

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, 2016 AND 2015

## 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, 2016 and 2015, 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, 2016 and 2015, 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 Matter**

#### *Implementation of New Accounting Standards*

As discussed in note 2 to the financial statements, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective October 1, 2015.

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 13 as well as the Schedule of Proportional Share of the Net Pension Liability on page 36 and the Schedule of Pension Contributions on page 37 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, 2016 (pages 38 and 39, respectively), the Schedule of Administrative Deductions for the years ended September 30, 2016 and 2015 (page 40) and the Schedule of Investments as of September 30, 2016 (pages 41 through 44) 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 10, 2017 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 10, 2017



*Republic of Palau*  
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**Management's Discussion and Analysis  
Years Ended September 30, 2016 and 2015**

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, 2016 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. The Trustees of the Fund are:

<b>Board Member</b>	<b>Officers/Title</b>	<b>Appointed</b>	<b>Expiration</b>
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 2016. Two employees were on employment contracts. Employee turnover was 10% in 2016, down from 13% in 2015. The workforce of the Fund was at full capacity at fiscal year end.

## **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 \$6,000. The maximum amount of remuneration will increase to \$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 to remit contributions on a bi-weekly basis while some large businesses with 15 or more employees may file and pay contributions on a monthly 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 2016 as benefit payouts exceeded contributions.

Contributions to the Republic of Palau Social Security Retirement Fund (SSRF) and the Healthcare Fund (HCF) in fiscal years 2016 and 2015 were \$22,499,018 and \$19,084,492, respectively, an increase of 18% from the prior year. Of total contributions, 64% represents contributions to SSRF and 36% represents contributions to HCF. SSRF contributions increased due to 4% growth of active members and 20% increase of remuneration. HCF contributions increased in the government, private sector, and self-employed. Contributions to SSRF increased by 14.3% from the prior year while contributions to HCF increased by 25.0%. 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 & Interest	%	Total	%
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%
2016	\$ 6,297,788	43%	\$ 7,753,163	54%	\$ -	0%	\$ 431,459	3%	\$ 14,482,410	100%

### Table 2 HCF Contributions by Sector:

Year	Government	%	Private	%	Self-Employed	%	Penalties & Interest	%	Total	%
2012	\$ 2,597,993	53%	\$ 2,225,673	45%	\$ 77,074	2%	\$ 4,674	0%	\$ 4,905,414	100%
2013	\$ 2,638,006	52%	\$ 2,327,545	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%
2016	\$ 4,259,382	53%	\$ 3,481,793	44%	\$ 247,820	3%	\$ 27,613	0%	\$ 8,016,608	100%

### Table 3 Combined Contributions by Sector:

Year	Government	%	Private	%	Self-Employed	%	Penalties & Interest	%	Total	%
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%
2016	\$ 10,557,170	47%	\$ 11,234,956	50%	\$ 247,820	1%	\$ 459,072	2%	\$ 22,499,018	100%

## Member Services:

Total active Fund members as of fiscal year 2016 were 13,079 which is an increase of 547 and a growth of 4% over the previous year. The annual employment growth has been 4% for the past four years since 2013. Social security (SS) beneficiaries have been at 25% of active members for the past three years and increases by 3% each year. The majority of members receiving benefits are retirees at 62%, followed by survivor dependents (inclusive of spouse and dependents) at 35% and disability members with 3% as indicated in the table below.

YR	ACTIVE MEMBERS		CURRENT MEMBERS RECEIVING BENEFITS				(%) to Active Members
	Members	% of Change	Retirement	Survivor (Dependents)	Disability	Total	
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%
2016	13,079	4%	2,022	1,152	83	3,257	25%

Total active employers as of calendar year 2016 were 2,057 after the employer identification number (EIN) renewal deadline in February 2017. A total of thirty-four EINs were closed at year end due to noncompliance with reporting and/or employee contributions in arrears. 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, 2016.

## Benefit Payments:

On September 21, 2015, the National Congress passed RPPL 9-46, Budget Law for ROP Fiscal Year 2016, with funding for supplemental SS benefits. Supplemental benefit was for \$50 for all SS beneficiaries. During the year, RPPL 9-55, enacted on February 5, 2016, increased the initial appropriation to ensure that supplemental benefits continue on monthly basis without any interruption. On July 11, 2016, the National Congress passed RPPL 9-62, Continuing Budget for FY2017, with a rider to change the SS retirement age back to 60. The change in retirement age did not take effect in 2016 mainly due to the lack of an actuarial valuation. The change may result in a negative financial impact to the Fund. The change in retirement age is expected to be implemented in 2017.



## Benefit Payments, Continued:

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. RPPLs 9-11 and 9-12, enacted in August 2013, increased the minimum basic monthly benefit to \$148 with the maximum limit being equivalent to the highest monthly average wage over twelve of forty quarters preceding retirement. The increase in benefits was more than contributions but was expected to ease off with the change to the retirement age for old-age insurance benefits to 60 or higher for those who were born on or before 09/30/55; to 62 effective 10/01/15 for those who were born from 10/01/55 to 09/30/58; and to 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 \$2,620,382 or 17% from \$14,987,431 in fiscal year 2015 to \$17,607,813 in fiscal year 2016. Benefits increased more than 50% since RPPLs 9-11, 9-12, 9-35, 9-46, 9-55 and 9-62 were enacted. Contributions on an annual basis are no longer sufficient to pay annual benefits due to current beneficiaries. The Fund's emphasis has been on collections of past due contributions and effective cash management on a monthly basis. The bulk of benefit payments was mainly for retirement at 71%, followed by survivors at 26%, disability at 3% and lump sum at 0%. The breakdown of benefit payments and percentage to total funds released for the last five years is as follows:

### SSRF and PSTF Benefit Payments:

Year	Retirement	%	Survivors	%	Disability	%	Lump Sum	%	Total	%
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%
2016	\$ 12,462,803	71%	\$ 4,532,351	26%	\$ 541,740	3%	\$ 70,919	0%	\$ 17,607,813	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).



## Healthcare Fund, Continued:

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, 2016, members of the HCF GC by virtue of their position and title in the respective ROP agencies were as follows:

<b>Member</b>	<b>Representative</b>
Dr. Victor Yano, Chairman	Chamber of Commerce
Minister Elbuchel Sadang, Vice Chairman	Ministry of Finance
Minister Gregorio Ngirmang, Member	Ministry of Health
Governor 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, 2016, total members under the NHI were 16,371 or 94% of a total population of 17,501 based on a census in 2013. Total members under the MSA were 16,558 or 95% of the total population. The remaining 6% 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 \$41.

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, 2016, total government subsidy members were 1,852 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 eleven medical centers in the Philippines, the Republic of China, Taiwan, India and Guam 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.

Insurance benefit reimbursements increased by \$180,224 from \$5,239,074 in fiscal year 2015 to \$5,419,298 in fiscal year 2016. The increase of 3% is the net effect of a 16% increase in MSA claims and a 7% decrease in NHI claims. The challenges with HCF are slow and delayed claims from BNH for inpatient and referral cases. Details of insurance benefit reimbursements and referral cases are indicated below:

### HCF Benefit Payments:

Year	NHI	%	MSA	%	Total	%
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%
2016	2,719,309	50%	2,699,989	50%	5,419,298	100%

### Medical Referral Program/NHI Off-Island Referrals from FY 2011 to FY 2016:

Referral Site	2011	2012	2013	2014	2015	2016	Total
Philippines	66	115	76	80	83	67	487
Taiwan	0	0	71	129	168	147	515
Total	66	115	147	209	251	214	1,002

Patients referred for off-island medical treatment require approval of the MRC. The quarterly threshold of the NHI reimbursement is \$300,000 and in February 2016, the HCF GC authorized an additional \$680,000 to address the backlog of seventy-one approved cases pending evacuation. At September 30, 2016, a total of two hundred and fourteen cases were approved for referral and one hundred and fifty-three cases were still pending travel arrangements. The authorized additional NHI was released in March 2016. The maximum NHI coverage for each referral case remains at \$35,000. There has been some concern by the HCF GC related to subsequent approval of coverage to one member that exceeded \$35,000 on annual basis. The HCF GC has identified several gaps in the HCF guidelines that will be revised 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 years earning less interest and not maximizing the value of the investment. The funds have been segregated since 2014 and excess funds were invested by the Board of Trustees. In 2016, an additional \$2 million from operations was invested. About 52% of total cash and reserve is MSA funds while 48% is NHI funds. HCF's cash and investments were as follows:

Cash	\$ 1,345,695
Mutual funds	8,497,233
Money market funds	<u>552</u>
Total	\$ <u>9,843,480</u>

### Prior Service Retirement:

Funding for the PSTF relies on U.S. government appropriations from the U.S. Department of the Interior (USDOI). In 2016, USDOI approved additional funding for the Cost of Living Adjustments (COLA) for all benefit payees. The minimum basic benefit was increased to \$50 from \$27 along with a 20% increase for those earning more than \$50 retroactive to October 1, 2015. An additional increase of 3% also took effect on October 1, 2016. The Fund's lobbyist and consultant for PSTF was successful in securing funding as needed for COLA in 2016. At September 30, 2016 and 2015, the amount available for future benefit payments under the PSTF amounted to \$138,493 and \$99,942, respectively. The agreement between the PSTF Board and USDOI 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, 2016, total members receiving benefits under the PSTF were 203, a decrease from 213 in fiscal year 2015.

