

*Financial Statements, Required Supplementary
Information, Supplementary and Other Information,
and Report on Internal Control and Compliance*

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

*Years ended September 30, 2023 and 2022
with Report of Independent Auditors*



**Shape the future
with confidence**

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Financial Statements, Required Supplementary
Information, Supplementary and Other Information, and
Report on Internal Control and Compliance

Years ended September 30, 2023 and 2022

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Report of Independent Auditors

Board of Trustees
Republic of Palau Social Security Administration

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the fiduciary activities of Republic of Palau Social Security Administration (ROPSSA), a component unit of the Republic of Palau, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise ROPSSA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary activities of ROPSSA as of September 30, 2023 and 2022, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ROPSSA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ROPSSA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ROPSSA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ROPSSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 18 as well as the Schedule of Proportional Share of the Net Pension Liability on page 47 and the Schedule of Pension Contributions on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise ROPSSA's basic financial statements. The Combining Statements of Fiduciary Net Position, Combining Statements of Changes in Fiduciary Net Position, and the Schedule of Administrative Deductions as of and for the years ended September 30, 2023 and 2022 on pages 49 through 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, this supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

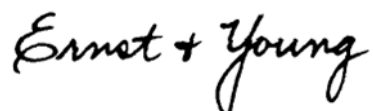
Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the Schedule of Investments on pages 54 through 56 but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2026, on our consideration of ROPSSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ROPSSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ROPSSA's internal control over financial reporting and compliance.

The logo for Ernst + Young, featuring the company name in a black, cursive script font.

April 7, 2026



Republic of Palau
SOCIAL SECURITY ADMINISTRATION

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Management's Discussion and Analysis

Years ended September 30, 2023 and 2022

This Management's Discussion and Analysis (MD&A) of the Republic of Palau Social Security Administration's ("ROPSSA" or "the Administration") financial performance and condition for the fiscal year ended September 30, 2023, with comparative information for 2022 and 2021, is to provide the readers with management's view as to what is critical to an understanding of the Administration's historical performance and its prospects. It is intended to be read in conjunction with the independent auditors report as provided herein.

Organization

ROPSSA 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. ROPSSA was created on May 28, 1987 by Republic of Palau Public Law (RPPL) 2-29 as codified in Title 41 of the Palau National Code Annotated (PNCA), as amended by 3-64, 4-49, 5-34, 6-13, 7-32, 8-5, 8-14, 9-11, 9-12, 9-35, 9-46, 9-55, 9-57, 9-62, 10-1, 10-3, 10-7, 10-8, 10-12, 10-21, 10-22, 10-29, 10-42, 10-44, 10-53, and 10-56. The Board of Trustees of ROPSSA is incorporated under the *Social Security Act of 1987* (the Act) to administer ROPSSA as an agency of the Republic of Palau (ROP).

The main role of the Board of Trustees is to administer the ROP Social Security Retirement Fund ("the Retirement Fund") 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 Retirement 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 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. ROPSSA's Board of Trustees appoints the Administrator to serve as the Healthcare Fund ("HCF" or "the Healthcare Fund") Administrator who is responsible for administration of the Medical Savings Account (MSA) and the National Health Insurance (NHI) subject to the supervision and oversight of the HCF Governing Committee.

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Management’s Discussion and Analysis, continued

ROPSSA Board of Trustees

The ROP President 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 ROPSSA under the guidance of the Board. The Administrator serves as an ex-officio member of the Board. The Board of Trustees elects its own officers to the posts of Chairman, Vice Chairman and Secretary/Treasurer to serve for the duration of their term.

The Board held an election of new officers several times during the year and at the end of fiscal year 2023, the ROPSSA Board of Trustee members were as follows:

Board Member	Officers/Title	Appointed	Expiration
Mr. Hefflin Bai	Chairman	08/01/23	08/01/27
Mr. Satoru W. Adachi	Vice - Chairman	04/06/21	04/06/25
Mr. Terrence Ruloked	Secretary/Treasurer	04/06/21	04/06/25
Mrs. Evalista N. Kyota	Member	01/04/22	01/04/26
Ms. Darla J. Babauta	Member	08/01/23	08/01/27

HCF Governing Committee

The Healthcare Fund (HCF) Governing Committee, established under the National Healthcare Financing Act (NHFA), is responsible for managing the financing and delivery of comprehensive healthcare coverage in Palau. It also has the authority to create laws, policies, rules, and regulations necessary to carry out the NHFA.

As mandated by the NHFA, members of the HCF Governing Committee are appointed based on their official positions. The Minister of Finance, the Minister of Health, and the Administrator of the Social Security Administration automatically serve as members by virtue of their roles. Additionally, the Committee includes a representative from the Governor’s Association and a representative from the Chamber of Commerce.

As of September 30, 2023, members of the HCF Governing Committee 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 Kaleb Udui Jr., Vice Chairman	Ministry of Finance
Governor Mary F. Remengesau, Secretary/Treasurer	Governors Association
Minister Gaafar Uherbelau, Member	Ministry of Health & Human Services
Clinton O. Ngemaes, Member	Social Security Administration

Republic of Palau Social Security Administration
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Management's Discussion and Analysis, continued

Human Resources

The Administration's policies and strategies are implemented through the Administrator and a management team. The Administration is organized into five functional areas: Information Systems, Finance and Accounting, Employer Services, Member Services and Healthcare Fund Services. The total workforce of ROPSSA is thirty-five, including the Administrator. Employee turnover was 9% during fiscal years 2023 and 2022, and there were three vacancies that remained unfilled at the end of fiscal year 2023.

Contributions

Retirement Fund:

All employees and employers working and domiciled in Palau contribute 7% of remuneration to the Retirement Fund. The contribution rate of 7% took effect on October 1, 2017, increasing from a contribution rate of 6%, which had been in effect since October 1, 2001. Prior to 2001, the rate of contribution increased consistently by 1% every 5 years. The rate increase was prompted by a legislative increase of \$50 per month as supplemental benefit payments to all Retirement Fund beneficiaries. The self-employed rate also increased from 12% to 14%. The minimum remuneration has not changed and remains at \$300 per quarter. There is no maximum remuneration since October 1, 2017. A self-employed individual with an employee shall receive as remuneration in any quarter, twice the amount paid to the highest paid employee in that quarter. A self-employed individual without an employee shall receive in any quarter as remuneration, 10% of his gross revenue in the current calendar year. RPPL 9-35 enacted in August 2014 amended the law to require the self-employed to declare actual salary for filing remuneration on a quarterly basis instead of annually. A self-employed individual without an employee is further exempted from contributions if he or she has reached the retirement age of 60.

Contributions to the Retirement Fund are remitted to ROPSSA on a quarterly basis. Special consideration is for the ROP National Government who remit contributions on a bi-weekly basis while some large businesses with fifteen or more employees are encouraged to file and pay contributions monthly.

Funding is mainly derived from contributions, enabling the Retirement Fund to meet monthly benefit payments and operation costs. Any excess funds available are invested in the Retirement Fund's asset portfolio. There were no excess funds available to invest in 2023 as benefit payouts exceeded contributions.

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis, continued

Contributions, continued

Healthcare Fund:

All employees and employers working and domiciled in Palau contribute a total of 5% of remuneration to the Healthcare Fund. 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 ROPSSA in May 2010 and contributions began on October 1, 2010. On April 1, 2011, after two quarters of contributions, benefits under the NHI commenced. There has been no change of Healthcare Fund contribution rates since inception. There has been gradual growth of membership due to active public awareness program, growth of employment and the private sector.

The initial Healthcare Fund Regulations went through a first-time revision in 2018 as part of the efforts to gradually reform and improve services. There were new MOU's established between Palau Health Insurance (PHI) and providers in Manila and Taiwan for better medical care options. In 2019, the Administration hired a utilization reviewer in Taiwan to effectively negotiate ease of access to each provider, review scope of treatment and validate claims submitted for payment. On November 1, 2023, a Medical Utilization Review and Payment Service Agreement was signed between the Healthcare Fund and Calvo's Insurance Underwriters to act as a utilization reviewer in Manila. The Healthcare Fund office, which moved in February 2020 to the Ngarachamayong Cultural Center, relocated to the new Healthcare Fund building on November 16, 2020. The new office building is in the center of Koror State and was constructed at a cost of \$419,000. The building is accessible to Healthcare Fund members as well as the Retirement Fund office.

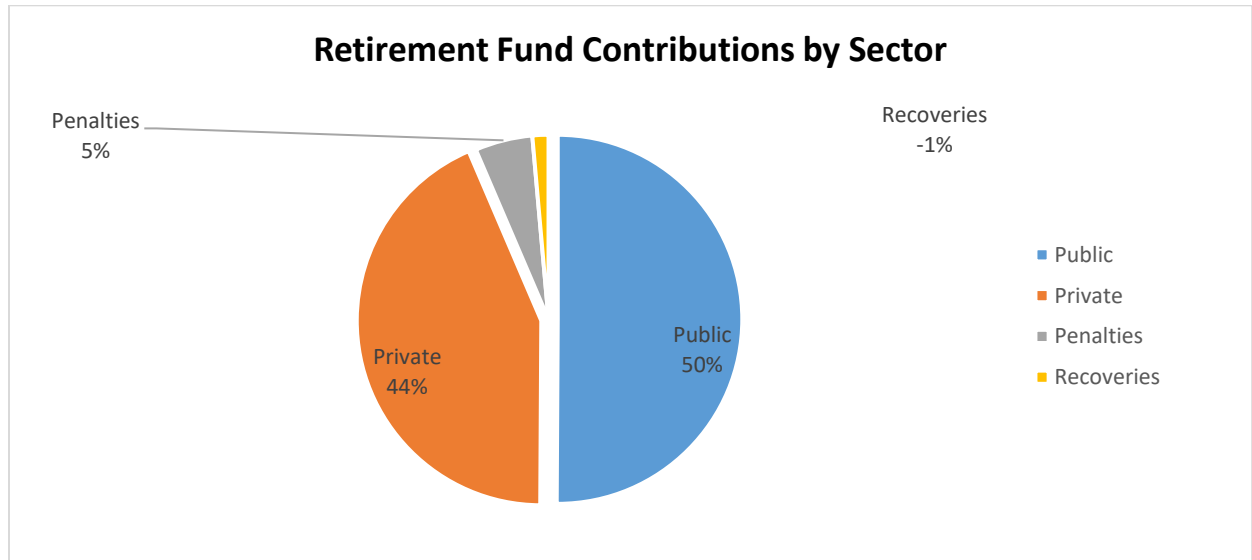
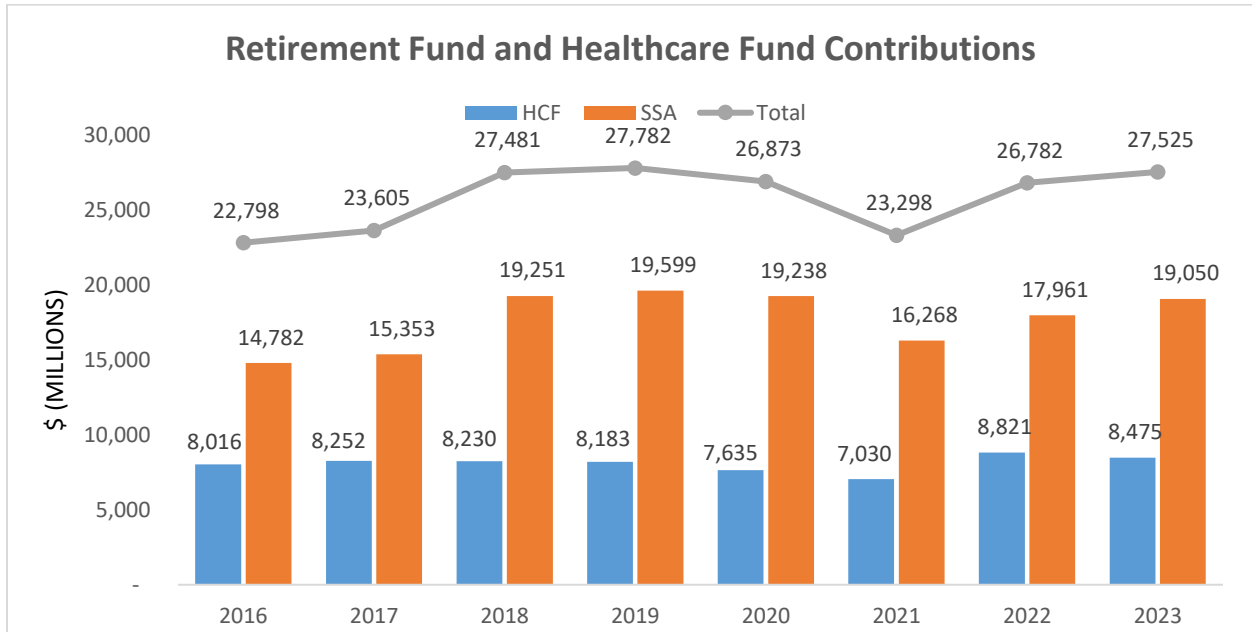
As of September 30, 2023, total members under the NHI were 15,333 versus 15,232 in 2022, while MSA members were 21,045 versus 18,148 in 2022. The remaining 14% uninsured under the NHI are mainly persons below the age of 59 and unemployed, persons who are no longer a dependent child and not enrolled under the voluntary program. Voluntary participation carries a quarterly premium of \$41.

