
Government National Mtg Corp Pool #648503, 5.5% due on 11/15/2035	14,823	17,210
Federal Home Loan Mortgage Corp Pool #G01960, 5% due on 12/1/2035	38,008	40,066
Federal National Mortgage Association Pool #745089, 6% due on 12/1/2035	17,193	19,838
Federal National Mortgage Association Pool #868936, 6% due on 5/1/2036	121,732	125,064
Federal Home Loan Mortgage Corp Pool #A49906, 5% due on 6/1/2036	27,327	30,323
Federal Home Loan Mortgage Corp Pool #A61533, 5% due on 6/1/2036	11,999	12,731
Federal National Mortgage Association Pool #867452, 6.5% due on 6/1/2036	17,507	20,793

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2015

	Cost	Fair Value
<u>U.S. Government Obligations, Continued</u>		
Federal National Mortgage Association Pool #882694, 6.5% due on 6/1/2036	15,683	18,745
Federal National Mortgage Association Pool #903749, 6% due on 10/1/2036	13,822	15,509
Federal Home Loan Mortgage Corp Gold Pool #A55326, 6% due on 12/1/2036	9,871	10,969
Federal Home Loan Mortgage Corp Pool #1G1406 ARM, 5.752% due on 12/1/2036	10,279	10,704
Federal National Mortgage Association Pool #904915, 5.5% due on 12/1/2036	15,735	17,410
Federal National Mortgage Association Pool #905678, 5.5% due on 12/1/2036	54,506	58,825
Federal Home Loan Mortgage Corp Good Pool #H00452, 5.5% due on 1/1/2037	21,938	24,302
Federal National Mortgage Association Pool #910473, 5.479% due on 1/1/2037	9,749	10,224
Federal Home Loan Mortgage Corp Good Pool #A60299, 6.5% due on 5/1/2037	23,348	26,160
Federal National Mortgage Association Pool #AA3553, 5% due on 2/1/2039	14,605	15,726
GNMA Mortgage Pool CTFS Pool #701940, 4.5% due on 6/15/2039	335,055	356,593
Federal Home Loan Mortgage Corp Pool #A88454, 4.5% due on 9/1/2039	122,848	127,581
Government National Mortgage Association Pool #737442, 4% due on 9/15/2040	304,983	317,141
	<hr/>	<hr/>
Total U.S. Government Agencies - Account#135074870	7,641,622	7,853,109
Hawaii St Hwy Rev Highway Revenue Txbl-Ser C, 1.2% due on 1/1/2017	125,000	125,964
Univ of Hawaii Revenue TXBL-REF-Medical School Project-SER D, 1.819% due on 10/1/2018-2015	200,000	201,296
Utility Debt Securitization Auth NY Txbl-Restructuring-Ser T, 2.042% due on 6/15/2021-2019	199,998	203,686
Hawaii St Dept Business Econ Dev & Tourism Green Ener TXBL-Green Bonds SER A-1 Variable Sink, 1.467% due on 7/1/2022	289,811	291,096
Honolulu City & CNTY Wastewtr Sys Rev Build America Bonds, 4.643% due on 7/1/2022-2020	25,000	27,354
Honolulu City & CNTY Wastewtr Sys Rev Build America Bonds Taxable-First BD-Ser B Issuer Subsi, 6.114% due on 7/1/2029-2019	110,000	122,044
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	189,351	189,732
	<hr/>	<hr/>
Total U.S. Municipal Obligations - Account#135074870	1,139,160	1,161,172
	<hr/>	<hr/>
Total U.S. Government Obligations	\$ 15,401,948	\$ 15,721,669
<u>Corporate Bonds</u>		
Landesbk Baden-Wurtt NY Subordinated, 5.05% due on 12/30/2015	\$ 261,824	\$ 252,455
