

**REPUBLIC OF PALAU SOCIAL SECURITY
RETIREMENT FUND**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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, 2011 and 2010, 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, 2011 and 2010, and its changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2012, 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.

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, 2011 (pages 21 and 22), the Schedule of Administrative Deductions for the years ended September 30, 2011 and 2010 (page 23) and the Schedule of Investments as of September 30, 2011 (pages 24 through 28) 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 the 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.

Deloitte & Touche LLC

April 17, 2012



Republic of Palau
SOCIAL SECURITY ADMINISTRATION

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Management's Discussion and Analysis
Year Ended September 30, 2011

Background:

The Republic of Palau Social Security Administration (the Fund) is descended from the Trust Territory Social Security System (TTSSS), which was established on July 1, 1968. The TTSSS ended when the Trust Territory of the Pacific Islands Government devolved into four separate entities. The Republic of Palau (ROP) 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 ROP's 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 \$29.0 million in unfunded liability and 22,265 registered members. Over the years, the Fund has registered over 66,021 members cumulatively, with total assets for fiscal year ended in September 30, 2011 of \$81,405,952. 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. Further, the Fund was appointed responsibility under 41 PNC, Section 723 for the administration and operation of the Medical Savings Fund and the Palau Health Insurance.

Organization:

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

Funding:

The employee contribution rate increased from 5% to 6% beginning on October 1, 2001, with a matching 6% from employers. Self-employed persons 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 again to \$5,000 per quarter on October 2, 2008 with the passage of RPPL 7-32. Contributions to the Healthcare Fund are governed by RPPL No. 8-14, which requires each participating employee to pay the minimum contribution of 2.5% of the employees' quarterly pre-tax income. Every participating employer is required to contribute an amount equal to that contributed by the employee. The employees' contribution goes to the employees' Medical Savings Account, while the employers' contribution goes to a pooled account that funds the National Health Insurance.

Overview of Financial Statements:

The Fund's net assets for the year ended September 30, 2011 was \$80,971,967 as compared to \$76,644,006 for fiscal year 2010 and \$71,842,368 for fiscal year 2009, which was due mainly to gains in the Fund's investments. The Fund's investments continue to recover from the 2008 losses.

Statements of Net Assets:

	FY11	FY10	FY09
Total assets	\$ 81,405,952	\$ 77,034,434	\$ 72,223,403
Total liabilities	<u>433,985</u>	<u>390,428</u>	<u>381,035</u>
Net assets held in trust for benefits and other purposes	<u>\$ 80,971,967</u>	<u>\$ 76,644,006</u>	<u>\$ 71,842,368</u>

Statements of Changes in Net Assets:

	FY11	FY10	FY09
Total additions	\$ 15,882,586	\$ 15,032,948	\$ 14,585,129
Total deductions	<u>11,554,625</u>	<u>10,231,310</u>	<u>9,644,949</u>
Changes in net assets	4,327,961	4,801,638	4,940,180
Net assets at beginning of year	<u>76,644,006</u>	<u>71,842,368</u>	<u>66,902,188</u>
Net assets at end of year	<u>\$ 80,971,967</u>	<u>\$ 76,644,006</u>	<u>\$ 71,842,368</u>

Fixed Assets:

At September 30 2011, 2010 and 2009, the Fund had \$373,469, \$328,395 and \$337,700 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 increase in 2011 of \$45,074 or 13.7% over 2010 and a net decrease of \$9,305 or 3% in 2010 as compared to 2009. See note 7 to the financial statements for more information on the Fund's fixed assets.

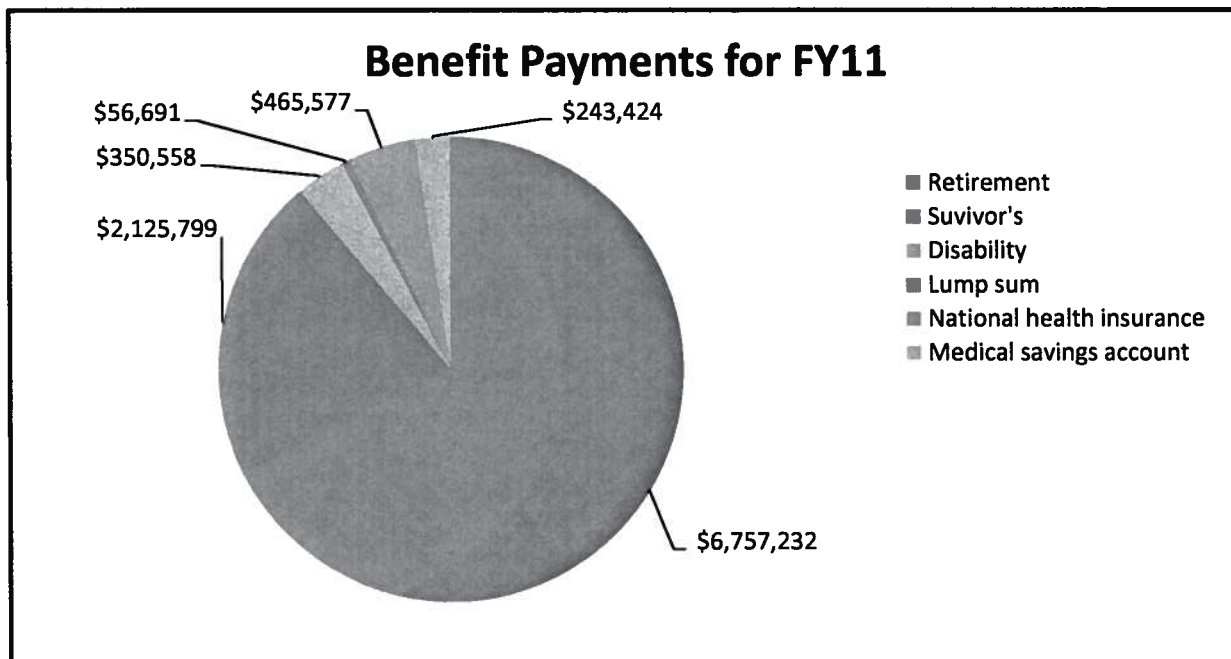
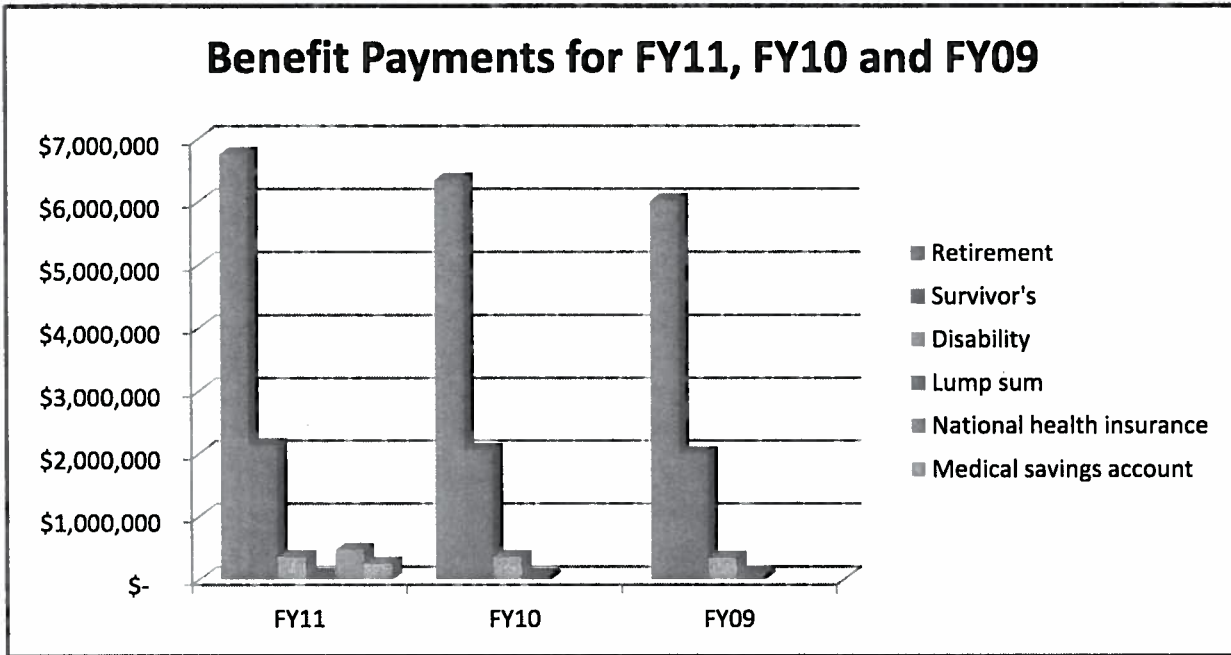
Benefit Payments:

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.

Health care benefits are paid to the participating individuals only. Additionally, the Republic of Palau pays subscription costs for coverage under the Healthcare program for unemployed Palauan citizens who are age 60 and above or disabled.

Total benefit payments increased by 13.6% in 2011 from \$8,801,853 to \$9,999,281, as compared to 5% in 2010 and 15% in 2009. The breakdown of benefit payments for fiscal years 2011, 2010 and 2009 are as follows:

Benefit Type	FY11	FY10	FY09
Retirement	\$ 6,757,232	\$ 6,341,956	\$ 6,013,986
Survivor's	\$ 2,125,799	\$ 2,049,131	\$ 1,989,400
Disability	\$ 350,558	\$ 353,272	\$ 336,168
Lump sum	\$ 56,691	\$ 57,494	\$ 79,944
National health insurance	\$ 465,577	\$ -	\$ -
Medical savings account	\$ 243,424	\$ -	\$ -



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's Discussion and Analysis for the year ended September 30, 2010 is set forth in the report on the audit of the Fund's financial statements which is dated April 7, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements. If you have questions about the 2010 or 2009 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 or call 488-2457.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Net Assets
September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Cash	\$ 2,218,593	\$ 1,248,962
Investments:		
Corporate stock	33,304,548	35,187,468
U.S. Government obligations	15,297,578	16,709,082
Corporate bonds	14,806,075	11,606,580
Money market funds and other short-term investments	<u>2,731,302</u>	<u>2,390,546</u>
Total investments	<u>66,139,503</u>	<u>65,893,676</u>
Receivables:		
Contributions	7,803,519	4,545,900
Loan	5,856,694	6,000,000
Accrued interest and dividends	384,547	361,657
Advance and other	<u>33,582</u>	<u>24,282</u>
	14,078,342	10,931,839
Less allowance for doubtful accounts	<u>(1,412,941)</u>	<u>(1,371,034)</u>
Total receivables, net	<u>12,665,401</u>	<u>9,560,805</u>
Prepaid expense	<u>8,986</u>	<u>2,596</u>
Property, plant and equipment, net	<u>373,469</u>	<u>328,395</u>
Total assets	<u>81,405,952</u>	<u>77,034,434</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Benefits payable	286,435	283,599
Accrued liabilities and accounts payable	<u>147,550</u>	<u>106,829</u>
Total liabilities	<u>433,985</u>	<u>390,428</u>
Contingencies		
Net assets:		
Held in trust for benefits and other purposes	<u>\$ 80,971,967</u>	<u>\$ 76,644,006</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Statements of Changes in Net Assets
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Additions:		
Contributions:		
Government employees	\$ 7,800,278	\$ 4,906,754
Private employees	7,090,307	4,941,945
Penalties and interest	748,808	963,412
Self-employed individual	44,434	-
	<u>15,683,827</u>	<u>10,812,111</u>
Less bad debts	<u>(110,109)</u>	<u>(545,921)</u>
Total contributions, net	<u>15,573,718</u>	<u>10,266,190</u>
Investment income:		
Net (decrease) increase in the fair value of investments	(2,231,343)	2,429,052
Interest	1,610,721	1,565,267
Dividends	635,282	474,029
	<u>14,660</u>	<u>4,468,348</u>
Total investment income, net	<u>14,660</u>	<u>4,468,348</u>
Other income	<u>294,208</u>	<u>298,410</u>
Total additions	<u>15,882,586</u>	<u>15,032,948</u>
Deductions:		
Benefit payments:		
Retirement	6,757,232	6,341,956
Survivor's	2,125,799	2,049,131
National health insurance	465,577	-
Disability	350,558	353,272
Medical savings account	243,424	-
Lump sum	56,691	57,494
	<u>9,999,281</u>	<u>8,801,853</u>
Total benefit payments	<u>9,999,281</u>	<u>8,801,853</u>
Administrative	1,104,151	1,016,598
Investment management fee	341,277	237,977
Depreciation	60,158	51,901
Fund custodian fee	49,758	122,981
	<u>11,554,625</u>	<u>10,231,310</u>
Total deductions	<u>11,554,625</u>	<u>10,231,310</u>
Change in net assets	4,327,961	4,801,638
Net assets at beginning of year	<u>76,644,006</u>	<u>71,842,368</u>
Net assets at end of year	<u>\$ 80,971,967</u>	<u>\$ 76,644,006</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2011 and 2010