Contributions to the Retirement Fund and Healthcare Fund in fiscal years 2023 and 2022 were \$26,809,494 and \$25,286,949, respectively. Contributions increased by 9% from the prior year due to positive impact after covid-19 on the positive economic recovery. Of total contributions, 67% represents contributions to the Retirement Fund and 33% represents contributions to the Healthcare Fund.

Republic of Palau Social Security Administration
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Management's Discussion and Analysis, continued

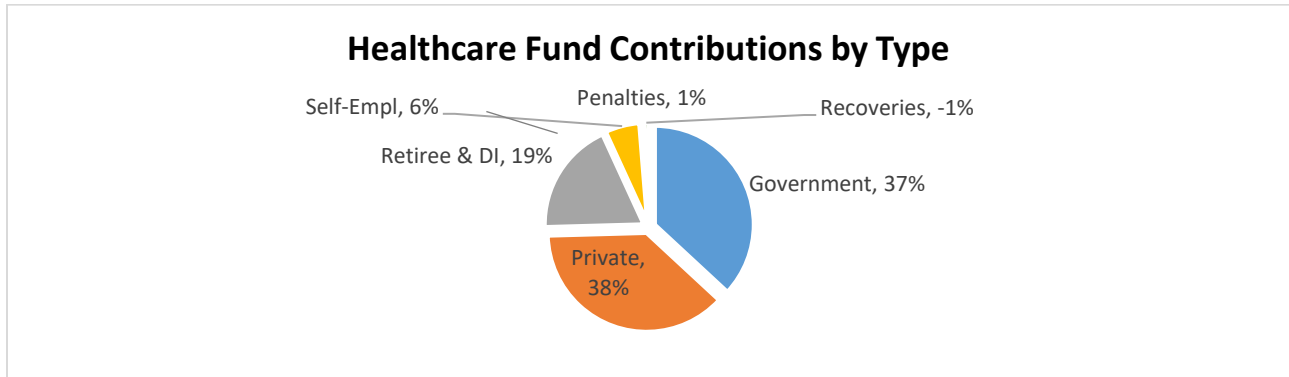
Contributions, continued



Republic of Palau Social Security Administration
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Management’s Discussion and Analysis, continued

Contributions, continued



Employer Services

Total active employers as of calendar year 2023 were 2,796 versus 2,545 in 2022. The Administration experienced challenges of tracking licensed businesses in 2018 and 2019 during which the ROP Bureau of Revenue and Taxation (BRT) issued licenses without consistent clearance of ROPSSA EINs. Prior to 2018, renewal of ROPSSA EINs expired on January 31 of each year. The closure of business EINs outside of the renewal period allows the Administration and BRT to reconcile the number of active businesses and to ensure that all employers file with ROPSSA. Beginning November 2020, ROPSSA resumed the issue of EINs before BRT’s licensing which allows the agencies to match the number of active businesses and strengthen monitoring and collection of unpaid taxes. Another notable growth factor of EIN issuance is the implementation of the new tax system in January 2023 or the implementation of PGST registration of employers. Additionally, the “Makit” industry business owners now required to register their businesses in align with SS EIN issuance.

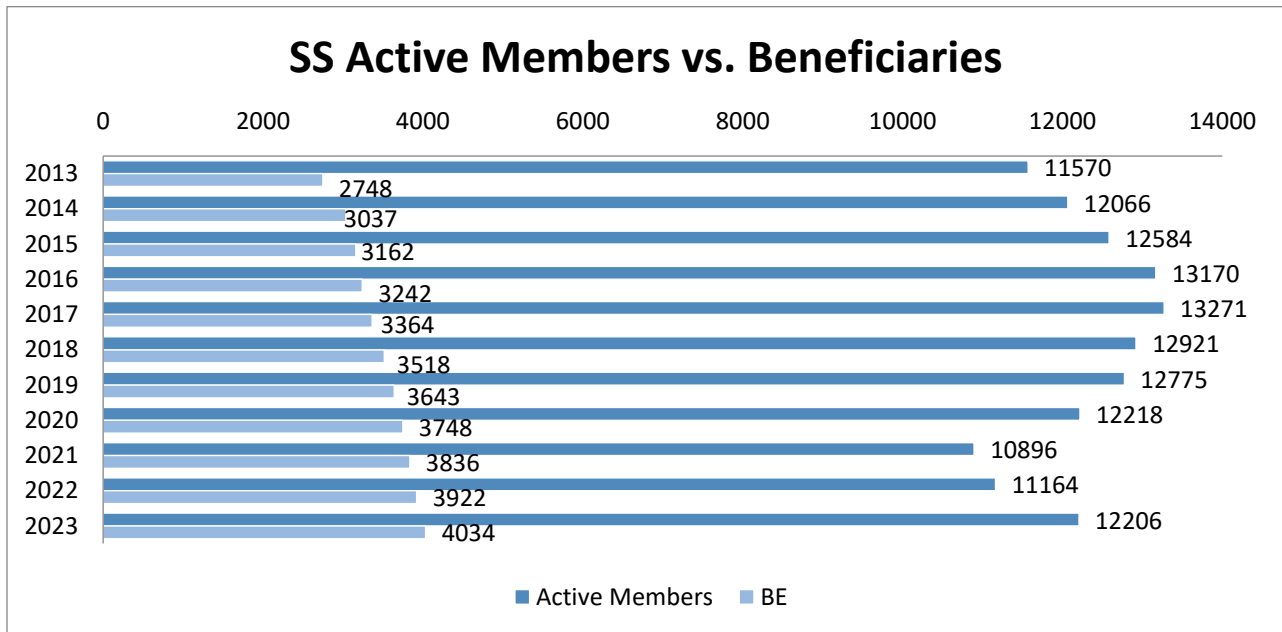
Member Services

Total active Retirement Fund members as of fiscal year 2023 were 12,206 versus 11,164 in 2022, an increase of 1,042 from last year, which is due to the increase of retirement right on the onset date. In hindsight, the growth of Retirement Fund beneficiaries has increased to 9% a year, ever since 2013 when dual benefits became effective and the number of baby boomers retiring continue to increase. Total Retirement Fund beneficiaries at fiscal year 2023 were 4,034 versus 3,922 in 2022.

Republic of Palau Social Security Administration
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Management’s Discussion and Analysis, continued

Member Services, continued



Retirement Fund Benefit Payments

The types of benefits provided under the Retirement 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 of the basic monthly benefit 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.

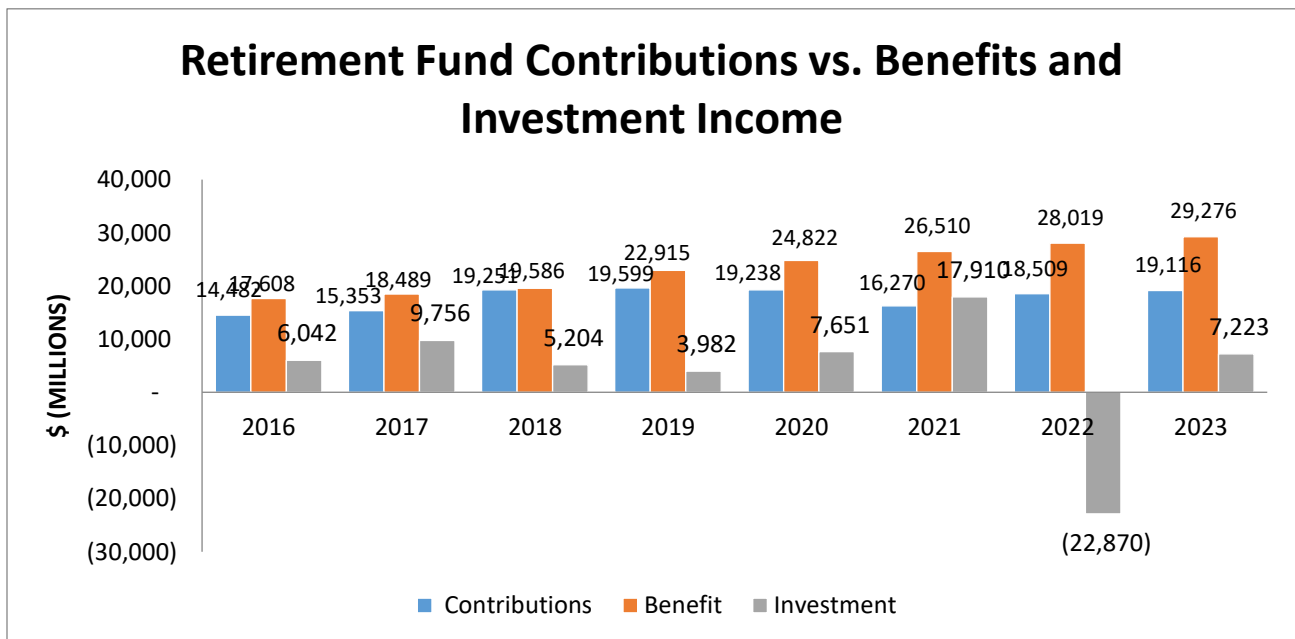
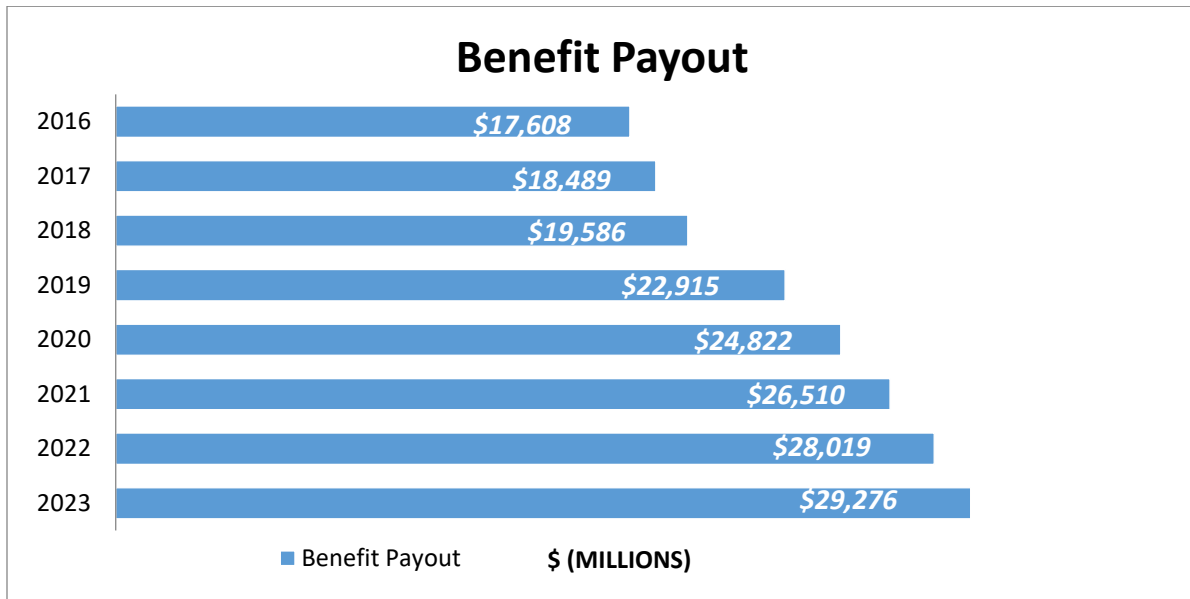
The surviving child insurance benefits are for surviving children 18 years or younger and surviving children over 18 years and up to 22 years if a full-time student, subject to 15% of the deceased’s basic benefit insurance. Disability insurance benefits are for persons who are disabled and are fully 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.

