

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, 2019 AND 2018

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, 2019 and 2018, 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, 2019 and 2018, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Economic uncertainties as a result of the COVID-19 coronavirus pandemic may negatively impact the Fund's unfunded liability of \$337 million as described in note 9 to the financial statements and the Fund's future financial results as described in note 11 to the financial statements.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 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, 2019 (pages 42 and 43, respectively), the Schedule of Administrative Deductions for the years ended September 30, 2019 and 2018 (page 44) and the Schedule of Investments as of September 30, 2019 (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 June 22, 2020 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

June 22, 2020



Republic of Palau
SOCIAL SECURITY ADMINISTRATION

P. O. Box 679 Koror, Republic of Palau, PW 96940

Phone: (680) 488-2457 or Fax: (680) 488-1470

E-mail: administration@ropssa.org Website: www.ropssa.org

**Management's Discussion and Analysis
Years Ended September 30, 2019**

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, 2019 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, 10-29, 10-42 and 10-44. 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. The term of Chairman Rirou and Vice Chairman Uludong expired during the year and they were replaced by two new members. The Board held an election of new officers and the Trustees of the Fund are as follows:

Board Member	Officers/Title	Appointed	Expiration
Ms. Johana Ngiruchelbad	Chairman	11/19/19	11/19/23
Mr. Francis E. Meyar	Vice Chairman	11/19/19	11/19/23
Mrs. Evalista N. Kyota	Secretary/Treasurer	05/04/16	05/04/20
Mr. Hefflin Bai	Member	08/01/19	08/01/23
Ms. Umerang A. Imetengel	Member	08/01/19	08/01/23

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-three including the Administrator. Employee turnover was 9% and 15% in fiscal years 2019 and 2018, respectively, and there were three vacancies at the end of fiscal year 2019.

Contributions:

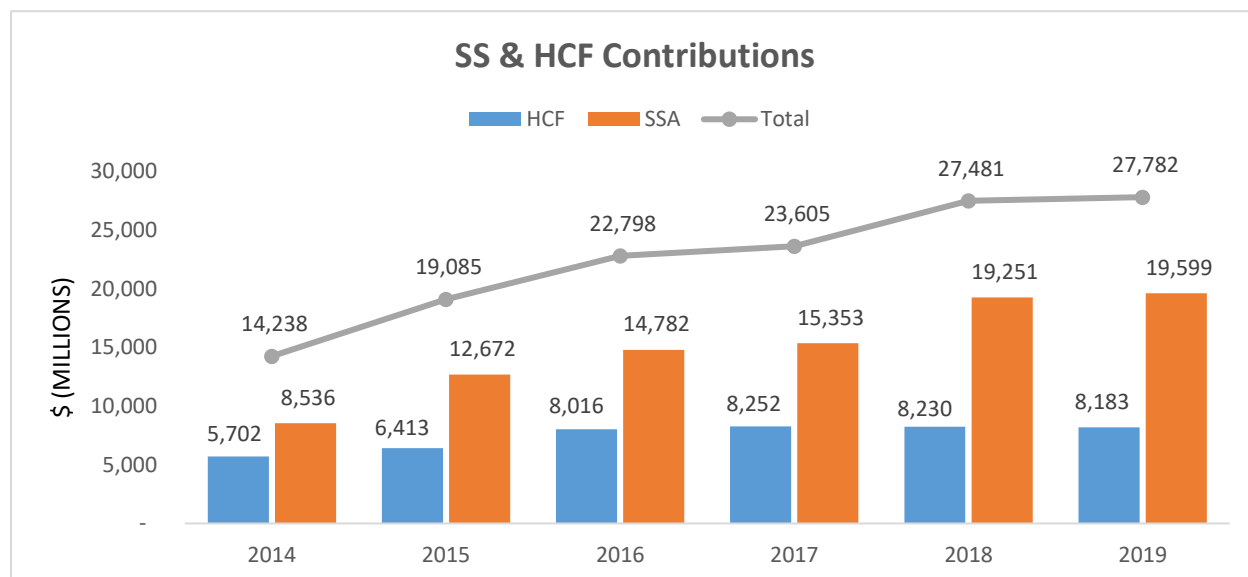
All employees and employers working and domiciled in ROP contribute 7% of remuneration to the Fund. The 1% increase in the contribution rate was effective on October 1, 2017 from 6% since October 1, 2001, which is a total of sixteen years without a rate increase. Prior to 2001, the rate of contribution 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. The maximum remuneration was removed on October 1, 2017; therefore, all wages earned were taxed for contributions at 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 allowed a majority of self-employed individuals without employees to file and pay their contributions based on gross earnings realized at the quarter end.

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.

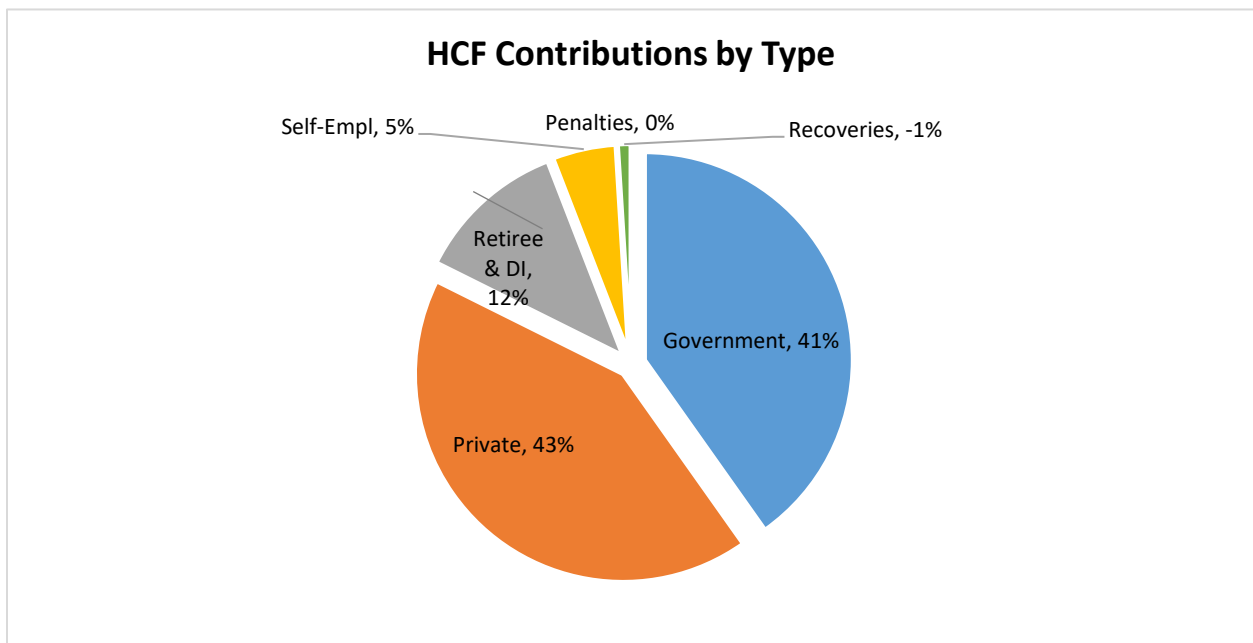
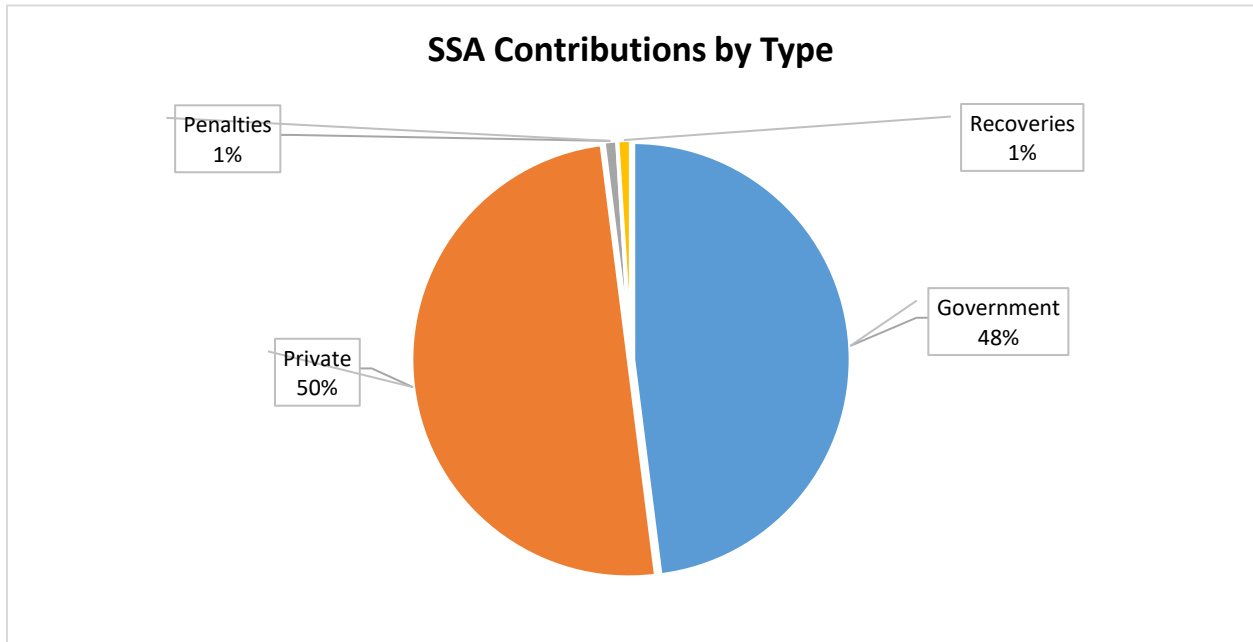
Funding mainly derives from contributions, enabling the Fund to meet monthly benefit payments and operation costs. Any excess funds available are invested in the Fund's asset portfolio. There were no additional funds available to invest in 2019 as benefit payouts exceeded contributions.

Contributions to SSRF and HCF in fiscal years 2019 and 2018 were \$27,782,148 and \$27,480,852, respectively, an increase of 1% from the prior year. Of total contributions, 71% represents contributions to SSRF and 29% represents contributions to HCF. The slight increase in SSRF contributions is mainly due to government supplemental benefits while HCF contributions slightly decreased by 1%.

Contributions for SSRF and HCF combined gradually increased due to the contribution rate increase and government supplemental benefits 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.