## Investments:

The Board of Trustees complies with investment policies that provide the framework to guide investment managers towards the performance desired, which is to ensure that sufficient assets will be accumulated to pay statutory benefits of current and future retirees. There were no drawdowns of investment in 2016 after the \$3 million drawdown in 2015 to fund the shortfall of benefit payouts in 2016. Further, asset diversification resulted in an asset rebalance in June 2016. The Fund realized a portfolio growth of 6.70% and a positive rate of investment (ROI) of 6.67% for fiscal year 2016. 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. The asset performance of HCF improved in 2016 resulting in an additional investment of \$2 million during the year. The HCF investment and reserve fund is necessary based on increasing costs of health services procured outside of Palau. The Board of Trustees holds no less than two annual meetings with consultants in Palau and one annual meeting with consultants and investment managers on due diligence. There was a change from one investment manager in 2016 based on performance.

SSRF and HCF's investment portfolio for the last six years is shown below.

Year	SSRF				HCF			
	Portfolio	Investment Income (Loss)	Growth	ROI (%)	Portfolio	Investment Income (Loss)	Growth	ROI (%)
2011	\$ 65,044,137	\$ 14,215	1.29%	0.02%	\$ 1,095,366	\$ 445	-	-
2012	\$ 74,358,312	\$ 10,310,568	14.32%	13.87%	\$ 2,621,300	\$ 25,266	139.31%	0.96%
2013	\$ 81,483,595	\$ 7,785,801	9.58%	9.56%	\$ 2,622,160	\$ 6,271	0.03%	0.24%
2014	\$ 81,786,677	\$ 8,678,212	0.37%	10.61%	\$ 2,648,535	\$ 31,090	1.01%	1.17%
2015	\$ 84,859,393	\$ (1,312,600)	3.76%	-1.55%	\$ 5,924,545	\$ (72,450)	123.69%	-1.22%
2016	\$ 90,541,549	\$ 6,042,073	6.70%	6.67%	\$ 8,497,785	\$ 576,610	43.43%	6.79%

## 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. 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, newspapers and newsletters. The Fund's website is [www.ropssa.org](http://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 most significant event in 2016 was the support of the Bureau of Revenue and Taxation and Congress for strengthening the EIN renewal policy. The policy has effectively improved renewal of business licenses and compliance with tax and SS contributions. SS beneficiaries also had an increase of benefits without any change to the benefit calculation as the funding was duly authorized and appropriated by ROP for the \$50 supplemental benefit, a first-time form of benefit in the history of SSRF. The year brings together consolidation of policies and procedures under consultancy reviews providing ease of improving the delivery of services. There were improved monitoring of non-filers, timely submittal of annual surveys and audits of businesses and beneficiaries. Trainings were locally provided for management and staff as well as through ADB, APIPA and IFEBP. Contractual employments were renewed with no change in senior management. Similarly, there were no change to the composition of officers of the Board of Trustees.

## **Subsequent Events:**

During the first quarter of 2017, the Board of Trustees adopted the newly revised SS Operational Rules and Procedures as prepared by the consultant. Implementation of new guidelines took effect on January 1, 2017. On March 29, 2017, RPPL 10-3 was enacted reverting the retirement age back to 60 and with the 2015 actuarial valuation report subsequently amended to include the change in retirement age, the negative impact of the Fund was duly considered by the Trustees. Implementation of the change in retirement age along with retroactive benefit adjustments were undertaken in May 2017 which prompted the Board of Trustees to draw \$1 million from the Fund to meet the shortfall of contributions to benefit payouts in fiscal year 2017. While SSRF faces challenges with frequent changes in the law, the HCF has been accumulating high liquid assets mainly from the support of HCF government subsidy funding from alcohol and tobacco taxes. The inefficiency of the Ministry of Health to submit claims in a reasonable period of time has led to challenges of cash flow at the Ministry of Health while HCF maintains cash left idle and waiting for BNH to submit claims. The need to revise HCF regulations was undertaken in 2016 and continues in 2017.

## **Financial Performance (Overview):**

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 6 for details of GASB Statement No. 68.

The Fund's fiduciary net position as of September 30, 2016 was \$105,273,540 as compared to \$99,029,152 for fiscal year 2015 and \$103,141,475 for fiscal year 2014, which was due to positive earnings and growth of investment assets.

## Statements of Fiduciary Net Position:

	2016	2015	2014 As Restated
Assets and Deferred Outflows of Resources:			
Cash	\$ 1,784,589	\$ 4,613,622	\$ 12,893,872
Investments	99,039,334	90,783,938	84,435,212
Receivables, net	8,480,765	7,508,201	8,642,888
Prepaid expense	11,498	124,580	45,054
Capital assets, net	113,863	81,117	298,263
Deferred outflows of resources from pension	350,777	218,492	67,704
Total assets and deferred outflows of resources	<u>109,780,826</u>	<u>103,329,950</u>	<u>106,382,993</u>
Liabilities, Deferred Inflows of Resources and Fiduciary Net Position:			
Benefits payable	1,434,271	1,525,366	750,815
Accrued liabilities and accounts payable	168,470	100,233	32,689
Net pension liability	2,625,302	2,432,377	2,274,001
Deferred inflows of resources from pension	279,243	242,822	184,013
Total liabilities and deferred inflows of resources	<u>4,507,286</u>	<u>4,300,798</u>	<u>3,241,518</u>
Fiduciary net position held in trust for benefits and other purposes	\$ <u>105,273,540</u>	\$ <u>99,029,152</u>	\$ <u>103,141,475</u>

## Statements of Changes in Fiduciary Net Position:

Additions:			
Contributions, net	\$ 22,275,735	\$ 18,912,830	\$ 17,179,193
Investment income (loss), net	6,618,683	(1,385,050)	8,709,302
Other income	228,927	161,981	246,757
Total additions	<u>29,123,345</u>	<u>17,689,761</u>	<u>26,135,252</u>
Deductions:			
Benefit payments	23,027,111	20,226,505	18,891,747
Other	1,782,496	1,575,579	1,706,550
Total deductions	<u>24,809,607</u>	<u>21,802,084</u>	<u>20,598,297</u>
Transfer from Republic of Palau	<u>1,930,650</u>	-	-
Change in fiduciary net position	6,244,388	(4,112,323)	5,536,955
Fiduciary net position at beginning of year	<u>99,029,152</u>	<u>103,141,475</u>	<u>97,604,520</u>
Fiduciary net position at end of year	\$ <u>105,273,540</u>	\$ <u>99,029,152</u>	\$ <u>103,141,475</u>

## Contributions Receivable

The Fund's contribution receivable as of September 30, 2016 was \$7,231,724 as compared to \$6,030,128 for fiscal year 2015 and \$5,721,580 for fiscal year 2014. Of total contributions receivables, \$5,368,922 or 74% represents the SSRF and \$1,862,802 or 26% represents HCF. Contributions receivables for the SSRF includes \$3,318,195 delinquent employers and \$2,050,727 of accrued tax receivable due a month after the quarter end. The allowance for doubtful accounts of \$3,051,815 represents 42% 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 years 2016 and 2015. The collection of past due accounts is improving each year as staff have gained confidence and experience in dealing with difficult customers.

Year	Total Cont	A/R Cont	% to TC	Provision	% to A/R
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%
2016	\$ 22,499,018	\$ 7,231,724	32%	\$ 3,051,815	42%

## Capital Assets:

At September 30 2016, 2015 and 2014, the Fund had \$113,863, \$81,117 and \$298,263, respectively, in capital assets, net of accumulated depreciation where applicable, including building improvements, office furniture and equipment and vehicles, which represent a net increase in 2016 of \$32,746 or 40% over 2015 for office expansion and minor renovations. See note 8 to the financial statements for more detailed information on the Fund's capital assets.

## Actuarial Valuation:

An actuarial valuation was performed as of October 1, 2015 mainly to assess the system's accrued liabilities and determination of the Fund's funded ratio. The unfunded liability continues to increase and weakening the Fund sustainability for the long term. The funding ratio has deteriorated to 34% in 2015 from 46% in 2013 prior to increase of benefits in 2014 to 2016.

