

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

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Republic of Palau Civil Service Pension Trust Fund (the Fund), a component unit of the Republic of Palau, as of September 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2012 and 2011, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in note 7 to the financial statements, at September 30, 2012 and 2011, the Fund had \$1,452,609 of uninsured deposits with a bank that went into receivership on November 7, 2006. We are unable to assess the recoverability of such deposits. No provision has been recorded in the financial statements for this uncertainty.

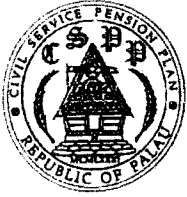
In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2013 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (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. 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.

Our audit was conducted for the purpose of forming an opinion on the Fund's financial statements. The Schedules of Funding Progress (page 26) and Employer Contributions (page 27), the Notes to Required Supplementary Schedules (pages 28 and 29) and the Schedule of Investment Securities (pages 30 through 37) as of September 30, 2012 are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedules of Funding Progress and Employer Contributions and the Notes to Required Supplementary Schedules are supplementary information required by GASB Statement No. 25. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Funding Progress and Employer Contributions, the Notes to Required Supplementary Schedules and the Schedule of Investment Securities are fairly stated in all material respects in relation to the financial statements as a whole.

*Deloitte & Touche LLC*

May 23, 2013



# REPUBLIC OF PALAU CIVIL SERVICE PENSION PLAN

## Board of Trustees

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## MANAGEMENT'S DISCUSSION AND ANALYSIS Plan Years Ended September 30, 2012 and 2011

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, 2012.

### Introductory Section

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

### Accounting Methods and Policies

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

### Financial Highlights

- The *unfunded actuarial accrued liability* increased from \$64,253,066 as of October 1, 2009 to \$103,899,191 as of October 1, 2011, an increase of \$39,646,125 or 62%. Most of the increase of the unfunded actuarial accrued liability is attributed to the fact that the assumed rate of return on investment was lowered from 8.5% to 7.5%. The funded ratio decreased from 39.1% at October 1, 2009 to 25.8% at October 1, 2011, a decrease of 13.3%. The required level of contribution increased from \$8,798,000 at October 1, 2009 to \$12,215,000 at October 1, 2011, that includes a 30-year amortization schedule of unfunded accrued liability. Actuarial valuations are performed biennially. The next actuarial valuation will be performed for Plan Year October 1, 2013 to September 30, 2014.
- The Fund has time certificates of deposit of \$1,452,609 in Pacific Savings Bank (PSB) at September 30, 2012 and 2011. Although it is still uncertain if the Fund will recover these deposits, the counsel for the Estate of Johnny Reklai had initially agreed to turn over 1,500 shares of common stock of Western Caroline Trading Company to the Fund that was pledged as collateral in the event PSB defaults on the payment. The Fund is pursuing a legal claim against the PSB Receiver.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Plan Years Ended September 30, 2012 and 2011

#### Financial Highlights, Continued

- The Fund's investment portfolios increased in value from \$31,688,360 in fiscal year 2011 to \$32,100,018 in fiscal year 2012. Plan net assets increased from \$36,128,666 in fiscal year 2011 to \$37,447,687 in fiscal year 2012, an increase of \$1,319,021.
- The Fund withdrew \$4,308,000 from investments during fiscal year 2012 to pay for benefits and administrative expenses during the same period and withdrew \$4,394,000 and \$7,151,000 for fiscal years 2011 and 2010, respectively.
- The Fund did not receive appropriations in fiscal years 2012 and 2011. The last National Government appropriation to the Fund of \$400,000 was in fiscal year 2007.

#### Overview of the Financial Statements

The following summarizes the financial condition and operations of the Fund as of and for the years ended September 30, 2012, 2011 and 2010.

The Statements of Net Assets includes the Fund's assets and liabilities that provide a picture of the financial position of the Fund as of September 30, 2012, 2011 and 2010. These statements reflect resources of net assets available for pension benefits to members, retirees and beneficiaries at the end of the fiscal year reported.

