

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, 2018 AND 2017

## 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, 2018 and 2017, 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, 2018 and 2017, 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.

## ***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 17 as well as the Schedule of Proportional Share of the Net Pension Liability on page 40 and the Schedule of Pension Contributions on page 41 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. 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, 2018 (pages 42 and 43, respectively), the Schedule of Administrative Deductions for the years ended September 30, 2018 and 2017 (page 44) and the Schedule of Investments as of September 30, 2018 (pages 45 through 47) 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 was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic 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 May 16, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Deloitte & Touche LLC*

May 16, 2019



*Republic of Palau*  
**SOCIAL SECURITY ADMINISTRATION**

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**Management's Discussion and Analysis  
Year Ended September 30, 2018**

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, 2018 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 by 3-64, 4-49, 5-34, 6-13, 7-32, 8-5, 8-14, 9-11, 9-12, 9-35, 9-46, 9-55, 9-57, 9-62, 10-1, 10-3, 10-7, 10-8, 10-12, 10-21, 10-22 and 10-29. 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. 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 total workforce of the Republic of Palau Social Security Retirement Fund (SSRF) and the Healthcare Fund (HCF) is thirty-two including an increase of one full-time position for HCF. Employee turnover was 15% in fiscal years 2018 and 2017 and there was one vacancy at the end of fiscal year 2018.

## **Contributions:**

All employees and employers working and domiciled in ROP contribute 7% of remuneration to the Fund. The 1% increase in the contribution rate was effective on October 1, 2017 from 6% since October 1, 2001, which is a total of sixteen years without a rate increase. Prior to 2001, the rate of contribution increased consistently by 1% every five years. The rate increase was prompted by an increase in the monthly \$50 supplemental benefit to all SSRF beneficiaries by legislation. The self-employed rate also increased from 12% to 14%. The minimum remuneration did not change and remained at \$300 per quarter. However, the maximum remuneration of \$6,000 per quarter was removed; therefore, all wages earned were taxed for contribution at the new rate of 7%. 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. A self-employed individual without an employee shall receive in any quarter as remuneration, 10% of his gross revenue in the current calendar year. The change prompted a majority of self-employed individuals without employees to file and pay their contributions based on gross earnings realized at the quarter end. Adjustments will be made at year-end based on annual gross revenue. The change in the law had an impact on self-employed individuals with multiple business entities mainly due to the removal of the maximum remuneration.

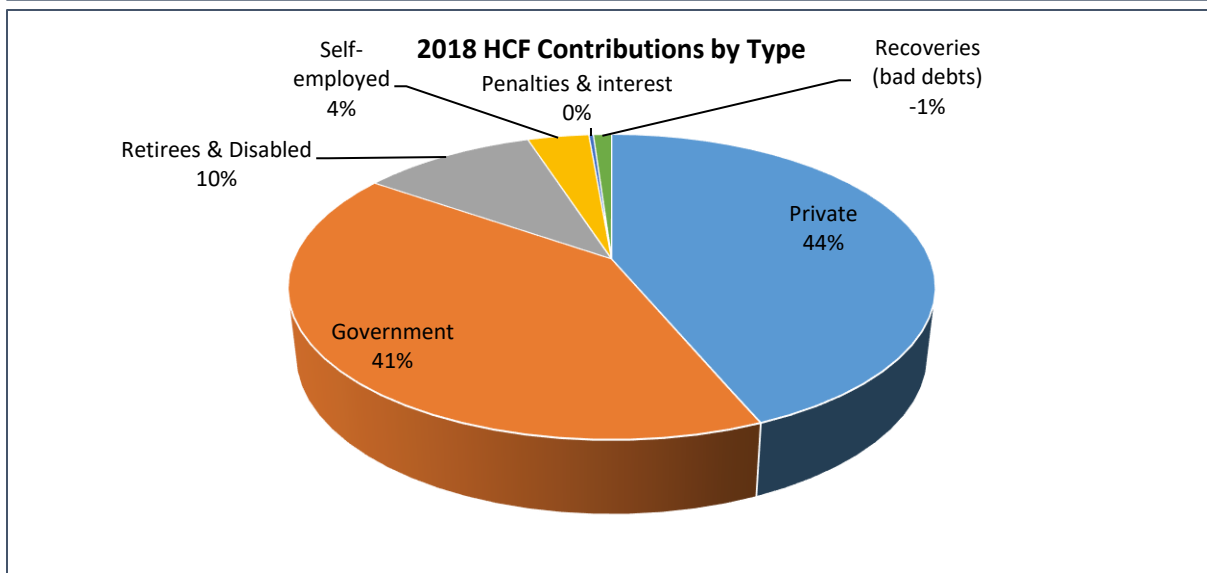
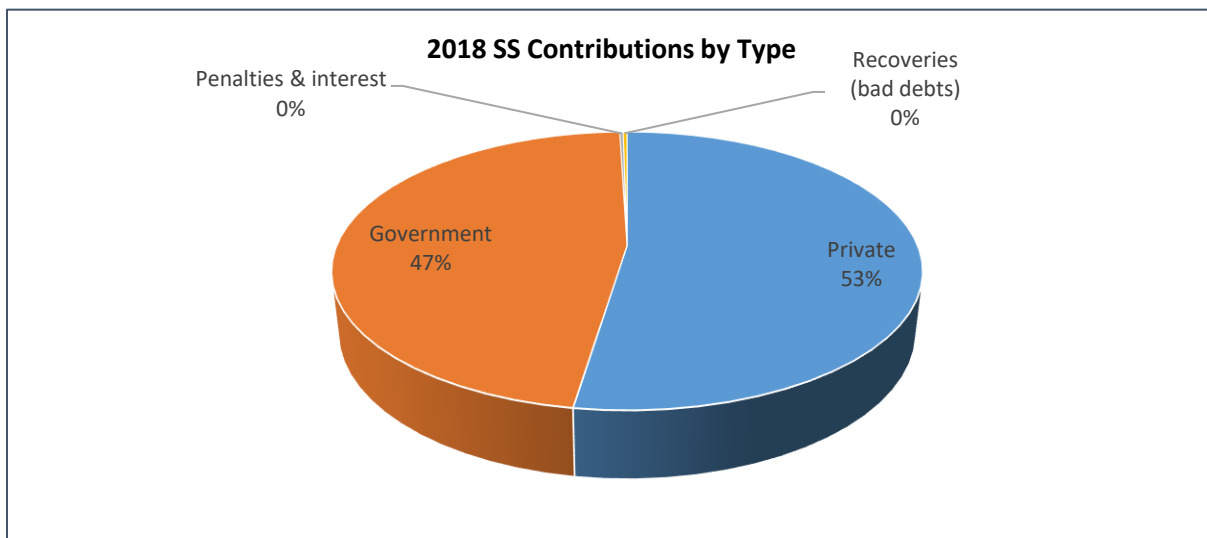
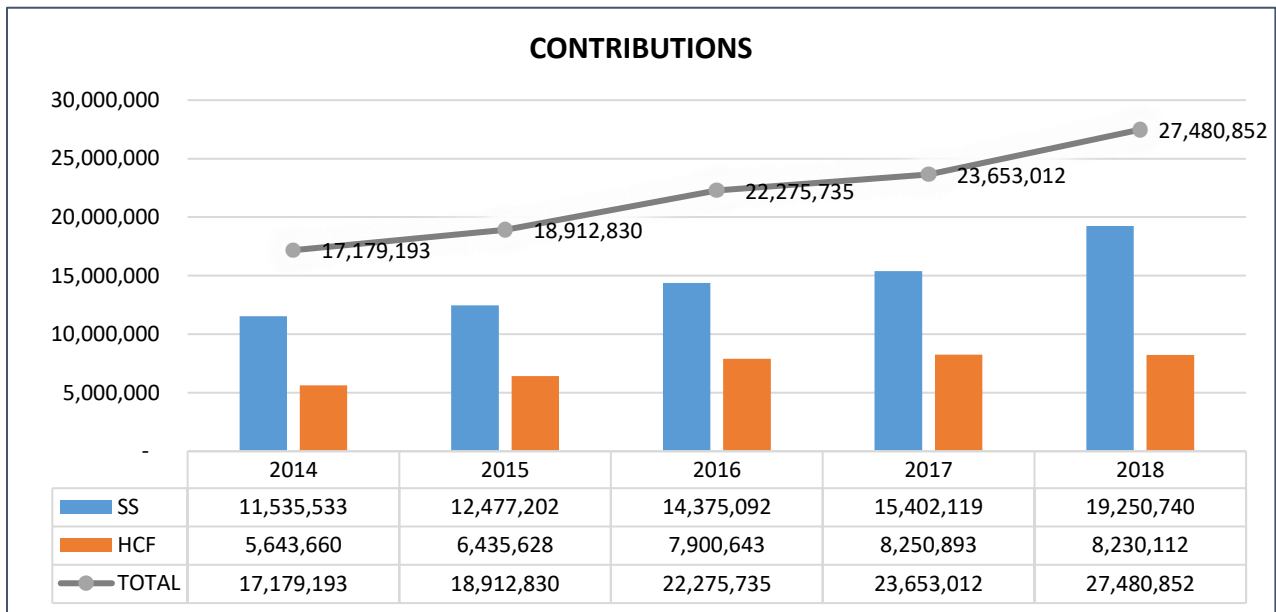
Contributions are remitted to the Fund on a quarterly basis, except for self-employed individuals, who may remit on an annual or quarterly basis. Special consideration was given to the National Government to remit contributions on a bi-weekly basis while some large businesses with fifteen or more employees were being encouraged to 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 2018 as benefit payouts exceeded contributions.

Contributions to SSRF and HCF in fiscal years 2018 and 2017 were \$27,480,852 and \$23,653,012, respectively, an increase of 16% from the prior year. Of total contributions, 70% represents contributions to SSRF and 30% represents contributions to HCF. SSRF contributions increased mainly due to the 7% rate change. HCF contributions increased mainly from National Health Insurance (NHI) government subsidies.

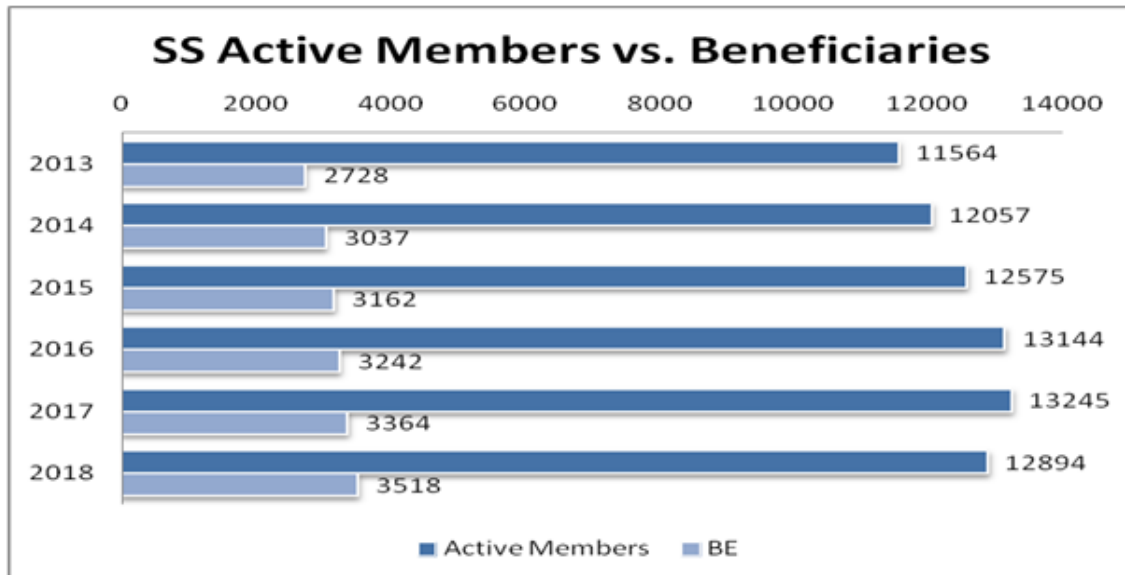
Contributions for SSRF and HCF combined has gradually increased due to the contribution rate increase for SSRF, government subsidies for HCF and positive economic conditions for increased wages and business income. The private sector is the leading contributor to the Fund.