Republic of Palau Social Security Administration
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Management’s Discussion and Analysis, continued

Retirement Fund Benefit Payments, continued

The supplemental benefit is an additional \$50 benefit outside of the Retirement Fund benefit payment formula that was created and funded by the ROP National Government under RPPL 9-46 beginning in fiscal year 2016 to present. Funding of the supplemental benefit payment from the ROP National Government in 2023 was \$1,200,000 versus \$1,955,000 in 2022. The Retirement Fund continues to be challenged in disbursing benefits due to the current level of contributions. Performance of benefit payout is illustrated in the graph below.



Republic of Palau Social Security Administration
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Management's Discussion and Analysis, continued

Healthcare Fund Benefit Payments

MSA beneficiaries are designated individuals with access to funds from an individual's MSA account. You may enroll your MSA beneficiaries at the ROPSSA Office by providing the Social Security Numbers of all beneficiaries upon enrollment.

Family dependents of insured workers/employees (including non-working spouse and children under the age of 18) are covered as beneficiaries of the insured person's MSA and by the NHI. For the disabled and the elderly (aged 60+), enrolment with the NHI is automatic with premiums paid from government subsidies based on the mean annual remuneration of all paying members.

The use of MSA funds is strictly regulated through the provisions of the PHCF act. Withdrawals of MSA balances are allowed only for the payment of medical expenses authorized by PHCF rules and regulations, and which are limited to the following:

- Expenses for outpatient (ambulatory) medical care sought on-island from authorized medical facilities, including expenses for doctor's fees, diagnostics services, pharmaceuticals, and medical devices and consumables;
- Expenses for pharmaceuticals purchased over the counter from authorized pharmacies or drug vendors if prescribed by an accredited medical practitioner;
- Premiums of private health insurance policies purchased by the account holder, his/her family dependents, and/or other designated beneficiaries;
- Expenses for co-payments due for in-patient care covered under the Palau Health Insurance scheme, including in-patient care sought at Belau National Hospital and off-island referrals;
- Expenses for dental care and prosthesis, reading glasses and contact lenses, and other medical devices prescribed by a doctor and purchased over-the counter from authorized vendors.

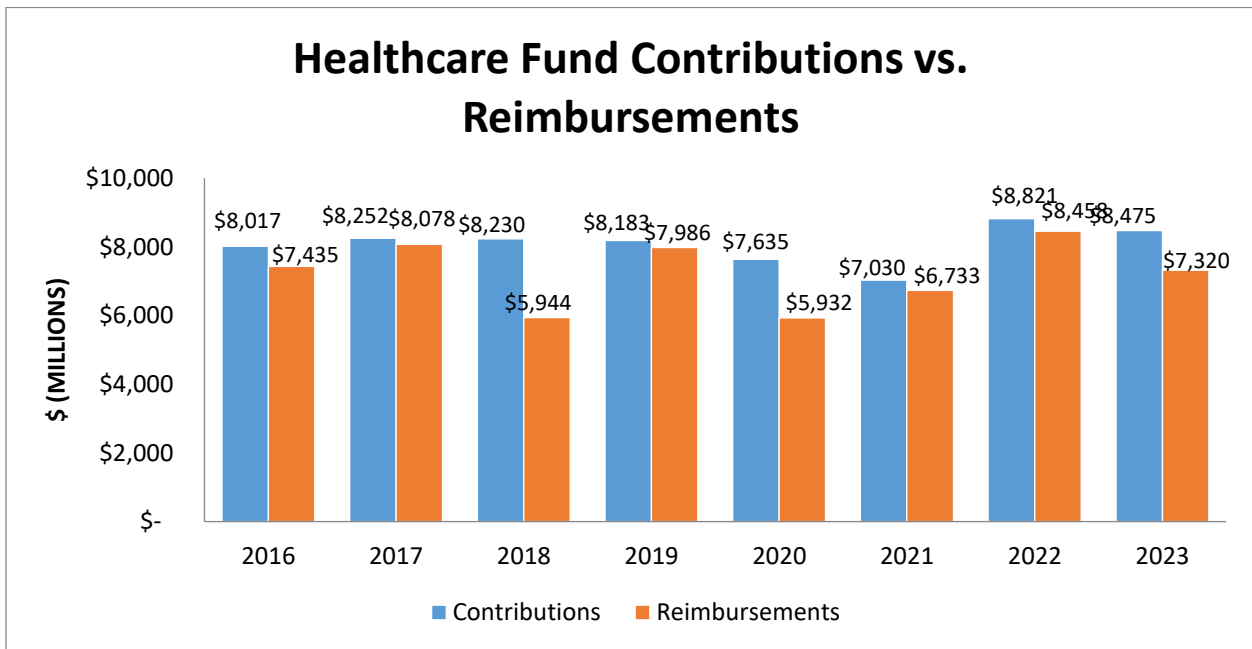
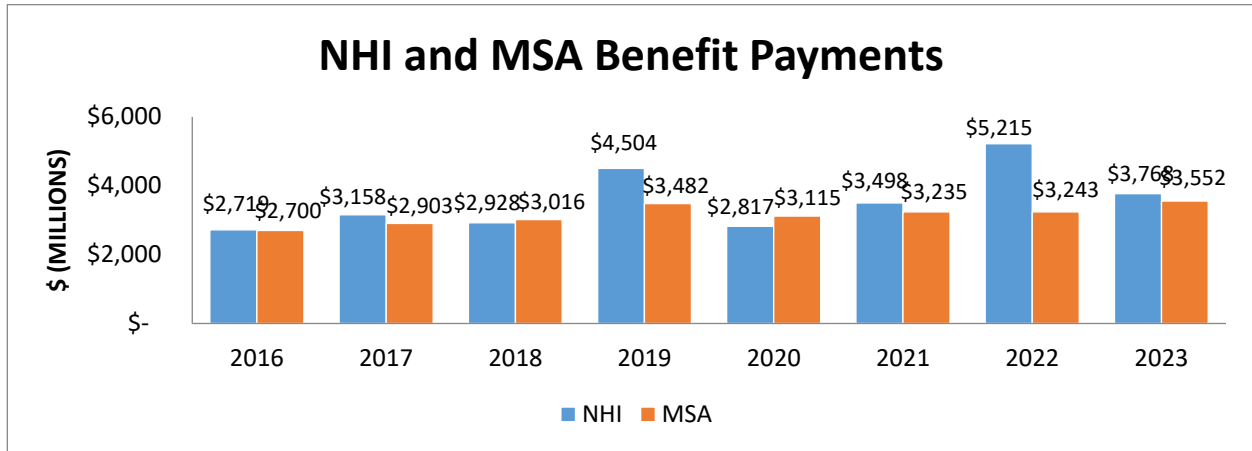
The NHI provides the following health services:

- Local Inpatient care at BNH (Belau National Hospital)
- Off-Island Medical Treatment
- Medical transportation for approved Off-Island Referrals
- Preventive Care Services such as annual exams both in Palau and at an approved Off-Island medical care provider

Republic of Palau Social Security Administration
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Management's Discussion and Analysis, continued

Healthcare Fund Benefit Payments, continued



Republic of Palau Social Security Administration
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Management's Discussion and Analysis, continued

Statement of Fiduciary Net Position

The statement of fiduciary net position presents the assets, deferred outflows, liabilities, deferred inflows, and fiduciary net position as of the end of the fiscal year. The statement of fiduciary net position is a point of time financial statement. The purpose of the statement of fiduciary net position is to present to the readers of the financial statements a fiscal snapshot of the Administration. Significant statement of fiduciary net position items is discussed in the footnotes to the financial statements.

From the data presented, readers of the statement of fiduciary net position are able to determine the assets available to continue the Administration's operations. They also can determine how much the Administration owes vendors and other payables. Finally, the statement of fiduciary net position provides a picture of the fiduciary net position (assets and deferred outflows minus liabilities and deferred inflows), which is a useful indicator of whether the financial position of the Administration is improving or deteriorating.

The Management's Discussion and Analysis for the year ended September 30, 2022 is set forth in ROPSSA's report on the audit of financial statements, which is dated June 10, 2025. The Discussion and Analysis explains the major factors affecting change of the 2022 financial statements and can be reviewed at the Office of the Public Auditor's website at www.palauopa.org.

A summary of ROPSSA's Statements of Fiduciary Net Position as of September 30, 2023 compared with 2022 and 2021 is presented below:

Summary Statements of Fiduciary Net Position
As of September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Assets:					
Current and other assets	\$ 8,776,306	\$ 6,452,308	\$ 2,323,998	36.0%	\$ 8,745,821
Investments	100,213,182	104,239,555	(4,026,373)	(3.9)%	138,825,938
Total assets	108,989,488	110,691,863	(1,702,375)	(1.5)%	147,571,759
Deferred outflows of resources:					
Deferred outflows from pensions	754,002	801,158	(47,156)	(5.9)%	979,213
Liabilities:					
Current and other liabilities	6,180,827	5,526,110	654,717	11.8%	4,781,734
Deferred inflows of resources:					
Deferred inflows from pensions	1,265,990	833,551	432,439	51.9%	496,258
Net position:					
Held in trust for benefits	\$ 102,296,673	\$ 105,133,360	\$ (2,836,687)	(2.7)%	\$ 143,272,980

Republic of Palau Social Security Administration
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Management's Discussion and Analysis, continued

Statement of Fiduciary Net Position, continued

Total ROPSSA assets decreased by \$36,879,896 from 2021 to 2022 and decreased by \$1,702,375 from 2022 to 2023. Current and other assets decreased marginally by \$2,293,513 from 2021 to 2022 and increased by \$2,323,998 from 2022 to 2023 while investments decreased by \$34,586,383 from 2021 to 2022 and decreased by \$4,026,373 from 2022 to 2023. Total ROPSSA liabilities increased by \$744,376 from 2021 to 2022 and further increased by \$654,717 from 2022 to 2023. Total ROPSSA fiduciary net position decreased by \$38,139,620 from 2021 to 2022 and decreased by \$2,836,687 from 2022 to 2023.

Statement of Revenues, Expenses, and Changes in Fiduciary Net Position

Total fiduciary net position of ROPSSA is affected by the changes in both assets (and deferred outflows) and liabilities (and deferred inflows) resulting in a decrease in fiduciary net position of \$38,139,620 in 2022 and a decrease of \$2,836,687 in 2023.

Changes in total fiduciary net position as presented on the statement of fiduciary net position based on the activity presented in the statement of revenues, expenses, and changes in fiduciary net position. The purpose of the statement is to present the revenues received by ROPSSA and expenses incurred by ROPSSA.

A summary of ROPSSA's Statements of Revenues, Expenses and Changes in Fiduciary Net Position for the year ended September 30, 2023 compared with 2022 and 2021 is presented below:

Summary Statements of Revenues, Expenses and Changes in Fiduciary Net Position
Years Ended September 30

	2023	2022	\$ Change 2023-2022	% Change 2023-2022	2021
Additions:					
Contributions	\$ 26,809,494	\$ 25,286,949	\$ 1,522,545	6.0%	\$ 23,298,455
Investment income	8,445,827	(27,528,309)	35,974,136	(130.7)%	20,351,410
Other	2,467,064	2,589,242	(122,178)	(4.7)%	4,503,897
Total additions	<u>37,722,385</u>	<u>347,882</u>	<u>37,374,503</u>	10743.4%	<u>48,153,762</u>
Deductions:					
Benefits	38,443,378	36,466,128	1,977,250	5.4%	33,339,049
Administrative	2,115,694	2,021,374	94,320	4.7%	1,729,677
Total deductions	<u>40,559,072</u>	<u>38,487,502</u>	<u>2,071,570</u>	5.4%	<u>35,068,726</u>
Change in net position	<u>\$ (2,836,687)</u>	<u>\$ (38,139,620)</u>	<u>\$ 35,302,933</u>	(92.6)%	<u>\$ 13,085,036</u>

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Management’s Discussion and Analysis, continued

Statement of Revenues, Expenses, and Changes in Net Position, continued

Total ROPSSA additions significantly decreased by \$47,805,880 from 2021 to 2022 and significantly increased by \$37,374,503 from 2022 to 2023. Contributions increased by \$1,988,494 from 2021 to 2022 and increased by \$1,522,545 from 2022 to 2023. Investment income significantly decreased by \$47,879,719 from 2021 to 2022 and significantly increased by \$35,974,136 from 2022 to 2023. Other additions decreased by \$1,914,655 from 2021 to 2022 and decreased by \$122,178 from 2022 to 2023.

