

REPUBLIC OF PALAU SOCIAL SECURITY  
RETIREMENT FUND

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Republic of Palau Social Security Retirement Fund:

We have audited the accompanying statements of net assets of the Republic of Palau Social Security Retirement Fund (the Fund), a component unit of the Republic of Palau, as of September 30, 2009 and 2008, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2009 and 2008, and its changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Fund's basic financial statements. The Combining Statement of Net Assets and the Combining Statement of Changes in Net Assets as of and for the year ended September 30, 2009 (pages 21 and 22), the Schedule of Administrative Deductions for the years ended September 30, 2009 and 2008 (page 23) and the Schedule of Investments as of September 30, 2009 (pages 24 through 27) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This additional information is the responsibility of Fund's management. The Combining Statement of Net Assets, the Combining Statement of Changes in Net Assets, the Schedule of Administrative Deductions and the Schedule of Investments have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2010, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Deloitte & Touche LLC*

March 3, 2010



*Republic of Palau*  
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**Management's Discussion and Analysis**  
**Year Ended September 30, 2009**

**Background:**

The Republic of Palau Social Security Administration (the Fund) is descended from the Trust Territory Social Security System, which was established on July 1, 1968. The Trust Territory Social Security System (TTSSS) ended when the Trust Territory of the Pacific Islands Government devolved into four separate entities. Palau enacted Republic of Palau Public Law (RPPL) 2-29, the *Social Security Act of 1987*, which established the Palau Social Security Trust Fund (the Trust Fund) that took over the Palau share of assets and liabilities of the TTSSS. At that time, the assets of the Trust Fund were \$4,418,671 with 13,000 members. In fiscal year 1993, the Fund had its first actuarial valuation performed, which determined that the Trust Fund had \$8.7 million in assets and \$29 million in unfunded liability, and 22,265 registered members. Over the years, the Fund has registered over 60,608 members cumulatively, with total assets for fiscal year ended in September 30, 2009 of \$72,223,403.

**Organization:**

The Fund is under the general supervision of a five-member Board, the Social Security Board of Trustees, who are appointed by the President with the advice and consent of the Senate of the Republic of Palau. The Fund was established by the enactment of RPPL 2-29, revised in 1991 by RPPL 3-64, to provide for retirement, survivor, disability and death benefits to covered wage earners and self-employed persons and their qualified survivors.

**Funding:**

The contribution rate increased from 5% to 6% beginning on October 1, 2001 for employees with a matching 6% from employers; self-employed persons, therefore, pay 12%, with a minimum creditable wage of \$300 and a maximum taxable wage of \$3,000 per quarter. On October 1, 2007, the maximum taxable wage increased to \$4,000 per quarter and then increased again to \$5,000 per quarter on October 2, 2008 with the passage of RPPL 7-32.

**Overview of Financial Statements:**

The Fund's net assets for the year ended September 30, 2009 was \$71,842,368 as compared to \$66,902,188 for fiscal year 2008, which was due mainly to gains in the Fund's investments.

The Fund's net assets for the year ended September 30, 2008 was \$66,902,188 as compared to \$74,052,069 for fiscal year 2007, which was due mainly to losses in the Fund's investments which yielded negative investment earnings of \$7,955,626.

**Statements of Net Assets:**

	<u>FY09</u>	<u>FY08</u>	<u>FY07</u>
Total assets	\$ 72,223,403	\$ 67,278,384	\$ 74,428,495
Total liabilities	<u>381,035</u>	<u>376,196</u>	<u>376,426</u>
<b>Net assets held in trust for benefits and other purposes</b>	<b>\$ <u>71,842,368</u></b>	<b>\$ <u>66,902,188</u></b>	<b>\$ <u>74,052,069</u></b>

**Statements of Changes in Net Assets:**

	<u>FY09</u>	<u>FY08</u>	<u>FY07</u>
Total additions	\$ 14,585,129	\$ 1,403,987	\$ 18,448,031
Total deductions	<u>9,644,949</u>	<u>8,553,868</u>	<u>7,353,242</u>
<b>Changes in net assets</b>	<b>4,940,180</b>	<b>(7,149,881)</b>	<b>11,094,789</b>
Net assets at beginning of year	<u>66,902,188</u>	<u>74,052,069</u>	<u>62,957,280</u>
<b>Net assets at end of year</b>	<b>\$ <u>71,842,368</u></b>	<b>\$ <u>66,902,188</u></b>	<b>\$ <u>74,052,069</u></b>

**Fixed Assets:**

At September 30, 2009, 2008, and 2007, the Fund had \$337,700, \$398,160, and \$382,034 respectively, in fixed assets, net of accumulated depreciation where applicable, including land, building and improvements, office furniture and equipment and vehicles, which represent a net decrease in 2009 of \$60,460 or 15% due to costs of depreciation and a net increase in 2008 of \$16,126 or 4% over 2007. See note 6 to the financial statements for more information on the Fund's fixed assets.

