

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

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Republic of Palau Civil Service Pension Trust Fund (the Fund), a component unit of the Republic of Palau, which comprise the statements of plan net position as of September 30, 2014 and 2013, and the related statements of changes in plan net position for the years then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Republic of Palau Civil Service Pension Trust Fund as of September 30, 2014 and 2013, and the changes in its plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in note 1 to the financial statements, during the year ended September 30, 2014 the Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. The effects of implementation of GASB 67 are presented in note 2 to the financial statements and in required supplementary information.

As discussed in note 6, the Fund's actuarial valuation has determined that the Fund had an actuarial deficiency which may cause the Fund's cash flow to eventually become negative and the Fund may not be able to meet its benefit obligations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our opinion is not modified with respect to these matters.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Schedule of Net Pension Liability on page 28, the Schedule of Contributions on page 29 and the Notes to Required Supplementary Schedules on page 30 as of September 30, 2014 are supplementary information required by GASB Statement No. 67, *Financial Reporting for Pension Plans*. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The Schedule of Investment Securities on pages 31 through 35 as of September 30, 2014 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Investment Securities is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Investment Securities is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Debitte & Touche LLC*

June 24, 2015



# REPUBLIC OF PALAU CIVIL SERVICE PENSION PLAN

## Board of Trustees:

Elicita N. Morei  
Chairman

Siegfried Nakamura  
Vice Chairman

Members  
William Ngiraikelau  
Felix Okabe  
Kyoko April  
Mario Katosang  
Temmy L. Shmull

## MANAGEMENT'S DISCUSSION AND ANALYSIS Plan Year Ended September 30, 2014

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, 2014.

### Introductory Section

The Fund is a defined, single-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 as applicable to governmental agencies, specifically state and local governmental pension plans. The Fund accounts for fiduciary net position and reporting fiduciary net position in accordance with the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, which was adopted during the year ended September 30, 2014. 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 *net pension liability* increased from \$167,067,794 as of September 30, 2013 to \$172,765,473 as of September 30, 2014, an increase of \$5,697,679 or 3.4%. Although the Fund has not developed a plan to correct this deficiency, the Pension Plan Board of Trustees, management and the ROP National leaders are well aware of this funding deficiency and are working to correct. A proposed legislation, Senate Bill No. 9-30 - Palau National Marine Sanctuary, is a direct effort to correct the funding deficiency. The bill proposes to collect and earmark \$25 of airport and seaport departure tax to the Fund. Based on arrival and departure statistics, the total collection for the Fund could range from \$2,500,000 to \$3,500,000 per year. If this proposed legislation is enacted into law, total annual additions for the Fund will exceed \$12,000,000 per year.

## Financial Highlights, Continued

- The Fund has time certificates of deposit (TCDs) of \$1,452,609 in Pacific Savings Bank (PSB) at September 30, 2014 and 2013. Although it is still uncertain if the Fund will recover these deposits, the Estate of Johnny Reklai and the Board of Trustees have signed a Settlement Agreement where the Estate will transfer possession, custody and control of the 1,500 shares of common stock of Western Caroline Trading Company to the Fund that were pledged as collateral in the event PSB defaults on the payment. The value of these stocks will be recorded in fiscal year 2015. The Fund continues to pursue legal action against the PSB Receiver, Trustee of the PSB creditors. At September 30, 2014, the Fund recorded a 100% valuation allowance on these TCDs.
- The National Government and the Olbiil Era Kelulau (OEK - Palau National Legislature) have acknowledged and agreed to settle accrued interest on contribution amounts owed to the Fund. Through Republic of Palau Public Law (RPPL) No. 9-44, the OEK authorized and appropriated \$500,000 to the Fund as partial payment for accrued interest and pledged to repay the remaining balance in fiscal year 2016. The Fund will record the accrued interest in fiscal year 2015.
- The Fund's investment portfolio decreased in value from \$33,597,662 in fiscal year 2013 to \$32,582,999 in fiscal year 2014. Fiduciary net position decreased from \$34,261,206 in fiscal year 2013 to \$33,289,323 in fiscal year 2014, a decrease of \$971,883.
- The Fund withdrew \$3,775,000 from investments during fiscal year 2014 to pay for benefits and administrative expenses during the same period and withdrew \$2,434,004 and \$4,308,000 for fiscal years 2013 and 2012, respectively.
- The Fund received \$298,563 in fiscal year 2014 as additional revenue from remittance and money transfer tax through RPPL No. 9-2. The remittance and money transfer tax was effective in November 2013, and the funds represent eleven months of collections for fiscal year 2014.

## 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, 2014, 2013 and 2012.

The Statements of Fiduciary Net Position includes the Fund's assets and liabilities that provide a picture of the financial position of the Fund as of September 30, 2014, 2013 and 2012. These statements reflect resources of net position available for pension benefits to members, retirees and beneficiaries at the end of the fiscal year reported.

### STATEMENTS OF FIDUCIARY NET POSITION

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Cash and cash equivalents	\$ 534,261	\$ 248,520	\$ 658,313
Time certificates of deposit with an uninsured bank	-	-	1,452,609
Investments	32,582,999	33,597,662	32,100,018
Other assets	<u>201,442</u>	<u>453,865</u>	<u>3,276,386</u>
	<u>\$ 33,318,702</u>	<u>\$ 34,300,047</u>	<u>\$ 37,487,326</u>

## Overview of the Financial Statements, Continued

### STATEMENTS OF FIDUCIARY NET POSITION, CONTINUED

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Liabilities and net position:			
Liabilities	\$ 29,379	\$ 38,841	\$ 39,639
Net position	<u>33,289,323</u>	<u>34,261,206</u>	<u>37,447,687</u>
	<u>\$ 33,318,702</u>	<u>\$ 34,300,047</u>	<u>\$ 37,487,326</u>

- Total receivables decreased from \$437,036 in 2013 to \$199,545 in 2014 and from \$3,239,803 in 2012 to \$437,036 in 2013.
- At September 30, 2014, 2013 and 2012, the Fund had \$1,897, \$16,829 and \$36,583, respectively, in furniture, fixtures and equipment, net of accumulated depreciation where applicable, including office equipment, furniture and vehicles, which represent net decreases of \$14,932 in 2014 over 2013 and \$19,754 in 2013 over 2012. 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 Fiduciary Net Position summarize the Fund's financial activities that occurred during the fiscal year as compared to amounts for the previous fiscal years. The financial statements measure the change in resources available to defray pension benefits to members, retirees and beneficiaries for fiscal years 2014, 2013 and 2012.

### STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Additions:			
Contributions	\$ 5,618,205	\$ 5,021,782	\$ 5,139,818
Investment income	2,760,338	2,621,503	4,614,658
Other income	<u>317,429</u>	<u>6,524</u>	<u>89,283</u>
	<u>8,695,972</u>	<u>7,649,809</u>	<u>9,843,759</u>
Deductions:			
Benefit and refund payments	9,298,152	8,930,543	8,123,193
Administrative	<u>369,703</u>	<u>1,905,747</u>	<u>401,545</u>
	<u>9,667,855</u>	<u>10,836,290</u>	<u>8,524,738</u>
Net (decrease) increase	(971,883)	(3,186,481)	1,319,021
Net position, beginning of year	<u>34,261,206</u>	<u>37,447,687</u>	<u>36,128,666</u>
Net position, end of year	<u>\$ 33,289,323</u>	<u>\$ 34,261,206</u>	<u>\$ 37,447,687</u>

- Contribution revenue increased from \$5,021,782 in 2013 to \$5,618,205 in 2014, an increase of \$596,423 and decreased from \$5,139,818 in 2012 to \$5,021,782 in 2013, a decrease of \$118,036.

## Revenue and Expense Analysis, Continued

- Investment portfolios appreciated in fair market value by \$2,097,995 and yielded net earnings of \$2,760,338 in 2014, \$2,621,503 in 2013 and \$4,614,658 in 2012.
- Benefit and refund payments increased from \$8,930,543 in 2013 to \$9,298,152 in 2014 and from \$8,123,193 in 2012 to \$8,930,543 in 2013, an increase of \$367,609 and \$807,350, respectively. The number of retirees and beneficiaries are expected to stabilize and will slowly decline over the next several years. Benefit payments are also expected to level off over the coming years as a result of an amendment to the Fund through RPPL No. 9-2.
- Administrative expenses include \$18,400, \$21,454 and \$21,303 of depreciation expense of the Fund's fixed assets in fiscal years 2014, 2013 and 2012, respectively. Administrative expenses decreased from \$1,905,747 in 2013 to \$369,703 in 2014 and increased from \$401,545 in 2012 to \$1,905,747 in 2013, a decrease of \$1,536,044 and an increase of \$1,504,202, respectively, due to bad debts recognized in 2013.

## Economic Outlook

The Board of Trustees and management of the Fund recently added Master Limited Partnerships and Real Estate Investment Trusts to the portfolio. We believe these will further provide a well-diversified portfolio to minimize losses and add value.

The U.S. and Global Markets proved to be volatile in 2014 which continued into the third quarter of 2015. Sociopolitical events around the world continue to influence market performance.

Our strategic asset allocation, asset diversification and portfolio construction is well positioned to capture opportunities in both up and down markets. We remain fully invested. We continue to look for opportunities where money could be made in the short-term, but we stay focused on our long-term objectives. Our money managers' performance added value to the portfolios in 2014, especially in the first and second quarters of the year.

At home, we have reasons to celebrate. RPPL No. 9-2, an Act to reform the Fund to a more financially sustainable program was signed into law by the President of ROP on April 30, 2013. RPPL No. 9-2 eliminates the mandatory service retirement of thirty years of total service. This provision will result in a significant savings to the Fund by delaying benefit payments and prolonging members' contributions to the Fund. The Act also provides that all employees of member agencies, without regard to whether the employee is employed part-time, or on a temporary, seasonal or impermanent basis, shall contribute to the Fund by a deduction taken from the payroll of the employee and at the same time, cease payment of monthly benefits to an employee who is re-employed subsequent to retirement. The Fund stands to realize additional contribution revenue and cost savings by ceasing monthly benefit payments through these provisions. Additionally, this Act provides a new source of revenue to the Fund through levying a four percent (4%) tax on all remittances or transfers of money outside of ROP. The Act also caps annuity benefits at \$30,000 per year. Another provision of the law limits surviving beneficiaries of an employee to only receive benefits up to the total present value of the employee's accrued benefit. This provision has the potential to save the Fund significant money as many beneficiaries have exhausted the value of the account of the employee or member but continue to receive monthly benefits. This legislation will greatly improve solvency of the Fund.



## **Economic Outlook, Continued**

The National Government has acknowledged its debts to the Fund through accrued interest on contributions and has taken an initial step to settle these debts with the Fund by appropriating \$500,000 through RPPL No.9-44 and have given assurance to settle the remaining balance before the end of fiscal year 2016.

The 9<sup>th</sup> OEK is poised to continue providing fiscal reforms to the Fund in the coming years and the Board of Trustees and management of the Fund will continue to work closely with the OEK to effectuate these much needed fiscal reforms that will nurse the Fund back to good financial health.

We feel that the Fund plays a vital role in Palau's economy by injecting over \$774,800 a month or over \$9,298,000 a year into the hands of consumers who in turn spend these sums to support the Palau economy. In our view, ROP national leaders must become more educated and aware of the fiscal status and financial condition of the Fund and the role it plays in the lives of the people and the Palau economy in order to make a well informed decision affecting the Fund. We feel the 9<sup>th</sup> Constitutional Government leaders understand the many fiscal issues faced by the Fund and they will be the engine to drive these changes to bring the Fund from an indebted stage to a more funded status.

The Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in the Fund's report on the audit of financial statements, which is dated March 31, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be viewed at the Office of the Public Auditor's website at [www.palauopa.org](http://www.palauopa.org).

## **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. If you have questions about this report 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](mailto:cspp@palaunet.com) or call 483-2523.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Statements of Fiduciary Net Position  
September 30, 2014 and 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ <u>534,261</u>	\$ <u>248,520</u>
Investments, at fair value:		
Corporate stock	16,690,046	17,632,728
Obligations of U.S. Government and agencies	8,945,436	5,859,902
Mutual funds	3,542,714	3,425,201
Corporate bonds	2,396,094	5,671,005
Money market funds	<u>1,008,709</u>	<u>1,008,826</u>
Total investments	<u>32,582,999</u>	<u>33,597,662</u>
Receivables:		
Employers' contributions, net	86,106	218,414
Members' contributions, net	86,106	218,414
Other receivables	<u>27,333</u>	<u>208</u>
Total receivables	<u>199,545</u>	<u>437,036</u>
Furniture, fixtures and equipment, net of accumulated depreciation	<u>1,897</u>	<u>16,829</u>
Total assets	<u>33,318,702</u>	<u>34,300,047</u>
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	<u>(29,379)</u>	<u>(38,841)</u>
Net position - held in trust for pension benefits (see Schedule of Net Pension Liability)	\$ <u><u>33,289,323</u></u>	\$ <u><u>34,261,206</u></u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Statements of Changes in Fiduciary Net Position  
Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Additions:		
Employers' contributions	\$ 2,820,693	\$ 2,506,605
Members' contributions	<u>2,797,512</u>	<u>2,515,177</u>
	<u>5,618,205</u>	<u>5,021,782</u>
Investment income:		
Net appreciation in fair value of investments	2,097,995	1,727,482
Dividends	487,741	448,849
Interest	451,513	634,904
Investment expenses	<u>(276,911)</u>	<u>(189,732)</u>
Total investment income	<u>2,760,338</u>	<u>2,621,503</u>
Other income	<u>317,429</u>	<u>6,524</u>
Total additions	<u>8,695,972</u>	<u>7,649,809</u>
Deductions:		
Benefit and refund payments:		
Normal and early retirement	6,665,034	6,231,630
Survivors	1,988,369	1,876,760
Refunds to terminated employees	489,867	545,394
Lump sum death disbursement	106,453	226,287
Disability	<u>48,429</u>	<u>50,472</u>
Total benefits	9,298,152	8,930,543
Administrative expenses	<u>369,703</u>	<u>1,905,747</u>
Total deductions	<u>9,667,855</u>	<u>10,836,290</u>
Net decrease	(971,883)	(3,186,481)
Net position held in trust for pension benefits:		
Beginning of year	<u>34,261,206</u>	<u>37,447,687</u>
End of year	\$ <u><u>33,289,323</u></u>	\$ <u><u>34,261,206</u></u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(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, single-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, RPPL 7-56, RPPL 8-10 and RPPL 9-2. The Fund is administered under the authority of a seven-member Board of Trustees (the Board) appointed by the President with the advice and consent of the Senate of the ROP.

