

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, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 as well as the Schedule of Proportional Share of the Net Pension Liability on page 37 and the Schedule of Pension Contributions on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position as of and for the year ended September 30, 2017 (pages 39 and 40, respectively), the Schedule of Administrative Deductions for the years ended September 30, 2017 and 2016 (page 41) and the Schedule of Investments as of September 30, 2017 (pages 42 through 45) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Statement of Fiduciary Net Position, the Combining Statement of Changes in Fiduciary Net Position, the Schedule of Administrative Deductions and the Schedule of Investments are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Fiduciary Net Position, the Combining Statement of Changes in Fiduciary Net Position, the Schedule of Administrative Deductions and the Schedule of Investments are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Deloitte & Touche LLC

April 30, 2018



Republic of Palau
SOCIAL SECURITY ADMINISTRATION

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**Management's Discussion and Analysis
Years Ended September 30, 2017 and 2016**

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, 2017 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 RPPLs 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, 10-8 and 10-12. The Fund's Board of Trustees is incorporated under the *Social Security Act of 1987* (the Act) to administer the Fund as an agency of the Republic of Palau (ROP). The main role of the Board of Trustees is to provide for a Social Security Fund in ROP in which persons covered may be ensured security without hardship and complete loss of income at an old age or during disability and further, to provide survivor's insurance for their spouse and children. The Fund is compulsory, self-supporting and self-financing. It is not to be financed from public funds (except to the extent that the government, in its capacity as an employer, makes contributions to the system as required under the Act).

The Board of Trustees:

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

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

Human Resources:

The Fund's policies and strategies are implemented through the Administrator and a management team. The Fund is organized in five functional areas: Information Systems, Finance and Accounting, Employer Service (ES), Member Service (MS) and Healthcare Fund Services. There was a change to the structure of the ES and MS sections to increase personnel for auditing purposes and eliminate clerical/administrative positions deemed inefficient. The result was an increase in employees to thirty-three at the end of fiscal year 2017, up two from the prior year. The Administrator has authority over all positions of the Fund except for services under contract. Three employees were on employment contracts. Employee turnover was 15% in 2017 compared to 10% in 2016. The workforce of the Fund remained at full capacity at fiscal year end.

Contributions:

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

Contributions are remitted to the Fund on a quarterly basis, except for self-employed individuals, who may remit on an annual or quarterly basis. Special consideration was given to the National Government to remit contributions on a bi-weekly basis while some large businesses with 15 or more employees may file and pay contributions on a monthly basis.

Funding is mainly derived from contributions, enabling the Fund to meet monthly benefit payments and operation costs. Any excess funds available are invested in the Fund's asset portfolio. There were no additional funds available to invest in 2017 as benefit payouts exceeded contributions.

Contributions to the Republic of Palau Social Security Retirement Fund (SSRF) and the Healthcare Fund (HCF) in fiscal years 2017 and 2016 were \$23,595,867 and \$22,499,018, respectively, an increase of 5% from the prior year. Of total contributions, 65% represents contributions to SSRF and 35% represents contributions to HCF. SSRF contributions increased mainly due to ROP funding of supplemental benefits. HCF contributions increased mainly from the National Health Insurance (NHI) government subsidy. Table 1, provided below, indicates contributions to SSRF and Table 2 indicates contributions to HCF for the past five years while Table 3 provides combined contributions of the two funds.

Contributions, Continued:

Table 1: SSA Contributions by Sector:

Year	Government	%	Private	%	Self-Employed	%	Penalties & Interest	%	Total	%
2013	\$ 5,125,514	48%	\$ 5,178,087	49%	\$ -	0%	\$ 318,203	3%	\$ 10,621,804	100%
2014	\$ 5,528,930	48%	\$ 5,827,710	50%	\$ -	0%	\$ 178,893	2%	\$ 11,535,533	100%
2015	\$ 5,543,071	44%	\$ 6,379,404	50%	\$ -	0%	\$ 749,320	6%	\$ 12,671,795	100%
2016	\$ 6,297,788	43%	\$ 7,753,163	54%	\$ -	0%	\$ 431,459	3%	\$ 14,482,410	100%
2017	\$ 6,959,583	45%	\$ 8,144,284	53%	\$ -	0%	\$ 248,805	2%	\$ 15,352,672	100%

Table 2. HCF Contributions by Sector:

Year	Government	%	Private	%	Self-Employed	%	Penalties & Interest	%	Total	%
2013	\$ 2,638,006	52%	\$ 2,327,455	46%	\$ 81,742	2%	\$ 8,610	0%	\$ 5,055,813	100%
2014	\$ 2,958,075	52%	\$ 2,593,723	46%	\$ 138,216	2%	\$ 12,469	0%	\$ 5,702,483	100%
2015	\$ 3,032,111	47%	\$ 3,166,073	49%	\$ 182,562	3%	\$ 31,951	1%	\$ 6,412,697	100%
2016	\$ 4,259,382	53%	\$ 3,481,793	44%	\$ 247,820	3%	\$ 27,613	0%	\$ 8,016,608	100%
2017	\$ 4,255,089	52%	\$ 3,674,810	45%	\$ 294,094	3%	\$ 19,202	0%	\$ 8,243,195	100%

Table 3 Combined Contributions for SSA & HCF:

Year	Government	%	Private	%	Self-Employed	%	Penalties & Interest	%	Total	%
2013	\$ 7,763,520	49%	\$ 7,505,542	48%	\$ 81,742	1%	\$ 326,813	2%	\$ 15,677,617	100%
2014	\$ 8,487,005	49%	\$ 8,421,433	49%	\$ 138,216	1%	\$ 191,362	1%	\$ 17,238,016	100%
2015	\$ 8,575,182	45%	\$ 9,545,477	50%	\$ 182,562	1%	\$ 781,271	4%	\$ 19,084,492	100%
2016	\$ 10,557,170	47%	\$ 11,234,956	50%	\$ 247,820	1%	\$ 459,072	2%	\$ 22,499,018	100%
2017	\$ 11,214,672	48%	\$ 11,819,094	50%	\$ 294,094	1%	\$ 268,007	1%	\$ 23,595,867	100%

Member Services:

Total active Fund members as of fiscal year 2017 decreased by 115 from 13,104 in 2016 to 12,989 in 2017. This is the first decline in the labor market over the past five years. Several factors contributed to this effect, including a decrease in the Chinese tourist market, immigration crack down on undocumented foreign workers and major road improvements in Koror and Airai. However, about 26% of active members are receiving benefits. About 63% of benefits were for retirees, followed by survivor dependents (inclusive of spouse and dependents) of 35% and disability members of 2% as indicated in the table below.

YR	ACTIVE MEMBERS		CURRENT MEMBERS RECEIVING BENEFITS				(%) to Active Members
	Members	% of Change	Retirement	Survivor (Dependents)	Disability	Total	
2013	11,557	4%	1,753	1,147	61	2,961	26%
2014	12,051	4%	1,850	1,143	66	3,059	25%
2015	12,569	4%	1,924	1,157	81	3,162	25%
2016	13,104	4%	2,022	1,152	83	3,257	25%
2017	12,989	-1%	2,117	1,166	81	3,364	26%

Total active employers as of calendar year 2017 were 2,176 versus 2,057 in 2016. The renewal deadline for employer identification numbers (EINs) has been extended to May 30, 2018 due to the change of issuing licenses that has to be originated at Bureau of Revenue and Taxation (BRT) beginning in December 2017. There was an increase of new licenses in 2017 of 119 or 6% from last year. The Fund is currently facing challenges of validating the number of SS EINs against ROP licenses. The closure of business EINs outside of the renewal period has been extended to May 2018 consistent with BRT's continued renewal of licenses for 2017. In 2016, there were thirty-four EINs closed after the renewal deadline in February 2017 for non-compliance on reporting and/or delinquent on employee contributions. Total number of EINs to close in 2017 will be available after May 30, 2018.

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.

Supplemental benefit is a new type of benefit outside of the SS retirement formula that was created and funded by ROP under RPPL 9-46, beginning fiscal year 2016 to 2017. The benefit is \$50 a month to each SS beneficiary. Funding of the supplemental benefit from ROP National Treasury in 2017 was \$1,987,350 versus \$1,930,650 in 2016.

Benefit payments for SSRF and the Prior Service Trust Fund (PSTF) increased by \$881,350 or 5% from \$17,607,813 in fiscal year 2016 to \$18,489,163 in fiscal year 2017. There was no change in the benefit calculation and the supplemental benefit in 2017 except for the increased number of retirees of 5% in 2017. Contributions on annual basis are not sufficient to pay annual benefits. A total of \$1 million was drawn from the investment fund in 2017 to cover the shortfall of benefit payouts. The Fund's emphasis has been on collections of past due and effective cash management on a monthly basis. The bulk of benefit payments was mainly for retirement at 72%, followed by survivors at 25%, disability at 3% and lump sum at 0%. The breakdown of benefit payments and percentage to total funds released for the last five years is as follows:

SSRF and PSTF Benefit Payments:

Year	Retirement	%	Survivors	%	Disability	%	Lump Sum	%	Total	%
2013	\$ 7,766,793	74%	\$ 2,268,508	22%	\$ 346,140	3%	\$ 103,450	1%	\$ 10,484,891	100%
2014	\$ 9,999,182	71%	\$ 3,752,691	26%	\$ 371,277	3%	\$ 62,177	0%	\$ 14,185,327	100%
2015	\$ 10,566,429	70%	\$ 3,876,968	26%	\$ 468,049	3%	\$ 75,985	1%	\$ 14,987,431	100%
2016	\$ 12,462,803	71%	\$ 4,532,351	26%	\$ 541,740	3%	\$ 70,919	0%	\$ 17,607,813	100%
2017	\$ 13,238,163	72%	\$ 4,667,833	25%	\$ 520,862	3%	\$ 62,305	0%	\$ 18,489,163	100%

Healthcare Fund:

The National Healthcare Financing Act (the NHFA) was created on May 7, 2010 under RPPL 8-14 as codified in Title 41, Chapter 9 of the PNCA. The NHFA was created to meet ROP's constitutional responsibility under Article VI of the Constitution to provide health care for all residents of Palau in a duly governed and managed system that will ensure that no person is denied access to the healthcare system or turned away for lack of money. The Fund's Board of Trustees appoints the Administrator to serve as the HCF Administrator responsible for administration of the Medical Savings Account (MSA) and NHI subject to the supervision and oversight of the HCF Governing Committee (the HCF GC).

