

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, 2015 AND 2014

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 fiduciary net position as of September 30, 2015 and 2014, and the related statements of changes in fiduciary 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, 2015 and 2014, and the changes in its fiduciary 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, 2015, the Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result, the Fund has elected to restate its 2014 financial statements to reflect the implementation of these standards.

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 Changes in Net Pension Liability and Related Ratios on page 31, the Schedule of Contributions on page 32 and the Notes to Required Supplementary Schedules on pages 33 and 34 as of September 30, 2015 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 35 through 40 as of September 30, 2015 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 28, 2016 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.

Debbie J. Touche LLC

June 28, 2016



REPUBLIC OF PALAU CIVIL SERVICE PENSION PLAN

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MANAGEMENT'S DISCUSSION AND ANALYSIS Plan Year Ended September 30, 2015

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, 2015, with selected comparative information for the fiscal years ended September 30, 2014 and 2013.

Introductory Section

The Fund is a defined, cost sharing 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 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*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which were adopted during the years ended September 30, 2014 and 2015, respectively. 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 \$182,080,332 as of September 30, 2014 to \$204,281,232 as of September 30, 2015, an increase of \$22,200,900 or 12.19%. 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 it. Republic of Palau Public Law (RPPL) No. 9-49, the Palau National Marine Sanctuary Act (the Act), is a direct effort to correct the funding deficiency. The Act imposes to collect a \$100 environmental impact fee from every departing international passenger and earmark \$25 per departing passenger 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.

Financial Highlights, Continued

- The Fund has time certificates of deposit (TCDs) of \$1,452,609 in Pacific Savings Bank (PSB) at September 30, 2015 and 2014. 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. At September 30, 2015, the Fund has not determined the value of these stocks. The Fund continues to pursue legal action against the PSB Receiver, Trustee of the PSB creditors. At September 30, 2015 and 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 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. During fiscal year 2015, the Fund received \$400,000 from the National Government which is included in other income in the accompanying financial statements.
- The Fund's investment portfolio decreased in value from \$32,582,999 in fiscal year 2014 to \$28,165,269 in fiscal year 2015, a decrease of \$4,417,710 or 13.56%. Fiduciary net position decreased from \$32,544,686 in fiscal year 2014 to \$28,115,140 in fiscal year 2015, a decrease of \$4,429,546 or 13.61%.
- The Fund withdrew \$3,216,000 from investments during fiscal year 2015 to pay for benefits and administrative expenses during the same period and withdrew \$3,775,000 and \$2,434,004 for fiscal years 2014 and 2013, respectively.
- The Fund received \$330,116 and \$298,563 in fiscal years 2015 and 2014, respectively, as additional revenue from remittance and money transfer tax through RPPL No. 9-2.

Overview of the Financial Statements

During the year ended September 30, 2015, the Fund adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB Statement Nos. 68 and 71 establish standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local government. The implementation resulted in the recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net pension liability based on the Fund's proportionate share of those of the overall Plan. Refer to note 1 for the cumulative change and note 2 for details of GASB Statement No. 68.

The following summarizes the financial condition and operations of the Fund as of and for the years ended September 30, 2015, 2014 and 2013.

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, 2015, 2014 and 2013. These statements reflect resources of net position available for pension benefits to members, retirees and beneficiaries at the end of the fiscal year reported.

Overview of the Financial Statements, Continued

STATEMENTS OF FIDUCIARY NET POSITION

| | <u>2015</u> | <u>2014</u> <u>(As Restated)</u> | <u>2013</u> <u>(As Restated)</u> |
|---------------------------------------------------------------------------|----------------------|-------------------------------------|-------------------------------------|
| Assets and Deferred Outflows of Resources: | | | |
| Cash and cash equivalents | \$ 539,349 | \$ 534,261 | \$ 248,520 |
| Investments | 28,165,269 | 32,582,999 | 33,597,662 |
| Other assets | <u>207,693</u> | <u>201,442</u> | <u>453,865</u> |
| | 28,912,311 | 33,318,702 | 34,300,047 |
| Deferred outflows of resources | <u>157,090</u> | <u>130,787</u> | <u>76,559</u> |
| | <u>\$ 29,069,401</u> | <u>\$ 33,449,489</u> | <u>\$ 34,376,606</u> |
| Liabilities, Deferred Inflows of Resources and Fiduciary Net Position: | | | |
| Liabilities | \$ 802,688 | \$ 839,272 | \$ 848,734 |
| Deferred inflows of resources | 151,573 | 65,531 | - |
| Fiduciary net position | <u>28,115,140</u> | <u>32,544,686</u> | <u>33,527,872</u> |
| | <u>\$ 29,069,401</u> | <u>\$ 33,449,489</u> | <u>\$ 34,376,606</u> |

- At September 30, 2015, 2014 and 2013, the Fund had \$23,011, \$1,897 and \$16,829, respectively, in capital assets, net of accumulated depreciation, which represent a net increase of \$21,114 in 2015 over 2014 and a net decrease of \$14,932 in 2014 over 2013. See note 3 to the financial statements for more detailed information on the Fund's capital assets.

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 2015, 2014 and 2013.

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

| | <u>2015</u> | <u>2014</u> <u>(As Restated)</u> | <u>2013</u> <u>(As Restated)</u> |
|-------------------------------------------|----------------------|-------------------------------------|-------------------------------------|
| Additions: | | | |
| Contributions | \$ 5,829,925 | \$ 5,618,205 | \$ 5,021,782 |
| Investment (loss) income | (1,201,732) | 2,760,338 | 2,621,503 |
| Other income | <u>727,170</u> | <u>317,429</u> | <u>6,524</u> |
| | <u>5,355,363</u> | <u>8,695,972</u> | <u>7,649,809</u> |
| Deductions: | | | |
| Benefit and refund payments | 9,403,007 | 9,298,152 | 8,930,543 |
| Administrative | <u>381,902</u> | <u>381,006</u> | <u>1,905,747</u> |
| | <u>9,784,909</u> | <u>9,679,158</u> | <u>10,836,290</u> |
| Net decrease | (4,429,546) | (983,186) | (3,186,481) |
| Fiduciary net position, beginning of year | <u>32,544,686</u> | <u>33,527,872</u> | <u>36,714,353</u> |
| Fiduciary net position, end of year | <u>\$ 28,115,140</u> | <u>\$ 32,544,686</u> | <u>\$ 33,527,872</u> |

Revenue and Expense Analysis, Continued

- Contribution revenue increased from \$5,618,205 in 2014 to \$5,829,925 in 2015, an increase of \$211,720 or 3.77% and increased from \$5,021,782 in 2013 to \$5,618,205 in 2014, an increase of \$596,423 or 11.88%.
- Investment portfolios depreciated in fair market value by \$2,007,645 and yielded a net loss of \$1,201,732 in 2015, with yielded net earnings of \$2,760,338 in 2014 and \$2,621,503 in 2013.
- Benefit and refund payments increased from \$9,298,152 in 2014 to \$9,403,007 in 2015 and from \$8,930,543 in 2013 to \$9,298,152 in 2014, an increase of \$104,855 or 1.13% and \$367,609 or 4.12%, 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 \$13,574, \$18,400 and \$21,454 of depreciation expense of the Fund's capital assets in fiscal years 2015, 2014 and 2013, respectively. Administrative expenses increased from \$381,006 in 2014 to \$381,902 in 2015 and decreased from \$1,905,747 in 2013 to \$381,006 in 2014, an increase of \$896 or 0.23% and a decrease of \$1,524,741 or 400.19%, respectively. In fiscal year 2014, the Fund recorded an allowance for unsecured deposits of \$1,452,609.

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 2015 which continued into the first quarter of 2016. 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 the 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 portfolios depreciated in fair market value in 2015, especially in the later part of the year. However, the portfolio has bounced back this quarter and is expected to outperform the benchmark for the remainder 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. RPPL No. 9-2 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 from the payroll of the employee and at the same time, ceases payment of monthly benefits to an employee/member 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, RPPL No. 9-2 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.

Economic Outlook, Continued

RPPL No. 9-2 also caps annuity benefits at \$30,000 per year. Another provision of the law provides for a sunset clause for how much beneficiaries can be paid after the death of a member. This provision has the potential to save the Fund significant money as many beneficiaries have exhausted the value of the member's account. RPPL No. 9-2 and RPPL 9-49 (discussed at page 4) will greatly improve solvency of the Fund.