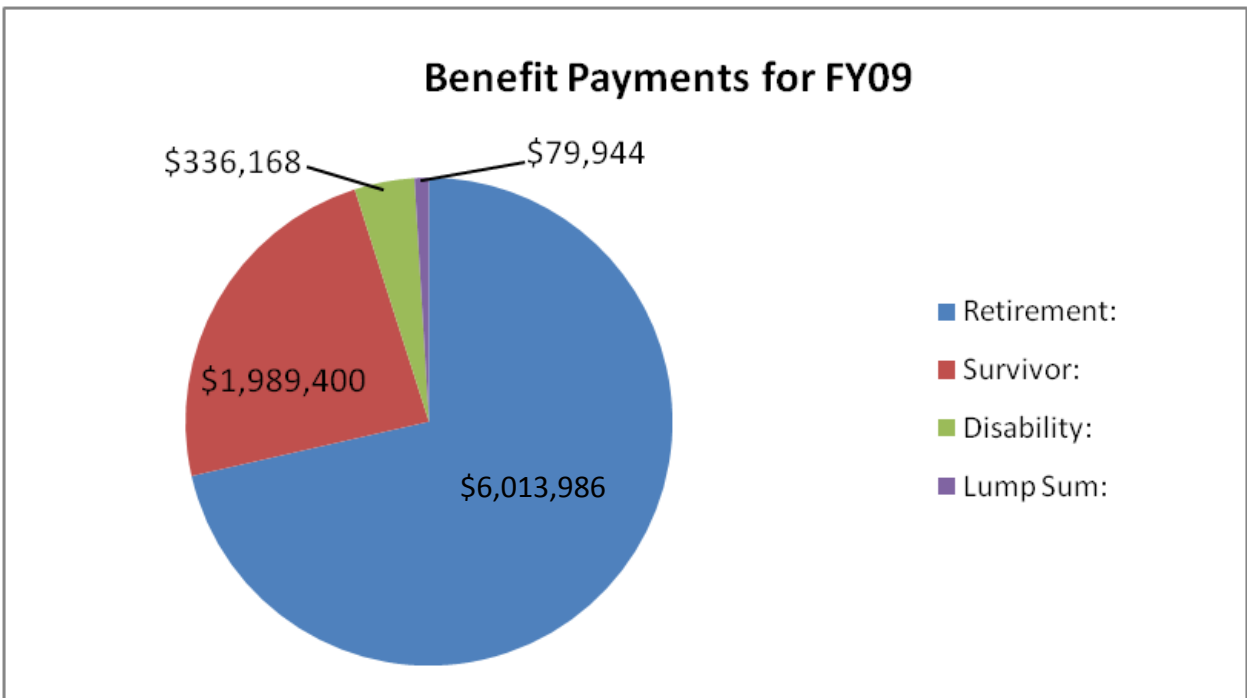
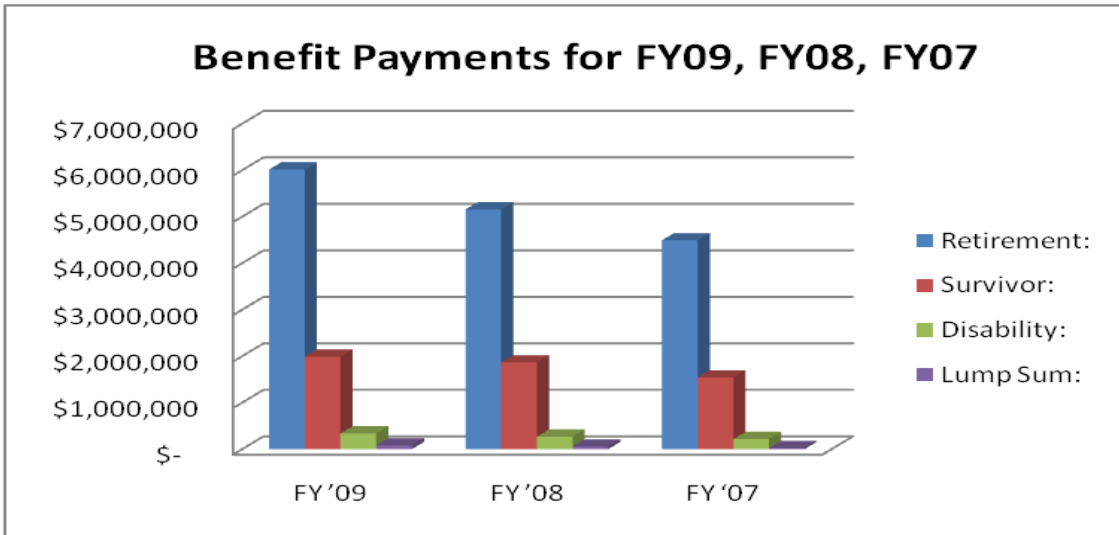
**Benefit Payments:**

Retirement benefits are paid to qualified workers who are fully insured as defined by law. Disability benefits are payable to qualified workers who are fully and currently insured. Benefits are also paid to the surviving spouse of deceased workers and their children 18 years or younger, or 22 if full-time students. Lump sum death benefits are paid after the death of an employee contributor and no survivor is eligible to receive monthly cash benefits.

Total benefit payments increased by 15% in 2009 from \$7,337,676 to \$8,419,498, as compared to 17% in 2008.

Breakdown of benefit payments for FY09, FY08 and FY07:

<u>Benefit Type</u>	<u>FY09</u>	<u>FY08</u>	<u>FY07</u>
Retirement	\$ 6,013,986	\$ 5,154,679	\$ 4,490,071
Survivor	\$ 1,989,400	\$ 1,863,794	\$ 1,539,530
Disability	\$ 336,168	\$ 265,581	\$ 214,410
Lump Sum	\$ 79,944	\$ 53,622	\$ 18,830



**Actuarial Valuation:**

An actuarial valuation was ordered as of October 1, 2008, mainly to assess the actuarial cost of RPPL 7-32 which became effective in August 2007.

Actuarial valuation as of October 1, 2008 as compared to 2006:

	<u>2008</u>	<u>2006</u>
Total accrued liability	\$ 160,675,000	\$ 127,568,000
Market value of assets	(66,902,000)	(62,957,000)
Unfunded past service liability	93,773,000	64,611,000
Funded states	42%	49%
Current value of excess employee contributions from active employees	<u>(30,462,000)</u>	<u>(43,192,000)</u>
Total deficiency	\$ <u>63,311,000</u>	\$ <u>21,419,000</u>

The unfunded accrued liability is greatly affected by the level of Trust assets, which is affected by the investment performance of the Trust. When feasibility studies (there were five (5) scenarios) were performed in 2006 in the process of crafting what became RPPL 7-32, the investments of the Trust had been experiencing positive returns since 2003, but the Trust realized major investment losses in 2008. The valuation as of October 1, 2008 is a reflection, therefore, of increased costs due to RPPL 7-32 coupled with the lower value of Trust assets.

In July 2009, RPPL 8-5 was signed into law which added \$1,017,000 to the unfunded liability as of June 1, 2009.

Additionally, there are two proposed legislations, Senate Bills 8-35 and 8-85 which in our opinion would have negative impacts to the Trust Funds.

- a) Senate Bill No. 8-35 seeks to merge the Palau Civil Service Pension Plan (CSSP) with the Social Security Administration (SSA). It is widely known that CSSP is experiencing cash flow problems, and has been in that precarious situation for some time. SSA, while not fully funded, still enjoys positive cash flows, and has been in that position for many years. The concern is that if both programs are under one Board of Trustees, the Board might be tempted to help CSSP with SSA's excess cash to SSA's detriment.
- b) Senate Bill 8-85 seeks to raise the earnings test ceiling to \$3,000 from \$1,800 per quarter, with Survivor's earning test ceiling raised from \$1,500 to \$2,500 per quarter. This will further add to the unfunded liability of the Trust Fund, but more importantly, we estimate that it would increase the cash out flow by \$9,824 per month, further eroding the Trust's ability to reduce its unfunded liability over time.

We have provided our written comments to the Senate, and have spoken to some of its key members and are hopeful that both proposed legislations will be tabled.

### **Economic Outlook:**

No factors have come to our attention that impact changes in the economic outlook to date.