Total ROPSSA deductions increased by \$3,418,776 from 2021 to 2022 and increased by \$2,071,570 from 2022 to 2023. Benefit payments increased by \$3,127,079 from 2021 to 2022 and increased by \$1,977,250 from 2022 to 2023 while administrative expenses increased by \$291,697 from 2021 to 2022 and increased by \$94,320 from 2022 to 2023.

Actuarial Valuation

An actuarial valuation issued October 1, 2022 provides an assessment of the system’s accrued liabilities and determination of the Fund’s funded ratio. The unfunded liability increased by \$78,291,000 with funding ratio at 25% compared to 2018, because of the annual increase in the SSRF benefits of \$600 to each beneficiary, removal of the wage cap, inclusive of contribution rate increase to 7% for both employee and employer.

Year	Net Assets Available for Benefits	Accrued Liability (AAL)	Funded Ratio	Unfunded AAL
9/30/2022	\$ 89,797,000	\$ 362,545,000	25%	\$ 272,748,000
9/30/2018	\$ 106,583,000	\$ 301,040,000	35%	\$ 194,457,000
9/30/2017	\$ 102,483,000	\$ 277,717,000	37%	\$ 175,234,000
9/30/2015	\$ 90,777,000	\$ 267,772,000	34%	\$ 176,995,000
9/30/2014	\$ 98,040,000	\$ 240,492,000	41%	\$ 142,452,000
9/30/2013	\$ 93,182,000	\$ 201,486,000	46%	\$ 108,304,000
9/30/2011	\$ 77,367,000	\$ 168,614,000	46%	\$ 91,247,000

The Board of Trustees continues to take initiatives to reach out to the stakeholders and to the Asian Development Bank (ADB) for technical assistance to assist with long term sustainability of the Retirement Fund given that the funding ratio has remained below 50% for the past 10 years or more.

Republic of Palau Social Security Administration
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Management's Discussion and Analysis, continued

Economic Outlook:

In 2023, Palau's economy began to see signs of recovery after Covid-19 pandemic. With the surge of visitor arrivals, it indicated a positive trend in tourism recovery. An increase in construction sectors also showed positive recovery in new public and private infrastructure projects contributing to economic growth. Although there are signs of recovery primarily in tourism and construction, Palau still faces challenges from rising inflation rate and rising debt levels. With the stalled economic growth rate, ADB is still actively involved in supporting Palau's development through various technical and financial programs, to improve public sector performance and to promote private sector development through policy-based programs.

The economic policies such as tax reform, pension reform, SS reform and many others in progress is expected to enhance public sector performance and promote private sector development. These polices should focus on securing a strong and sustainable robust economic while at the same time expanding and enhancing in priority areas such in education, social security, health, infrastructure, and adaptation to climate change

SS plan for FY2023 and beyond is to continue collaborating with stakeholders in support of SS Reform Policy, to maintain current levels of collection, perform timely benefit payout, increase audit of benefits and to strengthen the relationship with partners to improve tax compliance. Maintain effective computer system and equipment to support the operation. A possibility to reorganize and/or to set up a new section to continue to provide data effectiveness and improve section service. Continue to enhance system for effective business model and making plans to move into the new office in 2023

Contacting the Administration's Financial Management

The financial report is designed to provide a general overview of ROPSSA's finances and to demonstrate the Administration's accountability for the money it receives. The MD&A is based on past performance and current situations that anticipate the 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 ROPSSA's Administrator at the Republic of Palau Social Security Administration, P.O. Box 679, Koror, Republic of Palau 96940, or e-mail administration@ropssa.pw or call 488-2457.

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Statements of Fiduciary Net Position

	September 30,	
	2023	2022
Assets		
Cash and cash equivalents	\$ 3,496,995	\$ 1,209,825
Receivables, net	4,778,905	4,546,231
Investments:		
Collective trust funds	77,524,953	81,730,458
U.S. Government obligations	9,558,256	9,440,604
Corporate bonds	11,233,862	10,456,950
Mutual funds	1,112,800	---
Money market funds	783,311	2,611,543
Total investments	100,213,182	104,239,555
Prepaid expense	8,624	8,624
Capital assets, net	491,782	687,628
Total assets	108,989,488	110,691,863
Deferred Outflows of Resources		
Deferred outflows of resources from pension	754,002	801,158
Liabilities		
Benefits payable	778,685	731,872
Medical claims payable	2,393,953	1,432,910
Accrued liabilities and accounts payable	64,979	59,946
Net pension liability	2,943,210	3,301,382
Total liabilities	6,180,827	5,526,110
Deferred Inflows of Resources		
Deferred inflows of resources from pension	1,265,990	833,551
Net Position		
Held in trust for benefits and other purposes	\$ 102,296,673	\$ 105,133,360

See accompanying notes.

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Statements of Changes in Fiduciary Net Position

	Year ended	
	September 30,	
	<u>2023</u>	<u>2022</u>
Additions:		
Contributions:		
Private employees	\$ 13,068,202	\$ 10,902,431
Government employees	12,870,390	12,556,865
Retirees and disabled individuals	702,327	666,394
Self-employed individuals	516,925	497,723
Penalties and interest	<u>38,328</u>	<u>984,749</u>
Total contributions	27,196,172	25,608,162
Allowance for doubtful accounts	(<u>386,678</u>)	(<u>321,213</u>)
Net contributions income	<u>26,809,494</u>	<u>25,286,949</u>
Investment income:		
Net changes in the fair value of investments	4,645,537	(31,780,193)
Dividends	2,680,640	3,805,785
Interest	<u>1,465,545</u>	<u>829,170</u>
Total investment income (loss)	8,791,722	(27,145,238)
Less investment expense:		
Investment management and custodial fees	(<u>345,895</u>)	(<u>383,071</u>)
Net investment income (loss)	<u>8,445,827</u>	(<u>27,528,309</u>)
Other additions	1,267,064	634,242
Republic of Palau subsidy	<u>1,200,000</u>	<u>1,955,000</u>
Total additions	<u>37,722,385</u>	<u>347,882</u>
Deductions:		
Benefit payments:		
Retirement	22,466,296	21,439,003
Survivors	5,899,498	5,778,695
National health insurance	5,533,750	5,112,893
Medical savings account	3,551,516	3,243,238
Disability	858,094	833,497
Lump sum	<u>134,224</u>	<u>58,802</u>
Total benefit payments	38,443,378	36,466,128
Administrative	<u>2,115,694</u>	<u>2,021,374</u>
Total deductions	<u>40,559,072</u>	<u>38,487,502</u>
Change in net position	(2,836,687)	(38,139,620)
Net position at beginning of the year	<u>105,133,360</u>	<u>143,272,980</u>
Net position at end of the year	<u>\$ 102,296,673</u>	<u>\$ 105,133,360</u>

See accompanying notes.

Republic of Palau Social Security Administration
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Notes to Financial Statements

Years ended September 30, 2023 and 2022

1. Organization

The Republic of Palau Social Security Administration (ROPSSA), a fiduciary component unit of the Republic of Palau, was initially established pursuant to Republic of Palau Public Law (RPPL) No. 2-29 (the Social Security Act of 1987), which established the Palau Social Security Trust Fund that took over the Palau share of assets and liabilities of the Trust Territory Social Security System. In 1991, RPPL No. 2-29 was repealed by RPPL No. 3-64 (the Social Security Act of 1991), which provided for retirement, survivor, disability, and death benefits to covered wage earners and self-employed persons as well as their qualified survivors through the Republic of Palau Social Security Retirement Fund (the Retirement Fund).

ROPSSA is also responsible for processing, monitoring, and distributing benefit claims under the Prior Service Benefits Program (see note 3). Accordingly, ROPSSA established the Prior Service Trust Fund to account for activities under this program.

In 2010, RPPL No. 8-14 (the National Healthcare Financing Act) established Palau's first national healthcare financing program to be administered by ROPSSA. The program consists of two components: individual Medical Savings Accounts (MSA) and a pooled universal social health insurance fund known as National Health Insurance (NHI). Accordingly, ROPSSA established the Healthcare Fund to account for activities under this program. The MSA is designed to help individuals to save money to pay for future healthcare costs including outpatient medical treatment, prescribed medications, and private health insurance premiums. The use of the MSA is limited to the Belau National Hospital and related dispensaries as well as participating MSA private clinics in Palau. The NHI is designed to complement the MSA and assist in funding inpatient medical treatment, off-island medical treatment, and medical transportation for approved off-island referrals. Effective October 1, 2021, the administration of off island medical services and related records were transferred from Republic of Palau National Government to ROPSSA.

ROPSSA 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.

2. Summary of Significant Accounting Policies

The accounting policies of ROPSSA conform to accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental entities, specifically fiduciary funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Basis of Accounting

ROPSSA is accounted for as a Fiduciary Fund Type - Private Purpose Trust Fund and prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as revenues in the quarter employee earnings are paid. Retirement and healthcare benefits are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made.

Reclassification

Certain prior-year amounts have been reclassified to conform to the current year's presentation. These reclassifications had no effect on previously reported results of operations or financial position.

Cash and cash equivalents

For the purposes of the statements of fiduciary net position, cash and cash equivalents is defined as cash on hand and cash held in demand accounts. Money market funds held by ROPSSA's investment agent are considered investments.

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.

ROPSSA categorizes its fair value measurements within the fair value hierarchy established by GAAP. 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 fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Receivables

Contributions 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 more than one year. Bad debts are written off against the allowance by the specific identification method.

Capital Assets

ROPSSA'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 more than \$1,000. Estimated useful lives are as follows:

	<u>Estimated Useful Lives</u>
Office furniture and equipment	4 - 13 years
Building and improvements	30 years
Vehicles	5 years

Contributions

Contributions to the Retirement Fund are governed by the Social Security Act of 1991, as amended, which imposes a tax on the quarterly income of every employee within the Republic. Employees are required to contribute an amount equal to 7% of wages while every employer is required to contribute an amount equal to that contributed by the employee. Effective October 1, 2017, there will no longer be a maximum taxable income per quarter.

Contributions to the Healthcare Fund are governed by the National Healthcare Financing Act, as amended, 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 individual employee contributions go to the individual employee's MSA, while the employer contributions go to a pooled account that funds the NHI. 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. All unemployed individuals may voluntarily join by paying into the NHI pool a premium of \$40.95 per quarter. The National Government pays subsidized contributions for individual citizens who are 60 years of age and unemployed, as well as for those who are

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Contributions, continued

disabled and unemployed. These subsidized contributions are funded by a 10% allocation of annual revenues received by the National Government from import tax on alcoholic beverages and excise tax on tobacco.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. ROPSSA recognizes a net pension liability for the defined benefit pension plan in which it participates, which represents ROPSSA's proportional share of excess total pension liability over the pension plan assets – actuarially calculated – of a cost-sharing multi-employer pension 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 beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized 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 over 5 years beginning with the period in which the difference occurred.

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 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. ROPSSA has determined the changes in assumptions, net difference between projected and actual earnings on pension plan investments, difference between expected and actual experience, changes in proportion and difference between ROPSSA's contributions and proportionate share of contributions, and pension contributions made subsequent to the measurement date qualify for reporting in this category.

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Compensated Absences

ROPSSA 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 ROPSSA to record sick leave when leave is 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, 2023 and 2022 is not material to the financial statements.

Deferred Inflows of Resources

In addition to liabilities, the statements of fiduciary net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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. ROPSSA has determined the changes in assumptions, net difference between projected and actual earnings on pension plan investments, difference between expected and actual experience, and changes in proportion and difference between ROPSSA's contributions and proportionate share of contributions qualify for reporting in this category.

Benefit Payments

Retirement benefit payments are made to qualified workers who are fully insured individuals who, as defined by the Social Security Act of 1991, as amended, have attained an age of 60 years prior to September 30, 2015 and have filed an application for old age insurance benefits. Thereafter, the old age insurance benefits have been redefined as follows: a fully insured worker who has attained an age of 62 years as of October 1, 2015, or 63 years as of October 1, 2020, and have filed an application for old age insurance benefits.

Retirement benefit payments are also made to surviving spouses of deceased workers, subject to eligibility requirements, as long as they do not remarry. 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 benefit payments are made 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 more than \$500,000. The minimum benefit is \$198 per month, effective September 27, 2017.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Benefit Payments, continued

The maximum limit of the basic monthly benefit is 100% of the highest monthly average wage of the wage earner over any 12 quarters out of the last 40 quarters preceding retirement.