Healthcare Fund, Continued:

The powers and duties of the HCF GC under the NHFA are to provide an orderly means to finance and deliver comprehensive healthcare coverage to the people of ROP. The HCF GC also has the authority to promulgate laws, procedures, policies, rules and regulations necessary to carry out the functions of the NHFA. During the year, the HCF GC welcomed the reappointment of Dr. Victor Yano and confirmed his continued leadership as Chairman. The HCF GC's notable contributions were adoption of an internal FY2017 budget, hiring of a consultant to manage the HCF investment fund in collaboration with the Board of Trustees, adoption of the newly revised HCF regulations in accordance with the administrative procurement act, welcoming the new Minister of Health, Dr. Emais Roberts to the HCF GC, clearing aging claims from the Ministry of Health for both in-patient and referrals with an increased budget for NHI claims and temporary increases of the quarterly threshold as needed, approval of two new medical clinics for participation under the MSA, sourcing acceptable public land for construction of an HCF-owned building and lastly, initiating a valuation review of the Fund under new regulations for the fiscal year ended 2017.

As of September 30, 2017, 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
Ms. Ulai Teltull, Member	Social Security Administration

All employees and employers working and domiciled in ROP contribute a total of 5% of remuneration to the HCF. The employees' share of 2.5% goes directly to each individual MSA while the employers' share of 2.5% goes into the NHI fund. An initial capital of \$50,000 was advanced by the Fund in May 2010 and contributions began on October 1, 2010. On April 1, 2011, after two quarters of contributions, benefits under the NHI commenced. As of September 30, 2017, total members under the NHI were 16,776 or 95% of a total population of 17,661 based on a census in 2015. Total members under the MSA were 15,971 or 90% of the total population. The remaining 5% uninsured under the NHI are mainly persons below the age of 59 and unemployed, persons who are no longer a dependent child and persons who are not enrolled under the voluntary program. Voluntary participation carries a quarterly premium of \$41.

ROP provides 100% subsidized healthcare insurance for all citizens over 60 years of age and the unemployed including those with disabilities. As of September 30, 2017, total government subsidy members were 1,915, an increase of 63 from 2016 of 1,852 at 11% of the population.

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

Healthcare Fund, Continued:

The newly adopted HCF regulations at year end relieved the Ministry of Health (MOH) of payment services to hospitals outside of Palau, transitioned HCF to establish a Memorandum of Understanding (MOU) with those hospitals and established a new schedule of benefits that will be gradually implemented in FY2018.

Insurance benefit reimbursements increased by \$641,947 from \$5,419,298 in fiscal year 2016 to \$6,061,245 in fiscal year 2017. There was an increase of 16% of NHI and 8% for MSA. NHI had a backlog of claims in prior years that were duly settled as part of the transition to the new process under the new guidelines in 2018. Details of insurance benefit reimbursements and referral cases are indicated below:

HCF Benefit Payments:

Year	NHI	%	MSA	%	Total	%
2013	\$ 1,822,027	48%	\$ 1,952,203	52%	\$ 3,774,230	100%
2014	\$ 2,435,412	52%	\$ 2,271,008	48%	\$ 4,706,420	100%
2015	\$ 2,908,818	56%	\$ 2,330,256	44%	\$ 5,239,074	100%
2016	\$ 2,719,309	50%	\$ 2,699,989	50%	\$ 5,419,298	100%
2017	\$ 3,158,271	52%	\$ 2,902,974	48%	\$ 6,061,245	100%

Medical Referral Program/NHI Off-Island Referrals from FY 2011 to FY 2017:

Referral Site	2011	2012	2013	2014	2015	2016	2017	Total
Philippines	66	115	76	80	83	67	69	556
Taiwan	0	0	71	129	168	147	142	657
Others	0	0	0	0	0	0	54	54
Total	66	115	147	209	251	214	265	1,267

Patients referred for off-island medical treatment require approval of the MRC. NHI coverage for each referral case is \$35,000 and the quarterly threshold of the NHI reimbursement is \$300,000. At the end of fiscal year 2017, HCF was able to clear all prior claims to bring the system current with a total of \$2,785,473 for referrals and the remaining for in-patients. MOH was able to decrease pending referral cases to sixteen at fiscal year end compared to one hundred and nine in 2016. All other prior in-patient claims were settled to bring MOH's MSA claim current except for claims not yet submitted by MOH. Coordinating the processes with MOH and settling aging claims set the course for MOH and HCF to smoothly transition into the new process in 2018.

The administration of the HCF remains vested under the Social Security Administrator. The funds were comingled and concentrated in one local bank in previous years earning less interest and not maximizing the value of the investment. The funds have been segregated since 2014 and excess funds were invested by the Board of Trustees. In 2017, an additional \$2 million from operations was invested. About 47% of total cash and reserve is MSA funds while 53% is NHI funds. HCF's cash and investments were as follows:

Cash	\$ 661,720
Invested funds	<u>11,455,698</u>
Total cash and reserve funds	\$ <u>12,117,418</u>

Prior Service Retirement:

Funding for the PSTF relies on U.S. government appropriations from the U.S. Department of the Interior (USDOI). In 2016, USDOI approved additional funding for the Cost of Living Adjustments (COLA) for all benefit payees. The minimum basic benefit was increased to \$50 from \$27 along with a 20% increase for those earning more than \$50 retroactive to October 1, 2015. An additional increase of 3% also took effect on October 1, 2016. The Fund's lobbyist and consultant for PSTF was successful in securing funding as needed for COLA in 2016. At September 30, 2017 and 2016, the amount available for future benefit payments under the PSTF amounted to \$130,332 and \$138,493, respectively. The agreement between the PSTF Board and USDOI allows the Fund to accept the liability based on the amount of funding received and does not accept any future obligations to pay future benefits unless funding continues from U.S. government appropriations. As of September 30, 2017, total members receiving benefits under the PSTF were 184, a decrease from 203 in fiscal year 2016.

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. In 2017, \$1 million was drawdown to fund operations mainly for benefit payments in June 2017 where liquidity was very low. The Board of Trustees also approved a revised investment policy for adding a new asset class - real assets. The asset portfolio was rebalanced twice during the year due to the termination of one investment manager and a re-allocation due to a drawdown of investments and funding of a new asset class. The SS investment fund remained diversified to ensure that growth and risks are well-balanced over the long-term. The Fund realized a portfolio growth of 9.29% and a positive rate of investment (ROI) of 9.86% for fiscal year 2017. The HCF Fund also performed strongly with a growth of 34.81% and ROI of 8.50%. The financial strength of HCF will provide opportunities to expand benefits as set forth in the new regulations as well as other value added programs as determined by the HCF GC.

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

Year	SS Portfolio	HCF Portfolio	SS Gain (Loss)	HCF Gain (Loss)	SS Growth	HCF Growth	SS ROI (%)	HCF ROI (%)
2011	\$ 65,044,137	\$ 1,095,366	\$ 14,215	\$ 445	1.29%	-	0.02%	-
2012	\$ 74,358,312	\$ 2,621,300	\$ 10,310,568	\$ 25,266	14.32%	139.31%	13.87%	0.96%
2013	\$ 81,483,595	\$ 2,622,160	\$ 7,785,801	\$ 6,271	9.58%	0.03%	9.56%	0.24%
2014	\$ 81,786,677	\$ 2,648,535	\$ 8,678,212	\$ 31,090	0.37%	1.01%	10.61%	1.17%
2015	\$ 84,859,393	\$ 5,924,545	\$ (1,312,600)	\$ (72,450)	3.76%	123.69%	-1.55%	-1.22%
2016	\$ 90,541,549	\$ 8,497,785	\$ 6,042,073	\$ 576,610	6.70%	43.43%	6.67%	6.79%
2017	\$ 98,955,777	\$ 11,455,698	\$ 9,756,434	\$ 973,461	9.29%	34.81%	9.86%	8.50%

Information Technology (IT):

The Fund database system was created in visual FoxPro by a consultant based in the Commonwealth of the Northern Mariana Islands. The software in support of this database has reached its life cycle. Microsoft, who initially supported the FoxPro software, no longer supports the software as it has been taken out of the market and is considered obsolete. A study of the Fund's IT system was undertaken in June 2012 and in fiscal year 2014, a request for proposal was issued and migration of the Fund's IT system to Microsoft SQL commenced in May 2014. The Fund's investment in the IT system is about \$626,000. Migration was expected to be completed in April 2015 but was extended to April 2017 due to challenges with complexities of the tailored system, missing source codes including other versions designed for the Federated States of Micronesia and the Republic of the Marshall Islands funds.

Information Technology (IT), Continued:

During the year, it was learned that the consultant hired had serious medical issues and the situation was further exacerbated when he tried to change his team of programmers. As such, the project stalled and sufficient time to recover the project was delayed. In the end, the Trustees terminated the relationship and hired the lead programmer under the consultant to complete the project. An additional cost of \$25,000 was incurred for recovering the project to proceed as planned, which commenced in August 2017 for an eighteen-month duration anticipated to be completed by March 2019.

The Fund's database is vital information being shared with the Bureau of Planning and Statistics for economic reports, the Civil Service Pension Fund for validating members and the Bureau of National Treasury for audit and collection purposes of business and individual employers.