### **Contacting the Fund's Financial Management:**

The financial report is designed to provide a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. The Management Discussion and Analysis for the year ended September 30, 2008 is set forth in the report on the audit of the Fund's financial statements which is dated March 11, 2009. That Discussion and Analysis explains the major facts impacting the 2008 financial statements. If you have questions about the 2008 or 2007 reports, or need additional information, please contact the Fund's Administrator at the Republic of Palau Social Security Retirement Fund, P.O. Box 679, Koror, Republic of Palau 96940, or e-mail [administration@ropssa.org](mailto:administration@ropssa.org) or call 488-2457.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Net Assets  
September 30, 2009 and 2008

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
Cash	\$ 426,998	\$ 951,699
Investments:		
Corporate stock	32,117,514	25,776,398
U.S. Government obligations	21,232,727	19,830,035
Corporate bonds	8,671,198	7,133,567
Money market funds and other short-term investments	1,954,459	7,318,469
Total investments	<u>63,975,898</u>	<u>60,058,469</u>
Receivables:		
Contributions	3,398,474	2,672,315
Loan	4,500,000	3,500,000
Accrued interest and dividends	368,995	310,967
Advance and other	34,350	107,800
	<u>8,301,819</u>	<u>6,591,082</u>
Less allowance for doubtful accounts	<u>(825,113)</u>	<u>(724,976)</u>
Total receivables, net	<u>7,476,706</u>	<u>5,866,106</u>
Prepaid expense	6,101	3,950
Property, plant and equipment, net	<u>337,700</u>	<u>398,160</u>
Total assets	<u>72,223,403</u>	<u>67,278,384</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Benefits payable	301,089	283,200
Accrued liabilities and accounts payable	79,946	92,996
Total liabilities	<u>381,035</u>	<u>376,196</u>
Contingencies		
Net assets:		
Held in trust for benefits and other purposes	<u>\$ 71,842,368</u>	<u>\$ 66,902,188</u>

See accompanying notes to financial statements.



REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Changes in Net Assets  
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Additions:		
Contributions:		
Government employees	\$ 5,095,554	\$ 4,431,514
Private employees	4,635,156	4,708,819
Penalties and interest	295,973	342,979
	<u>10,026,683</u>	<u>9,483,312</u>
Less bad debts	(197,294)	(423,957)
Total contributions, net	<u>9,829,389</u>	<u>9,059,355</u>
Investment income:		
Net increase (decrease) in the fair value of investments	2,369,598	(10,298,715)
Interest	1,583,400	1,711,978
Dividends	459,623	631,111
	<u>4,412,621</u>	<u>(7,955,626)</u>
Other income	343,119	300,258
Total additions	<u>14,585,129</u>	<u>1,403,987</u>
Deductions:		
Benefit payments:		
Retirement	6,013,986	5,154,679
Survivor's	1,989,400	1,863,794
Disability	336,168	265,581
Lump sum	79,944	53,622
	<u>8,419,498</u>	<u>7,337,676</u>
Administrative	905,681	862,948
Investment management fee	151,815	185,747
Fund custodian fee	107,495	110,344
Depreciation	60,460	57,153
	<u>9,644,949</u>	<u>8,553,868</u>
Total deductions	<u>9,644,949</u>	<u>8,553,868</u>
Change in net assets	4,940,180	(7,149,881)
Net assets at beginning of year	<u>66,902,188</u>	<u>74,052,069</u>
Net assets at end of year	<u>\$ 71,842,368</u>	<u>\$ 66,902,188</u>

See accompanying notes to financial statements.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

## (1) Organization and Purpose

The Republic of Palau Social Security Retirement Fund (the Fund), a component unit of the Republic of Palau, was created under Republic of Palau Public Law (RPPL) No. 2-29, passed into law on May 28, 1987, and revised by RPPL No. 3-64, passed into law on December 20, 1991, and began operations in a transition phase on October 1, 1987. The Fund is administered under the authority of five trustees appointed by the President with the advice and consent of the Senate of the Republic of Palau. The Fund provides retirement, disability and death benefits to qualified individuals and their survivors. Additionally, the Fund is responsible for processing, monitoring and distributing benefit claims under the Prior Service Benefits Program (see note 3). Accordingly, the Fund established the Prior Service Fund to account for activities under this program.

## (2) Summary of Significant Accounting Policies

### Basis of Accounting

The Fund prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as additions to net assets in the quarter employee earnings are paid. Benefits are recognized as deductions from net assets when the corresponding liabilities are incurred regardless of when payment is made.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

### Concentrations of Credit Risk

Financial instruments which potentially subject the Fund to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2009 and 2008, the Fund has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The Fund has not experienced any losses in such accounts.

### Cash

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by the Fund or its agent in the Fund's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Fund's name; or

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

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

### Cash, Continued

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Fund's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The Fund does not have a deposit policy for custodial credit risk.

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

As of September 30, 2009 and 2008, cash was \$426,998 and \$951,699, respectively, and the corresponding bank balance was \$484,633 and \$977,482, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2009 and 2008, bank deposits in the amount of \$250,000 and \$100,000, respectively, were FDIC insured. Accordingly, the deposits are exposed to custodial credit risk. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

### Investments

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

- Category 1 Investments that are insured or registered, or securities held by the Fund or its agent in the Fund's name;
- Category 2 Investments that are uninsured or unregistered for which the securities are held by the counterparty's trust department or agent in the Fund's name; or
- Category 3 Investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the Fund's name.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks for investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial risk in GASB Statement No. 3.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

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

- (1) Cash
  - (A) Short-term investment funds;
  - (B) U.S. Treasury and agency obligations;
  - (C) Commercial paper rated by two nationally recognized rating agencies and at least one of the ratings is A1 or P1;
  - (D) Repurchase agreements with a maximum maturity of 180 days from financial institutions or securities dealers qualified to do business as set forth below. The repurchase agreements must be collateralized at least 102% with allowable securities as set forth in the Fund's investment policy, except in the case of "due bills" which are collateralized by the financial institution's or dealer's entire inventory:
    - a) Banks must have achieved a Bankwatch/International Bank Credit Analyst rating of B or better for bank investments.
    - b) Brokers/Dealers must appear on the Primary Government Dealer list; and
  - (E) Certificates of deposit or banker's acceptances issued by financial institutions with commercial paper rating of at least P1 by Moody's Investor Service (Moody's) or A1 by Standard & Poor's (S&P).
- (2) U.S. Fixed Income
  - (A) Bonds, notes, and passthrough securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities;
  - (B) U.S. corporate bonds and nonconvertible preferred stock rated BBB-/Baa3 or better by Moody's, S&P 500 or Fitch;
  - (C) Secured debt instruments with credit ratings of AAA excluding "interest only" and "principal only" derivatives securities;
  - (D) Debt issued by foreign entities in the U.S. provided that both principal and interest are payable in U.S. dollars and provided that such debt is rated BBB-/Baa3 or better by Moody's, S&P 500 or Fitch;
  - (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; and
  - (F) No type of security that has been in the market for less than ten years may be purchased without prior written approval of the Fund's Board of Trustees.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

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

### Investments, Continued

#### (3) U.S. Large Cap Equities

- (A) Common stock and convertible securities of U.S. 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) with a market capitalization (at time of purchase) that falls within the range of the Russel 1000 Index;
- (B) American Depository Receipts (ADRs) that are listed on the NYSE, AMEX, or NASDAQ provided the total investment in these securities does not exceed 10% of the total assets managed by the Fund's investment manager at the time of purchase and such investments are in industries and areas of the market that the Fund's investment manager already has proven expertise;
- (C) Equity portfolios shall be diversified among issuers and industry classifications. The market value of the equity holdings in a single corporation should not exceed 5%, nor 5% of the corporation's total market capitalization; and
- (D) An investment manager's firm aggregate equity position should not exceed 5% of the corporation's total market capitalization.

