REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Republic of Palau Civil Service Pension Trust Fund:

We have audited the accompanying statements of plan net assets of the Republic of Palau Civil Service Pension Trust 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 plan net assets for the years then ended. These financial statements are the responsibility of the management of the Fund. 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 respective 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, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Fund as of September 30, 2009 and 2008, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in note 7 to the financial statements, at September 30, 2009 and 2008, the Fund had $1,452,609 of uninsured deposits with a bank that went into receivership on November 7, 2006. We are unable to assess the recoverability of such deposits. No provision has been recorded in the financial statements for this uncertainty.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of funding progress (page 24) and employer contributions (page 25), notes to required supplementary schedules (pages 26 and 27) and schedule of investment securities (pages 28 through 32) as of September 30, 2009, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of funding progress and employer contributions and notes to required supplementary schedules are supplementary information required by GASB Statement No. 25. This additional information is also the responsibility of the Fund's management. These schedules and notes have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2010, on our consideration of the Fund's 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

June 29, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Plan Year Ended September 30, 2009

This report presents a management's discussion and analysis of the Republic of Palau Civil Service Pension Trust Fund's (the Fund) financial performance during the fiscal year ended September 30, 2009.

Introductory Section

The Fund is a defined, multi-employer plan which is a component unit of the Republic of Palau (ROP) National Government providing retirement and other benefits to employees, their spouses and dependents, of the National and State Governments, quasi-governmental organizations, ROP public corporations and other public entities of the National and State Governments.

Accounting Methods and Policies

The accounting policies of the Fund conform to accounting principles generally accepted in the United States of America. The Fund accounts for and reports plan net assets in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans* and GASB Statement No. 50, *Pension Disclosure an amendment of GASB Statement Nos. 25 and 27.* Financial statements are prepared on the accrual basis of accounting. This method records revenues when earned and expenses when liabilities are incurred.

Financial Highlights

- The *unfunded actuarial accrued liability* increased from $59,221,000 as of October 2007 to $63,712,000 as of October 2009, an increase of $4,491,000 or 8%. The funded ratio decreased from 44.95% in October 2007 to 39.3% in October 2009, a decrease of 12.57%. Actuarial valuations are performed biennially.

- The Fund has time certificates of deposit amounting to $1,452,609 in Pacific Savings Bank (PSB) at September 30, 2009 and 2008. Although it is still uncertain if the Fund will ever recover these deposits, the counsel for the Estate of Johnny Reklai agreed to turn over 1,500 shares of common stock of Western Caroline Trading Company to the Fund that was pledged as collateral for the deposits. The Fund's legal counsel is filing a court document to lift the stay on the Fund's lawsuit against the PSB Receiver so the court case can move forward and hopefully, lead to the recovery of the $1,000,000 loan portfolio of the defunct bank.

- The Fund had net investment income of $2,905,755 for the fiscal year ended September 30, 2009.

- The Fund withdrew $2,813,000 from investments during fiscal year 2009 to pay for benefits during the same fiscal year and withdrew $1,675,000 and $1,740,000 during fiscal years 2008 and 2007, respectively.

- The Fund did not receive an appropriation in fiscal years 2009 and 2008 and the Unified Budget for fiscal year 2010 signed into law by the President did not provide an appropriation to the Fund.

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Overview of the Financial Statements

The following summarizes the financial condition and operations of the Fund as of and for the years ended September 30, 2009, 2008 and 2007.

The Statements of Net Assets include the Fund's assets and liabilities that provide a picture of the financial position of the Fund as of September 30, 2009, 2008 and 2007. These statements reflect resources of net assets available for pension benefits to members and retirees at the end of the fiscal year reported.

STATEMENTS OF PLAN NET ASSETS

	2009	2008	2007
Assets:			
Cash and cash equivalents	$ 96,518	$ 201,959	$ 227,405
Restricted time certificate of deposit	-	156,990	150,000
Time certificates of deposit with an uninsured bank	1,452,609	1,452,609	1,452,609
Investments	38,083,374	37,995,708	45,688,914
Other assets	1,756,690	1,021,497	963,487
	$ 41,389,191	$ 40,828,763	$ 48,482,415
Liabilities and net assets:			
Liabilities	$ 134,872	$ 62,311	$ 124,645
Net assets	41,254,319	40,766,452	48,357,770
	$ 41,389,191	$ 40,828,763	$ 48,482,415

- Contributions receivable increased from $939,190 in 2008 to $1,600,235 in 2009 and increased from $794,600 in 2007 to $939,190 in 2008, an increase of $661,045 and $144,590, respectively.

- At September 30, 2009, 2008 and 2007, the Fund had $63,292, $44,804, and $23,287, respectively, in furniture, fixtures and equipment, net of accumulated depreciation where applicable, including office equipment and furniture and vehicles, which represent a net increase in 2009 of $18,488 over 2008 and a net increase in 2008 of $21,517 over 2007. See note 3 to the financial statements for more detailed information on the Fund's furniture, fixtures and equipment.

Revenue and Expense Analysis

The Statements of Changes in Plan Net Assets summarize the Fund's financial activities that occurred during fiscal year 2009 as compared to amounts from the previous fiscal years. The financial statements measure the changes in resources available to defray pension benefits to members, retirees and beneficiaries for fiscal years 2009, 2008 and 2007.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	2009	2008	2007
Revenues:			
Contributions	$ 5,045,213	$ 4,955,345	$ 4,837,660
Investment income	2,905,755	(6,010,011)	6,550,223
Appropriations	-	-	400,000
	7,950,968	(1,054,666)	11,787,883
Expenses:			
Benefit and refund payments	7,167,658	6,189,021	6,035,367
Administrative	295,443	347,631	334,478
	7,463,101	6,536,652	6,369,845
Net increase (decrease)	487,867	(7,591,318)	5,418,038
Net assets, beginning of year	40,766,452	48,357,770	42,939,732
Net assets, end of year	$ 41,254,319	$ 40,766,452	$ 48,357,770

- Contribution revenue increased by $89,868 from $4,955,345 in 2008 to $5,045,213 in 2009 and by $117,685 from $4,837,660 in 2007 to $4,955,345 in 2008.

- Investment net income increased by $8,915,766 from $(6,010,011) in 2008 to $2,905,755 in 2009 and decreased by $12,560,234 from $6,550,223 in 2007 to $(6,010,011) in 2008.

- Benefit and refund payments increased from $6,189,021 in 2008 to $7,167,658 in 2009 and from $6,035,367 in 2007 to $6,189,021 in 2008, an increase of $978,637 and $153,654, respectively. The number of retirees continues to increase and payments are expected to increase every year. The Eight Congress (OEK) passed a law (RPPL No. 8-10) reversing RPPL No. 7-56 and reinstating service retirement (30 years of service).

- Administrative expenses include $19,298, $10,331, and $7,724 of depreciation expense of the Fund's fixed assets in fiscal years 2009, 2008, and 2007, respectively.