PPG Industries Inc Sr Unsecured, 1.9% due on 1/15/2016	225,158	225,590
Inter-American Devel BK SR Unsecured Floating Rate NT, 0.23685% due on 2/11/2016	149,988	149,997
American Honda Finance Unsecured Fltg Rt, 0.454% due on 9/2/2016	94,999	94,963
Ryder System Inc Notes, 5.85% due on 11/1/2016	249,294	262,020
Toyota Motor Credit Corp. SR Unsecured, 2.05% due on 1/12/2017	204,847	202,966
European Investment Bank SR Unsecured, 1.75% due on 3/15/2017	328,249	330,077
World Omni Automobile Lease Sec Ser 2014-A CL A2A, .71% due on 3/15/2017	145,802	145,687
General Electric Capital Corp SR Unsecured Fltg, 0.6005% due on 5/15/2017-2017	150,000	150,152
Total Capital Intl SA SR Unsecured, 1.55% due on 06/28/2017	149,885	151,098
Unilever Capital Corp SR Unsecured, 0.85% due on 8/2/2017	174,413	175,005
American Express Credit SR Unsecured Floating Rate, 0.6192% due on 9/22/2017	90,060	89,544
Wespac Banking Corp SR Unsecured, 1.5% due on 12/1/2017	315,542	314,764
Wells Fargo Company SR Unsecured, 5.625% due on 12/11/2017	179,727	195,739
Charles Schwab Corp SR Unsecured, 1.5% due on 3/10/2018-2018	104,890	105,101
Partnerre Finance Company Guarnt, 6.875% due on 6/1/2018	278,902	314,129
NA Development Bank SR Unsecured, 2.3% due on 10/10/2018	132,370	132,934
Morgan Stanley SR Unsecured, 7.3% due on 5/13/2019	149,814	175,145
Disney (Walt) Company SR Unsecured Floating, 0.6352% due on 5/30/2019	200,000	199,138
Toronto-Dominion Bank SR Unsecured, 2.125% due on 7/2/2019	74,926	75,401
KFW Unsecured, 1.75% due on 10/15/2019	299,306	304,476
Procter & Gamble Co SR Unsecured, 1.9% due on 11/1/2019	199,726	202,048
Chevron Corp Unsecured, 2.193% due on 11/15/2019	100,000	101,079
FedEx Corporation SR Unsecured, 2.3% due on 2/1/2020	119,806	120,536
NA Development Bank SR Unsecured, 4.375% due on 2/11/2020	426,459	441,288
Exxon Mobil Corp SR Unsecured, 1.912% due on 3/6/2020-2020	401,468	402,492
Private Export Funding Secured, 2.25% due on 3/15/2020	304,752	305,928
International Business Machines SR Unsecured, 1.625% due on 5/15/2020	99,466	98,706
CA Inc SR Unsecured, 3.6% due on 8/1/2020	104,896	107,346
Ebay Inc SR Unsecured, 3.25% due on 10/15/2020	363,570	365,623
Wal-Mart Stores Inc Senior Notes, 3.25% due on 10/25/2020	214,390	228,020
Baylor Scott & White Holdings Unsecured, 2.123% due on 11/15/2020-2020	155,000	154,374
Intel Corp SR Unsecured, 3.3% due on 10/1/2021	305,111	315,117
Burlington Northern Inc SR Unsecured, 8.75% due on 2/25/2022	226,529	224,266
Autozone Inc SR Unsecured, 3.7% due on 4/15/2022-2022	128,601	128,603
Toyota Motor Credit Corp SR Unsecured, 2.8% due on 7/13/2022	104,742	105,630
Shell International SR Unsecured, 2.375% due on 8/21/2022	99,697	96,480
CVS/Caremark Corp SR Unsecured, 2.75% due on 12/1/2022-2022	149,839	147,536
Chevron Corp SR Unsecured, 2.355% due on 12/5/2022-2022	100,000	96,705
Comcast Corp SR Unsecured, 2.85% due on 1/15/2023	238,617	249,067