#### (4) International Equities

- (A) Equity securities of Corporations provided they are listed on the stock exchange of countries included in the MSCI EAFE Index;
- (B) Equity securities of companies from countries included in the MSCI EMF Index are allowed, provided that the total investment in these companies does not exceed 15% of the total market value of the assets managed by the Fund's investment manager;
- (C) ADR's, EDR's and GDR's relating to any of the above are allowable; and
- (D) Portfolios shall be diversified among issuers, industry classifications and countries. The market value of the equity holdings in a single corporation should not exceed 5% of the market value of the portfolio under management by the Fund's investment manager.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Fund's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the Fund's name by the Fund's custodial financial institutions at September 30, 2009 and 2008.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

(2) Summary of Significant Accounting Policies, Continued

Investments, Continued

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The following is a listing of the Fund's fixed income securities at September 30, 2009 and 2008:

Investment Type	Fair Value	2009				Rating
		Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 6,599,655	\$ -	\$ 2,895,574	\$ 1,759,882	\$ 1,944,199	AAA
Other U.S. government obligations	4,992,104	51,515	3,280,638	509,849	1,150,102	AAA
Mortgage pass throughs	8,993,814	-	61,447	145,312	8,787,055	AAA
Collateralized mortgage obligations	535,360	-	-	-	535,360	AAA
Municipal obligations	111,794	-	-	-	111,794	AA
Corporate bonds	1,802,952	-	816,195	309,939	676,818	AAA
Corporate bonds	2,126,003	-	1,119,035	715,190	291,778	AA
Corporate bonds	2,793,292	-	735,888	1,104,647	952,757	A
Corporate bonds	<u>1,948,951</u>	<u>341,859</u>	<u>443,773</u>	<u>897,377</u>	<u>265,942</u>	BBB
	<u>\$ 29,903,925</u>	<u>\$ 393,374</u>	<u>\$ 9,352,550</u>	<u>\$ 5,442,196</u>	<u>\$ 14,715,805</u>	

Investment Type	Fair Value	2008				Rating
		Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 4,757,442	\$ -	\$ 1,069,723	\$ 1,810,288	\$ 1,877,431	AAA
Other U.S. government obligations	5,478,111	396,524	3,749,365	525,190	807,032	AAA
Mortgage pass throughs	8,543,271	-	80,799	-	8,462,472	AAA
Collateralized mortgage obligations	501,211	-	-	-	501,211	AAA
Municipal obligations	550,000	550,000	-	-	-	AAA
Corporate bonds	1,382,566	59,271	702,700	-	620,595	AAA
Corporate bonds	1,208,565	311,040	363,726	165,427	368,372	AA
Corporate bonds	2,292,827	533,195	419,804	652,378	687,450	A
Corporate bonds	<u>2,249,609</u>	<u>212,340</u>	<u>735,012</u>	<u>1,074,815</u>	<u>227,442</u>	BBB
	<u>\$ 26,963,602</u>	<u>\$ 2,062,370</u>	<u>\$ 7,121,129</u>	<u>\$ 4,228,098</u>	<u>\$ 13,552,005</u>	

Receivables and Allowance for Doubtful Accounts

Contribution receivables 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.

Fixed Assets

The Fund's fixed assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of \$2,500.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

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

### Future Liabilities and Contributions

No recognition is given in the accompanying financial statements to the present value of liabilities of prospective benefit payments or the present value of future contributions required from employees or employers.

### Accrued Annual Leave

The Fund recognizes costs for accrued annual leave at the time such leave is earned. Unpaid accrued annual leave is included in administrative deductions and accrued liabilities in the accompanying financial statements.

It is the policy of the Fund to record sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. Management has determined that the estimated amount of unused sick leave at September 30, 2009 and 2008 is not material to the financial statements.

### Contributions

Contributions to the Fund are governed by RPPL No. 2-29 as revised by RPPL No. 3-64 and amended by RPPL No. 5-34, RPPL No. 6-13, RPPL No. 7-32 and RPPL No. 8-5, which imposes a tax on the quarterly income of every employee within the Republic. There is imposed on the income of every employee a tax equal to a percentage of wages received. The maximum amount of wages received increased from \$4,000 per quarter to \$5,000 per quarter effective October 2, 2008. Every employer is required to contribute an amount equal to that contributed by the employee. With respect to wages paid from October 1, 2001 and thereafter, the rate shall be six percent.

### Benefit Payments

Retirement benefits are paid to qualified workers who are fully insured individuals who, as defined by RPPL No. 2-29 and as revised by RPPL No. 3-64, RPPL No. 5-34, RPPL No. 7-32 and RPPL No. 8-5, have attained the age of sixty years, and have filed an application for old age insurance benefits. 60% of basic benefits are also paid to surviving spouses of deceased workers, subject to eligibility requirements. Eligible children who are not married and not working may also receive benefits until age eighteen (18) or up until age twenty-two (22) if in school. Eligible children who become disabled before age twenty-two will continue to receive benefits for the duration of the disability. Disability benefits are paid to qualified workers for the duration of the disability or until retirement or death, at which time retirement or survivor benefits become available.

Effective August 2, 2007, the benefit payments paid monthly are computed upon an annual basis of 21.5% of the first \$11,000 of cumulative covered earnings, plus 2.9% of the next \$33,000, plus 1.5% of cumulative covered earnings in excess of \$44,000. The minimum benefit is \$98.00 per month effective April 1, 2007.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

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

### New Accounting Standards

During fiscal year 2009, the Fund implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

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

In June 2007, GASB issued statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.



# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

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

### New Accounting Standards, Continued

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

## (3) Prior Service Claims

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

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

The Fund assumed administrative functions and received allocations of \$75,994, \$60,319 and \$17,558 from PSTFA on November 5, 2008, May 6, 2009 and August 10, 2009, respectively, and \$157,475 of total funds received, has been paid as benefits for the year ended September 30, 2009. The Fund received fund allocations of \$152,681 on January 31, 2008, and \$156,901, of the total funds received, has been paid for the year ended September 30, 2008. However, while the Fund accepts the liability for any amounts received, the Fund does not accept the obligation to pay future benefits unless additional funds are received from PSTFA. At September 30, 2009 and 2008, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$45,302 and \$48,906, respectively.

# REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

## (4) Republic of Palau Civil Service Pension Trust Fund

The Fund contributes to the Palau Civil Service Pension Trust Fund (the Pension Fund), a defined benefit, cost-sharing multi-employer pension plan established and administered by the Republic of Palau.