Olbiil Era Kelulau (OEK) and the President must support the Board of Trustees to find a plausible solution to eliminate the monthly drawdown of investment; reduce unfunded benefit obligations and assure members of the plan that the Fund is actuarially sound and will continue to provide monthly benefits for them and their beneficiaries in the future. The Fund has submitted proposed contribution structures to the OEK and we hope the appropriate committee(s) takes appropriate action on the proposal.

ECONOMIC OUTLOOK

At the present level, the Fund is at risk given the state of the global economy, weakening U.S. dollar and the annual benefit payments outpacing annual contribution revenues. The continued concerns over the Unfunded Accrued Liability (UAL) increasing every year and the lack of support from the National leaders to address the UAL and other financial issues facing the Fund at present are discouraging.

The Fund ended the year with investment income of $2,905,755, but at the same time the Fund withdrew $2,813,000 from investments to subsidize benefit payments for the fiscal year ended September 30, 2009. Benefit payments continue to increase every year. Specifically for fiscal year 2009, benefits increased by approximately $980,000 while contributions increased by approximately $90,000. Benefit payments are expected to reach $8,000,000 while contributions are expected to decrease in the next fiscal year. Although investments are expected to improve over the next three to five years, we also expect investment drawdowns to increase over the next three to five years nullifying most if not all of the investment income.

In our estimates, the Fund will require an additional $10,000,000 annually in the next fifteen to eighteen years as investment earnings per year will not be adequate to meet the benefit obligations. Unless the National leaders enact appropriate measures to reverse this trend, the Fund will be depleted in the next fifteen to eighteen years. The Eighth OEK enacted RPPL No. 8-10 into law reversing RPPL No. 7-56 and pushing the Fund further into debt. The Board of Trustees reacted with a proposal to amend the current level of contributions which is before Congress. The Board of Trustees and management of the Fund will continue to work with the members of the National Congress on a contribution structure and other important measures.

We feel the Fund plays a vital role in Palau's economy by pumping over $600,000 every month into the hands of consumers who, in turn, spend this sum to support Palau's economy. In our view, ROP (National leaders) understands the financial impact the Fund has on Palau's economy and we are hopeful the new administration and Eighth OEK will enact appropriate legislations to avert some of these risks.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This 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, 2008 is set forth in the report on the audit of the Fund's financial statements which is dated May 14, 2009. That Discussion and Analysis explains the major factors impacting the 2008 financial statements. If you have questions about the 2008 or 2007 reports, or need additional information, please contact the Administrator/Chief Executive Officer at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call 483-2523.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Statements of Plan Net Assets
September 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 96,518	$ 201,959
Time certificate of deposit	-	156,990
Investments, at fair value:		
Corporate stock	21,356,183	16,936,909
Obligations of U.S. Government and agencies	10,678,978	12,784,391
Corporate bonds	5,055,746	3,952,056
Money market funds	791,619	3,972,352
Fixed income	200,848	350,000
Total investments	38,083,374	37,995,708
Receivables:		
Employers' contributions, net	800,118	469,595
Members' contributions, net	800,117	469,595
Other receivables	93,163	37,503
Total receivables	1,693,398	976,693
Furniture, fixtures and equipment, net of accumulated depreciation	63,292	44,804
Time certificates of deposit with an uninsured bank	1,452,609	1,452,609
Total assets	41,389,191	40,828,763
LIABILITIES		
Accounts payable and accrued expenses	(134,872)	(62,311)
Contingency		
Net assets - held in trust for pension benefits (see Schedule of Funding Progress)	$ 41,254,319	$ 40,766,452

See accompanying notes to financial statements.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

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

	2009	2008
Additions:		
Employers' contributions	$ 2,510,211	$ 2,461,486
Members' contributions	2,535,002	2,493,859
	5,045,213	4,955,345
Investment income:		
Net appreciation (depreciation) in fair value of investments	710,896	(7,753,705)
Interest	2,093,387	1,670,997
Dividends	299,128	357,190
Investment expenses	(197,656)	(284,493)
Total investment income	2,905,755	(6,010,011)
Total additions	7,950,968	(1,054,666)
Deductions:		
Benefit and refund payments:		
Normal and early retirement	4,900,146	4,530,968
Survivors	1,399,733	1,310,953
Refunds to terminated employees	674,179	272,778
Lump sum death disbursement	133,162	17,681
Disability	60,438	56,641
Total benefits	7,167,658	6,189,021
Administrative expenses	295,443	347,631
Total deductions	7,463,101	6,536,652
Net increase (decrease)	487,867	(7,591,318)
Plan net assets held in trust for pension benefits:		
Beginning of year	40,766,452	48,357,770
End of year	$ 41,254,319	$ 40,766,452

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

The following brief description of the Republic of Palau Civil Service Pension Trust Fund (the Fund) is provided for general information purposes only.

General

The Fund is a defined benefit, multi-employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Fund was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37 and RPPL 7-56. The Fund is administered under the authority of a seven-member Board of Trustees appointed by the President with the advice and consent of the Senate of the ROP.

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.

Membership

As of September 30, 2009 and 2008, the ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, are participating in the Fund. Membership consisted of the following as of October 1, 2007:

Members currently receiving benefits:	
Early retirement	77
Retired - 30 years of service	302
Retired - age 60	401
Retired - RPPL 5-7	7
Survivor	413
Disability	25
	1,225
Active employees - vested	2,794
Inactive employees - vested	357
Total participants	4,376

Summary of the Principal Provisions of the Plan

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

(1) Organization and Summary of Significant Accounting Policies, Continued

Eligibility to Participate

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

Service

Vesting Service: Includes membership service and prior service credit.

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

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

Pension Benefits

Retirement benefits are paid to employees (members) who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board of Trustees. Effective July 1, 1999 (per RPPL 4-49 and RPPL 5-30), retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board of Trustees. In December, 2008 RPPL 7-56 eliminated early retirement and thirty year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009.

In accordance with the directives of RPPL 5-7, the Board of Trustees adopted a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution".

(1) Organization and Summary of Significant Accounting Policies, Continued

Pension Benefits, Continued

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

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

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

A member that meets the requirements for early retirement and elects to retire on an early retirement date is entitled to receive payment of an early retirement benefit equal to the member's normal retirement benefit reduced as follows for each month by which the member's early retirement benefit commencement precedes his or her normal retirement date:

- 1/144th per month for the first 3 years;
- 1/216th per month for the next 3 years;
- 1/288th per month for the next 5 years; and
- 1/600th per month for each additional year.

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

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

- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

(1) Organization and Summary of Significant Accounting Policies, Continued

Pension Benefits, Continued

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

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

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

Any member who is not otherwise eligible to receive normal, early or late retirement benefits, who shall become totally and permanently disabled for service regardless of how or where the disability occurred, shall be entitled to a disability retirement annuity, provided that he or she is not receiving disability payments from the United States Government or its agencies for substantially the same ailment, and further provided that to be eligible for a disability retirement annuity from a cause unrelated to service, the member shall have had at least ten (10) years of total service credited. The amount of disability retirement annuity shall be an amount equal to the actuarial equivalent at the attained age of the member's present value of accrued benefit and shall be paid in the same form as a normal retirement benefit. Any special compensation allowance received or payable to any member because of disability resulting from accidental causes while in the performance of a specific act or acts of duty shall be deducted from the disability annuity payable by the Plan on account of the same disability.