Public Relations:

The Fund provides and maintains public relations through communications at the Board level and with respective leaders in the legislative and executive branches of ROP. Internal affairs of the Fund are duly reported through local radio stations, newspapers, and newsletters. The Fund's website is www.ropssa.org and was updated during the year to reflect current operations of the Fund. The website is available for beneficiaries who have relocated outside of Palau and need to be informed of any new regulations or changes to their eligibility. The plan in the coming year is to separate the website for the HCF to allow expansion of the site to have interpretation of benefits and other up-to-date information for the members.

Significant Events:

The significant events in 2017 were new changes to the Act that brings forth challenges to the operational policies and procedures, systems, staff and other resources. These included the new SS Operational Rules and Regulations that were still being implemented while new changes to the law continued, i.e., change of retirement age, change of SS rate, removal of maximum remuneration and the anticipation for the Fund to provide funding of supplemental benefits as early as 2018. As with every challenge, opportunities were identified and implemented to maintain expected level of services. New cash receipts were installed, new benefit accounts were set-up to mitigate fraud, the ES and MS sections were restructured fitting staff to challenging positions. All the changes were deemed beneficial to the Fund and valued members. Stability of the Fund remains with no changes to the Board of Trustees and a positive support from the Olbiil Era Kelulau and the Executive Branch.

Subsequent Events:

During the first quarter of 2018, implementation of RPPL 10-8 and 10-12 went into effect. The change was for new SS rate of 7% with no maximum remuneration. Further, self-employed individuals were required to file quarterly instead of annually based on RPPL 10-8 since earnings need to be from current year instead of the preceding year. Self-employed and/or sole proprietor businesses (SPN) who failed to make acceptable changes to their filings were faced with additional contributions to make. Consistent dialogue with clients to avail workout agreements helped in bringing clients into compliance. Public education through various forms of media also helped members understand the need for changes and the benefits in the long-term.

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, 2017 was \$115,687,568 as compared to \$105,273,540 for fiscal year 2016 and \$99,029,152 for fiscal year 2015, which was due to positive earnings and growth of investment assets.

Statements of Fiduciary Net Position:

	2017	2016	2015
Assets and deferred outflows of resources:			
Cash	\$ 988,656	\$ 1,784,589	\$ 4,613,622
Investments	110,411,475	99,039,334	90,783,938
Receivables, net	7,616,834	8,480,765	7,508,201
Prepaid expense	28,473	11,498	124,580
Capital assets, net	95,042	113,863	81,117
Deferred outflows of resources from pension	570,645	350,777	218,492
Total assets and deferred outflows of resources	<u>119,711,125</u>	<u>109,780,826</u>	<u>103,329,950</u>
Liabilities, deferred inflows of resources and fiduciary net position:			
Benefits payable	703,985	1,434,271	1,525,366
Accrued liabilities and accounts payable	90,549	168,470	100,233
Net pension liability	2,964,466	2,625,302	2,432,377
Deferred inflows of resources from pension	264,557	279,243	242,822
Total liabilities and deferred inflows of resources	<u>4,023,557</u>	<u>4,507,286</u>	<u>4,300,798</u>
Fiduciary net position held in trust for benefits and other purposes	\$ <u>115,687,568</u>	\$ <u>105,273,540</u>	\$ <u>99,029,152</u>

Statements of Changes in Fiduciary Net Position:

Additions:			
Contributions, net	\$ 23,653,012	\$ 22,275,735	\$ 18,912,830
Investment income (loss), net	10,729,895	6,618,683	(1,385,050)
Other income	251,199	228,927	161,981
Total additions	<u>34,634,106</u>	<u>29,123,345</u>	<u>17,689,761</u>
Deductions:			
Benefit payments	24,550,408	23,027,111	20,226,505
Other	1,657,020	1,782,496	1,575,579
Total deductions	<u>26,207,428</u>	<u>24,809,607</u>	<u>21,802,084</u>
Transfer from Republic of Palau	<u>1,987,350</u>	<u>1,930,650</u>	<u>-</u>
Change in fiduciary net position	10,414,028	6,244,388	(4,112,323)
Fiduciary net position at beginning of year	<u>105,273,540</u>	<u>99,029,152</u>	<u>103,141,475</u>
Fiduciary net position at end of year	\$ <u>115,687,568</u>	\$ <u>105,273,540</u>	\$ <u>99,029,152</u>

Contributions Receivable

The Fund's contribution receivable for the year ended September 30, 2017 was \$6,857,593 as compared to \$7,231,724 for fiscal year 2016 and \$6,030,128 for fiscal year 2015. Of total contributions receivables, \$5,458,560 or 80% represents SSRF and \$1,399,033 or 20% represents HCF. Contributions receivables for SSRF includes \$3,601,605 delinquent employers and \$1,856,955 of accrued tax receivable due a month after the quarter end. The allowance for doubtful accounts of \$2,827,404 represents 41% 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 29% in fiscal year 2017 that has come down from 32% in fiscal year 2016. The collection of past due accounts is improving each year as staff have gained confidence and experiences in dealing with difficult customers.

Year	Total Cont	A/R Cont	% to TC	Provision	% to A/R
2013	\$ 15,677,617	\$ 6,132,022	39%	\$ 2,642,384	43%
2014	\$ 17,238,016	\$ 5,721,580	33%	\$ 2,657,033	46%
2015	\$ 19,084,492	\$ 6,030,128	32%	\$ 2,828,531	47%
2016	\$ 22,499,018	\$ 7,231,724	32%	\$ 3,051,815	42%
2017	\$ 23,595,867	\$ 6,857,593	29%	\$ 2,827,404	41%

Capital Assets:

At September 30 2017, 2016 and 2015, the Fund had \$95,042, \$113,863 and \$81,117, respectively, in capital assets, net of accumulated depreciation where applicable, including building improvements, office furniture and equipment and vehicles, which represent a net decrease in 2017 of \$18,821 mainly from depreciation of aging office equipment and a net increase in 2016 of \$32,746 over 2015 for office expansion and minor renovations See note 8 to the financial statements for more detailed information on the Fund's capital assets.

Actuarial Valuation:

An actuarial valuation issued in May 2017 provides an assessment of the system's accrued liabilities and determination of the Fund's funded ratio. The unfunded liability continues to increase weakening the Fund's sustainability for the long-term. The funding ratio has deteriorated to 34% in 2015 from 46% in 2013 prior to the increase of benefits in 2014 through 2016.

Year	Net Assets Available for Benefits	Accrued Liability (AAL)	Funded Ratio	Unfunded AAL
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 tactical position of the Board of Trustees is to avoid any drawdown of investment funds in the near term with an aim to actively diversify asset allocations that would positively grow the Fund within the next market cycle (7-10 years). The Fund will be considered sound should the funded ratio reach 79%. RPPL 10-12 enacted on September 27, 2017 will increase the SS rate to 7% and remove the maximum remuneration. The Board of Trustees has requested an actuarial valuation to reflect recent changes to the contributions and benefits for fiscal year 2017.

Economic Outlook:

The economic outlook for Palau has been adjusted to zero in 2016 at the height of the tourism accelerated growth that has led to a major policy shift from mass tourism to high value tourism. The curtain of charter flights allows the policy makers to consolidate strategies and ideas and rebrand Palau's tourism market to high value tourism under the Palau Visitors Authority brand "Pristine Paradise. Palau". The shift in the tourism industry coupled with delayed major infrastructure projects in 2016 was evident and continued in 2017 where growth was anticipated to be near 5% according to the International Monetary Fund issued in October 2016. The Gross Domestic Product is projected to be moderate as tourism activity recovers and constructions projects continue. Palau's near term outlook remains exposed to a narrow economic base, a remote location, a small population, insufficient infrastructure, restrictive investment regime and vulnerability to natural disasters. The Fund is projecting a growth of 5.5% for fiscal year 2018.

The Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in the Fund's report on the audit of financial statements, which is dated June 10, 2017. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

Contacting the Fund's Financial Management:

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Fiduciary Net Position
September 30, 2017 and 2016

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2017</u>	<u>2016</u>
Cash	\$ 988,656	\$ 1,784,589
Investments:		
Mutual funds	71,744,786	50,404,673
U.S. Government obligations	17,230,766	17,429,618
Corporate bonds	14,119,823	14,674,773
Corporate stock	6,876,946	15,498,331
Money market funds	439,154	1,031,939
Total investments	<u>110,411,475</u>	<u>99,039,334</u>
Receivables:		
Contributions	6,857,593	7,231,724
Loan	3,019,475	3,318,617
Accrued interest and dividends	291,042	286,654
Advances and other	276,128	695,585
	10,444,238	11,532,580
Less allowance for doubtful accounts	<u>(2,827,404)</u>	<u>(3,051,815)</u>
Total receivables, net	<u>7,616,834</u>	<u>8,480,765</u>
Prepaid expense	28,473	11,498
Capital assets, net	95,042	113,863
Total assets	<u>119,140,480</u>	<u>109,430,049</u>
Deferred outflows of resources from pension	570,645	350,777
Total assets and deferred outflows of resources	<u>119,711,125</u>	<u>109,780,826</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>		
Liabilities:		
Benefits payable	703,985	1,434,271
Accrued liabilities and accounts payable	90,549	168,470
Net pension liability	2,964,466	2,625,302
Total liabilities	3,759,000	4,228,043
Deferred inflows of resources from pension	264,557	279,243
Total liabilities and deferred inflows of resources	<u>4,023,557</u>	<u>4,507,286</u>
Contingencies		
Fiduciary net position:		
Held in trust for benefits and other purposes	<u>\$ 115,687,568</u>	<u>\$ 105,273,540</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Additions:		
Contributions:		
Private employees	\$ 11,819,094	\$ 11,234,956
Government employees	10,111,639	9,265,082
Retirees and disabled individuals	1,103,033	1,292,088
Self-employed individuals	294,094	247,820
Penalties and interest	268,007	459,072
	<u>23,595,867</u>	<u>22,499,018</u>
Recoveries (bad debts)	57,145	(223,283)
Total contributions, net	<u>23,653,012</u>	<u>22,275,735</u>
Investment income:		
Net increase in the fair value of investments	8,172,807	5,311,647
Dividends	1,524,436	312,418
Interest	1,032,652	994,618
Total investment income, net	<u>10,729,895</u>	<u>6,618,683</u>
Other income	251,199	228,927
Total additions	<u>34,634,106</u>	<u>29,123,345</u>
Deductions:		
Benefit payments:		
Retirement	13,238,163	12,462,803
Survivor's	4,667,833	4,532,351
National health insurance	3,158,271	2,719,309
Medical savings account	2,902,974	2,699,989
Disability	520,862	541,740
Lump sum	62,305	70,919
Total benefit payments	<u>24,550,408</u>	<u>23,027,111</u>
Administrative	1,397,251	1,580,167
Investment management fee	129,174	103,272
Fund custodian fee	101,870	63,870
Depreciation	28,725	35,187
Total deductions	<u>26,207,428</u>	<u>24,809,607</u>
Excess of additions over deductions	8,426,678	4,313,738
Transfer from Republic of Palau	1,987,350	1,930,650
Change in fiduciary net position	10,414,028	6,244,388
Fiduciary net position at beginning of year	<u>105,273,540</u>	<u>99,029,152</u>
Fiduciary net position at end of year	<u>\$ 115,687,568</u>	<u>\$ 105,273,540</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016, 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, 2017 and 2016