(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. Further, the Fund was appointed responsibility under 41 PNC, Section 723 for the administration and operation of the Medical Savings Fund and the Palau Health Insurance (see note 4). Accordingly, the Fund established the Healthcare Fund to account for activities under the health care program.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Fund prepares its financial statements using the accrual basis of accounting. It recognizes employee and employer contributions as additions to net 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, 2011 and 2010, 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;

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

Cash, Continued

- 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
- 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, 2011 and 2010, cash was \$2,218,593 and \$1,248,962, respectively, and the corresponding bank balance was \$2,314,594 and \$908,254, respectively, which is maintained in one financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2011 and 2010, bank deposits in the amount of \$1,632,419 and \$250,000, respectively, were FDIC insured. Accordingly, the deposits are exposed to custodial credit risk. The Fund does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC coverage are uncollateralized.

Investments

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, 2011 and 2010

(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, 2011 and 2010

(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, 2011 and 2010.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010:

Investment Type	Fair Value	2011 Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 2,533,166	\$ -	\$ 1,665,913	\$ 435,313	\$ 431,940	AAA
Other U.S. government obligations	2,160,637	190,352	971,933	853,817	144,535	AAA
Mortgage pass throughs	8,740,714	-	24,458	129,746	8,586,510	AAA
State and local government	288,692	-	-	-	288,692	AAA
State and local government	1,574,367	150,000	-	672,580	751,787	AA
Corporate bonds	1,924,133	89,102	443,250	347,631	1,044,150	AAA
Corporate bonds	4,031,698	-	1,751,971	1,948,202	331,525	AA
Corporate bonds	5,319,225	34,942	2,475,011	1,035,978	1,773,294	A
Corporate bonds	3,380,805	858,134	1,773,435	624,401	124,835	BBB
Corporate bonds	150,216	150,216	-	-	-	Unrated
	<u>\$ 30,103,653</u>	<u>\$ 1,472,746</u>	<u>\$ 9,105,971</u>	<u>\$ 6,047,668</u>	<u>\$ 13,477,268</u>	

Investment Type	Fair Value	2010 Investment Maturities (In Years)				Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes	\$ 4,908,791	\$ -	\$ 2,181,362	\$ 1,628,229	\$ 1,099,200	AAA
Other U.S. government obligations	2,089,753	-	883,185	1,064,498	142,070	AAA
Mortgage pass throughs	9,207,973	-	42,721	105,993	9,059,259	AAA
Municipal obligations	502,565	-	-	-	502,565	AA
Corporate bonds	1,527,959	-	451,256	337,593	739,110	AAA
Corporate bonds	2,216,659	278,836	853,953	771,875	311,995	AA
Corporate bonds	5,469,877	20,705	2,692,485	1,746,787	1,009,900	A
Corporate bonds	2,392,085	-	1,340,721	925,049	126,315	BBB
	<u>\$ 28,315,662</u>	<u>\$ 299,541</u>	<u>\$ 8,445,683</u>	<u>\$ 6,580,024</u>	<u>\$ 12,990,414</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 for contributions receivable that have been outstanding in excess of one year.

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, 2011 and 2010

(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, 2011 and 2010 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, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2011, the Fund implemented the following pronouncements:

- GASB 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.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. 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, 2011 and 2010

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2011 and 2010

(3) Prior Service Claims, Continued

The Fund received fund allocations of \$41,338, \$25,000, \$21,969, \$5,750 and \$40,000 on October 21, 2010, February 18, 2011, April 8, 2011, June 29, 2011 and August 26, 2011, respectively, and \$118,028 of total funds received, has been paid as benefits for the year ended September 30, 2011. The Fund received fund allocations of \$136,825 on November 25, 2009, and \$132,169 of total funds received, has been paid as benefits for the year ended September 30, 2010. 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, 2011 and 2010, the amount available for future benefit payments under the Prior Service Benefits Program amounted to \$24,668 and \$27,397, respectively.

(4) Healthcare Fund

Pursuant to RPPL No. 8-14, each resident in the Republic of Palau is required to have coverage for healthcare costs. Accordingly, the Medical Savings Fund and the Palau Health Insurance System (or collectively known as the Healthcare Fund) were established to promote health and social welfare to the citizens of the Republic of Palau. Under 41 PNC, Section 723, the Fund shall be responsible for the general day-to-day administration and operation of the Healthcare Fund. The Fund shall maintain records of all employees and of all contributors, including self-employed persons, in a manner deemed reasonable to the administration and operation of the two systems.

Contributions to the Healthcare Fund are governed by RPPL No. 8-14, which requires each participating employee to pay the minimum contribution of 2.5% of the employees' quarterly pre-tax income. Every participating employer is required to contribute an amount equal to that contributed by the employee. The employees' contribution goes to the employees' Medical Savings Account, while the employers' contribution goes to a pooled account that funds the National Health Insurance. Every participating self-employed individual shall be presumed to receive in any quarter, as remuneration, 25% 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. Beginning October 1, 2010, employers began to withhold 2.5% of employee earnings. The Fund started accepting contributions for the Healthcare Fund on January 1, 2011.

Health care benefits are paid to the participating individuals only. Additionally, the Republic of Palau pays subscription costs for coverage under the Healthcare program for unemployed Palauan citizens who are age 60 and above or disabled. Benefit payments for participating individuals started on April 1, 2011. At September 30, 2011, total benefits paid amounted to \$709,001 of which \$543,803 was paid to the Belau National Hospital, a related party.