**Contributions, Continued:**



## Member Services:

Total active Fund members as of fiscal year 2018 were 12,894 versus 13,245 in 2017, a decrease of 3% from last year, which is an indication of slow recruitment of foreign laborers and migration of Palauans to the United States of America. The growth of SSRF beneficiaries has been averaging 4% a year since 2014 partly due to baby boomers retiring and an increase of benefits. Total SSRF beneficiaries at fiscal year 2018 were 3,518 versus 3,364 in 2017.



Total active employers as of calendar year 2018 were 2,355 versus 2,176 in 2017. The renewal deadline for employer identification numbers (EINs) was extended to September 30, 2018 as a result of the Bureau of Revenue and Taxation's (BRT) first year of transition in issuing licenses before SSRF EINs. In the past, renewal of SSRF EINs expired on January 31 of each year. The closure of business EINs outside of the renewal period has been extended to September 30, 2018. SSRF continues to work with BRT to reconcile the number of active businesses and to ensure that all employers file with SSRF. BRT's licenses are numbered based on SSRF EINs that ended in December 2017.

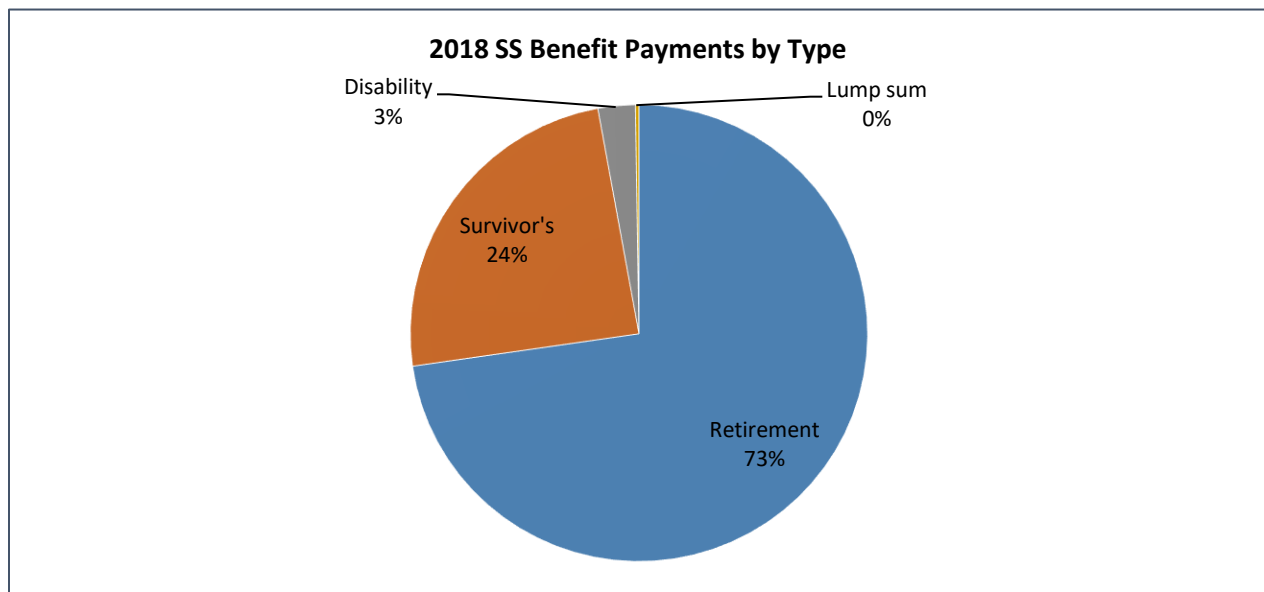
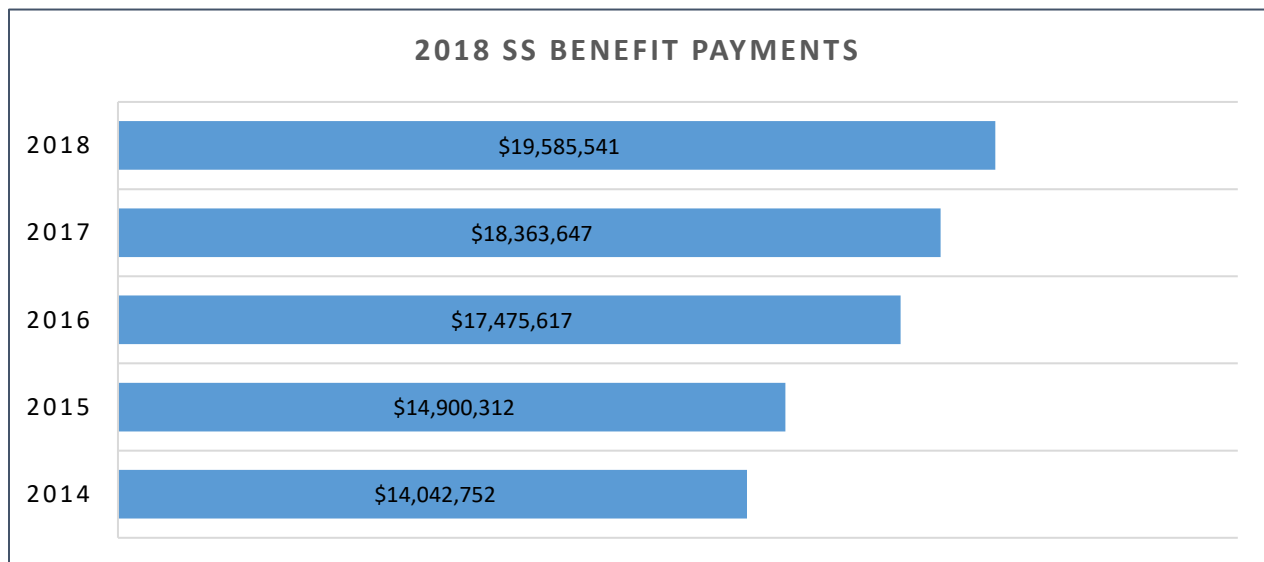
## Benefit Payments:

The types of benefits provided under the Fund are: 1) old-age insurance benefits, also known as retirement benefits; 2) surviving insurance benefits for spouse and dependents; 3) disability insurance benefits; and 4) lump sum benefits. The minimum basic monthly benefit is \$148 with the maximum limit being equivalent to the highest monthly average wage over twelve of forty quarters preceding retirement. 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.

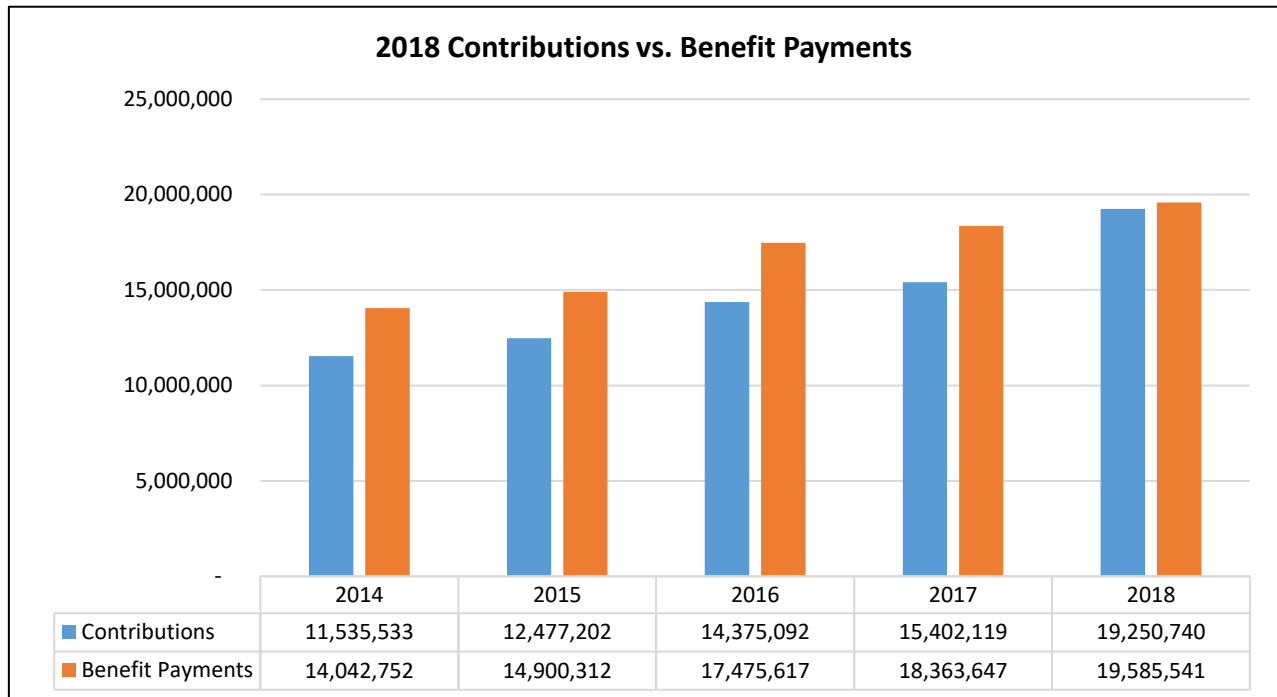


## Benefit Payments, Continued:

The supplemental benefit is an additional benefit outside of the SSRF retirement formula that was created and funded by ROP under RPPL 9-46, beginning in fiscal year 2016 to present. The benefit is \$50 a month to each SSRF beneficiary. Funding of the supplemental benefit from the ROP National Treasury in 2018 was \$-0- versus \$1,987,350 in 2017. In fiscal year 2018, funding of the \$50 supplemental benefit was turned over to SSRF with an increase in the contribution rate from 6% to 7%. Further, an additional \$50 supplemental benefit will continue under ROP appropriations for 2019 bringing the increase in supplemental benefits to a total of \$100. The Fund continues to be challenged in disbursing benefits due to the current level of contributions. Performance of benefits is illustrated in the graph below.



## Benefit Payments, Continued:



## 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 NHI subject to the supervision and oversight of the HCF Governing Committee (the HCF GC). The powers and duties of the HCF GC under the NHFA are to provide an orderly means to finance and deliver comprehensive healthcare coverage to the people of ROP. The HCF GC also has the authority to promulgate laws, procedures, policies, rules and regulations necessary to carry out the functions of the NHFA. There was no change to HCF GC appointment and leadership in 2018.

As of September 30, 2018, 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
Governor Mary F. Remengesau, Secretary/Treasurer	Governors Association
Minister Emais Roberts, Member	Ministry of Health (MOH)
Ms. Ulai Teltull, Member	Social Security Administration

## HCF Contributions and Membership:

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. There has been no change in the HCF contribution rate. There has been a growth of membership as a result of public awareness, growth of employment and the private sector.

During 2018, the HCF implemented the newly revised HCF Regulations as part of its efforts to gradually reform and improve the functions of the healthcare fund. The HCF established a Memorandum of Understanding (MOU) between the Palau Health Insurance (PHI) aka NHI and providers outside of Palau that were under the MOH in the past. A lease with the Palau Public Land Authority (PPLA) was sought to build the HCF Building. Recruitment for a Utilization Reviewer in Palau and Taiwan was initiated as part of strengthening the process from first encounter to completion of treatment. The MOU between MOH and HCF was signed to transfer medical referral procedures to HCF as part of the agencies' collaboration for improving the servicing of referral cases. The expanding benefits approved for implementation in 2019 were preventive services and home health insurance that will be covered under NHI. HCF also donated two units of anesthesia machines to MOH as part of HCF's continuing support to improve the capacity of MOH thereby reducing the number of referral cases to off-island providers.