(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, 2017 and 2016, cash was \$988,656 and \$1,784,589, respectively, and the corresponding bank balance was \$1,146,128 and \$1,947,763, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017 and 2016, bank deposits in the amount of \$250,000 were FDIC insured. Accordingly, the deposits are exposed to custodial credit risk. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

Investments

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

- (1) Cash
 - (A) Investments in this category must adhere to the guidelines in Rule 2a-7 under the U.S. Securities and Exchange Commission (SEC) Investment Company Act of 1940.
- (2) Fixed Income
 - (A) Bonds, notes, and pass-through securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
 - (B) U.S. corporate bonds and nonconvertible preferred stocks;
 - (C) Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
 - (D) Debt issued by foreign entities; and
 - (E) The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by the investment manager.
- (3) U.S. Equities
 - (A) Common stock and convertible securities of U.S. listed Corporations provided they are listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), or National Association of Securities Dealers Automated Quotation (NASDAQ);
 - (B) American Depository Receipts (ADRs) that are listed on the NYSE, AMEX, or NASDAQ provided the total investment in these securities does not exceed 10% of the total assets managed by the Fund's investment manager at the time of purchase and such investments are in industries and areas of the market that the Fund's investment manager already has proven expertise;

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016.

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, 2017 and 2016:

Investment Type	Fair Value	2017 Investment Maturities (In Years)				Ratings	
		Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Treasury notes	\$ 5,868,658	\$ 125,470	\$ 5,438,958	\$ 304,230	\$ -	Aaa	AA+
U.S. Treasury bond	2,447,625	-	-	228,865	2,218,760	Aaa	AA+
Other U.S. government obligations	366,180	-	366,180	-	-	Aaa	AAA
Other U.S. government obligations	269,254	-	-	153,618	115,636	Aaa	Unrated
Other U.S. government obligations	144,200	-	26,500	-	117,700	Aa2	Unrated
Other U.S. government obligations	200,494	-	200,494	-	-	Aa2	A+
Other U.S. government obligations	103,603	-	103,603	-	-	Aa1	AA
Other U.S. government obligations	230,628	-	230,628	-	-	A2	A+
State and local government	7,600,124	972,280	4,479,482	34,718	2,113,644	Aaa	AA+
Corporate bonds	2,131,557	-	1,043,505	243,579	844,473	Aaa	AAA
Corporate bonds	981,570	-	303,855	426,237	251,478	Aaa	AA+
Corporate bonds	706,291	-	706,291	-	-	Aaa	Unrated

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	2017 Investment Maturities (In Years)					Ratings	
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
Corporate bonds	294,042	-	-	-	294,042	Aa3	AA+
Corporate bonds	385,327	-	-	385,327	-	Aa3	A+
Corporate bonds	209,106	-	209,106	-	-	Aa3	A
Corporate bonds	687,977	-	583,220	104,757	-	Aa3	AA-
Corporate bonds	757,710	-	404,002	-	353,708	Aa2	AA
Corporate bonds	201,418	-	100,279	-	101,139	Aa2	A+
Corporate bonds	437,462	-	437,462	-	-	Aa2	AA-
Corporate bonds	184,649	-	184,649	-	-	Aa1	AA+
Corporate bonds	130,773	-	130,773	-	-	Aa1	Unrated
Corporate bonds	104,190	-	-	-	104,190	A3	A
Corporate bonds	328,011	-	124,905	203,106	-	A3	A-
Corporate bonds	417,293	-	162,373	254,920	-	A3	BBB+
Corporate bonds	100,509	-	100,509	-	-	A3	Unrated
Corporate bonds	310,935	-	201,020	109,915	-	A2	A+
Corporate bonds	748,914	105,035	-	643,879	-	A2	A
Corporate bonds	159,264	-	-	159,264	-	A1	AA
Corporate bonds	457,811	-	-	-	457,811	A1	AA-
Corporate bonds	730,122	290,951	314,094	125,077	-	A1	A+
Corporate bonds	217,399	-	-	217,399	-	A1	A
Corporate bonds	99,533	-	-	99,533	-	A1	A-
Corporate bonds	196,079	-	-	-	196,079	Baa3	BBB
Corporate bonds	128,123	-	128,123	-	-	Baa2	BBB+
Corporate bonds	121,058	-	121,058	-	-	Baa2	BBB
Corporate bonds	259,835	-	-	-	259,835	Baa1	A
Corporate bonds	1,103,628	-	-	296,903	806,725	Baa1	A-
Corporate bonds	902,145	75,029	827,116	-	-	Baa1	BBB+
Corporate bonds	425,782	-	130,186	104,826	190,770	Baa1	BBB
Corporate bonds	201,310	-	-	201,310	-	Unrated	AA-
	<u>\$ 31,350,589</u>	<u>\$ 1,568,765</u>	<u>\$ 17,058,371</u>	<u>\$ 4,297,463</u>	<u>\$ 8,425,990</u>		

Investment Type	2016 Investment Maturities (In Years)					Ratings	
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
U.S. Treasury notes	\$ 5,802,133	\$ 451,125	\$ 2,610,637	\$ 2,740,371	\$ -	Aaa	AA+
U.S. Treasury bond	1,064,921	-	-	-	1,064,921	Aaa	AA+
Other U.S. government obligations	483,551	-	203,014	280,537	-	Aaa	AAA
Other U.S. government obligations	153,339	-	-	-	153,339	Aaa	AA+
Other U.S. government obligations	161,982	-	-	161,982	-	Aaa	Unrated
Other U.S. government obligations	125,169	125,169	-	-	-	Aa2	AA+
Other U.S. government obligations	201,788	-	201,788	-	-	Aa2	A+
Other U.S. government obligations	148,862	-	-	27,892	120,970	Aa2	Unrated
Other U.S. government obligations	105,770	-	-	105,770	-	Aa1	AA
State and local government	9,182,103	482,823	4,551,346	1,610,095	2,537,839	Aaa	AA+
Corporate bonds	1,862,606	326,414	407,281	115,286	1,013,625	Aaa	AAA
Corporate bonds	1,044,101	-	309,492	459,312	275,297	Aaa	AA+
Corporate bonds	476,198	-	-	476,198	-	Aaa	Unrated
Corporate bonds	316,473	-	-	-	316,473	Aa3	AA+
Corporate bonds	1,156,534	200,430	610,069	346,035	-	Aa3	AA-
Corporate bonds	552,917	150,428	-	402,489	-	Aa3	A+
Corporate bonds	786,310	-	231,101	184,212	370,997	Aa2	AA
Corporate bonds	268,989	-	167,178	101,811	-	Aa2	AA-
Corporate bonds	203,950	-	-	101,650	102,300	Aa2	A
Corporate bonds	188,358	-	-	188,358	-	Aa1	AA+
Corporate bonds	76,186	-	76,186	-	-	Aa1	AA-
Corporate bonds	569,166	-	569,166	-	-	Aa1	Unrated
Corporate bonds	107,108	-	-	-	107,108	A3	A
Corporate bonds	300,062	-	300,062	-	-	A3	A-
Corporate bonds	430,603	-	170,477	260,126	-	A3	BBB+
Corporate bonds	106,972	-	-	106,972	-	A3	BBB
Corporate bonds	1,022,789	-	494,674	528,115	-	A2	A
Corporate bonds	89,895	89,895	-	-	-	A2	A-
Corporate bonds	169,462	-	-	-	169,462	A1	AA
Corporate bonds	611,314	150,111	-	-	461,203	A1	AA-
Corporate bonds	789,266	174,722	291,360	323,184	-	A1	A+
Corporate bonds	345,048	-	-	345,048	-	A1	A
Corporate bonds	103,299	-	-	103,299	-	A1	A-
Corporate bonds	193,440	-	-	-	193,440	Baa3	BBB
Corporate bonds	332,382	-	-	-	332,382	Baa2	A-
Corporate bonds	109,858	-	109,858	-	-	Baa2	BBB+

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Investment Type	2016 Investment Maturities (In Years)					Ratings	
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Moody's	S&P
Corporate bonds	122,702	-	122,702	-	-	Baa2	BBB
Corporate bonds	481,879	-	-	-	481,879	Baa1	A
Corporate bonds	511,564	-	-	511,564	-	Baa1	A-
Corporate bonds	605,601	-	451,159	154,442	-	Baa1	BBB+
Corporate bonds	490,767	250,963	106,448	133,356	-	Baa1	BBB
Corporate bonds	248,974	-	-	-	248,974	Unrated	AA-
	<u>\$ 32,104,391</u>	<u>\$ 2,402,080</u>	<u>\$ 11,983,998</u>	<u>\$ 9,768,104</u>	<u>\$ 7,950,209</u>		