The Pension Fund provides retirement, security and other benefits to employees, and their spouses and dependents of the Republic of Palau, Republic of Palau State Governments and Republic of Palau agencies, funds and public corporations, which are paid monthly and are two percent of each member's average monthly salary. Normal benefits are of credited total service up to a maximum of thirty years total service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. RPPL No. 2-26 is the authority under which benefit provisions are established. Member contribution rates are established by RPPL No. 2-26 at six percent (6%) of total payroll and matched dollar for dollar by the employer. The Fund contributed \$23,719, \$20,920 and \$20,058 for the Pension Fund during the fiscal years 2009, 2008 and 2007, respectively.

Under the provisions of RPPL No. 2-26, the Pension Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law, and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code. The Fund's total payroll for fiscal years 2009 and 2008 was covered in total by the Pension Fund's pension plan.

The Pension Fund utilizes the actuarial cost method termed "agreement cost method" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 8.5% per year on the investment of present and future assets, (b) a 3% increase in employee salaries until retirement, and (c) members are assumed to retire at their normal retirement date.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Pension Fund's funding status on a going-concern basis, and evaluate progress made in accumulating adequate assets to pay benefits when due.

The Fund's October 1, 2007 actuarial valuation determined the unfunded pension benefit obligation as follows:

Participants in pay status	\$ 48,968,000
Active participants	46,002,000
Participants with vested deferred benefits	<u>903,000</u>
Total pension benefit obligation	95,873,000
Net assets available for benefits, at market value	<u>48,358,000</u>
Unfunded benefit obligation	\$ <u>47,515,000</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

(4) Republic of Palau Civil Service Pension Trust Fund, Continued

The actuarial valuation did not provide a breakdown of actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor. The amount of the unfunded liability that the Fund may be liable for has not been determined and is not included as a liability in the accompanying statements of net assets.

(5) Loan Receivable

On August 28, 2003, the Fund entered into a loan agreement with the National Development Bank of Palau (NDBP), an affiliated entity and a component unit of the Republic of Palau. The loan was for \$3,000,000 with a subsequent \$2,000,000 line of credit to be made available with terms and conditions to be agreed to by the parties at that time.

On August 7, 2008, the Fund entered into a new loan agreement to restructure the existing loan with NDBP. The loan ceiling increased to \$6,000,000, which will be disbursed in increments of \$500,000, bearing interest at a variable annual rate equal to the Fund's Fixed Income Fund Return Rate as reported monthly by the Fund's investment consultant, plus 0.5%; provided, however that the interest rate to be charged and paid by NDBP shall not be less than 4.5% nor more than 7.5% after addition of the 0.5% to the prime rate. Outstanding principal plus all unpaid interest are to be paid semi-annually, on or before June 30 and December 31 of each year, effective June 30, 2011 up to December 31, 2025.

The loan receivable from NDBP was \$4,500,000 and \$3,500,000 with interest at 4.5% at September 30, 2009 and 2008, respectively. The loan is collateralized by the full faith and credit of the Republic of Palau Government.

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	\$ 202,500	\$ 202,500
2011	300,000	199,097	499,097
2012	300,000	186,115	486,115
2013	300,000	172,097	472,097
2014	300,000	158,597	458,597
2015 - 2019	1,500,000	590,856	2,090,856
2020 - 2024	1,500,000	253,282	1,753,282
2025	<u>300,000</u>	<u>7,397</u>	<u>307,397</u>
	<u>\$ 4,500,000</u>	<u>\$ 1,769,941</u>	<u>\$ 6,269,941</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

(6) Fixed Assets

A summary of the Fund's fixed assets, at original cost, as of September 30, 2009 and 2008, is as follows:

	<u>Estimated Useful Lives</u>	Balance October 1, 2008	<u>Additions</u>	<u>Deletions</u>	Balance September 30, 2009
Capital assets not being depreciated:					
Land		\$ <u>207,018</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>207,018</u>
Capital assets being depreciated:					
Building and improvements	30 years	132,315	-	-	132,315
Office furniture and equipment	4 - 13 years	249,166	-	-	249,166
Vehicles	2 years	<u>98,332</u>	<u>-</u>	<u>(24,080)</u>	<u>74,252</u>
		479,813	-	(24,080)	455,733
Less accumulated depreciation		<u>(288,671)</u>	<u>(60,460)</u>	<u>24,080</u>	<u>(325,051)</u>
Total capital assets being depreciated		<u>191,142</u>	<u>(60,460)</u>	<u>-</u>	<u>130,682</u>
Total capital assets, net		\$ <u>398,160</u>	\$ <u>(60,460)</u>	\$ <u>-</u>	\$ <u>337,700</u>
	<u>Estimated Useful Lives</u>	Balance October 1, 2007	<u>Additions</u>	<u>Deletions</u>	Balance September 30, 2008
Capital assets not being depreciated:					
Land		\$ <u>207,018</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>207,018</u>
Capital assets being depreciated:					
Building and improvements	30 years	132,315	-	-	132,315
Office furniture and equipment	4 - 13 years	207,589	41,577	-	249,166
Vehicles	2 years	<u>66,630</u>	<u>31,702</u>	<u>-</u>	<u>98,332</u>
		406,534	73,279	-	479,813
Less accumulated depreciation		<u>(231,518)</u>	<u>(57,153)</u>	<u>-</u>	<u>(288,671)</u>
Total capital assets being depreciated		<u>175,016</u>	<u>16,126</u>	<u>-</u>	<u>191,142</u>
Total capital assets, net		\$ <u>382,034</u>	\$ <u>16,126</u>	\$ <u>-</u>	\$ <u>398,160</u>

Land acquired will be exchanged for land upon which the Fund intends to construct an office facility.

(7) Contingencies

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

## REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements  
September 30, 2009 and 2008

### (7) Contingencies, Continued

An actuarial valuation of the Fund has determined that the Fund had an actuarial deficiency of approximately \$63,311,000 as of October 1, 2008. Unless the existing deficiency is corrected, the Fund's cash flow may eventually become negative, which will cause the Fund to become depleted to the point that the Fund will not be able to meet its benefit obligations. The Fund has not developed a formal plan as of September 30, 2009, to correct this potential funding deficiency.