As of September 30, 2018, total members under the NHI were 16,815 versus 16,776 in 2017. NHI members were 95% of a total population of 17,661 based on a census in 2015 while MSA members were 17,041 or 96% versus 15,971 or 90% from last year. The remaining 5% uninsured under the NHI are mainly persons below the age of 59 and unemployed, persons who are no longer a dependent child and 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, 2018, total government subsidy members were 1,993, an increase of 78 from 2017 of 1,915 at 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 medical referral billings under the NHI. HCF also reimbursed outpatient billings for on-island treatment at various medical clinics and BNH outpatient services under the MSA.

## HCF Contributions and Membership, Continued:

Providers of NHI outside of Palau with signed MOUs were as follows:

Description	Medical Centers	MOU signed
In patients	Belau National Hospital, Palau	N/A
Medical Referral Patients (MRP)	Guam Memorial Hospital	N/A
Medical Referral Patients (MRP)	St Luke's Medical Center, Philippines	01/29/18 PHI
Medical Referral Patients (MRP)	St Luke's Medical Center (Global City), Philippines	01/29/18 PHI
Medical Referral Patients (MRP)	Adventist Medical Center	03/12/18 PHI
Medical Referral Patients (MRP)	Taipei Medical University-WangFang, Taiwan	05/01/18 PHI
Medical Referral Patients (MRP)	E-DA Hospital, E-DA Cancer & E-DA Dachang	05/10/18 PHI
Medical Referral Patients (MRP)	Shin Kong Wu Ho-Su Memorial Hospital, Taiwan	06/05/18 PHI
Medical Referral Patients (MRP)	Taiwan Adventist Hospital	07/24/18 PHI
Medical Training Purposes	E-DA Hospital	05/06/16 (MOH)
Medical Referral Patients (MRP)	Fortis Hospital, India	N/A

Providers in Palau with agreements to participate with MSA coverage were as follows:

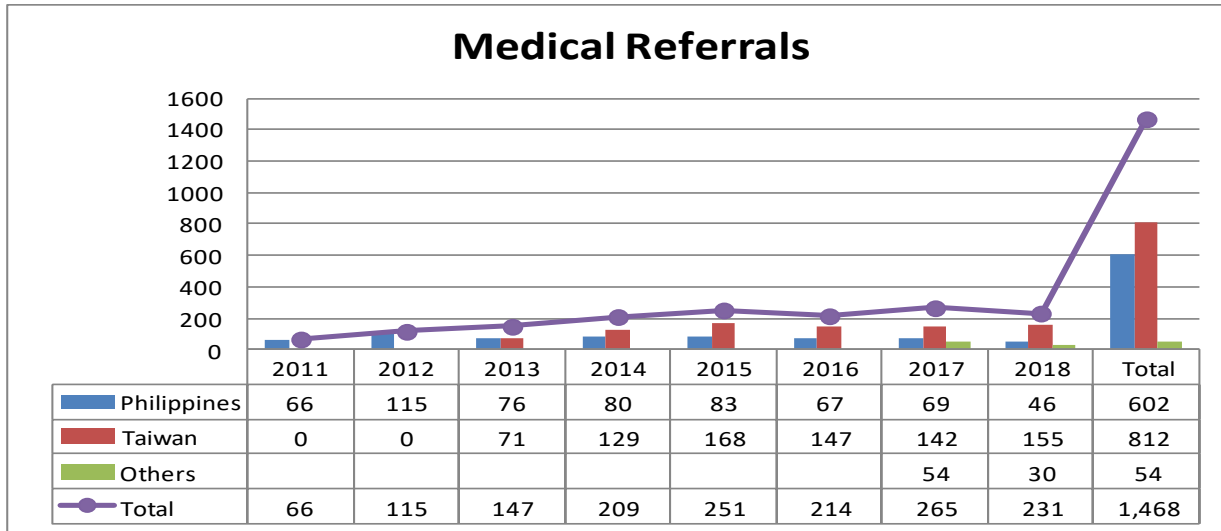
Description	Local Clinic	Agreement
MSA coverage	Belau Medical Clinic	Yes
MSA coverage	Family Surgical Clinic (FSC)	Yes
MSA coverage	Pacific Family Medical Clinic (PMC)	Yes
MSA coverage	Pacific Family Eye Clinic (PEC)	Yes
MSA coverage	Torsten Schaudt Physiotherapy	Yes
MSA coverage	Optic Vision Optical Clinic (OVC)	Yes
MSA coverage	Maria Hindenburg Dental Clinic (MHD)	Yes
MSA coverage	Pacfika Med Pharmacy (PMP)	Yes
MSA coverage	Palau Adventist Wellness Center	Yes
MSA coverage	Belau National Hospital "Outpatient Clinics"	OPD, ER, Dental and dispensaries

Members who are referred for off-island medical treatment must first be approved by the Medical Referral Committee (MRC) prior to certification of coverage by the HCF Administrator (RPPL 10-7). The Minister of Health established the MRC comprised of five physicians who practice in Palau, the Minister of Health, himself or his designee, the Minister of Finance, himself or his designee and representatives of the HCF GC. The five physicians on the MRC are the only voting members. The MRC's analysis and decision for referral shall be based on the following and by secret vote.

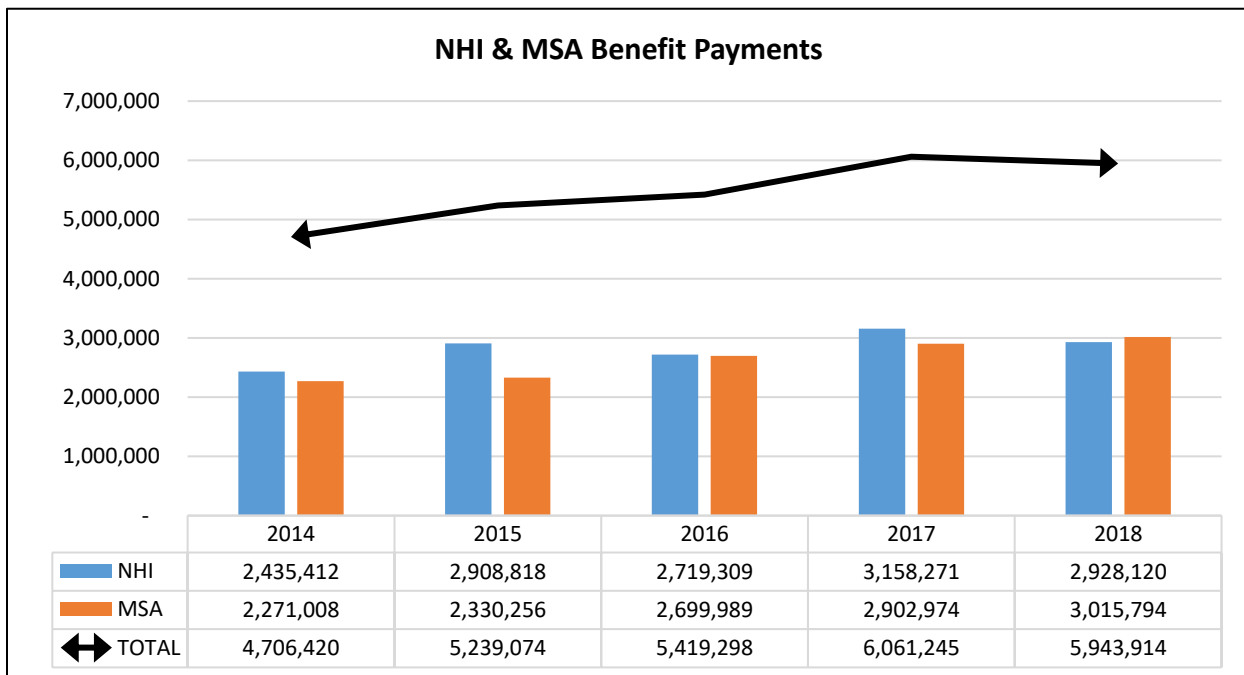
1. The patient's ability to pay for costs of a medical referral;
2. The patient's life expectancy;
3. The patient's condition that cannot be treated adequately in Palau;
4. The likelihood that the patient's condition will be substantially improved;
5. A patient's condition that MRC determined is not terminal; and
6. Others deemed appropriate by MRC.

NHI annual coverage for off-island treatment per member is \$35,000 and the quarterly threshold of the NHI reimbursement is \$300,000. Action was taken in 2017 to clear any outstanding billings from all providers outside of Palau to ensure that the HCF will commence payments directly to all providers with current claims in 2018. Implementation of HCF revised regulations in 2018 provides opportunities for HCF to streamline the process of sending patients outside of Palau, monitor medical services taken and certify charges before a claim is settled.

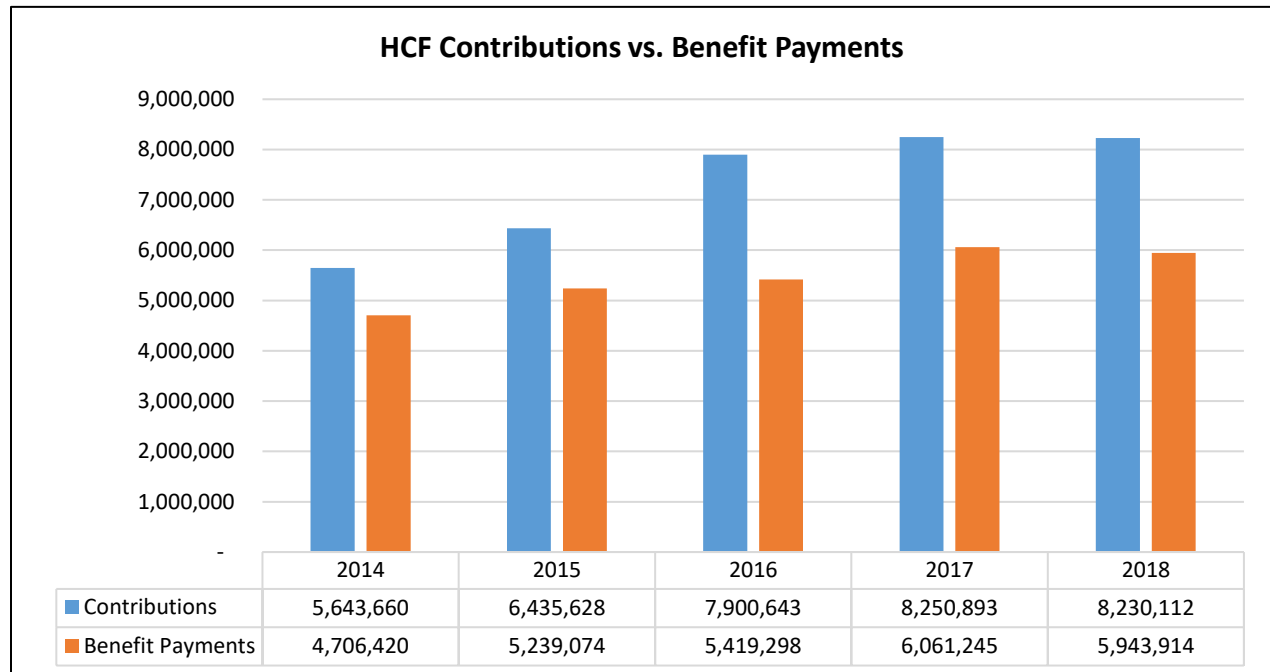
## HCF Contributions and Membership, Continued:



Insurance benefit reimbursements slightly decreased by \$117,331 from \$6,061,245 in fiscal year 2017 to \$5,943,914 in fiscal year 2018 as part of HCF's efforts to manage costs under new guidelines. There was a slight decrease of NHI reimbursements compared to an increase in MSA mainly due to more patients availing services at private clinics. Performance of reimbursements is illustrated in the graph below.