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	09/30/17	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 8,316,283	\$ 8,316,283	\$ -	\$ -
State and local government	7,600,124	-	7,600,124	-
Other U.S. Government obligations	1,314,359	-	1,314,359	-
Corporate bonds	14,119,823	-	14,119,823	-
Equity securities:				
Common stock	<u>6,876,946</u>	<u>6,876,946</u>	-	-
Total investments by fair value level	<u>\$ 38,227,535</u>	<u>\$ 15,193,229</u>	<u>\$ 23,034,306</u>	<u>\$ -</u>
Investments measured at net asset value (NAV):				
Mutual funds	<u>\$ 71,744,786</u>			
Investments measured at cost based measure:				
Money market funds	<u>\$ 439,154</u>			

Investments by fair value level	09/30/16	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury securities	\$ 6,867,054	\$ 6,867,054	\$ -	\$ -
State and local government	9,182,103	555,907	8,626,196	-
Other U.S. Government obligations	1,380,461	-	1,380,461	-
Corporate bonds	14,674,773	-	14,674,773	-
Equity securities:				
Common stock	<u>15,498,331</u>	<u>15,498,331</u>	-	-
Total investments by fair value level	<u>\$ 47,602,722</u>	<u>\$ 22,921,292</u>	<u>\$ 24,681,430</u>	<u>\$ -</u>
Investments measured at net asset value (NAV):				
Mutual funds	<u>\$ 50,404,673</u>			
Investments measured at cost based measure:				
Money market funds	<u>\$ 1,031,939</u>			

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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, 2017 and 2016 is not material to the financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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 and RPPL No. 9-35, which imposes a tax on the quarterly income of every employee within the Republic. There is imposed on the income of every employee a tax equal to a percentage of wages received. The maximum amount of wages received increased from \$4,000 per quarter to \$5,000 per quarter effective October 2, 2008 and shall increase to \$6,000 and \$8,000 per quarter effective October 1, 2015 and October 1, 2017, respectively. On October 1, 2020, there will be no maximum amount of remuneration. Every employer is required to contribute an amount equal to that contributed by the employee. With respect to wages paid from October 1, 2001 and thereafter, the rate shall be six percent. During the years ended September 30, 2017 and 2016, the Fund recorded total contributions of \$15,103,867 and \$14,050,951, respectively.

Benefit Payments

Retirement benefits are paid to qualified workers who are fully insured individuals who, as defined by RPPL No. 2-29 and as revised by RPPL No. 3-64, RPPL No. 5-34, RPPL No. 7-32, RPPL No. 8-5, RPPL No. 9-11, RPPL No. 9-12 and RPPL No. 9-35, have attained the age of sixty years on or before September 30, 2015, sixty-two years as of October 1, 2015, or sixty-three years as of October 1, 2020, and have filed an application for old age insurance benefits. 60% of basic benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements. Effective October 1, 2013, eligible individuals born before January 4, 1954 are receiving full amount of the surviving spouse's benefits along with other benefits. Eligible children who are not married and not working may also receive benefits until age eighteen (18) or up until age twenty-two (22) if in school. Eligible children who become disabled before age twenty-two will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

Effective October 1, 2013, the benefit payments paid monthly are computed upon an annual basis of 27% of the first \$11,000 of the cumulative covered earnings, plus 2.9% of the next \$33,000, plus 1.5% of the next \$44,000, plus 0.75% of the cumulative covered earnings in excess of \$500,000. The minimum benefit is \$148 per month. During the years ended September 30, 2017 and 2016, the Fund paid benefits of \$18,363,647 and \$17,475,617, respectively. Included within fiscal years 2017 and 2016 benefit payments is \$1,987,350 and \$1,930,650, respectively, supplemental benefit payments funded by the Republic of Palau through appropriation (see note 5).

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

Pensions

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

New Accounting Standards

During the year ended September 30, 2017, the Fund implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

The implementation of these statements did not have a material effect on the accompanying financial statements.

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

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

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

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

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 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.

(3) Prior Service Claims

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

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

The Fund received a fund allocation of \$137,600 on September 15, 2017 and paid benefits of \$125,516 for the year ended September 30, 2017. The Fund received a fund allocation of \$50,100 on June 3, 2016 and paid benefits of \$132,196 for the year ended September 30, 2016. On October 18, 2016, the Fund received a fund allocation of \$141,000 for the benefits paid for the year ended September 30, 2016. As of and for the year ended September 30, 2016, the amount was recorded as other income and other receivable in the accompanying financial statements. 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, 2017 and 2016, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$130,332 and \$138,493, respectively.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(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 \$294,094 during the year ended September 30, 2017 from \$247,820 during the year ended September 30, 2016. 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, 2017 and 2016, the Fund recorded healthcare contributions for retirees and disabled individuals of \$1,103,033 and \$1,292,088, respectively.

Health care benefits are paid only to participating individuals and to unemployed Palauan citizens who are age 60 and above or disabled. Benefit payments for participating individuals started on April 1, 2011. At September 30, 2017 and 2016, total benefit expense amounted to \$6,061,245 and \$5,419,298 of which \$4,911,227 and \$3,557,769, 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(5) Transfer from Republic of Palau

RPPL Nos. 10-01 and 9-46 (amended by 9-55), the fiscal years 2017 and 2016 Budget Acts, appropriated \$2,000,000 and \$1,931,200, respectively, 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, 2017 and 2016, the Fund received and paid additional Social Security benefits of \$1,987,350 and \$1,930,650, 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 multi-employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to RPPL No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL No. 3-21, RPPL No. 4-40, RPPL No. 4-49, RPPL No. 5-30, RPPL No. 6-37, RPPL No. 7-56, RPPL No. 8-10 and RPPL No. 9-2.

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

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

Inactive members currently receiving benefits	1,507
Inactive members entitled to but not yet receiving benefits	1,151
Active members	<u>3,120</u>
Total members	<u>5,778</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

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

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

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

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

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

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

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

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

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.
- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

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

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit.

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

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

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

The Fund's contribution to the Plan for the years ended September 30, 2017, 2016 and 2015 were \$37,577, \$37,247 and \$35,205, respectively, which were equal to the required contributions for the respective years then ended.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Actuarial Assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2016, 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	
Expenses:	\$300,000 each year	
Inflation:	3.0%	
Salary Increase:	3.0% per year	
Mortality:	RP 2000 Combined Healthy Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years	
Termination of Employment:	5% per year prior to age 35; none after age 35	
Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Retirement Age:	100% at age 60	
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor	
Duty vs Non-duty related disability:	100% Duty related	

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

A. General Information About the Pension Plan, Continued:

Pre-retirement Beneficiary Benefit Members: Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses

Post Retirement Survivor's Benefit: 100% of the benefit the retiree was receiving prior to death. 80% of the workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses

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, 2016, the arithmetic real rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
Cash	3%	4.55%
Equity	61%	6.35%
Governmental fixed income	31%	7.75%
Corporate fixed income	<u>5%</u>	4.00%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 2.98% at the current measurement date and 3.83% 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 2019 for the 2016 measurement date. For years on or after 2019, a discount rate of 2.93% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index Rate.

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 2.98%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.98%) or 1.00% higher (3.98%) from the current rate.

<u>1% Decrease 1.98%</u>	<u>Current Single Discount Rate Assumption 2.98%</u>	<u>1% Increase 3.98%</u>
\$ 3,439,879	\$ 2,964,466	\$ 2,570,896

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(6) Employees' Retirement Plan, Continued

Defined Benefit Plan, Continued

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

Pension Liability. At September 30, 2017 and 2016, the Fund reported a liability of \$2,964,466 and \$2,625,302, 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, 2017 and 2016, the Fund's proportion was 1.1884% and 1.2180%, respectively.

Pension Expense. For the years ended September 30, 2017 and 2016, the Fund recognized pension expense of \$142,187 and \$134,308, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2017 and 2016, the Fund reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 75,980	\$ -	\$ 93,996
Change of assumptions	454,335	70,106	215,391	107,597
Net difference between projected and actual earnings on pension plan investments	25,457	5,763	29,782	-
Contribution subsequent to measurement date	37,577	-	37,247	-
Changes in proportion and difference between the Fund's contributions and proportionate share of contributions	<u>53,276</u>	<u>112,708</u>	<u>68,357</u>	<u>77,650</u>
	\$ <u>570,645</u>	\$ <u>264,557</u>	\$ <u>350,777</u>	\$ <u>279,243</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, 2017 will be recognized in pension expense as follows:

Year ending September 30,

2018	\$ 36,969
2019	\$ 66,200
2020	\$ 48,913
2021	\$ 46,089
Thereafter	\$ 70,340

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(7) Loan Receivable

On August 28, 2003, the Fund entered into a loan agreement with the National Development Bank of Palau (NDBP), an affiliated entity and a component unit of the Republic of Palau. The loan was for \$3,000,000 with a subsequent \$2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time. On August 7, 2008, the Fund entered into an agreement to restructure the loan. The loan ceiling increased to \$6,000,000, which is disbursed in increments of \$500,000, bearing interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%; provided, however the interest rate to be charged and paid by NDBP shall not be less than 4.5% nor more than 7.5% after addition of the 0.5% to the prime rate. Outstanding principal plus all unpaid interest are to be paid semi-annually, on or before June 30 and December 31 of each year, effective June 30, 2011 up to December 31, 2025.