### (8) Risk Management

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

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Net Assets  
September 30, 2009

<u>ASSETS</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Total
Cash	\$ 370,741	\$ 56,257	\$ 426,998
Investments:			
Corporate stock	32,117,514	-	32,117,514
U.S. Government obligations	21,232,727	-	21,232,727
Corporate bonds	8,671,198	-	8,671,198
Money market funds and other short-term investments	1,954,459	-	1,954,459
Total investments	<u>63,975,898</u>	<u>-</u>	<u>63,975,898</u>
Receivables:			
Contributions	3,398,474	-	3,398,474
Loan	4,500,000	-	4,500,000
Accrued interest and dividends	368,995	-	368,995
Advance and other	34,350	-	34,350
	<u>8,301,819</u>	<u>-</u>	<u>8,301,819</u>
Less allowance for doubtful accounts	<u>(825,113)</u>	<u>-</u>	<u>(825,113)</u>
Total receivables, net	<u>7,476,706</u>	<u>-</u>	<u>7,476,706</u>
Prepaid expense	<u>6,101</u>	<u>-</u>	<u>6,101</u>
Property, plant and equipment, net	<u>337,700</u>	<u>-</u>	<u>337,700</u>
Total assets	<u>72,167,146</u>	<u>56,257</u>	<u>72,223,403</u>
<u>LIABILITIES AND NET ASSETS</u>			
Liabilities:			
Benefits payable	290,134	10,955	301,089
Accrued liabilities and accounts payable	79,946	-	79,946
Total liabilities	<u>370,080</u>	<u>10,955</u>	<u>381,035</u>
Net assets:			
Held in trust for benefits and other purposes	<u>\$ 71,797,066</u>	<u>\$ 45,302</u>	<u>\$ 71,842,368</u>

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Changes in Net Assets  
Year Ended September 30, 2009

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Additions:			
Contributions:			
Government employees	\$ 5,095,554	-	\$ 5,095,554
Private employees	4,635,156	-	4,635,156
Penalties and interest	295,973	-	295,973
	<u>10,026,683</u>	<u>-</u>	<u>10,026,683</u>
Less bad debts	(197,294)	-	(197,294)
Total contributions, net	<u>9,829,389</u>	<u>-</u>	<u>9,829,389</u>
Investment income:			
Net increase in the fair value of investments	2,369,598	-	2,369,598
Interest	1,583,400	-	1,583,400
Dividends	459,623	-	459,623
Total investment income, net	<u>4,412,621</u>	<u>-</u>	<u>4,412,621</u>
Other income	<u>189,248</u>	<u>153,871</u>	<u>343,119</u>
Total additions	<u>14,431,258</u>	<u>153,871</u>	<u>14,585,129</u>
Deductions:			
Benefit payments:			
Retirement	5,932,486	81,500	6,013,986
Survivor's	1,934,533	54,867	1,989,400
Disability	336,168	-	336,168
Lump sum	79,944	-	79,944
Total benefit payments	<u>8,283,131</u>	<u>136,367</u>	<u>8,419,498</u>
Administrative	884,573	21,108	905,681
Investment management fee	151,815	-	151,815
Fund custodian fee	107,495	-	107,495
Depreciation	60,460	-	60,460
Total deductions	<u>9,487,474</u>	<u>157,475</u>	<u>9,644,949</u>
Change in net assets	4,943,784	(3,604)	4,940,180
Net assets at beginning of year	<u>66,853,282</u>	<u>48,906</u>	<u>66,902,188</u>
Net assets at end of year	<u>\$ 71,797,066</u>	<u>\$ 45,302</u>	<u>\$ 71,842,368</u>

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions  
 Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Salaries, wages and benefits	\$ 469,778	\$ 402,756
Board members other expenses	117,694	105,962
Professional services	55,848	41,906
Staff development and training	46,136	36,653
Supplies, printing and reproduction	39,183	37,244
Travel and transportation	34,196	39,237
Utilities	25,945	23,186
Communications	18,387	17,991
Repairs and maintenance	14,959	11,542
Furniture and fixtures	7,862	3,232
Representation and entertainment	7,701	31,203
Office equipment	6,657	45,872
Insurance	6,073	5,806
Board compensation	2,850	1,900
Fuel and oil	2,751	5,910
Dues, subscriptions and registrations	2,170	1,051
Miscellaneous	<u>47,491</u>	<u>51,497</u>
Total administrative deductions	\$ <u>905,681</u>	\$ <u>862,948</u>

See accompanying independent auditors' report.



REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2009

	Cost	Fair Value
<u>Cash and Cash Equivalents</u>		
Cash	\$ 123,584	\$ 125,105
STIP 3: US Treasury & Agency	59,500	59,500
Total Cash and Cash Equivalent - Account#491206600	<u>183,084</u>	<u>184,605</u>
<u>Money Market Funds</u>		
Pacific Capital Cash Assets Trust - Account #135074870	27,280	27,280
Pacific Capital Cash Assets Trust - Account #140011107	1,014,428	1,014,428
Pacific Capital US Gov't Securities Cash Assets Trust - Account #140011156	728,146	728,146
Total Money Market Funds	<u>1,769,854</u>	<u>1,769,854</u>
Total Money Market Funds and Other Short-Term Investments	<u>\$ 1,952,938</u>	<u>\$ 1,954,459</u>
<u>U.S. Government Obligations</u>		
US Treasury Notes, 1.5% due on 7/15/2012	\$ 1,132,932	\$ 1,139,670
US Treasury Notes, 4.625% due on 7/31/2012	30,417	32,756
US Treasury Notes, 4.75% due on 5/15/2014	957,310	1,058,955
US Treasury Notes, 2.625% due on 7/31/2014	588,839	598,848
US Treasury Notes, 4.25% due on 8/15/2015	62,625	65,344
US Treasury Notes, 4.25% due on 11/15/2017	1,449,166	1,513,888
US Treasury Notes N/B, 3.125% due on 5/15/2019	246,563	245,995
US Treasury Bonds, 6.25% due on 8/15/2023	1,141,366	1,253,440
US Treasury Bonds, 5.25% due on 11/15/2028	632,425	690,759
	<u>6,241,643</u>	<u>6,599,655</u>
<u>U.S. Government Agencies</u>		
Federal Home Loan Bank Bonds FLT QTLY, 5% due on 5/26/2010	50,000	51,516
Federal National Mortgage Association Notes, 5.5% due on 3/15/2011	160,992	160,407
Federal National Mortgage Association Notes, 1.375% due on 10/7/2011	300,000	301,407
General Electric Cap Corporation FDIC Guaranteed, 3% due on 12/9/2011	429,365	439,858
Federal National Mortgage Association Notes, 2.5% due on 2/17/2012	349,738	352,408
PNC Funding Corporation FDIC Guaranteed, 2.3% due on 6/22/2012	199,766	203,590
Federal Home Loan Mortgage Corp Notes, 2.45% due on 6/29/2012	601,650	606,906
Citigroup Funding, Inc. FDIC Guaranteed, 2.25% 12/10/2012	160,582	162,154
Federal Home Loan Mortgage Corp Notes, 2.5% due on 4/8/2013	524,475	528,869
Federal Home Loan Mortgage Corp Gold Pool, 4.5% due on 6/1/2014	59,265	61,447
Federal National Mortgage Association Notes, 3.5% due on 8/25/2014	520,000	525,039
Tennessee Valley Auth Notes, 5.5% due on 7/18/2017	204,710	224,048
Federal Home Loan Mortgage Corp Gold Pool, 4.5% due on 3/1/2019	130,910	145,312
Federal National Mortgage Association Notes, 4% due on 4/22/2019	285,000	285,801
Resolution Funding Corp Bonds, 8.875% due on 7/15/2020	516,562	481,541
Federal Home Loan Mortgage Corp Gold Pool, 5.5% due on 4/1/2021	106,526	114,893
Federal National Mortgage Association Notes, 5.5% due on 6/25/2024	130,000	129,797
Federal National Mortgage Association Notes, 5.5% due on 5/10/2027	124,375	130,586
Federal Home Loan Mortgage Corp Pool, 5% due on 2/1/2033	230,983	233,146
Federal Home Loan Mortgage Corp Pool, 5% due on 5/1/2033	637,138	645,812
Federal National Mortgage Association Pool, 5% due on 9/1/2033	281,915	283,313
Federal National Mortgage Association Pool, 4.5% due on 10/1/2033	213,797	233,542
Federal National Mortgage Association Pool, 5% due on 3/1/2034	33,882	37,727
Federal Home Loan Mortgage Corp Pool, 5.083% due on 9/1/2034	130,499	139,535
Federal National Mortgage Association Pool, 5.135% due on 10/1/2034	111,646	117,850
Federal National Mortgage Association Pool, 6% due on 10/1/2034	298,759	314,745
Federal National Mortgage Association Pool, 5.5% due on 12/1/2034	856,533	909,018
Federal National Mortgage Association Pool, 6% due on 1/1/2035	387,417	408,178
Federal National Mortgage Association Pool, 5.5% due on 2/1/2035	131,292	141,969
Federal National Mortgage Association Pool, 5.5% due on 2/1/2035	308,987	335,762
Federal Home Loan Mortgage Corp Gold Pool, 5.5% due on 3/1/2035	211,652	230,914
Federal National Mortgage Association Pool, 5% due on 4/1/2035	118,185	129,251
Federal National Mortgage Association Pool, 6% due on 4/1/2035	114,482	122,284
Federal National Mortgage Association Pool, 5.5% due on 6/1/2035	51,217	51,442