	10/01/2015	10/01/2014
Total accrued liability	\$ 267,772,000	\$ 240,492,000
Less: market value of assets	(90,777,000)	(98,040,000)
Unfunded accrued liability	\$ 176,995,000	\$ 142,452,000
Funded ratio	34%	41%
Present value of future benefits	\$ 349,346,000	\$ 323,623,000
Less: total value of assets and expected future contributions	(252,923,000)	(249,278,000)
Unfunded present value of future benefits	\$ 96,423,000	\$ 74,345,000

The tactical position of the Board of Trustees is to avoid any drawdown of investment funds in the near term with hope that asset allocations would positively grow the Fund within the next market cycle (7-10 years). The plan has faced challenges without the necessary support of the legislative and executive branches of the government to amend laws and increase contributions. The Fund will be considered sound should the funded ratio reach 79%.

## Economic Outlook:

The economic outlook for Palau is expected to remain strong according to the International Monetary Fund concluding statement issued in May 2016. The Gross Domestic Product (GDP) is projected to grow by 6% in 2017 driven by a strong growth in tourism and robust construction activities. Palau's near term outlook remains exposed to a narrow economic base, a remote location, a small population, insufficient infrastructure, restrictive investment regime and vulnerability to natural disasters. The Fund is projecting a growth of 4% for fiscal year 2017 consistent with the growth of employment.

The Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in the Fund's report on the audit of financial statements, which is dated June 23, 2016. That Discussion and Analysis explains the major factors impacting the 2015 financial statements and can be viewed at the Office of the Public Auditor's website at [www.palauopa.org](http://www.palauopa.org).

## Contacting the Fund's Financial Management:

The financial report is designed to provide a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. The MD&A is based on past performance and current situations that anticipate future outlook subject to risk and uncertainties. The actual results in the future may differ from these expectations. If you have questions about this report, or need additional information, please contact the Fund's Administrator at the Republic of Palau Social Security Retirement Fund, P.O. Box 679, Koror, Republic of Palau 96940, or e-mail [administration@ropssa.org](mailto:administration@ropssa.org) or call 488-2457.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Fiduciary Net Position  
September 30, 2016 and 2015

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2016</u>	<u>2015</u>
Cash	\$ 1,784,589	\$ 4,613,622
Investments:		
Mutual funds	50,404,673	47,458,777
U.S. Government obligations	17,429,618	15,721,669
Corporate stock	15,498,331	13,610,317
Corporate bonds	14,674,773	13,069,436
Money market funds	<u>1,031,939</u>	<u>923,739</u>
Total investments	<u>99,039,334</u>	<u>90,783,938</u>
Receivables:		
Contributions	7,231,724	6,030,128
Loan	3,318,617	3,587,578
Accrued interest and dividends	286,654	262,958
Advances and other	<u>695,585</u>	<u>456,068</u>
	11,532,580	10,336,732
Less allowance for doubtful accounts	<u>(3,051,815)</u>	<u>(2,828,531)</u>
Total receivables, net	<u>8,480,765</u>	<u>7,508,201</u>
Prepaid expense	<u>11,498</u>	<u>124,580</u>
Capital assets, net	<u>113,863</u>	<u>81,117</u>
Total assets	<u>109,430,049</u>	<u>103,111,458</u>
Deferred outflows of resources from pension	<u>350,777</u>	<u>218,492</u>
Total assets and deferred outflows of resources	<u>109,780,826</u>	<u>103,329,950</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>		
Liabilities:		
Benefits payable	1,434,271	1,525,366
Accrued liabilities and accounts payable	168,470	100,233
Net pension liability	<u>2,625,302</u>	<u>2,432,377</u>
Total liabilities	4,228,043	4,057,976
Deferred inflows of resources from pension	<u>279,243</u>	<u>242,822</u>
Total liabilities and deferred inflows of resources	<u>4,507,286</u>	<u>4,300,798</u>
Contingencies		
Fiduciary net position:		
Held in trust for benefits and other purposes	<u>\$ 105,273,540</u>	<u>\$ 99,029,152</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Additions:		
Contributions:		
Private employees	\$ 11,234,956	\$ 8,271,182
Government employees	9,265,082	9,545,477
Retirees and disabled individuals	1,292,088	304,000
Penalties and interest	459,072	781,271
Self-employed individuals	247,820	182,562
	<u>22,499,018</u>	<u>19,084,492</u>
Less bad debts	(223,283)	(171,662)
Total contributions, net	<u>22,275,735</u>	<u>18,912,830</u>
Investment income:		
Net increase (decrease) in the fair value of investments	5,311,647	(2,765,926)
Interest	994,618	1,076,400
Dividends	312,418	304,476
Total investment income (loss), net	<u>6,618,683</u>	<u>(1,385,050)</u>
Other income	<u>228,927</u>	<u>161,981</u>
Total additions	<u>29,123,345</u>	<u>17,689,761</u>
Deductions:		
Benefit payments:		
Retirement	12,462,803	10,566,429
Survivor's	4,532,351	3,876,968
National health insurance	2,719,309	2,330,256
Medical savings account	2,699,989	2,908,818
Disability	541,740	468,049
Lump sum	70,919	75,985
Total benefit payments	<u>23,027,111</u>	<u>20,226,505</u>
Administrative	1,580,167	1,344,938
Investment management fee	103,272	114,499
Fund custodian fee	63,870	72,702
Depreciation	35,187	43,440
Total deductions	<u>24,809,607</u>	<u>21,802,084</u>
Excess (deficiency) of additions over deductions	4,313,738	(4,112,323)
Transfer from Republic of Palau	<u>1,930,650</u>	<u>-</u>
Change in fiduciary net position	6,244,388	(4,112,323)
Fiduciary net position at beginning of year	<u>99,029,152</u>	<u>103,141,475</u>
Fiduciary net position at end of year	<u>\$ 105,273,540</u>	<u>\$ 99,029,152</u>

See accompanying notes to financial statements.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

## (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, 2016 and 2015, the Fund has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The Fund has not experienced any losses in such accounts.

### Cash

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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

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, 2016 and 2015, cash was \$1,784,589 and \$4,613,622, respectively, and the corresponding bank balance was \$1,947,763 and \$4,506,525, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2016 and 2015, 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.
- (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;

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

(3) U.S. Equities, Continued

- (C) Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and
- (D) An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

(4) International Equities

- (A) Equity securities of Corporations provided they are listed on the stock exchange of countries included in the Morgan Stanley Capital International (MSCI) All Country World excluding US Index;
- (B) ADRs, European Depository Receipts (EDRs) and Global Depository Receipts (GDRs) relating to any of the above are allowable; and
- (C) Portfolios shall be diversified among issuers, industry classifications and countries. The market value of the equity holdings in a single corporation should not exceed 5% of the market value of the portfolio under management by the Fund's investment manager.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Fund's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the Fund's name by the Fund's custodial financial institutions at September 30, 2016 and 2015.

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, 2016 and 2015:

Investment Type	Fair Value	2016 Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Treasury notes	\$ 5,802,133	\$ 451,125	\$ 2,610,637	\$ 2,740,371	\$ -	Aaa	AA+
U.S. Treasury bond	1,064,921	-	-	-	1,064,921	Aaa	AA+
Other U.S. government obligations	483,551	-	203,014	280,537	-	Aaa	AAA
Other U.S. government obligations	153,339	-	-	-	153,339	Aaa	AA+
Other U.S. government obligations	161,982	-	-	161,982	-	Aaa	Unrated
Other U.S. government obligations	125,169	125,169	-	-	-	Aa2	AA+
Other U.S. government obligations	201,788	-	201,788	-	-	Aa2	A+
Other U.S. government obligations	148,862	-	-	27,892	120,970	Aa2	Unrated
Other U.S. government obligations	105,770	-	-	105,770	-	Aa1	AA
State and local government Corporate bonds	9,182,103	482,823	4,551,346	1,610,095	2,537,839	Aaa	AA+
	1,862,606	326,414	407,281	115,286	1,013,625	Aaa	AAA