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 by appropriating \$500,000 through RPPL No. 9-44 and RPPL No. 9-46, the Fiscal Year 2016 Budget Act, for fiscal years 2015 and 2016, respectively, to continue payment of accrued interest from prior years.

The 9th OEK is poised to continue providing fiscal reforms to the Fund in the coming years and the Board of Trustees and management 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 \$742,000 a month or over \$8,904,000 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 9th 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, 2014 is set forth in the Fund's report on the audit of financial statements, which is dated June 24, 2015. That Discussion and Analysis explains the major factors impacting the 2014 financial statements and can be viewed at the Office of the Public Auditor's website at 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 or call 483-2523.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Statements of Fiduciary Net Position
September 30, 2015 and 2014

| <u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u> | <u>2015</u> | <u>2014 (As Restated)</u> |
|----------------------------------------------------------------------------------|----------------------|-------------------------------|
| Cash and cash equivalents | \$ <u>539,349</u> | \$ <u>534,261</u> |
| Investments, at fair value: | | |
| Corporate stock | 14,214,305 | 16,690,046 |
| Obligations of U.S. Government and agencies | 8,674,097 | 8,945,436 |
| Mutual funds | 2,907,495 | 3,542,714 |
| Corporate bonds | 1,468,181 | 2,396,094 |
| Money market funds | <u>901,191</u> | <u>1,008,709</u> |
| Total investments | <u>28,165,269</u> | <u>32,582,999</u> |
| Receivables: | | |
| Employers' contributions, net | 92,237 | 86,106 |
| Members' contributions, net | 92,237 | 86,106 |
| Other receivables | <u>208</u> | <u>27,333</u> |
| Total receivables | <u>184,682</u> | <u>199,545</u> |
| Capital assets, net of accumulated depreciation | <u>23,011</u> | <u>1,897</u> |
| Total assets | 28,912,311 | 33,318,702 |
| Deferred outflows of resources from pension | <u>157,090</u> | <u>130,787</u> |
| Total assets and deferred outflows of resources | <u>29,069,401</u> | <u>33,449,489</u> |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FIDUCIARY NET POSITION</u> | | |
| Accounts payable and accrued expenses | 23,559 | 29,379 |
| Net pension liability | <u>779,129</u> | <u>809,893</u> |
| Total liabilities | 802,688 | 839,272 |
| Deferred inflows of resources from pension | <u>151,573</u> | <u>65,531</u> |
| Total liabilities and deferred inflows of resources | <u>954,261</u> | <u>904,803</u> |
| Fiduciary net position - held in trust for pension benefits | \$ <u>28,115,140</u> | \$ <u>32,544,686</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, 2015 and 2014

| | <u>2015</u> | <u>2014</u> (As Restated) |
|-----------------------------------------------------------------|-----------------------------|------------------------------|
| Additions: | | |
| Members' contributions | \$ 2,920,101 | \$ 2,797,512 |
| Employers' contributions | <u>2,909,824</u> | <u>2,820,693</u> |
| | <u>5,829,925</u> | <u>5,618,205</u> |
| Investment income: | | |
| Dividends | 592,327 | 487,741 |
| Interest | 400,997 | 451,513 |
| Net (depreciation) appreciation in fair value of investments | (2,007,645) | 2,097,995 |
| Investment expenses | <u>(187,411)</u> | <u>(276,911)</u> |
| Total investment (loss) income | <u>(1,201,732)</u> | <u>2,760,338</u> |
| Other income | <u>727,170</u> | <u>317,429</u> |
| Total additions | <u>5,355,363</u> | <u>8,695,972</u> |
| Deductions: | | |
| Benefit and refund payments: | | |
| Normal and early retirement | 6,754,152 | 6,665,034 |
| Survivors | 1,979,920 | 1,988,369 |
| Refunds to terminated employees | 432,799 | 489,867 |
| Lump sum death disbursement | 179,784 | 106,453 |
| Disability | <u>56,352</u> | <u>48,429</u> |
| Total benefits | 9,403,007 | 9,298,152 |
| Administrative expenses | <u>381,902</u> | <u>381,006</u> |
| Total deductions | <u>9,784,909</u> | <u>9,679,158</u> |
| Net decrease | (4,429,546) | (983,186) |
| Fiduciary net position held in trust for pension benefits: | | |
| Beginning of year | <u>32,544,686</u> | <u>33,527,872</u> |
| End of year | \$ <u><u>28,115,140</u></u> | \$ <u><u>32,544,686</u></u> |

See accompanying notes to financial statements.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

(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, cost sharing 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, 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, 2015 and 2014, 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 | 1,356 |
| Inactive members entitled to but not yet receiving benefits | 206 |
| Active members | <u>3,107</u> |
| Total members | <u>4,669</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, 2015 and 2014

(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, 2015 and 2014

(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:

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

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

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

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

(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, 2015 and 2014

(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, 2015 and 2014, money transfer tax of \$330,116 and \$298,563, 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 fiscal year 2015, the following pronouncements were implemented:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. The implementation of these statements had a material effect on the accompanying financial statements resulting in the restatement of the Fund's fiscal year 2014 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68.

| | As Previously Reported | Adjustment | As Restated |
|----------------------------------------|---------------------------|---------------------|----------------------|
| As of October 1, 2013: | | | |
| Fiduciary net position | \$ <u>34,261,206</u> | \$ <u>(733,334)</u> | \$ <u>33,527,872</u> |
| For the year ended September 30, 2014: | | | |
| Administrative and general expense | \$ <u>369,703</u> | \$ <u>11,303</u> | \$ <u>381,006</u> |
| Change in fiduciary net position | \$ <u>(971,883)</u> | \$ <u>(11,303)</u> | \$ <u>(983,186)</u> |
| As of September 30, 2014: | | | |
| Deferred outflows from pension | \$ <u>-</u> | \$ <u>130,787</u> | \$ <u>130,787</u> |
| Deferred inflows from pension | \$ <u>-</u> | \$ <u>(65,531)</u> | \$ <u>(65,531)</u> |
| Net pension liability | \$ <u>-</u> | \$ <u>(809,893)</u> | \$ <u>(809,893)</u> |
| Fiduciary net position | \$ <u>33,289,323</u> | \$ <u>(744,637)</u> | \$ <u>32,544,686</u> |

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

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

New Accounting Standards, Continued

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

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

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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, 2015 and 2014 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.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

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

Basis of Accounting and Disclosure, Continued

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.

At September 30, 2015 and 2014, 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 fiduciary 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, 2015 and 2014, total cash and cash equivalents were maintained in a Federal Deposit Insurance Corporation (FDIC) insured bank and amounted to \$539,349 and \$534,261, respectively, with corresponding bank balances of \$396,640 and \$539,107, 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, 2015 and 2014. 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. As such, the uninsured bank has written-off the \$1,000,000, resulting in a bank balance of \$464,047. At September 30, 2015 and 2014, 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.

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

Notes to Financial Statements
September 30, 2015 and 2014

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

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.
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.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

(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. 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.
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.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

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

Investments, Continued

B. Equities, Continued

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.

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, 2015:

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

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

Investments, Continued

Asset Allocation, Continued

Strategic Allocation

| | |
|------------------------------------|-----------------|
| 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> |

Rate of Return

Based on the September 30, 2014 actual valuation, 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, 2015 and 2014.

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, 2015 and 2014:

| Investment Type | Fair Value | 2015 Investment Maturities (In Years) | | | | Rating |
|--------------------------------------|----------------------|------------------------------------------|---------------------|---------------------|---------------------|--------|
| | | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 | |
| Mortgage and asset backed securities | \$ 4,445,971 | \$ - | \$ 3,086,773 | \$ 1,181,604 | \$ 177,594 | AAA |
| Mortgage and asset backed securities | 610,327 | 610,327 | - | - | - | A2 |
| Government bonds | 3,617,799 | - | 838,951 | - | 2,778,848 | AAA |
| Corporate bonds | 310,385 | - | - | 310,385 | - | A1 |
| Corporate bonds | 593,800 | - | - | 593,800 | - | A3 |
| Corporate bonds | 182,814 | - | - | 182,814 | - | AA1 |
| Corporate bonds | 108,923 | - | - | 108,923 | - | AA2 |
| Corporate bonds | 139,765 | - | - | 139,765 | - | AA3 |
| Corporate bonds | 132,494 | - | - | 132,494 | - | BAA3 |
| | <u>\$ 10,142,278</u> | <u>\$ 610,327</u> | <u>\$ 3,925,724</u> | <u>\$ 2,649,785</u> | <u>\$ 2,956,442</u> | |

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

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

Investments, Continued

| Investment Type | Fair Value | 2014 Investment Maturities (In Years) | | | | Rating |
|--------------------------------------|----------------------|------------------------------------------|---------------------|---------------------|---------------------|--------|
| | | 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> | |

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.