The loan receivable from NDBP was \$3,019,475 and \$3,318,617 with interest at 4.5% at September 30, 2017 and 2016, 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>
2018	\$ 288,647	\$ 144,748	\$ 433,395
2019	313,962	119,433	433,395
2020	327,971	105,424	433,395
2021	343,173	90,222	433,395
2022	358,789	74,606	433,395
2023 - 2026	<u>1,386,933</u>	<u>129,949</u>	<u>1,516,882</u>
	\$ <u>3,019,475</u>	\$ <u>664,382</u>	\$ <u>3,683,857</u>

(8) Capital Assets

A summary of the Fund's capital assets, at original cost, as of September 30, 2017 and 2016, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2017</u>
Office furniture and equipment	4 - 13 years	\$ 416,380	\$ 9,036	\$ -	\$ 425,416
Building and improvements	30 years	199,177	868	-	200,045
Vehicles	5 years	<u>80,195</u>	<u>-</u>	<u>-</u>	<u>80,195</u>
		695,752	9,904	-	705,656
Less accumulated depreciation		<u>(581,889)</u>	<u>(28,725)</u>	<u>-</u>	<u>(610,614)</u>
Total capital assets, net		\$ <u>113,863</u>	\$ <u>(18,821)</u>	\$ <u>-</u>	\$ <u>95,042</u>
		<u>Balance October 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2016</u>
Office furniture and equipment	4 - 13 years	\$ 411,211	\$ 5,169	\$ -	\$ 416,380
Building and improvements	30 years	136,413	62,764	-	199,177
Vehicles	5 years	<u>80,195</u>	<u>-</u>	<u>-</u>	<u>80,195</u>
		627,819	67,933	-	695,752
Less accumulated depreciation		<u>(546,702)</u>	<u>(35,187)</u>	<u>-</u>	<u>(581,889)</u>
Total capital assets, net		\$ <u>81,117</u>	\$ <u>32,746</u>	\$ <u>-</u>	\$ <u>113,863</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2017 and 2016

(9) Contingencies

The Fund conducts its operations on land without charge in the State of Koror, through a land settlement agreement dated February 3, 1997 between ROP, the Palau Public Lands Authority, the Koror State Government and the Koror State Public Lands Authority. The land settlement agreement stipulates that ROP will retain the use of the land for a term of twenty-five years. The Fund does not have title or a lease agreement for the use of the land.

An actuarial valuation of the Fund has determined that the Fund had an actuarial deficiency of approximately \$176,995,000 as of October 1, 2015. Unless the existing deficiency is corrected, the Fund's cash flow may eventually become negative, which will cause the Fund to become depleted to the point that the Fund will not be able to meet its benefit obligations. The Fund has not developed a formal plan as of September 30, 2017, to correct this potential funding deficiency.

(10) Risk Management

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

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

	<u>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	\$ 249,453,960	\$ 215,546,176	\$ 204,281,232	\$ 182,080,332
The Fund's proportionate share of the net pension liability	\$ 2,964,466	\$ 2,625,302	\$ 2,432,377	\$ 2,274,001
The Fund's proportion of the net pension liability	1.19%	1.22%	1.19%	1.25%
The Fund's covered employee payroll**	\$ 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	470.99%	444.45%	434.55%	435.84%
Plan fiduciary net position as a percentage of the total pension liability	10.55%	11.54%	14.01%	15.84%

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

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

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

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

	<u>2016</u> <u>Valuation</u>	<u>2015</u> <u>Valuation</u>	<u>2014</u> <u>Valuation</u>	<u>2013</u> <u>Valuation</u>
Actuarially determined contribution	\$ 171,337	\$ 132,758	\$ 126,488	\$ 78,562
Contribution in relation to the actuarially determined contribution	<u>37,247</u>	<u>35,205</u>	<u>32,961</u>	<u>31,386</u>
Contribution deficiency	<u>\$ 134,090</u>	<u>\$ 97,553</u>	<u>\$ 93,527</u>	<u>\$ 47,176</u>
The Fund's covered-employee payroll**	<u>\$ 629,414</u>	<u>\$ 590,683</u>	<u>\$ 559,742</u>	<u>\$ 521,749</u>
Contribution as a percentage of covered- employee payroll	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, 2017

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Eliminations	Total
Cash	\$ 184,946	\$ 141,990	\$ 661,720	\$ -	\$ 988,656
Investments:					
Mutual funds	60,289,088	-	11,455,698	-	71,744,786
U.S. Government obligations	17,230,766	-	-	-	17,230,766
Corporate bonds	14,119,823	-	-	-	14,119,823
Corporate stock	6,876,946	-	-	-	6,876,946
Money market funds	439,154	-	-	-	439,154
Total investments	<u>98,955,777</u>	<u>-</u>	<u>11,455,698</u>	<u>-</u>	<u>110,411,475</u>
Receivables:					
Contributions	5,458,560	-	1,399,033	-	6,857,593
Loan	3,019,475	-	-	-	3,019,475
Accrued interest and dividends	290,875	-	167	-	291,042
Due from other funds	-	-	240,061	(240,061)	-
Advances and other	1,450	-	274,678	-	276,128
	8,770,360	-	1,913,939	(240,061)	10,444,238
Less allowance for doubtful accounts	<u>(2,726,904)</u>	<u>-</u>	<u>(100,500)</u>	<u>-</u>	<u>(2,827,404)</u>
Total receivables, net	<u>6,043,456</u>	<u>-</u>	<u>1,813,439</u>	<u>(240,061)</u>	<u>7,616,834</u>
Prepaid expense	24,367	-	4,106	-	28,473
Capital assets, net	87,160	-	7,882	-	95,042
Total assets	<u>105,295,706</u>	<u>141,990</u>	<u>13,942,845</u>	<u>(240,061)</u>	<u>119,140,480</u>
Deferred outflows of resources from pension	502,168	-	68,477	-	570,645
Total assets and deferred outflows of resources	<u>105,797,874</u>	<u>141,990</u>	<u>14,011,322</u>	<u>(240,061)</u>	<u>119,711,125</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u>					
Liabilities:					
Benefits payable	418,472	-	285,513	-	703,985
Accrued liabilities and accounts payable	67,270	-	23,279	-	90,549
Due to other funds	228,403	11,658	-	(240,061)	-
Net pension liability	2,608,730	-	355,736	-	2,964,466
Total liabilities	3,322,875	11,658	664,528	(240,061)	3,759,000
Deferred inflows of resources from pension	232,810	-	31,747	-	264,557
Total liabilities and deferred inflows of resources	<u>3,555,685</u>	<u>11,658</u>	<u>696,275</u>	<u>(240,061)</u>	<u>4,023,557</u>
Contingencies					
Fiduciary net position:					
Held in trust for benefits and other purposes	<u>\$ 102,242,189</u>	<u>\$ 130,332</u>	<u>\$ 13,315,047</u>	<u>\$ -</u>	<u>\$ 115,687,568</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, 2017

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
Additions:				
Contributions:				
Private employees	\$ 8,144,284	\$ -	\$ 3,674,810	\$ 11,819,094
Government employees	6,959,583	-	3,152,056	10,111,639
Retirees and disabled individuals	-	-	1,103,033	1,103,033
Self-employed individuals	-	-	294,094	294,094
Penalties and interest	248,805	-	19,202	268,007
	15,352,672	-	8,243,195	23,595,867
Recoveries	49,447	-	7,698	57,145
Total contributions, net	15,402,119	-	8,250,893	23,653,012
Investment income:				
Net increase in the fair value of investments	7,360,169	-	812,638	8,172,807
Dividends	1,366,484	-	157,952	1,524,436
Interest	1,029,781	-	2,871	1,032,652
Total investment income, net	9,756,434	-	973,461	10,729,895
Other income	28,795	137,600	84,804	251,199
Total additions	25,187,348	137,600	9,309,158	34,634,106
Deductions:				
Benefit payments:				
Retirement	13,181,324	56,839	-	13,238,163
Survivors	4,599,156	68,677	-	4,667,833
National health insurance	-	-	3,158,271	3,158,271
Medical savings account	-	-	2,902,974	2,902,974
Disability	520,862	-	-	520,862
Lump sum	62,305	-	-	62,305
Total benefit payments	18,363,647	125,516	6,061,245	24,550,408
Administrative	910,826	20,245	466,180	1,397,251
Investment management fee	129,174	-	-	129,174
Fund custodian fee	86,622	-	15,248	101,870
Depreciation	19,356	-	9,369	28,725
Total deductions	19,509,625	145,761	6,552,042	26,207,428
Excess (deficiency) of additions over (under) deductions	5,677,723	(8,161)	2,757,116	8,426,678
Transfer from Republic of Palau	1,987,350	-	-	1,987,350
Change in fiduciary net position	7,665,073	(8,161)	2,757,116	10,414,028
Fiduciary net position at beginning of year	94,577,116	138,493	10,557,931	105,273,540
Fiduciary net position at end of year	\$ 102,242,189	\$ 130,332	\$ 13,315,047	\$ 115,687,568

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Salaries, wages and benefits	\$ 732,633	\$ 738,897
Professional services	216,527	350,708
Board members other expenses	74,886	103,387
Supplies, printing and reproduction	52,758	51,915
Utilities	28,089	24,344
Credit card processing fees	25,047	9,560
Communications	20,264	22,361
Staff development and training	15,901	35,820
Bank service charge	14,703	11,315
Repairs and maintenance	12,786	12,026
Travel and transportation	12,067	14,883
Special functions	8,042	2,000
Office equipment	6,349	2,035
Insurance	5,066	6,989
Fuel and oil	3,398	3,476
Postage stamps	3,282	7,854
Board compensation	2,700	2,100
Furniture and fixtures	2,112	2,180
Dues, subscriptions and registrations	986	805
Donations	700	540
Representation and entertainment	-	3,497
Miscellaneous	16,768	39,167
	<hr/>	<hr/>
Total administrative deductions before pension contribution and adjustment	1,255,064	1,445,859
Pension contribution	37,577	37,247
GASB 68 pension adjustment	104,610	97,061
	<hr/>	<hr/>
Total administrative deductions	<u>\$ 1,397,251</u>	<u>\$ 1,580,167</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2017