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	2016						Ratings	
	Fair Value	Investment Maturities (In Years)				Moody's	S&P	
		Less Than 1	1 - 5	6 - 10	More Than 10			
Corporate bonds	1,044,101	-	309,492	459,312	275,297	Aaa	AA+	
Corporate bonds	476,198	-	-	476,198	-	Aaa	Unrated	
Corporate bonds	316,473	-	-	-	316,473	Aa3	AA+	
Corporate bonds	1,156,534	200,430	610,069	346,035	-	Aa3	AA-	
Corporate bonds	552,917	150,428	-	402,489	-	Aa3	A+	
Corporate bonds	786,310	-	231,101	184,212	370,997	Aa2	AA	
Corporate bonds	268,989	-	167,178	101,811	-	Aa2	AA-	
Corporate bonds	203,950	-	-	101,650	102,300	Aa2	A	
Corporate bonds	188,358	-	-	188,358	-	Aa1	AA+	
Corporate bonds	76,186	-	76,186	-	-	Aa1	AA-	
Corporate bonds	569,166	-	569,166	-	-	Aa1	Unrated	
Corporate bonds	107,108	-	-	-	107,108	A3	A	
Corporate bonds	300,062	-	300,062	-	-	A3	A-	
Corporate bonds	430,603	-	170,477	260,126	-	A3	BBB+	
Corporate bonds	106,972	-	-	106,972	-	A3	BBB	
Corporate bonds	1,022,789	-	494,674	528,115	-	A2	A	
Corporate bonds	89,895	89,895	-	-	-	A2	A-	
Corporate bonds	169,462	-	-	-	169,462	A1	AA	
Corporate bonds	611,314	150,111	-	-	461,203	A1	AA-	
Corporate bonds	789,266	174,722	291,360	323,184	-	A1	A+	
Corporate bonds	345,048	-	-	345,048	-	A1	A	
Corporate bonds	103,299	-	-	103,299	-	A1	A-	
Corporate bonds	193,440	-	-	-	193,440	Baa3	BBB	
Corporate bonds	332,382	-	-	-	332,382	Baa2	A-	
Corporate bonds	109,858	-	109,858	-	-	Baa2	BBB+	
Corporate bonds	122,702	-	122,702	-	-	Baa2	BBB	
Corporate bonds	481,879	-	-	-	481,879	Baa1	A	
Corporate bonds	511,564	-	-	511,564	-	Baa1	A-	
Corporate bonds	605,601	-	451,159	154,442	-	Baa1	BBB+	
Corporate bonds	490,767	250,963	106,448	133,356	-	Baa1	BBB	
Corporate bonds	248,974	-	-	-	248,974	Unrated	AA-	
	<u>\$ 32,104,391</u>	<u>\$ 2,402,080</u>	<u>\$ 11,983,998</u>	<u>\$ 9,768,104</u>	<u>\$ 7,950,209</u>			

  

Investment Type	2015						Ratings	
	Fair Value	Investment Maturities (In Years)				Moody's	S&P	
		Less Than 1	1 - 5	6 - 10	More Than 10			
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>			

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

Fair Value Measurement of the Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Fund has the following fair value measurements:

Investments by fair value level	09/30/16	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 6,867,054	\$ 6,867,054	\$ -	\$ -
State and local government	9,182,103	555,907	8,626,196	-
Other U.S. Government obligations	1,380,461	-	1,380,461	-
Corporate bonds	14,674,773	-	14,674,773	-
Equity securities:				
Common stock	15,498,331	15,498,331	-	-
Total investments by fair value level	\$ <u>47,602,722</u>	\$ <u>22,921,292</u>	\$ <u>24,681,430</u>	\$ <u>-</u>
Investments measured at net asset value (NAV):				
Mutual funds	\$ <u>50,404,673</u>			
Investments measured at cost based measure:				
Money market funds	\$ <u>1,031,939</u>			
Investments by fair value level	09/30/15	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 6,707,388	\$ 6,707,388	\$ -	\$ -
State and local government	7,853,109	559,955	7,293,154	-
Other U.S. Government obligations	1,161,172	-	1,161,172	-
Corporate bonds	13,069,436	-	13,069,436	-
Equity securities:				
Common stock	13,610,317	13,610,317	-	-
Total investments by fair value level	\$ <u>42,401,422</u>	\$ <u>20,877,660</u>	\$ <u>21,523,762</u>	\$ <u>-</u>
Investments measured at net asset value (NAV):				
Mutual funds	\$ <u>47,458,777</u>			
Investments measured at cost based measure:				
Money market funds	\$ <u>923,739</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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

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.

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, 2016 and 2015 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.



## REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

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

#### 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. During the years ended September 30, 2016 and 2015, the Fund recorded total contributions of \$14,050,951 and \$11,914,475, respectively.

#### 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. During the years ended September 30, 2016 and 2015, the Fund paid benefits of \$17,475,617 and \$14,900,312, respectively. Included within fiscal year 2016 benefit payments is \$1,930,650 supplemental benefit payments funded by the Republic of Palau through appropriation (see note 5).

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

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.

New Accounting Standards

During the year ended September 30, 2016, the Fund implemented the following pronouncements:

- GASB 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 implementation of this statement required additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.
- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(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, 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 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.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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 March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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.

Reclassification

Certain 2015 balances in the accompanying financial statements have been reclassified to conform to the 2016 presentation.

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

## REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

### (3) Prior Service Claims, Continued

The Fund received a fund allocation of \$50,100 on June 3, 2016 and paid benefits of \$132,196 for the year ended September 30, 2016. On October 18, 2016, the Fund received a fund allocation of \$141,000 for the benefits paid for the year ended September 30, 2016. As of and for the year ended September 30, 2016, the amount was recorded as other income and other receivable in the accompanying financial statements. 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. 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, 2016 and 2015, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$138,493 and \$99,942, respectively.

### (4) Healthcare Fund

Pursuant to RPPL No. 8-14, each resident in the Republic of Palau is required to have coverage for healthcare costs. Accordingly, the Medical Savings Fund and the Palau Health Insurance System (or collectively known as the Healthcare Fund) were established to promote health and social welfare to the citizens of the Republic of Palau. Under 41 PNC, Section 723, the Fund shall be responsible for the general day-to-day administration and operation of the Healthcare Fund. The Fund shall maintain records of all employees and of all contributors, including self-employed persons, in a manner deemed reasonable to the administration and operation of the two systems.

Contributions to the Healthcare Fund are governed by RPPL No. 8-14, which requires each participating employee to pay the minimum contribution of 2.5% of the employees' quarterly pre-tax income. Every participating employer is required to contribute an amount equal to that contributed by the employee. The employees' contribution goes to the employees' Medical Savings Account, while the employers' contribution goes to a pooled account that funds the National Health Insurance. Every participating self-employed individual are 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 \$247,820 during the year ended September 30, 2016 from \$182,562 during the year ended September 30, 2015. 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. 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. On February 17, 2016, RPPL No. 9-57, which amended Chapters 13 and 26 of Title 40 of the Palau National Code, allocated ten percent (10%) of annual revenues from import tax on alcoholic beverages and excise tax on tobacco to fund healthcare benefits subscription costs for unemployed Palauan citizens who are age 60 and above or disabled. During the years ended September 30, 2016 and 2015, the Fund recorded healthcare contributions for retirees and disabled individuals of \$1,292,088 and \$304,000, respectively.

Health care benefits are paid only to participating individuals and to unemployed Palauan citizens who are age 60 and above or disabled. Benefit payments for participating individuals started on April 1, 2011. At September 30, 2016 and 2015, total benefit expense amounted to \$5,419,298 and \$5,239,074 of which \$3,557,769 and \$2,966,071, respectively, was paid to the Belau National Hospital, a related party.

## REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

### (4) Healthcare Fund, Continued

A detailed financial policy assessment of the healthcare costs was undertaken by the Asian Development Bank in 2008. Health economists and actuarial experts provided technical assistance in drafting RPPL No. 8-14 and follow-up technical assistance was provided to support the program's implementation.

In September 2010, actuarial projections based on a cost study of medical care incurred at the Belau National Hospital (BNH) were provided and input was given regarding reimbursement rates and payment provisions between the Healthcare Fund and medical service providers such as BNH. The Healthcare Fund is required to have ongoing studies providing options for improving the scope and sustainability of the program. Proposed changes in benefit provisions require actuarial analysis.

### (5) Transfer from Republic of Palau

RPPL No. 9-46, the fiscal year 2016 Budget Act, appropriated \$1,831,200 to provide an additional fifty dollars (\$50) in Social Security benefit payments to individuals receiving Social Security benefits pursuant to Title 41, subchapter VI of the Palau National Code. RPPL No. 9-55 increased the amount to \$1,931,200. During the year ended September 30, 2016, the Fund received and paid additional Social Security benefits of \$1,930,650, which is recorded as transfer from Republic of Palau and benefit payments in the accompanying financial statements.

### (6) 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 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 No. 3-21, RPPL No. 4-40, RPPL No. 4-49, RPPL No. 5-30, RPPL No. 6-37, RPPL No. 7-56, RPPL No. 8-10 and RPPL No. 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](mailto:cspp@palaunet.com) or call (680) 488-2523.

*Plan Membership.* As of September 30, 2015, the date of the most recent valuation, plan membership consisted of the following:

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Inactive members currently receiving benefits	1,507
Inactive members entitled to but not yet receiving benefits	1,151
Active members	<u>3,120</u>
Total members	<u>5,778</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 Fund. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

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.



REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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<sup>th</sup> per year for the first 3 years before age 60;
- plus an additional 1/18<sup>th</sup> per year for the next 3 years;
- plus an additional 1/24<sup>th</sup> per year for the next 5 years; and
- plus an additional 1/50<sup>th</sup> 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.
- 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

- 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 Fund through payroll deduction.

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 Fund in order to keep the Fund on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Fund 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 Fund.