Capital Assets

Capital assets 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 \$13,574 and \$18,400 in 2015 and 2014, respectively.

Deferred Outflows of Resources

In addition to assets, the statements of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The Fund has determined the changes in assumption, changes in proportion and difference between the Fund's contributions and proportionate share of contributions and pension contributions made subsequent to the measurement date qualify for reporting in this category.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

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

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.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The Fund has determined the changes in assumption, differences between projected and actual earnings on pension plan investments and changes in proportion and difference between the Fund's contributions and proportionate share of contributions qualify for reporting in this category.

Pensions

Pensions are required to be recognized and disclosed using the accrual basis of accounting. The Fund recognizes a net pension liability for the defined benefit pension plan, which represents the Fund's proportional share of excess total pension liability over the pension plan assets - actuarially calculated - of a cost sharing multi-employer defined benefit plan, measured one year prior to fiscal year-end and rolled forward. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

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, 2015 and 2014

(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.

(2) Net Pension Liability

The components of the net pension liability of the Fund as of September 30, 2015 and 2014 are as follows:

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------------------------------------------|-----------------------|-----------------------|
| Total pension liability | \$ 237,570,555 | \$ 216,341,538 |
| Fiduciary net position | <u>(33,289,323)</u> | <u>(34,261,206)</u> |
| Net pension liability | \$ <u>204,281,232</u> | \$ <u>182,080,332</u> |
| Fiduciary net position as a percentage of the total pension liability | 14.01% | 15.84% |

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2013, and rolled forward using generally accepted actuarial procedures to the measurement date as of September 30, 2014, using the following actuarial assumptions:

| | |
|------------------------|---------------------------------------------------------------------|
| Actuarial Cost Method: | Normal costs are calculated under the entry age normal method |
| Investment Income: | 7.5% per year |
| Expenses: | \$300,000 each year |
| Salary Increase: | 3.0% per year |
| Mortality: | RP 2000 Combined Healthy Mortality Table, set forward four years |
| Disabled Mortality: | PBGC Mortality Table for Disabled Persons receiving Social Security |
| Retirement Age: | Age 60 and contributed for at least 5 years |

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Net Pension Liability, Continued

Actuarial Assumptions, Continued

| | |
|-------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Pre-retirement Beneficiary Benefit 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 |
| 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. |

Long-Term Expected Rate of Return

The long-term expected rate of return on the Fund's investments of 7.5% was determined using the building-block method, creating a best-estimate range for each asset class.

Based on the September 30, 2014 actual valuation, the geometric mean rates of return for each major investment class are as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Expected Rate of Return</u> |
|---------------------------|--------------------------|--------------------------------|
| Equity | 55% | 8.8% |
| Governmental fixed income | 35% | 5.5% |
| Corporate fixed income | <u>10%</u> | 6.4% |
| | <u>100%</u> | |

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Net Pension Liability, Continued

Discount Rate

The discount rate used to measure the total pension liability was 4.22%. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2022 for 2014. For years after 2021, a discount rate of 4.11% is used. This rate is equal to the last Bond Buyer 20-Bond Go Index rate for September.

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 4.22%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (3.22%) or 1.00% higher (5.22%) from the current rate.

| <u>1% Decrease 3.22%</u> | <u>Current Single Discount Rate Assumption 4.22%</u> | <u>1% Increase 5.22%</u> |
|--------------------------|------------------------------------------------------|--------------------------|
| \$ 229,573,404 | \$ 204,281,232 | \$ 168,649,941 |

Schedule of Changes in Net Pension Liability

Based on the September 30, 2014 and 2013 actuarial valuations, the changes in net pension liability were as follows:

| | Increase (Decrease) | | |
|------------------------------------------------------------------|-----------------------------------|---------------------------------------|---------------------------------------|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balance at 09/30/12 | <u>\$ 234,792,791</u> | <u>\$ 37,447,687</u> | <u>\$ 197,345,104</u> |
| Changes for the year: | | | |
| Service cost | 5,913,261 | - | 5,913,261 |
| Interest | 9,146,830 | - | 9,146,830 |
| Assumption changes | (17,639,038) | - | (17,639,038) |
| Benefit changes | (6,941,763) | - | (6,941,763) |
| Employers' contributions | - | 2,506,605 | (2,506,605) |
| Members' contributions | - | 2,515,177 | (2,515,177) |
| Net investment income | - | 2,628,027 | (2,628,027) |
| Benefit payments, including refunds of members' contributions | (8,930,543) | (8,930,543) | - |
| Administrative expense | - | (1,905,747) | 1,905,747 |
| Net changes | <u>(18,451,253)</u> | <u>(3,186,481)</u> | <u>(15,264,772)</u> |
| Balance at 09/30/13 | <u>216,341,538</u> | <u>34,261,206</u> | <u>182,080,332</u> |
| Changes for the year: | | | |
| Service cost | 4,638,484 | - | 4,638,484 |
| Interest | 10,319,767 | - | 10,319,767 |
| Assumption changes | 15,568,918 | - | 15,568,918 |
| Employers' contributions | - | 2,820,693 | (2,820,693) |
| Members' contributions | - | 2,797,512 | (2,797,512) |
| Net investment income | - | 3,077,767 | (3,077,767) |
| Benefit payments, including refunds of members' contributions | (9,298,152) | (9,298,152) | - |
| Administrative expense | - | (369,703) | 369,703 |
| Net changes | <u>21,229,017</u> | <u>(971,883)</u> | <u>22,200,900</u> |
| Balance at 09/30/14 | <u>\$ 237,570,555</u> | <u>\$ 33,289,323</u> | <u>\$ 204,281,232</u> |

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

(2) Net Pension Liability, Continued

Defined Benefit Plan

Pension Liability. At September 30, 2015 and 2014, the Fund reported a liability of \$779,129 and \$809,893, respectively, for its proportionate share of the net pension liability. The Fund's proportion of the net pension liability was based on the projection of the Fund's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2015 and 2014, the Fund's proportion was 0.3814% and 0.4448%, respectively.

Pension Expense. For the years ended September 30, 2015 and 2014, the Fund recognized pension expense of \$40,332 and \$32,813, respectively.

Deferred Outflows and Inflows of Resources. At September 30, 2015 and 2014, the Fund reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2015 | | 2014 | |
|----------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experience | \$ - | \$ 2,100 | \$ - | \$ - |
| Change of assumptions | 49,802 | 44,888 | - | 65,398 |
| Net difference between projected and actual earnings on pension plan investments | - | - | - | 133 |
| Contributions subsequent to measurement date | 10,953 | - | 10,429 | - |
| Changes in proportion and difference between the Fund's contributions and proportionate share of contributions | 96,335 | 104,585 | 120,358 | - |
| | \$ 157,090 | \$ 151,573 | \$ 130,787 | \$ 65,531 |

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2015 will be recognized in pension expense as follows:

Year ending September 30,

| | |
|------------|------------|
| 2016 | \$ (3,791) |
| 2017 | \$ (3,791) |
| 2018 | \$ (3,791) |
| 2019 | \$ (3,762) |
| Thereafter | \$ 9,699 |

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

(3) Capital Assets

A summary of the Fund's capital assets is set forth below:

| | <u>Estimated Useful Lives</u> | Balance at October 1, 2014 | <u>Additions</u> | <u>Deletions</u> | Balance at September 30, 2015 |
|--------------------------------|-----------------------------------|----------------------------------|------------------|------------------|-------------------------------------|
| Office equipment and furniture | 3 - 10 years | \$ 105,244 | \$ 9,688 | \$ - | \$ 114,932 |
| Vehicles | 6 years | <u>33,149</u> | <u>25,000</u> | <u>-</u> | <u>58,149</u> |
| | | 138,393 | 34,688 | - | 173,081 |
| Less accumulated depreciation | | <u>(136,496)</u> | <u>(13,574)</u> | <u>-</u> | <u>(150,070)</u> |
| | | \$ <u>1,897</u> | \$ <u>21,114</u> | \$ <u>-</u> | \$ <u>23,011</u> |

| | <u>Estimated Useful Lives</u> | Balance at October 1, 2013 | <u>Additions</u> | <u>Deletions</u> | Balance at September 30, 2014 |
|--------------------------------|-----------------------------------|----------------------------------|--------------------|------------------|-------------------------------------|
| 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> |

(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 \$175,987 and \$12,555 from PCC employees during the years ended September 30, 2015 and 2014, 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, 2015 and 2014, 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 \$142,453 and \$16,579 from PCC for employer contributions during the years ended September 30, 2015 and 2014, respectively.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2015 and 2014

(4) Republic of Palau, Continued

On April 23, 2015 RPPL 9-44 was enacted which appropriated \$500,000 from ROP to the Fund for accrued interest from prior years' contributions. During fiscal year 2015, the Fund received \$400,000 from ROP which is included in other income in the accompanying financial statements.