## HCF Contributions and Membership, Continued:



The administration of the HCF remains vested under the Social Security Administrator. Management of funds is maintained for six months and concentrated in one local bank. All excess funds are duly invested and managed by the Board of Trustees. In 2018, an additional \$2 million from operations was invested. About 50% of total cash and reserve is MSA funds while 50% is NHI funds. A total of \$958,958 of HCF funds was due from SSRF at September 30, 2018. HCF's cash and investments were as follows:

Cash	\$ 9,823
Invested funds	<u>14,083,084</u>
Total cash and reserve funds	<u>\$ 14,092,907</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, 2018 and 2017, the amount available for future benefit payments under the PSTF amounted to \$17,033 and \$130,332, 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, 2018, total members receiving benefits under the PSTF were 172, a decrease from 184 in fiscal year 2017 resulting from 12 deceased members during the year.

## 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. The SSRF investment fund remains diversified to ensure that growth and risks are well balanced over the long-term. The Fund realized a portfolio growth of 4.93% and a positive rate of investment (ROI) of 5.01% for fiscal year 2018. The HCF also performed strongly with a growth of 22.94% and an ROI of 4.60%. The investment growth of HCF will provide opportunities to expand benefits as set forth in the new regulations as well as other value added programs and other opportunities as determined by the HCF GC.

The SSRF/HCF investment portfolio for the last 5 years is shown below.

Year	SS Portfolio	HCF Portfolio	SS Gain (Loss)	HCF Gain (Loss)	SS Growth	HCF Growth	SS ROI (%)	HCF ROI (%)
2014	\$ 81,786,677	\$ 2,648,535	\$ 8,678,212	\$ 31,090	0.37%	1.01%	10.61%	1.17%
2015	\$ 84,859,393	\$ 5,924,545	\$ (1,312,600)	\$ (72,450)	3.76%	123.69%	-1.55%	-1.22%
2016	\$ 90,541,549	\$ 8,497,785	\$ 6,042,073	\$ 576,610	6.70%	43.43%	6.67%	6.79%
2017	\$ 98,955,777	\$ 11,455,698	\$ 9,756,434	\$ 973,461	9.29%	34.81%	9.86%	8.50%
2018	\$ 103,835,188	\$ 14,083,084	\$ 5,204,371	\$ 647,678	4.93%	22.94%	5.01%	4.60%

## 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 March 2019 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. In 2017, the initial consultant for the migration project was terminated due to medical issues and the inability to complete the project. The Trustees hired the lead programmer under the consultant to complete the project. The system continues to face challenges due to frequent changes of legislation and processes.

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. The tasks has been taken internally to separate the HCF website to allow expansion of the site to have interpretation of benefits and other up-to-date information for the members.

## **Significant Events:**

On January 1, 2018, all businesses domiciled and operating in Palau were advised to obtain a business license at BRT. The licenses were no longer issued after SSRF EINs. ROP appropriated funds through the fiscal year 2019 Budget Act to fund another \$50 monthly benefit to all SSRF beneficiaries. The supplemental benefit funding was \$2.1 million. On July 1, 2018, SSRF celebrated its 50th anniversary with a walkathon, talk shows and a light celebration at the main office. The Trustees also achieved a milestone of a \$100 million investment fund. The Trustees further agree to work with investment consultants on the new concept of investing by prescribing to Environment, Social and Governance (ESG). Discussions continue on how to develop an investment policy that will have similar returns with long-term impact on climate change. The need to have leadership behind this concept will be sought in 2019.

The HCF's significant events include establishment of MOUs with providers outside of Palau, beginning the groundwork for construction of the new HCF building and changing referral procedures for effective delivery of services. HCF further expanded benefits to include preventive services and home health insurance benefits to be implemented in 2019. The system needs to be enhanced to include new procedures and expand benefits.

## **Subsequent Events:**

During the first quarter of 2019, SSRF implemented the additional \$50 supplemental benefit to all SSRF beneficiaries. This change allows the \$50 funded by SSRF to be part of the SSRF benefit. The system was also enhanced to apply the earnings test as required under the SSRF benefit. Further, the Ministry of Finance approved a request for a semi-annual supplemental benefit funding and as a result, an initial funding of \$1.05 million was made on October 2, 2018 for SSRF to have sufficient liquidity to payout benefits. Challenges remain for SSRF to meet monthly benefits as collections remain on a quarterly basis.

## **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 governments. The Fund contributes to the Republic of Palau Civil Service Pension Trust Fund (the 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, 2018 was \$121,897,875 as compared to \$115,687,568 for fiscal year 2017 and \$105,273,540 for fiscal year 2016, which was due to positive earnings and growth of investment assets for SSRF and HCF.



## Financial Performance (Overview), Continued:

### Statements of Fiduciary Net Position:

	2018	2017	2016
Assets and deferred outflows of resources:			
Cash	\$ 161,125	\$ 988,656	\$ 1,784,589
Investments	117,918,272	110,411,475	99,039,334
Receivables, net	7,455,900	7,616,834	8,480,765
Prepaid expense	17,830	28,473	11,498
Capital assets, net	86,943	95,042	113,863
Deferred outflows of resources from pension	698,490	570,645	350,777
Total assets and deferred outflows of resources	<u>126,338,560</u>	<u>119,711,125</u>	<u>109,780,826</u>
Liabilities, deferred inflows of resources and fiduciary net position:			
Benefits payable	945,605	703,985	1,434,271
Accrued liabilities and accounts payable	29,773	90,549	168,470
Net pension liability	2,903,556	2,964,466	2,625,302
Deferred inflows of resources from pension	561,751	264,557	279,243
Total liabilities and deferred inflows of resources	<u>4,440,685</u>	<u>4,023,557</u>	<u>4,507,286</u>
Fiduciary net position held in trust for benefits and other purposes	<u>\$ 121,897,875</u>	<u>\$ 115,687,568</u>	<u>\$ 105,273,540</u>

### Statements of Changes in Fiduciary Net Position:

Additions:			
Contributions, net	\$ 27,480,852	\$ 23,653,012	\$ 22,275,735
Investment income, net	5,852,049	10,729,895	6,618,683
Other income	245,687	251,199	228,927
Total additions	<u>33,578,588</u>	<u>34,634,106</u>	<u>29,123,345</u>
Deductions:			
Benefit payments	25,650,097	24,550,408	23,027,111
Other	1,718,184	1,657,020	1,782,496
Total deductions	<u>27,368,281</u>	<u>26,207,428</u>	<u>24,809,607</u>
Transfer from Republic of Palau	-	1,987,350	1,930,650
Change in fiduciary net position	6,210,307	10,414,028	6,244,388
Fiduciary net position at beginning of year	<u>115,687,568</u>	<u>105,273,540</u>	<u>99,029,152</u>
Fiduciary net position at end of year	<u>\$ 121,897,875</u>	<u>\$ 115,687,568</u>	<u>\$ 105,273,540</u>

### Contributions Receivables:

The Fund's contributions receivables for the year ended September 30, 2018 was \$6,406,407 as compared to \$6,857,593 for fiscal year 2017 and \$7,231,724 for fiscal year 2016. Of total contributions receivables, \$4,939,880 or 77% represents SSRF and \$1,466,527 or 23% represents HCF. Contributions receivables for SSRF includes \$2,641,526 of delinquent employers and \$2,298,354 of accrued tax receivable due a month after the quarter end. The allowance for doubtful accounts of \$2,266,837 is comprised of 35% 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 23% in fiscal year 2018 that has come down from 29% in fiscal year 2017. The collection of past due accounts is improving each year as staff continues to write-off uncollected receivables and strengthen collection efforts.

Year	Total Cont	A/R Cont	% to TC	Provision	% to A/R
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%
2017	\$ 23,595,867	\$ 6,857,593	29%	\$ 2,827,404	41%
2018	\$ 27,522,345	\$ 6,406,407	23%	\$ 2,266,837	35%

## Capital Assets:

At September 30 2018, 2017 and 2016, the Fund had \$86,943, \$95,042 and \$113,863, respectively, in capital assets, net of accumulated depreciation where applicable, including building improvements, office furniture and equipment and vehicles, which represent net decreases of \$8,099 in 2018 and \$18,821 in 2017 mainly from depreciation of aging office equipment. See note 8 to the financial statements for more detailed information on the Fund's capital assets.

## Actuarial Valuation:

An actuarial valuation issued on October 1, 2017 provides an assessment of the system's accrued liabilities and determination of the Fund's funded ratio. The unfunded liability is down by \$1,761,000 with a funding ratio of 37% compared to 2015 as a result of the increase in the SSRF contribution rate to 7%.

Year	Net Assets Available for Benefits	Accrued Liability (AAL)	Funded Ratio	Unfunded AAL
09/30/17	\$ 102,483,000	\$ 277,717,000	37%	\$ 175,234,000
09/30/15	\$ 90,777,000	\$ 267,772,000	34%	\$ 176,995,000
09/30/14	\$ 98,040,000	\$ 240,492,000	41%	\$ 142,452,000
09/30/13	\$ 93,182,000	\$ 201,486,000	46%	\$ 108,304,000
09/30/11	\$ 77,392,000	\$ 168,614,000	46%	\$ 91,222,000

The Board of Trustees will have to determine cash needs to be drawn from investments to avoid frequent drawdowns that have a negative impact on investment performance. The plan is to stabilize the investment fund in order to generate growth in the next market cycle (7-10 years). The Fund will be considered sound should the funded ratio reach 79%.

## Economic Outlook:

The economic outlook for Palau has been slowly recovering since contraction of the tourism market from 2017 to 2018. The Asian Development Bank is projecting growth in the Gross Domestic Product of 3% in 2019. The re-branding of Palau's tourism market to high end is slowly gaining global awareness with the support of the President on global climate change. The shift in the tourism industry and the delay of several large projects in 2016 has slowly returned in late 2018. ROP's near term outlook remains exposed to a narrow economic base, a remote location, a small population, insufficient infrastructure, a restrictive investment regime and vulnerability to natural disasters.