The Fund's contribution to the Plan for the years ended September 30, 2016, 2015 and 2014 were \$37,247, \$35,205 and \$32,961, respectively, which were equal to the required contributions for the respective years then ended.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of September 30, 2015, for the same measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method	
Investment Income:	7.5% per year, net of investment expenses	
Expenses:	\$300,000 each year	
Inflation:	3.0%	
Salary Increase:	3.0% per year	
Mortality:	RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years	
Termination of Employment:	5% per year prior to age 35; none after age 35	
Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Retirement Age:	100% at age 60	
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor	
Duty vs Non-duty related disability:	100% Duty related	
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, 2016 and 2015

(6) 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

*Investment Rate of Return*

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

As of September 30, 2015, the arithmetic real 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>
Cash	3%	4.55%
Equity	61%	6.35%
Governmental fixed income	31%	7.75%
Corporate fixed income	<u>5%</u>	4.00%
	<u>100%</u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 3.83% at the current measurement date from 4.22% at the prior measurement date. 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 2018 for 2015. For years after 2018, a discount rate of 3.87% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index 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 3.83%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.83%) or 1.00% higher (4.83%) from the current rate.

<u>1% Decrease 2.83%</u>	<u>Current Single Discount Rate Assumption 3.83%</u>	<u>1% Increase 4.83%</u>
\$ 3,035,936	\$ 2,625,302	\$ 2,283,932

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(6) 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

*Pension Liability.* At September 30, 2016 and 2015, the Fund reported a liability of \$2,625,302 and \$2,432,377, 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, 2016 and 2015, the Fund's proportion was 1.2180% and 1.1907%, respectively.

*Pension Expense.* For the years ended September 30, 2016 and 2015, the Fund recognized pension expense of \$134,308 and \$102,151, respectively.

*Deferred Outflows and Inflows of Resources.* At September 30, 2016 and 2015, the Fund reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 93,996	\$ -	\$ -
Change of assumptions	215,391	107,597	155,479	140,129
Net difference between projected and actual earnings on pension plan investments	29,782	-	-	6,555
Contribution subsequent to measurement date	37,247	-	35,205	-
Changes in proportion and difference between the Fund's contributions and proportionate share of contributions	<u>68,357</u>	<u>77,650</u>	<u>27,808</u>	<u>96,138</u>
	\$ <u>350,777</u>	\$ <u>279,243</u>	\$ <u>218,492</u>	\$ <u>242,822</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, 2016 will be recognized in pension expense as follows:

Year ending September 30,

2017	\$ (2,784)
2018	\$ (2,692)
2019	\$ 27,439
2020	\$ 9,353
Thereafter	\$ 2,971

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(7) 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 \$3,318,617 and \$3,587,578 with interest at 4.5% at September 30, 2016 and 2015, respectively. The loan is collateralized by the full faith and credit of the Republic of Palau Government.

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 286,376	\$ 147,019	\$ 433,395
2018	300,245	133,150	433,395
2019	313,907	119,488	433,395
2020	327,915	105,480	433,395
2021	343,114	90,281	433,395
2022 - 2026	<u>1,747,060</u>	<u>203,217</u>	<u>1,950,277</u>
	\$ <u>3,318,617</u>	\$ <u>798,635</u>	\$ <u>4,117,252</u>

(8) Capital Assets

A summary of the Fund's capital assets, at original cost, as of September 30, 2016 and 2015, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2016</u>
Office furniture and equipment	4 - 13 years	\$ 411,211	\$ 5,169	\$ -	\$ 416,380
Building and improvements	30 years	136,413	62,764	-	199,177
Vehicles	5 years	<u>80,195</u>	<u>-</u>	<u>-</u>	<u>80,195</u>
		627,819	67,933	-	695,752
Less accumulated depreciation		<u>(546,702)</u>	<u>(35,187)</u>	<u>-</u>	<u>(581,889)</u>
Total capital assets, net		\$ <u>81,117</u>	\$ <u>32,746</u>	\$ <u>-</u>	\$ <u>113,863</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2016 and 2015

(8) Capital Assets, Continued

	<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		\$ <u>207,018</u>	\$ <u>-</u>	\$ <u>(207,018)</u>	\$ <u>-</u>
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		<u>(506,812)</u>	<u>(43,440)</u>	<u>3,550</u>	<u>(546,702)</u>
Total capital assets being depreciated		<u>91,245</u>	<u>(10,128)</u>	<u>-</u>	<u>81,117</u>
Total capital assets, net		\$ <u>298,263</u>	\$ <u>(10,128)</u>	\$ <u>(207,018)</u>	\$ <u>81,117</u>

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.

(9) 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 \$176,995,000 as of October 1, 2015. 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, 2016, to correct this potential funding deficiency.

(10) 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>2015</u> <u>Valuation</u>	<u>2014</u> <u>Valuation</u>	<u>2013</u> <u>Valuation</u>
Civil Service Pension Trust Fund (Plan) total net pension liability	\$ 215,546,176	\$ 204,281,232	\$ 182,080,332
The Fund's proportionate share of the net pension liability	\$ 2,625,302	\$ 2,432,377	\$ 2,274,001
The Fund's proportion of the net pension liability	1.22%	1.19%	1.25%
The Fund's covered employee payroll**	\$ 590,683	\$ 559,742	\$ 521,749
The Fund's proportionate share of the net pension liability as a percentage of its covered employee payroll	444.45%	434.55%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	11.54%	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>2015</u> <u>Valuation</u>	<u>2014</u> <u>Valuation</u>	<u>2013</u> <u>Valuation</u>
Actuarially determined contribution	\$ 132,758	\$ 126,488	\$ 78,562
Contribution in relation to the actuarially determined contribution	<u>35,205</u>	<u>32,961</u>	<u>31,386</u>
Contribution deficiency	<u>\$ 97,553</u>	<u>\$ 93,527</u>	<u>\$ 47,176</u>
The Fund's covered-employee payroll**	<u>\$ 590,683</u>	<u>\$ 559,742</u>	<u>\$ 521,749</u>
Contribution as a percentage of covered-employee payroll	5.96%	5.89%	6.02%

\* 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, 2016

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Eliminations	Total
Cash	\$ 438,894	\$ -	\$ 1,345,695	\$ -	\$ 1,784,589
Investments:					
Mutual funds	41,907,440	-	8,497,233	-	50,404,673
U.S. Government obligations	17,429,618	-	-	-	17,429,618
Corporate stock	15,498,331	-	-	-	15,498,331
Corporate bonds	14,674,773	-	-	-	14,674,773
Money market funds	<u>1,031,387</u>	<u>-</u>	<u>552</u>	<u>-</u>	<u>1,031,939</u>
Total investments	<u>90,541,549</u>	<u>-</u>	<u>8,497,785</u>	<u>-</u>	<u>99,039,334</u>
Receivables:					
Contributions	5,368,922	-	1,862,802	-	7,231,724
Loan	3,318,617	-	-	-	3,318,617
Accrued interest and dividends	286,654	-	-	-	286,654
Due from other funds	6,315	-	-	(6,315)	-
Advances and other	<u>279,907</u>	<u>141,000</u>	<u>274,678</u>	<u>-</u>	<u>695,585</u>
	9,260,415	141,000	2,137,480	(6,315)	11,532,580
Less allowance for doubtful accounts	<u>(2,883,194)</u>	<u>-</u>	<u>(168,621)</u>	<u>-</u>	<u>(3,051,815)</u>
Total receivables, net	<u>6,377,221</u>	<u>141,000</u>	<u>1,968,859</u>	<u>(6,315)</u>	<u>8,480,765</u>
Prepaid expense	<u>8,259</u>	<u>-</u>	<u>3,239</u>	<u>-</u>	<u>11,498</u>
Capital assets, net	<u>96,892</u>	<u>-</u>	<u>16,971</u>	<u>-</u>	<u>113,863</u>
Total assets	<u>97,462,815</u>	<u>141,000</u>	<u>11,832,549</u>	<u>(6,315)</u>	<u>109,430,049</u>
Deferred outflows of resources from pension	<u>319,207</u>	<u>-</u>	<u>31,570</u>	<u>-</u>	<u>350,777</u>
Total assets and deferred outflows of resources	<u>97,782,022</u>	<u>141,000</u>	<u>11,864,119</u>	<u>(6,315)</u>	<u>109,780,826</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>					
Liabilities:					
Benefits payable	432,557	-	1,001,714	-	1,434,271
Accrued liabilities and accounts payable	129,213	768	38,489	-	168,470
Due to other funds	-	1,739	4,576	(6,315)	-
Net pension liability	<u>2,389,025</u>	<u>-</u>	<u>236,277</u>	<u>-</u>	<u>2,625,302</u>
Total liabilities	2,950,795	2,507	1,281,056	(6,315)	4,228,043
Deferred inflows of resources from pension	<u>254,111</u>	<u>-</u>	<u>25,132</u>	<u>-</u>	<u>279,243</u>
Total liabilities and deferred inflows of resources	<u>3,204,906</u>	<u>2,507</u>	<u>1,306,188</u>	<u>(6,315)</u>	<u>4,507,286</u>
Contingencies					
Fiduciary net position:					
Held in trust for benefits and other purposes	<u>\$ 94,577,116</u>	<u>\$ 138,493</u>	<u>\$ 10,557,931</u>	<u>\$ -</u>	<u>\$ 105,273,540</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, 2016