	Cost	Fair Value
<u>Money Market Funds</u>		
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 135074870	\$ 106,925	\$ 106,925
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 140340753	327,877	327,877
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 140388851	<u>4,352</u>	<u>4,352</u>
Total Money Market Funds	<u>\$ 439,154</u>	<u>\$ 439,154</u>
<u>U.S. Government Obligations</u>		
US Treasury Notes, 4.25% due on 11/15/2017	\$ 127,082	\$ 125,470
US Treasury Notes, 3.125% due on 5/15/2019	582,493	580,272
US Treasury Notes, 1.25% due on 10/31/2019	504,642	497,560
US Treasury Notes, 1.625% due on 6/30/2020	410,810	410,336
US Treasury Notes, 2.625% due on 8/15/2020	937,047	930,702
US Treasury Notes, 2% due on 10/31/2021	829,689	830,932
US Treasury Notes, 2.125% due on 12/31/2022	641,266	629,544
US Treasury Notes, 1.75% due on 5/15/2023	637,801	615,894
US Treasury Notes, 2.5% due on 8/15/2023	938,069	943,718
US Treasury Notes, 2.375% due on 8/15/2024	305,690	304,230
US Treasury Bonds INFL IX N/B, 2% due on 01/15/2026	233,913	228,865
US Treasury Bonds, 3.5% due on 02/15/2039	<u>2,188,754</u>	<u>2,218,760</u>
Total U.S. Treasury - Account # 135074870	<u>8,337,256</u>	<u>8,316,283</u>
Federal Home Loan Bank Unsecured, .875% due on 06/29/2018	976,797	972,280
Federal Home Loan Bank Unsecured, 1.25% due on 10/02/2019	829,934	820,273
Federal Home Loan Bank Unsecured, 2.625% due on 12/10/2021	216,389	216,105
Federal Home Loan Mortgage Corp Gold Pool #813067 4.5% due on 08/01/2019	2,482	2,676
Federal Home Loan Mortgage Corp Gold Pool #A36664, 5% due on 8/01/2035	6,367	7,388
Federal Home Loan Mortgage Corp Gold Pool #A36685, 5% due on 8/01/2035	2,687	3,118
Federal Home Loan Mortgage Corp Gold Pool #A55326, 6% due on 12/01/2036	4,654	5,175
Federal Home Loan Mortgage Corp Gold Pool #A60299, 6.5% due on 5/01/2037	5,472	5,944
Federal Home Loan Mortgage Corp Gold Pool #G08046, 5.5% due on 3/01/2035	20,300	23,660
Federal Home Loan Mortgage Corp Gold Pool #G12121, 5.5% due on 4/01/2021	5,690	6,004
Federal Home Loan Mortgage Corp Gold Pool #H00452, 5.5% due on 1/01/2037	12,867	14,012
Federal Home Loan Mortgage Corp Pool #1G1406 ARM, 3.481% due on 12/01/2036	4,342	4,333
Federal Home Loan Mortgage Corp Pool #781958, 2.77% due on 9/01/2034	5,256	5,646
Federal Home Loan Mortgage Corp Pool #A37876, 5% due on 9/01/2035	43,054	45,083
Federal Home Loan Mortgage Corp Pool #A49906, 5% due on 6/01/2036	16,215	17,850
Federal Home Loan Mortgage Corp Pool #A61533, 5% due on 6/01/2036	5,918	6,230
Federal Home Loan Mortgage Corp Pool #A88454, 4.5% due on 9/01/2039	70,482	72,767
Federal Home Loan Mortgage Corp Pool #C01567, 5% due on 5/01/2033	55,605	59,458
Federal Home Loan Mortgage Corp Pool #C76358, 5% due on 2/01/2033	11,916	12,686
Federal Home Loan Mortgage Corp Pool #G01938, 5.5% due on 9/01/2035	15,589	16,361
Federal Home Loan Mortgage Corp Pool #G01960, 5% due on 12/01/2035	21,094	22,059
Federal Home Loan Mortgage Corp Unsecured Step-Up, 1% due on 6/30/2021-2016	824,292	817,080
Federal Home Loan Mortgage Corp Unsecured Step-Up, 1.25% due on 9/30/2022-2017	349,759	344,992
Federal National Mortgage Association Notes, 4% due on 4/22/2019-2010	35,000	36,323
Federal National Mortgage Association Unsecured, 1.625% due on 11/27/2018	449,958	450,585
Federal National Mortgage Association Unsecured, 1.6% due on 07/24/2019-2013	200,279	199,932
Federal National Mortgage Association Pool #255670, 5% due on 4/01/2035	8,794	10,227
Federal National Mortgage Association Pool #725205, 5% due on 3/01/2034	3,224	3,800
Federal National Mortgage Association Pool #735227, 5.5% due on 2/01/2035	11,503	13,267
Federal National Mortgage Association Pool #735228, 5.5% due on 2/01/2035	26,860	31,139
Federal National Mortgage Association Pool #735502, 6% due on 4/01/2035	10,856	12,461
Federal National Mortgage Association Pool #735733, 4.5% due on 10/01/2033	23,176	26,770
Federal National Mortgage Association Pool #735897, 5.5% due on 10/01/2035	21,801	24,578
Federal National Mortgage Association Pool #739821, 5% due on 9/01/2033	16,277	17,361
Federal National Mortgage Association Pool #745089, 6% due on 12/01/2035	10,652	12,371
Federal National Mortgage Association Pool #794474, 6% due on 10/01/2034	44,752	50,689
Federal National Mortgage Association Pool #796274, 5.5% due on 12/01/2034	77,850	88,283
Federal National Mortgage Association Pool #810225, 6% due on 1/01/2035	59,944	67,896
Federal National Mortgage Association Pool #814915, 5.5% due on 3/01/2035	47,437	50,420
Federal National Mortgage Association Pool #826966, 5.5% due on 6/01/2035	4,217	4,517
Federal National Mortgage Association Pool #828856, 5.5% due on 10/01/2035	22,335	26,103
Federal National Mortgage Association Pool #867452, 6.5% due on 6/01/2036	10,960	12,443
Federal National Mortgage Association Pool #868936, 6% due on 5/01/2036	76,373	79,280

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2017

	Cost	Fair Value
<u>U.S. Government Obligations, Continued</u>		
Federal National Mortgage Association Pool #882694, 6.5% due on 6/01/2036	10,178	11,441
Federal National Mortgage Association Pool #903749, 6% due on 10/01/2036	3,292	3,677
Federal National Mortgage Association Pool #904915, 5.5% due on 12/01/2036	2,308	2,453
Federal National Mortgage Association Pool #905678, 5.5% due on 12/01/2036	21,212	22,668
Federal National Mortgage Association Pool #910473, 3.405% due on 1/01/2037	8,645	8,707
Federal National Mortgage Association Pool #935636, 4.0% due on 9/01/2024	34,167	34,718
Federal National Mortgage Association Pool #AA3553, 5% due on 2/01/2039	3,313	3,501
GNMA Mortgage Pool CTFS Pool #701940, 4.5% due on 6/15/2039	239,837	252,369
Government National Mtg Corp Pool #648503, 5.5% due on 11/15/2035	10,919	12,685
Government National Mortgage Association Pool #737442, 4% due on 9/15/2040	204,694	209,546
Overseas Private Inv Corp Disc due on 06/21/2018	625,000	625,000
Private Export Funding Secured, 2.8% due on 5/15/2022	503,799	517,795
Tennessee Valley Auth Unsecured, 1.875% due on 8/15/2022	194,883	193,972
Tennessee Valley Auth SR Unsecured, 3.5% due on 12/15/2042	778,531	733,222
Freddie Mac Unsecured Step-up 1.625% Due On 09/29/2022-2018	249,850	248,745
	<u>7,560,037</u>	<u>7,600,124</u>
Total U.S. Government Agencies - Account # 135074870		
California St Dept of Wtr Resources Pwr Sply Revenue Txbl-Ref-Ser P, 2% due on 05/01/2022	104,999	103,603
Hawaii St Dept Business Econ Dev & Tourism Green Energy Txbl-Green Bonds Ser A-1 Variable Sink, 1.467% due on 7/01/2022	199,958	207,374
Hawaii St Hsg Fin & Dev Corp Sf Mtge Purchase Revenue Txbl-FNMA MBS Pass-Thru Program-Ser A, 2.6% due on 7/01/2037	117,826	115,636
Hawaii St Arpts Sys Customer Fac Charge Revenue Txbl-ser A 2.09% due On 07/01/2020	230,000	230,628
Honolulu City & Cnty Wastewtr Sys Rev Build America Bonds, 4.643% due on 7/01/2022-2020	25,000	26,500
Honolulu City & Cnty Wastewtr Sys Rev Build America Bonds Taxable-First Bd-Ser B Issuer Subsi, 6.114% due on 7/01/2029-2019	110,000	117,700
Pennsylvania St Turnpike Commission Spl Oblig Txbl-Ref (Escrowed to Maturity), 3.029% due on 12/01/2024	158,753	153,618
Univ of Hawaii Revenue Txbl-Ref-Medical School Project-Ser D, 1.819% due on 10/01/2018-2015	200,000	200,494
Utility Debt Securitization Auth NY Txbl-Restructuring-Ser T, 2.042% due on 6/15/2021-2019	158,999	158,806
	<u>1,305,535</u>	<u>1,314,359</u>
Total U.S. Municipal Obligations - Account # 135074870		
Total U.S. Government Obligations	<u>\$ 17,202,828</u>	<u>\$ 17,230,766</u>
<u>Corporate Bonds</u>		
Amer Airline 16-1 AA Ptt 1st Lien-Etc, 3.575% due on 01/15/2028	\$ 286,192	\$ 294,042
American Honda Finance SR Unsecured Floating Rate, 1.7635% due on 7/13/2018	289,795	290,951
Analog Devices SR Unsecured, 3.9% due on 12/15/2025-2025	99,799	104,826
Apache Finance Canada Company Guarnt, 7.75% due on 12/15/2029	177,391	196,079
Apple Inc SR Unsecured, 2.4% due on 5/03/2023	185,422	184,649
Autozone Inc SR Unsecured, 3.7% due on 4/15/2022-2022	127,656	130,186
Bank Of America Corp Sr Unsecured Frn 1.96722% Due On 07/21/2021-2020	200,178	200,472
Berkshire Hathaway Inc SR Unsecured, 3% due on 2/11/2023	174,119	180,105
Burlington Resources Fin Company Guarnt, 7.4% due on 12/01/2031	328,460	339,003
CA Inc SR Unsecured, 3.6% due on 08/15/2022-2022	128,053	128,123
Charles Schwab Corp SR Unsecured, 1.5% due on 3/10/2018-2018	104,978	105,035
Chevron Corp SR Unsecured, 2.355% due on 12/05/2022-2022	100,000	100,128
Chevron Corp Unsecured, 2.193% due on 11/15/2019	100,000	100,941
Citigroup Inc Sr Unsecured 2.45% Due On 01/10/2020-2019	104,965	105,834
Comcast Corp Sr Unsecured 3% Due On 02/01/2024	99,823	101,542
Consumers Energy Corporation Secured, 2.85% due on 05/15/2022-2022	213,866	209,106
CVS/Caremark Corp SR Unsecured, 2.75% due on 12/01/2022-2022	149,879	150,345
Disney (Walt) Company SR Unsecured Floating, 1.62778% due on 5/30/2019	200,000	201,020
Disney (wal N Company Unsecured 2.95% Due On 06/15/2027	109,592	109,915
Dte Energy Company Senior Notes 6.375% Due On 04/15/2033	189,900	190,770
Duke Energy Florida Llc Secured 3.2% Due On 01/15/2027-2026	214,877	217,399
Ebay Inc SR Unsecured, 3.25% due on 10/15/2020	362,626	370,465
Entergy Texas Inc Secured, 5.15% due on 6/01/2045-2025	248,808	259,835
European Investment Bank SR Unsecured, 2.375% due on 06/15/2022	254,750	253,488
FedEx Corporation SR Unsecured, 2.3% due on 2/01/2020	119,890	121,058