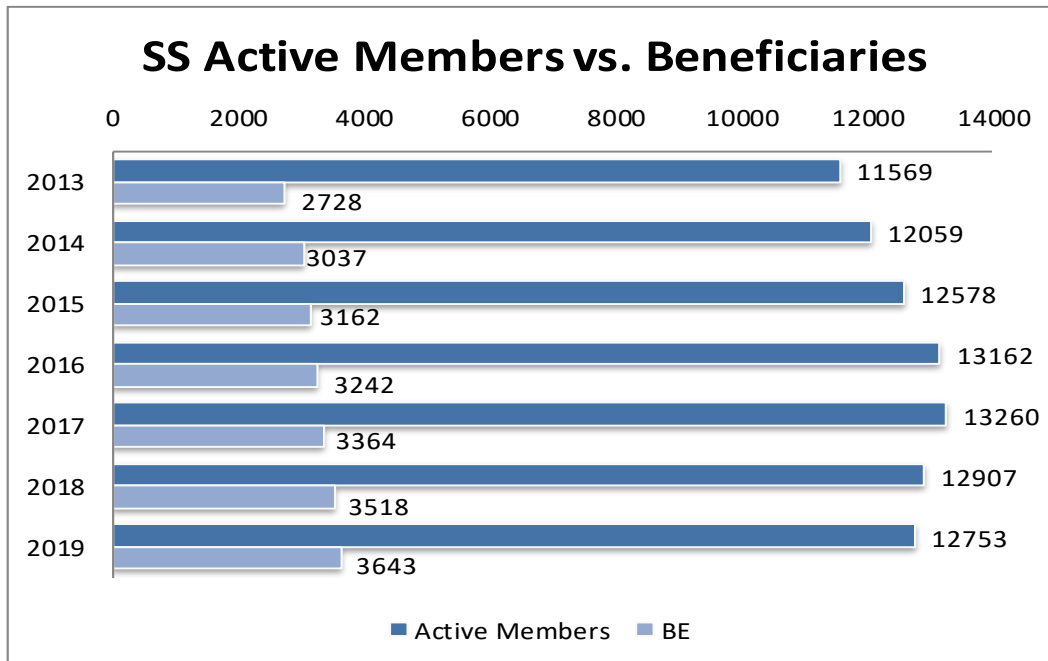
Contributions, Continued:



Member Services:

Total active Fund members as of fiscal year 2019 were 12,753 versus 12,908 in 2018, a decrease of 1% from last year, which is an indication of slow recruitment of foreign laborers and migration of Palauans to outside of Palau. 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 2019 were 3,643 versus 3,518 in 2018.

Member Services, Continued:



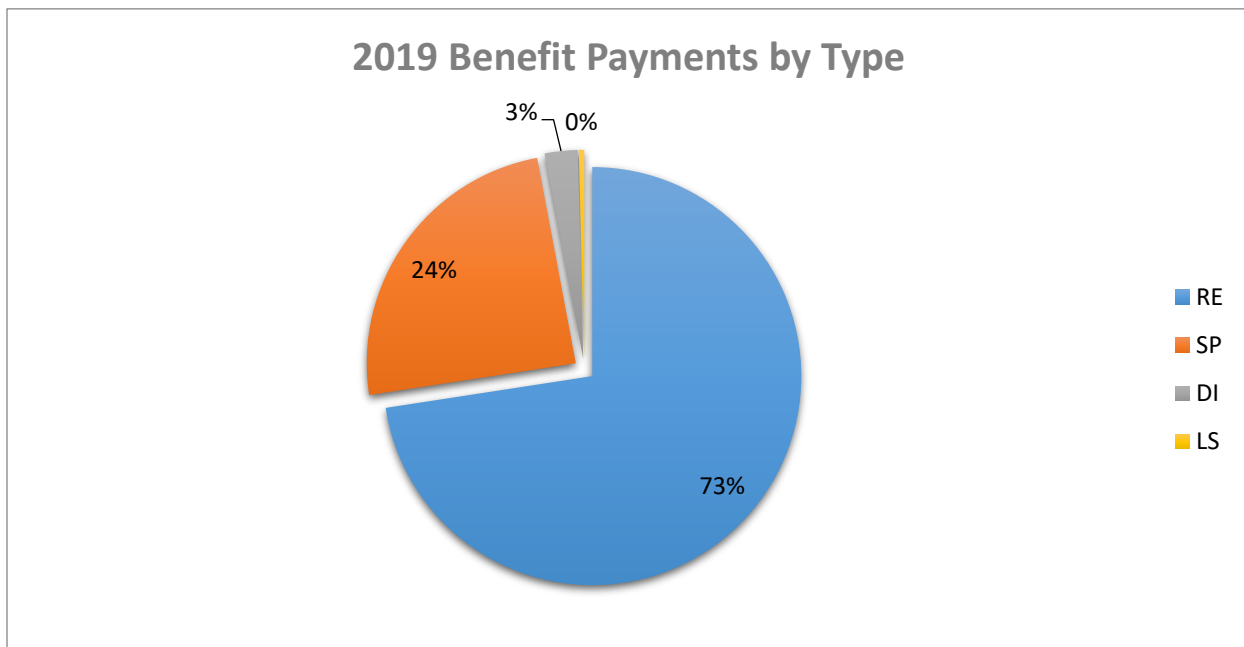
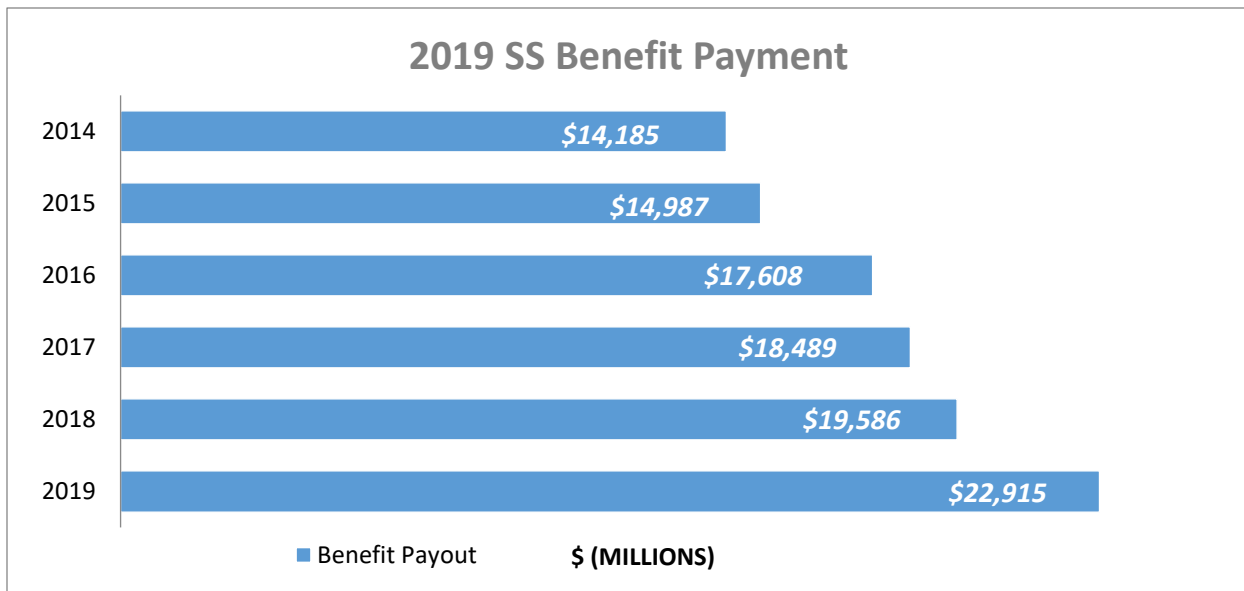
Total active employers as of calendar year 2019 were 2,563 versus 2,355 in 2018. SSRF experienced challenges of tracking licensed businesses in 2018 and 2019 during which time the Bureau of Revenue & Taxation (BRT) issued licenses without consistent clearance of SSRF Employer Identification Numbers (EINs). Prior to 2018, renewal of SSRF EINs expired on January 31 of each year. The closure of business EINs outside of the renewal period allowed SSRF and BRT to reconcile the number of active businesses and to ensure that all employers file with SSRF. At September 2019, there were no closures of inactive licensed businesses. As such, BRT agreed to revert back to having SSRF issue EINs first before issuing BRT licenses. The renewal of EINs reverted back to SSRF at November 2019.

Benefit Payments:

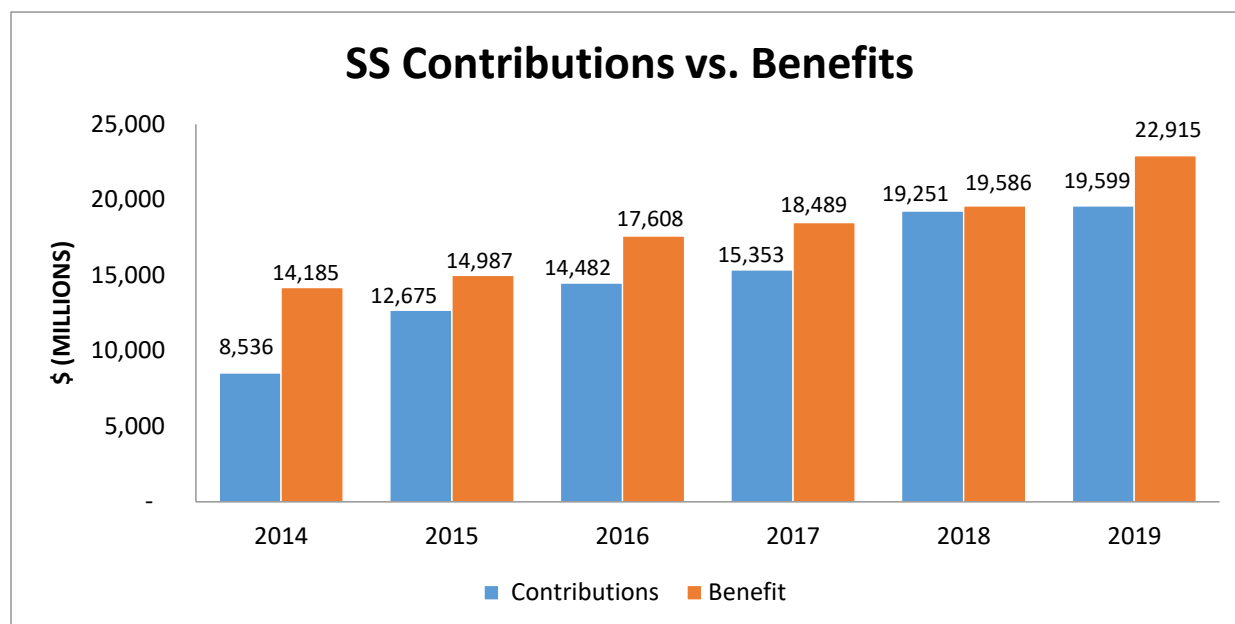
The types of benefits provided under the Fund are: 1) old-age insurance benefits, also known as retirement benefits; 2) surviving insurance benefits for spouse and dependents; 3) disability insurance benefits; and 4) lump sum benefits. The minimum basic monthly benefit is \$148 with the maximum limit 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 supplemental benefit from ROP National Treasury in 2019 was \$2,100,000 versus \$-0- in 2018. In fiscal year 2018, funding of \$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 2020 bringing the increase in supplemental benefits to a total of \$150. The Fund continues to face challenges in disbursing benefits based on its monthly liquidity position. 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 National Health Insurance (NHI) subject to the supervision and oversight of the HCF Governing Committee (the HCF GC). The powers and duties of the HCF GC under the NHFA are to provide an orderly means to finance and deliver comprehensive healthcare coverage to the people of ROP. The HCF GC 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 appointments and leadership in 2019.