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
<b>Additions:</b>				
<b>Contributions:</b>				
Private employees	\$ 7,753,163	\$ -	\$ 3,481,793	\$ 11,234,956
Government employees	6,297,788	-	2,967,294	9,265,082
Retirees and disabled individuals	-	-	1,292,088	1,292,088
Penalties and interest	431,459	-	27,613	459,072
Self-employed individuals	-	-	247,820	247,820
	<u>14,482,410</u>	<u>-</u>	<u>8,016,608</u>	<u>22,499,018</u>
Less bad debts	(107,318)	-	(115,965)	(223,283)
Total contributions, net	<u>14,375,092</u>	<u>-</u>	<u>7,900,643</u>	<u>22,275,735</u>
<b>Investment income:</b>				
Net increase in the fair value of investments	4,735,739	-	575,908	5,311,647
Interest	993,916	-	702	994,618
Dividends	312,418	-	-	312,418
Total investment income, net	<u>6,042,073</u>	<u>-</u>	<u>576,610</u>	<u>6,618,683</u>
Other income	37,737	191,100	90	228,927
Total additions	<u>20,454,902</u>	<u>191,100</u>	<u>8,477,343</u>	<u>29,123,345</u>
<b>Deductions:</b>				
<b>Benefit payments:</b>				
Retirement	12,402,040	60,763	-	12,462,803
Survivor's	4,460,918	71,433	-	4,532,351
National health insurance	-	-	2,719,309	2,719,309
Medical savings account	-	-	2,699,989	2,699,989
Disability	541,740	-	-	541,740
Lump sum	70,919	-	-	70,919
Total benefit payments	<u>17,475,617</u>	<u>132,196</u>	<u>5,419,298</u>	<u>23,027,111</u>
Administrative	927,364	20,353	632,450	1,580,167
Investment management fee	103,272	-	-	103,272
Fund custodian fee	59,576	-	4,294	63,870
Depreciation	19,660	-	15,527	35,187
Total deductions	<u>18,585,489</u>	<u>152,549</u>	<u>6,071,569</u>	<u>24,809,607</u>
Excess of additions over deductions	1,869,413	38,551	2,405,774	4,313,738
Transfer from Republic of Palau	1,930,650	-	-	1,930,650
Change in fiduciary net position	3,800,063	38,551	2,405,774	6,244,388
Fiduciary net position at beginning of year	90,777,053	99,942	8,152,157	99,029,152
Fiduciary net position at end of year	<u>\$ 94,577,116</u>	<u>\$ 138,493</u>	<u>\$ 10,557,931</u>	<u>\$ 105,273,540</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions  
 Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Salaries, wages and benefits	\$ 738,897	\$ 698,437
Professional services	350,708	194,612
Board members other expenses	103,387	78,313
Supplies, printing and reproduction	51,915	51,262
Staff development and training	35,820	56,864
Utilities	24,344	24,118
Communications	22,361	24,577
Travel and transportation	14,883	27,968
Repairs and maintenance	12,026	10,664
Bank service charge	11,315	11,432
Credit card processing fees	9,560	7,320
Postage stamps	7,854	4,125
Insurance	6,989	3,890
Representation and entertainment	3,497	4,945
Fuel and oil	3,476	3,968
Furniture and fixtures	2,180	3,962
Board compensation	2,100	2,500
Office equipment	2,035	260
Special functions	2,000	1,614
Dues, subscriptions and registrations	805	1,363
Donations	540	1,000
Miscellaneous	<u>39,167</u>	<u>29,593</u>
 Total administrative deductions before pension contribution and adjustment	 1,445,859	 1,242,787
 Pension contribution	 37,247	 35,205
GASB 68 pension adjustment	<u>97,061</u>	<u>66,946</u>
 Total administrative deductions	 <u>\$ 1,580,167</u>	 <u>\$ 1,344,938</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2016

	Cost	Fair Value
<u>Money Market Funds</u>		
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 135074870	\$ 280,485	\$ 280,485
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 140011156	353,205	353,205
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 140340753	382,869	382,869
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 140386608	7,639	7,639
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 140386855	552	552
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 140388851	7,189	7,189
Total Money Market Funds	<u>\$ 1,031,939</u>	<u>\$ 1,031,939</u>
<u>U.S. Government Obligations</u>		
US Treasury Notes, 1% due on 3/31/2017	\$ 450,421	\$ 451,125
US Treasury Notes, 4.25% due on 11/15/2017	127,583	129,921
US Treasury Notes, 3.125% due on 5/15/2019	591,038	598,216
US Treasury Notes, 1.25% due on 10/31/2019	506,094	505,040
US Treasury Notes, 1.625% due on 6/30/2020	411,072	418,938
US Treasury Notes, 2.625% due on 8/15/2020	947,474	958,522
US Treasury Notes, 2% due on 10/31/2021	404,860	415,640
US Treasury Notes, 2.125% due on 12/31/2022	970,158	967,929
US Treasury Notes, 1.75% due on 5/15/2023	639,551	639,038
US Treasury Notes, 2.5% due on 8/15/2023	681,321	717,764
US Treasury Bonds, 3.5% due on 02/15/2039	926,135	1,064,921
Total U.S. Treasury - Account # 135074870	<u>6,655,707</u>	<u>6,867,054</u>
Aid-Tunisia Unsecured, 1.686% due on 07/16/2019	555,192	555,907
Federal Home Loan Bank Unsecured, .875% due on 06/29/2018	978,548	978,744
Federal Home Loan Bank Unsecured, 2.625% due on 12/10/2021	217,733	223,077
Federal Home Loan Mortgage Corp Gold Pool #A36664, 5% due on 8/01/2035	9,592	11,345
Federal Home Loan Mortgage Corp Gold Pool #A36685, 5% due on 8/01/2035	4,687	5,539
Federal Home Loan Mortgage Corp Gold Pool #A55326, 6% due on 12/01/2036	7,211	8,134
Federal Home Loan Mortgage Corp Gold Pool #A60299, 6.5% due on 5/01/2037	11,585	13,008
Federal Home Loan Mortgage Corp Gold Pool #B13067, 4.5% due on 3/01/2019	5,620	6,076
Federal Home Loan Mortgage Corp Gold Pool #G08046, 5.5% due on 3/01/2035	25,660	30,333
Federal Home Loan Mortgage Corp Gold Pool #G12121, 5.5% due on 4/01/2021	8,853	9,572
Federal Home Loan Mortgage Corp Gold Pool #H00452, 5.5% due on 1/01/2037	17,636	19,833
Federal Home Loan Mortgage Corp Pool #1G1406 ARM, 5.685% due on 12/01/2036	6,440	6,444
Federal Home Loan Mortgage Corp Pool #781958, 2.508% due on 9/01/2034	6,834	7,372
Federal Home Loan Mortgage Corp Pool #A37876, 5% due on 9/01/2035	54,755	58,401
Federal Home Loan Mortgage Corp Pool #A49906, 5% due on 6/01/2036	20,739	23,178
Federal Home Loan Mortgage Corp Pool #A61533, 5% due on 6/01/2036	11,571	12,486
Federal Home Loan Mortgage Corp Pool #A88454, 4.5% due on 9/01/2039	94,651	99,610
Federal Home Loan Mortgage Corp Pool #C01567, 5% due on 5/01/2033	70,185	76,704
Federal Home Loan Mortgage Corp Pool #C76358, 5% due on 2/01/2033	14,534	15,817
Federal Home Loan Mortgage Corp Pool #G01938, 5.5% due on 9/01/2035	19,884	21,097
Federal Home Loan Mortgage Corp Pool #G01960, 5% due on 12/01/2035	28,326	30,304
Federal Home Loan Mortgage Corp Unsecured Step-Up, 1% due on 6/30/2021-2016	824,119	821,939
Federal Home Loan Mortgage Corp Unsecured Step-Up, 1.25% due on 9/30/2022-2017	349,737	349,359
Federal Home Loan Mortgage Corp Unsecured, .7% due on 12/30/2016-2014	249,975	250,118
Federal Home Loan Mortgage Corp Unsecured, 1.25% due on 10/02/2019	856,175	856,001
Federal National Mortgage Association Notes, 4% due on 4/22/2019-2010	35,000	37,648
Federal National Mortgage Association Pool #255670, 5% due on 4/01/2035	12,675	14,862
Federal National Mortgage Association Pool #725205, 5% due on 3/01/2034	4,103	4,910
Federal National Mortgage Association Pool #735227, 5.5% due on 2/01/2035	14,774	17,312
Federal National Mortgage Association Pool #735228, 5.5% due on 2/01/2035	34,366	40,416
Federal National Mortgage Association Pool #735502, 6% due on 4/01/2035	13,753	15,946
Federal National Mortgage Association Pool #735733, 4.5% due on 10/01/2033	30,778	36,376
Federal National Mortgage Association Pool #735897, 5.5% due on 10/01/2035	27,219	31,129
Federal National Mortgage Association Pool #739821, 5% due on 9/01/2033	20,336	21,962
Federal National Mortgage Association Pool #745089, 6% due on 12/01/2035	13,456	15,795
Federal National Mortgage Association Pool #794474, 6% due on 10/01/2034	50,675	58,257
Federal National Mortgage Association Pool #796274, 5.5% due on 12/01/2034	93,244	107,769
Federal National Mortgage Association Pool #810225, 6% due on 1/01/2035	72,722	83,474
Federal National Mortgage Association Pool #814915, 5.5% due on 3/01/2035	57,007	61,575
Federal National Mortgage Association Pool #826966, 5.5% due on 6/01/2035	4,639	5,042
Federal National Mortgage Association Pool #828856, 5.5% due on 10/01/2035	29,909	35,499
Federal National Mortgage Association Pool #867452, 6.5% due on 6/01/2036	14,287	16,778
Federal National Mortgage Association Pool #868936, 6% due on 5/01/2036	97,376	101,862
Federal National Mortgage Association Pool #882694, 6.5% due on 6/01/2036	11,547	13,131
Federal National Mortgage Association Pool #903749, 6% due on 10/01/2036	6,724	7,643
Federal National Mortgage Association Pool #904915, 5.5% due on 12/01/2036	8,709	9,534
Federal National Mortgage Association Pool #905678, 5.5% due on 12/01/2036	35,420	38,601
Federal National Mortgage Association Pool #910473, 5.479% due on 1/01/2037	9,744	9,815
Federal National Mortgage Association Pool #935636, 4.0% due on 9/01/2024	43,501	44,772
Federal National Mortgage Association Pool #AA3553, 5% due on 2/01/2039	3,469	3,732
Federal National Mortgage Association Unsecured, 1.6% due on 7/24/2019-2013	200,381	203,192
Federal National Mortgage Association Unsecured, 1.625% due on 11/27/2018	449,931	457,267
Federal National Mortgage Association Unsecured, 2.625% due on 09/06/2024	157,440	160,579