(5) Administrative Expenses

A summary of the administrative expenses for the years ended September 30, 2015 and 2014, is set forth below:

| | <u>2015</u> | <u>2014</u> |
|---------------------|-------------------|-------------------|
| Personnel | \$ 218,138 | \$ 199,252 |
| Conference expenses | 49,412 | 59,379 |
| Staff training | 32,510 | 32,491 |
| Professional fees | 19,798 | 19,682 |
| Depreciation | 13,574 | 18,400 |
| Communications | 9,511 | 6,815 |
| Rent and utilities | 9,093 | 8,560 |
| Board compensation | 3,050 | 3,550 |
| Miscellaneous | <u>26,816</u> | <u>32,877</u> |
| | \$ <u>381,902</u> | \$ <u>381,006</u> |

(6) Contingency

An actuarial valuation of the Fund has determined that the Fund had an actuarial deficiency of \$204,281,232 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, 2015, 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.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Changes in Net Pension Liability and Related Ratios
September 30, 2015

| | <u>2014 Valuation</u> | <u>2013 Valuation</u> |
|------------------------------------------------------------------------|------------------------------|------------------------------|
| Total Pension Liability | | |
| Service cost | \$ 4,638,484 | \$ 5,913,261 |
| Interest cost | 10,319,767 | 9,146,830 |
| Assumption changes | 15,568,918 | (17,639,038) |
| Benefit changes | - | (6,941,763) |
| Benefit payments | <u>(9,298,152)</u> | <u>(8,930,543)</u> |
| Net change in total pension liability | 21,229,017 | (18,451,253) |
| Total pension liability - beginning | <u>216,341,538</u> | <u>234,792,791</u> |
| Total pension liability - ending | \$ <u><u>237,570,555</u></u> | \$ <u><u>216,341,538</u></u> |
| Fund Fiduciary Net Position | | |
| Employer contributions | \$ 2,820,693 | \$ 2,506,605 |
| Employee contributions | 2,797,512 | 2,515,177 |
| Pension plan net investment income | 3,077,767 | 2,628,027 |
| Benefit payments | (9,298,152) | (8,930,543) |
| Pension plan administrative expense | <u>(369,703)</u> | <u>(1,905,747)</u> |
| Net change in plan fiduciary net position | (971,883) | (3,186,481) |
| Plan fiduciary net position - beginning | <u>34,261,206</u> | <u>37,447,687</u> |
| Plan fiduciary net position - ending | \$ <u><u>33,289,323</u></u> | \$ <u><u>34,261,206</u></u> |
| Net pension liability - ending | \$ <u><u>204,281,232</u></u> | \$ <u><u>182,080,332</u></u> |
| Plan fiduciary net position as a percentage of total pension liability | 14.01% | 15.84% |
| Covered employee payroll | \$ 37,054,366 | \$ 37,054,366 |
| Net pension liability as a percentage of covered employee payroll | 551.30% | 491.39% |

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, 2015

| <u>Actuarial Valuation 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> |
|-------------------------------------------------|----------------------------------------------------|--------------------------------|-------------------------------------------------|------------------------|------------------------------------------------------------------|
| 2013 | \$ 6,290,503 | \$ 2,515,982 | \$ 3,774,521 | \$ 37,054,366 | 6.79% |
| 2014 | \$ 6,710,502 | \$ 2,768,315 | \$ 3,942,187 | \$ 37,054,366 | 7.47% |

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, 2015

(1) Actuarial Assumptions

| | |
|--------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation Date: | October 1, 2013 |
| Actuarially determined contribution: | Calculated as of the September 30th prior to the beginning of the fiscal year in which contributions are reported. |
| Methods and Assumptions Used to Determine Contribution Rates | |
| 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% |
| Discount Rate: | The discount rate was determined using the current assumed rate of return until the point where the Plan Fiduciary Net Position is negative. Using the current contribution rates, a negative position happens in FYE 2020 for 2012 and FYE 2022 for 2013 and 2014. For FYEs after 2019 for 2012 and 2021 for 2013 and 2014 a discount rate equal to the last Bond Buyer 20-Bond Go Index rate for September is used (3.67% for 2012, 4.53% for 2013 and 4.11% for 2014. |
| Retirement Age: | Age 60 |
| Mortality: | RP 2000 Combined Healthy Mortality Table, set forward four years. |

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Required Supplementary Schedules
September 30, 2015

(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, 2015

| | <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 #016-893706-003 | \$ 76,759 | \$ 76,759 | \$ 76,759 | |
| Western Asset US Money Market Fund A Dist (D) - Account #016-010074-003 | 245,044 | 245,044 | 245,044 | |
| Western Asset US Money Market Fund A Dist (D) - Account #016-010075-003 | 13,690 | 13,690 | 13,690 | |
| Western Asset US Money Market Fund A Dist (D) - Account #016-010076-003 | 6,239 | 6,239 | 6,239 | |
| Western Asset US Money Market Fund A Dist (D) - Account #016-010077-003 | 37,260 | 37,260 | 37,260 | |
| Western Asset US Money Market Fund A Dist (D) - Account #016-893084-003 | 32,645 | 32,645 | 32,645 | |
| Western Asset US Money Market Fund A Dist (D) - Account #016-893085-003 | 203,885 | 203,885 | 203,885 | |
| Western Asset US Money Market Fund A Dist (D) - Account #016-893086-003 | 456 | 456 | 456 | |
| Western Asset US Money Market Fund A Dist (D) - Account #016-893707-003 | 80,996 | 80,996 | 80,996 | |
| | <u>696,974</u> | <u>696,974</u> | <u>696,974</u> | |
| Net unsettled purchases/sales - Account #016-893706-003 | 16,447 | 16,447 | 16,447 | |
| Net unsettled purchases/sales - Account #016-010074-003 | (59,384) | (59,384) | (59,384) | |
| Net unsettled purchases/sales - Account #016-896084-003 | (9,862) | (9,862) | (9,862) | |
| Net unsettled purchases/sales - Account #016-893707-003 | 254,399 | 254,399 | 254,399 | |
| | <u>201,600</u> | <u>201,600</u> | <u>201,600</u> | |
| Cash balance - Account #016-010074-003 | 256 | 256 | 256 | |
| Cash balance - Account #016-010075-003 | 390 | 390 | 390 | |
| Cash balance - Account #016-010076-003 | 1,640 | 1,640 | 1,640 | |
| Cash balance - Account #016-893084-003 | 331 | 331 | 331 | |
| | <u>2,617</u> | <u>2,617</u> | <u>2,617</u> | |
| Total Money Market Funds | <u>\$ 901,191</u> | <u>\$ 901,191</u> | <u>\$ 901,191</u> | |
| | <u>Quantity</u> | <u>Cost</u> | <u>Fair Value</u> | |
| <u>Mutual Funds</u> | | | | |
| Templeton Global Bond Fd-Ad - Account #016-893086-500 | 255,716 | \$ 3,406,382 | \$ 2,907,495 | |
| Total Mutual Funds | <u>255,716</u> | <u>\$ 3,406,382</u> | <u>\$ 2,907,495</u> | |
| | <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 | \$ 580,000 | \$ 599,347 | \$ 610,327 | A2 |
| Fed Home Ln Bk @ 1.250%, due 06/23/2017 | 460,000 | 462,557 | 462,186 | AAA |
| Fed Natl Mtg Assn @ 1.625% due on 4/26/18 | 575,000 | 579,776 | 582,576 | AAA |
| Fed Natl Mtg Assn @ 1.625% due on 4/27/18 | 815,000 | 821,744 | 826,700 | AAA |
| Fed Farm CR BK Floater @ 0.227% due on 5/17/2018 | 730,000 | 729,569 | 729,629 | AAA |
| Fed Natl Mtg Assn @ 1.750% due on 9/14/18 | 480,000 | 485,179 | 485,682 | AAA |
| FNMA PL # 256105 @ 5.5%, due 02/1/2021 | 2,030,000 | 105,901 | 106,597 | AAA |
| FNMA PL # 896870 @ 5.5%, due 04/1/2022 | 3,250,000 | 128,710 | 127,892 | AAA |
| FNMA PL # 986196 @ 5%, due 07/01/2023 | 2,200,000 | 87,644 | 87,547 | AAA |
| FNMA PL # 889887 @ 5.5%, due 09/01/2023 | 1,730,000 | 161,879 | 164,300 | AAA |
| FNMA PL # 988457 @ 5.5%, due 10/01/2023 | 630,000 | 82,990 | 82,382 | AAA |
| FNMA PL # 994808 @ 5.5%, due 11/01/2023 | 840,000 | 38,958 | 38,437 | AAA |
| FNMA PL # 995472 @ 5.0%, due 11/01/2023 | 1,300,000 | 119,485 | 119,484 | AAA |
| FNMA PL # 995517 @ 5.5%, due 01/01/2024 | 2,410,000 | 167,173 | 170,041 | AAA |
| FNMA PL # 995957 @ 5%, due 06/01/2024 | 850,000 | 86,507 | 86,309 | AAA |
| FNMA PL # AC4446 @ 5%, due 10/01/2024 | 405,000 | 133,679 | 134,400 | AAA |
| FNMA PL # AL1029 @ 5%, due 09/01/2025 | 310,000 | 64,587 | 64,215 | AAA |
| FNMA PL # 257325 @ 5.5%, due 08/01/2028 | 1,805,000 | 133,206 | 135,443 | AAA |
| FNMA PL # 938171 @ 6.5%, due 07/01/2037 | 400,000 | 37,200 | 42,151 | AAA |
| | <u>21,800,000</u> | <u>5,026,091</u> | <u>5,056,298</u> | |
| <u>Governmental Bonds</u> | | | | |
| US Treasury Note @ 4.750%, due 08/15/2017 | 775,000 | 826,733 | 838,951 | AAA |
| US Treasury Bonds @ 2.75%, due 08/15/2042 | 2,840,000 | 2,596,558 | 2,778,848 | AAA |
| | <u>3,615,000</u> | <u>3,423,291</u> | <u>3,617,799</u> | |
| Total Obligations of U.S. Government and Agencies | <u>\$ 25,415,000</u> | <u>\$ 8,449,382</u> | <u>\$ 8,674,097</u> | |