Member Contributions

Member contribution rates are established by RPPL No. 2-26 at six percent of total payroll and are deducted from the member's salary and remitted by participating employers. Upon complete separation from service, a member with less than fifteen years membership service may elect to receive a refund of all of his or her contributions. Subsequent changes in the percentage contributed by members may be made through an amendment of the Trust Fund Operation Plan subject to the requirements of Title 6 of the Palau National Code.

Employer and Other Contributions

Employers are required to contribute an amount equal to that contributed by employees. Per the provisions of RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau shall from time to time contribute additional sums to the Fund in order to keep the Fund on a sound actuarial basis. The Government of the Republic of Palau provided $-0- of additional contributions during the years ended September 30, 2009 and 2008.

(1) Organization and Summary of Significant Accounting Policies, Continued

Net Appreciation (Depreciation) in Fair Value of Investments

During the years ended September 30, 2009 and 2008, the Fund's investments (including investments bought, sold, as well as held during the years) appreciated (depreciated) in value as follows:

	Net Appreciation (Depreciation) in Fair Value	
	2009	2008
Investments at fair value as determined by quoted market price:		
Obligations of U.S. Government and agencies, corporate stocks and foreign stocks	$ 710,896	$ (7,753,705)

Plan Administration

The cost of administering the Fund is paid out of the assets of the Fund.

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.

(1) Organization and Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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.

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.

Basis of Accounting and Disclosure

The accounting policies of the Fund conform to accounting principles generally accepted in the United States of America as applicable to governmental agencies, specifically state and local governmental pension plans. The Fund accounts for plan net assets and reporting plan net assets in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25 - *Financial Reporting for Defined Benefit Pension Plans* and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*.

(1) Organization and Summary of Significant Accounting Policies, Continued

Basis of Accounting and Disclosure, Continued

The financial statements of the Fund for the years ended September 30, 2009 and 2008 have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, which requires the use of management estimates. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred. Members' contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

An actuarial valuation of the Fund was last completed on October 1, 2007.

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 on such accounts.

Cash and Cash Equivalents and Time Certificates of Deposit

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

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.

(1) Organization and Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

For purposes of the statements of plan net assets, the Fund considers all cash on hand, cash held in demand accounts, and highly liquid investments with an original maturity of three months or less when purchased, except money market funds held by the Fund's investment agent, to be cash and cash equivalents. Money market funds held by the Fund's investment agent are considered investments. Time certificates of deposit with an original maturity exceeding three months are separately classified.

As of September 30, 2009 and 2008, total cash and cash equivalents were maintained in a Federal Deposit Insurance Corporation (FDIC) insured bank and amounted to $96,518 and $201,959, respectively, with corresponding bank balances of $156,590 and $223,343, respectively, with $250,000 subject to insurance coverage. A time certificate of deposit (TCD) maintained in a FDIC insured bank at September 30, 2009 and 2008 amounted to $-0- and $156,990, respectively, with a corresponding bank balance of $-0- and $156,990, respectively, and is subject to $250,000 of insurance coverage. TCDs maintained in an uninsured bank amounted to $1,452,609 at September 30, 2009 and 2008 with corresponding bank balances of $1,445,582. The TCDs are collateralized by a first lien, existing now or in the future, on unidentified loans made by the uninsured bank in the amount of principal and interest equal to $1,000,000; and a sole recourse first lien on 1,500 shares of common stock in a local company owned by a stockholder of the uninsured bank but not to exceed $2,000,000. Accordingly, these deposits are exposed to custodial credit risk. The Fund does not require collateralization of its cash deposits; therefore, deposits in excess of depository insurance are uncollateralized. The TCDs are internally restricted for purposes of funding construction of a building to be used for operations. The Fund has not entered into a commitment to construct the building as of September 30, 2009 due to boundary disputes on the proposed construction site.

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.

(1) Organization and Summary of Significant Accounting Policies, Continued

Investments, Continued

Marketable securities held for investment purposes are stated at fair value, which is primarily based on quoted market prices. Fixed income securities are reported at amortized cost with discounts or premiums amortized using the effective interest method subject to adjustment for market declines judged to be other than temporary. The Fund's investments are held by a bank-administered trust fund. The Fund has no investments in any commercial or industrial organization whose market value exceeds five percent or more of the net assets available for benefits.

The following investment policy governs the investment of assets of the Fund.

General:

1. Any pertinent restrictions existing under the laws of the ROP with respect to the Fund, that may exist now or in the future, will be the governing restriction.

2. U.S. and non-U.S. equities, American Depository Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.

3. No individual security or any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of any investment manager's portfolio.

4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.

5. Investments in a registered mutual fund managed by the investment manager are subject to the prior approval of the Board of Trustees.

6. The following securities and transactions are not authorized without prior written Board of Trustees approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.

7. An investment manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Trustees.

Investments may be made in:

A. Fixed Income

   1. All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.

(1) Organization and Summary of Significant Accounting Policies, Continued

Investments, Continued

A. Fixed Income, Continued

2. No more than 20% of the market value of the portfolio shall be rated less than single “A” quality, unless the investment manager has specific prior written authorization from the Board of Trustees.

3. Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than “A”.

4. It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local banking institutions, with the express purpose of making funds available to the local community in the form of loans. While these Local CDs are held, they will be included in the “strategic asset allocation” as fixed income investments. However, these Local CDs and the local banking institutions must meet the following criteria on an ongoing basis:

   a. Local CDs must offer a competitive return relative to alternative issuers.

   b. The local banking institutions must provide annual audited financial statements for Board of Trustee review. The Board of Trustees is charged with monitoring the financial health of the local banking institutions. Should concerns arise with respect to the financial condition of the local banking institutions, the Board of Trustees shall take appropriate action.

   c. The local banking institution shall promptly inform the Board of Trustees, in writing, of any significant or material matters pertaining to the institution, including, but not limited to: ownership; organizational structure; financial condition; and, any material proceedings affecting the firm.

   d. Provide collateral, acceptable to the Board, to secure the Local CDs.

B. Equities

1. Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.

2. Equity holdings shall be restricted to readily marketable securities of corporations that are traded on the major exchanges and over the counter.

3. The investment managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, as per the IPS, they will be evaluated against their performance benchmarks and peers on the performance of the total funds under their direct management.

4. Common stock and preferred stock of any institution or entity created or existing under the laws of the United States or any other country are permissible investments.

(1) Organization and Summary of Significant Accounting Policies, Continued

Investments, Continued

C. Cash/Cash Equivalents

1. Cash equivalent reserves shall consist of cash instruments having a credit quality rating of Standard & Poor's A-1, Moody's P-1, or their equivalent. U.S. Treasury and Agency securities, Banker Acceptances, Certificate of Deposit, and Collateralized Repurchase Agreements are also acceptable investment vehicles. Custodial Sweep Accounts must be, in the judgment of the Investment Managers, of credit quality equal or superior to the standards described above.