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
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	Cost	Fair Value
<u>U.S. Government Obligations, Continued</u>		
GNMA Mortgage Pool CTFS Pool #701940, 4.5% due on 6/15/2039	285,986	311,153
Government National Mtg Corp Pool #648503, 5.5% due on 11/15/2035	12,674	14,877
Government National Mortgage Association Pool #737442, 4% due on 9/15/2040	244,179	256,594
NCUA Guaranteed Notes Secured, 2.35% due on 6/12/2017	236,962	232,705
Overseas Private Inv Corp Disc due on 06/21/2018	625,000	625,000
Private Export Funding Secured, 2.8% due on 5/15/2022	504,500	531,370
Tennessee Valley Auth Unsecured, 1.875% due on 8/15/2022	294,789	300,938
Tennessee Valley Auth SR Unsecured, 3.5% due on 12/15/2042	780,297	764,190
	<u>8,987,814</u>	<u>9,182,103</u>
Total U.S. Government Agencies - Account # 135074870		
California St Dept of Wtr Resources Pwr Sply Revenue Txbl-Ref-Ser P, 2% due on 05/01/2022	105,000	105,770
Hawaii St Dept Business Econ Dev & Tourism Green Energ Txbl-Green Bonds Ser A-1 Variable Sink, 1.467% due on 7/01/2022	270,917	280,537
Hawaii St Hsg Fin & Dev Corp Sf Mtge Purchase Revenue Txbl-FNMA MBS Pass-Thru Program- Ser A, 2.6% due on 7/01/2037	154,250	153,339
Hawaii St Hwy Rev Highway Revenue Txbl-Ser C, 1.2% due on 1/01/2017	125,000	125,169
Honolulu City & Cnty Wastewtr Sys Rev Build America Bonds, 4.643% due on 7/01/2022-2020	25,000	27,892
Honolulu City & Cnty Wastewtr Sys Rev Build America Bonds Taxable-First Bd-Ser B Issuer Subsi, 6.114% due on 7/01/2029-2019	110,000	120,970
Pennsylvania St Turnpike Commission Spl Oblig Txbl-Ref (Escrowed to Maturity), 3.029% due on 12/01/2024	159,812	161,982
Univ of Hawaii Revenue Txbl-Ref-Medical School Project-Ser D, 1.819% due on 10/01/2018-2015	200,000	201,788
Utility Debt Securitization Auth NY Txbl-Restructuring-Ser T, 2.042% due on 6/15/2021-2019	199,999	203,014
	<u>1,349,978</u>	<u>1,380,461</u>
Total U.S. Municipal Obligations - Account # 135074870		
Total U.S. Government Obligations	<u>\$16,993,499</u>	<u>\$17,429,618</u>
<u>Corporate Bonds</u>		
Amer Airline 16-1 AA Ptt 1st Lien-Etc, 3.575% due on 01/15/2028	\$ 300,013	\$ 316,473
American Express Credit SR Unsecured Floating Rate, 1.16589% due on 9/22/2017	90,030	89,895
American Honda Finance SR Unsecured Floating Rate, .7806% due on 7/13/2018	289,592	291,360
Analog Devices SR Unsecured, 3.9% due on 12/15/2025-2025	99,780	106,972
Apache Finance Canada Company Guarnt, 7.75% due on 12/15/2029	178,579	193,440
Apple Inc SR Unsecured, 2.4% due on 5/03/2023	185,481	188,358
Autozone Inc SR Unsecured, 3.7% due on 4/15/2022-2022	128,136	133,356
Baylor Scott & White Holdings Unsecured, 2.123% due on 11/15/2020-2020	155,000	155,401
Berkshire Hathaway Inc SR Unsecured, 3% due on 2/11/2023	173,975	184,212
Burlington Northern Inc SR Unsecured, 8.75% due on 2/25/2022	219,838	233,739
Burlington Resources Fin Company Guarnt, 7.4% due on 12/01/2031	331,918	332,382
CA Inc SR Unsecured, 3.6% due on 8/01/2020	104,915	109,858
Charles Schwab Corp SR Unsecured, 1.5% due on 3/10/2018-2018	104,934	105,382
Chevron Corp SR Unsecured, 2.355% due on 12/05/2022-2022	100,000	101,811
Chevron Corp Unsecured, 2.193% due on 11/15/2019	100,000	102,021
Colgate Palmolive Co SR Unsecured, 3.25% due on 3/15/2024	114,460	126,352
Consumers Energy Corporation Secured, 2.85% due on 05/15/2022-2022	215,141	215,104
CVS/Caremark Corp SR Unsecured, 2.75% due on 12/01/2022-2022	149,859	154,442
Disney (Walt) Company SR Unsecured Floating, 1.13933% due on 5/30/2019	200,000	200,418
Ebay Inc SR Unsecured, 3.25% due on 10/15/2020	363,105	375,682
Entergy Texas Inc Secured, 5.15% due on 6/01/2045-2025	248,797	268,285
European Investment Bank SR Unsecured, 1.75% due on 3/15/2017	327,248	326,414
FedEx Corporation SR Unsecured, 2.3% due on 2/01/2020	119,847	122,702
General Electric Capital Corp SR Unsecured Fltg, 1.097% due on 5/15/2017-2017	150,000	150,111
Goldman Sachs Group Inc SR Unsecured, 3.85% due on 7/08/2024-2024	249,202	260,126
Golondrina Leasing LLC Sink Fd Gtd Export Import Bank of USA, 1.822% due on 5/03/2025	167,228	168,451
GTE Fla Inc SR Unsecured, 6.86% due on 2/01/2028	212,677	248,974
Intel Corp SR Unsecured, 3.3% due on 10/01/2021	304,389	323,184
Inter-American Devel Bank Notes, 6.75% due on 7/15/2027	130,342	140,866
Int'l Business Machines SR Unsecured, 1.625% due on 5/15/2020	99,570	101,024
Invesco Finance PLC SR Unsecured, 4% due on 1/30/2024	149,162	164,477
Johnson & Johnson SR Unsecured, 4.375% due on 12/05/2033-2033	596,879	641,743
KFW Unsecured, 1.75% due on 10/15/2019	299,456	305,208
Kimberly Clark Corp SR Unsecured, 2.65% due on 3/01/2025	124,688	129,899
Landesbank Baden-Wuerttemberg Subordinated, 7.625% due on 2/01/2023	463,546	476,198
Lincoln Natl Corp SR Unsecured, 3.35% due on 03/09/2025	191,323	204,378
Mattel Inc SR Unsecured, 2.35% due on 08/15/2021-2021	104,876	106,448
Microsoft Corp SR Unsecured, 2% due on 11/03/2020-2020	99,928	102,073
Microsoft Corp SR Unsecured, 3.625% due on 12/15/2023	104,597	115,286
Microsoft Corp SR Unsecured, 4.75% due on 11/03/2055-2055	238,940	231,016
Morgan Stanley SR Unsecured, 7.3% due on 5/13/2019	149,856	170,477
NA Development Bank SR Unsecured, 2.3% due on 10/10/2018	131,741	132,818
NA Development Bank SR Unsecured, 4.375% due on 2/11/2020	421,261	436,348
Northeast Utilities SR Unsecured, 3.15% due on 01/15/2025-2024	289,728	307,186
Novartis Capital Corp SR Unsecured, 3.4% due on 5/06/2024	99,420	109,429
Oracle Corp SR Unsecured, 4% due on 07/15/2046-2046	329,741	330,659
Partnerre Finance Company Guarnt, 6.875% due on 6/01/2018	279,243	300,062