(5) 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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2011 and 2010

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

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 \$18,078, \$22,372 and \$23,719 for the Pension Fund during the fiscal years 2011, 2010 and 2009, 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 2011 and 2010 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, 2009 actuarial valuation determined the unfunded pension benefit obligation as follows:

Active participants	\$ 56,060,970
Participants in pay status	47,666,805
Participants with vested deferred benefits	<u>1,779,610</u>
Total pension benefit obligation	105,507,385
Net assets available for benefits, at market value	<u>41,254,319</u>
Unfunded benefit obligation	\$ <u>64,253,066</u>

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.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2011 and 2010

(6) 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 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 \$5,856,694 and \$6,000,000 with interest at 4.5% at September 30, 2011 and 2010, 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>
2012	\$ 293,358	\$ 261,034	\$ 554,392
2013	307,411	246,981	554,392
2014	321,401	232,991	554,392
2015	336,025	218,367	554,392
2016	350,772	203,620	554,392
2017 - 2021	2,010,941	761,019	2,771,960
2022 - 2025	<u>2,236,786</u>	<u>257,978</u>	<u>2,494,764</u>
	<u>\$ 5,856,694</u>	<u>\$ 2,181,990</u>	<u>\$ 8,038,684</u>

(7) Fixed Assets

A summary of the Fund's fixed assets, at original cost, as of September 30, 2011 and 2010, is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2011</u>
Capital assets not being depreciated:					
Land		\$ 207,018	\$ -	\$ -	\$ 207,018
Capital assets being depreciated:					
Building and improvements	30 years	132,315	-	-	132,315
Office furniture and equipment	4 - 13 years	272,869	105,232	(10,211)	367,890
Vehicles	5 years	<u>77,195</u>	<u>-</u>	<u>-</u>	<u>77,195</u>
		482,379	105,232	(10,211)	577,400
Less accumulated depreciation		<u>(361,002)</u>	<u>(60,158)</u>	<u>10,211</u>	<u>(410,949)</u>
Total capital assets being depreciated		<u>121,377</u>	<u>45,074</u>	<u>-</u>	<u>166,451</u>
Total capital assets, net		<u>\$ 328,395</u>	<u>\$ 45,074</u>	<u>\$ -</u>	<u>\$ 373,469</u>

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Notes to Financial Statements
September 30, 2011 and 2010

(7) Fixed Assets, Continued

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2010</u>
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	23,703	-	272,869
Vehicles	2 years	<u>74,252</u>	<u>18,893</u>	<u>(15,950)</u>	<u>77,195</u>
		455,733	42,596	(15,950)	482,379
Less accumulated depreciation		<u>(325,051)</u>	<u>(51,901)</u>	<u>15,950</u>	<u>(361,002)</u>
Total capital assets being depreciated		<u>130,682</u>	<u>(9,305)</u>	<u>-</u>	<u>121,377</u>
Total capital assets, net		\$ <u>337,700</u>	\$ <u>(9,305)</u>	\$ <u>-</u>	\$ <u>328,395</u>

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

(8) Contingencies

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

An actuarial valuation of the Fund has determined that the Fund had an actuarial deficiency of approximately \$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, 2011, to correct this potential funding deficiency.

(9) 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, 2011

<u>ASSETS</u>	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Elimination	Total
Cash	\$ 893,818	\$ 39,164	\$ 1,285,611	\$ -	\$ 2,218,593
Investments:					
Corporate stock	33,304,548	-	-	-	33,304,548
U.S. Government obligations	14,527,169	-	770,409	-	15,297,578
Corporate bonds	14,652,679	-	153,396	-	14,806,075
Money market funds and other short-term investments	2,559,741	-	171,561	-	2,731,302
Total investments	<u>65,044,137</u>	<u>-</u>	<u>1,095,366</u>	<u>-</u>	<u>66,139,503</u>
Receivables:					
Contributions	6,922,222	-	881,297	-	7,803,519
Loan	5,856,694	-	-	-	5,856,694
Accrued interest and dividends	379,584	-	4,963	-	384,547
Due from other funds	-	-	224,639	(224,639)	-
Advance and other	33,582	-	-	-	33,582
	13,192,082	-	1,110,899	(224,639)	14,078,342
Less allowance for doubtful accounts	<u>(1,410,369)</u>	<u>-</u>	<u>(2,572)</u>	<u>-</u>	<u>(1,412,941)</u>
Total receivables, net	<u>11,781,713</u>	<u>-</u>	<u>1,108,327</u>	<u>(224,639)</u>	<u>12,665,401</u>
Prepaid expense	8,986	-	-	-	8,986
Property, plant and equipment, net	282,510	-	90,959	-	373,469
Total assets	<u>78,011,164</u>	<u>39,164</u>	<u>3,580,263</u>	<u>(224,639)</u>	<u>81,405,952</u>
<u>LIABILITIES AND NET ASSETS</u>					
Liabilities:					
Benefits payable	286,435	-	-	-	286,435
Accrued liabilities and accounts payable	147,550	-	-	-	147,550
Due to other funds	210,143	14,496	-	(224,639)	-
Total liabilities	<u>644,128</u>	<u>14,496</u>	<u>-</u>	<u>(224,639)</u>	<u>433,985</u>
Net assets:					
Held in trust for benefits and other purposes	<u>\$ 77,367,036</u>	<u>\$ 24,668</u>	<u>\$ 3,580,263</u>	<u>\$ -</u>	<u>\$ 80,971,967</u>

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Combining Statement of Changes in Net Assets
Year Ended September 30, 2011