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments September 30, 2015

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
Landesbank Baden-Wuerttemberg Subordinated, 7.625% due on 2/01/2023	474,182	471,808
Berkshire Hathaway Inc Sr Unsecured, 3% due on 2/11/2023	173,835	176,839
Apple Inc SR Unsecured, 2.4% due on 5/3/2023	185,538	179,298
Microsoft Corp SR Unsecured, 3.625% due on 12/15/2023	104,551	111,391
Invesco Finance PLC SR Unsecured, 4% due on 1/30/2024	149,069	157,378
Colgate Palmolive Co SR Unsecured, 3.25% due on 3/15/2024	114,398	119,437
Total Capital Intl SA SR Unsecured, 3.75% due on 4/10/2024	375,224	376,862
Novartis Capital Corp SR Unsecured, 3.4% due on 5/6/2024	99,358	103,506
Goldman Sachs Group Inc SR Unsecured, 3.85% due on 7/8/2024-2024	249,644	249,750
Kimberly Clark Corp SR Unsecured, 2.65% due on 3/1/2025	124,656	121,694
Pepsico Inc SR Unsecured, 2.75% due on 4/30/2025-2025	124,480	121,116
Golondrina Leasing LLC Sink FD GTD Export Import Bank of USA, 1.822% due on 5/3/2025	184,784	184,166
Marathon Oil Corp SR Unsecured, 3.85% due on 6/1/2025-2025	365,648	354,120
Inter-American Development Bank Notes, 6.75% due on 7/15/2027	132,224	141,440
Pharmacia Corporation Debentures, 6.75% due on 12/15/2027	145,273	158,771
GTE FLA Inc SR Unsecured, 6.86% due on 2/1/2028	213,360	195,888
Apache Finance Canada Company Guaranteed, 7.75% due on 12/15/2029	179,678	202,248
Burlington Resources Fin Company Guaranteed, 7.4% due on 12/1/2031	335,185	324,855
Johnson & Johnson SR Unsecured, 4.375% due on 12/5/2033-2033	599,287	584,348
Union Pacific Corp SR Unsecured, 3.375% due on 2/1/2035-2034	104,687	95,542
Wal-Mart Stores Inc SR Unsecured, 6.5% due on 8/15/2037	252,427	328,225
Entergy Texas Inc Secured, 5.15% due on 6/1/2045-2025	248,787	250,627
Queens Health Systems Secured, 4.464% due on 7/1/2045	125,000	122,902
	<u>\$ 12,863,940</u>	<u>\$ 13,069,436</u>
<u>Corporate Stock</u>		
Adobe Systems Inc	\$ 125,787	\$ 131,552
Allergan PLC	76,704	67,681
Alibaba Group Holding Ltd. SP ADR	177,332	112,043
Amazon.com Inc	187,834	211,922
American Express Co	53,379	81,543
American Int'l Group	128,304	125,004
American Tower Corp	106,579	158,364
Apple Inc	201,428	297,148
Bank of America Corp	118,524	177,612
Biogen Inc	14,892	36,476
Boeing Co	182,045	242,258
Boston Scientific Corp	123,890	134,562
Bristol Myers Squibb Co	102,732	94,720
Celgene Corp	93,108	134,347
Charles Schwab Corp	42,294	88,536
Cigna Corp	77,439	67,510
Cisco Systems	120,590	120,750
Citigroup Inc	195,623	225,229
Comcast Corp CL A	72,873	130,824
CVS/Caremark Corp	85,496	241,200
Disney Walt Co	16,532	102,200
Delta Airlines Inc	164,507	166,019
Dow Chemical Co	252,637	216,240
Facebook Inc CL A	255,373	323,640
Gilead Sciences Inc	34,034	166,923
Google Inc CL A	91,191	272,584
Google Inc CL C	15,091	103,431
Home Depot Inc	86,759	254,078
Honeywell International Inc.	116,368	123,097
Kinder Morgan Inc	157,552	119,024
JP Morgan Chase & Co	126,608	231,686
Marsh & McLennan Companies Inc	54,160	83,552
Mastercard Inc Class A	96,774	180,240
McKesson Corp	65,058	70,682
Medtronic PLC	120,944	107,104
Merck & Co Inc	116,482	103,719
Microsoft Corp	147,976	159,336
Morgan Stanley	81,193	85,050
Nike Inc CL B	80,634	86,079
Pfizer Inc	144,247	135,063
Salesforce.com Inc	97,822	97,202
Schlumberger Ltd	146,603	131,043
Starbucks Corp	76,325	79,576