The Management's Discussion and Analysis for the year ended September 30, 2017 is set forth in the Fund's report on the audit of financial statements, which is dated April 30, 2018. That Discussion and Analysis explains the major factors impacting the 2017 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, 2018 and 2017

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2018</u>	<u>2017</u>
Cash	\$ 161,125	\$ 988,656
Investments:		
Mutual funds	86,754,275	71,744,786
U.S. Government obligations	16,307,553	17,230,766
Corporate bonds	14,668,924	14,119,823
Money market funds	187,520	439,154
Corporate stock	-	6,876,946
Total investments	<u>117,918,272</u>	<u>110,411,475</u>
Receivables:		
Contributions	6,406,407	6,857,593
Loan	2,680,142	3,019,475
Accrued interest and dividends	327,261	291,042
Advances and other	308,927	276,128
	9,722,737	10,444,238
Less allowance for doubtful accounts	<u>(2,266,837)</u>	<u>(2,827,404)</u>
Total receivables, net	<u>7,455,900</u>	<u>7,616,834</u>
Prepaid expense	17,830	28,473
Capital assets, net	86,943	95,042
Total assets	<u>125,640,070</u>	<u>119,140,480</u>
Deferred outflows of resources from pension	698,490	570,645
Total assets and deferred outflows of resources	<u>126,338,560</u>	<u>119,711,125</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>		
Liabilities:		
Benefits payable	945,605	703,985
Accrued liabilities and accounts payable	29,773	90,549
Net pension liability	2,903,556	2,964,466
Total liabilities	3,878,934	3,759,000
Deferred inflows of resources from pension	561,751	264,557
Total liabilities and deferred inflows of resources	<u>4,440,685</u>	<u>4,023,557</u>
Contingencies		
Fiduciary net position:		
Held in trust for benefits and other purposes	<u>\$ 121,897,875</u>	<u>\$ 115,687,568</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Additions:		
Contributions:		
Private employees	\$ 13,765,671	\$ 11,819,094
Government employees	12,510,814	10,111,639
Retirees and disabled individuals	873,794	1,103,033
Self-employed individuals	307,561	294,094
Penalties and interest	64,505	268,007
	<u>27,522,345</u>	<u>23,595,867</u>
(Bad debts) recoveries	(41,493)	57,145
Total contributions, net	<u>27,480,852</u>	<u>23,653,012</u>
Investment income:		
Net increase in the fair value of investments	3,697,564	8,172,807
Dividends	1,108,146	1,524,436
Interest	1,046,339	1,032,652
Total investment income, net	<u>5,852,049</u>	<u>10,729,895</u>
Other income	<u>245,687</u>	<u>251,199</u>
Total additions	<u>33,578,588</u>	<u>34,634,106</u>
Deductions:		
Benefit payments:		
Retirement	14,300,014	13,238,163
Survivor's	4,841,469	4,667,833
Medical savings account	3,015,794	2,902,974
National health insurance	2,928,120	3,158,271
Disability	516,070	520,862
Lump sum	48,630	62,305
Total benefit payments	<u>25,650,097</u>	<u>24,550,408</u>
Administrative	1,488,721	1,397,251
Fund custodian fee	116,609	101,870
Investment management fee	87,410	129,174
Depreciation	25,444	28,725
Total deductions	<u>27,368,281</u>	<u>26,207,428</u>
Excess of additions over deductions	6,210,307	8,426,678
Transfer from Republic of Palau	<u>-</u>	<u>1,987,350</u>
Change in fiduciary net position	6,210,307	10,414,028
Fiduciary net position at beginning of year	<u>115,687,568</u>	<u>105,273,540</u>
Fiduciary net position at end of year	<u>\$ 121,897,875</u>	<u>\$ 115,687,568</u>

See accompanying notes to financial statements.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

## (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, 2018 and 2017, 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, 2018 and 2017

(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, 2018 and 2017, cash was \$161,125 and \$988,656, respectively, and the corresponding bank balance was \$197,992 and \$1,146,128, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2018 and 2017, bank deposits in the amount of \$197,992 and \$250,000, respectively, 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, 2018 and 2017

(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, 2018 and 2017.

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, 2018 and 2017:

Investment Type	Fair Value	2018 Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Treasury bill	\$ 648,202	\$ 648,202	\$ -	\$ -	\$ -	Aaa	AAA
U.S. Treasury bonds	3,599,851	-	-	522,845	3,077,006	Aaa	AAA
U.S. Treasury notes	4,137,913	567,164	3,280,652	290,097	-	Aaa	AAA
Other U.S. government obligations	235,286	-	235,286	-	-	Aaa	AAA
Other U.S. government obligations	93,747	-	-	-	93,747	Aaa	AA+
Other U.S. government obligations	147,513	-	-	147,513	-	Aaa	Unrated
Other U.S. government obligations	435,717	312,718	25,750	97,249	-	Aa2	Unrated
Other U.S. government obligations	346,199	-	346,199	-	-	Aa1	AA+
Other U.S. government obligations	101,186	-	101,186	-	-	Aa1	AA
Other U.S. government obligations	226,311	-	226,311	-	-	A2	A+

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	2018 Investment Maturities (In Years)					Ratings	
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Municipal obligations	2,225,261	300,584	424,102	25,404	1,475,171	Aaa	AAA
U.S. Municipal obligations	4,110,367	308,644	2,212,545	619,328	969,850	Aaa	AA+
Corporate bonds	2,576,250	-	1,551,274	229,512	795,464	Aaa	AAA
Corporate bonds	908,622	-	297,501	389,978	221,143	Aaa	AAA
Corporate bonds	436,429	-	436,429	-	-	Aaa	Unrated
Corporate bonds	352,153	-	-	-	352,153	Aa3	AA+
Corporate bonds	575,121	148,767	426,354	-	-	Aa3	AA-
Corporate bonds	369,066	-	-	369,066	-	Aa3	A+
Corporate bonds	202,040	-	202,040	-	-	Aa3	A
Corporate bonds	173,757	-	173,757	-	-	Aa2	AA
Corporate bonds	195,667	-	195,667	-	-	Aa2	AA-
Corporate bonds	755,573	-	657,720	-	97,853	Aa2	A+
Corporate bonds	245,519	-	144,213	-	101,306	Aa1	AA+
Corporate bonds	235,477	74,671	160,806	-	-	Aa1	AA-
Corporate bonds	310,019	310,019	-	-	-	Aa1	Unrated
Corporate bonds	147,222	-	-	-	147,222	A3	A+
Corporate bonds	745,886	-	322,672	98,309	324,905	A3	A-
Corporate bonds	598,046	153,995	200,472	243,579	-	A3	BBB+
Corporate bonds	300,205	200,376	99,829	-	-	A2	A+
Corporate bonds	794,091	-	281,705	512,386	-	A2	A
Corporate bonds	539,575	-	335,607	203,968	-	A2	A-
Corporate bonds	150,079	-	-	150,079	-	A1	AA
Corporate bonds	429,860	-	-	100,137	329,723	A1	AA-
Corporate bonds	567,095	-	447,579	119,516	-	A1	A+
Corporate bonds	205,768	-	-	205,768	-	A1	A
Corporate bonds	94,555	-	-	94,555	-	A1	A-
Corporate bonds	184,594	-	-	-	184,594	Baa3	BBB
Corporate bonds	124,099	-	124,099	-	-	Baa2	BBB+
Corporate bonds	167,556	-	-	-	167,556	Baa2	BBB
Corporate bonds	537,406	-	-	283,616	253,790	Baa1	A
Corporate bonds	571,079	-	-	-	571,079	Baa1	A-
Corporate bonds	709,619	-	561,197	148,422	-	Baa1	BBB+
Corporate bonds	274,694	-	-	98,153	176,541	Baa1	BBB
Corporate bonds	191,802	-	-	191,802	-	Unrated	AA-
	<u>\$ 30,976,477</u>	<u>\$ 3,025,140</u>	<u>\$ 13,470,952</u>	<u>\$ 5,141,282</u>	<u>\$ 9,339,103</u>		

Investment Type	2017 Investment Maturities (In Years)					Ratings	
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Treasury notes	\$ 5,868,658	\$ 125,470	\$ 5,438,958	\$ 304,230	\$ -	Aaa	AA+
U.S. Treasury bonds	2,447,625	-	-	228,865	2,218,760	Aaa	AA+
Other U.S. government obligations	366,180	-	366,180	-	-	Aaa	AAA
Other U.S. government obligations	269,254	-	-	153,618	115,636	Aaa	Unrated
Other U.S. government obligations	144,200	-	26,500	-	117,700	Aa2	Unrated
Other U.S. government obligations	200,494	-	200,494	-	-	Aa2	A+
Other U.S. government obligations	103,603	-	103,603	-	-	Aa1	AA
Other U.S. government obligations	230,628	-	230,628	-	-	A2	A+
U.S. Municipal obligations	7,600,124	972,280	4,479,482	34,718	2,113,644	Aaa	AA+
Corporate bonds	2,131,557	-	1,043,505	243,579	844,473	Aaa	AAA
Corporate bonds	981,570	-	303,855	426,237	251,478	Aaa	AA+
Corporate bonds	706,291	-	706,291	-	-	Aaa	Unrated
Corporate bonds	294,042	-	-	-	294,042	Aa3	AA+
Corporate bonds	385,327	-	-	385,327	-	Aa3	A+
Corporate bonds	209,106	-	209,106	-	-	Aa3	A
Corporate bonds	687,977	-	583,220	104,757	-	Aa3	AA-
Corporate bonds	757,710	-	404,002	-	353,708	Aa2	AA
Corporate bonds	201,418	-	100,279	-	101,139	Aa2	A+
Corporate bonds	437,462	-	437,462	-	-	Aa2	AA-
Corporate bonds	184,649	-	184,649	-	-	Aa1	AA+
Corporate bonds	130,773	-	130,773	-	-	Aa1	Unrated
Corporate bonds	104,190	-	-	-	104,190	A3	A
Corporate bonds	328,011	-	124,905	203,106	-	A3	A-
Corporate bonds	417,293	-	162,373	254,920	-	A3	BBB+
Corporate bonds	100,509	-	100,509	-	-	A3	Unrated
Corporate bonds	310,935	-	201,020	109,915	-	A2	A+
Corporate bonds	748,914	105,035	-	643,879	-	A2	A
Corporate bonds	159,264	-	-	159,264	-	A1	AA
Corporate bonds	457,811	-	-	-	457,811	A1	AA-
Corporate bonds	730,122	290,951	314,094	125,077	-	A1	A+
Corporate bonds	217,399	-	-	217,399	-	A1	A
Corporate bonds	99,533	-	-	99,533	-	A1	A-



REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	2017 Investment Maturities (In Years)					Ratings	
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
Corporate bonds	196,079	-	-	-	196,079	Baa3	BBB
Corporate bonds	128,123	-	128,123	-	-	Baa2	BBB+
Corporate bonds	121,058	-	121,058	-	-	Baa2	BBB
Corporate bonds	259,835	-	-	-	259,835	Baa1	A
Corporate bonds	1,103,628	-	-	296,903	806,725	Baa1	A-
Corporate bonds	902,145	75,029	827,116	-	-	Baa1	BBB+
Corporate bonds	425,782	-	130,186	104,826	190,770	Baa1	BBB
Corporate bonds	201,310	-	-	201,310	-	Unrated	AA-
	<u>\$ 31,350,589</u>	<u>\$ 1,568,765</u>	<u>\$ 17,058,371</u>	<u>\$ 4,297,463</u>	<u>\$ 8,425,990</u>		

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 (i.e., 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	09/30/18	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 8,385,966	\$ 8,385,966	\$ -	\$ -
U.S. Municipal obligations	6,335,628	-	6,335,628	-
Other U.S. Government obligations	1,585,959	-	1,585,959	-
Corporate bonds	14,668,924	-	14,668,924	-
Total investments by fair value level	<u>\$ 30,976,477</u>	<u>\$ 8,385,966</u>	<u>\$ 22,590,511</u>	<u>\$ -</u>

Investments measured at net asset value (NAV):  
Mutual funds \$ 86,754,275

Investments measured at cost based measure:  
Money market funds \$ 187,520

Investments by fair value level	09/30/17	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 8,316,283	\$ 8,316,283	\$ -	\$ -
U.S. Municipal obligations	7,600,124	-	7,600,124	-
Other U.S. Government obligations	1,314,359	-	1,314,359	-
Corporate bonds	14,119,823	-	14,119,823	-
Equity securities:				
Common stock	6,876,946	6,876,946	-	-
Total investments by fair value level	<u>\$ 38,227,535</u>	<u>\$ 15,193,229</u>	<u>\$ 23,034,306</u>	<u>\$ -</u>

Investments measured at net asset value (NAV):  
Mutual funds \$ 71,744,786

Investments measured at cost based measure:  
Money market funds \$ 439,154

## REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

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

#### Receivables and Allowance for Doubtful Accounts

Contributions receivable are due from employers located within the Republic of Palau. These receivables are not collateralized and are non-interest bearing. The allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts. The allowance is established through a provision for bad debts for contributions receivable that have been outstanding in excess of one year. Bad debts are written-off against the allowance by the specific identification method.