Under the provisions of RPPL No. 2-26, the Board adopted a Trust Fund Operation Plan (the 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, 2014 and 2013, 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 September 30, 2014:

Members currently receiving benefits	1,358
Inactive members entitled to but not yet receiving benefits	208
Active members	<u>3,107</u>
Total members	<u>4,673</u>

Summary of the Principal Provisions of the Plan

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

Eligibility to Participate

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

Service

Vesting Service: Includes membership service and prior service credit.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

Service, Continued

**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 members who are required, with certain exceptions, to retire no later than their sixtieth birthday or after thirty years of service. A member may retire after his or her fifty-fifth birthday at a reduced pension amount if the member has completed at least twenty years of government employment. A married member of a former member receiving a distribution of benefits under the Pension Fund receives reduced benefit amounts to provide survivors' benefits to his or her spouse. An unmarried member or former member may elect to receive a reduced benefit amount during his or her lifetime with an annuity payable to his or her designated beneficiary. Disability benefits are paid to qualified members for the duration of the disability. Effective May 17, 1996, through RPPL 4-49, members, who have twenty-five years or more of total service, are eligible for retirement regardless of their age and, upon such retirement, are eligible to receive pension benefits at a level established by the Board. Effective July 1, 1999, pursuant to RPPL 4-49 and RPPL 5-30, retirement is mandatory for all members who have thirty years or more of total service and all employees who are sixty years of age or older with certain exceptions. Beginning October 1, 2003, pursuant to RPPL 6-37, mandatory retirement may be delayed for up to five years, by specific exemption by the Board. In December 2008, RPPL 7-56 eliminated early retirement and thirty year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(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 receive, who have elected to designate a beneficiary, is based on the normal benefit amount reduced by the following factors:

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

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

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

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

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

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

Pension Benefits, Continued

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

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

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of three times the member's annual salary or the present value of the member's accrued benefit payable in the form of a single lump sum payment.

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. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Fund through payroll deduction.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

Employer and Other Contributions

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau must from time to time contribute additional sums to the Fund in order to keep the Fund on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Fund equal to the amount contributed by each and every employee of ROP. Additionally, an excise tax of four percent (4%) is levied against each non-citizen person transferring money out of ROP. The money transfer tax must be remitted to the Fund. For the years ended September 30, 2014 and 2013, money transfer tax of \$298,563 and \$-0-, respectively, are recorded within other income in the accompanying financial statements.

Plan Administration

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

New Accounting Standards

During the year ended September 30, 2014, the Fund implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. See note 2 and the required supplementary information for the implementation of this statement.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.



REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this statement 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 fiduciary net position and reporting fiduciary net position in accordance with the provisions of GASB Statement No. 67.

The financial statements of the Fund for the years ended September 30, 2014 and 2013 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 September 30, 2014.

Concentrations of Credit Risk

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

Concentrations of Credit Risk, Continued

At September 30, 2014 and 2013, 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

For purposes of the statements of plan net position, 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.

As of September 30, 2014 and 2013, total cash and cash equivalents were maintained in a Federal Deposit Insurance Corporation (FDIC) insured bank and amounted to \$534,261 and \$248,520, respectively, with corresponding bank balances of \$539,107 and \$266,154, respectively, with \$250,000 subject to insurance coverage. Time certificates of deposit (TCDs) maintained in an uninsured bank amounted to \$1,452,609 at September 30, 2014 and 2013 with a corresponding bank balance of \$1,464,047. 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. At September 30, 2014 and 2013, the Fund recorded a 100% valuation allowance for these TCDs. The Fund does not require collateralization of its cash deposits; therefore, deposits in excess of depository insurance are uncollateralized.

Investments

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 position 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.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

Investments, Continued

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.
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. U.S. SEC registered mutual funds that invest in fixed income securities, either U.S. or non U.S., will not be subject to the above guidelines. However, the Board shall attempt to invest in such funds that meet the guidelines stated above.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

Investments, Continued

A. Fixed Income, Continued

5. 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.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(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.

*Asset Allocation*

The Fund's policy in regard to the allocation of invested assets is established and maybe amended by the Board. The Board, with assistance from the Fund's consultant, identified an optimal broad asset class mix based on the Fund's time horizon, risk tolerances, performance expectations and asset class preferences.

The following strategic asset allocation for the Fund was selected as of September 30, 2014:

	<u>Strategic Allocation</u>
US Equities (Large Cap Value)	10%
US Equities (Large Cap Core)	10%
US Equities (Large Cap Growth)	10%
Non-US Equities (Mature Markets)	15%
Non-US Equities (Emerging Markets)	10%
Fixed Income (US Core)	35%
Fixed Income (Global)	<u>10%</u>
Total	<u>100%</u>

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

Investments, Continued

*Rate of Return*

For the year ended September 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.52%. The money-weighted rate of return expresses investment performance, net of investment expense.

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, 2014 and 2013.