2. In the case of Certificates of Deposit, except as discussed under Fixed Income with respect to the Local CDs, they must be issued by FDIC insured institutions. Deposits in institutions with less than $10 million in assets may not be made in excess of $100,000 (or prevailing FDIC insurance limit), unless the Deposit is fully collateralized by U.S. Treasury Securities.

3. No single issue shall have a maturity of greater than two years.

4. Custodial Sweep Account portfolios must have an average maturity of less than one year.

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.

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:

		2009				
		Investment Maturities (In Years)				
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Rating
Mortgage and asset backed securities	$ 5,520,908	$ -	$ 40,684	$ 71,304	$ 5,408,920	AAA
Government bonds	5,158,070	-	2,928,589	1,025,915	1,203,566	AAA
International bonds	200,848	-	200,848	-	-	AAA
Corporate bonds	806,581	-	488,721	-	317,860	AAA
Corporate bonds	368,515	-	164,271	-	204,244	AA
Corporate bonds	120,795	-	-	120,795	-	AA-
Corporate bonds	517,403	-	-	336,605	180,798	AA+
Corporate bonds	703,919	-	111,947	377,323	214,649	A+
Corporate bonds	1,144,367	-	306,224	510,597	327,546	A
Corporate bonds	552,674	-	-	162,806	389,868	A-
Corporate bonds	672,012	102,558	112,525	456,929	-	BBB+
Corporate bonds	169,480	-	92,834	76,646	-	BBB
	$ 15,935,572	$ 102,558	$ 4,446,643	$ 3,138,920	$ 8,247,451	

(1) Organization and Summary of Significant Accounting Policies, Continued

Investments, Continued

		2008				
		Investment Maturities (In Years)				
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10	Rating
Mortgage and asset backed securities	$ 6,204,180	$ -	$ -	$ 53,497	$ 6,150,683	AAA
Government bonds	6,580,211	-	3,541,929	1,783,135	1,255,147	AAA
Municipal obligations	350,000	350,000	-	-	-	AAA
Corporate bonds	780,606	29,543	470,756	-	280,307	AAA
Corporate bonds	330,889	69,208	-	97,486	164,195	AA
Corporate bonds	134,666	-	134,666	-	-	AA-
Corporate bonds	105,690	-	-	105,690	-	AA+
Corporate bonds	488,019	-	-	297,937	190,082	A+
Corporate bonds	922,620	252,986	124,125	65,102	480,407	A
Corporate bonds	472,941	-	130,804	-	342,137	A-
Corporate bonds	419,634	-	-	419,634	-	BBB+
Corporate bonds	296,991	-	85,940	143,598	67,453	BBB
	$ 17,086,447	$ 701,737	$ 4,488,220	$ 2,966,079	$ 8,930,411	

Receivables

Contributions receivable from participants and employers, all of whom are situated in the Republic of Palau, are unsecured.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established through a provision charged to expense. Accounts are charged against the allowance when management believes that the collection of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible, based on evaluations of collectability and prior loss experience.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of $500.

Administrative expenses include depreciation and amortization expense of $19,298 and $10,331 in 2009 and 2008, respectively.

Operating and Non-Operating Revenue and Expenses

Operating revenues and expenses generally result directly from the member contributions and employer contributions.

Non-operating revenues and expenses result from non-recurring income and costs such as interest.

(1) Organization and Summary of Significant Accounting Policies, Continued

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses include investment management fees, employees' accrued salaries and wages, and accrued annual leave at fiscal year end.

Taxes

The Fund is a public employees' retirement system and a component unit of the ROP government. Accordingly, the Fund is exempt from all national and state nonpayroll taxes and fees.

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net assets available for benefits during the reporting period. Actual results could differ from those estimates.

(2) Funding Status and Funding Progress

The funded status as of October 1, 2007, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a / c)
$ 48,358,000	$ 107,579,000	$ 59,221,000	44.95%	$ 34,763,000	170.4%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. The Plan uses the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. As such, information about the Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	October 1, 2007
Actuarial Cost Method:	Aggregate cost method

(2) Funding Status and Funding Progress, Continued

Amortization Method:	Level percent open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value, including accrued but unpaid contributions

Actuarial Assumptions:

Investment rate of return:	8.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

For financial reporting purposes, the projection of benefits does not explicitly incorporate the potential effects of the legal limit on employer contributions disclosed in note 1, Employer and Other Contributions.

(3) Furniture, Fixtures and Equipment

A summary of the Fund's furniture, fixtures and equipment is set forth below:

	Estimated Useful Lives	Balance at October 1, 2008	Additions	Deletions	Balance at September 30, 2009
Office equipment and furniture	3 - 10 years	$ 75,015	$ 36,422	$ (1,500)	$ 109,937
Vehicles	6 years	27,050	24,649	(18,550)	33,149
		102,065	61,071	(20,050)	143,086
Less accumulated depreciation		(57,261)	(19,298)	(3,235)	(79,794)
		$ 44,804	$ 41,773	$ (23,285)	$ 63,292

	Estimated Useful Lives	Balance at October 1, 2007	Additions	Deletions	Balance at September 30, 2008
Office equipment and furniture	3 - 10 years	$ 49,616	$ 29,392	$ (3,993)	$ 75,015
Vehicles	6 years	27,050	-	-	27,050
		76,666	29,392	(3,993)	102,065
Less accumulated depreciation		(53,379)	(10,331)	6,449	(57,261)
		$ 23,287	$ 19,061	$ 2,456	$ 44,804

(4) Republic of Palau

RPPL 5-45 earmarked $1,000,000 to the Fund, to be derived from revenues generated from a Virtual Pachinko Business. Of this $1,000,000, RPPL 6-12, passed into law on September 30, 2001, allocated $500,000 to the Fund for the employer contribution of the Palau Community College (PCC) for employees of PCC electing to participate. PCC employees opting to retroactively participate shall be enrolled in the Fund effective as of their start date with PCC or October 1, 1987, whichever is later. These employees are required to pay into the Fund their proportionate contribution for each year of retroactive participation.

As a result of the provisions of RPPL 6-12, PCC employees who opted to claim prior year service executed payment agreements with the Fund totaling $978,907 for prior year service claimed. As these employees are not mandated to continue payment agreements and can elect to have contributions refunded upon termination of payment agreements, and due to the uncertainty of collection of the employee's share through RPPL 6-12, the Fund has elected not to record PCC employee receivables for prior year service. The Fund received $64,733 and $35,202 from PCC employees during the years ended September 30, 2009 and 2008, respectively.

ROP has determined that remaining amounts earmarked to the Fund through RPPLs 5-45 and 6-12 will only be remitted as revenues are generated from the Virtual Pachinko Business. The Fund did not receive funds related to RPPL 6-12 and 5-45 from ROP during the years ended September 30, 2009 and 2008, respectively. Therefore, the Fund has not recognized the remaining $875,000 as a receivable or as revenue in the accompanying financial statements. However, the Fund received $66,289 and $32,446 from PCC for the employer contribution of PCC during the years ended September 30, 2009 and 2008, respectively.