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.

Taxes

ROPSSA is exempt from all national and state non-payroll taxes.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2023, ROPSSA implemented the following pronouncements:

- GASB Statement No. 91, *Conduit Debt Obligations*, which provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.
- GASB Statement No. 99, *Omnibus 2022*, which enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. This Statement provides clarification of provisions in:
 - 1) GASB Statement No. 87, *Leases*, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
 - 2) GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
 - 3) GASB Statement No. 96 related to the SBITA term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.

This Statement modifies accounting and reporting guidance in:

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, related to termination of hedge.

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

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

In April 2022, GASB issued Statement No. 99. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for the fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for the fiscal year ending September 30, 2025.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and addressing certain application issues identified through pre-agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management's discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. GASB Statement No. 103 will be effective for the fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. GASB Statement No. 104 will be effective for the fiscal year ending September 30, 2026.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 105 will be effective for the fiscal year ending September 30, 2027.

ROPSSA is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

3. Prior Service Benefits Program

Under the terms of a Prior Service Claim Adjudication Service Agreement between ROPSSA and the Trust Territory Prior Service Trust Fund, ROPSSA is to provide for the processing of benefit claims and to assist in the monitoring of continuing eligibility under the Prior Service Program. The Prior Service Trust Fund Administration (PSTFA) will reimburse ROPSSA \$2,000 per annum plus an amount equal to 8% of the total amount of automated and manual benefit payments. Any cost for ROPSSA personnel who assist in searching and locating prior service documents in cooperation with the Prior Service Administration will be reimbursed on a dollar-for-dollar basis.

In 2005, an agreement was entered into between the PSTFA Board and the U.S. Department of the Interior to delegate the Board's obligations to and responsibility for the enrollees eligible for the Prior Service Benefits Program to the Social Security Systems of the Republic of the Marshall Islands, the Republic of Palau, 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 (SSA) of each Government shall be entitled to an administrative fee not to exceed 20% of the share of allocated funds.

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Notes to Financial Statements, continued

3. Prior Service Benefits Program, continued

For the years ended September 30, 2023 and 2022, ROPSSA assumed administrative functions and received an allocation of \$81,500 and \$93,100, respectively, from PSTFA. Total benefits and administrative expenses for the years ended September 30, 2023 and 2022 amounted to \$97,725 and \$108,684, respectively. While ROPSSA accepts the liability for any amounts received, ROPSSA does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. As of September 30, 2022, the amount of \$14,858 is available for future benefit payments under the Prior Service Benefits Program. As of September 30, 2023, no funds are available for future benefit payments.

4. Deposits and Investments

ROPSSA's investment policy governs the investment of assets of ROPSSA as follows:

- (i) 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.
- (ii) Fixed Income
 - a. Bonds, notes, and pass-through securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
 - b. U.S. corporate bonds and nonconvertible preferred stocks;
 - c. Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
 - d. Debt issued by foreign entities; and
 - e. The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by the investment manager.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

4. Deposits and Investments, continued

(iii) 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 ROPSSA's investment manager at the time of purchase and such investments are in industries and areas of the market that ROPSSA's investment manager already has proven expertise;
- c. Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and
- d. An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

(iv) 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 ROPSSA's investment manager.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

4. Deposits and Investments, continued

Deposits

Custodial credit risk is the risk that in the event of a bank failure, ROPSSA'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. ROPSSA does not have a deposit policy for custodial credit risk.

As of September 30, 2023 and 2022, cash and cash equivalents were \$3,496,995 and \$1,209,825, respectively, and the corresponding bank balances were \$3,399,977 and \$1,287,609, respectively, that are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2023 and 2022, bank deposits of \$250,000 were FDIC insured. ROPSSA does not require collateralization of its cash deposits; therefore, deposit levels more than FDIC coverage and deposits in financial institutions not subject to FDIC coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. ROPSSA has not experienced any losses in such accounts.

Investments

ROPSSA has the following recurring fair value measurements as of September 30, 2023 and 2022:

	2023			
	<u>Fair Value Measurements Using</u>			
	<u>Total</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)
Investments by fair value level:				
U.S. Treasury notes	\$ 2,935,944	\$ 2,935,944	\$ ---	\$ ---
U.S. Municipal obligations	2,766,597	---	2,766,597	---
Other U.S. Government obligations	3,855,715	---	3,855,715	---
Corporate notes and bonds	<u>11,233,862</u>	<u>---</u>	<u>11,233,862</u>	<u>---</u>
	20,792,118	<u>\$ 2,935,944</u>	<u>\$ 17,856,174</u>	<u>\$ ---</u>
Investments measured at NAV:				
Collective trust funds	77,524,953			
Mutual funds	1,112,800			
Investments measured at amortized cost:				
Money market funds	<u>783,311</u>			
	<u>\$ 100,213,182</u>			

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

4. Deposits and Investments, continued

Investments, continued

	<u>Total</u>	2022 <u>Fair Value Measurements Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservabl Inputs (Level 3)</u>
Investments by fair value level:				
U.S. Treasury notes	\$ 1,899,744	\$ 1,899,744	\$ ---	\$ ---
U.S. Municipal obligations	3,206,931	---	3,206,931	---
Other U.S. Government obligations	4,333,929	---	4,333,929	---
Corporate notes and bonds	<u>10,456,950</u>	<u>---</u>	<u>10,456,950</u>	<u>---</u>
	19,897,554	<u>\$ 1,899,744</u>	<u>\$ 17,997,810</u>	<u>\$ ---</u>
Investments measured at NAV:				
Collective trust funds	81,730,458			
Mutual funds	---			
Investments measured at amortized cost:				
Money market funds	<u>2,611,543</u>			
	<u>\$ 104,239,555</u>			

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, ROPSSA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. ROPSSA's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all these investments were held in ROPSSA's name by ROPSSA's custodial financial institutions as of September 30, 2023 and 2022.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amounts of investments in any one issuer that represents five percent (5%) or more of total investments for ROPSSA. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There was no concentration of credit risk for investments as of September 30, 2023 and 2022.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. One of the ways that ROPSSA manages its exposure to interest rate risk is by purchasing a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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Notes to Financial Statements, continued

4. Deposits and Investments, continued

Investments, continued

As of September 30, 2023 and 2022, ROPSSA's investments in fixed income debt securities were as follows:

	2023				Fair Value
	Less Than 1	<u>Investment Maturities (In Years)</u>		Greater Than 10	
		<u>1 to 5</u>	<u>6 to 10</u>		
U.S. Treasury notes	\$ 581,476	\$ 489,690	\$ 337,204	\$ 1,527,574	\$ 2,935,944
U.S. Municipal obligations	---	1,110,405	826,838	829,354	2,766,597
Other U.S. Government obligations	440	1,524,654	967,168	1,363,453	3,855,715
Corporate notes and bonds	<u>1,677,552</u>	<u>4,591,083</u>	<u>2,353,656</u>	<u>2,611,571</u>	<u>11,233,862</u>
	<u>\$ 2,259,468</u>	<u>\$ 7,715,832</u>	<u>\$ 4,484,866</u>	<u>\$ 6,331,952</u>	<u>\$ 20,792,118</u>

	2022				Fair Value
	Less Than 1	<u>Investment Maturities (In Years)</u>		Greater Than 10	
		<u>1 to 5</u>	<u>6 to 10</u>		
U.S. Treasury notes	\$ ---	\$ 565,133	\$ ---	\$ 1,334,611	\$ 1,899,744
U.S. Municipal obligations	---	1,283,739	989,380	933,812	3,206,931
Other U.S. Government obligations	---	1,835,218	995,373	1,503,338	4,333,929
Corporate notes and bonds	<u>761,681</u>	<u>4,995,869</u>	<u>2,058,842</u>	<u>2,640,558</u>	<u>10,456,950</u>
	<u>\$ 761,681</u>	<u>\$ 8,679,959</u>	<u>\$ 4,043,595</u>	<u>\$ 6,412,319</u>	<u>\$ 19,897,554</u>

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

4. Deposits and Investments, continued

Investments, continued

ROPSSA's credit quality distribution for debt securities as of September 30, 2023 and 2022, is as follows:

<u>Investment Type</u>	2023 Credit Rating	<u>Amount</u>
U.S. Treasury notes	Aaa	\$ 2,935,944
Other U.S. Government obligations	Aaa	3,855,715
U.S. Municipal obligations	A1	239,522
U.S. Municipal obligations	A2	206,408
U.S. Municipal obligations	Aa2	807,021
U.S. Municipal obligations	Aaa	145,602
U.S. Municipal obligations	Aa3	364,226
U.S. Municipal obligations	Not Rated	1,003,818
Corporate notes and bonds	A1	1,703,129
Corporate notes and bonds	A2	2,765,918
Corporate notes and bonds	A3	1,224,386
Corporate notes and bonds	Aa1	93,508
Corporate notes and bonds	Aa2	121,214
Corporate notes and bonds	Aa3	892,471
Corporate notes and bonds	Aaa	1,356,537
Corporate notes and bonds	Baa1	812,919
Corporate notes and bonds	Baa2	754,482
Corporate notes and bonds	BBB	165,756
Corporate notes and bonds	Not Rated	<u>1,343,542</u>
		<u>\$20,792,118</u>
<u>Investment Type</u>	2022 Credit Rating	<u>Amount</u>
U.S. Treasury notes	Aaa	\$ 1,334,612
U.S. Treasury notes	Not Rated	565,132
Other U.S. Government obligations	Aaa	3,916,178
Other U.S. Government obligations	Not Rated	417,751
U.S. Municipal obligations	A	447,605
U.S. Municipal obligations	Aa	1,520,634
U.S. Municipal obligations	Not Rated	1,238,692
Corporate notes and bonds	A	3,445,142
Corporate notes and bonds	Aa	724,279
Corporate notes and bonds	Aaa	864,604
Corporate notes and bonds	Baa	1,045,758
Corporate notes and bonds	Not Rated	<u>4,377,167</u>
		<u>\$19,897,554</u>

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

5. Receivables

Receivables as of September 30, 2023 and 2022, including applicable allowance for doubtful accounts, are as follows:

	<u>2023</u>	<u>2022</u>
Contributions	\$7,110,312	\$6,350,814
National Development Bank of Palau (NDBP) Loan	993,482	1,155,884
Accrued interest and dividends	187,401	169,664
Advances and others	<u>37,702</u>	<u>74,468</u>
	8,328,897	7,750,830
Less allowance for doubtful accounts	<u>(3,549,992)</u>	<u>(3,204,599)</u>
	<u>\$4,778,905</u>	<u>\$4,546,231</u>

In 2003, ROPSSA entered into a loan agreement with 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.

In 2008, ROPSSA entered into an agreement to restructure the loan. The loan ceiling increased to \$6,000,000, which was disbursed in increments of \$500,000, bearing interest at a variable annual rate equal to ROPSSA's Fixed Income Fund Return Rate as reported monthly by ROPSSA'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, through December 31, 2025. The loan is collateralized by the full faith and credit of the Republic of Palau Government.

6. Capital Assets

Capital asset activity for the years ended September 30, 2023 and 2022, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2022</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Balance at September 30, 2023</u>
Depreciable capital assets:					
Office furniture and equipment	4 - 13 years	\$ 1,161,392	\$ 11,669	\$ ---	\$ 1,173,061
Building and improvements	30 years	489,463	---	---	489,463
Vehicles	5 years	<u>66,564</u>	<u>---</u>	<u>---</u>	<u>66,564</u>
		1,717,419	11,669	---	1,729,088
Less accumulated depreciation		<u>(1,029,791)</u>	<u>(207,515)</u>	<u>---</u>	<u>(1,237,306)</u>
		<u>\$ 687,628</u>	<u>\$ (195,846)</u>	<u>\$ ---</u>	<u>\$ 491,782</u>

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

6. Capital Assets, continued

	Estimated <u>Useful Lives</u>	Balance at October <u>1, 2021</u>	Additions and <u>Transfers</u>	Deletions and <u>Transfers</u>	Balance at September <u>30, 2022</u>
Depreciable capital assets:					
Office furniture and equipment	4 - 13 years	\$ 1,133,963	\$ 27,429	\$ ---	\$ 1,161,392
Building and improvements	30 years	489,463		---	489,463
Vehicles	5 years	<u>66,564</u>	<u>---</u>	<u>---</u>	<u>66,564</u>
		1,689,990	27,429	---	1,717,419
Less accumulated depreciation		<u>(822,479)</u>	<u>(207,312)</u>	<u>---</u>	<u>(1,029,791)</u>
		<u>\$ 867,511</u>	<u>\$ (179,883)</u>	<u>\$ ---</u>	<u>\$ 687,628</u>

7. Pension Plan

ROPSSA is statutorily responsible for providing pension benefits for ROPSSA employees through the Republic of Palau Civil Service Pension Trust Fund.