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, 2014 and 2013:

Investment Type	Fair Value	2014				Rating
		Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 4,013,007	\$ -	\$ 1,962,354	\$ 1,516,875	\$ 533,778	AAA
Mortgage and asset backed securities	704,370	-	704,370	-	-	AA-
Government bonds	4,228,059	-	349,797	2,259,612	1,618,650	AAA
Corporate bonds	179,155	-	-	179,155	-	AA+
Corporate bonds	138,416	-	-	138,416	-	AA-
Corporate bonds	168,379	-	-	168,379	-	A+
Corporate bonds	584,048	-	168,677	415,371	-	A
Corporate bonds	879,529	-	-	879,529	-	A-
Corporate bonds	446,567	-	166,183	280,384	-	BBB+
	<u>\$ 11,341,530</u>	<u>\$ -</u>	<u>\$ 3,351,381</u>	<u>\$ 5,837,721</u>	<u>\$ 2,152,428</u>	
Investment Type	Fair Value	2013				Rating
		Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 2,989,764	\$ -	\$ -	\$ 1,030,827	\$ 1,958,937	AAA
Mortgage and asset backed securities	1,183,574	-	1,183,574	-	-	AA+
Mortgage and asset backed securities	571,219	-	571,219	-	-	AA-
Government bonds	1,115,345	-	-	-	1,115,345	AAA
Corporate bonds	548,821	-	-	548,821	-	A+
Corporate bonds	1,659,683	-	-	1,659,683	-	A
Corporate bonds	2,712,708	-	-	2,712,708	-	A-
Corporate bonds	749,793	-	-	749,793	-	BBB+
	<u>\$ 11,530,907</u>	<u>\$ -</u>	<u>\$ 1,754,793</u>	<u>\$ 6,701,832</u>	<u>\$ 3,074,282</u>	

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

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. Bad debts are written-off against the allowance based on the specific identification method.

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 \$18,400 and \$21,454 in 2014 and 2013, 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.

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.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

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

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 position available for benefits during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain 2013 balances in the accompanying financial statements have been reclassified to conform to the 2014 presentation.

(2) Net Pension Liability

The components of the net pension liability of the Fund as of September 30, 2014 are as follows:

Total pension liability	\$ 206,054,796
Fiduciary net position	<u>(33,289,323)</u>
Net pension liability	\$ <u>172,765,473</u>
Fiduciary net position as a percentage of the total pension liability	16.16%

*Actuarial Assumptions*

The total pension liability was determined by an actuarial valuation as of September 30, 2014, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the level aggregate cost method
Investment Income:	7.5% per year
Expenses:	\$300,000 each year
Salary Increase:	3.0% per year
Mortality:	1984 Unisex Pension Mortality Table
Disabled Mortality:	PBGC Mortality Table for Disabled Persons receiving Social Security
Retirement Age:	Earlier of age 60 or 30 Years of Total Service.



REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(2) Net Pension Liability, Continued

*Actuarial Assumptions, Continued*

Early Retirement:	Earlier of age 55 with 20 Years of Total Service or after 25 Years of Total Service. 10% of workers eligible for early retirement who are at least age 55 are assumed to retire each year, and 5% of those eligible for early retirement who are younger than age 55 are assumed to retire each year.
Pre-retirement Beneficiary Benefit Members:	Greater of actuarial equivalent of the greater of three times members Average Annual Salary or the present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses.
Pre-retirement Beneficiary Benefit Former Members:	Present value of accrued benefit earned by the member. 80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses.
Post Retirement Survivor's Benefit:	100% of the benefit the retiree was receiving prior to death. 80% of active workers are assumed to be married when they retire. Males are assumed to be 3 years older than their spouses.
Disability:	Rates are from the 2007 US Social Security Trustees Report Intermediate Assumptions.
Turnover:	5% per year prior to age 40; none after age 40.
Refund of Contributions:	80% of those who terminate and are eligible to receive a refund of their employee contributions in lieu of a future benefit elect to receive the refund.
Workers Included In the Valuation:	Workers indicated in the census as Active or Inactive with a vested benefit. Salary used as a basis to project future salaries is the greater of the greatest of the salary earned in fiscal year 2006 or 2007, or if no salary was indicated for an Active worker for these years, the greatest salary earned during the workers' career.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(2) Net Pension Liability, Continued

*Discount Rate*

The discount rate used to measure the total pension liability was 4.64%. The discount rate was determined using the current assumed rate of return until the point where the fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2021. For years after 2021, a discount rate of 4.53% is used. This rate is the September 26, 2013 Bond Buyer 20-Bond Go Index rate.

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

The following presents the net pension liability of the Fund, calculated using the discount rate of 4.64%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.64%) or 1.00% higher (5.64%) from the current rate.

<u>1% Decrease 3.64%</u>	<u>Current Single Discount Rate Assumption 4.64%</u>	<u>1% Increase 5.64%</u>
\$178,385,000	\$ 206,054,796	\$ 224,903,000

(3) Furniture, Fixtures and Equipment

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

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2014</u>
Office equipment and furniture	3 - 10 years	\$ 101,776	\$ 3,468	\$ -	\$ 105,244
Vehicles	6 years	<u>33,149</u>	<u>-</u>	<u>-</u>	<u>33,149</u>
		134,925	3,468	-	138,393
Less accumulated depreciation		<u>(118,096)</u>	<u>(18,400)</u>	<u>-</u>	<u>(136,496)</u>
		<u>\$ 16,829</u>	<u>\$ (14,932)</u>	<u>\$ -</u>	<u>\$ 1,897</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2013</u>
Office equipment and furniture	3 - 10 years	\$ 100,076	\$ 1,700	\$ -	\$ 101,776
Vehicles	6 years	<u>33,149</u>	<u>-</u>	<u>-</u>	<u>33,149</u>
		133,225	1,700	-	134,925
Less accumulated depreciation		<u>(96,642)</u>	<u>(21,454)</u>	<u>-</u>	<u>(118,096)</u>
		<u>\$ 36,583</u>	<u>\$ (19,754)</u>	<u>\$ -</u>	<u>\$ 16,829</u>

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(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 \$12,555 and \$14,250 from PCC employees during the years ended September 30, 2014 and 2013, 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, 2014 and 2013, 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 \$16,579 and \$28,837 from PCC for employer contributions during the years ended September 30, 2014 and 2013, respectively.

(5) Administrative Expenses

A summary of the administrative expenses for the years ended September 30, 2014 and 2013, is set forth below:

	<u>2014</u>	<u>2013</u>
Personnel	\$ 187,949	\$ 217,064
Conference expenses	59,379	59,229
Staff training	32,491	34,697
Depreciation	18,400	21,454
Professional fees	19,682	26,897
Rent and utilities	8,560	8,882
Communications	6,815	7,397
Board compensation	3,550	4,000
Provision for uninsured TCDs	-	1,452,609
Miscellaneous	<u>32,877</u>	<u>73,518</u>
	<u>\$ 369,703</u>	<u>\$ 1,905,747</u>

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2014 and 2013

(6) Contingency

An actuarial valuation of the Fund has determined that the Fund had an actuarial deficiency of \$172,765,473 as of September 30, 2014. 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, 2014, to correct this potential funding deficiency.

(7) 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.