As of September 30, 2019, members of the HCF GC by virtue of their position and title in the respective ROP agencies were as follows:

Member	Representative
Dr. Victor Yano, Chairman	Chamber of Commerce
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

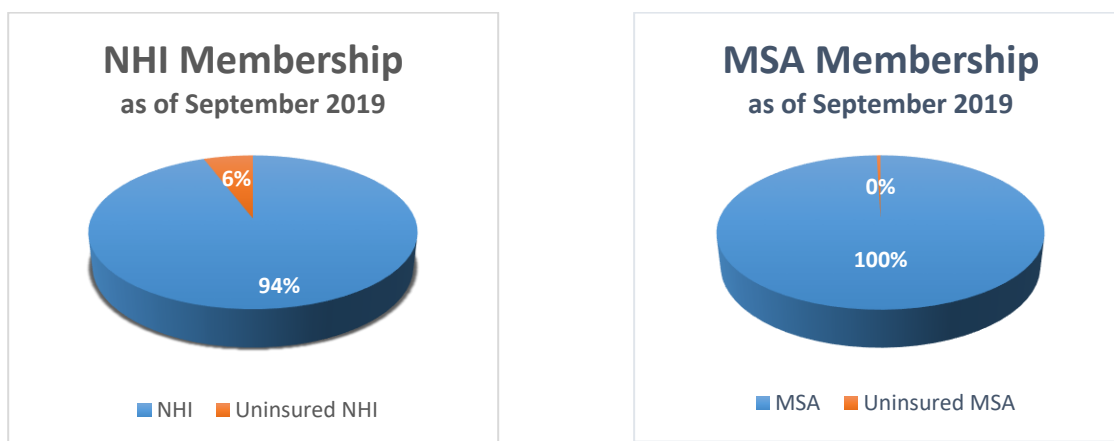
HCF Contributions and Membership

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 of HCF contribution rate since inception. There has been a gradual growth of membership as a result of active public awareness, growth of employment and the private sector.

HCF Contributions and Membership, Continued:

The initial HCF regulations went through a first-time revision in 2018 as part of efforts to gradually reform and improve services of the healthcare fund. There were new Memorandums of Understanding (MOUs) established between the Palau Health Insurance (PHI) and providers in Manila and Taiwan for better medical care options. The hiring of an HCF Utilization Reviewer in Taiwan provided effective claim services in 2019 and the plan is to hire an HCF Utilization Reviewer in Manila in the near future. The HCF office is temporarily located at the Belau National Hospital (BNH) while the HCF building is being constructed. Construction is expected to be completed in 2020. The new office building will be located in the center of Koror State and will be easily accessible to members and SSRF's main office.

As of September 30, 2019, total members under the NHI were 16,641 versus 16,815 in 2018. NHI members were 94% of a total population of 17,661 based on a census in 2015 while MSA members were 17,583 or 100% versus 17,041 or 96% from last year. The remaining 6% 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 Palauan citizens over 60 years of age and the unemployed, including those with disabilities. As of September 30, 2019, total government subsidy members were 2,145, an increase of 152 from 2018 of 1,993 at 12% of the population.

HCF reimbursed insurance benefits under two programs: 1) the NHI and 2) the MSA. HCF reimbursed BNH for inpatient claims and reimbursed each provider under the MOUs for medical referral claims. HCF also reimbursed outpatient billings for on-island treatment at various medical clinics and BNH outpatient services under the MSA.

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

Description	Medical Centers	MOU signed
In-patients	Belau National Hospital, Palau	
Medical Referral Patients (MRP)	St Luke's Medical Center, Philippines	01/29/18 PHI
MRP	St Luke's Medical Center (Global City), Philippines	01/29/18 PHI
MRP	Adventist Medical Center	03/12/18 PHI
MRP	Taipei Medical University-WangFang, Taiwan	05/01/18 PHI
MRP	E-DA Hospital, E-DA Cancer & E-DA Dachang	05/10/18 PHI
MRP	Shin Kong Wu Ho-Su Memorial Hospital, Taiwan	06/05/18 PHI
MRP	Taiwan Adventist Hospital	07/24/18 PHI
MRP	E-DA Hospital	05/06/16 (MOH)
MRP	Fortis Hospital, India	06/10/15(MOH)

HCF Contributions and Membership, Continued:

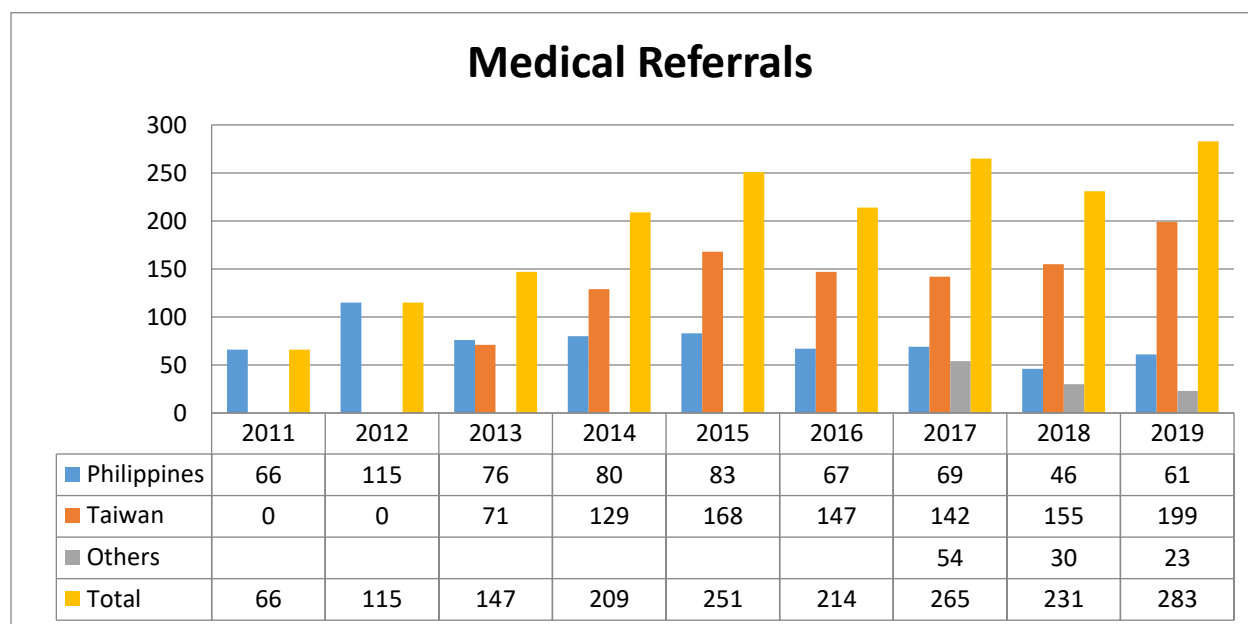
All providers in Palau with agreement to participate with MSA coverage were as follows:

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

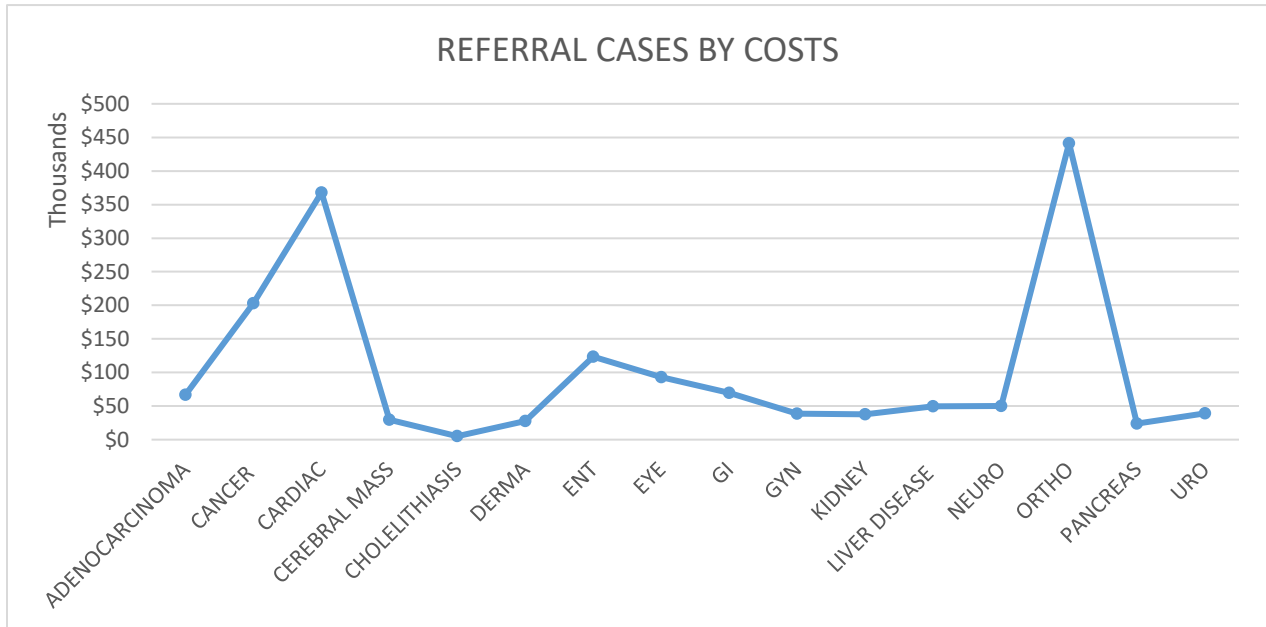
Members who are referred for off-island medical treatment must first be approved by the Medical Referral Committee (MRC) prior to certification of coverage by the HCF Administrator (RPPL 10-7). The Minister of Health established the MRC which is comprised of five physicians who practice in Palau, the 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 the 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.