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2009

	Cost	Fair Value
<u>U.S. Government Agencies, Continued</u>		
Federal Home Loan Mortgage Corp, 5.5% due on 7/25/2035	480,138	535,360
Federal Home Loan Mortgage Corp Pool, 5% due on 8/1/2035	103,918	103,986
Federal Home Loan Mortgage Corp Gold Pool, 5% due on 8/1/2035	145,712	161,124
Federal Home Loan Mortgage Corp Gold Pool, 5% due on 8/1/2035	63,830	70,590
Federal National Mortgage Association Pool, 5.5% due on 10/1/2035	186,347	197,985
Federal National Mortgage Association Pool, 5.5% due on 10/1/2035	215,661	236,446
Government National Mortgage Mtg Corp Pool, 5.5% due on 11/15/2035	104,995	113,965
Federal National Mortgage Association Pool, 6% due on 12/1/2035	117,064	126,225
Federal Home Loan Mortgage Corp Gold Pool, 6% due on 4/1/2036	76,622	82,523
Federal Home Loan Mortgage Corp Pool, 5% due on 6/1/2036	353,697	369,461
Federal Home Loan Mortgage Corp Pool, 5% due on 6/1/2036	381,987	383,971
Federal National Mortgage Association Pool, 6.5% due on 6/1/2036	132,530	140,732
Federal National Mortgage Association Pool, 6.5% due on 6/1/2036	81,685	86,382
Federal National Mortgage Association Pool, 6% due on 10/1/2036	82,723	86,919
Federal Home Loan Mortgage Corp Gold Pool, 6% due on 12/1/2036	256,412	268,289
Federal Home Loan Mortgage Corp Pool, 5.858% due on 12/1/2036	283,677	299,090
Federal National Mortgage Association Pool, 5.5% due on 12/1/2036	139,599	148,547
Federal National Mortgage Association Pool, 5.5% due on 12/1/2036	427,519	432,176
Federal Home Loan Mortgage Corp Good Pool, 5.5% due on 1/1/2037	167,399	177,975
Federal National Mortgage Association Pool, 5.567% due on 1/1/2037	323,932	342,409
Federal Home Loan Mortgage Corp Good Pool, 6.5% due on 5/1/2037	253,992	265,696
Federal National Mortgage Association Pool, 6.5% due on 4/1/2038	329,851	340,480
Federal National Mortgage Association Pool, 5% due on 2/1/2039	310,096	310,880
	<u>13,991,686</u>	<u>14,521,278</u>
Subtotal - Account#135074870	<u>20,233,329</u>	<u>21,120,933</u>
<u>Municipal Obligations</u>		
First BD-SER B Issuer Subsi @ 6.114% due on 7/1/2029	110,000	111,794
Subtotal - Account#135074870	110,000	111,794
Total U.S. Government Obligations	<u>\$ 20,343,329</u>	<u>\$ 21,232,727</u>
<u>Corporate Bonds</u>		
International Lease Finance Notes, 3.19063% due on 1/15/2010	\$ 350,287	\$ 341,859
HSBC Finance Corp SR Unsecured, 6.75% due on 5/15/2011	18,200	21,080
General Electric Capital Corp Notes, 5.72% due on 8/22/2011	275,000	278,660
Household Finance Corp Notes, 6.375% due on 10/15/2011	138,563	159,107
Kinder Morgan Energy Partners LP Notes, 7.125% due on 3/15/2012	128,393	136,521
Merrill Lynch & Co SR Unsecured, 1.50125% due 6/5/2012	300,000	288,435
International BK Recon & Dev SR Unsecured, 2.1% due on 6/15/2012	374,813	376,590
International Lease Finance Notes, 1.48875% due on 7/13/2012	50,000	39,274
Interamerican Develop Bank SR Unsub, 4.75% due on 10/19/2012	213,860	216,250
General Electric Co Notes, 5% due on 2/1/2013	257,898	263,725
Mercantile Bankshares Corp Sub Notes, 4.625% due on 4/15/2013	101,696	99,190
Georgia Power Company SR Unsecured, 4.9% due on 9/15/2013	151,938	159,263
Pacificorp 1st Mortgage, 5.45% due on 9/15/2013	103,545	108,004
BP Capital Markets Plc SR Unsecured, 5.25% due on 11/7/2013	269,825	295,766
US Bank NA Notes 6.3% due on 2/4/2014	263,167	279,868
European Investment Bank SR Unsub, 2.375% due on 3/14/2014	224,033	223,355
GATX Corp Notes, 8.75% due on 5/15/2014	149,625	168,788
United Parcel Service, 5.1% due on 8/15/2014	995	1,016
Comcast Corpo, 5.85% due on 11/15/2015	209,897	230,034
Cisco Systems, 5.5% due on 2/22/2016	119,452	132,138
Smith International Inc, 6% due on 6/15/2016	201,545	200,956
Ryder System Inc Notes, 5.85% due on 11/1/2016	247,243	252,285
Goldman Sachs Group Inc, 5.625% due on 1/15/2017	74,648	75,557
Merrill Lynch & Co, Subordinated 5.7% due on 5/2/2017	124,793	122,393
Kimberly Clark Corp, 6.125% due on 8/1/2017	109,667	125,264
JP Morgan Chase Bank Subordinated, 6% due on 10/1/2017	724,820	715,190