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2017

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
Goldman Sachs Group Inc SR Unsecured, 3.85% due on 7/08/2024-2024	248,741	254,920
Golondrina Leasing LLC Sink Fd Gtd Export Import Bank of USA, 1.822% due on 5/03/2025	149,368	147,738
Intel Corp SR Unsecured, 3.3% due on 10/01/2021	303,646	314,094
Inter-American Devel Bank Notes, 6.75% due on 7/15/2027	128,383	131,772
Intercontinental Exchange, Inc. Sr Unsecured 3.75% Due On 12/01 /2025-2025	161,180	157,218
Invesco Finance PLC SR Unsecured, 4% due on 1/30/2024	149,259	159,200
Johnson & Johnson SR Unsecured, 4.375% due on 12/05/2033-2033	594,373	607,279
Jp Morgan Chase & Co Sr Unsecured 2.295% Due On 08/15/2021-2020	125,120	124,905
Kaiser Foundation Hospital Sr Unsecured 3.15% Due On 05/01/2027-2027	199,270	201,310
KFW Unsecured, 1.75% due on 10/15/2019	299,608	300,540
Kimberly Clark Corp SR Unsecured, 2.65% due on 03/01/2025	124,720	122,867
Landesbank Baden-Wurttemberg Subordinated, 7.625% due on 2/01/2023	452,489	452,803
Lincoln Natl Corp SR Unsecured, 7% due on 06/15/2040	475,331	467,722
Microsoft Corp SR Unsecured, 2% due on 11/03/2020-2020	99,943	100,571
Microsoft Corp SR Unsecured, 3.625% due on 12/15/2023	104,644	111,807
Microsoft Corp SR Unsecured, 4.75% due on 11/03/2055-2055	238,736	237,194
Morgan Stanley SR Unsecured, 7.3% due on 5/13/2019	149,899	162,373
Morgan Stanley SR Unsecured Floating Rate, 2.10911% due on 02/14/2020-2019	100,000	100,509
NA Development Bank SR Unsecured, 2.3% due on 10/10/2018	131,053	130,773
Northeast Utilities SR Unsecured, 3.15% due on 01/15/2025-2024	290,268	296,903
Novartis Capital Corp SR Unsecured, 3.4% due on 5/06/2024	99,483	104,757
Oracle Corp SR Unsecured, 4% due on 07/15/2046-2046	329,623	331,107
Pharmacia Corporation Debentures 6.75% Due On 12/15/2027	143,314	159,264
Pepsico Inc SR Unsecured, 2.75% due on 4/30/2025-2025	124,572	125,077
Private Export Funding Secured, 2.25% due on 3/15/2020	302,688	303,855
Private Export Funding Secured, 3.25% due on 6/15/2025	285,892	278,499
Procter & Gamble Co SR Unsecured, 1.9% due on 11/01/2019	199,845	201,068
Queens Health Systems Secured, 4.464% due on 7/01/2045	125,000	126,704
Ross Stores Inc Sr Unsecured 3.375% Due On 09/15/2024-2024	99,948	101,564
Shell International SR Unsecured, 2.375% due on 8/21/2022	99,778	100,279
Shell International SR Unsecured, 4% due on 5/10/2046	98,223	101,139
Small Bus Admin Ser 2016-20I CL I, 2.03% due on 09/01/2036	262,000	251,478
Southern Power Co SR Unsecured, 1.85% due on 12/01/2017	74,989	75,029
Total Capital Inti. Sa Sr Unsecured 3.75% Due On 04/10/2024	373,207	385,327
Toronto-Dominion Bank SR Unsecured, 2.125% due on 7/02/2019	74,962	75,380
Toronto-Dominion Bank SR Unsecured, 1.73122% due on 11/05/2019	160,261	161,013
Toyota Motor Credit Corp SR Unsecured, 1.56361% due on 04/17/2020	125,000	125,375
Toyota Motor Credit Corp SR Unsecured, 2.8% due on 7/13/2022	104,811	107,077
Toyota Motor Credit Corp. SR Unsecured Step-Up, 1.25% due on 4/26/2019-2018	149,843	149,700
Union Pacific Corp SR Unsecured, 3.375% due on 2/01/2035-2034	104,710	104,190
US Bancorp Subordinated, 3.1% due on 04/27/2026-2026	100,933	99,533
Wal-Mart Stores Inc Senior Notes, 3.25% due on 10/25/2020	214,599	223,897
Wal-Mart Stores Inc SR Unsecured, 5.625% due on 4/01/2040	356,167	353,708
Wells Fargo Company SR Unsecured Floating Rate, 2.40178% due on 10/31 /2023-2022	200,440	204,594
World Bank (ibrd) Sr Unsecured 1.875% Due On 04/21/2020	645,824	642,394
	<u>\$ 13,953,162</u>	<u>\$ 14,119,823</u>
<u>Corporate Stock</u>		
AT&T Inc	\$ 152,437	\$ 211,518
Abbott Laboratories	85,491	176,088
Adobe Systems Inc	110,088	216,311
Alphabet Inc CL A	75,871	194,744
Amgen Inc	99,075	167,805
Broadcom Lid.	196,473	218,286
Celgene Corp	34,494	174,984
Chevron Corp	104,282	152,750
Chubb Ltd	110,573	142,550
Danaher Corp	77,250	214,450
Delphi Automotive Plc	211,609	206,640
Disney Walt Co	124,935	187,283
Dominion Energy Inc/VA	120,133	200,018
Dowdupont Inc	87,786	235,382

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2017

	<u>Cost</u>	<u>Fair Value</u>
<u>Corporate Stocks, Continued</u>		
Duke Energy Corp	184,931	209,800
EOG Resources Inc	137,661	140,273
Exxon Mobil Corp	115,394	139,366
Facebook Inc CL A	173,457	239,218
Fedex Corporation	93,432	248,138
Intercontinental Exchange, Inc.	162,024	233,580
Johnson Controls International PLC	225,875	191,861
Johnson & Johnson	115,605	143,011
Kraft Heinz Co	204,786	178,365
Lowe's Cos Inc	179,742	191,856
Merck & Co Inc	120,666	204,896
Microsoft Corp	72,667	223,470
Mondelez International Inc	195,305	178,904
Oracle Corp	121,066	227,245
PPL Corporation	136,802	201,135
Pfizer Inc	122,836	232,050
Philip Morris International	153,728	199,818
Starbucks Corp	126,475	177,243
Thermo Fisher Scientific Inc	36,556	151,360
Unitedhealth Group Inc	129,622	235,020
Visa Inc CL A Shares	92,956	231,528
	<u>\$ 4,492,083</u>	<u>\$ 6,876,946</u>
<u>Mutual Funds</u>		
Wilshire Solutions Trust Non US Equity Fund	\$ 1,987,635	\$ 2,302,881
Wilshire Solutions Fixed Income Master Trust Fund	3,370,394	3,593,159
Wilshire Solutions Trust Credit Opportunities Fund	1,053,221	1,155,849
Wilshire Solutions Real Assets Master Trust Fund	902,445	895,635
Wilshire Solutions Trust US Equity Fund	3,032,469	3,507,463
Wilshire Solutions Trust Cash (Stif Vehicle)	711	711
	<u>10,346,875</u>	<u>11,455,698</u>
Subtotal - Account # WTHF 9004-0002		
Wilshire Solutions Real Assets Master Trust Fund	4,015,529	4,068,565
Wilshire Solutions Trust Credit Opportunities Fund	9,302,097	9,718,050
Wilshire Solutions Trust Non US Equity Fund	18,823,766	21,242,630
Wilshire Solutions Trust US Equity Fund	18,773,804	22,712,821
Wilshire Solutions Trust Cash (Stif Vehicle)	224	224
	<u>50,915,420</u>	<u>57,742,290</u>
Subtotal - Account # WTHF 9003-0002		
Harvest MLP Income Fund III, LLC - Account # 140388851	<u>2,500,000</u>	<u>2,546,798</u>
Total Mutual Funds	<u>\$ 63,762,295</u>	<u>\$ 71,744,786</u>

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