(8) Subsequent Event

On June 11, 2015, a settlement agreement between an Estate (the Estate) and the Fund was signed which requires the Estate to transfer the possession, custody and control of 1,500 shares of common stock in a local company to the Fund. The transfer entitles the Fund to receive, retain, use and sell all the shares and to receive, retain, use and sell all share dividends issued after June 10, 2015. If the Fund recovers amounts from the Pacific Savings Bank (PSB) Receiver, Trustee of PSB Creditors, or any other duly authorized person or official or other third-party, amounts due to the Fund, the Fund will return the shares of stock to the Estate and, to the extent the Fund has sold any of the shares, the Fund should pay the Estate the following: (a) the actual sale price of the shares sold, (b) all dividends earned on all shares, and (c) interest equal to the average prevailing rate of time certificate of deposit in Palau for the year after the Fund took possession and custody of the shares of stock. The Fund has not determined the value of the shares. Accordingly, the recovery was not recorded in the accompanying financial statements.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Net Pension Liability  
September 30, 2014

FY Ending <u>09/30</u>	Total Pension <u>Liability</u>	Plan <u>Net Position</u>	Net <u>Pension Liability</u>	Plan Net Position as a % of Total Pension <u>Liability</u>	<u>Covered Payroll</u>	Net Pension Liability as a % of <u>Covered Payroll</u>
2014	\$ 206,054,796	\$ 33,289,323	\$ 172,765,473	16%	\$ 39,004,000	443%

Note: This schedule is intended to illustrate the requirement to show information for 10 years; however, until a full 10-year trend is compiled, the Fund presents information starting with GASB 67 implementation in 2014.

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Contributions  
September 30, 2014

<u>FY Ending 09/30</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2014	\$ 13,421,000	\$ 5,618,205	\$ 7,802,795	\$ 39,004,000	14.4%

Note: This schedule is intended to illustrate the requirement to show information for 10 years; however, until a full 10-year trend is compiled, the Fund presents information starting with GASB 67 implementation in 2014.

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Required Supplementary Schedules  
September 30, 2014

(1) Actuarial Assumptions

Actuarially determined contribution rates are calculated as of June 30 prior to the beginning of the fiscal year in which contributions are reported.

Actuarial Cost Method:	Entry-Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value
Inflation:	3% - No explicit price inflation assumption is used in this valuation.
Salary Increases:	3.0%
Investment Rate of Return:	7.50%
Retirement Age:	Earlier of age 60 and 30 years of service
Mortality:	1984 Unisex Pension Mortality Table

(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. In December 2008, RPPL 7-56 eliminated early retirement and thirty year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

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". In accordance with RPPL 9-2, members who retire after April 30, 2013 must not receive benefits greater than thirty thousand dollars per year. Further, the amount of benefits that a member receives should not be recalculated if the member is re-employed after the member begins receiving benefits under the Fund. Additionally, a member should not receive benefits during the time the member is re-employed subsequent to retirement.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities  
September 30, 2014

	<u>Face Value</u>	<u>Cost</u>	<u>Fair Value</u>	
<u>Money Market Funds</u>				
Western Asset US Money Market Fund A Dist (D) - Account #016-893706-500	\$ 92,334	\$ 92,334	\$ 92,334	
Western Asset US Money Market Fund A Dist (D) - Account #016-010074-500	224,945	224,945	224,945	
Western Asset US Money Market Fund A Dist (D) - Account #016-010075-500	115,068	115,068	115,068	
Western Asset US Money Market Fund A Dist (D) - Account #016-893707-500	240,112	240,112	240,112	
Western Asset US Money Market Fund A Dist (D) - Account #016-893085-500	176,544	176,544	176,544	
Western Asset US Money Market Fund A Dist (D) - Account #016-893084-500	12,504	12,504	12,504	
Western Asset US Money Market Fund A Dist (D) - Account #016-893086-500	54	54	54	
	<u>861,561</u>	<u>861,561</u>	<u>861,561</u>	
Unsettled purchases - Account #016-893706-500	21,232	21,232	21,232	
Unsettled purchases - Account #016-010074-500	(32,323)	(32,323)	(32,323)	
Unsettled purchases - Account #016-893084-500	8,394	8,394	8,394	
	<u>(2,697)</u>	<u>(2,697)</u>	<u>(2,697)</u>	
Cash balance - Account #016-010075-500	515	515	515	
Cash balance - Account #016-893707-500	149,143	149,143	149,143	
Cash balance - Account #016-893084-500	187	187	187	
	<u>149,845</u>	<u>149,845</u>	<u>149,845</u>	
<b>Total Money Market Funds</b>	<b><u>\$ 1,008,709</u></b>	<b><u>\$ 1,008,709</u></b>	<b><u>\$ 1,008,709</u></b>	
	<u>Quantity</u>	<u>Cost</u>	<u>Fair Value</u>	
<u>Mutual Funds</u>				
Templeton Global Bond Fd-Ad - Account #016-893086-500	267,981	\$ 3,591,797	\$ 3,542,714	
<b>Total Mutual Funds</b>	<b><u>267,981</u></b>	<b><u>\$ 3,591,797</u></b>	<b><u>\$ 3,542,714</u></b>	
	<u>Face Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Ratings</u>
<u>Obligations of U.S. Government and Agencies</u>				
<u>Mortgage and Asset Backed Securities</u>				
Fed Home Ln Bk @ 5.625%, due 06/13/2016	\$ 640,000	\$ 691,706	\$ 704,370	AA-
Fed Home Ln Bk @ 1.625%, due 03/27/2017	255,000	257,546	256,735	AAA
Fed Home Ln Bk @ 1.625%, due 04/28/2017	1,115,000	1,126,840	1,131,938	AAA
Fed Home Ln Mtg Corp Med Term Note @ 1.50%, due 11/13/2017	570,000	576,752	573,681	AAA
FNMA PL # 256105 @ 5.5%, due 02/1/2021	2,030,000	140,627	143,322	AAA
FNMA PL # 896870 @ 5.5%, due 04/1/2022	3,250,000	177,162	179,642	AAA
FNMA PL # 968649 @ 5%, due 01/01/2023	1,522,899	69,549	69,525	AAA
FNMA PL # 986196 @ 5%, due 07/01/2023	2,200,000	124,702	124,896	AAA
FNMA PL # 889887 @ 5.5%, due 09/01/2023	1,730,000	218,630	222,532	AAA
FNMA PL # 988457 @ 5.5%, due 10/01/2023	630,000	114,219	115,357	AAA
FNMA PL # 994808 @ 5.5%, due 11/01/2023	840,000	65,387	66,002	AAA
FNMA PL # 995472 @ 5.0%, due 11/01/2023	1,300,000	159,729	160,372	AAA
FNMA PL # 257502 @ 5.5%, due 12/01/2023	960,000	81,260	81,834	AAA
FNMA PL # 995517 @ 5.5%, due 01/01/2024	2,410,000	231,568	237,806	AAA
FNMA PL # 995957 @ 5%, due 06/01/2024	850,000	115,348	115,587	AAA
FNMA PL # AC4446 @ 5%, due 10/01/2024	405,000	146,102	146,234	AAA
FHLMC 15 YR GOLD # G13827 @ 5%, due 3/01/2025	430,000	59,840	60,855	AAA
FNMA PL # AL1029 @ 5%, due 09/01/2025	310,000	92,210	91,649	AAA
FNMA PL # 257325 @ 5.5%, due 08/01/2028	1,805,000	175,946	179,110	AAA
FNMA PL # 938171 @ 6.5%, due 07/01/2037	400,000	49,813	55,930	AAA
	<u>23,652,899</u>	<u>4,674,936</u>	<u>4,717,377</u>	
<u>Governmental Bonds</u>				
US Treasury Note @ 4.750%, due 08/15/2017	315,000	348,592	349,797	AAA
US Treasury Bond @ 8.125%, due 08/15/2021	495,000	687,751	689,984	AAA
US Treasury Note @ 2.000%, due 02/15/2022	380,000	373,025	374,182	AAA
US Treasury Note @ 1.750%, due 05/15/2022	1,235,000	1,179,123	1,195,446	AAA
US Treasury Bonds @ 2.75%, due 08/15/2042	1,760,000	1,507,680	1,618,650	AAA
	<u>4,185,000</u>	<u>4,096,171</u>	<u>4,228,059</u>	
<b>Total Obligations of U.S. Government and Agencies</b>	<b><u>\$ 27,837,899</u></b>	<b><u>\$ 8,771,107</u></b>	<b><u>\$ 8,945,436</u></b>	