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2015

| | <u>Face Value</u> | <u>Cost</u> | <u>Fair Value</u> | <u>Ratings</u> |
|-------------------------------------------------------|-----------------------------|---------------------|---------------------|----------------|
| <u>Corporate Bonds</u> | | | | |
| Morgan Stanley @ 5.75%, due 01/25/2021 | \$ 90,000 | \$ 100,535 | \$ 103,578 | A3 |
| Goldman Sachs Group Inc @ 5.25%, due 7/27/2021 | 75,000 | 81,874 | 84,332 | A3 |
| General Electric Capital Corp @ 4.65%, due 10/17/2021 | 140,000 | 153,553 | 160,418 | A1 |
| JP Morgan Chase & Co @ 4.50%, due 01/24/2022 | 100,000 | 106,834 | 108,722 | A3 |
| Wells Fargo & Company & Co @ 3.45%, due 02/13/2023 | 125,000 | 125,134 | 124,978 | A3 |
| MetLife Inc @ 4.368%, due 9/15/2023 | 160,000 | 164,139 | 172,190 | A3 |
| Wyeth @ 6.45% due 2/01/2024 | 120,000 | 146,327 | 149,967 | A1 |
| IBM Corp @ 3.625%, due 02/12/2024 | 135,000 | 138,810 | 139,765 | AA3 |
| Apple Inc @ 3.450%, due 05/06/2024 | 175,000 | 176,558 | 182,814 | AA1 |
| Florida Power & Light Co @ 3.25% due on 6/1/2024 | 105,000 | 106,719 | 108,923 | AA2 |
| Citigroup Inc @ 4.40% due on 6/10/2025 | 130,000 | 130,169 | 132,494 | BAA3 |
| | <u>\$ 1,355,000</u> | <u>\$ 1,430,652</u> | <u>\$ 1,468,181</u> | |
| Total Corporate Bonds | | | | |
| | <u>Number of Shares</u> | <u>Cost</u> | <u>Fair Value</u> | |
| <u>Corporate Stock</u> | | | | |
| Actelion LTD Unspn ADR | 1,838 | \$ 53,305 | \$ 58,430 | |
| Anheuser Busch Inbev SA Spon (BUD) | 1,540 | 156,748 | 163,733 | |
| Aon PLC SHS Cl-A (AON) | 837 | 82,489 | 74,167 | |
| Ashtead Group PLC ADR (ASHTY) | 900 | 57,391 | 51,120 | |
| Assa Abloy AB Unspn ADR | 10,065 | 69,519 | 89,679 | |
| Assoc British Fds Plc ADR New | 1,085 | 31,567 | 55,444 | |
| Bayer Ag Spon ADR | 903 | 95,263 | 115,620 | |
| BG Group Plc | 3,151 | 44,880 | 45,910 | |
| BHP Billiton Ltd | 1,188 | 77,262 | 37,565 | |
| BNP Paribas Sp ADR Repstg | 2,241 | 64,412 | 66,289 | |
| British Amer Tob Spon ADR | 1,171 | 127,266 | 128,904 | |
| Carlsberge As | 4,136 | 72,748 | 63,529 | |
| Campagne Fin Richenmontag ADR | 6,515 | 61,171 | 50,556 | |
| Compass Group Plc (CMPGV) | 4,810 | 82,260 | 77,393 | |
| Contl Ag Spons ADR (CTTAY) | 941 | 42,792 | 39,908 | |
| Daikin Inds Ltd Unspn ADR | 435 | 46,809 | 48,777 | |
| Daiwa House Inds Ltd ADR | 4,787 | 91,615 | 118,354 | |
| Encana Corp (ECA) | 4,551 | 59,857 | 29,308 | |
| Fresenius Se & Co Spn ADR (FSNUY) | 4,008 | 52,185 | 67,334 | |
| Informa Plc | 3,746 | 57,811 | 65,255 | |
| Japan Tob Inc (JAPAY) | 4,896 | 79,184 | 75,203 | |
| KBC Group NV Unspn ADR | 1,468 | 43,793 | 46,374 | |
| KDDI Corp Unspn ADR (KDDIY) | 6,940 | 69,434 | 78,006 | |
| Komatsu Ltd Spons ADR | 2,344 | 54,330 | 34,597 | |
| Lloyds Banking Group | 20,891 | 76,229 | 96,099 | |
| Makita Corporation Ltd ADR New | 1,377 | 76,880 | 73,029 | |
| Mediolanum Spa Unspn ADR | 2,107 | 31,397 | 30,031 | |
| Novartis Aq ADR | 2,140 | 156,251 | 196,709 | |
| Novo Nordisk A/S ADR | 1,977 | 68,536 | 107,232 | |
| Pearson PLC SP ADR | 3,048 | 63,172 | 52,304 | |
| Prudential Plc ADR | 3,296 | 112,972 | 138,893 | |
| Red Electrica Corporacion Sa | 3,860 | 53,894 | 63,960 | |
| Relx Plc Sponsored ADR (RELX) | 2,513 | 42,158 | 43,701 | |
| Rexam Plc (REXMY) | 1,577 | 68,212 | 62,213 | |
| Royal Dutch Shell Plc | 1,032 | 69,797 | 48,906 | |
| Royal KPN NV Sponsor ADR | 11,515 | 36,513 | 43,757 | |
| Ryanair Hldgs Plc ADR | 810 | 34,760 | 63,423 | |
| Ryohin Keikaku Co Ltd ADR (RYKKY) | 1,191 | 27,324 | 48,628 | |
| Sampo Oyj Unspn ADR | 3,221 | 63,303 | 78,335 | |
| Seven & I Holdings Co Ltd ADR | 4,877 | 86,340 | 111,147 | |
| Shire Plc ADR | 360 | 71,607 | 73,883 | |
| Signet Jewelers Limited | 357 | 28,197 | 48,598 | |
| Softbank Corp Unspn ADR (SFTBY) | 3,327 | 122,204 | 77,020 | |
| Sony Corp ADR 1974 New | 2,792 | 75,856 | 68,404 | |
| Sumitomo Mitsui Finl Group Inc (SMFG) | 13,220 | 116,138 | 100,869 | |
| Sumitomo Mitsui TR Hldgs Inc (SUTNY) | 7,916 | 40,089 | 28,893 | |
| Swedbank Ab Spons ADR | 3,826 | 93,366 | 84,899 | |
| Telenor Asa ADS | 1,021 | 69,955 | 57,217 | |
| Teva Pharmaceuticals ADR (TEVA) | 1,977 | 105,031 | 111,621 | |
| Unilever Plc Ads | 2,067 | 86,126 | 84,292 | |
| Valeo Sponsored ADR | 994 | 36,305 | 67,164 | |
| Vinci SA ADR | 3,799 | 56,750 | 60,214 | |
| Vivendi SA Unspn ADR | 2,298 | 61,061 | 54,279 | |