#### Deferred Outflows of Resources

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

#### 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, 2018 and 2017 is not material to the financial statements.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

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

### Deferred Inflows of Resources

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

### Contributions

Contributions to the Fund are governed by RPPL No. 2-29 as revised by RPPL No. 3-64 and amended by RPPL No. 5-34, RPPL No. 6-13, RPPL No. 7-32, RPPL No. 8-5, RPPL No. 9-11, RPPL No. 9-12, RPPL No. 9-35 and RPPL No. 10-12, 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 increased to \$6,000 per quarter effective October 1, 2015. Effective October 1, 2017, there is 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 through September 30, 2017, the rate is six percent. Effective October 1, 2017 and thereafter, the rate is seven percent. During the years ended September 30, 2018 and 2017, the Fund recorded total contributions of \$19,158,817 and \$15,103,867, 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, RPPL No. 9-35 and RPPL 10-12, 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. Effective September 27, 2017, the minimum benefit increased to \$198. During the years ended September 30, 2018 and 2017, the Fund paid benefits of \$19,585,541 and \$18,363,647, respectively. Included within fiscal years 2018 and 2017 benefit payments is \$-0- and \$1,987,350, respectively, of 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, 2018 and 2017

(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, 2018, the Fund implemented the following pronouncements:

- GASB 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.
- GASB 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.
- GASB Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).
- GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt.

The implementation of these statements did not have a material effect on the Fund's financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 are effective for fiscal years beginning after December 15, 2018. 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, 2018 and 2017

### (3) Prior Service Claims

Under the terms of a Prior Service Claim Adjudication Service Agreement between the Trust Territory Prior Service Trust Fund Administration (PSTFA) 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.

The Fund received a fund allocation of \$26,200 and \$137,600 on September 14, 2018 and September 15, 2017 and paid benefits of \$120,642 and \$125,516 for the years ended September 30, 2018 and 2017, respectively. 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, 2018 and 2017, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$17,033 and \$130,332, 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 \$307,561 during the year ended September 30, 2018 from \$294,094 during the year ended September 30, 2017. Beginning October 1, 2010, employers began to withhold 2.5% of employee earnings.

## REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

### (4) Healthcare Fund, Continued

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, 2018 and 2017, the Fund recorded healthcare contributions for retirees and disabled individuals of \$873,794 and \$1,103,033, 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, 2018 and 2017, total benefit expense amounted to \$5,943,914 and \$6,061,245 of which \$3,760,348 and \$4,911,227, respectively, was paid to the Belau National Hospital, a related party.

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. 10-01 (amended by 9-55), the fiscal year 2017 Budget Act, appropriated \$2,000,000 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. During the years ended September 30, 2018 and 2017, the Fund received and paid additional Social Security benefits of \$-0- and \$1,987,350, respectively, which are recorded as transfer from Republic of Palau and benefit payments in the accompanying financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(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 multiple 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 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10 and RPPL 9-2.

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

*Plan Membership.* As of September 30, 2017, the valuation date, plan membership consisted of the following:

Inactive members currently receiving benefits	1,576
Inactive members entitled to but not yet receiving benefits	1,162
Active members	<u>3,422</u>
Total members	<u>6,160</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 Plan 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.



REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

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

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

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

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

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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.
- 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

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

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

The Fund's contribution to the Plan for the years ended September 30, 2018, 2017 and 2016 were \$37,503, \$37,577 and \$37,247, respectively, which were equal to the required contributions for the respective years then ended.

*Actuarial Assumptions.* The total pension liability was determined by an actuarial valuation as of September 30, 2017, for the same measurement date, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Amortization Method:	Level dollar, open with remaining amortization period of 30 years
Asset Valuation Method:	Market Value of Assets
Investment Income:	7.5% per year, net of investment expenses, including price inflation
Inflation:	3.0%
Interest on Member Contributions:	5.0% per year

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Salary Increase:	3.0% per year	
Expenses:	\$300,000 each year	
Mortality:	RP 2000 Combined Healthy Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years	
Termination of Employment:	5% for ages 20 to 39; none for all other ages	
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	
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.	
Duty vs Non-duty related disability:	100% Duty related	
Refund of Contributions:	80% of terminated vested members elect a refund of contributions	
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death	
Final Average Earnings:	Deferred vested members missing data for their final average earnings are assumed to have earned the average amount of current deferred vested members.	
Benefits:	Retirees and beneficiaries missing data for their monthly benefit amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively.	

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

*Long-Term Expected 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, 2017, 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	5%	4.00%
	<u>100%</u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 3.62% at the current measurement date from 2.98% 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 2022 for the 2017 measurement date. For years on or after 2022, a discount rate of 3.57% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

*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 3.62%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.62%) or 1.00% higher (4.62%) from the current rate.

<u>1% Decrease 2.62%</u>	<u>Current Single Discount Rate Assumption 3.62%</u>	<u>1% Increase 4.62%</u>
\$ 3,362,165	\$ 2,903,556	\$ 2,523,026

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

*Pension Liability.* At September 30, 2018 and 2017, the Fund reported a liability of \$2,903,556 and \$2,964,466, 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, 2018 and 2017, the Fund's proportion was 1.1194% and 1.1884%, respectively.

*Pension Expense.* For the years ended September 30, 2018 and 2017, the Fund recognized pension expense of \$145,942 and \$142,187, respectively.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(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, Continued

*Deferred Outflows and Inflows of Resources.* At September 30, 2018 and 2017, the Fund reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 267,294	\$ 56,750	\$ -	\$ 75,980
Change of assumptions	339,511	275,060	454,335	70,106
Net difference between projected and actual earnings on pension plan investments	15,986	14,189	25,457	5,763
Contribution subsequent to measurement date	37,503	-	37,577	-
Changes in proportion and difference between the Fund's contributions and proportionate share of contributions	<u>38,196</u>	<u>215,752</u>	<u>53,276</u>	<u>112,708</u>
	\$ <u>698,490</u>	\$ <u>561,751</u>	\$ <u>570,645</u>	\$ <u>264,557</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, 2018 will be recognized in pension expense as follows:

Year ending September 30,

2019	\$ 13,299
2020	\$ 40,433
2021	\$ 25,005
2022	\$ 22,480
2023	\$ 13,013
Thereafter	\$ (14,994)

(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 \$2,680,142 and \$3,019,475 with interest at 4.5% at September 30, 2018 and 2017, respectively. The loan is collateralized by the full faith and credit of the Republic of Palau Government.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(7) Loan Receivable, Continued

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 268,300	\$ 165,095	\$ 433,395
2020	328,200	105,195	433,395
2021	343,411	89,984	433,395
2022	359,038	74,357	433,395
2023	375,378	58,017	433,395
2024 - 2026	<u>1,005,815</u>	<u>77,672</u>	<u>1,083,487</u>
	\$ <u>2,680,142</u>	\$ <u>570,320</u>	\$ <u>3,250,462</u>

(8) Capital Assets

A summary of the Fund's capital assets, at original cost, as of September 30, 2018 and 2017, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2018</u>
Office furniture and equipment	4 - 13 years	\$ 425,416	\$ 1,759	\$ -	\$ 427,175
Building and improvements	30 years	200,045	1,403	-	201,448
Vehicles	5 years	<u>80,195</u>	<u>14,183</u>	-	<u>94,378</u>
		705,656	17,345	-	723,001
Less accumulated depreciation		<u>(610,614)</u>	<u>(25,444)</u>	-	<u>(636,058)</u>
Total capital assets, net		\$ <u>95,042</u>	\$ <u>(8,099)</u>	\$ -	\$ <u>86,943</u>
		<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2017</u>
Office furniture and equipment	4 - 13 years	\$ 416,380	\$ 9,036	\$ -	\$ 425,416
Building and improvements	30 years	199,177	868	-	200,045
Vehicles	5 years	<u>80,195</u>	-	-	<u>80,195</u>
		695,752	9,904	-	705,656
Less accumulated depreciation		<u>(581,889)</u>	<u>(28,725)</u>	-	<u>(610,614)</u>
Total capital assets, net		\$ <u>113,863</u>	\$ <u>(18,821)</u>	\$ -	\$ <u>95,042</u>

(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 \$175,234,000 as of October 1, 2017. An actuarial valuation of the Healthcare Fund has determined that the Healthcare Fund had an actuarial deficiency of approximately \$161,947,603 as of October 1, 2017. 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, 2018, to correct this potential funding deficiency.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2018 and 2017

(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>2017</u> <u>Valuation</u>	<u>2016</u> <u>Valuation</u>	<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	\$ 259,395,005	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,332
The Fund's proportionate share of the net pension liability	\$ 2,903,556	\$ 2,964,466	\$ 2,625,302	\$ 2,432,377	\$ 2,274,001
The Fund's proportion of the net pension liability	1.12%	1.19%	1.22%	1.19%	1.25%
The Fund's covered employee payroll**	\$ 648,483	\$ 629,414	\$ 590,683	\$ 559,742	\$ 521,749
The Fund's proportionate share of the net pension liability as a percentage of its covered employee payroll	447.75%	470.99%	444.45%	434.55%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	10.18%	10.55%	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>2017</u> <u>Valuation</u>	<u>2016</u> <u>Valuation</u>	<u>2015</u> <u>Valuation</u>	<u>2014</u> <u>Valuation</u>	<u>2013</u> <u>Valuation</u>
Actuarially determined contribution	\$ 192,301	\$ 171,337	\$ 132,758	\$ 126,488	\$ 78,562
Contribution in relation to the actuarially determined contribution	<u>38,909</u>	<u>37,247</u>	<u>35,205</u>	<u>32,961</u>	<u>31,386</u>
Contribution deficiency	<u>\$ 153,392</u>	<u>\$ 134,090</u>	<u>\$ 97,553</u>	<u>\$ 93,527</u>	<u>\$ 47,176</u>
The Fund's covered-employee payroll**	<u>\$ 648,483</u>	<u>\$ 629,414</u>	<u>\$ 590,683</u>	<u>\$ 559,742</u>	<u>\$ 521,749</u>
Contribution as a percentage of covered-employee payroll	6.00%	5.92%	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, 2018

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Eliminations	Total
Cash	\$ 132,747	\$ 18,555	\$ 9,823	\$ -	\$ 161,125
Investments:					
Mutual funds	72,671,191	-	14,083,084	-	86,754,275
U.S. Government obligations	16,307,553	-	-	-	16,307,553
Corporate bonds	14,668,924	-	-	-	14,668,924
Money market funds	187,520	-	-	-	187,520
Total investments	<u>103,835,188</u>	<u>-</u>	<u>14,083,084</u>	<u>-</u>	<u>117,918,272</u>
Receivables:					
Contributions	4,939,880	-	1,466,527	-	6,406,407
Loan	2,680,142	-	-	-	2,680,142
Accrued interest and dividends	327,094	-	167	-	327,261
Due from other funds	-	-	958,958	(958,958)	-
Advances and other	49	-	308,878	-	308,927
	<u>7,947,165</u>	<u>-</u>	<u>2,734,530</u>	<u>(958,958)</u>	<u>9,722,737</u>
Less allowance for doubtful accounts	<u>(2,087,529)</u>	<u>-</u>	<u>(179,308)</u>	<u>-</u>	<u>(2,266,837)</u>
Total receivables, net	<u>5,859,636</u>	<u>-</u>	<u>2,555,222</u>	<u>(958,958)</u>	<u>7,455,900</u>
Prepaid expense	8,671	-	9,159	-	17,830
Capital assets, net	83,247	-	3,696	-	86,943
Total assets	<u>109,919,489</u>	<u>18,555</u>	<u>16,660,984</u>	<u>(958,958)</u>	<u>125,640,070</u>
Deferred outflows of resources from pension	467,988	-	230,502	-	698,490
Total assets and deferred outflows of resources	<u>110,387,477</u>	<u>18,555</u>	<u>16,891,486</u>	<u>(958,958)</u>	<u>126,338,560</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>					
Liabilities:					
Benefits payable	515,526	-	430,079	-	945,605
Accrued liabilities and accounts payable	9,516	-	20,257	-	29,773
Due to other funds	957,436	1,522	-	(958,958)	-
Net pension liability	1,945,383	-	958,173	-	2,903,556
Total liabilities	<u>3,427,861</u>	<u>1,522</u>	<u>1,408,509</u>	<u>(958,958)</u>	<u>3,878,934</u>
Deferred inflows of resources from pension	376,373	-	185,378	-	561,751
Total liabilities and deferred inflows of resources	<u>3,804,234</u>	<u>1,522</u>	<u>1,593,887</u>	<u>(958,958)</u>	<u>4,440,685</u>
Contingencies					
Fiduciary net position:					
Held in trust for benefits and other purposes	<u>\$ 106,583,243</u>	<u>\$ 17,033</u>	<u>\$ 15,297,599</u>	<u>\$ -</u>	<u>\$ 121,897,875</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, 2018