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2009

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
Harris Corp SR Unsecured, 5.95% due on 12/1/2017	199,304	214,102
Wells Fargo Company SR Unsecured, 5.625% due on 12/11/2017	179,251	189,070
Partnerre Finance Company Guarnt, 6.875% due on 6/1/2008	277,508	295,184
Private Export Funding Secured, 4.375% due on 3/15/2019	298,425	309,939
Morgan Stanley SR Unsecured, 7.3% due on 5/13/2019	149,654	165,041
Duke Capital Corp, 8% due on 10/1/2019	152,061	153,293
Aid Israel US Government Guaranty, 5.5% due on 9/18/2023	309,663	325,665
Pharmacia Corporation Debentures, 6.75% due on 12/15/2027	146,579	149,253
Best Foods Notes, 6.625% due on 4/15/2028	119,392	118,418
Sysco Corp Debentures, 6.5% due on 8/1/2028	96,858	110,226
Apache Finance Canada Company, 7.75% due on 12/15/2029	181,157	195,657
Science Applications Intl Corp, 5.5% due on 7/1/2033	182,012	180,520
Dominion Resources Inc SR Notes Ser F Putable 8/15, 5.25% due on 8/1/2033	109,100	112,649
Alabama Power Co., 5.65% due on 3/15/2035	195,394	198,684
Wal-Mart Stores Inc SR Unsecured, 6.5% due on 8/15/2037	252,470	291,778
Pres & Fellows of Harvard Bonds, 6.3% due on 10/1/2037	337,325	351,151
	<u>\$ 8,370,056</u>	<u>\$ 8,671,198</u>
<u>Corporate Stock</u>		
Adobe Systems Inc	\$ 278,826	\$ 261,016
Allstate Corp	342,700	434,804
American Tower Corp CL	224,020	269,360
Amgen Inc	389,775	373,426
Apple Inc	600,010	1,723,755
AT&T Inc	259,965	289,007
Bank of America Corp	296,131	483,912
Capital One Financial Corp	311,781	625,275
Celgene Corp	91,279	279,500
Cisco Systems	513,293	741,510
CVS/Caremark Corp	267,031	575,378
Disney Walt Co	313,735	420,138
Dow Chemical Co.	558,257	638,715
Dynegy CL	-	138
Express Scripts	687,548	845,622
Freeport McMoran Copper & Gold Class B	416,652	754,710
Gilead Sciences Inc	846,709	809,100
Goldman Sachs Group Inc	601,996	1,327,320
Google Inc CL	762,825	1,493,004
Hewlett-Packard Co	680,162	1,156,645
Intel Corp	289,371	432,497
Int'l Business Machines	954,873	1,243,944
JP Morgan Chase & Co	681,476	1,183,140
Kohl's Corp	220,236	290,955
Medco Health Solutions Inc	516,841	818,588
Merck & Co Inc	482,648	695,860
Metlife Inc Inc	191,957	308,367
Microsoft Corp	581,831	848,760
Occidental Petroleum Corp	664,466	901,600
Oracle	277,118	256,332
Philip Morris International	741,159	833,454
Praxair, Inc.	366,759	408,450
Qual Comm Inc	265,245	251,888
State Street Corp Common	267,502	268,260
Target Corp	540,326	756,216
Union Pacific Corp	624,454	781,890
United Technologies Corp	705,144	846,927
Vale SA SP ADR	302,947	520,425
Visa Inc CL A Shares	342,003	352,461
Wal-Mart Stores Inc	305,730	260,177
Wellpoint Inc	399,695	374,144

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments  
September 30, 2009

	<u>Cost</u>	<u>Fair Value</u>
<u>Corporate Stock, Continued</u>		
Staples Inc	380,706	413,316
Yumi Brands Inc	<u>376,560</u>	<u>364,608</u>
Subtotal - Account#140011156	<u>18,921,742</u>	<u>26,914,594</u>
<u>Corporate Stock - International Equities</u>		
ABB Ltd Sponsored ADR	168,620	140,681
America Movil Sab De C V Spon ADR Ser L	181,799	147,707
ARM Holdings PLC (GBP)	128,725	166,018
ASML Holding N.V.	44,222	62,097
Cochlear Limited (AUD)	131,191	137,784
Companhia Siderurgica Nacional Spon ADR	92,672	100,980
CSL Ltd (AUD)	160,101	137,996
Deutsche Boerse AG (EUR)	166,044	102,143
Esprit Holdings Ltd (HKD)	178,679	102,658
Essilor Intl (EUR)	108,691	102,565
Eutelsat Communications (EUR)	113,996	126,113
Getinge AB (SEK) Par	164,875	120,832
Hang Lung PPTYs (HKD)	130,389	136,303
Hengan International Group Co Ltd (HKD)	148,772	229,716
Hong Kong Land Holdings Ltd (USD)	149,077	165,300
Keyence Corp (JPY)	35,627	42,739
Li & Fung Ltd (HKD)	163,096	177,419
Li Ning Co Ltd (HKD)	108,324	118,481
Lonza Group AG Zuerich (CHF)	64,394	73,037
Luxottica Group Spa Sponsored ADR	128,854	118,818
Man Group PLC (GBP)	151,600	88,357
Mindray Medical Intl Ltd ADR	75,850	84,864
Mitsuo Fudosan Co (JPY)	95,265	67,695
MTU Aero Engines Holding AG (EUR)	172,396	193,758
National Bk Greece S A Sponsored ADR	126,407	89,981
Nintendo Ltd ADR	123,872	72,611
Noble Group Ltd (SGD)	151,648	237,947
QBE Insurance Group Ltd (AUD)	130,045	123,336
Qiagen NV	141,486	144,704
Reckitt Benckiser Group LLC (GBP)	173,167	151,532
Roche Holdings AG Basel (CHF)	109,763	96,952
Sage Group PLC (GBP) Par 1	140,827	134,867
Saipem Spa (EUR)	180,702	164,103
Shionogi & Co Ltd (JPY)	59,348	71,027
Siemens AG Spons ADR	70,102	55,776
Societe Generale De Surveil (CHF)	71,937	80,745
Syngenta AG Sponsored ADR	171,460	149,338
Taiwan Semiconductor MFG Co Spon ADR	44,345	52,871
Tandberg Asa (NOK)	50,750	57,445
Terumo Corp (JPY)	166,410	176,124
Tesco PLC (GBP)	147,683	110,596
Urbi Desarrollos Urbanos SA (MXN)	129,695	86,962
Wellstream Hldgs PLC (GBP)	140,708	90,726
Woolworths Ltd (AUD)	<u>87,305</u>	<u>111,216</u>
Total International Equities - Account#491206600	<u>5,480,919</u>	<u>5,202,920</u>
Total Corporate Stock	<u>\$ 24,402,661</u>	<u>\$ 32,117,514</u>

See accompanying independent auditors' report.