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2015

	Cost	Fair Value
<u>Corporate Stock, Continued</u>		
T-mobile US Inc	126,452	167,202
Teva Pharmaceutical Inds Ltd SP ADR	127,044	118,566
TJX Companies Inc	80,105	92,846
Unitedhealth Group Inc	58,191	69,606
United Parcel Service CL B	121,966	118,428
VISA Inc CL A Shares	110,819	111,456
Subtotal - Account#140011156	<u>5,456,300</u>	<u>6,954,953</u>
AT&T Inc	186,311	215,028
Abbott Laboratories	85,491	132,726
Ace Ltd	210,088	196,460
Adobe Systems Inc	167,407	180,884
Amgen Inc	110,083	138,320
Celgene Corp	34,494	129,804
Chevron Corp	168,982	157,760
Coca Cola Co	179,313	220,660
CVS/Caremark Corp	215,830	202,608
Danaher Corp	91,742	204,504
Discovery Communications A	325,592	200,431
Disney Walt Co	138,086	214,620
Dominion Resources Inc/VA	143,236	218,178
Dow Chemical Co	123,933	203,520
Duke Energy Corp	229,314	223,014
Eog Resources Inc	243,832	182,000
Exxon Mobil Corp	151,054	163,570
Fedex Corporation	110,420	187,174
General Electric Co	140,166	209,326
Google Inc CL A	113,806	191,511
Johnson Controls	235,741	210,936
Johnson & Johnson	157,643	140,025
Lowes Cos Inc	239,656	220,544
Merck & Co. Inc	147,062	192,621
Microsoft Corp	99,311	181,466
Oracle Corp	126,218	176,988
PPL Corporation	178,101	226,941
Pfizer Inc	122,836	204,165
Philip Morris International	225,260	206,258
Schlumberger Ltd	215,497	200,013
Starbucks Corp	137,973	204,624
Thermo Fisher Scientific Inc	50,265	134,508
Unitedhealth Group Inc	185,317	197,217
United Technologies Corp	140,058	177,980
Visa Inc CL A Shares	126,758	208,980
Subtotal - Account#140340753	<u>5,556,876</u>	<u>6,655,364</u>
Total Corporate Stock	<u>\$ 11,013,176</u>	<u>\$ 13,610,317</u>
<u>Mutual Funds</u>		
Wilshire Solutions Trust Non US Equity Fund	\$ 25,000,000	\$ 22,494,138
Wilshire Solutions Trust Credit Opportunities Fund	9,000,000	8,773,925
Wilshire Solutions Trust US Equity Fund	10,000,000	10,269,388
Subtotal - Account#140386608	<u>44,000,000</u>	<u>41,537,451</u>
Wilshire Solutions Trust Core Fixed Income Fund	2,100,000	2,132,269
Wilshire Solutions Trust Credit Opportunities Fund	900,000	882,897
Wilshire Solutions Trust Non US Equity Fund	1,200,000	1,114,547
Wilshire Solutions Trust US Equity Fund	1,800,000	1,791,613
Subtotal - Account#140386855	<u>6,000,000</u>	<u>5,921,326</u>
Total Mutual Funds	<u>\$ 50,000,000</u>	<u>\$ 47,458,777</u>

See accompanying Independent Auditors' Report.