	Republic of Palau Social Security Retirement Fund	Prior Service Trust Fund	Healthcare Fund	Total
Additions:				
Contributions:				
Government employees	\$ 5,427,457	\$ -	\$ 2,372,821	\$ 7,800,278
Private employees	4,946,438	-	2,143,869	7,090,307
Penalties and interest	730,260	-	18,548	748,808
Self-employed individual	-	-	44,434	44,434
	<u>11,104,155</u>	<u>-</u>	<u>4,579,672</u>	<u>15,683,827</u>
Less bad debts	(107,537)	-	(2,572)	(110,109)
Total contributions, net	<u>10,996,618</u>	<u>-</u>	<u>4,577,100</u>	<u>15,573,718</u>
Investment income:				
Net decrease in the fair value of investments	(2,229,695)	-	(1,648)	(2,231,343)
Interest	1,608,628	-	2,093	1,610,721
Dividends	635,282	-	-	635,282
Total investment income, net	<u>14,215</u>	<u>-</u>	<u>445</u>	<u>14,660</u>
Other income	<u>160,151</u>	<u>134,057</u>	<u>-</u>	<u>294,208</u>
Total additions	<u>11,170,984</u>	<u>134,057</u>	<u>4,577,545</u>	<u>15,882,586</u>
Deductions:				
Benefit payments:				
Retirement	6,694,712	62,520	-	6,757,232
Survivor's	2,070,291	55,508	-	2,125,799
National health insurance	-	-	465,577	465,577
Disability	350,558	-	-	350,558
Medical savings account	-	-	243,424	243,424
Lump sum	56,691	-	-	56,691
Total benefit payments	<u>9,172,252</u>	<u>118,028</u>	<u>709,001</u>	<u>9,999,281</u>
Administrative	836,405	18,758	248,988	1,104,151
Investment management fee	341,207	-	70	341,277
Depreciation	45,885	-	14,273	60,158
Fund custodian fee	49,758	-	-	49,758
Total deductions	<u>10,445,507</u>	<u>136,786</u>	<u>972,332</u>	<u>11,554,625</u>
Change in net assets	725,477	(2,729)	3,605,213	4,327,961
Net assets at beginning of year	<u>76,641,559</u>	<u>27,397</u>	<u>(24,950)</u>	<u>76,644,006</u>
Net assets at end of year	<u>\$ 77,367,036</u>	<u>\$ 24,668</u>	<u>\$ 3,580,263</u>	<u>\$ 80,971,967</u>

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Administrative Deductions
 Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Salaries, wages and benefits	\$ 627,888	\$ 530,328
Board members other expenses	102,705	109,739
Supplies, printing and reproduction	62,003	32,127
Staff development and training	42,321	39,958
Utilities	32,449	30,795
Travel and transportation	30,806	34,533
Office equipment	28,101	8,673
Communications	19,764	19,507
Bank service charge	19,619	11,129
Credit card processing fees	17,001	10,548
Repairs and maintenance	14,966	12,113
Professional services	12,738	89,783
Furniture and fixtures	9,688	1,358
Postage stamps	8,223	4,192
Representation and entertainment	8,007	14,461
Insurance	6,638	4,775
Fuel and oil	5,652	6,311
Board compensation	2,750	1,700
Dues, subscriptions and registrations	1,230	1,749
Miscellaneous	<u>51,602</u>	<u>52,819</u>
Total administrative deductions	<u>\$ 1,104,151</u>	<u>\$ 1,016,598</u>

See accompanying Independent Auditors' Report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2011

	Cost	Fair Value
<u>Cash and Cash Equivalents</u>		
Cash	\$ 243,899	\$ 236,207
STIP 3: US Treasury & Agency	213,500	213,500
Total Cash and Cash Equivalent - Account#491206600	<u>457,399</u>	<u>449,707</u>
<u>Money Market Funds</u>		
Pacific Capital Cash Assets Trust - Account #135074870	472,701	472,701
Pacific Capital Cash Assets Trust - Account #135284958	171,561	171,561
Pacific Capital Cash Assets Trust - Account #140340753	477,127	477,127
Pacific Capital Cash Assets Trust - Account #140011107	15,252	15,252
Pacific Capital US Gov't Securities Cash Assets Trust - Account #140011156	1,144,954	1,144,954
Total Money Market Funds	<u>2,281,595</u>	<u>2,281,595</u>
Total Money Market Funds and Other Short-Term Investments	<u>\$ 2,738,994</u>	<u>\$ 2,731,302</u>
<u>U.S. Government Obligations</u>		
US Treasury Notes, 4.75% due on 5/15/2014	\$ 957,311	\$ 1,057,768
US Treasury Notes, 4.25% due on 8/15/2015	585,614	608,145
US Treasury Notes, 4.25% due on 11/15/2017	128,755	147,423
US Treasury Notes, 3.625% due on 8/15/2019	246,631	287,890
US Treasury Bonds, 4.5% due on 08/15/2039	344,487	431,940
	<u>2,262,798</u>	<u>2,533,166</u>
<u>U.S. Government Agencies</u>		
Federal Home Loan Mortgage Corp Gold Pool #B15182, 4.5% due on 6/1/2014	23,764	24,458
Federal Home Loan Mtge Corp Notes, 1.25% due on 7/28/2014	300,000	300,144
Tennessee Valley Auth Notes, 5.5% due on 7/18/2017	204,710	241,732
Federal Home Loan Mortgage Corp Gold Pool #B13067, 4.5% due on 3/1/2019	61,251	69,088
Federal National Mortgage Association Notes, 4% due on 4/22/2019	285,000	324,712
Resolution Funding Corp Bonds, 8.875% due on 7/15/2020	516,562	529,106
Federal Home Loan Mortgage Corp Gold Pool #G12121, 5.5% due on 4/1/2021	55,057	60,659
Federal National Mortgage Association Pool #935636, 4.0% due on 9/1/2024	235,409	241,034
Federal National Mortgage Association Notes, 5.5% due on 5/10/2027	124,375	144,535
Federal Home Loan Mortgage Corp Pool #C76358, 5% due on 3/1/2034	131,150	137,401
Federal Home Loan Mortgage Corp Pool #C01567, 5% due on 5/1/2033	361,249	380,204
Federal National Mortgage Association Pool #739821, 5% due on 9/1/2033	161,336	168,787
Federal National Mortgage Association Pool #735733, 4.5% due on 10/1/2033	142,849	163,404
Federal National Mortgage Association Pool #725205, 5% due on 3/1/2034	20,639	23,924
Federal Home Loan Mortgage Corp Pool #781958, 5.093% due on 9/1/2034	53,664	58,567
Federal National Mortgage Association Pool #794474, 6% due on 10/1/2034	194,761	214,837
Federal National Mortgage Association Pool #796274, 5.5% due on 12/1/2034	513,088	571,904
Federal National Mortgage Association Pool #810225, 6% due on 1/1/2035	315,970	347,101
Federal National Mortgage Association Pool #735227, 5.5% due on 2/1/2035	77,824	87,483
Federal National Mortgage Association Pool #735228, 5.5% due on 2/1/2035	183,413	207,193
Federal Home Loan Mortgage Corp Gold Pool #G08046, 5.5% due on 3/1/2035	129,770	146,804
Federal National Mortgage Association Pool #814915, 5.5% due on 3/1/2035	282,673	293,109
Federal National Mortgage Association Pool #255670, 5% due on 4/1/2035	73,902	84,179
Federal National Mortgage Association Pool #735502, 6% due on 4/1/2035	65,346	72,776
Federal National Mortgage Association Pool #826966, 5.5% due on 6/1/2035	32,040	33,454
Federal Home Loan Mortgage Corp Pool #A47971, 5% due on 8/1/2035	78,155	81,308
Federal Home Loan Mortgage Corp Gold Pool #A36664, 5% due on 8/1/2035	81,978	94,183
Federal Home Loan Mortgage Corp Gold Pool #A36685, 5% due on 8/1/2035	37,940	43,595
Federal Home Loan Mortgage Corp Pool #G01938, 5.5% due on 9/1/2035	117,255	119,543
Federal Home Loan Mortgage Corp Pool #A37876, 5% due on 9/1/2035	291,753	300,920
Federal National Mortgage Association Pool #735897, 5.5% due on 10/1/2035	120,297	132,869
Federal National Mortgage Association Pool #828856, 5.5% due on 10/1/2035	129,241	147,305
Government National Mtg Corp Pool #648503, 5.5% due on 11/15/2035	51,713	59,053
Federal Home Loan Mortgage Corp Pool #G01960, 5% due on 12/1/2035	201,808	208,148
Federal National Mortgage Association Pool #745089, 6% due on 12/1/2035	64,925	72,895
Federal Home Loan Mortgage Corp Gold Pool #G02168, 6% due on 4/1/2036	36,661	41,052
Federal National Mortgage Association Pool #868936, 6% due on 5/1/2036	675,477	678,015
Federal Home Loan Mortgage Corp Pool #A49906, 5% due on 6/1/2036	145,012	157,528
Federal Home Loan Mortgage Corp Pool #A61533, 5% due on 6/1/2036	195,423	204,157
Federal National Mortgage Association Pool #867452, 6.5% due on 6/1/2036	77,855	86,222