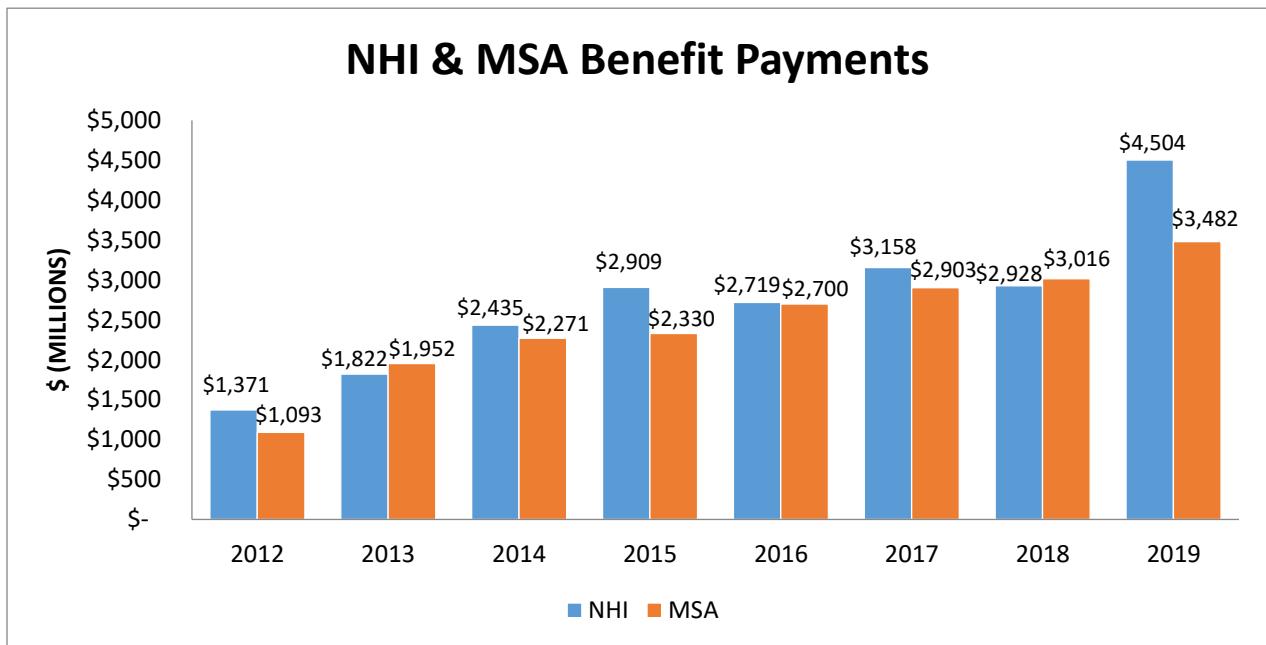
NHI annual coverage for off-island treatment per member is \$35,000 and the quarterly threshold of the NHI reimbursement is \$300,000. Efforts to streamline and effectively deal with referral cases in 2019 was challenging in part due to a high number of referral cases approved by MRC. Additionally, BNH's orthopedic physician ended his contract with no replacement; therefore, most of the orthopedic cases became medical referrals. The HCF GC had to manage the funding available for a variety of medical cases including orthopedic cases and thereby introduced several new Benefit and Policy Interpretation Bulletins (BPIBs) to stay within the funding available for referral cases in 2019.



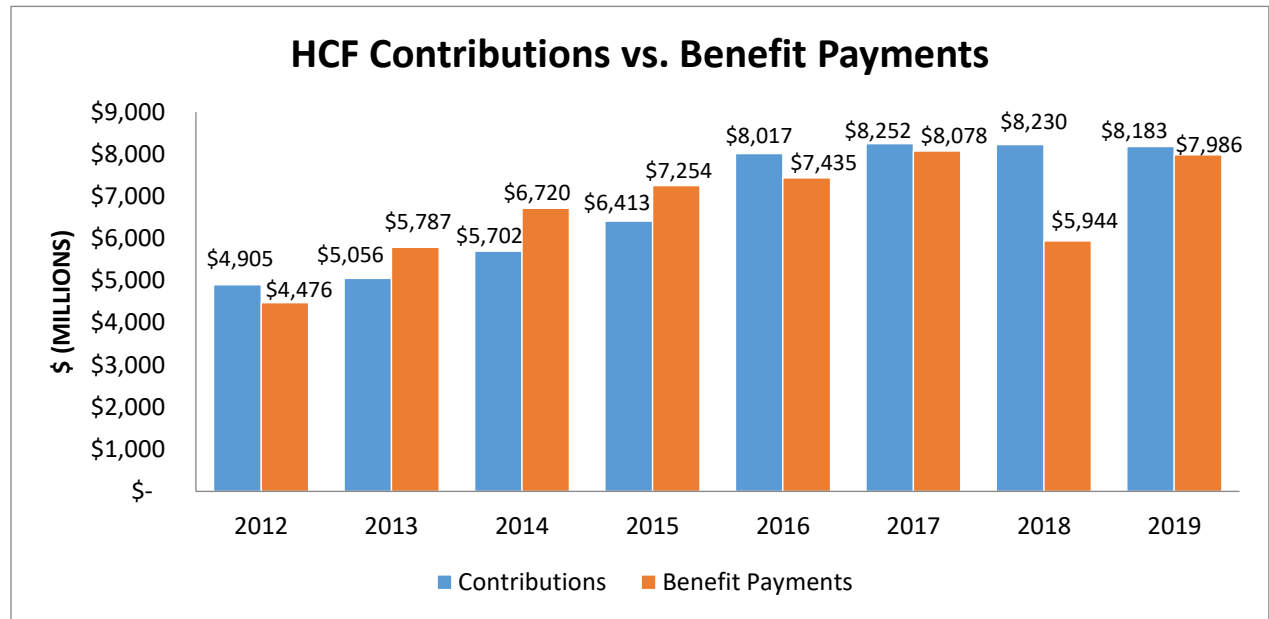
HCF Contributions and Membership, Continued:



Insurance benefit reimbursements increased by \$2,042,478 from \$5,943,914 in fiscal year 2018 to \$7,986,392 in fiscal year 2019 mainly due to a high number of orthopedic cases medically referred in 2019. Additionally, the number of cancer cases were on the rise with higher costs of treatment and follow-up care that is becoming more common.



HCF Contributions and Membership, Continued:



The administration of the HCF remains vested under the Social Security Administrator. Management of funds is maintained at a local bank for at least six months of operational costs. All excess funds are duly invested and managed by the Board of Trustees. There were no excess funds to invest in 2019.

Cash	\$ 1,390,482
Invested funds	<u>14,766,457</u>
Total cash and reserve funds	\$ <u>16,156,939</u>

Prior Service Retirement:

Funding for the Prior Service Trust Fund Administration (PSTFA) 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 the PSTFA was successful in securing the funding as needed for COLA in 2016. At September 30, 2019 and 2018, the amount available for future benefit payments under the PSTFA amounted to \$(3,557) and \$17,033, respectively. The agreement between the PSTFA 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, 2019, total members receiving benefits under the PSTFA were 159, a decrease from 172 in fiscal year 2018 resulting from 13 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 the 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 0.23% and a positive return on investment (ROI) of 3.83% for fiscal year 2019. The HCF also performed strongly with a growth of 4.85% and an ROI of 4.79%. The investment growth of HCF will provide opportunities to expand benefits and other opportunities as determined by the HCF GC.

Investments, Continued:

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 (%)
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%
2019	\$ 104,069,164	\$ 14,766,457	\$ 3,981,698	\$ 706,876	0.23%	4.85%	3.83%	4.79%

Information Technology (IT):

The Fund's 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 out of the market and 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. Although the migration encountered several challenges, it was finally completed in September 2019. The Fund's investment in the IT system is about \$626,000. The leading programmer that was able to deliver the final database in September 2019 was retained to support the new system for at least twelve months to ensure that it continues without any problems.

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. Public information about the Fund are reported and announced through local radio stations, newspapers and the State's outreach programs. SSRF's website is www.ropssa.org and HCF's new website is www.rophcf.org. The websites are available to beneficiaries who have relocated outside of Palau to stay informed of new changes affecting SSRF and HCF and to easily access forms and other information related to each beneficiary's continued eligibility.

Significant Events:

The migration project was finally completed at the end of fiscal year 2019 and has been properly deployed into the new server while the old system remains in the background for parallel testing until December 2019. The supplemental benefit of \$50 monthly to all SS beneficiaries continued in 2019. The Trustees continue to set the course for adopting a new investment strategy on Environment, Social and Governance (ESG) by ensuring that the new consulting agreement incorporates such strategy. The office was temporarily relocated to another site to allow the National Government to construct a multi-purpose building called a "One Stop Shop" for ease of establishing new businesses in the future where all requirements to start a business is located in one area. The Trustees withdrew \$2 million from the investment portfolio to meet benefit payouts in the last quarter of 2019 and \$3 million to transfer to the Fund as budgeted for fiscal year 2020.

The HCF's significant events include launching of their new website, the introduction of new BPIBs to safeguard the Fund and the ongoing construction of the HCF building. The system is also under enhancement for real-time clinic interface for MSA processing.

Subsequent Events:

The additional \$50 monthly supplemental benefit to retirees and disability benefits were implemented on April 1, 2020. The impact of Covid-19 on the local economy will likely negatively impact SSRF and HCF contributions in fiscal year 2020. SSRF has \$3 million available from the investment portfolio for fiscal year 2020 operations while HCF has \$2 million maintained in a local bank in the event COVID-19 coronavirus cases develop.

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, 2019 was \$124,232,334 as compared to \$121,897,875 for fiscal year 2018 and \$115,687,568 for fiscal year 2017, which was due to positive earnings and growth of investment assets for SSRF and HCF.

Statements of Fiduciary Net Position:

	2019	2018	2017
Assets and deferred outflows of resources:			
Cash	\$ 2,240,131	\$ 161,125	\$ 988,656
Investments	118,835,621	117,918,272	110,411,475
Receivables, net	7,325,636	7,455,900	7,616,834
Prepaid expense	68,818	17,830	28,473
Capital assets, net	29,928	86,943	95,042
Deferred outflows of resources from pension	<u>527,852</u>	<u>698,490</u>	<u>570,645</u>
Total assets and deferred outflows of resources	<u>129,027,986</u>	<u>126,338,560</u>	<u>119,711,125</u>
Liabilities, deferred inflows of resources and fiduciary net position:			
Benefits payable	1,391,267	945,605	703,985
Accrued liabilities and accounts payable	28,298	29,773	90,549
Net pension liability	2,696,839	2,903,556	2,964,466
Deferred inflows of resources from pension	<u>679,248</u>	<u>561,751</u>	<u>264,557</u>
Total liabilities and deferred inflows of resources	<u>4,795,652</u>	<u>4,440,685</u>	<u>4,023,557</u>
Fiduciary net position held in trust for benefits and other purposes	\$ <u>124,232,334</u>	\$ <u>121,897,875</u>	\$ <u>115,687,568</u>

Statements of Changes in Fiduciary Net Position:

Additions:			
Contributions, net	\$ 27,782,148	\$ 27,480,852	\$ 23,653,012
Investment income, net	4,688,574	5,852,049	10,729,895
Other income	<u>606,269</u>	<u>245,687</u>	<u>251,199</u>
Total additions	<u>33,076,991</u>	<u>33,578,588</u>	<u>34,634,106</u>
Deductions:			
Benefit payments	31,014,670	25,650,097	24,550,408
Other	<u>1,827,862</u>	<u>1,718,184</u>	<u>1,657,020</u>
Total deductions	<u>32,842,532</u>	<u>27,368,281</u>	<u>26,207,428</u>
Transfer from Republic of Palau	<u>2,100,000</u>	<u>-</u>	<u>1,987,350</u>
Change in fiduciary net position	2,334,459	6,210,307	10,414,028
Fiduciary net position at beginning of year	<u>121,897,875</u>	<u>115,687,568</u>	<u>105,273,540</u>
Fiduciary net position at end of year	\$ <u>124,232,334</u>	\$ <u>121,897,875</u>	\$ <u>115,687,568</u>

Contributions Receivables:

The Fund's contribution receivable for the year ended September 30, 2019 was \$6,578,518 as compared to \$6,406,407 for fiscal year 2018 and \$6,857,593 for fiscal year 2017. Of total contributions receivables, \$5,038,989 or 77% represents SSRF and \$1,539,529 or 23% represents HCF. Contributions receivables for SSRF includes \$2,332,784 of delinquent employers and \$2,706,205 of accrued tax receivable due a month after the quarter end. The SSRF allowance for doubtful accounts of \$2,093,264 represents 90% 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 24% in fiscal year 2019, an increase of 1% from 23% in fiscal year 2018. The collection of past due accounts has improved due to established workout agreements and write-off of accounts that exceeds statutes of limitation.