See Accompanying Independent Auditors' Report.



REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued  
September 30, 2014

	<u>Face Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Ratings</u>
<u>Corporate Bonds</u>				
AFLAC Inc @ 8.5%, due 05/15/2019	\$ 130,000	\$ 158,013	\$ 168,677	A
American Express @ 8.125% due 05/20/2019	130,000	155,555	166,183	BBB+
Morgan Stanley @ 5.75%, due 01/25/2021	110,000	125,057	126,124	A-
Goldman Sachs Group Inc @ 5.25%, due 7/27/2021`	175,000	193,485	195,613	A-
General Electric Capital Corp @ 4.65%, due 10/17/2021	150,000	165,735	168,379	A+
Bank of America Corp @ 5.70%, due 01/24/2022	160,000	178,396	184,990	A-
JP Morgan Chase & Co @ 4.50%, due 01/24/2022	115,000	121,359	124,163	A
PNC Funding Corp @3.30%, due 03/08/2022	200,000	192,430	201,471	A-
Citigroup Inc @ 4.05%, due 07/30/2022	275,000	277,411	280,384	BBB+
Wells Fargo & Company & Co @ 3.45%, due 02/13/2023	295,000	295,352	291,208	A
MetLife Inc @ 4.368%, due 9/15/2023	160,000	164,572	171,331	A-
IBM Corp @ 3.625%, due 02/12/2024	135,000	139,201	138,416	AA-
Apple Inc @ 3.450%, due 05/06/2024	175,000	176,713	179,155	AA+
Total Corporate Bonds	<u>\$ 2,210,000</u>	<u>\$ 2,343,279</u>	<u>\$ 2,396,094</u>	
	<u>Number of</u>		<u>Fair Value</u>	
	<u>Shares</u>	<u>Cost</u>		
<u>Corporate Stock</u>				
Allstate Corp (ALL)	2,025	\$ 99,822	\$ 124,274	
American Airls Group Inc (AAL)	1,025	41,789	36,367	
American Express Co (Axp)	800	48,286	70,032	
American Tower Reit Com (Amt)	525	26,532	49,156	
Apple Inc (AAPL)	1,880	153,896	189,410	
Bank of Amerika Corp	6,750	107,398	115,088	
Biogen Idec Inc	260	61,375	86,011	
Boeing Co	600	69,030	76,428	
Capital One Financial Corp (COF)	1,000	81,926	81,620	
CDN Pacific Ry Ltd New	900	126,047	186,723	
Celgene Corp	292	17,961	27,676	
Charles Schwab New	3,875	77,490	113,885	
Cisco Sys Inc	1,550	39,919	39,014	
Citigroup Inc New	795	41,612	41,197	
Comcast Corp (New) Class A	2,400	107,026	129,072	
Conocophillips (COP)	1,425	104,517	109,041	
CVS Caremark Corp	1,300	80,826	103,467	
Delta Air Lines Inc New (DAL)	1,100	37,969	39,765	
Facebook Inc Cl-A (FB)	825	54,512	65,208	
Gilead Science	1,150	33,901	122,418	
Google Inc Class C	79	31,757	45,610	
Google Inc Class A	157	54,616	92,379	
Halliburton Co	1,475	62,510	95,151	
Hewlett Packard (HPQ)	2,300	79,756	81,581	
Home Depot Inc	1,025	39,946	94,034	
Honeywell International Inc (HON)	850	77,126	79,152	
Johnson & Johnson	550	47,026	58,625	
JP Morgan Chase & Co	1,725	73,317	103,914	
Kinder Morgan Incorp (KMI)	975	39,078	37,382	
Macy's Inc (M)	975	58,074	56,726	
Marsh & McLennan Cos Inc	825	27,985	43,181	
Mastercard Inc Class A	750	25,582	55,440	
McKesson Corp (MCK)	552	99,711	107,458	
Medtronic Inc (MDT)	1,250	78,901	77,438	
Merck & Co Inc New Com (MRK)	1,025	58,855	60,762	
Metlife Incorporated (MET)	750	42,143	40,290	
Micron Tech Inc (MU)	1,850	60,172	63,381	
Microsoft Corp (MSFT)	2,725	107,991	126,331	
Morgan Stanley (MS)	2,525	81,939	87,288	
Ralph Lauren Corp Cl A (RL)	225	38,985	37,064	
Roche Holdings ADR (RHHBY)	1,025	38,444	37,915	
Schlumberger Ltd	900	79,371	91,521	
Starwood Htls & Rsts WW Inc (HOT)	600	46,247	49,926	
TE Connectivity Ltd New (TEL)	975	51,207	53,908	
Thermo Fisher Scientific (TMO)	325	40,423	39,553	
Time Warner Inc New (TWX)	475	40,198	35,725	
Twenty-First Century Fox	3,000	79,159	102,870	
Union Pacific Corp	600	21,373	65,052	
United Technologies Corp	750	77,664	79,200	
Walt Disney Co	1,375	59,518	122,416	
Subtotal - Account #016-893706-500	<u>63,090</u>	<u>3,130,908</u>	<u>3,927,125</u>	