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
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	Cost	Fair Value
<u>U.S. Government Agencies, Continued</u>		
Federal National Mortgage Association Pool #882694, 6.5% due on 6/1/2036	48,106	53,047
Federal National Mortgage Association Pool #903749, 6% due on 10/1/2036	39,866	44,040
Federal Home Loan Mortgage Corp Gold Pool #A55326, 6% due on 12/1/2036	146,934	161,389
Federal Home Loan Mortgage Corp Pool #1G1406 ARM, 5.825% due on 12/1/2036	115,294	124,298
Federal National Mortgage Association Pool #904915, 5.5% due on 12/1/2036	70,332	76,879
Federal National Mortgage Association Pool #905678, 5.5% due on 12/1/2036	201,684	212,053
Federal Home Loan Mortgage Corp Good Pool #H00452, 5.5% due on 1/1/2037	83,271	91,045
Federal National Mortgage Association Pool #910473, 5.561% due on 1/1/2037	141,610	154,129
Federal Home Loan Mortgage Corp Good Pool #A60299, 6.5% due on 5/1/2037	138,914	151,698
Federal National Mortgage Association Pool #AA3553, 5% due on 2/1/2039	188,288	197,194
GNMA Mortgage Pool CTFS Pool #701940, 4.5% due on 6/15/2039	618,487	651,661
Federal Home Loan Mortgage Corp Pool #A88454, 4.5% due on 9/1/2039	435,361	442,401
Government National Mortgage Association Pool #737442, 4% due on 9/15/2040	549,020	567,722
	<u>9,628,462</u>	<u>10,280,944</u>
Subtotal - Account#135074870	11,891,260	12,814,110
Morgan Stanley FDIC Guaranteed 1.17556% due on 12/1/2011	140,389	140,220
US Bancorp Floating Rate FDIC Guaranteed 0.63578% due on 4/27/2012	50,161	50,132
Federal Home Loan Mtge Corp Notes 0.5% due on 12/8/2013	100,040	99,983
Federal Home Loan Mtge Corp Notes 0.75% due on 6/7/2013	100,090	100,056
Federal Home Loan Mtge Corp Notes (Multi-Step CPN) 0.75% due on 7/28/2014	229,931	230,018
	<u>620,611</u>	<u>620,409</u>
Subtotal - Account#135284958		
<u>Municipal Obligations</u>		
Honolulu Hawaii City & CNTY Build America Bonds Taxable-Ser A @ 3.424% due on 12/1/2017	140,000	147,441
Maui CNTY Hawaii Taxable-Ser A Recovery Zone Economic Dev Bonds 3.909% due on 6/1/2019	200,000	209,354
New York NY Taxable Build Amer BDS-F-1 4.93% due on 12/1/2019	275,000	315,785
Honolulu HI City & CNTY Wastewtr Sys Rev Build America Bonds 4.643% due on 7/1/2022	215,000	229,298
Texas St Ref-Taxable-Pub FIN Auth 4.004% due on 10/1/2023	275,000	288,692
Honolulu HI City & CNTY Wastewtr Sys Rev Build America Bonds Taxable-First BD-Ser B Issuer Subs	110,000	119,354
Honolulu HI City & CNTY Wastewtr Sys Rev Build America Bonds 6.25% due on 9/1/2031	365,000	403,135
	<u>1,580,000</u>	<u>1,713,059</u>
Subtotal - Account#135074870		
Honolulu Hawaii City & CNTY Prerefunded Ser B FGIC TCRS, 5.5% due on 10/1/2011	110,730	110,000
Honolulu Hawaii City & CNTY Unrefunded Bal Ser B FGIC TCRS, 5.5% due on 10/1/2011	40,266	40,000
	<u>150,996</u>	<u>150,000</u>
Subtotal - Account#135284958		
Total U.S. Government Obligations	<u>\$ 14,242,867</u>	<u>\$ 15,297,578</u>
<u>Corporate Bonds</u>		
Household Finance Corp Notes, 6.375% due on 10/15/2011	\$ 138,563	\$ 150,216
Kinder Morgan Energy Partners LP Notes, 7.125% due on 3/15/2012	128,393	128,206
Merrill Lynch & Co SR Unsecured Ser Mtn Flt Qtrly, 0.56056% due 6/5/2012	300,000	288,380
Midamerican Energy Hldgs Co Unsecured 3.15% due on 7/15/2012	431,886	427,127
Interamerican Develop Bank SR Unsub, 4.75% due on 10/19/2012	213,860	209,020
General Electric Co Notes, 5% due on 2/1/2013	257,897	261,833
Mercantile Bankshares Corp Sub Notes Ser B, 4.625% due on 4/15/2013	428,623	425,498
Berkshire Hathaway Fin Company Guarnt 4.6% due on 5/15/2013	145,488	142,336
American Express Co. Sr Unsecured, 4.875% due on 7/15/2013	735,530	732,010
Coca cola Enterprises Inc. Notes 5% 8/15/2013	141,536	139,746
Georgia Power Company SR Unsecured, 4.9% due on 9/15/2013	151,938	161,073
Pacificorp 1st Mortgage, 5.45% due on 9/15/2013	103,545	107,632
BP Capital Markets Plc SR Unsecured, 5.25% due on 11/7/2013	269,825	290,717
US Bank NA Notes 6.3% due on 2/4/2014	263,167	274,543
Hewlett-Packard Co Notes 6.125% 3/1/2014	180,545	174,915
European Investment Bank SR Unsub, 2.375% due on 3/14/2014	224,033	234,230
GATX Corp Notes, 8.75% due on 5/15/2014	149,625	173,474
JP Morgan Chase & Co. Bonds, 5.125% due on 9/15/2014	322,239	315,945
Wells Fargo Company Sub Notes, 5% due on 11/15/2014	206,604	210,040
Berkshire Hathaway Inc Sr Unsecured 3.2% due on 2/11/2015	766,590	788,528
General Electric Capital Corp Sr Unsecured, 6.9% due on 9/15/2015	283,638	284,733
PPG Industries Inc Sr Unsecured 1.9% due on 1/15/2016	215,140	214,050