Year	Total Cont	A/R Cont	% to TC	Provision	% to A/R
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%
2019	\$ 27,804,637	\$ 6,578,518	24%	\$ 2,326,240	35%

Capital Assets:

At September 30 2019, 2018 and 2017, the Fund had \$29,928, \$86,943 and \$95,042, respectively, in capital assets, net of accumulated depreciation where applicable including building and improvements, office furniture and equipment and vehicles, which represent net decreases of \$57,015 in 2019 related mainly to the demolition of a building for the One Stop Shop and \$8,099 in 2018 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 in 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 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 is considering a study to develop a strategic plan that will provide a road map to improve the SSRF funding ratio. A sound Fund is when the funded ratio nears 79%.

Economic Outlook:

Due to the COVID-19 pandemic, the economic outlook for Palau is uncertain. The Asian Development Bank was projecting growth in the Gross Domestic Product of -0% in 2020. ROP's near term outlook is currently exposed to the impact of the COVID-19 pandemic, to a narrow economic base, a remote location, a small population, insufficient infrastructure and a restrictive investment regime.

The Management's Discussion and Analysis for the year ended September 30, 2018 is set forth in the Fund's report on the audit of financial statements, which is dated May 16, 2019. That Discussion and Analysis explains the major factors impacting the 2018 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

Contacting the Fund's Financial Management:

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Fiduciary Net Position
September 30, 2019 and 2018

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2019</u>	<u>2018</u>
Cash	\$ 2,240,131	\$ 161,125
Investments:		
Mutual funds	84,540,251	86,754,275
U.S. Government obligations	17,926,985	16,307,553
Corporate bonds	16,144,983	14,668,924
Money market funds	223,402	187,520
Total investments	<u>118,835,621</u>	<u>117,918,272</u>
Receivables:		
Contributions	6,578,518	6,406,407
Loan	2,402,787	2,680,142
Accrued interest and dividends	270,277	327,261
Advances and other	400,294	308,927
	<u>9,651,876</u>	<u>9,722,737</u>
Less allowance for doubtful accounts	<u>(2,326,240)</u>	<u>(2,266,837)</u>
Total receivables, net	<u>7,325,636</u>	<u>7,455,900</u>
Prepaid expense	<u>68,818</u>	<u>17,830</u>
Capital assets, net	<u>29,928</u>	<u>86,943</u>
Total assets	<u>128,500,134</u>	<u>125,640,070</u>
Deferred outflows of resources from pension	<u>527,852</u>	<u>698,490</u>
Total assets and deferred outflows of resources	<u>129,027,986</u>	<u>126,338,560</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>		
Liabilities:		
Benefits payable	1,391,267	945,605
Accrued liabilities and accounts payable	28,298	29,773
Net pension liability	2,696,839	2,903,556
Total liabilities	<u>4,116,404</u>	<u>3,878,934</u>
Deferred inflows of resources from pension	<u>679,248</u>	<u>561,751</u>
Total liabilities and deferred inflows of resources	<u>4,795,652</u>	<u>4,440,685</u>
Contingencies		
Fiduciary net position:		
Held in trust for benefits and other purposes	<u>\$ 124,232,334</u>	<u>\$ 121,897,875</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Additions:		
Contributions:		
Private employees	\$ 13,310,782	\$ 13,765,671
Government employees	12,812,695	12,510,814
Retirees and disabled individuals	985,661	873,794
Self-employed individuals	381,524	307,561
Penalties and interest	313,975	64,505
	<u>27,804,637</u>	<u>27,522,345</u>
Bad debts	(22,489)	(41,493)
Total contributions, net	<u>27,782,148</u>	<u>27,480,852</u>
Investment income:		
Net increase in the fair value of investments	2,518,026	3,697,564
Dividends	1,153,386	1,108,146
Interest	1,017,162	1,046,339
Total investment income, net	<u>4,688,574</u>	<u>5,852,049</u>
Other income	<u>606,269</u>	<u>245,687</u>
Total additions	<u>33,076,991</u>	<u>33,578,588</u>
Deductions:		
Benefit payments:		
Retirement	16,679,666	14,300,014
Survivor's	5,669,653	4,841,469
National health insurance	4,504,187	2,928,120
Medical savings account	3,482,205	3,015,794
Disability	583,719	516,070
Lump sum	95,240	48,630
Total benefit payments	<u>31,014,670</u>	<u>25,650,097</u>
Administrative	1,641,505	1,488,721
Fund custodian fee	105,967	116,609
Investment management fee	63,368	87,410
Depreciation	17,022	25,444
Total deductions	<u>32,842,532</u>	<u>27,368,281</u>
Excess of additions over deductions	234,459	6,210,307
Contribution from Republic of Palau	<u>2,100,000</u>	<u>-</u>
Change in fiduciary net position	2,334,459	6,210,307
Fiduciary net position at beginning of year	<u>121,897,875</u>	<u>115,687,568</u>
Fiduciary net position at end of year	<u>\$ 124,232,334</u>	<u>\$ 121,897,875</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(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, 2019 and 2018, 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, 2019 and 2018

(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, 2019 and 2018, cash was \$2,240,131 and \$161,125, respectively, and the corresponding bank balance was \$2,336,798 and \$197,992, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2019 and 2018, bank deposits in the amount of \$250,000 and \$197,992, 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, 2019 and 2018

(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, 2019 and 2018.

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, 2019 and 2018:

Investment Type	Fair Value	2019 Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U S Treasury notes	\$ 3,828,763	\$ 1,144,067	\$ 2,364,035	\$ 320,661	\$ -	Aaa	AAA
U.S. Treasury bonds	4,141,246	-	-	-	4,141,246	Aaa	AAA
Municipal bonds	516,756	230,393	-	-	286,363	A2	A+
Municipal bonds	105,653	-	105,653	-	-	Aa1	AA
Municipal bonds	354,196	-	354,196	-	-	Unrated	AA+
Municipal bonds	473,746	-	-	473,746	-	AAA	Unrated
Municipal bonds	129,675	25,517	-	104,158	-	Aa2	N/A
Municipal bonds	86,680	-	-	-	86,680	Aaa	AA+
Municipal bonds	57,364	-	57,364	-	-	Unrated	AAA
Municipal bonds	158,713	-	-	158,713	-	A+	Unrated
Corporate bonds	574,810	-	-	574,810	-	A1	A
Corporate bonds	171,390	-	-	171,390	-	Unrated	A-
Corporate bonds	130,238	-	-	130,238	-	Unrated	A+
Corporate bonds	543,800	-	239,134	162,856	141,810	Unrated	AA-
Corporate bonds	1,322,217	350,948	447,396	388,697	135,176	A2	A
Corporate bonds	909,325	-	683,241	226,084	-	Unrated	A-
Corporate bonds	211,632	-	-	211,632	-	Unrated	A+

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	2019 Investment Maturities (In Years)					Ratings	
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
Corporate bonds	159,347	-	159,347	-	-	Unrated	BBB+
Corporate bonds	167,215	-	-	-	167,215	A3	A+
Corporate bonds	364,423	105,071	259,352	-	-	Unrated	BBB+
Corporate bonds	160,094	160,094	-	-	-	Aa1	AA-
Corporate bonds	277,023	-	152,471	-	124,552	Unrated	AA+
Corporate bonds	860,492	250,185	310,494	-	299,813	Aa2	A+
Corporate bonds	282,667	-	282,667	-	-	Unrated	AA
Corporate bonds	101,565	-	101,565	-	-	Unrated	AA-
Corporate bonds	209,164	-	209,164	-	-	Aa3	A
Corporate bonds	364,656	-	-	-	364,656	Unrated	A-
Corporate bonds	390,981	-	390,981	-	-	Unrated	A+
Corporate bonds	432,715	325,074	107,641	-	-	Unrated	AA-
Corporate bonds	361,075	-	-	361,075	-	Unrated	AA+
Corporate bonds	201,562	-	-	201,562	-	Aa	AA+
Corporate bonds	2,465,883	614,690	1,092,644	132,485	626,064	Unrated	AAA
Corporate bonds	436,335	-	436,335	-	-	Aa	Unrated
Corporate bonds	350,980	-	-	350,980	-	Aa	AA+
Corporate bonds	1,341,187	300,144	436,552	398,289	206,202	Unrated	AAA
Corporate bonds	266,982	-	-	-	266,982	Baa1	A
Corporate bonds	845,001	-	-	-	845,001	Unrated	A-
Corporate bonds	361,735	-	-	161,314	200,421	Unrated	BBB
Corporate bonds	934,689	-	466,576	468,113	-	Unrated	BBB+
Corporate bonds	236,200	-	-	236,200	-	Baa2	A-
Corporate bonds	185,784	-	-	-	185,784	Unrated	BBB
Corporate bonds	63,149	-	-	-	63,149	Baa3	BBB
Corporate bonds	210,667	-	-	210,667	-	N/A	AA-
Corporate bonds	250,000	-	-	250,000	-	Aa	AAA
Government agencies	623,438	-	623,438	-	-	Aa	Unrated
Government agencies	5,831,120	324,990	2,246,326	2,534,298	725,506	Aa	AA+
Government agencies	1,619,635	-	322,047	-	1,297,588	Unrated	AAA
	<u>\$ 34,071,968</u>	<u>\$ 3,831,173</u>	<u>\$ 11,848,619</u>	<u>\$ 8,227,968</u>	<u>\$ 10,164,208</u>		

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. 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+
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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	Fair Value	2018 Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
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>		

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	09/30/19	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 7,970,009	\$ 7,970,009	\$ -	\$ -
U.S. Municipal obligations	8,074,193	-	8,074,193	-
Other U.S. Government obligations	1,882,783	-	1,882,783	-
Corporate bonds	<u>16,144,983</u>	<u>-</u>	<u>16,144,983</u>	<u>-</u>
Total investments by fair value level	<u>\$ 34,071,968</u>	<u>\$ 7,970,009</u>	<u>\$ 26,101,959</u>	<u>\$ -</u>
Investments measured at net asset value (NAV):				
Mutual funds	<u>\$ 84,540,251</u>			
Investments measured at cost based measure:				
Money market funds	<u>\$ 223,402</u>			
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	<u>14,668,924</u>	<u>-</u>	<u>14,668,924</u>	<u>-</u>
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	<u>\$ 86,754,275</u>			
Investments measured at cost based measure:				
Money market funds	<u>\$ 187,520</u>			

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(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, 2019 and 2018 is not material to the financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(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, 2019 and 2018, the Fund recorded total contributions of \$19,285,192 and \$19,158,817, 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

Benefit Payments, Continued

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 October 1, 2018 and September 27, 2017, the minimum benefit increased to \$248 and \$198, respectively. During the years ended September 30, 2019 and 2018, the Fund paid benefits of \$22,914,522 and \$19,585,541, respectively. Included within fiscal years 2019 and 2018 benefit payments is \$2,100,000 and \$-0-, respectively, of supplemental benefit payments funded by the Republic of Palau through appropriation (see note 5).