(5) Administrative Expenses

A summary of the administrative expenses for the years ended September 30, 2009 and 2008, is set forth below:

	2009	2008
Personnel	$ 156,985	$ 152,333
Conference expenses	43,372	60,882
Staff training	29,656	20,653
Depreciation	19,298	10,331
Professional fees	9,359	63,368
Rent and utilities	7,152	6,500
Communications	3,667	3,149
Board compensation	2,650	3,500
Miscellaneous	23,304	26,915
	$ 295,443	$ 347,631

(6) 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 risk of loss to which it is exposed for automobiles. The Fund does not maintain insurance coverage for office equipment and furniture. In the event of catastrophe, the Fund may be self-insured. No losses have been sustained as a result of this practice during the past three years.

(7) Contingency

The Fund is exposed to a possible contingent claim resulting from a deposit made in an uninsured bank that was later placed into receivership. The potential outcome of this matter cannot be reasonably predicted by the Fund's administration and, accordingly, no provision for a liability or potential loss that may result from settlement of this claim has been recorded in the accompanying financial statements.

The Fund has TCDs amounting to $1,452,609 in an uninsured bank at September 30, 2009 and 2008. The uninsured bank went into receivership on November 7, 2006. It is uncertain if the Fund will realize the abovementioned deposits.

(8) Subsequent Event

In October 2009, RPPL 8-10 required the Board of Trustees of the Fund to commission a feasibility and actuarial study regarding the conversion of the Fund from a defined benefit system to a defined contribution system and for the incorporation of private sector employers and employees as participants in the Plan.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Funding Progress
September 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -Aggregate Cost Method	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/01/03	$ 36,247,000	$ 75,088,000	$ 38,841,000	48.27%	$ 28,154,000	138.0%
10/01/04	Actuarial valuations are performed biennially.					
10/01/05	$ 41,965,000	$ 83,169,000	$ 41,204,000	50.46%	$ 32,706,000	126.0%
10/01/06	Actuarial valuations are performed biennially.					
10/01/07	$ 48,358,000	$ 107,579,000	$ 59,221,000	44.95%	$ 34,763,000	170.4%
10/01/08	Actuarial valuations are performed biennially.					

See accompanying Independent Auditors' Report and notes to required supplementary schedules.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Employer Contributions
September 30, 2009

Year Ended September 30,	Annual Required Contribution	Employer Contribution	Percentage Contributed
2004	$ 9,434,000	$ 2,086,856 *	22.1%
2005	Actuarial valuations are performed biennially.		
2006	$ 10,181,000	$ 2,312,491 **	22.7%
2007	Actuarial valuations are performed biennially.		
2008	$ 12,554,000	$ 4,531,994	36.1%
2009	Actuarial valuations are performed biennially.		

* Required employer contribution was determined to be $7,745,000.
** Required employer contribution was determined to be $8,218,640.

See accompanying Independent Auditors' Report and notes to required supplementary schedules.

(1) Actuarial Methods and Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Fund's provisions to the service members have rendered through the most recent actuarial valuation date (October 1, 2007). Accumulated plan benefits include benefits expected to be paid to (i) retired, disabled, and terminated employees and their beneficiaries, (ii) beneficiaries of employees who have died, and to (iii) present employees and their beneficiaries. Benefits payable under all circumstances - retirement, death, disability, and termination of employment - are included, to the extent they are deemed attributable to employee service rendered through October 1, 2007.

The actuarial present value of accumulated plan benefits is determined by an independent actuarial firm and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawals, or retirement) between the most recent actuarial valuation (October 1, 2007), and the expected date of payment. The significant actuarial assumptions used to calculate the actuarial present value of accumulated plan benefits are presented below, and are based on the presumption that the Fund will continue in operation. Were the Fund to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Valuation Date:	October 1, 2007
Actuarial Cost Method:	The Plan uses the aggregate actuarial cost method which does not identify or separately amortize unfunded actuarial liabilities. As such, information about the Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.
Valuation of Assets:	Market value, including accrued but unpaid contributions.
Return on Investment:	8.5% per year
Salary Increase:	3% per annum
Withdrawal Rates:	5% up to age 40, 0% thereafter
Disability Rates:	Based on 2007 U.S. Social Security Trustees Report Intermediate Assumptions.
Mortality Rates:	Non - disabled lives - Based on the 1984 Unisex Pension Table.
	Disabled lives - Based on the PBGC Mortality Table for disable persons receiving social security.

See Accompanying Independent Auditors' Report.

(1) Actuarial Methods and Actuarial Present Value of Accumulated Plan Benefits, Continued

Retirement Age:	Earlier of age 60 or 30 years of total service.
Includes inflation at:	0%
Amortization Method:	Level percent open
Remaining Amortization Period:	30 years

(2) Factors that Significantly Affect the Identification of Trends in the Amounts Reported

The ROP Congress (Olbiil Era Kelulau) enacted two laws which have potentially material effects on the amounts reported in the schedule. RPPL 4-49 and RPPL 5-30 establish that effective May 17, 1996, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board of Trustees. The laws further provide that effective July 1, 1999, retirement is mandatory for all members who have thirty years or more of total service with certain exceptions, and that the pension is not reduced for receipt of benefits prior to age 60. By RPPL 6-37, effective October 1, 2003, mandatory retirement may be delayed for an additional five years by specific exemption by the Board of Trustees.

RPPL 5-7 directed the Board of Trustees to adopt a resolution which provides that "no person who retires after October 1, 1997, may receive benefits under the Plan unless he or she has contributed to the Plan for at least five years or has made an actuarially equivalent lump sum contribution".

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities
September 30, 2009

	2009		
	Face Value	Cost	Fair Value
Money Market Funds			
Western Assets US Money Market Fund a Dist (G)	$ 132,441	$ 132,441	$ 132,441
Western Assets US Money Market Fund a Dist (G)	64,270	64,270	64,270
Western Assets US Money Market Fund a Dist (G)	132,434	132,434	132,434
Western Assets US Money Market Fund a Dist (G)	108,420	108,420	108,420
	437,565	437,565	437,565
Unsettled purchases	71,607	71,607	71,607
Accruals	146,021	146,021	146,021
Exchange traded and closed end funds	66,528	66,528	66,528
Cash	69,898	69,898	69,898
	$ 791,619	$ 791,619	$ 791,619