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REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2016

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
Pepsico Inc SR Unsecured, 2.75% due on 4/30/2025-2025	124,526	129,944
Pharmacia Corporation Debentures, 6.75% due on 12/15/2027	144,324	169,462
Private Export Funding Secured, 2.25% due on 3/15/2020	303,728	309,492
Private Export Funding Secured, 3.25% due on 6/15/2025	288,249	290,861
Procter & Gamble Co SR Unsecured, 1.9% due on 11/01/2019	199,785	204,064
Prudential Financial Inc SR Unsecured, 4.6% due on 05/15/2044	210,486	213,594
Queens Health Systems Secured, 4.464% due on 7/01/2045	125,000	130,544
Ryder System Inc Notes, 5.85% due on 11/01/2016	249,758	250,963
Shell International SR Unsecured, 2.375% due on 8/21/2022	99,737	101,650
Shell International SR Unsecured, 4% due on 5/10/2046	98,198	102,300
Small Bus Admin Ser 2016-20I CL I, 2.03% due on 09/01/2036	276,031	275,297
Southern Power Co SR Unsecured, 1.85% due on 12/01/2017	74,968	75,477
Toronto-Dominion Bank SR Unsecured, 2.125% due on 7/02/2019	74,944	76,186
Total Capital Intl SA SR Unsecured, 1.55% due on 06/28/2017	149,942	150,428
Total Capital Intl SA SR Unsecured, 3.75% due on 4/10/2024	374,231	402,489
Toyota Motor Credit Corp SR Unsecured, 2.8% due on 7/13/2022	104,776	110,254
Toyota Motor Credit Corp. SR Unsecured, 2.05% due on 1/12/2017	203,021	200,430
Toyota Motor Credit Corp. SR Unsecured Step-Up, 1.25% due on 4/26/2019-2018	149,775	149,580
Unilever Capital Corp SR Unsecured, 0.85% due on 8/02/2017	174,705	174,722
Union Pacific Corp SR Unsecured, 3.375% due on 2/01/2035-2034	104,698	107,108
US Bancorp Subordinated, 3.1% due on 04/27/2026-2026	101,015	103,299
Wal-Mart Stores Inc Senior Notes, 3.25% due on 10/25/2020	214,492	231,101
Wal-Mart Stores Inc SR Unsecured, 5.625% due on 4/01/2040	357,904	370,997
Wells Fargo Company SR Unsecured, 5.625% due on 12/11/2017	179,832	188,874
Westpac Banking Corp SR Unsecured, 1.5% due on 12/01/2017	65,217	65,157
	<u>\$14,137,783</u>	<u>\$14,674,773</u>
<u>Corporate Stock</u>		
Abbvie Inc	\$ 76,519	\$ 75,684
Adobe Systems Inc	73,935	86,832
Allergan PLC	33,729	25,334
Alibaba Group Holding Ltd. SP ADR	156,091	201,001
Alphabet Inc CL A	73,060	321,624
Altria Group Inc	147,135	145,429
Amazon.com Inc	87,774	169,137
American Int'l Group	109,383	112,746
American Tower Corp	128,177	226,660
Anadarko Petroleum Corp	81,874	88,704
Apple Inc	217,843	304,557
AT&T Inc	179,877	207,111
Bank of America Corp	145,323	181,540
Boston Scientific Corp	58,173	99,960
Canadian Natural Resources	154,582	173,016
Celgene Corp	55,176	88,014
Charter Communications Inc	117,124	133,365
Cisco Systems	115,540	145,912
Citigroup Inc	108,629	138,856
Comcast Corp CL A	134,185	205,654
Crown Castle Intl Corp	79,843	75,368
CSX Corp	81,326	85,400
CVS/Caremark Corp	27,359	71,192
Disney Walt Co	11,573	65,002
Dow Chemical Co	151,456	160,673
Duke Energy Corp	77,939	72,036
Exxon Mobil Corp	196,235	209,472
Facebook Inc CL A	141,118	295,021
Fedex Corporation	105,819	122,276
General Electric Co	104,682	112,556
Halliburton Co	73,358	76,296
Home Depot Inc	68,441	244,492
Honeywell International Inc	181,286	221,521
Johnson & Johnson	115,982	118,130
JP Morgan Chase & Co	126,608	253,042
Lilly Eli & Co	83,080	80,260
Marsh & McLennan Companies Inc	88,454	147,950
Medtronic PLC	83,149	95,040
Merck & Co Inc	77,655	87,374
Microsoft Corp	169,588	230,400
Morgan Stanley	107,415	112,210
Norfolk Southern Corp	82,487	87,354
Pepsico Inc	78,958	87,016
Pfizer Inc	163,457	165,963
Procter & Gamble Co	74,699	80,775
Raytheon Co	107,831	136,130
Reynolds American Inc	133,354	136,735

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REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2016

	<u>Cost</u>	<u>Fair Value</u>
<u>Corporate Stock, Continued</u>		
Salesforce.com Inc	54,045	49,931
Schlumberger Ltd	151,282	157,280
Southern Co	80,151	76,950
Stanley Black & Decker Inc	35,027	36,894
Starbucks Corp	81,703	81,210
Time Warner Inc	79,159	79,610
T-Mobile US Inc	27,208	46,720
Unitedhealth Group Inc	58,191	84,000
VISA Inc CL A Shares	134,684	148,860
Westrock Co	35,388	48,480
Zimmer Biomet Holdings, Inc.	119,598	130,020
Subtotal - Account#140011156	<u>5,903,717</u>	<u>7,700,775</u>
AT&T Inc	186,311	268,026
Abbott Laboratories	85,491	139,557
Adobe Systems Inc	192,337	265,923
Alphabet Inc CL A	113,806	241,218
Amgen Inc	110,083	166,810
Celgene Corp	65,780	156,795
Chevron Corp	128,348	164,672
Chubb Ltd	143,745	163,345
CVS/Caremark Corp	254,683	222,475
Danaher Corp	117,474	235,170
Disney Walt Co	184,457	241,436
Dominion Resources Inc/VA	143,236	230,237
Dow Chemical Co	123,933	248,784
Duke Energy Corp	229,314	248,124
EOG Resources Inc	178,107	178,914
Exxon Mobil Corp	151,054	192,016
Facebook Inc CL A	247,796	256,540
Fedex Corporation	110,420	227,084
Intercontinental Exchange, Inc.	214,800	242,424
Johnson Controls International PLC	249,934	244,844
Johnson & Johnson	157,643	177,195
Kraft Heinz Co	249,304	250,628
Lowes Cos Inc	239,656	231,072
Merck & Co Inc	147,062	243,399
Microsoft Corp	99,311	236,160
Mondelez International Inc	253,391	250,230
Oracle Corp	171,536	235,680
PPL Corporation	178,101	238,533
Pfizer Inc	122,836	220,155
Philip Morris International	225,260	252,772
Schlumberger Ltd	215,497	228,056
Starbucks Corp	182,401	238,216
Thermo Fisher Scientific Inc	50,265	174,966
Unitedhealth Group Inc	185,316	238,000
Visa Inc CL A Shares	126,758	248,100
Subtotal - Account # 140340753	<u>5,835,446</u>	<u>7,797,556</u>
Total Corporate Stock	<u>\$11,739,163</u>	<u>\$15,498,331</u>
<u>Mutual Funds</u>		
Wilshire Solutions Trust Non US Equity Fund	\$20,500,000	\$18,427,964
Wilshire Solutions Trust Credit Opportunities Fund	9,000,000	9,505,975
Wilshire Solutions Trust US Equity Fund	10,000,000	11,423,668
Subtotal - Account # 140386608	<u>39,500,000</u>	<u>39,357,607</u>
Wilshire Solutions Trust Core Fixed Income Fund	3,100,000	3,330,431
Wilshire Solutions Trust Credit Opportunities Fund	1,400,000	1,498,674
Wilshire Solutions Trust Non US Equity Fund	1,200,000	1,174,646
Wilshire Solutions Trust US Equity Fund	1,800,000	1,992,990
Wilshire Solutions Trust Cash (Stif Vehicle)	500,000	500,493
Subtotal - Account # 140386855	<u>8,000,000</u>	<u>8,497,234</u>
Harvest MLP Income Fund III, LLC - Account # 140388851	<u>2,500,000</u>	<u>2,549,832</u>
Total Mutual Funds	<u>\$50,000,000</u>	<u>\$50,404,673</u>

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