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued  
September 30, 2014

	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
AK Bank Turk Anonim Sirketi -ADR	7,617	67,273	49,130
Ambev S A Sponsored ADR	10,705	77,370	70,118
Baidu Inc Ads	484	42,389	105,623
Banco Do Brasil Sa	8,423	116,409	87,768
Banco Macro S.A Spons ADR Repstg Cl B	1,053	15,756	41,709
BB Seguridade Participacoes	5,157	58,263	67,660
Bidvest Group Ltd Spon ADR	685	34,891	34,524
China Constr Bk Corp-CNY	7,281	115,130	102,007
China Mobile Ltd	1,672	87,880	98,230
China Shenua Energy Ltd ADR	4,090	46,960	45,972
Cielo Sa Spon ADR	4,138	50,221	67,036
Clicks Group Limited	3,688	47,103	43,216
Cnooc Ltd ADS	393	71,712	67,808
Commercial Intl Bk ADR	7,315	21,747	49,479
Companhia Energy De Min Sp ADR	7,616	46,579	47,448
Gazprom Oao Spons ADR	9,083	75,407	63,399
Imperial Holdings Ltd Adr	2,587	58,325	40,331
KB Financial Group Inc ADR	2,116	73,389	76,642
Kimberly Clarke De Mex Sa Spon ADR -USD	3,995	61,775	47,345
KOC Holding AS Unspns ADR	3,175	79,433	73,279
Localiza Rent a Car SA Spon	6,350	91,628	90,913
Mobile Telesystems OJSC Spon ADR	4,613	92,657	68,918
Ned Bank Group Ltd Sponsored ADR	1,986	40,598	38,250
Netease.com Inc ADR	1,123	56,980	96,196
Oil Co Lukoil Spons ADR	823	49,009	41,891
Oriflame Cosmetics SA Spon Adr	3,009	63,274	26,088
Phillippine Long Distance Tel Co Spons ADR -USD	1,021	62,707	70,429
PPC Limited Unspn Adr	6,776	49,533	35,140
PT Astra International Tbk ADR	5,376	73,039	61,862
PT BK Mandiri Persero Tbk Un-sponsored	8,736	75,489	72,072
PT Semen Gresik Persero ADR	2,119	59,559	53,780
PT Telekomunikasi Indonesia Spons ADR	1,580	66,346	75,998
PT United Tractors ADR	1,144	47,496	37,683
PTT Exploration and Production-THB Spons ADR	3,614	38,990	35,030
Sanlam Ltd Spon ADR	1,661	39,431	48,202
Sber Bank Russia Sponsored ADR	11,548	127,262	90,860
Shinhan Financial Grp Co Ltd Adr	1,758	67,073	79,919
Shoprite Holdings Unspn ADR	2,612	45,084	32,310
Standard BankGroup ADR	3,752	52,999	43,317
Taiwan Semiconductor Mfg Co Ltd Adr	5,150	78,057	103,927
Tiger Brands Ltd Sponsored ADR new	1,399	41,133	39,158
Turkcell Iletis Hizmet ADR	3,439	55,994	45,188
Vodacom Group Ltd Un-sponsored ADR	2,788	35,849	31,975
Weichai Power Co Unspn ADR	3,172	50,379	46,248
Woolworths Hldgs Ltd	6,660	51,970	42,544
Wynn Macau Ltd Unspn Adr	1,453	38,666	47,731
YPF Sociedad Ads Rep 1 Cl-D Sh	2,414	40,171	89,294
	<u>187,349</u>	<u>2,839,385</u>	<u>2,823,647</u>
Vale S.A. SP - Preferred Stock	3,043	58,339	29,548
	<u>190,392</u>	<u>2,897,724</u>	<u>2,853,195</u>
Subtotal - Account #016-893085-500			
Abbvie Inc Com	924	48,994	53,370
Alexion Pharm Inc	263	28,487	43,611
Alibaba Group Hldq Ltd	412	37,405	36,606
Amazon.com Inc	115	38,072	37,081
American Express Co	392	29,536	34,316
American Tower Reit Com	533	41,826	49,905
Amgen Inc	261	26,001	36,660
Apple Inc	1,078	82,454	108,609
Applied Materials Inc	1,170	20,769	25,284
Arm Holdings Plc Ads	781	32,370	34,122
Baidu Inc Ads	345	59,486	75,289
Biogen Idec Inc	173	40,189	57,230
Blackrock	141	30,154	46,293
Borgwarner Inc	480	16,648	25,253
Celgene Corp	880	37,850	83,406
Cerner Corp	494	20,698	29,428
Charles Schwab New	1,069	25,524	31,418
Chipotle Mexican Grill Inc Com	37	21,757	24,664
Coqozant Tech Solutions CL A	570	19,442	25,519

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued  
September 30, 2014

<u>Corporate Stock, Continued</u>	<u>Number of Shares</u>	<u>Cost</u>	<u>Fair Value</u>
Comcast Corp (New) Class A	464	26,095	24,954
Concho Res Inc	361	49,485	45,266
Costar Group Inc	144	22,783	22,398
Costco Wholesale Corp New	223	17,990	27,946
CVS Caremark Corp	463	20,731	36,850
Danaher Corp De	413	19,829	31,380
Delta Air Lines Inc New	745	20,736	26,932
Ecolab Inc	311	19,088	35,712
Facebook Inc Cl	815	32,347	64,418
Gilead Science	677	44,713	72,067
Google Inc Cl C	108	34,825	62,355
Google Inc Class A	108	34,936	63,548
Halliburton Co	640	44,580	41,286
Hilton Worldwide Holdings Inc	1,324	29,310	32,610
Honeywell International Inc	504	48,267	46,932
IMS Health Holdings Inc	670	15,926	17,547
Liberty Global Plc Cl A New	1,103	45,102	45,240
Linkedin Corp A	230	48,728	47,792
Mastercard Inc. class A	654	31,690	48,344
McKesson Corp	247	44,085	48,083
MGM Resorts International	624	16,563	14,215
Michael Kors Holding Ltd	369	30,823	26,343
Monsanto Co New	522	44,160	58,730
Morgan Stanley	1,008	26,970	34,847
Netflix Inc	57	25,757	25,717
Nielsen Holdings NV	732	33,735	32,450
Nike Inc	462	31,666	41,210
Precision Castpart Corp	185	30,793	43,823
Priceline.Com Inc (New)	68	42,453	78,783
Salesforce.com Inc	998	37,476	57,415
SBA Communications Corp	406	27,254	45,025
Schlumberger Ltd	389	36,666	39,557
Servicenow Inc	484	27,479	28,449
Splunk Inc	240	13,671	13,286
Starbucks Corp	744	48,938	56,142
TripAdvisor Inc Com	215	18,227	19,655
Twenty-First Century Fox Cl A	1,659	55,615	56,887
Twitter Inc	764	34,977	39,407
Ulta Salon Cos & Fraqr Inc	294	27,405	34,742
Under Armour Inc Cl A	144	8,424	9,950
Union Pacific Corp	1,047	49,979	113,516
United Health Group Inc	379	30,030	32,689
Visa Inc Com Cl A	476	42,235	101,564
Walt Disney Co Holdings	419	23,741	37,304
Workday Inc Cl A	394	33,745	32,505
Zoetis Inc Class-A	754	24,019	27,860
Subtotal - Account #016-893084-500	<u>34,155</u>	<u>2,131,709</u>	<u>2,801,795</u>
Abbvie Inc Com	1,300	70,475	75,088
Adobe Systems	1,000	66,595	69,190
AES Corp	3,650	51,940	51,757
Banco Santander S.A.	7,346	76,104	69,787
Bank of America Corp	4,750	73,274	80,988
COTY Inc Com Cl A	2,850	48,968	47,168
Deere & Co	600	54,409	49,194
Diageo Plc Spon Adr New	550	70,789	63,470
Dow Chemical Co	1,350	71,037	70,794
Ebay Inc	1,550	76,041	87,777
Ecolab Inc	700	75,614	80,381
EMC Corp Mass	2,450	65,378	71,687
First Republic Bank	1,150	61,325	56,787
General Electric Co	2,500	67,424	64,050
General Mills Inc	1,050	56,963	52,973
Genl Dynamics Corp	550	65,557	69,900
Halliburton Co	1,200	80,803	77,412
Hershey Company	500	48,633	47,715
Home Depot Inc	1,000	77,909	91,740
Hospira Inc	1,250	63,469	65,037
Ill Tool Works Inc	700	61,887	59,094
ITC Holdings	1,900	66,880	67,697
JPMorgan Chase & Co	1,250	71,325	75,300