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2015

| | Number of Shares | Cost | Fair Value |
|--------------------------------------|---------------------|------------------|------------------|
| <u>Corporate Stock, Continued</u> | | | |
| Wolseley Plc Jersey Spnsrd ADR | 11,188 | 55,333 | 66,457 |
| Wolters Kluwer NV Spon ADR | 2,002 | 56,943 | 61,652 |
| Subtotal - Account #016-010074-003 | <u>197,072</u> | <u>3,816,790</u> | <u>3,985,284</u> |
| Abbvie Inc Com | 940 | 51,471 | 51,145 |
| Adobe Systems | 740 | 49,808 | 60,843 |
| AES Corp | 3,210 | 45,198 | 31,426 |
| Archer Daniels Midland | 1,100 | 47,586 | 45,595 |
| Banco Santander S.A. | 6,398 | 62,084 | 33,781 |
| Bank of America Corp | 3,300 | 51,079 | 51,414 |
| Baxter Intl Inc | 1,310 | 50,566 | 43,034 |
| COTY Inc Com Cl A | 1,340 | 23,398 | 36,260 |
| Cullen Frost Bankers Inc | 450 | 33,023 | 28,611 |
| Deere & Co | 400 | 36,364 | 29,600 |
| Diageo Plc Spon Adr New | 390 | 49,665 | 42,038 |
| Dow Chemical Co | 1,000 | 52,585 | 42,400 |
| Ecolab Inc | 330 | 35,647 | 36,208 |
| EMC Corp Mass | 1,810 | 48,269 | 43,730 |
| First Republic Bank | 780 | 41,961 | 48,961 |
| General Electric Co | 1,890 | 51,012 | 47,666 |
| Genl Dynamics Corp | 420 | 50,478 | 57,939 |
| Halliburton Co | 1,000 | 67,336 | 35,350 |
| Hershey Company | 390 | 37,698 | 35,833 |
| Home Depot Inc | 620 | 48,304 | 71,604 |
| Ill Tool Works Inc | 540 | 47,916 | 44,447 |
| ITC Holdings | 1,450 | 51,411 | 48,676 |
| JPMorgan Chase & Co | 860 | 49,425 | 52,434 |
| Lennar Corporation | 1,260 | 51,568 | 60,644 |
| M&T Bank Corp | 340 | 41,790 | 41,463 |
| Martin Marietta Materials | 380 | 48,340 | 57,741 |
| Medtronic Inc | 910 | 70,021 | 60,915 |
| Microsoft Corp | 1,290 | 53,692 | 57,095 |
| Mitsubishi UFJ Fincl Grp ADS | 6,150 | 37,601 | 37,454 |
| Mondelez Intl Inc Com | 1,230 | 46,053 | 51,500 |
| National Fuel Gas Co | 740 | 47,554 | 36,985 |
| Novartis AG ADR | 550 | 54,278 | 50,556 |
| Oracle Corp | 1,190 | 50,134 | 42,983 |
| Oshkosh Corp | 1,080 | 57,323 | 39,236 |
| Paypal Hldqs Inc Com | 970 | 28,899 | 30,109 |
| Phillips 66 Com | 760 | 63,329 | 58,398 |
| Pioneer Natural Resources Co | 290 | 62,228 | 35,276 |
| Te Connectivity Ltd New | 1,080 | 66,562 | 64,681 |
| Texas Instruments | 1,000 | 48,284 | 49,520 |
| Time Warner Inc New | 810 | 55,619 | 55,688 |
| Unilever NV NY SH New | 1,250 | 54,499 | 50,250 |
| Walgreens Boots Alliance Inc | 810 | 59,636 | 67,311 |
| Subtotal - Account #016-010075-003 | <u>52,758</u> | <u>2,079,694</u> | <u>1,966,800</u> |
| Alexandria Real Estate EQ Inc (ARE) | 344 | 32,481 | 29,126 |
| American Residential Prop Inc (ARPI) | 322 | 5,747 | 5,561 |
| Avanlonbay Comm Inc (AVB) | 351 | 60,263 | 61,362 |
| Boston Properties Inc (BXP) | 457 | 60,143 | 54,109 |
| Brandywine Realty TR SBI New | 818 | 13,397 | 10,078 |
| Cubesmart Com (CUBE) | 1,034 | 26,013 | 28,135 |
| DCT Industrial Trust Inc (DCT) | 687 | 25,756 | 23,124 |
| DDR Corp Com (DDR) | 1,808 | 35,015 | 27,807 |
| Digital Realty Trust Inc (DLR) | 513 | 34,063 | 33,509 |
| Douglas Emmett Inc (DEI) | 567 | 16,252 | 16,284 |
| Duke Realty Corp (DRE) | 1,252 | 27,220 | 23,851 |
| Equinix Inc Com Par | 115 | 31,548 | 31,441 |
| Equity Residential (EQR) | 1,330 | 103,078 | 99,910 |
| Essex Property Trust Inc (ESS) | 191 | 42,992 | 42,673 |
| General Growth Propertis Com (GGP) | 2,688 | 77,450 | 69,807 |
| Healthcare Realty Trust Incorp (HR) | 689 | 20,207 | 17,122 |
| Healthcare TR Amer Inc CL A (HTA) | 552 | 15,563 | 13,529 |
| Highwoods Properties (HW) | 398 | 18,766 | 15,422 |
| Host Hotel & Resorts Inc (HST) | 2,554 | 57,602 | 40,379 |
| Kilroy Realty Corporation (KRC) | 427 | 31,888 | 27,823 |
| Kimco Realty Corp MD (KIM) | 1,337 | 35,952 | 32,663 |
| Kite Rlty Group TR (KRG) | 438 | 12,518 | 10,429 |