	2009			
	Face Value	Cost	Fair Value	Ratings
Obligations of U.S. Government and Agencies				
Mortage and Asset Backed Securities				
FHLMC PL # B 15182 @ 4.5%, due 6/10/2014	$ 145,000	$ 43,096	$ 40,684	AAA
FHLMC PL # B 13067 @ 4.5%, due 3/01/2019	171,000	65,157	71,304	AAA
FHLMC PL # G 12121 @ 5.5%, due 4/01/2021	107,000	54,294	57,715	AAA
FHLMC PL # CO1567 @ 5%, due 5/01/2033	901,000	402,238	402,739	AAA
FNMA PL # 739821 @ 5%, due 9/1/2033	463,000	235,233	234,068	AAA
FNMA PL # 735733 @ 4.5%, due 10/01/2033	175,000	107,166	118,462	AAA
FNMA PL # 923129 @ 5.5%, due 08/01/2034	1,000,000	555,727	612,524	AAA
FHLMC PL # 781958 @ 5.083%, due 09/01/2034	182,000	77,105	80,111	AAA
FNMA PL # 794706 @ 5.135%, due 10/01/2034	220,000	67,568	67,343	AAA
FNMA PL # 735227 @ 5.500%, due 01/01/2035	141,000	66,568	71,492	AAA
FNMA PL # 735228 @ 5.500%, due 02/01/2035	324,000	155,904	168,662	AAA
FHLMC PL# G08046 @5.500%, due 3/1/20035	206,000	106,396	116,020	AAA
FNMA PL#255670 @ 05.00%, due 3/1/2035	101,000	59,037	64,534	AAA
FNMA PL#735502 @ 06.00%, due 4/1/2035	158,000	58,829	61,336	AAA
FANNIE MAE TR 2006-41 CL MC @ 5.5%, due 7/25/2035	254,000	240,542	268,209	AAA
FHLMC PL #A36664 @ 05.00%, due 8/1/2035	128,000	71,030	80,561	AAA
FHLMC PL #A36685 @ 05.00%, due 8/1/2035	54,000	31,835	35,624	AAA
FNMA PL#735897 @ 5.500%, due 10/1/2035	152,000	94,506	99,318	AAA
FNMA PL#828856 @ 5.5%, due 10/1/2035	195,000	108,354	117,939	AAA
GNMA PL#648503X @ 5.5%, due 11/15/2035	100,000	53,941	57,039	AAA
FNMA PL#745089 @ 6.000%, due 12/1/2035	120,000	60,009	63,377	AAA
FHLMC PL#A41394 @ 5.000%, due 1/1/2036	306,000	208,285	221,611	AAA
FHLMC PL#G02168 @ 6.000%, due 4/1/2036	66,000	38,896	41,261	AAA
FNMA PL#881441 @ 5.500%, due 4/1/2036	200,000	111,741	119,485	AAA
FHLMC PL# A61533 @ 5.00%, due 06/01/2036	155,000	112,566	111,544	AAA
FNMA PL#867452 @ 6.500%, due 6/1/2036	107,000	69,202	67,981	AAA
FNMA PL#882694 @ 6.500%, due 6/1/2036	65,000	42,854	42,181	AAA
FNMA PL#897447 @ 6.000%, due 10/1/2036	487,076	287,701	283,731	AAA
FNMA PL#903749 @ 6.000%, due 10/1/2036	80,000	41,459	43,263	AAA
FHLMC PL#A55326 @ 6.000%, due 12/1/2036	275,000	169,566	173,599	AAA
FHLMC PL#1G1406 @ 5.858%, due 12/1/2036	275,000	188,517	189,469	AAA
FNMA PL#905678 @ 5.500%, due 12/1/2036	171,000	125,271	125,656	AAA
FHLMC PL#H00452 @ 5.500%, due 1/1/2037	138,000	108,019	115,306	AAA
FNMA PL#910473 @ 5.567%, due 1/1/2037	278,000	209,887	221,371	AAA
FHLMC PL#A60299 @ 6.500%, due 5/1/2037	297,000	221,836	230,061	AAA
FNMA PL#938171 @ 6.500%, due 7/1/2037	400,000	322,385	337,883	AAA
FNMA PL#975235 @ 6.500%, due 04/01/2038	310,000	214,784	216,519	AAA
FNMA PL# AA3553 @ 5%, due 02/01/2039	89,000	91,104	90,926	AAA
	$ 8,996,076	$ 5,278,608	$ 5,520,908	
Government Bonds				
Federal Natl MTG ASSN Med Term Notes Book/Entry @ 1.375% , due 10/07/2011	$ 175,000	$ 175,000	$ 175,821	AAA
Federal Farm Credit Bank Cons BDS Book/Entry @ 3.375%, due 11/18/2011	175,000	175,000	175,602	AAA
Federal Natl MTG ASSN Med Term Notes Book/Entry @ 2.000% , due 01/19/2012	440,000	441,280	447,564	AAA
Federal Hone Loan MGTC COR Med Term NTS Book/Entry @2.450%, due 02/17/2012	175,000	174,650	176,083	AAA
Federal Natl MGT Assn Med Term NTS Book/Entry @ 3.500%, due 8/25/2014	120,000	120,000	121,163	AAA
Federal Natl MTG Assn Med Term NTS Book/Entry @ 5.500%, due 6/25/2024	75,000	75,000	74,883	AAA
Tennessee Valley Auth 1995 Pwr BDS-BK/Entry @ 6.750%, due 11/1/2025	200,000	231,278	245,648	AAA
Fannie Mae @ 5.5%, due 5/10/2027	75,000	74,625	78,351	AAA
Tennessee Vallley Auth Power Bonds Ser C-BK/Entry @ 5.880%, due 4/1/2036	100,000	112,738	114,990	AAA

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Schedule of Investment Securities, Continued
September 30, 2009