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, 2019, the Fund implemented the following pronouncements:

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 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.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

(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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(3) Prior Service Claims, Continued

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 paid benefits of \$113,756 and \$120,642 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$(3,557) and \$17,033, 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 \$381,524 during the year ended September 30, 2019 from \$307,561 during the year ended September 30, 2018. Beginning October 1, 2010, employers began to withhold 2.5% of employee earnings.

The Fund started accepting contributions for the Healthcare Fund on January 1, 2011. The Republic of Palau pays subscription costs for coverage under the Healthcare program for unemployed Palauan citizens who are age 60 and above or disabled. On February 17, 2016, RPPL No. 9-57, which amended Chapters 13 and 26 of Title 40 of the Palau National Code, allocated ten percent (10%) of annual revenues from import tax on alcoholic beverages and excise tax on tobacco to fund healthcare benefits subscription costs for unemployed Palauan citizens who are age 60 and above or disabled. During the years ended September 30, 2019 and 2018, the Fund recorded healthcare contributions for retirees and disabled individuals of \$985,661 and \$873,794, respectively. Total health care contributions recorded during the years ended September 30, 2019 and 2018 are \$8,236,083 and \$8,321,689, respectively.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(4) Healthcare Fund, Continued

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, 2019 and 2018, total benefit expense amounted to \$7,986,392 and \$5,943,914 of which \$2,356,558 and \$3,760,348, 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. 10-21, Section 2, appropriated \$2,100,000 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, 2019 and 2018, the Fund received and paid additional Social Security benefits of \$2,100,000 and \$-0-, respectively, which are recorded as transfer from Republic of Palau and benefit payments in the accompanying financial statements.

(6) Employees' Retirement Plan

Defined Benefit Plan

A. General Information About the Pension Plan:

Plan Description: The Fund contributes to the Republic of Palau Civil Service Pension Trust Fund (the Plan), a defined benefit, cost sharing 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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.

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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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.

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

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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.

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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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, 2019 and 2018 were \$43,285 and \$37,503, 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, 2018, 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
Salary Increase:	3.0% per year
Expenses:	\$300,000 each year

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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, 2019 and 2018

(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, 2018, 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>
US Large Cap Equity	20%	8.70%
US Small/Mid Cap Equity	5%	9.13%
International Equity	15%	9.19%
Emerging Markets	10%	12.52%
US Aggregate Fixed Income	35%	3.82%
Global Broad Fixed Income	10%	3.40%
Global REIT	5%	8.33%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 4.16% at the current measurement date from 3.62% 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 2023 for the 2017 measurement date. For years on or after 2023, a discount rate of 4.09% 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 4.16%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.16%) or 1.00% higher (5.16%) from the current rate.

<u>1% Decrease 3.16%</u>	<u>Current Single Discount Rate Assumption 4.16%</u>	<u>1% Increase 5.16%</u>
\$ 3,101,499	\$ 2,696,839	\$ 2,359,259

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

Pension Liability. At September 30, 2019 and 2018, the Fund reported a liability of \$2,696,839 and \$2,903,556, 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, 2019 and 2018, the Fund's proportion was 1.0750% and 1.1194%, respectively.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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

Pension Expense. For the years ended September 30, 2019 and 2018, the Fund recognized pension expense of \$127,703 and \$145,942, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2019 and 2018, the Fund reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 212,671	\$ 40,270	\$ 267,294	\$ 56,750
Change of assumptions	241,127	372,235	339,511	275,060
Net difference between projected and actual earnings on pension plan investments	7,676	11,752	15,986	14,189
Contribution subsequent to measurement date	43,285	-	37,503	-
Changes in proportion and difference between the Fund's contributions and proportionate share of contributions	<u>23,093</u>	<u>254,991</u>	<u>38,196</u>	<u>215,752</u>
	\$ <u>527,852</u>	\$ <u>679,248</u>	\$ <u>698,490</u>	\$ <u>561,751</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, 2019 will be recognized in pension expense as follows:

Year ending September 30,

2020	\$ (8,093)
2021	\$ (22,327)
2022	\$ (24,658)
2023	\$ (33,959)
2024	\$ (59,713)
Thereafter	\$ (45,919)

(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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(7) Loan Receivable, Continued

The loan receivable from NDBP was \$2,402,787 and \$2,680,142 with interest at 4.5% at September 30, 2019 and 2018, respectively. The loan is collateralized by the full faith and credit of the Republic of Palau Government.

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	392,361	41,034	433,395
2025 - 2026	<u>604,399</u>	<u>36,638</u>	<u>641,037</u>
	\$ <u>2,402,787</u>	\$ <u>405,225</u>	\$ <u>2,808,012</u>

(8) Capital Assets

A summary of the Fund's capital assets, at original cost, as of September 30, 2019 and 2018, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2019</u>
Office furniture and equipment	4 - 13 years	\$ 427,175	\$ 1,362	\$ (2,060)	\$ 426,477
Building and improvements	30 years	201,448	7,939	(194,581)	14,806
Vehicles	5 years	94,378	-	(27,814)	66,564
		723,001	9,301	(224,455)	507,847
Less accumulated depreciation		<u>(636,058)</u>	<u>(17,022)</u>	<u>175,161</u>	<u>(477,919)</u>
Total capital assets, net		\$ <u>86,943</u>	\$ <u>(7,721)</u>	\$ <u>(49,294)</u>	\$ <u>29,928</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	80,195	14,183	-	94,378
		705,656	17,345	-	723,001
Less accumulated depreciation		<u>(610,614)</u>	<u>(25,444)</u>	<u>-</u>	<u>(636,058)</u>
Total capital assets, net		\$ <u>95,042</u>	\$ <u>(8,099)</u>	\$ <u>-</u>	\$ <u>86,943</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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2019 and 2018

(9) Contingencies, Continued

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, 2019, to correct this potential funding deficiency.

(10) Risk Management

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

(11) Subsequent Event

Economic uncertainties have arisen as a result of the COVID-19 coronavirus pandemic. The Fund expects this matter to negatively impact its future financial results particularly, equity market investments and the unfunded liability; however, the related financial impact cannot be reasonably estimated at this time. Other financial impacts could occur though such potential impact is unknown.

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>2018</u> <u>Valuation</u>	<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	\$ 250,868,784	\$ 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	\$ 2,696,839	\$ 2,903,556	\$ 2,964,466	\$ 2,625,302	\$ 2,432,377	\$ 2,274,001
The Fund's proportion of the net pension liability	1.07%	1.12%	1.19%	1.22%	1.19%	1.25%
The Fund's covered employee payroll**	\$ 630,667	\$ 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	427.62%	447.75%	470.99%	444.45%	434.55%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	10.24%	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*

	2018 Valuation	2017 Valuation	2016 Valuation	2015 Valuation	2014 Valuation	2013 Valuation
Actuarially determined contribution	\$ 186,109	\$ 192,301	\$ 171,337	\$ 132,758	\$ 126,488	\$ 78,562
Contribution in relation to the actuarially determined contribution	<u>37,840</u>	<u>38,909</u>	<u>37,247</u>	<u>35,205</u>	<u>32,961</u>	<u>31,386</u>
Contribution deficiency	<u>\$ 148,269</u>	<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>\$ 630,667</u>	<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%	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, 2019

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Eliminations	Total
Cash	\$ 830,915	\$ 18,734	\$ 1,390,482	\$ -	\$ 2,240,131
Investments:					
Mutual funds	69,773,794	-	14,766,457	-	84,540,251
U.S. Government obligations	17,926,985	-	-	-	17,926,985
Corporate bonds	16,144,983	-	-	-	16,144,983
Money market funds	223,402	-	-	-	223,402
Total investments	<u>104,069,164</u>	<u>-</u>	<u>14,766,457</u>	<u>-</u>	<u>118,835,621</u>
Receivables:					
Contributions	5,038,989	-	1,539,529	-	6,578,518
Loan	2,402,787	-	-	-	2,402,787
Accrued interest and dividends	270,110	-	167	-	270,277
Due from other funds	-	-	(6,861)	6,861	-
Advances and other	63	-	400,231	-	400,294
	<u>7,711,949</u>	<u>-</u>	<u>1,933,066</u>	<u>6,861</u>	<u>9,651,876</u>
Less allowance for doubtful accounts	<u>(2,093,264)</u>	<u>-</u>	<u>(232,976)</u>	<u>-</u>	<u>(2,326,240)</u>
Total receivables, net	<u>5,618,685</u>	<u>-</u>	<u>1,700,090</u>	<u>6,861</u>	<u>7,325,636</u>
Prepaid expense	55,400	-	13,418	-	68,818
Capital assets, net	30,073	-	(145)	-	29,928
Total assets	<u>110,604,237</u>	<u>18,734</u>	<u>17,870,302</u>	<u>6,861</u>	<u>128,500,134</u>
Deferred outflows of resources from pension	353,661	-	174,191	-	527,852
Total assets and deferred outflows of resources	<u>110,957,898</u>	<u>18,734</u>	<u>18,044,493</u>	<u>6,861</u>	<u>129,027,986</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>					
Liabilities:					
Benefits payable	562,495	-	828,772	-	1,391,267
Accrued liabilities and accounts payable	2,180	-	26,118	-	28,298
Due to other funds	(29,152)	22,291	-	6,861	-
Net pension liability	1,806,882	-	889,957	-	2,696,839
Total liabilities	<u>2,342,405</u>	<u>22,291</u>	<u>1,744,847</u>	<u>6,861</u>	<u>4,116,404</u>
Deferred inflows of resources from pension	455,096	-	224,152	-	679,248
Total liabilities and deferred inflows of resources	<u>2,797,501</u>	<u>22,291</u>	<u>1,968,999</u>	<u>6,861</u>	<u>4,795,652</u>
Contingencies					
Fiduciary net position:					
Held in trust for benefits and other purposes	<u>\$ 108,160,397</u>	<u>\$ (3,557)</u>	<u>\$ 16,075,494</u>	<u>\$ -</u>	<u>\$ 124,232,334</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, 2019