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2015

| | Number of Shares | Cost | Fair Value |
|--------------------------------------|---------------------|------------------|------------------|
| <u>Corporate Stock, Continued</u> | | | |
| PA RL Est Invt TR SBI (PEI) | 517 | 11,646 | 10,252 |
| Paramount Group Inc (PGRE) | 720 | 13,596 | 12,096 |
| Pebblebrook Hotel TR Com (PEB) | 335 | 15,628 | 11,876 |
| Post Properties Inc (PPS) | 325 | 19,003 | 18,944 |
| Prologis Inc Com (PLD) | 1,573 | 69,676 | 61,190 |
| Public Storage (PSA) | 338 | 68,213 | 71,531 |
| QTS Rlty TR Inc Com CL A (QTS) | 353 | 12,908 | 15,423 |
| Ramco Gershenson PPTYS Inc New (RPT) | 840 | 15,659 | 12,608 |
| Regency Centers Corp (Reg) | 440 | 29,852 | 27,346 |
| RLJ Lodging Trust (RLJ) | 426 | 13,782 | 10,765 |
| Simon PPTY Group Inc (SPG) | 789 | 155,434 | 144,955 |
| SL Green Realty CP (SLG) | 410 | 51,170 | 44,346 |
| Spirit Realty Capital Inc (SRC) | 3,033 | 35,820 | 27,722 |
| Strategic HTLS & Resort Inc (BEE) | 1,376 | 18,392 | 18,975 |
| Sun Communities Inc (SUI) | 232 | 15,864 | 15,720 |
| Sunstone Hotel Investors, Inc (SHO) | 1,257 | 21,078 | 16,630 |
| The Macerich Co (MAC) | 186 | 15,614 | 14,289 |
| UDR Inc Com (UDR) | 1,186 | 38,745 | 40,893 |
| Vereit, Inc. (VER) | 3,076 | 28,931 | 23,747 |
| Vornado Realty Trust (VRT) | 469 | 52,628 | 42,407 |
| Welltower Inc (HCN) | 1,126 | N/A | 76,253 |
| | <u>37,879</u> | <u>1,487,553</u> | <u>1,432,112</u> |
| Subtotal - Account #016-010076-003 | | | |
| Americas Partners Common Units (APU) | 284 | 14,455 | 11,794 |
| Embridge Energy Ptnrs LP (EEP) | 1,533 | 58,051 | 37,896 |
| Energy Trans Eqty LP (ETE) | 7,188 | 205,058 | 149,582 |
| Energy Transfer Partners LP (ETP) | 2,171 | 128,301 | 89,163 |
| Enlink Midstream Partners LP (ENLK) | 2,904 | 79,117 | 45,767 |
| Enterprise Prod Ptnrs LP (EPD) | 8,311 | 277,803 | 206,944 |
| EQT Midstream Ptnrs LP (EQM) | 583 | 48,915 | 38,670 |
| Genesis Energy LP Com (GEL) | 1,033 | 44,747 | 39,605 |
| Magellan Midstream Partners LP (MMP) | 2,025 | 155,793 | 121,723 |
| Markwest Engy Ptnrs LP (MWE) | 1,525 | 89,531 | 65,438 |
| MPLX LP Com Unit Rep LTD (MPLX) | 250 | 15,235 | 9,552 |
| Oneok Partners LP (OKS) | 1,489 | 59,742 | 43,568 |
| Plains All American Piplin LP (PAA) | 2,612 | 128,500 | 79,353 |
| Tallgrass Energy Ptnrs LP (TEP) | 316 | 15,785 | 12,416 |
| Targa Res Ptnrs LP Rep UTS (NGLS) | 1,129 | 52,621 | 32,786 |
| Williams Partn LP New Com Unit (WPZ) | 2,314 | 111,521 | 73,863 |
| | <u>35,667</u> | <u>1,485,175</u> | <u>1,058,120</u> |
| Subtotal - Account #016-010077-003 | | | |
| Adobe Systems | 571 | 42,678 | 46,948 |
| Alexion Pharm Inc | 223 | 31,248 | 34,875 |
| Alibaba Group Hldg Ltd | 281 | 24,222 | 16,571 |
| Allergan Plc SHS (AGN) | 110 | 35,174 | 29,899 |
| Amazon.com Inc | 171 | 66,489 | 87,533 |
| American Tower Reit Com | 421 | 35,177 | 37,040 |
| Apple Inc (AAPL) | 850 | 75,160 | 93,755 |
| Avago Tech (AVGO) | 220 | 29,473 | 27,502 |
| Boston Scientific Corp (BSK) | 1,396 | 25,394 | 22,908 |
| Bristol Myers Squibb Co (BMY) | 701 | 45,636 | 41,499 |
| Celgene Corp (CELG) | 533 | 30,917 | 57,655 |
| Chipotle Mexican Grill Inc Com | 39 | 23,990 | 28,090 |
| Costar Group Inc | 94 | 14,431 | 16,268 |
| Costco Wholesale Corp New | 189 | 18,548 | 27,324 |
| Ctrip.com Intl LTD (CTRP) | 299 | 19,348 | 18,891 |
| CVS Health Corp Com (CVS) | 443 | 28,675 | 42,741 |
| Danaher Corporation (DHR) | 346 | 20,535 | 29,483 |
| Delta Air Lines Inc New (DAL) | 712 | 26,255 | 31,947 |
| Dexcom Inc (DXCM) | 217 | 17,236 | 18,632 |
| Dollar Gen Corp New Com (DG) | 283 | 19,148 | 20,500 |
| Ecolab Inc (ECL) | 258 | 20,735 | 28,308 |
| Edward Lifesciences Corp (New) | 150 | 21,001 | 21,325 |
| Envision Healthcare Hldgs Inc (EVHC) | 682 | 24,275 | 25,091 |
| Facebook Inc Cl | 835 | 47,447 | 75,066 |
| Gilead Science (GILD) | 191 | 19,785 | 18,754 |
| Google Inc Cl C (GOOG) | 78 | 29,923 | 47,457 |
| Google Inc Class A (GOOGL) | 74 | 27,942 | 47,239 |
| Hilton Worldwide Holdings Inc | 1,210 | 28,159 | 27,757 |
| Home Depot Inc (HD) | 339 | 37,923 | 39,151 |

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2015

| <u>Corporate Stock, Continued</u> | <u>Number of Shares</u> | <u>Cost</u> | <u>Fair Value</u> |
|----------------------------------------------|-----------------------------|------------------|-------------------|
| Honeywell International Inc | 211 | 20,143 | 19,980 |
| Intuit Inc (INTU) | 313 | 30,606 | 27,779 |
| L Brands Inc Com (LB) | 190 | 17,333 | 17,125 |
| Liberty Global Plc Cl C New (LBTYK) | 454 | 18,245 | 18,623 |
| Linkedin Corp A | 207 | 43,716 | 39,357 |
| Lululemon Athletica Inc (Lulu) | 304 | 20,140 | 15,398 |
| Mastercard Inc. Cl A | 500 | 26,458 | 45,060 |
| McKesson Corp | 185 | 35,555 | 34,231 |
| Medtronic Plc SHS (MDT) | 359 | 27,515 | 24,031 |
| Mobileye N.V. (MBLY) | 529 | 20,470 | 24,059 |
| Morgan Stanley | 489 | 13,201 | 15,403 |
| Netflix Inc | 175 | 14,522 | 18,070 |
| Nike Inc | 534 | 43,989 | 65,666 |
| Paypal Hldqs Inc Com (PYPL) | 897 | 30,663 | 27,843 |
| PPG Industries Inc (PPG) | 268 | 29,399 | 23,501 |
| Priceline Grp Inc Com New (PCLN) | 37 | 28,169 | 45,764 |
| Quintiles Transnational Hldqs (Q) | 461 | 31,900 | 32,072 |
| Regeneron Pharm (REGN) | 20 | 10,401 | 9,303 |
| Salesforce.com Inc (CRM) | 439 | 20,416 | 30,480 |
| SBA Communications Corp (SBAC) | 276 | 19,920 | 28,908 |
| Servicenow Inc (NOW) | 211 | 12,355 | 14,654 |
| Sherwin Williams Company Ohio (SHW) | 99 | 26,883 | 22,055 |
| Splunk Inc | 130 | 7,405 | 7,195 |
| Starbucks Corp Washington (SBUX) | 687 | 27,133 | 39,049 |
| Tesla Motors Inc (TSLA) | 60 | 13,952 | 14,904 |
| Ulta Salon Cos & Fragr Inc (ULTA) | 144 | 13,627 | 23,522 |
| Under Armour Inc Cl A (UA) | 120 | 11,582 | 11,614 |
| Union Pacific Corp | 320 | 16,924 | 28,291 |
| Unitedhealth GP Inc (UNH) | 388 | 32,629 | 45,012 |
| Valeant Pharmaceutic Intl Inc (VRX) | 195 | 37,110 | 34,784 |
| Vertex Pharmaceuticals (VRTX) | 235 | 28,134 | 24,473 |
| Visa Inc Com Cl A | 1,314 | 30,438 | 91,533 |
| Walt Disney Co Hldg Co (DIS) | 376 | 28,686 | 38,427 |
| Workday Inc Cl A (WDAY) | 196 | 16,504 | 13,496 |
| Subtotal - Account #016-893084-003 | <u>23,239</u> | <u>1,693,047</u> | <u>2,031,871</u> |
| Akbank Turk Anonim Sirketi -ADR | 7,636 | 64,845 | 34,515 |
| Ambev S A Sponsored ADR | 12,853 | 91,147 | 62,980 |
| America Movil SA De CV ADR L (AMX) | 1,808 | 33,056 | 29,922 |
| Baidu Inc Ads | 589 | 74,738 | 80,934 |
| Banco Do Brasil Sa Spon ADR | 10,037 | 127,469 | 38,141 |
| Banco Macro S.A Spons ADR (BMA) | 1,092 | 18,460 | 41,933 |
| BB Seguridade Participacoes | 5,355 | 60,761 | 33,415 |
| Bidvest Group Ltd Spon ADR | 702 | 36,331 | 32,932 |
| China Constr Bk Corp-CNY | 8,426 | 133,015 | 112,319 |
| China Mobile Ltd | 1,529 | 83,212 | 90,975 |
| China Shenua Energy Ltd ADR | 4,293 | 49,173 | 26,101 |
| Cielo Sa Sponsored ADR New | 5,586 | 60,726 | 51,670 |
| Clicks Group LTD Spons ADR (CLCGY) | 3,857 | 50,378 | 50,758 |
| Cnooc Ltd ADS | 420 | 74,056 | 43,294 |
| Commercial Intl Bnk LTD SP ADR | 7,236 | 24,105 | 45,008 |
| Companhia Energy De Min Sp ADR | 8,934 | 51,416 | 15,902 |
| Gazprom Oao Spons ADR | 9,101 | 71,774 | 36,950 |
| Imperial Holdings Ltd Adr | 3,009 | 64,119 | 36,845 |
| Kasikornbank PUB Co LTD Unspn (KPCPY) | 1,730 | 44,067 | 32,853 |
| KB Financial Group Inc Sons ADR | 2,168 | 74,518 | 63,718 |
| Kimberly Clark Spon ADR | 4,095 | 62,921 | 46,552 |
| KOC Holding AS Unspns ADR | 2,510 | 66,933 | 48,895 |
| Localiza Rent a Car SA Spon | 6,708 | 96,748 | 41,523 |
| Mobile Telesystems PJSC | 4,470 | 88,475 | 32,273 |
| Ned Bank Group Ltd Sponsored ADR | 2,371 | 48,677 | 37,651 |
| Netease.com Inc ADS | 730 | 46,698 | 87,688 |
| Oil Co Lukoil Spons ADR | 862 | 50,001 | 29,360 |
| Phillippine LG Dist Tel Spn ADR (PHI) | 1,068 | 66,453 | 49,299 |
| PPC Limited Unspn Adr | 7,417 | 48,067 | 18,209 |
| PT Astra International Tbk Adr | 6,684 | 87,946 | 47,122 |
| PT BK Mandiri Persero Tbk Un-sponsored | 10,409 | 90,092 | 55,896 |
| PT Semen Gresik Persero ADR | 2,464 | 66,456 | 30,359 |
| PT Telekomunikasi Indonesia | 1,895 | 81,067 | 67,592 |
| PT United Tractors ADR | 1,185 | 47,601 | 28,444 |
| PTT Exploration and Production-THB Spons ADR | 3,614 | 38,990 | 14,131 |