A. General Information About the Pension Plan:

Plan Description: ROPSSA contributes to the Republic of Palau Civil Service Plan (the Plan), a defined benefit, cost sharing multiple employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Plan was established pursuant to RPPL No. 2-26 (the Pension Plan and Retirement Fund Act of 1987), which established the Plan effective October 1, 1987.

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: The ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, are participating in the Plan. Membership consisted of the following as of October 1, 2021 (the valuation date):

Inactive members currently receiving benefits	1,730
Inactive members entitled to but not yet receiving benefits	404
Inactive nonvested members	1,105
Active members	<u>3,423</u>
Total members	<u>6,662</u>

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

7. Pension Plan, continued

A. General Information About the Pension Plan, continued:

Summary of the Principal Provisions of the Plan:

Effective date: October 1, 1987
Plan year: October 1 through September 30

Eligibility to Participate: All persons becoming full-time employees of a participating agency before attaining the age of sixty shall become members as a condition of employment.

Vesting Service: Includes membership service and prior service credit.

Membership Service: A year of membership service is earned for a year of service rendered by a participating agency. Years of membership service shall be rounded to the nearest one year. Membership service includes accumulated sick leave and vacation leave.

Prior Service Credit: Persons becoming members of the Plan on October 1, 1987 are entitled to Prior Service Credit for services rendered as an employee of participating agencies, the Trust Territory of the Pacific Islands (TTPI), the United States Naval Government after World War II and before the establishment of the TTPI.

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 20 years of government employment. A married member of a former member receiving a distribution of benefits under the Plan receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL No. 4-49, members, who have 25 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 Pension Plan Board of Trustees. Effective July 1, 1999, pursuant to RPPL No. 4-49 and RPPL No. 5-30, retirement is mandatory for all members who have 30 years or more of total service and all employees who are 60 years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL No. 6-37, mandatory retirement may be delayed for up to 5 years, by specific exemption by the Board of Trustees. On April 30, 2013, RPPL No. 9-2 eliminated the mandatory service retirement after 30 years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of 60 years.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

7. Pension Plan, continued

A. General Information About the Pension Plan, continued:

Pension Benefits, continued: In accordance with the directives of RPPL No. 5-7, the Board of Trustees 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 5 years or has made an actuarially equivalent lump sum contribution”. In accordance with RPPL No. 9-2, members who retire after April 30, 2013 must not receive benefits greater than \$30,000 per year. Further, the benefits amount that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Plan. Additionally, a member should not receive benefits during the time the member is re-employed after retirement.

Currently, normal benefits are paid monthly and are 2% of each member’s average monthly salary for each year of credited total service up to a maximum of 30 years total service. The average annual salary is the average of the highest three consecutive fiscal years of compensation received by a member during his or her most recent ten full fiscal years of service. For members who have not completed three consecutive fiscal years of employment during his or her most recent ten full fiscal years of service, the average annual salary is the average monthly salary during the term of the member’s service multiplied by twelve.

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

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

Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee’s accrued benefit pursuant to RPPL No. 9-2.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

7. Pension Plan, continued

A. General Information About the Pension Plan, continued:

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

- 1/12th 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.
- 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.

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

7. Pension Plan, continued

A. General Information About the Pension Plan, continued:

Pension Benefits, continued: 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 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.

Actuarial Assumptions:

The total pension liability was determined by an actuarial valuation as of October 1, 2021 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:	6.74% per year, net of investment expenses, including price inflation
Municipal Bond Index Rate:	2.17%
Year fiduciary net position is projected to be depleted:	2027
Price Inflation:	2.5% per year
Interest on Member Contributions:	5.0% per year
Salary Increase:	3.0% per year

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

7. Pension Plan, continued

A. General Information About the Pension Plan, continued:

Actuarial Assumptions, continued:

Expenses:	\$300,000 added to normal cost	
Mortality:	RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years	
Termination of Employment:	5% for ages 20 to 39; none for all other ages	
Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
Retirement Age:	100% at age 60	
Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor	
Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.	
Duty vs Non-duty related disability:	100% Duty related	
Refund of Contributions:	80% of terminated vested members elect a refund of contributions	
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death	

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Notes to Financial Statements, continued

7. Pension Plan, continued

A. General Information About the Pension Plan, continued:

Actuarial Assumptions, continued:

Final Average Earnings: Deferred vested members missing data for their final average earnings are assumed to have earned the average amount of current deferred vested members.

Benefits: Retirees and beneficiaries missing data for their monthly benefit amount are assumed to receive the average benefit of current retirees or beneficiaries, respectively.

Investment Rate of Return:

The long-term expected rate of return on the Plan's investments of 6.74% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

As of the September 30, 2023 actuarial valuation, the arithmetic real rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
US Equities	46%	8.46%
Non-US Equities (Mature Markets)	10%	8.20%
Fixed Income (US Core)	40%	3.72%
Alternatives (Real Estate Investment Trusts)	<u>4%</u>	8.72%
	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability was 3.86% at the current measurement date and 2.23% at the prior measurement date. The discount rate was determined using the current assumed rate of return of 6.74% until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2026. For years on or after 2026, the Municipal Bond Index Rate of 3.82% was used. The Municipal Bond Index Rate from the prior year measurement date was 2.17%.

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Notes to Financial Statements, continued

7. Pension Plan, continued

A. General Information About the Pension Plan, continued:

Sensitivity of Net Pension Liability to Changes in the Discount Rate:

The following presents ROPSSA’s proportionate share of the net pension liability as of September 30, 2023, calculated using the discount rate of 3.86% as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (2.86%) or 1.00% higher (4.86%) from the current rate.

1% Decrease	Current Single Discount Rate Assumption	1% Increase
<u>2.86%</u>	<u>3.86%</u>	<u>4.86%</u>
<u>\$3,377,187</u>	<u>\$2,943,210</u>	<u>\$2,582,739</u>

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

Pension Liability: At September 30, 2023 and 2022, ROPSSA reported a liability of \$2,943,210 and \$3,301,382, respectively, for its proportionate share of the net pension liability. ROPSSA’s proportion of the net pension liability was based on the projection of ROPSSA’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, 2023 and 2022, ROPSSA’s proportion was 1.1175% and 1.0829%, respectively.

Pension Expense: For the years ended September 30, 2023 and 2022, ROPSSA recognized pension expense of \$161,820 and \$173,326, respectively.

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

7. Pension Plan, continued

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

Deferred Outflows and Inflows of Resources: At September 30, 2023 and 2022, ROPSSA reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2023</u>		<u>2022</u>	
	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Changes of assumptions	\$472,105	\$ 734,179	\$632,079	\$164,299
Net difference between projected and actual earnings on pension plan investments	79,567	452,631	4,645	21,142
Difference between expected and actual experience	37,992	15,781	81,169	536,001
Contributions subsequent to the measurement date	43,654	---	44,795	---
Changes in proportion and difference between ROPSSA's contributions and proportionate share of contributions	<u>120,684</u>	<u>63,399</u>	<u>38,470</u>	<u>112,109</u>
	<u>\$754,002</u>	<u>\$1,265,990</u>	<u>\$801,158</u>	<u>\$833,551</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, 2023 will be recognized in pension expense as follows:

Year Ending September 30,

2024	\$(100,349)
2025	(87,746)
2026	(43,166)
2027	(117,658)
2028	(160,584)
Thereafter	(46,139)
	<u>\$(555,642)</u>

Republic of Palau Social Security Administration
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Notes to Financial Statements, continued

8. Transfer from Republic of Palau

RPPL No. 11-24 Section 22 appropriated \$1,200,000 for the purpose of funding the increase to the supplemental benefit payment effectuated by the amendment to Title 41, Section 765 of the Palau National Code and to provide additional \$50 in supplemental Social Security benefit payment for old age insurance and disability beneficiaries. During the years ended September 30, 2023 and 2022, ROPSSA received \$1,200,000 and \$1,955,000, respectively, which is recorded as Republic of Palau subsidy, and made supplemental benefit payments of \$1,370,350 and \$1,684,400, respectively, which are recorded as retirement benefit payments within the accompanying financial statements.

9. Contingencies

ROPSSA conducts their operations on land without charge in the State of Koror, through a land settlement agreement dated February 3, 1997 between the Republic of Palau National Government, the Palau Public Lands Authority, the Koror State Government and the Koror State Public Lands Authority. The land settlement agreement stipulates that the National Government will retain the use of the land for a term of 25 years. ROPSSA does not have title or a lease agreement for the use of the land.

An actuarial valuation has determined that the Retirement Fund had an actuarial deficiency of approximately \$438 million as of October 1, 2021. An actuarial valuation of the Healthcare Fund has determined that the Healthcare Fund had an actuarial deficiency of approximately \$162 million as of October 1, 2017. Unless the existing deficiency is corrected, ROPSSA's cash flows may eventually become negative, which will cause ROPSSA to become depleted to the point that ROPSSA will not be able to meet its benefit obligations. ROPSSA has not developed a formal plan as of September 30, 2023, to correct this potential funding deficiency.

Supplementary and Other Information

Republic of Palau Social Security Administration
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Schedules of Required Supplementary Information

Schedule of Proportional Share of the Net Pension Liability
Last Ten Fiscal Years* (Unaudited)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Civil Service Pension Trust Fund (Plan) total Net Pension Liability	\$ 263,365,174	\$304,866,042	\$344,384,167	\$308,480,463	\$250,868,784	\$259,395,005	\$249,453,960	\$215,546,176	\$204,281,232	\$182,080,332
ROPSSA's proportion of the Net Pension Liability	1.118%	1.083%	1.070%	1.080%	1.075%	1.119%	1.188%	1.218%	1.191%	1.249%
ROPSSA's proportionate share of the Net Pension Liability	\$ 2,943,210	\$ 3,301,382	\$ 3,685,527	\$ 3,331,441	\$ 2,696,839	\$ 2,903,556	\$ 2,964,466	\$ 2,625,302	\$ 2,432,377	\$ 2,274,001
ROPSSA's covered payroll **	\$ 746,583	\$ 697,567	\$ 647,267	\$ 721,417	\$ 625,050	\$ 626,283	\$ 620,783	\$ 586,750	\$ 549,350	\$ 523,100
ROPSSA's proportionate share of the Net Pension Liability as a percentage of its covered payroll	394.22%	473.27%	569.40%	461.79%	431.46%	463.62%	477.54%	447.43%	442.77%	434.72%

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

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Schedules of Required Supplementary Information

Schedule of Pension Contributions
Last Ten Fiscal Years* (Unaudited)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 190,501	\$ 167,504	\$ 168,593	\$ 152,174	\$ 186,109	\$ 192,301	\$ 171,337	\$ 132,758	\$ 126,488	\$ 78,562
Contributions in relation to the contractually required contribution	43,654	44,795	41,854	38,836	43,285	37,503	37,577	37,247	35,205	32,961
Contribution deficiency (excess)	<u>\$ 146,847</u>	<u>\$ 122,709</u>	<u>\$ 126,739</u>	<u>\$ 113,338</u>	<u>\$ 142,824</u>	<u>\$ 154,798</u>	<u>\$ 133,760</u>	<u>\$ 95,511</u>	<u>\$ 91,283</u>	<u>\$ 45,601</u>
ROPSSA's covered payroll **	\$ 727,567	\$ 746,583	\$ 697,567	\$ 647,267	\$ 721,417	\$ 625,050	\$ 626,283	\$ 620,783	\$ 586,750	\$ 549,350
Contributions as a percentage of covered payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Combining Statement of Fiduciary Net Position