	2009 Face Value	Cost	Fair Value	Ratings
Obligations of U.S. Government and Agencies, Continued				
Government Bonds, Continued				
US Treasury Notes Ser B-2011 @ 5%, due 2/15/2011	400,000	400,897	424,108	AAA
US Treasury Notes Ser L-2012 @ 4.750%, due 5/31/2012	130,000	128,263	141,873	AAA
US Treasury Notes Ser AA-2012 @ 1.50%, due 7/15/2012	472,000	471,626	474,360	AAA
US Treasury Notes Ser N-2012 @ 4.625%, due 7/31/2012	155,000	156,666	169,241	AAA
US Treasury Notes Ser E-2012 @ 4.000%, due 11/15/2012	90,000	89,901	97,038	AAA
US Treasury Notes Ser C-2014 @ 4.750%, due 5/15/2014	250,000	248,260	278,673	AAA
US Treasury Notes Serc P-2014 @ 2.625%, due 7/31/2014	243,000	242,934	247,063	AAA
US Treasury Notes Serc E-2015 @ 4.250%, due 8/15/2015	75,000	77,775	81,679	AAA
US Treasury Notes Ser F-2017 @ 4.25%, due 11/15/2017	785,000	811,947	845,838	AAA
US Treasury Notes Ser C-2019 @ 3.125%, due 5/15/2019	100,000	98,625	98,398	AAA
US Treasury Bonds @ 6.250%, due 8/15/2023	365,000	409,665	457,506	AAA
US Treasury Bonds @ 5.250%, due 11/15/2028	200,000	201,891	232,188	AAA
	$ 4,800,000	$ 4,918,021	$ 5,158,070	
International Bonds				
International BK for Recon & D-USD @2.100%, due 6/15/2012	$ 200,000	$ 199,900	$ 200,848	AAA
Corporate Bonds				
Alabama Pwr Co. Book/Entry @ 5.650%, due 3/15/2035	$ 100,000	$ 97,697	$ 99,342	A
Apache Fin Canada @ 7.750%, due 12/15/2029	75,000	89,720	97,829	A-
BP Capital Markets PLC @ 5.250%, due 11/07/2013	150,000	149,903	164,271	AA
Burlington Northern Santa Fee Railwau Co 2002-2 @ 5.140%, due 1/15/2021	250,000	220,940	228,204	A
Cisco Systems Inc. @ 5.5%, due 2/22/2016	80,000	79,781	88,092	A+
Citibank N/A FDIC/TLGP @ 2.250%, due 12/10/2012	80,000	80,281	81,077	AAA
Citigroup In Sub Notes @ 5.500%, due 2/15/2017	175,000	168,879	162,806	A-
Comcast Corp @ 5.850%, due 11/15/2015	120,000	119,488	131,448	BBB+
Dominion Resource Inc SR Notes Book/Entry @ 5.250%, due 8/1/2033	175,000	174,125	179,214	A-
Duke Capital Corp Notes BK/Entry Callable @ 8.00%, due 10/1/2019	65,000	74,228	76,646	BBB
European Investment Bank BK/Entry @ 2.375%, due 3/14/2014	150,000	149,355	148,904	AAA
Gatx Corp BK/Entry @ 8.750%, due 5/15/2014	100,000	99,750	112,525	BBB+
General Elec Cap Corp Notes @ 5.72%, due 8/22/2011	150,000	150,000	151,997	AA+
General Elec Co BK/Entry @ 5.00%, due 2/1/2013	175,000	178,803	184,608	AA+
General Electric Cap Corp @ 3.00%, due 12/9/2011	250,000	251,905	258,740	AAA
Harris Corp @ 5%, due 10/1/2015	79,000	75,079	81,470	BBB+
Harris Corp @ 5.95%, due 12/1/2017	120,000	119,582	128,461	BBB+
Inernational Lease Lease @ 5.906%, due 1/15/2010	105,000	105,003	102,558	BBB+
JP Morgan Chase @ 6.00% due 10/01/2017	275,000	292,996	289,231	A+
Kimberly-Clark Notes Book/Entry @ 6.125%, due 8/1/2017	65,000	64,803	74,019	A
Kinder Morgan Energy @ 7.125%, due 3/15/2012	85,000	86,688	92,834	BBB
Merrill Lynch & Co. Inc. Medium Term NTS FRN Book Entry @ .544%, due 6/5/2012	150,000	150,000	144,218	A
Morgan Stanley @ 7.30%, due 5/13/2019	100,000	99,769	110,027	A
Morgan Stanley Medium Term Notes-BK/Entry @ 5.750%, due 10/18/2016	140,000	142,051	142,061	A
New Valley Generatio @ 4.687%, due 1/15/2022	100,000	81,562	80,157	AAA
Pacificorp @ 5.450%, due 9/15/2013	150,000	154,613	162,006	A
Parterre Finance Book/Entry @ 6.875%, due 6/1/2018	175,000	173,443	184,490	A
Pres&Fellows of Hardware Book/Entry @ 6.300%, due 10/1/2037	220,000	228,954	237,703	AAA
Private Export Funding Book/Entry @ 6.875%, due 6/1/2018	175,000	174,081	180,798	AA+
Science Applications Int Book/Entry @ 5.500%, due 7/1/2033	125,000	114,585	112,825	A-
Smith Intl Inc SR Notes Book Entry @ 6.000%, due 6/15/2016	115,000	116,733	115,550	BBB+
Sysco Corporation @ 6.500%, due 8/1/2028	185,000	210,310	214,649	A+
US BK Natl ASSN Minn @ 6.300%, due 2/14/2014	100,000	103,629	111,947	A+
Wal Mart Stores Inc. @ 6.500%, due 8/15/2037	175,000	176,698	204,244	AA
Wells Fargo & Co Book/Entry @ 5.625%, due 12/11/2017	115,000	114,522	120,795	AA-
	$ 4,849,000	$ 4,869,956	$ 5,055,746	

	2009 Number of Shares	Cost	Fair Value
Corporate Stock			
Abercrombie & Fitch Co Class A	1,499	$ 40,316	$ 49,287
Ace Limited	3,900	157,328	208,494
ADC Telecommunication Inc. New	3,550	22,588	29,607
Adobe Systems Inc (DE)	4,200	147,995	138,768
Advantest CorpCpon Adr	4,400	160,245	120,560

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REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
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	2009		
	Number of Shares	Cost	Fair Value
Corporate Stock, Continued			
Aeon Company Ltd	4,800	109,080	44,928
Air Liquide Adr	5,500	96,830	125,785
Alleghany Corp Del	118	30,577	30,568
Allegheny Technologies Inc.	1,243	31,870	32,964
Allstate Corp	5,100	121,768	156,162
American Tower Corp	3,900	117,949	141,960
Ameriprise Financial Inc	1,567	36,954	56,929
Amgen Inc	2,200	141,033	132,506
Apha Natural Resources Inc	1,114	38,239	39,101
Apple Inc	4,900	584,912	908,215
Astrazeneca PLC Spon Adr	1,900	112,765	85,405
AT&T Inc	5,600	136,528	151,256
Bally Technologies Inc.	984	28,909	37,756
Banco Santander S.A.	6,800	72,451	109,820
Bank of Amarica Corp	15,000	168,301	253,800
Barclays PL-ADR	4,400	21,777	104,016
Basf Se Common Stock	2,800	110,428	148,400
Blue Coat System Inc-New	2,170	33,604	49,020
Bunge Limited	1,400	69,020	87,654
Capital One Finl Corp	5,900	108,201	210,807
Celgene Corp	2,600	122,623	145,340
Cephalon Inc	823	51,241	47,932
Chimera Investment Corp	11,814	40,919	45,129
Ciena Corp New	2,489	18,434	40,521
Cisco Systems	16,400	269,059	386,056
Cliff's Natural Resources	873	23,246	28,250
Comerica Inc	1,911	44,226	56,699
Commerzbank AG Sponsored Adr	12,000	138,379	152,400
Commscope Inc	1,446	26,458	43,279
Comstock Res Inc New	1,139	38,662	45,651
Constellation Brands Inc CL A	3,658	44,277	55,419
Continental Resource Inc	668	17,086	26,166
Crown Castle International	1,211	17,515	37,977
CVS Caremark Corp	8,384	303,532	299,644
DBS Group Hldg Ltd SP Adr	2,200	67,939	82,830
Diageo PLC Spon Adr-New	1,500	100,935	92,235
Dow Chemicals Co	12,900	293,975	336,303
Duetsche Telekom AG SP Adr	4,900	77,608	66,934
Energizer Hldgs Inc	377	19,415	25,010
Enersis S.A. Sponsored ADR	6,500	71,187	119,925
Ericsson L M Tel Co Cl B Adr	7,800	74,019	78,156
Erste Group Bank AG Spon Adr Australia	5,000	25,137	113,250
European Aeronautic Defense & Eur Unspon Adr	3,700	122,285	83,065
Exco Resources Inc-New	3,330	39,216	62,238
Express Scripts Inc. Common	5,700	364,183	442,206
Finisar Corporation	4,577	104,229	44,305
Forest Laboratories Inc	885	18,598	26,054
Freeport McMoran Copper & Gold CL B	5,800	216,541	397,938
Fulton Financial Corp-PA	4,127	30,845	30,540
Gamestop Corp New CL A	2,068	58,841	54,740
Gilead Sciences Inc	9,100	440,693	423,150
Goldman Sachs Group Inc	3,800	342,522	700,530
Google Inc Glass A	1,562	656,901	774,518
Guess Inc	961	31,553	35,595
Hain Celestial Group Inc	3,029	45,578	58,066
Hartford Finl Svcs Group Inc	1,489	20,219	39,459
Hewlett-Packard Co	12,900	533,191	609,009
Hologic Inc	3,250	46,195	53,105
HSBC Holdings PLC SP Adr New	1,778	119,050	101,968
Hub Group Inc CL A	2,121	46,803	48,465
Integra Lifesciences Holdings Corp	1,421	34,133	48,527
Intel Corp	11,200	144,807	219,184
Int'l Business Machines Corp	5,400	507,678	645,894
Invensys PLC Spos Adr USD	15,000	114,533	69,600
ITT Educational Services Inc	361	35,476	39,858
Jack in the Box Inc	1,926	46,223	39,464
JB Hunt Transport Services Inc	805	19,949	25,865