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
Additions:				
Contributions:				
Private employees	\$ 10,092,893	\$ -	\$ 3,672,778	\$ 13,765,671
Government employees	9,065,924	-	3,444,890	12,510,814
Retirees and disabled individuals	-	-	873,794	873,794
Self-employed individuals	-	-	307,561	307,561
Penalties and interest	41,839	-	22,666	64,505
	19,200,656	-	8,321,689	27,522,345
Recoveries (bad debts)	50,084	-	(91,577)	(41,493)
Total contributions, net	19,250,740	-	8,230,112	27,480,852
Investment income:				
Net increase in the fair value of investments	3,200,074	-	497,490	3,697,564
Dividends	961,021	-	147,125	1,108,146
Interest	1,043,276	-	3,063	1,046,339
Total investment income, net	5,204,371	-	647,678	5,852,049
Other income	114,235	26,200	105,252	245,687
Total additions	24,569,346	26,200	8,983,042	33,578,588
Deductions:				
Benefit payments:				
Retirement	14,246,119	53,895	-	14,300,014
Survivors	4,774,722	66,747	-	4,841,469
Medical savings account	-	-	3,015,794	3,015,794
National health insurance	-	-	2,928,120	2,928,120
Disability	516,070	-	-	516,070
Lump sum	48,630	-	-	48,630
Total benefit payments	19,585,541	120,642	5,943,914	25,650,097
Administrative	439,334	18,857	1,030,530	1,488,721
Fund custodian fee	96,509	-	20,100	116,609
Investment management fee	87,410	-	-	87,410
Depreciation	19,498	-	5,946	25,444
Total deductions	20,228,292	139,499	7,000,490	27,368,281
Change in fiduciary net position	4,341,054	(113,299)	1,982,552	6,210,307
Fiduciary net position at beginning of year	102,242,189	130,332	13,315,047	115,687,568
Fiduciary net position at end of year	\$ 106,583,243	\$ 17,033	\$ 15,297,599	\$ 121,897,875

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions  
 Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Salaries, wages and benefits	\$ 732,111	\$ 732,633
Professional services	259,255	216,527
Board members other expenses	84,156	74,886
Credit card processing fees	46,864	25,047
Supplies, printing and reproduction	45,793	52,758
Staff development and training	32,961	15,901
Utilities	30,176	28,089
Communications	21,916	20,264
Bank service charge	14,970	14,703
Special functions	12,133	8,042
Repairs and maintenance	12,100	12,786
Travel and transportation	12,026	12,067
Insurance	5,059	5,066
Fuel and oil	3,513	3,398
Postage stamps	3,459	3,282
Board compensation	2,250	2,700
Furniture and fixtures	2,129	2,112
Dues, subscriptions and registrations	1,361	986
Donations	950	700
Office equipment	669	6,349
Miscellaneous	18,928	16,768
	<hr/>	<hr/>
Total administrative deductions before pension contribution and adjustment	1,342,779	1,255,064
Pension contribution	37,503	37,577
GASB 68 pension adjustment	108,439	104,610
	<hr/>	<hr/>
Total administrative deductions	<u>\$ 1,488,721</u>	<u>\$ 1,397,251</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2018

	Cost	Fair Value
<u>Money Market Funds</u>		
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 135074870	\$ 186,963	\$ 186,963
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 140388851	557	557
Total Money Market Funds	<u>\$ 187,520</u>	<u>\$ 187,520</u>
<u>U.S. Government Obligations</u>		
US Treasury Bill 10/25/2018	\$ 648,202	\$ 648,202
US Treasury Bonds Infl Ix N/B 2% 01/15/2026 Ofv 165000	239,909	225,329
US Treasury Bonds 3.5% 02/15/2039	2,101,252	1,991,077
US Treasury Bonds 3% 11/15/2044	1,140,006	1,085,929
US Treasury Notes 2.875% 05/31/2025	299,461	297,516
US Treasury Notes 2.375% 08/15/2024	304,929	290,097
US Treasury Notes 2% 10/31/2021	677,500	657,362
US Treasury Notes 3.125% 05/15/2019	573,814	567,164
US Treasury Notes 2.625% 08/15/2020	749,307	727,408
US Treasury Notes 1.75% 05/15/2023	635,731	592,800
US Treasury Notes 2.5% 08/15/2023	935,229	901,315
US Treasury Notes 1.625% 06/30/2020	410,545	401,767
Total U.S. Treasury - Account # 135074870	<u>8,715,885</u>	<u>8,385,966</u>
Federal Home Loan Mortgage Corp Pool # C76358 5% 02/01/2033 Ofv 539000	11,196	11,522
Federal Home Loan Mortgage Corp Pool # A49906 5% 06/01/2036 Ofv 605000	11,405	12,147
Federal Home Loan Mortgage Corp Gold Pool #A55326 6% 12/01/2036 Ofv 425000	4,526	4,861
Federal Home Loan Mtge Corp Pool # A61533 5% 06/01/2036 Ofv 530000	5,659	5,760
Federal Home Loan Mortgage Corp Pool # G01960 5% 12/01/2035 Ofv 483000	17,312	17,629
Federal Home Loan Mortgage Corp Pool # G01938 5.5% 09/01/2035 Ofv 325000	13,051	13,236
Federal Home Loan Mortgage Corp Gold Pool #G12121 5.5% 04/01/2021 Ofv 213000	3,156	3,258
Federal Home Loan Mortgage Corp Gold Pool #G08046 5.5% 03/01/2035 Ofv 410000	16,007	18,010
Federal Home Loan Mortgage Corp Gold Pool # H00452 5.5% 01/01/2037 Ofv 213000	4,867	5,079
Federal Home Loan Mortgage Corp Pool # 1G1406 Arm 3.869% 12/01/2036 Ofv 425000	3,994	3,968
Federal Home Loan Mortgage Corp Pool # C01567 5% 05/01/2033 Ofv 1433000	46,071	47,638
Federal Home Loan Mtge Corp Pool # A88454 4.5% 09/01/2039 Ofv 510000	56,691	56,707
Federal Home Loan Mortgage Corp Gold Pool #B13067 4.5% 03/01/2019 Ofv 341000	547	584
Federal Home Loan Mortgage Corp Gold Pool #A36664 5% 08/01/2035 Ofv 256000	6,125	6,912
Federal Home Loan Mortgage Corp Gold Pool #A36685 5% 08/01/2035 Ofv 107000	1,940	2,189
Federal Home Loan Mtge Corp Pool # A37876 5% 09/01/2035 Ofv 630000	35,379	35,855
Federal Home Loan Bank Unsecured 3.125% 06/11/2027	629,609	619,328
Federal Home Loan Bank Unsecured 2.625% 12/10/2021	10,239	9,902
Federal Home Loan Mortgage Corp Pool #781958 4.604% 09/01/2034 Ofv 317000	4,502	4,841
Federal Home Loan Mortgage Corp Unsecured Step-Up 1.5% 06/30/2021-2016	824,466	804,870
Federal Home Loan Mortgage Corp Unsecured Step-Up 1.5% 09/30/2022-2017	349,801	338,895
Freddie Mac Unsecured Step-Up 1.75% 09/29/2022-2018	249,865	245,247
Federal National Mtge Assoc Unsecured 1.625% 11/27/2018	75,063	74,929
Federal National Mtge Assoc Notes 4% 04/22/2019-2010	35,000	35,311
Federal National Mtge Assoc Unsecured 1.6% 07/24/2019-2013	200,175	198,404
Federal National Mortgage Assn Pool #255670 5% 04/01/2035 Ofv 201000	7,327	8,209
Federal Home Loan Mortgage Corp Unsecured 1.25% 10/02/2019	827,973	813,631
Federal National Mortgage Assn Pool #725205 5% 03/01/2034 Ofv 74000	2,642	3,014
Federal National Mortgage Assn Pool #735227 5.5% 02/01/2035 Ofv 280000	9,398	10,447
Federal National Mortgage Assn Pool #735228 5.5% 02/01/2035 Ofv 645000	21,409	23,912
Federal National Mortgage Assn Pool #735502 6% 04/01/2035 Ofv 315000	8,756	9,691
Federal National Mortgage Assn Pool #735733 4.5% 10/01/2033 Ofv 345000	19,168	21,298
Federal National Mortgage Assn Pool #735897 5.5% 10/01/2035 Ofv 303000	17,165	18,637
Federal National Mortgage Assn Pool #739821 5% 09/01/2033 Ofv 556000	13,116	13,479
Federal National Mortgage Assn Pool #745089 6% 12/01/2035 Ofv 239000	8,517	9,539
Federal National Mortgage Assn Pool #794474 6% 10/01/2034 Ofv 720000	38,644	42,156
Federal National Mortgage Assn Pool #796274 5.5% 12/01/2034 Ofv 1500000	59,707	65,399
Federal National Mortgage Assn Pool # 810225 6% 01/01/2035 Ofv 841696	45,920	49,953
Federal National Mortgage Assn Pool # 814915 5.5% 03/01/2035 Ofv 924000	37,662	38,579
Federal National Mortgage Assn Pool # 826966 5.5% 06/01/2035 Ofv 87000	3,914	4,040
Federal National Mortgage Assn Pool #828856 5.5% 10/01/2035 Ofv 389000	19,572	22,044
Federal National Mortgage Assn Pool # 867452 6.5% 06/01/2036 Ofv 213000	9,581	10,462
Federal National Mtge Assoc Pool # 868936 6% 05/01/2036 Ofv 2120195	58,397	58,585
Federal National Mortgage Assoc Pool #882694 6.5% 06/01/2036 Ofv 128000	7,837	8,488
Federal National Mortgage Assn Pool #903749 6% 10/01/2036 Ofv 161000	3,166	3,394