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
Additions:				
Contributions:				
Private employees	\$ 9,810,873	\$ -	\$ 3,499,909	\$ 13,310,782
Government employees	9,474,319	-	3,338,376	12,812,695
Retirees and disabled individuals	-	-	985,661	985,661
Self-employed individuals	-	-	381,524	381,524
Penalties and interest	<u>283,362</u>	-	<u>30,613</u>	<u>313,975</u>
	19,568,554	-	8,236,083	27,804,637
Recoveries (bad debts)	<u>30,232</u>	-	<u>(52,721)</u>	<u>(22,489)</u>
Total contributions, net	<u>19,598,786</u>	-	<u>8,183,362</u>	<u>27,782,148</u>
Investment income:				
Net increase in the fair value of investments	1,993,784	-	524,242	2,518,026
Dividends	1,105,455	-	47,931	1,153,386
Interest	<u>882,459</u>	-	<u>134,703</u>	<u>1,017,162</u>
Total investment income, net	<u>3,981,698</u>	-	<u>706,876</u>	<u>4,688,574</u>
Other income	<u>(12,842)</u>	<u>117,032</u>	<u>502,079</u>	<u>606,269</u>
Total additions	<u>23,567,642</u>	<u>117,032</u>	<u>9,392,317</u>	<u>33,076,991</u>
Deductions:				
Benefit payments:				
Retirement	16,628,589	51,077	-	16,679,666
Survivors	5,606,974	62,679	-	5,669,653
National health insurance	-	-	4,504,187	4,504,187
Medical savings account	-	-	3,482,205	3,482,205
Disability	583,719	-	-	583,719
Lump sum	<u>95,240</u>	-	-	<u>95,240</u>
Total benefit payments	22,914,522	113,756	7,986,392	31,014,670
Administrative	1,016,215	23,866	601,424	1,641,505
Fund custodian fee	82,602	-	23,365	105,967
Investment management fee	63,368	-	-	63,368
Depreciation	<u>13,781</u>	-	<u>3,241</u>	<u>17,022</u>
Total deductions	<u>24,090,488</u>	<u>137,622</u>	<u>8,614,422</u>	<u>32,842,532</u>
Contribution from Republic of Palau	<u>2,100,000</u>	-	-	<u>2,100,000</u>
Change in fiduciary net position	1,577,154	(20,590)	777,895	2,334,459
Fiduciary net position at beginning of year	<u>106,583,243</u>	<u>17,033</u>	<u>15,297,599</u>	<u>121,897,875</u>
Fiduciary net position at end of year	<u>\$ 108,160,397</u>	<u>\$ (3,557)</u>	<u>\$ 16,075,494</u>	<u>\$ 124,232,334</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Salaries, wages and benefits	\$ 754,722	\$ 732,111
Professional services	340,088	259,255
Credit card processing fees	111,136	46,864
Board members other expenses	59,617	84,156
Supplies, printing and reproduction	41,893	45,793
Staff development and training	40,978	32,961
Travel and transportation	22,111	12,026
Utilities	21,501	30,176
Communications	21,408	21,916
Bank service charge	14,565	14,970
Repairs and maintenance	9,869	12,100
Special functions	8,451	12,133
Insurance	4,642	5,059
Fuel and oil	3,505	3,513
Postage stamps	3,086	3,459
Dues, subscriptions and registrations	2,063	1,361
Board compensation	2,000	2,250
Office equipment	1,590	669
Furniture and fixtures	1,390	2,129
Donations	1,180	950
Miscellaneous	<u>23,986</u>	<u>18,928</u>
Total administrative deductions before pension contribution and adjustment	1,489,781	1,342,779
Pension contribution	43,285	37,503
GASB 68 pension adjustment	<u>108,439</u>	<u>108,439</u>
Total administrative deductions	<u>\$ 1,641,505</u>	<u>\$ 1,488,721</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2019

	Cost	Fair Value
<u>Money Market Funds</u>		
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 135074870	\$ 222,385	\$ 222,385
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 140388851	1,017	1,017
Total Money Market Funds	<u>\$ 223,402</u>	<u>\$ 223,402</u>
<u>U.S. Government Obligations</u>		
US Treasury Bonds 3.5% 02/15/2039	\$ 1,846,185	\$ 2,085,679
US Treasury Bonds 3% 11/15/2044	1,817,725	2,055,567
US Treasury Notes 2.875% 05/31/2025	299,523	320,661
US Treasury Notes 2.375% 08/15/2024	101,384	103,727
US Treasury Notes 2% 10/31/2021	676,802	679,718
US Treasury Notes 2.625% 08/15/2020	739,716	734,789
US Treasury Notes 1.75% 05/15/2023	633,638	628,638
US Treasury Notes 2.5% 08/15/2023	932,310	951,952
US Treasury Notes 1.625% 06/30/2020	410,275	409,278
Total U.S. Treasury - Account # 135074870	<u>7,457,558</u>	<u>7,970,009</u>
Federal Home Loan Mortgage Corp Pool # C76358 5% 02/01/2033 Ofv 539000	9,148	9,765
Federal Home Loan Mortgage Corp Pool # A49906 5% 06/01/2036 Ofv 605000	9,866	10,986
Federal Home Loan Mortgage Corp Gold Pool #a55326 6% 12/01/2036 Ofv 425000	4,390	4,800
Federal Home Loan Mtge Corp Pool # A61533 5% 06/01/2036 Ofv 530000	5,385	5,585
Federal Home Loan Mortgage Corp Pool # G01960 5% 12/01/2035 Ofv 483000	14,049	14,861
Federal Home Loan Mortgage Corp Pool # G01938 5.5% 09/01/2035 Ofv 325000	11,190	11,851
Federal Home Loan Mortgage Corp Gold Pool #g12121 5.5% 04/01/2021 Ofv 213000	1,220	1,250
Federal Home Loan Mortgage Corp Gold Pool #g08046 5.5% 03/01/2035 Ofv 410000	13,787	16,201
Federal Home Loan Mortgage Corp Gold Pool # H00452 5.5% 01/01/2037 Ofv 213000	4,236	4,510
Federal Home Loan Mortgage Corp Pool # 1g1406 Arm4.855% 12/01/2036	3,616	3,609
Federal Home Loan Mortgage Corp Pool # C01567 5% 05/01/2033 Ofv 1433000	38,779	41,834
Federal Home Loan Mtge Corp Pool # A88454 4.5% 09/01/2039 Ofv 510000	47,976	49,873
Federal Home Loan Mortgage Corp Gold Pool #a36664 5% 08/01/2035 Ofv 256000	5,867	6,906
Federal Home Loan Mortgage Corp Gold Pool #a36685 5% 08/01/2035 Ofv 107000	1,537	1,783
Federal Home Loan Mtge Corp Pool # A37876 5% 09/01/2035 Ofv 630000	31,334	33,153
Federal Home Loan Bank Unsecured 3.125% 06/11/2027	629,647	685,610
Federal Home Loan Bank Unsecured 2.5% 06/12/2026	357,434	364,420
Federal Home Loan Bank Unsecured 2.625% 06/23/2021-2020	499,925	499,800
Federal Home Loan Bank Unsecured 2.625% 12/10/2021	10,172	10,207
Federal Home Loan Bank Unsecured 3.125% 09/09/2022	301,302	312,477
Federal Farm Credit Bank Unsecured 3.43% 12/06/2028	319,895	350,288
Federal Farm Credit Bank Float Rate 2.09461% 11/08/2021	624,438	623,438
Federal Farm Credit Bank Unsecured 3.27% 03/22/2029-2022	325,156	333,892
Federal Farm Credit Bank Unsecured 2.87% 02/01/2028-2019	800,560	800,088
Federal Home Loan Mortgage Corp Pool #781958 4.604% 09/01/2034 Ofv 317000	3,659	3,925
Federal Home Loan Mortgage Corp Unsecured Step-up 1.5% 06/30/2021-2016	824,637	823,482
Federal Home Loan Mortgage Corp Unsecured Step-up 1.5% 09/30/2022-2017	349,867	350,095
Freddie Mac Unsecured Step-up 1.75% 09/29/2022-2018	249,910	250,265
Federal National Mortgage Assn Pool #255670 5% 04/01/2035 Ofv 201000	5,944	6,919
Federal Home Loan Mortgage Corp Unsecured 1.25% 10/02/2019	325,627	324,990
Federal National Mortgage Assn Pool #725205 5% 03/01/2034 Ofv 74000	2,228	2,638
Federal National Mortgage Assn Pool #735227 5.5% 02/01/2035 Ofv 280000	7,949	9,251
Federal National Mortgage Assn Pool #735228 5.5% 02/01/2035 Ofv 645000	18,107	21,176
Federal National Mortgage Assn Pool #735502 6% 04/01/2035 Ofv 315000	7,314	8,456
Federal National Mortgage Assn Pool #735897 5.5% 10/01/2035 Ofv 303000	14,252	16,213
Federal National Mortgage Assn Pool #739821 5% 09/01/2033 Ofv 556000	11,272	12,045
Federal National Mortgage Assn Pool #745089 6% 12/01/2035 Ofv 239000	7,080	8,287
Federal National Mortgage Assn Pool #794474 6% 10/01/2034 Ofv 720000	34,803	39,674
Federal National Mortgage Assn Pool #796274 5.5% 12/01/2034 Ofv 1500000	52,078	59,382
Federal National Mortgage Assn Pool # 810225 6% 01/01/2035 Ofv 841696	35,791	40,717
Federal National Mortgage Assn Pool # 814915 5.5% 03/01/2035 Ofv 924000	29,701	31,841
Federal National Mortgage Assn Pool # 826966 5.5% 06/01/2035 Ofv 87000	3,229	3,488
Federal National Mortgage Assn Pool #828856 5.5% 10/01/2035 Ofv 389000	17,018	20,071
Federal National Mortgage Assn Pool # 867452 6.5% 06/01/2036 Ofv 213000	8,238	9,371
Federal National Mtge Assoc Pool # 868936 6% 05/01/2036 Ofv 2120195	48,537	50,846
Federal National Mortgage Assoc Pool #882694 6.5% 06/01/2036 Ofv 128000	5,781	6,525
Federal National Mortgage Assn Pool #903749 6% 10/01/2036 Ofv 161000	3,019	3,309
Federal National Mortgage Assn Pool #904915 5.5% 12/01/2036 Ofv 200000	2,131	2,307
Federal National Mortgage Assn Pool # 905678 5.5% 12/01/2036 Ofv 586000	13,233	14,141
Federal National Mortgage Assn Pool #910473 3.78% 01/01/2037 Ofv 430000	3,618	3,633
Federal National Mtge Assoc Pool # 935636 4% 09/01/2024 Ofv 330000	20,604	20,797