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued  
September 30, 2014

	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
Lennar Corporation	1,800	72,512	69,894
M&T Bank Corp	450	55,355	55,480
Martin Marietta Materials	500	62,972	64,470
Medtronic Inc	1,250	76,841	77,437
Microsoft Corp	1,650	68,150	76,494
Mitsubishi UFJ Fincl Grp ADS	9,000	54,450	50,490
Mondelez Intl Inc Com	1,750	65,522	59,964
Oracle Corp	1,550	65,213	59,334
Oshkosh Corp	1,100	58,629	48,565
Phillips 66 Com	1,000	83,328	81,310
Pioneer Natural Resources Co	300	67,513	59,091
Te Connectivity Ltd New	1,350	82,897	74,641
Texas Instruments	1,300	62,769	61,997
Time Warner Inc New	1,150	78,266	86,491
Unilever NV NY SH New	1,700	74,119	67,456
Walgreen Co	1,100	80,430	65,197
Subtotal - Account #016-010075-500	<u>68,096</u>	<u>2,631,765</u>	<u>2,603,297</u>
Airbus Group (EADSY)	4,203	69,507	65,651
Anheuser Busch Inbev SA Spon	1,681	167,716	186,339
Ashtead Group PLC ADR (ASHTY)	977	62,192	67,765
Assa Abloy AB Unsp ADR	3,788	76,631	97,181
Assoc British Fds Plc ADR New	1,202	34,441	52,275
Atlantia Spa Unspns ADR	5,443	43,696	66,786
Bayer Aq Spon ADR	1,138	118,773	159,445
Bayerische Motoren Werke Aq	3,091	94,900	111,894
BG Group Plc	3,032	52,059	56,213
BHP Billiton Ltd	1,266	85,167	74,542
BNP Paribas Sp ADR Repstg	3,418	92,382	112,521
British Amer Tob Spon ADR	1,182	126,932	133,661
Carlsberge As	2,317	44,764	41,185
Campagne Fin Richenmontag ADR	7,174	67,479	58,325
Daikin Inds Ltd Unspn ADR	797	79,028	99,091
Daiwa House Inds Ltd ADR	5,470	107,240	98,132
Eni Spa Amer Dep	1,193	54,631	56,369
Fresenius Se & Co Spn ADR (FSNUY)	5,779	74,314	71,602
HSBC Holdings Plc Spon ADR New	962	54,817	48,946
Informa Plc	4,819	74,123	76,237
KDDI Corp Unspn ADR (KDDIY)	6,904	98,671	103,422
Komatsu Ltd Spons ADR	2,555	59,276	59,174
Ladbrokes Plc Spons ADR	9,780	30,929	20,929
Lixil Group Corp ADR	1,098	40,922	46,863
Lloyds Banking Group	23,372	81,027	117,795
Makita Corporation Ltd ADR New	1,562	86,917	88,565
Mediolanum Spa Unspn ADR	4,100	65,220	57,523
Novartis Aq ADR	2,418	173,369	227,606
Novo Nordisk A/S ADR	3,248	110,221	154,670
NXP Semiconductors NV (NXPI)	675	48,276	46,190
Prudential Plc ADR	3,603	119,994	160,369
Red Electrica Corporacion Sa	2,907	33,926	50,204
Rexam Plc (REXMY)	2,210	97,731	88,687
Rogers Comm Inc Cl B	1,874	87,884	70,125
Rolls Royce Holdings Plc (RYCEY)	1,127	102,212	88,526
Royal Dutch Shell Plc	1,510	102,458	114,956
Ryanair Hldgs Plc ADR	1,318	54,649	74,375
Ryohin Keikaku Co Ltd ADR (RYKKY)	2,045	46,174	48,937
Sampo Oyj Unspn ADR	3,535	68,402	85,335
Sands China Ltd Unspnsore ADR	551	26,724	29,286
SAP Aq	1,166	90,615	84,139
Seven & I Holdings Co Ltd ADR	1,343	94,949	104,270
Signet Jewelers Limited	718	51,237	81,787
Softbank Corp Unspns ADR (SFTBY)	2,842	106,199	99,356
Sumitomo Mitsui Finl Group Inc	15,107	134,460	123,877
Sumitomo Mitsui TR Hldgs Inc (SUTNY)	8,703	44,783	35,769
Swatch Group Aq ADR The Unspns	1,721	47,878	40,650
Swedbank Ab Spons ADR	3,838	91,413	96,295
Teva Pharmaceuticals ADR (TEVA)	2,516	129,191	135,235
Unilever Plc Ads	2,576	108,049	107,934
Valeo Sponsored ADR	1,105	29,972	61,328
Wolseley Plc ADR New	12,592	61,525	66,297
Subtotal - Account #016-010074-500	<u>189,551</u>	<u>4,106,045</u>	<u>4,504,634</u>
Total Corporate Stock	<u>545,284</u>	<u>\$ 14,898,151</u>	<u>\$ 16,690,046</u>

See Accompanying Independent Auditors' Report.