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2018

	Cost	Fair Value
<u>U.S. Government Obligations, Continued</u>		
Federal National Mortgage Assn Pool #904915 5.5% 12/01/2036 Ofv 200000	2,226	2,355
Federal National Mortgage Assn Pool # 905678 5.5% 12/01/2036 Ofv 586000	13,819	14,292
Federal National Mortgage Assn Pool #910473 3.78% 01/01/2037 Ofv 430000	3,746	3,767
Federal National Mtge Assoc Pool # 935636 4% 09/01/2024 Ofv 330000	25,658	25,404
Federal National Mtge Assoc Pool # Aa3553 5% 02/01/2039 Ofv 303000	3,146	3,200
Federal National Mortgage Assoc Pool # Ma3124 2.5% 09/01/2032 Ofv 475000	421,913	405,397
Govt National Mtge Assoc Pool # 737442 4% 09/15/2040 Ofv 555000	165,594	163,608
Government National Mtg Corp Pool #648503 5.5% 11/15/2035 Ofv 199000	10,277	11,495
Gnma Mortgage Pool Ctfs Pool #701940 4.5% 06/15/2039 Ofv 669000	200,355	203,377
Overseas Private Inv Corp Disc Due 07/23/2019	300,000	300,000
Private Export Funding Secured 2.8% 05/15/2022	427,666	420,844
Tennessee Valley Auth Sr Unsecured 3.5% 12/15/2042	1,075,569	969,850
	<u>6,486,486</u>	<u>6,335,628</u>
Total U.S. Government Agencies - Account # 135074870		
California St Dept Of Wtr Resources Pwr Sply Revenue Txbl-Ref-Ser P 2% 05/01/2022	105,000	101,186
Hawaii St Arpts Sys Customer Fac Charge Revenue Txbl-Ser A 2.09% 07/01/2020	230,000	226,311
Hawaii St Txbl-Ser Fu 2.75% 01/01/2021	352,078	346,199
Hawaii St Dept Business Econ Dev & Tourism Green Energy Txbl-Green Bonds Ser A-1 Variable	128,017	131,442
Hawaii St Hsg Fin & Dev Corp Sf Mtge Purchase Revenue Txbl-Fnma Mbs Pass-Thru Program-	99,261	93,747
Honolulu City & Cnty Wastewtr Sys Rev Build America Bonds Taxable-First Bd-Ser B Issuer	110,000	112,718
Honolulu City & Cnty Wastewtr Sys Rev Build America Bonds 4.643% 07/01/2022-2020	25,000	25,750
Pennsylvania St Turnpike Commission Spl Oblig Txbl-Ref (Escrowed To Maturity) 3.029%	157,670	147,513
Univ Of Hawaii Revenue Txbl-Ref-Medical School Project-Ser D 1.819% 10/01/2018-2015	200,000	200,000
Univ Of Hawaii Revenue Txbl-Ref-Ser G 2.95% 10/01/2024	100,000	97,249
Utility Debt Securitization Auth Ny Txbl-Restructuring-Ser T 2.042% 06/15/2021-2019 Ofv	104,000	103,844
	<u>1,611,026</u>	<u>1,585,959</u>
Total U.S. Municipal Obligations - Account # 135074870		
Total U.S. Government Obligations	<u>\$ 16,813,397</u>	<u>\$ 16,307,553</u>
<u>Corporate Bonds</u>		
Swedish Export Credit Sr Unsecured 05/11/2037	\$ 103,848	\$ 101,306
African Development Bank Sr Unsecured 3% 09/20/2023	299,433	298,293
Amer Airline 16-1 Aa Ptt 1St Lien - Etc 3.575% 07/15/2029 Ofv 400000	360,620	352,153
American Honda Finance Sr Unsecured 3% 06/16/2020	99,865	99,829
American Intl Group Sr Unsecured 4.2% 04/01/2028-2028	149,769	148,422
Analog Devices Sr Unsecured 3.9% 12/15/2025-2025	99,819	98,153
Apache Finance Canada Company Guarnt 7.75% 12/15/2029	176,107	184,594
Apple Inc Sr Unsecured 2.4% 05/03/2023	150,293	144,213
Axis Specialty Finan Plc Sr Unsecured 5.15% 04/01/2045	187,448	169,178
Bb&T Corporation Sr Unsecured Flt Rt 2.761% 02/01/2021-2021	174,977	174,730
Bank Of America Corp Sr Unsecured Flt Rt 3.129% 07/21/2021-2021	200,140	201,136
Bank Of Nova Scotia N Y Agy Sr Unsecured Fltg Rt 2.69963% 01/08/2021	100,000	100,091
Berkshire Hathaway Inc Sr Unsecured 3% 02/11/2023	174,268	173,757
Burlington Resources Fin Company Guarnt 7.4% 12/01/2031	324,795	324,905
Ca Inc Sr Unsecured 3.6% 08/15/2022-2022	127,480	124,099
Canadian Imperial Bank Sr Unsecured Flt Rt 2.71825% 10/05/2020	210,227	210,481
Chevron Corp Sr Unsecured 2.355% 12/05/2022-2022	100,000	96,379
Chevron Corp Unsecured 2.193% 11/15/2019	100,000	99,288
Citigroup Inc Sr Unsecured 2.45% 01/10/2020-2019	104,979	104,083
Consumers Energy Corporation Secured 2.85% 05/15/2022-2022	212,162	202,040
Dte Energy Company Senior Notes 6.375% 04/15/2033	188,514	176,541
John Deere Capital Corp Sr Unsecured Flt Rt 3.01594% 03/12/2021	175,000	175,261
Disney (Walt) Company Sr Unsecured Flt Rt Floating 3.01663% 05/30/2019	200,000	200,376
Duke Energy Florida Llc Secured 3.2% 01/15/2027-2026	214,888	205,768
Ebay Inc Sr Unsecured 3.25% 10/15/2020	362,132	358,618
Energy Louisiana Llc Secured 3.25% 04/01/2028-2028	95,655	95,122
Energy Texas Inc Secured 5.15% 06/01/2045-2025	248,820	253,790
European Invt Bk Sr Unsecured 2.375% 06/15/2022	253,936	244,032
Goldman Sachs Group Inc Sr Unsecured 3.85% 07/08/2024-2024	248,268	243,579
Golondrina Leasing Llc Sink Fd Gtd Export Import Bank Of Usa 1.822% 05/03/2025 Ofv 225000	131,197	126,218
Grainger W W Inc Sr Unsecured 4.2% 05/15/2047-2046	155,203	147,222
Intel Corp Sr Unsecured 3.3% 10/01/2021	302,879	301,584
Inter-American Devel Bank Notes 6.75% 07/15/2027	126,338	122,876
Intercontinental Exchange Inc. Sr Unsecured 3.75% 12/01/2025-2025	160,003	149,422

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2018

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
World Bank (Ibrd) Sr Unsecured 1.875% 04/21/2020	316,922	310,322
Intl Bk Recon & Dev Sr Unsecured 1.95% 10/16/2020-2018	310,000	303,490
Invesco Finance Plc Sr Unsecured 4% 01/30/2024	149,360	150,479
Jp Morgan Chase & Co Sr Unsecured 2.295% 08/15/2021-2020	125,091	121,536
Johnson & Johnson Sr Unsecured 4.375% 12/05/2033-2033	591,758	569,368
Kaiser Foundation Hospital Sr Unsecured 3.15% 05/01/2027-2027	199,333	191,802
Kimberly Clark Corp Sr Unsecured 2.65% 03/01/2025	124,755	117,362
Kfw Unsecured 1.75% 10/15/2019	299,762	296,907
Landesbank Baden-Wurtemberg Subordinated 7.625% 02/01/2023	440,972	436,429
Lincoln Natl Corp Sr Unsecured 7% 06/15/2040	330,856	307,441
Microsoft Corp Sr Unsecured 3.625% 12/15/2023	104,693	106,636
Microsoft Corp Sr Unsecured 2% 11/03/2020-2020	99,959	98,230
Microsoft Corp Sr Unsecured 4.75% 11/03/2055-2055	238,464	226,096
Morgan Stanley Sr Unsecured Flt Rt Floating Rate 3.41413% 02/14/2020-2019	200,311	200,472
Morgan Stanley Sr Unsecured 7.3% 05/13/2019	149,948	153,995
Na Development Bank Sr Unsecured 2.3% 10/10/2018	310,856	310,019
Northeast Utilities Sr Unsecured 3.15% 01/15/2025-2024	290,828	283,616
Novartis Capital Corp Sr Unsecured 3.4% 05/06/2024	99,549	100,137
Nutrien Ltd Sr Unsecured 6.125% 01/15/2041-2040	178,050	167,556
Oracle Corp Sr Unsecured 4% 07/15/2046-2046	226,511	209,662
Pepsico Inc Sr Unsecured 2.75% 04/30/2025-2025	124,621	119,516
Pepsico Inc Sr Unsecured 2% 04/15/2021-2021	149,974	145,995
Pharmacia Corporation Debentures 6.75% 12/15/2027	142,239	150,079
Private Export Funding Secured 2.25% 03/15/2020	301,627	297,501
Private Export Funding Secured 3.25% 06/15/2025	283,482	263,760
Procter & Gamble Co Sr Unsecured 1.9% 11/01/2019	199,906	198,184
Qualcomm Inc Sr Unsecured Flt Rt 3.25038% 01/30/2023	159,973	160,877
Queens Health Systems Secured 4.464% 07/01/2045 Ofv 125000	125,000	120,061
Ross Stores Inc Sr Unsecured 3.375% 09/15/2024-2024	99,955	98,309
Charles Schwab Corp Sr Unsecured Note 2.65% 01/25/2023-2022	109,845	106,444
Shell International Sr Unsecured 2.375% 08/21/2022	99,820	96,803
Shell International Sr Unsecured 4% 05/10/2046	98,248	97,853
Small Bus Admin Ser 2016-20I Cl I 2.03% 09/01/2036 Ofv 275000	240,235	221,143
Starbucks Corp Sr Unsecured 3.1% 03/01/2023-2023	99,971	98,496
Toronto-Dominion Bank Sr Unsecured 2.125% 07/02/2019	74,981	74,672
Toronto-Dominion Bank Sr Unsecured Flt Rt 3.1415% 11/05/2019	160,146	160,806
Total Capital Intl Sa Sr Unsecured 3.75% 04/10/2024	372,148	369,066
Toyota Motor Credit Corp Sr Unsecured 2.8% 07/13/2022	104,846	102,960
Toyota Motor Credit Corp Sr Unsecured Step-Up 2% 04/26/2019-2018	149,921	148,767
Toyota Motor Credit Corp Sr Unsecured Flt Rt 2.70881% 04/17/2020	125,000	125,210
Union Pacific Corp Sr Unsecured 3.375% 02/01/2035-2034	104,722	94,460
Us Bancorp Subordinated 3.1% 04/27/2026-2026	100,842	94,555
Wells Fargo Company Sr Unsecured Flt Rt Floating Rate 3.75663% 10/31/2023-2022	200,375	203,968
Wells Fargo Bank Na Sr Unsecured Flt Rt 2.666631% 01/15/2020	250,000	250,345
Total Corporate Bonds	<u>\$ 14,984,918</u>	<u>\$ 14,668,924</u>
<u>Mutual Funds</u>		
Wilshire Solutions Trust Non US Equity Fund	\$ 2,558,960	\$ 2,787,247
Wilshire Solutions Fixed Income Master Trust Fund	4,270,383	4,493,692
Wilshire Solutions Trust Credit Opportunities Fund	1,331,806	1,428,408
Wilshire Solutions Real Assets Master Trust Fund	1,128,363	1,119,501
Wilshire Solutions Trust US Equity Fund	4,114,529	4,248,893
Wilshire Solutions Trust Cash (Stif Vehicle)	5,343	5,343
Subtotal - Account # WTHF 9004-002	<u>13,409,384</u>	<u>14,083,084</u>
Wilshire Solutions Real Assets Master Trust Fund	4,114,236	4,166,957
Wilshire Solutions Trust Credit Opportunities Fund	9,540,765	9,885,680
Wilshire Solutions Trust Non US Equity Fund	19,861,961	21,466,597
Wilshire Solutions Trust US Equity Fund	32,790,204	34,610,957
Wilshire Solutions Trust Cash (Stif Vehicle)	1,769	1,769
Subtotal - Account # WTHF 9003-002	<u>66,308,935</u>	<u>70,131,960</u>
Harvest MLP Income Fund III, LLC - Account # 140388851	<u>2,500,000</u>	<u>2,539,231</u>
Total Mutual Funds	<u>\$ 82,218,319</u>	<u>\$ 86,754,275</u>

See accompanying Independent Auditors' Report.