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2015

| | Number of Shares | Cost | Fair Value |
|-------------------------------------|---------------------|-------------------|-------------------|
| <u>Corporate Stock, Continued</u> | | | |
| Sanlam Ltd ADR | 3,653 | 36,565 | 31,635 |
| Sber Bank Russia Sponsored ADR | 11,738 | 128,317 | 57,751 |
| Shinhan Financial Grp Co Ltd ADR | 1,787 | 67,918 | 62,188 |
| Shoprite Holdings Unspn ADR | 2,687 | 46,422 | 30,449 |
| Standard BankGroup LTD Spon | 4,049 | 55,988 | 39,680 |
| Taiwan Semiconductor Mfg Co Ltd ADR | 5,356 | 85,313 | 111,137 |
| Turkcell Iletis Hizmet ADR | 4,264 | 65,206 | 37,012 |
| Vodacom Group Ltd | 2,853 | 36,344 | 28,216 |
| Weichai Power Co Unspn ADR | 3,325 | 52,472 | 24,402 |
| Woolworths Hldgs Ltd | 6,861 | 53,288 | 48,253 |
| Wynn Macau Ltd Unspn ADR | 1,769 | 47,705 | 19,790 |
| YPF Sociedad Ads Rep 1 Cl-D Sh | 2,476 | 43,329 | 37,709 |
| | 203,661 | 2,993,358 | 2,124,381 |
| Vale S.A. SP - Preferred Stock | 3,270 | 54,254 | 10,955 |
| Subtotal - Account #016-893085-003 | <u>206,931</u> | <u>3,047,612</u> | <u>2,135,336</u> |
| Adobe Systems (ADBE) | 300 | 23,389 | 24,666 |
| Alibaba Group Hldg Ltd (BABA) | 450 | 35,829 | 26,536 |
| Allergan Plc Shs (AGN) | 186 | 52,344 | 50,557 |
| Amazon Com Inc (AMZN) | 104 | 46,179 | 53,237 |
| Amer Intl Gp Inc New (AIG) | 475 | 27,671 | 26,989 |
| American Express Co (Axp) | 200 | 17,133 | 14,826 |
| American Tower Reit Com (Amt) | 400 | 38,179 | 35,192 |
| Apple Inc (AAPL) | 580 | 52,576 | 63,974 |
| Bank of Amerika Corp (BAC) | 2,700 | 46,828 | 42,066 |
| Biogen Inc Com (BIC) | 16 | 4,701 | 4,669 |
| Boeing Co (BA) | 400 | 50,928 | 52,380 |
| Boston Scientific Corp (BSK) | 2,300 | 36,078 | 37,743 |
| Bristol Myers Squibb Co (BMY) | 300 | 19,115 | 17,760 |
| Celgene Corp | 317 | 36,506 | 34,290 |
| Charles Schwab New (SCHW) | 675 | 19,631 | 19,278 |
| Cigna Corporation Com (CI) | 125 | 19,405 | 16,877 |
| Cisco Sys Inc | 1,025 | 28,736 | 26,906 |
| Citigroup Inc New | 995 | 51,941 | 49,362 |
| Comcast Corp (New) Class A | 700 | 38,340 | 39,816 |
| CVS Caremark Corp | 525 | 37,802 | 50,652 |
| Delta Air Lines Inc New (DAL) | 800 | 35,634 | 35,896 |
| Dow Chemical Co (DOW) | 1,050 | 52,261 | 44,520 |
| Facebook Inc Cl-A (FB) | 900 | 71,523 | 80,910 |
| Gilead Science | 350 | 11,889 | 34,366 |
| Google Inc Class C (GOOG) | 29 | 11,949 | 17,644 |
| Google Inc Class A (GOOGL) | 91 | 45,800 | 58,092 |
| Home Depot Inc | 450 | 19,017 | 51,970 |
| Honeywell International Inc (HON) | 275 | 26,662 | 26,040 |
| JP Morgan Chase & Co | 825 | 41,511 | 50,300 |
| Kinder Morgan Incorp (KMI) | 950 | 34,148 | 26,296 |
| Marsh & McLennan Cos Inc | 350 | 11,933 | 18,277 |
| Mastercard Inc Class A | 500 | 27,173 | 45,060 |
| McKesson Corp (MCK) | 34 | 6,730 | 6,291 |
| Medtronic Inc (MDT) | 150 | 11,543 | 10,041 |
| Merck & Co Inc New Com (MRK) | 450 | 26,378 | 22,225 |
| Microsoft Corp (MSFT) | 800 | 36,802 | 35,408 |
| Morgan Stanley (MS) | 600 | 21,093 | 18,900 |
| Nike Inc B (NKE) | 150 | 17,239 | 18,446 |
| Pfizer Inc (PFE) | 925 | 30,968 | 29,054 |
| Raytheon Co (New) (RTN) | 175 | 18,551 | 19,121 |
| Salesforce.com Inc (CRM) | 325 | 22,796 | 22,565 |
| Schlumberger Ltd | 525 | 43,833 | 36,209 |
| Starbucks Corp Washington (SBUX) | 325 | 17,657 | 18,473 |
| T-mobile US Inc Com (TMUS) | 900 | 27,355 | 35,829 |
| Teva Pharmaceuticals ADR (TEVA) | 450 | 29,244 | 25,407 |
| TJX COS Inc New (TJX) | 275 | 17,052 | 19,641 |
| United Parcel Ser Inc CL-B (UPS) | 275 | 27,912 | 27,140 |
| Unitedhealth GP Inc (UNH) | 225 | 22,697 | 26,102 |
| Visa Inc CL A (V) | 375 | 26,080 | 26,123 |
| Walt Disney Co Hldg Co (DIS) | 300 | 14,560 | 30,660 |
| Subtotal - Account #016-893706-003 | <u>26,602</u> | <u>1,491,301</u> | <u>1,604,782</u> |
| Total Corporate Stock | <u>580,148</u> | <u>15,101,172</u> | <u>14,214,305</u> |

See Accompanying Independent Auditors' Report.