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2011

	Cost	Fair Value
<u>Corporate Bonds, Continued</u>		
Cisco Systems Notes, 5.5% due on 2/22/2016	119,452	138,356
Ryder System Inc Notes, 5.85% due on 11/1/2016	247,243	288,525
Comcast Corp Company Guaranteed, 6.5% due on 1/15/2017	233,058	246,649
Goldman Sachs Group Inc, Sub Notes 5.625% due on 1/15/2017	74,648	72,755
Merril Lynch & Co Subordinated 5.7% due on 5/2/2017	461,411	410,306
Kimberly Clark Corp Notes, 6.125% due on 8/1/2017	109,667	131,819
JP Morgan Chase Bank Subordinated, 6% due on 10/1/2017	724,820	714,884
Harris Corp SR Unsecured, 5.95% due on 12/1/2017	426,444	461,048
Wells Fargo Company SR Unsecured, 5.625% due on 12/11/2017	179,251	203,568
Partnerre Finance Company Guarnt, 6.875% due on 6/1/2018	277,508	311,430
National Rural Utilities Collateral Trust, 10.375% due on 11/1/2018	345,672	366,399
Private Export Funding Secured, 4.375% due on 3/15/2019	298,425	347,630
Morgan Stanley SR Unsecured, 7.3% due on 5/13/2019	149,654	154,580
African Development Bank Sub Debentures 8.8% due on 9/1/2019	469,674	492,629
Duke Capital Corp Senior Notes, 8% due on 10/1/2019	152,061	163,353
Wal-Mart Stores Inc Senior Notes, 3.25% due on 10/25/2020	711,831	740,689
Aid Israel US Government Guaranty, 5.5% due on 9/18/2023	309,663	380,817
Inter-American Development Bank Notes 6.75% due on 7/17/27	269,758	284,604
Pharmacia Corporation Debentures, 6.75% due on 12/15/2027	146,579	165,144
Best Foods Notes, 6.625% due on 4/15/2028	119,392	132,242
Sysco Corp Debentures, 6.5% due on 8/1/2028	96,858	123,187
Apache Finance Canada Company Guaranteed, 7.75% due on 12/15/2029	181,157	212,693
Verizon Global Fdg Corp Sr Unsecured 7.75% due on 12/1/2030	557,528	618,530
Boeing Co Bonds 6.125% due on 12/15/2033	293,086	299,244
Dominion Resources Inc SR Notes Ser F Putable 8/15, 5.25% due on 8/1/2033	109,100	124,835
Alabama Power Co Bonds Ser 1, 5.65% due on 3/15/2035	195,394	222,256
Wal-Mart Stores Inc SR Unsecured, 6.5% due on 8/15/2037	252,470	331,525
Pres & Fellows of Harvard Bonds, 6.3% due on 10/1/2037	337,325	378,729
Subtotal - Account#135074870	<u>13,907,794</u>	<u>14,652,678</u>
Goldman Sachs Group Inc Sr Unsecured, 0.44939% due on 2/6/2012	34,989	34,942
Merrill Lynch & Co Sr Unsecured Ser MTN Flt Qtrly .56056% due on 6/5/2012	14,740	14,419
African Development Bank Senior Notes 0.378% due on 7/22/2012	40,033	40,038
Seariver Maritime Inc Gtd Deffered Int Deb due on 9/1/2012	48,900	49,064
PPG Industries Inc Sr Unsecured 1.9% due on 1/15/2016	15,010	14,934
Subtotal - Account#135284958	<u>153,672</u>	<u>153,397</u>
Total Corporate Bonds	<u>\$ 14,061,466</u>	<u>\$ 14,806,075</u>
<u>Corporate Stock</u>		
Allergan Inc	\$ 298,159	\$ 304,806
Amazon.Com Inc	803,002	994,658
American Express Co	455,748	408,590
American Tower Corp CL A	182,959	290,520
Apache Corp	169,361	112,336
Apple Inc	103,729	1,067,696
Baidu Inc ADR	443,693	384,876
Boeing Co	198,904	199,683
Capital One Financial Corp	179,573	293,262
Citigroup Inc	331,397	177,768
CVS/Caremark Corp	528,836	483,696
Disney Walt Co	162,525	265,408
Directv CL A	480,313	625,596
Du Pont E.I. De Nemours & Co	178,256	183,862
EMC Corp	253,771	191,009
EnSCO Plc Spon ADR	100,301	88,946
Express Scripts	355,464	385,528
Exxon Mobil Corp	676,363	573,777
Google Inc CL A	665,158	919,346
Halliburton Co	454,339	329,616
Intel Corp	204,394	189,882
Int'l Business Machines	592,994	1,072,128
Johnson & Johnson	592,310	566,841