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2019

	Cost	Fair Value
<u>U.S. Government Obligations, Continued</u>		
Federal National Mtge Assoc Pool # Aa3553 5% 02/01/2039 Ofv 303000	2,969	3,078
Federal National Mortgage Assoc Pool # Ma3124 2.5% 09/01/2032 Ofv 475000	363,243	364,931
Govt National Mtge Assoc Pool # 737442 4% 09/15/2040 Ofv 555000	142,735	147,067
Government National Mtg Corp Pool #648503 5.5% 11/15/2035 Ofv 199000	8,099	9,323
Gnma Mortgage Pool Ctfs Pool # 701940 4.5% 06/15/2039 Ofv 669000	172,888	183,257
Overseas Private Inv Corp Disc Due 07/23/2020	300,000	300,000
Tennessee Valley Auth Sr Unsecured 3.5% 12/15/2042	650,300	725,506
	<hr/>	<hr/>
Total U.S. Government Agencies - Account # 135074870	7,816,770	8,074,193
California St Dept Of Wtr Resources Pwr Sply Revenue Txbl-ref-ser P 2% 05/01/2022	105,000	105,653
Hawaii St Arpts Sys Customer Fac Charge Revenue Txbl-ser A 2.09% 07/01/2020	230,000	230,393
Hawaii St Arpts Txbl-ref-ser-a 2.97% 07/01/2039-2029	290,000	286,363
Hawaii St Txbl-ser Fu 2.75% 01/01/2021	351,264	354,196
Hawaii St Dept Business Econ Dev & Tourism Green Energy Txbl-green Bonds Ser A-1 Variable	55,017	57,364
Hawaii St Hsg Fin & Dev Corp Sf Mtge Purchase Revenue Txbl-fnma Mbs Pass-thru Program-	87,676	86,680
Honolulu City & Cnty Hi Txbl-ref-ser J 2.168% 08/01/2027-2019	475,000	473,746
Honolulu City & Cnty Wastewtr Sys Rev Build America Bonds 4.643% 07/01/2022-2020	25,000	25,517
Pennsylvania St Turnpike Commission Spl Oblig Txbl-ref (escrowed To Maturity) 3.029%	156,563	158,713
Univ Of Hawaii Revenue Txbl-ref-ser G 2.95% 10/01/2024	100,000	104,158
	<hr/>	<hr/>
Total U.S. Municipal Obligations - Account # 135074870	1,875,520	1,882,783
Total U.S. Government Obligations	<u>\$ 17,149,848</u>	<u>\$ 17,926,985</u>
<u>Corporate Bonds</u>		
Swedish Export Credit Sr Unsecured 05/11/2037	\$ 103,848	\$ 124,552
African Development Bank Sr Unsecured 3% 09/20/2023	299,541	315,288
Amer Airline 16-1 Aa Ptt 1st Lien - Etc 3.575% 07/15/2029 Ofv 400000	341,676	361,075
American Honda Finance Fltg Sr Unsecured 2.54763% 07/20/2020	250,215	250,303
American Honda Finance Sr Unsecured 3% 06/16/2020	99,929	100,645
American Intl Group Sr Unsecured 4.2% 04/01/2028-2028	149,789	163,635
Analog Devices Sr Unsecured 3.9% 12/15/2025-2025	153,372	161,314
Apache Finance Canada Company Guarnt 7.75% 12/15/2029	58,241	63,149
Apple Inc Sr Unsecured 2.4% 05/03/2023	150,243	152,471
Axis Specialty Finan Plc Sr Unsecured 5.15% 04/01/2045	187,271	191,406
Bank Of America Corp Sr Unsecured Flt Rt 3.129% 07/21/2021-2021	200,094	200,550
Bank Of Nova Scotia N Y Agy Sr Unsecured Fltg Rt 2.69963% 01/08/2021	100,000	100,114
Berkshire Hathaway Inc Sr Unsecured 3% 02/11/2023	174,421	181,307
Brookfield Finance Inc Sr Unsecured 3.9% 01/25/2028-2027	229,779	236,200
Canadian Imperial Bank Sr Unsecured Flt Rt 2.71825% 10/05/2020	210,128	210,380
Chevron Corp Sr Unsecured 2.355% 12/05/2022-2022	100,000	101,360
Citigroup Inc Sr Unsecured 2.45% 01/10/2020-2019	104,993	105,071
Consumers Energy Corporation Secured 2.85% 05/15/2022-2022	210,424	209,164
Dte Energy Company Senior Notes 6.375% 04/15/2033	186,691	200,421
John Deere Capital Corp Sr Unsecured Flt Rt 3.01594% 03/12/2021	175,000	174,939
Duke Energy Florida Llc Secured 3.2% 01/15/2027-2026	214,899	225,900
Ebay Inc Sr Unsecured 3.25% 10/15/2020	361,620	363,341
Entergy Louisiana Llc Secured 4.95% 01/15/2045-2025	127,495	135,176
Entergy Texas Inc Secured 5.15% 06/01/2045-2025	248,835	266,982
European Invt Bk Sr Unsecured 2.375% 06/15/2022	252,983	254,888
Exxon Mobile Corp Sr Unsecured 2.275% 08/16/2026-2026	200,000	201,562
Federal Farm Credit Bank Unsecured 2.87% 07/30/2029	350,000	350,980
Goldman Sachs Group Inc Sr Unsecured 3.85% 07/08/2024-2024	247,773	259,352
Golondrina Leasing Llc Sink Fd Gtd Export Import Bank Of Usa 1.822% 05/03/2025 Ofv 225000	112,710	113,244
Grainger W W Inc Sr Unsecured 4.2% 05/15/2047-2046	155,125	167,215
Inter-American Devel Bank Notes 6.75% 07/15/2027	124,206	132,485
Intercontinental Exchange Inc. Sr Unsecured 3.75% 12/01/2025-2025	158,790	161,685
World Bank (ibrd) Sr Unsecured 1.875% 04/21/2020	315,970	314,732
Intl Bk Recon & Dev Sr Unsecured 1.95% 10/16/2020-2018	310,000	310,000
Interestate Power & Light Sr Unsecured 3.5% 09/30/2049-2049	194,353	195,948
Invesco Finance Plc Sr Unsecured 4% 01/30/2024	149,466	159,347
Jp Morgan Chase & Co Sr Unsecured 2.295% 08/15/2021-2020	174,589	175,292
Jpmorgan Chase & Co Sr Unsecured Var Rt 4.452% 12/05/2029-2028	223,180	226,084
Johnson & Johnson Sr Unsecured 4.375% 12/05/2033-2033	330,300	356,550
Kaiser Foundation Hospital Sr Unsecured 3.15% 05/01/2027-2027	199,398	210,668
Kimberly Clark Corp Sr Unsecured 2.65% 03/01/2025	124,790	127,395
Kfw Unsecured 1.75% 10/15/2019	299,919	299,958
Landesbank Baden-wuerttemberg Subordinated 7.625% 02/01/2023	428,984	436,335

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REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2019

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
Lincoln Natl Corp Sr Unsecured 7% 06/15/2040	328,844	349,243
Microsoft Corp Sr Unsecured 3.625% 12/15/2023	104,745	112,302
Microsoft Corp Sr Unsecured 2% 11/03/2020-2020	99,975	100,166
Microsoft Corp Sr Unsecured 4.75% 11/03/2055-2055	238,166	269,514
Midamerican Energy Co Secured 4.4% 10/15/2044-2044	286,248	299,813
National Rural Utilities Secured 3.4% 02/07/2028-2027	335,299	348,910
Northeast Utilities Sr Unsecured 3.15% 01/15/2025-2024	291,410	304,478
Procter & Gamble Co Sr Unsecured 1.9% 11/01/2019	199,998	211,632
Novartis Capital Corp Sr Unsecured 3.4% 05/06/2024	228,152	239,134
Nutrien Ltd Sr Unsecured 6.125% 01/15/2041-2040	177,456	185,784
Overseas Private Inv Corp Sr Unsecured Flt Rt 2.2% 9/15/2026-2018	250,000	250,000
Pepsico Inc Sr Unsecured 2.75% 04/30/2025-2025	124,670	130,238
Pharmacia Corporation Debentures 6.75% 12/15/2027	141,096	162,856
Private Export Funding Secured 2.8% 05/15/2022	427,027	436,552
Private Export Funding Secured 2.25% 03/15/2020	300,546	300,144
Private Export Funding Secured 3.25% 06/15/2025	281,017	285,045
Procter & Gamble Co Sr Unsecured 1.9% 11/01/2019	199,968	199,952
Queens Health Systems Secured 4.464% 07/01/2045 Ofv 125000	125,000	141,810
Ross Stores Inc Sr Unsecured 3.375% 09/15/2024-2024	99,962	104,377
Royal Bank Of Canada Sr Unsecured Fltg Rt 2.70313% 10/05/2023	159,352	160,475
Charles Schwab Corp Sr Unsecured Note 2.65% 01/25/2023-2022	109,878	111,982
Shell International Sr Unsecured 2.375% 08/21/2022	99,864	101,565
Small Bus Admin Ser 2016-20i Cl I 2.03% 09/01/2036 Ofv 275000	207,957	206,202
Starbucks Corp Sr Unsecured 3.1% 03/01/2023-2023	99,977	103,235
Toronto-dominion Bank Sr Unsecured Flt Rt 3.1415% 11/05/2019	160,029	160,094
Total Capital Intl Sa Sr Unsecured 3.75% 04/10/2024	371,052	390,981
Toyota Motor Credit Corp Sr Unsecured 2.8% 07/13/2022	104,883	107,641
Toyota Motor Credit Corp Sr Unsecured Flt Rt 2.70881% 04/17/2020	125,000	125,122
Union Pacific Corp Sr Unsecured 3.375% 02/01/2035-2034	104,734	108,404
United Parcel Service Sr Unsecured 2.5% 09/01/2029-2029	99,691	99,617
Us Bancorp Subordinated 3.1% 04/27/2026-2026	165,492	171,390
Wells Fargo Bank Na Subordinated 5.85% 02/01/2037	325,669	364,656
Wells Fargo Company Sr Unsecured Flt Rt Floating Rate 3.75663% 10/31/2023-2022	200,308	203,021
Wells Fargo Bank Na Sr Unsecured Flt Rt 2.666631% 01/15/2020	250,000	250,185
	<u>\$ 15,614,505</u>	<u>\$ 16,144,983</u>
<u>Total Corporate Bonds</u>		
<u>Mutual Funds</u>		
Wilshire Solutions Trust Non US Equity Fund	\$ 2,700,758	\$ 2,838,074
Wilshire Solutions Fixed Income Master Trust Fund	4,163,920	4,801,143
Wilshire Solutions Trust Credit Opportunities Fund	1,303,680	1,460,667
Wilshire Solutions Real Assets Master Trust Fund	1,131,239	1,166,520
Wilshire Solutions Trust US Equity Fund	4,210,524	4,486,280
Wilshire Solutions Trust Cash (Stif Vehicle)	13,773	13,773
	<u>13,523,894</u>	<u>14,766,457</u>
Subtotal - Account # WTHF 9004-002		
Wilshire Solutions Real Assets Master Trust Fund	4,205,365	4,424,673
Wilshire Solutions Trust Credit Opportunities Fund	9,643,802	10,428,165
Wilshire Solutions Trust Non US Equity Fund	20,098,341	20,823,683
Wilshire Solutions Trust US Equity Fund	26,426,457	28,547,576
Wilshire Solutions Trust Cash (Stif Vehicle)	3,001,808	3,001,808
	<u>63,375,773</u>	<u>67,225,905</u>
Subtotal - Account # WTHF 9003-002		
Harvest MLP Income Fund III, LLC - Account # 140388851	2,500,000	2,547,889
	<u>\$ 79,399,667</u>	<u>\$ 84,540,251</u>
<u>Total Mutual Funds</u>		

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