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REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
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	2009		
	Number of Shares	Cost	Fair Value
Corporate Stock, Continued			
JP Morgan Chase & Co	16,200	410,329	709,884
Kansas City Southern Inds	2,357	49,810	62,437
Kao Corp-JPY Spons Adr New	400	102,780	98,200
KeyCorp-New	9,006	52,473	58,539
Kohls Corp	2,700	116,132	154,035
Komatsu Ltd. Adr New	1,200	94,800	89,724
Laboratory Corp America Holdings	766	54,300	50,326
Legg Mason Inc	1,939	42,050	60,167
Lincoln National Corp-IND	1,280	21,303	33,165
Loreal Co Adr -USD-	5,600	102,760	111,832
Magellan Health Svcs Inc.	1,685	73,095	52,336
Maxim Intergrated Prods Inc	1,803	24,689	32,706
Medco Health Solutions Inc	6,300	273,872	348,453
Merck & Co Inc	11,200	245,912	354,256
Metlife Inc	4,300	105,122	163,701
Michelin C Gde Unspon Adr	8,500	54,777	133,450
Microsoft Corp	17,400	322,202	447,528
Millicom Intl Cellular SA New	599	40,115	43,571
Mircrosemi Corp	2,788	39,830	44,023
Mitsubishi UFJ Financial Group Inc Adr	13,000	149,487	69,420
Nestle SA	1,900	58,710	81,111
NII Holdgs Inc Class B New	3,165	86,482	95,140
Novartis AG Adr	1,800	96,111	90,684
Novell Inc	6,574	38,368	29,649
Ntelos Holdings Corp	1,485	22,873	26,225
NTT Docomo Inc Spons Adr	4,600	67,356	72,956
Occidental Petroleum Corp-Del	6,000	362,387	470,400
ON Semiconductor Corp	4,894	34,834	40,376
Oracle Copr	6,500	146,327	135,460
Orix CorpSons Adr	1,600	154,983	48,608
OSI Pharmaceuticals Inc	770	25,147	27,181
Owens Illinois Inc New	2,426	44,474	89,519
Pactive Corp	1,300	17,781	33,865
Peoples United Fincl Inc	1,330	22,752	20,695
Petrohawk Energy Corp	2,493	52,868	60,356
Pharmaceutical Productive Dev Inc	1,891	38,883	41,489
Philip Morris Intl Inc	9,300	449,762	453,282
Pinnacle Entertainment Inc	4,831	64,476	49,228
PMC Sierra Inc	4,478	26,879	42,810
Praxaiir Inc	2,600	185,329	212,394
Prologis SH Ben Int	1,394	16,639	16,616
Qual Comm Inc	2,900	137,298	130,442
Ralcorp Hldgs Inc New	612	34,397	35,784
Range Resources Corp	660	25,556	32,578
Regal Entertainment Group	1,759	28,601	21,671
Regions Financial Corp	8,445	33,425	52,443
Renaissancere Holdings Ltd.	579	29,522	31,706
Repsol SA Sponsored Adr	3,500	97,532	95,060
Republic Svcs Inc	565	10,525	15,012
Royal Caribbean Cruises	2,500	95,950	60,200
Royal Dutch Shell PLC Adr CL A	1,600	115,167	91,504
Sanmina-SCI Corp	5,029	31,525	43,249
Savvis Inc New	2,005	49,620	31,719
SBA Communications Corp	2,325	55,249	62,845
Schlumberger Ltd	1,300	55,257	77,480
Seagate Technology	2,388	7,653	36,321
SewdbankAb Adr	3,900	116,864	45,825
Smithfield Foods Inc DE	1,223	16,959	16,877
Staples	9,400	199,921	218,268
State Street Coro	2,700	144,075	142,020
Sumitomo Trust & Banking Co LT-JPY Spons Adr	12,000	128,580	63,600
Suntrust Bank Inc	3,421	48,203	77,144
Synovus Financial Corp	8,436	34,201	31,635
Teva Pharmaceutical Inds LTD Adr	2,200	77,224	111,232
Toray Industries Inc Adr	1,700	146,350	102,340
Toshiba Corp Unspon Adr	2,000	52,754	63,700
Total SA SP ADR	1,700	108,695	100,742

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REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2009

	2009		
	Number of Shares	Cost	Fair Value
Corporate Stock, Continued			
TotoLTD Adr	1,200	117,077	78,660
Traget Corp	8,400	292,347	392,112
Transocean Ltd Switcherland New	4,600	340,593	393,438
Ultra Petroleum Corp-CAD	1,021	42,324	49,988
UnileverNV NY SHS-New	4,400	104,715	126,984
Union Pacific Corp	7,100	319,131	414,285
United Technologies Corp	6,000	275,305	365,580
Urban Outfitters Inc	1,396	23,504	42,117
V F Corp	418	22,776	30,276
Vale A S Spon Adr	11,500	155,868	265,995
Valueclick Inc	4,182	65,951	55,161
Versign Inc	2,184	44,479	51,739
VISA Inc Com Cl A	2,700	174,139	186,597
Vivendi SA Sponsored Adr France	3,400	93,434	105,740
Vodafone Group PLC Spons Adr New	4,300	98,823	96,750
Wal-Mart Stores Inc	2,800	170,251	137,452
Walt Disney Co	5,400	111,378	148,284
Weatherford International Ltd-CHF	6,300	134,327	130,599
Wellpoint Inc	5,800	297,822	274,688
Wet Seal Inc CL A	8,969	34,839	33,899
Wrigth Medical Group Inc	1,949	31,329	34,809
Zions Bancorp	2,316	37,528	41,619
	669,364	$ 17,984,084	$ 21,356,183

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