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2011

	Cost	Fair Value
<u>Corporate Stock, Continued</u>		
JP Morgan Chase & Co	362,931	418,668
Kraft Foods Inc A	200,938	194,764
Mastercard Inc Class A	404,245	368,540
Microsoft Corp	678,876	627,228
McDonalds Corp	323,436	377,626
Metlife Inc Inc	653,541	436,956
News Corporation Inc CL A	551,174	515,484
Oracle	415,713	537,438
Pfizer Inc	339,881	302,328
Philip Morris International	194,460	174,664
Procter & Gamble Co	235,197	221,130
Precision Cast Parts Corp	260,245	388,650
Qualcomm Inc	327,987	306,369
Schlumberger Ltd	630,139	519,651
Union Pacific Corp	186,260	383,849
Unitedhealth Group Inc	458,388	424,304
United Parcel Service CL B	198,400	195,765
United Technologies Corp	454,350	633,240
Viacom Inc Class B	345,492	263,432
Wellpoint Inc	507,698	483,072
Subtotal - Account#140011156	<u>16,140,900</u>	<u>17,882,988</u>
Abbott Laboratories	298,552	281,270
American Electric Power Co	379,432	387,804
AT&T Inc	373,306	359,352
Caterpillar Inc	303,754	280,592
Celgene Corp	285,700	303,359
Chevron Corp	418,073	425,914
Cisco Systems	339,515	280,550
Coca Cola Co	392,030	398,604
Con Edison	362,282	421,948
Danaher Corp	344,891	314,550
Dominion Resources Inc/VA	386,206	416,314
Dow Chemical Co	375,754	316,686
Du Pont E.I. De Nemours & Co	411,933	311,766
Eaton Corp	403,396	284,000
Exxon Mobil Corp	439,053	427,137
Fedex Corporation	402,161	297,792
General Electric Co	378,221	316,576
Intel Corp	284,338	277,355
Int'l Business Machines	357,974	419,688
Kroger Co	431,439	421,632
McDonalds Corp	342,075	421,536
Microsoft Corp	319,518	303,658
Oracle	277,996	255,786
Pfizer Inc	377,977	337,688
Qualcomm Inc	276,463	252,876
Southern Co	358,950	415,226
Thermo Fisher Scientific Inc	256,932	227,880
United Technologies Corp	366,227	330,692
Wal-Mart Stores Inc	389,166	373,680
3M Co	380,496	308,697
Subtotal - Account#140340753	<u>10,713,810</u>	<u>10,170,608</u>
<u>Corporate Stock - International Equities</u>		
ABB Ltd Sponsored ADR One ADR Reps 1 Reg Sh	173,204	122,976
America Movil Sab De C V Spon ADR Ser L	181,799	148,819
ARM Holdings PLC (GBP) .05	42,391	246,010
ASML Holding N.V.	44,222	72,534
Bank of Nova Scotia (CAD)	135,443	120,802
Cochlear Limited (AUD)	131,191	105,106
Companhia Siderurgica Nacional Spon ADR Repstg Ord Shs (One Adr Reps 1000 Com Shs)	92,672	52,404
CSL Ltd (AUD) 1	160,101	134,377

See accompanying independent auditors' report.

REPUBLIC OF PALAU SOCIAL SECURITY RETIREMENT FUND

Schedule of Investments
September 30, 2011

	Cost	Fair Value
<u>Corporate Stock - International Equities, Continued</u>		
Deutsche Boerse AG (EUR)	198,520	83,430
Essilor Intl (EUR)	108,691	130,170
Eutelsat Communications (EUR) 1	113,996	167,872
Getinge AB (SEK) Par .050	164,875	158,335
Hang Lung Properties Ltd (HKD) 1.00	130,389	112,371
Hengan International Group Co Ltd (HKD)	112,834	241,359
Hon Hai Precision Ind Ltd GDR REG S	71,977	49,683
Hong Kong Land Holdings Ltd (USD)	113,225	134,400
HTC Corporation Spons GDR REG S 1 GDR REPS 4 ORD Shares	67,125	42,525
Hyundai Motor Co GDR REG S	55,200	87,872
Industria De Diseno Textil SA (Inditex) (EUR) 1.5	180,690	189,654
Keyence Corp (JPY) 50	35,627	55,520
Li & Fung Ltd (HKD)	163,096	150,073
Loccitane Intl SA (HKD)	75,204	65,092
Louis Vuitton Moet Hennessey (EUR) 1.5	64,517	53,390
Luxottica Group Spa Sponsored ADR One ADR Rep One Ord Sh	128,854	115,828
Man Group PLC (GBP)	171,877	56,969
Mitsui Fudosan Co Ltd (JYP) 50	95,265	64,496
MTU Aero Engines Holding AG (EUR)	124,404	202,545
Noble Group Ltd (SGD)	102,254	164,171
Pearson PLC (GBP)	129,577	141,949
QBE Insurance Group Ltd (AUD)	150,798	84,953
Qiagen NV	162,017	107,874
Reckitt Benckiser Group LLC (GBP) .10526	173,167	158,033
Roche Holdings AG Basel (CHF) Genusssch	109,763	97,369
Sage Group PLC (GBP) Par 1	140,827	144,235
Saipem Spa (EUR)	180,702	193,887
Shionogi & Co Ltd (JPY) 50	59,348	44,870
Siemens AG Spons ADR (One ADR Reprs One ADR Depository)	82,922	62,853
Societe Generale De Surveillance SA (CHF) 20 Regd	123,842	138,011
Syngenta AG Sponsored ADR (One ADR Reprs 1/5 Ord Sh)	171,460	168,578
Taiwan Semiconductor MFG Co Spon ADR (One ADR Reprs Five Ord Shs)	56,865	66,568
Terumo Corp (JPY) 50	166,410	168,738
Tesco PLC (GBP) ORD 5	174,044	125,583
Urbi Desarrollos Urbanos SA (MXN)	129,695	57,701
Woolworths Ltd (AUD) .25	87,305	103,769
ZTE Corp (HKD)	68,782	57,198
	<hr/>	<hr/>
Total International Equities - Account#491206600	5,407,167	5,250,952
Total Corporate Stock	<u>\$ 32,261,877</u>	<u>\$ 33,304,548</u>

See accompanying independent auditors' report.