September 30, 2023

	<u>Republic of Palau Social Security Retirement Fund</u>	<u>Prior Service Trust Fund</u>	<u>Healthcare Fund</u>	<u>Eliminations</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 1,647,574	\$ 12,061	\$ 1,837,360	\$ ---	\$ 3,496,995
Investments:					
Collective trust funds	61,759,138	---	15,765,815	---	77,524,953
U.S. Government obligations	9,558,256	---	---	---	9,558,256
Corporate bonds	11,233,862	---	---	---	11,233,862
Mutual funds	1,112,800	---	---	---	1,112,800
Money market funds	783,311	---	---	---	783,311
Total investments	<u>84,447,367</u>	<u>---</u>	<u>15,765,815</u>	<u>---</u>	<u>100,213,182</u>
Receivables:					
Contributions	5,299,293	---	1,811,019	---	7,110,312
Loan	993,482	---	---	---	993,482
Accrued interest and dividends	187,234	---	167	---	187,401
Due from other funds	---	---	450,127	(450,127)	---
Advances and other	1,278	---	36,424	---	37,702
	<u>6,481,287</u>	<u>---</u>	<u>2,297,737</u>	<u>(450,127)</u>	<u>8,328,897</u>
Less allowance for doubtful accounts	(3,010,516)	---	(539,476)	---	(3,549,992)
Net receivables	<u>3,470,771</u>	<u>---</u>	<u>1,758,261</u>	<u>(450,127)</u>	<u>4,778,905</u>
Prepaid expense	7,593	---	1,031	---	8,624
Capital assets, net	31,937	---	459,845	---	491,782
Total assets	<u>89,605,242</u>	<u>12,061</u>	<u>19,822,312</u>	<u>(450,127)</u>	<u>108,989,488</u>
Deferred Outflows of Resources					
Deferred outflows of resources from pension	<u>421,890</u>	<u>---</u>	<u>332,112</u>	<u>---</u>	<u>754,002</u>
Liabilities					
Benefits payable	778,685	---	---	---	778,685
Medical claims payable	---	---	2,393,953	---	2,393,953
Accrued expenses and accounts payable	36,860	---	28,119	---	64,979
Due to other funds	436,699	13,428	---	(450,127)	---
Net pension liability	<u>1,646,826</u>	<u>---</u>	<u>1,296,384</u>	<u>---</u>	<u>2,943,210</u>
Total liabilities	<u>2,899,070</u>	<u>13,428</u>	<u>3,718,456</u>	<u>(450,127)</u>	<u>6,180,827</u>
Deferred Inflows of Resources					
Deferred inflows of resources from pension	<u>708,365</u>	<u>---</u>	<u>557,625</u>	<u>---</u>	<u>1,265,990</u>
Net Position					
Held in trust for benefits and other purposes	<u>\$ 86,419,697</u>	<u>\$ (1,367)</u>	<u>\$ 15,878,343</u>	<u>\$ ---</u>	<u>\$ 102,296,673</u>

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Combining Statement of Changes in Fiduciary Net Position

Year Ended September 30, 2023

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
Additions:				
Contributions:				
Private employees	\$ 9,635,452	\$ ---	\$ 3,432,750	\$ 13,068,202
Government employees	9,490,621	---	3,379,769	12,870,390
Retirees and disabled individuals	---	---	702,327	702,327
Self-employed individuals	---	---	516,925	516,925
Penalties and interest	(9,616)	---	47,944	38,328
Total contributions	19,116,457	---	8,079,715	27,196,172
Allowance for doubtful accounts	(362,432)	---	(24,246)	(386,678)
Net contributions	18,754,025	---	8,055,469	26,809,494
Investment income:				
Net changes in the fair value of investments	3,758,496	---	887,041	4,645,537
Dividends	2,133,802	---	546,838	2,680,640
Interest	1,331,479	---	134,066	1,465,545
Total investment income	7,223,777	---	1,567,945	8,791,722
Less investment expense:				
Investment management and custodian fees	(287,865)	---	(58,030)	(345,895)
Net investment income	6,935,912	---	1,509,915	8,445,827
Other additions	36,704	81,500	1,148,860	1,267,064
Republic of Palau subsidy	1,200,000	---	---	1,200,000
Total additions	26,926,641	81,500	10,714,244	37,722,385
Deductions:				
Benefit payments:				
Retirement	22,432,058	34,238	---	22,466,296
Survivors	5,852,362	47,136	---	5,899,498
National health insurance	---	---	5,533,750	5,533,750
Medical savings account	---	---	3,551,516	3,551,516
Disability	858,094	---	---	858,094
Lump sum	134,224	---	---	134,224
Total benefits payments	29,276,738	81,374	9,085,266	38,443,378
Administrative	1,065,675	16,351	1,033,668	2,115,694
Total deductions	30,342,413	97,725	10,118,934	40,559,072
Change in net position	(3,415,772)	(16,225)	595,310	(2,836,687)
Net position at beginning of year	89,835,469	14,858	15,283,033	105,133,360
Net position at end of year	\$ 86,419,697	\$ (1,367)	\$ 15,878,343	\$ 102,296,673

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Combining Statement of Fiduciary Net Position

September 30, 2022

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 1,050,371	\$ 54,443	\$ 105,011	\$ ---	\$ 1,209,825
Investments:					
Mutual funds	65,374,552	---	16,355,906	---	81,730,458
U.S. Government obligations	9,440,604	---	---	---	9,440,604
Corporate bonds	10,456,950	---	---	---	10,456,950
Money market funds	2,611,543	---	---	---	2,611,543
Total investments	<u>87,883,649</u>	<u>---</u>	<u>16,355,906</u>	<u>---</u>	<u>104,239,555</u>
Receivables:					
Contributions	5,147,391	---	1,203,423	---	6,350,814
Loan	1,155,884	---	-	---	1,155,884
Accrued interest and dividends	169,497	---	167	---	169,664
Due from other funds	---	---	334,328	(334,328)	---
Advances and other	490	---	73,978	---	74,468
	<u>6,473,262</u>	<u>---</u>	<u>1,611,896</u>	<u>(334,328)</u>	<u>7,750,830</u>
Less allowance for doubtful accounts	(2,689,369)	---	(515,230)	---	(3,204,599)
Net receivables	<u>3,783,893</u>	<u>---</u>	<u>1,096,666</u>	<u>(334,328)</u>	<u>4,546,231</u>
Prepaid expense	7,593	---	1,031	---	8,624
Capital assets, net	119,704	---	567,924	---	687,628
Total assets	<u>92,845,210</u>	<u>54,443</u>	<u>18,126,538</u>	<u>(334,328)</u>	<u>110,691,863</u>
Deferred Outflows of Resources					
Deferred outflows of resources from pension	470,431	---	330,727	---	801,158
Liabilities					
Benefits payable	731,872	---	---	---	731,872
Medical claims payable	---	---	1,432,910	---	1,432,910
Accrued expenses and accounts payable	25,572	---	34,374	---	59,946
Due to other funds	294,743	39,585	---	(334,328)	---
Net pension liability	1,938,533	---	1,362,849	---	3,301,382
Total liabilities	<u>2,990,720</u>	<u>39,585</u>	<u>2,830,133</u>	<u>(334,328)</u>	<u>5,526,110</u>
Deferred Inflows of Resources					
Deferred inflows of resources from pension	489,452	---	344,099	---	833,551
Net Position					
Held in trust for benefits and other purposes	\$ 89,835,469	\$ 14,858	\$ 15,283,033	\$ ---	\$ 105,133,360

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Combining Statement of Changes in Fiduciary Net Position

Year ended September 30, 2022

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Additions:				
Contributions:				
Government employees	\$ 9,257,336	\$ ---	\$ 3,299,529	\$ 12,556,865
Private employees	8,031,773	---	2,870,658	10,902,431
Retirees and disabled individuals	---	---	666,394	666,394
Self-employed individuals	---	---	497,723	497,723
Penalties and interest	931,370	---	53,379	984,749
Total contributions	<u>18,220,479</u>	<u>---</u>	<u>7,387,683</u>	<u>25,608,162</u>
Allowance for doubtful accounts	(259,789)	---	(61,424)	(321,213)
Net contributions	<u>17,960,690</u>	<u>---</u>	<u>7,326,259</u>	<u>25,286,949</u>
Investment loss:				
Net changes in the fair value of investments	(26,843,127)	---	(4,937,066)	(31,780,193)
Dividends	3,198,575	---	607,210	3,805,785
Interest	773,889	---	55,281	829,170
Total investment loss	<u>(22,870,663)</u>	<u>---</u>	<u>(4,274,575)</u>	<u>(27,145,238)</u>
Less investment expense:				
Investment management and custodian fees	(323,921)	---	(59,150)	(383,071)
Net investment loss	<u>(23,194,584)</u>	<u>---</u>	<u>(4,333,725)</u>	<u>(27,528,309)</u>
Other additions	32,565	93,100	508,577	634,242
Republic of Palau subsidy	1,955,000	---	---	1,955,000
Total additions	<u>(3,246,329)</u>	<u>93,100</u>	<u>3,501,111</u>	<u>347,882</u>
Deductions:				
Benefit payments:				
Retirement	21,399,116	39,887	---	21,439,003
Survivors	5,728,057	50,638	---	5,778,695
National health insurance	---	---	5,112,893	5,112,893
Medical savings account	---	---	3,243,238	3,243,238
Disability	833,497	---	---	833,497
Lump sum	58,802	---	---	58,802
Total benefits payments	<u>28,019,472</u>	<u>90,525</u>	<u>8,356,131</u>	<u>36,466,128</u>
Administrative	920,564	18,159	1,082,651	2,021,374
Total deductions	<u>28,940,036</u>	<u>108,684</u>	<u>9,438,782</u>	<u>38,487,502</u>
Change in net position	(32,186,365)	(15,584)	(5,937,671)	(38,139,620)
Net position at beginning of year	<u>122,021,834</u>	<u>30,442</u>	<u>21,220,704</u>	<u>143,272,980</u>
Net position at end of year	<u>\$ 89,835,469</u>	<u>\$ 14,858</u>	<u>\$ 15,283,033</u>	<u>\$ 105,133,360</u>

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Schedule of Administrative Deductions

	Year ended	
	September 30,	
	<u>2023</u>	<u>2022</u>
Administrative Deductions:		
Salaries, wages and benefits	\$ 834,156	\$ 866,317
Professional services	237,094	284,226
Depreciation	207,515	207,311
Board members other expenses	118,992	31,551
Credit card processing fees	117,866	87,031
Utilities	96,611	49,990
Office equipment	73,158	66,151
Supplies, printing and reproduction	53,878	54,167
Communications	46,797	44,177
Staff development and training	44,371	17,957
Travel and transportation	26,420	12,167
Insurance	20,199	16,909
Bank service charge	16,813	16,043
Fuel and oil	9,708	8,744
Taxes	9,449	---
Special functions	8,392	2,863
Dues, subscriptions and registrations	4,112	822
Postage stamps	2,801	3,944
Board compensation	2,150	2,600
Donations	1,300	550
Furniture and fixtures	---	665
Miscellaneous	<u>22,092</u>	<u>76,805</u>
Total administrative deductions before pension contribution and adjustment	1,953,874	1,850,990
GASB 68 pension adjustment	<u>161,820</u>	<u>170,384</u>
	<u>\$ 2,115,694</u>	<u>\$ 2,021,374</u>

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Schedule of Investments

September 30, 2023

	Cost	Fair Value
Money Market Funds:		
Dreyfus Treasury & Agency Cash Mgmt - Ins - Account # 135074870	\$ 783,311	\$ 783,311
Total Money Market Funds	\$ 783,311	\$ 783,311
U.S. Government Obligations:		
US Treasury Notes .25% 5/15/2024	\$ 499,729	\$ 484,120
US Treasury Notes 2.375% 8/15/2024	100,289	97,356
US Treasury Notes 4.125% 9/30/2027	498,740	489,690
US Treasury Notes 4% 7/31/2030	348,605	337,204
US Treasury Bonds 3.625% 2/15/2024	486,249	415,490
US Treasury Bonds 2.5% 2/15/2045	395,660	237,468
US Treasury Bonds 2.875% 5/15/2052	253,573	191,203
US Treasury Bonds 3.875% 2/15/2043	396,623	347,812
US Treasury Bonds 3% 11/15/2044	439,810	335,601
Total U.S. Treasury - Account # 135074870	3,419,278	2,935,944
Federal Home Loan Mortgage Corp Pool# C76358 5% 2/1/2033	5,080	4,737
Federal Home Loan Mortgage Corp Pool# A49906 5% 6/1/2036	4,973	4,913
Federal Home Loan Mortgage Corp Pool# G01960 5% 12/1/2035	4,953	4,654
Federal Home Loan Mortgage Corp Pool# G01938 5.5% 9/1/2035	4,894	4,575
Federal Home Loan Mortgage Corp Pool# C01567 5% 5/1/2033	15,479	14,833
Federal Home Loan Mortgage Corp Pool# A88454 4.5% 9/1/2039	16,517	14,998
Federal Home Loan Mortgage Corp Pool# A37876 5% 9/1/2035	14,297	13,433
Federal Home Loan Bank Unsecured 3.125% 6/11/2027	404,879	382,109
Federal Home Loan Bank Unsecured 2.125% 9/14/2029	25,434	21,598
Federal Home Loan Bank Unsecured 1% 6/24/2026-2021	500,000	454,490
Federal Home Loan Bank Unsecured Multi Step CPN 1.125% 05/2026-2021 1% 6/24/2026-2021	249,952	226,535
Federal Farm Credit Bank Unsecured 3.43% 12/6/2028	316,088	290,761
Federal Farm Credit Bank Unsecured 2.46% 2/5/2035-2025	1,078,707	765,778
Federal Farm Credit Bank Unsecured .7% 6/30/2025-2021	499,848	461,520
Federal Farm Credit Bank Unsecured 1.68% 4/29/2030-2021	99,856	80,351
Federal Farm Credit Bank Unsecured 1.84% 10/27/2031-2021	593,702	465,870
Federal Mortgage Assn Pool# 72520 5% 3/1/2034	914	961
Federal Mortgage Assn Pool# 794474 6% 10/1/2034	14,584	14,710
Federal Mortgage Assn Pool# 796274 5.5% 12/1/2034	30,185	30,361
Federal Mortgage Assn Pool# 810225 6% 1/1/2035	14,724	14,633
Federal Mortgage Assn Pool# 814915 5.5% 3/1/2035	8,971	8,484
Federal Mortgage Assn Pool# 826966 5.5% 6/1/2035	1,599	1,507
Federal Mortgage Assn Pool# 868936 6% 5/1/2036	22,161	20,548
Federal Mortgage Assn Pool# 904915 5.5% 12/1/2036	441	443
Federal Mortgage Assn Pool# 935636 4% 9/1/2024	468	440
Federal Mortgage Assn Pool# MA3124 2.5% 9/1/2032	99,017	89,017
Govt National Mtge Assoc Pool# 737442 4% 9/15/2040	46,757	41,583
GNMA Mortgage CTFS Pool# 701940 4.5% 6/15/2039	70,550	65,148
Tennessee Valley Auth Sr Unsecured 3.5% 12/15/2042	474,255	356,725
Total U.S. Government Agencies - Account # 135074870	4,619,285	3,855,715
Hawaii St Arpts Txbl-Ref-Ser-A 2.97% 7/1/2039-2029	290,000	206,408
Hawaii St Txbl-Ser GD 2.642% 10/1/2036-2031	150,000	109,589
Hawaii St Txbl-Ser FZ 2.065% 8/1/2035-2030	375,000	263,621
Hawaii State Arpts Sys Rev Txbl-Ref-Ser 2.13% 7/1/2028	275,000	239,522
Honolulu City & Cnty Hi Txbl-Ser E 2.17% 7/1/2035-2030	100,000	72,229
Honolulu City & Cnty Hi Txbl-Ser E 2.67% 7/1/2043-2030	101,770	63,276
Honolulu City & Cnty Hi Brd Of Wtr Sply Wtr Sys Revenue Txbl-Ref-Ser B 2.327% 7/1/2032-2030	384,317	294,244
Honolulu City & Cnty Hi Brd Of Wtr Sply Wtr Sys Revenue Txbl-Ref-Ser B .95% 7/1/2025-2021	475,000	439,285
Honolulu City & Cnty Hi Brd Of Wtr Sply Wtr Sys Revenue Txbl-Ref-Ser B 1.82% 7/1/2029	325,000	270,289
Honolulu City & Cnty Hi Hi Wstwr Sys Revenue Txbl-Ref-Ser A 2.574% 7/1/2041-2030	175,000	114,231
Honolulu City & Cnty Hi Hi Wstwr Sys Revenue Txbl-Ref-Ser A 1.623% 7/1/2031-2030	240,000	184,075
Pennsylvania St Turnpike Commission Spl Oblig Txbl-Ref (Escrowed to Maturity) 3.029% 12/1/2024	151,872	145,602
Univ of Hawaii Revenue Txbl-Ref-Ser G 2.95% 10/1/2024	100,000	97,397
Univ of Hawaii Revenue Txbl-Ser A 1.555% 10/1/2026-2020	210,000	188,599
Univ of Hawaii Revenue Txbl-Ref-Ser C 2.372% 10/1/2032-2030	100,000	78,230
Total U.S. Municipal Obligations - Account # 135074870	3,452,959	2,766,597
Total U.S. Government Obligations	\$ 11,491,522	\$ 9,558,256

Republic of Palau Social Security Administration
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Schedule of Investments, continued

	Cost	Fair Value
Corporate Bonds:		
Swedish Export Credit Sr Unsecured 5/11/2037	\$ 103,848	\$ 93,508
American Honda Finance Sr Unsecured 2.15% 9/10/2024	250,704	241,535
Anheuser-Busch Sr Unsecured 4.75% 1/23/2029-2028	436,404	388,060
Bank of America Corp Sr Unsecured Var Rt 4.948% 7/22/2028-2027	345,328	336,347
Bank of Montreal Sr Unsecured 4.7% 09/14/2027-2027	370,835	364,226
Black Rock Inc Sr Unsecured 2.4% 4/30/2030-2030	160,293	133,382
Charles Schwab Corp Sr Unsecured 3.625% 04/01/2025-2025	343,758	338,562
CVS/Caremark Corp Sr Unsecured 5.25% 02/21/2033-2032	348,449	331,688
Costco Wholesale Corp Sr. Unsecured 1.6% 04/20/2030-2030	313,095	297,191
John Deere Capital Corp Sr Unsecured 1.75% 3/9/2027	301,874	266,931
Duke Energy Florida Llc Secured 3.2% 1/15/2027-2026	214,950	201,434
Disney Walt Co Sr Unsecured 3.8% 03/22/2030	335,961	317,527
Entergy Louisiana Llc Secured 4.95% 1/15/2045-2025	127,315	104,368
Entergy Louisiana Llc 1st Lien .62% 11/17/2023-2021	107,997	107,306
Entergy Texas Inc Secured 5.15% 6/1/2045-2025	248,907	212,270
Export Import Bank of USA Sinking Fund 1.822% 5/3/2025	33,345	34,494
Fedex 2020-1 Class AA 1.875% 2/20/2034	166,383	135,461
Goldman Sachs Group Inc Sr Unsecured 3.85% 7/8/2024-2024	245,597	241,112
Grainger W W Inc Sr Unsecured 4.2% 5/15/2047-2046	154,758	123,030
Home Depot Inc Sr Unsecured 3.25% 04/15/2032-2032	261,573	257,769
Honeywell International Inc. Sr. Unsecured 2.5% 11/01/2026-2026	355,238	351,641
Intel Corp Sr Unsecured 2.45% 11/15/2029-2029	197,861	165,756
Inter-american Devel Bank Notes 6.75% 7/15/2027	114,748	105,820
Intercontinental Exchange Sr Unsecured 3.75% 12/1/2025-2025	153,574	144,260
Intl Bk Recon & Dev Unsecured Float 5.4963% 8/19/2027	375,000	376,114
Intl Bk Recon & Dev Sr Unsecured .25% 11/24/2023	399,961	396,872
Interstate Power & Light Sr Unsecured 3.5% 9/30/2049-2049	337,833	208,304
Invesco Finance Plc Sr Unsecured 4% 1/30/2024	149,935	148,908
JPMorgan Chase & Co Sr Unsecured Var Rt .969% 6/23/2025-2024	250,337	239,918
Johnson & Johnson Sr Unsecured 2.1% 9/1/2040-2040	183,922	118,272
Kaiser Foundation Hospital Sr Unsecured 3.15% 5/1/2027-2027	199,679	187,164
Kimberly Clark Corp Sr Unsecured 2.65% 3/1/2025	124,940	120,129
Lincoln Natl Corp Sr Unsecured 7% 6/15/2040	123,811	94,782
Lowes Cos Inc Sr Unsecured 3.65% 04/05/2029-2029	398,475	381,675
Mccormick & Co Inc Sr Unsecured .9% 2/15/2026-2026	198,111	179,104
Microsoft Corp Sr Unsecured 3.625% 12/15/2023	104,969	104,523
Midamerican Energy Co Secured 4.4% 10/15/2044-2044	169,797	121,214
Morgan Stanley Var Rt Sr Unsecured 5.789832% 1/25/2024-2023	200,000	199,958
National Rural Utilities Secured 3.4% 2/7/2028-2027	127,226	115,059
Overseas Private Inv Corp Sr Unsecured Flt Rt 5.54% 9/15/2026-2018	105,000	105,000
Pacific Corp Secured 6% 1/15/2039	176,768	117,918
Pfizer Inc Sr Unsecured 3.6% 9/15/2028-2028	107,643	93,583
Private Export Funding Secured 3.25% 6/15/2025	270,578	254,935
Queens Health Systems Secured 4.464% 7/1/2045	125,000	99,406
Queens Health Systems Secured 4.81% 7/1/2052-2052	500,000	432,020
Rtx Corporation Sr Unsecured 2.25% 7/1/2030-2030	99,908	80,607
Royal Bank Of Canada Sr Unsecured 1.15% 7/14/2026	200,228	176,818
Small Bus Admin Ser 2016-20I C1I 2.03% 9/1/2036	97,254	83,696
State Street Corp Subordinated 3.031% 11/1/2034-2029	277,341	228,749
Toronto-Dominion Bank Sr Unsecured 2.375% 11/8/2027-2023	177,894	177,767
Total Capital Intl Sa Sr Unsecured 1.125% 4/10/2024	240,641	237,338
Toyota Motor Credit Corp Sr Unsecured 1.125% 6/18/2026	149,960	133,958
Union Pacific Corp Sr Unsecured 3.375% 2/1/2035-2034	104,789	84,863
US Bancorp Subordinated 3.1% 4/27/2026-2026	165,223	153,399
Verizon Communications Sr Unsecured 2.65% 11/20/2040-2040	226,245	142,333
Visa Inc Sr Unsecured 4.3% 12/14/2045-2045	301,112	211,377
Int Development Fin Corp Sr Unsecured Float 4.75% 6/20/2028	164,423	164,421
Total Corporate Bonds	<u>\$ 12,526,798</u>	<u>\$ 11,233,862</u>

Republic of Palau Social Security Administration
(A Component Unit of the Republic of Palau)

Schedule of Investments, continued

	<u>Cost</u>	<u>Fair Value</u>
Collective Trust Funds:		
Wilshire Solutions Trust Credit Opportunities Fund	\$ 7,307,835	\$ 7,050,181
Wilshire Solutions Real Assets Master Trust Fund	18,768,766	17,155,079
Blackrock Federal Fund 30	3,452,439	3,452,439
DST Climate SHR Class B	<u>36,399,936</u>	<u>34,101,439</u>
Subtotal - Account # WTHF 9004-002	<u>65,928,976</u>	<u>61,759,138</u>
Wilshire Solutions Real Assets Master Trust Fund	3,564,423	3,168,801
Wilshire Solutions Trust Credit Opportunities Fund	2,562,987	2,487,990
Wilshire Solutions Fixed Income Master Trust Fund	3,976,558	3,919,140
Blackrock Federal Fund 30	3,600	3,600
DST Climate SHR Class B	<u>6,469,674</u>	<u>6,186,284</u>
Subtotal - Account # WTHF 9003-002	<u>16,577,242</u>	<u>15,765,815</u>
Total Collective Trust Funds	<u>\$ 82,506,218</u>	<u>\$ 77,524,953</u>
Mutual Funds:		
Vanguard Mortgage Backed Security ETF	<u>1,166,656</u>	<u>1,112,800</u>
Total Mutual Funds	<u>\$ 1,166,656</u>	<u>\$ 1,112,800</u>

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Republic of Palau Social Security Administration

We have audited, in accordance with the 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, the financial statements of the Republic of Palau Social Security Administration (ROPSSA), a component unit of the Republic of Palau, which comprise the statement of fiduciary net position as of September 30, 2023, and the related statement of revenues, expenses and changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 7, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ROPSSA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ROPSSA's internal control. Accordingly, we do not express an opinion on the effectiveness of ROPSSA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether ROPSSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for Ernst + Young, written in a black, cursive script font.

April 7, 2026