#### STATEMENTS OF PLAN NET ASSETS

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Cash and cash equivalents	\$ 658,313	\$ 276,299	\$ 242,065
Time certificates of deposit with an uninsured bank	1,452,609	1,452,609	1,452,609
Investments	32,100,018	31,688,360	37,692,590
Other assets	<u>3,276,386</u>	<u>2,752,400</u>	<u>1,375,649</u>
	<u>\$ 37,487,326</u>	<u>\$ 36,169,668</u>	<u>\$ 40,762,913</u>
Liabilities and net assets:			
Liabilities	\$ 39,639	\$ 41,002	\$ 34,032
Net assets	<u>37,447,687</u>	<u>36,128,666</u>	<u>40,728,881</u>
	<u>\$ 37,487,326</u>	<u>\$ 36,169,668</u>	<u>\$ 40,762,913</u>

- Total receivables increased from \$2,694,514 in 2011 to \$3,239,803 in 2012 and from \$1,305,218 in 2010 to \$2,694,514 in 2011.
- At September 30, 2012, 2011 and 2010, the Fund had \$36,583, \$57,886 and \$70,431, respectively, in furniture, fixtures and equipment, net of accumulated depreciation where applicable, including office equipment, furniture and vehicles, which represent net decreases of \$21,303 in 2012 over 2011 and \$12,545 in 2011 over 2010. See note 3 to the financial statements for more information on the Fund's furniture, fixtures and equipment.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Plan Years Ended September 30, 2012 and 2011**

**Revenue and Expense Analysis**

The Statements of Changes in Plan Net Assets 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 2012, 2011 and 2010.

**STATEMENTS OF CHANGES IN PLAN NET ASSETS**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Additions:			
Contributions	\$ 5,139,818	\$ 5,156,060	\$ 4,953,471
Investment income	4,614,658	(1,564,230)	2,344,215
Other income	<u>89,283</u>	<u>23,865</u>	<u>17,336</u>
	<u>9,843,759</u>	<u>3,615,695</u>	<u>7,315,022</u>
Deductions:			
Benefit and refund payments	8,123,193	7,876,766	7,512,198
Administrative	<u>401,545</u>	<u>339,144</u>	<u>328,262</u>
	<u>8,524,738</u>	<u>8,215,910</u>	<u>7,840,460</u>
Net increase (decrease)	1,319,021	(4,600,215)	(525,438)
Net assets, beginning of year	<u>36,128,666</u>	<u>40,728,881</u>	<u>41,254,319</u>
Net assets, end of year	\$ <u>37,447,687</u>	\$ <u>36,128,666</u>	\$ <u>40,728,881</u>

- Contributions revenue decreased from \$5,156,060 in 2011 to \$5,139,818 in 2012, a decrease of \$16,242 and increased from \$4,953,471 in 2010 to \$5,156,060 in 2011, an increase of \$202,589.
- Investment portfolios appreciated in fair market value by \$2,497,098 and yielded net earnings of \$4,614,658 in 2012 compared to a net loss of \$1,564,230 in 2011 and net earnings of \$2,344,215 in 2010.
- Benefit and refund payments increased from \$7,876,766 in 2011 to \$8,123,193 in 2012 and from \$7,512,198 in 2010 to \$7,876,766 in 2011, an increase of \$246,427 and \$364,568, respectively. The number of retirees and beneficiaries are expected to stabilize and will slowly decline over the next three years. Benefit payments are also expected to decrease over the coming years as a result of an amendment to the Fund through Republic of Palau Public Law (RPPL) No. 9-2.
- Administrative expenses include \$21,303, \$12,545 and \$4,214 of depreciation expense of the Fund's fixed assets in fiscal years 2012, 2011 and 2010, respectively. Administrative expenses increased from \$339,144 in 2011 to \$401,545 in 2012 and from \$328,262 in 2010 to \$339,144 in 2011, an increase of \$62,401 and \$10,882, respectively.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Plan Years Ended September 30, 2012 and 2011**

The 9<sup>th</sup> Olbiil Era Kelulau (OEK), House of Delegates proposed House Bill No. 9-12-1, HD3, SD2 that was signed into law by the President on April 30, 2013 (RPPL No. 9-2). RPPL 9-2 (1) abolishes the mandatory service retirement of thirty years of total service; (2) limits survivor benefits up to the present value of the employee's (member's) accrued benefit; (3) caps annuity benefits at \$30,000 per year; (4) restricts recalculation of benefits of a member who is re-employed after the member begins receiving benefits under the Fund; (5) ceases all form of benefits under the Fund to the member who is re-employed subsequent to retirement; (6) requires all employees of a member agency to contribute to the Fund without regard to whether the employee is employed part-time, or on a temporary, seasonal or impermanent employment; and (7) levies a four percent (4%) tax on remittances or transfers of money out of ROP and earmarks said taxes to the Fund.

### **ECONOMIC OUTLOOK**

The Board and management of the Fund recently added a new product to the portfolios, Global Bonds. We believe global fixed income will add value to the portfolios as the U.S. dollar continues to decline in value against other currencies. Fiscal year 2012 was a terrific year for equity markets around the world as the Dow Jones Industrial Average rose 10.2%, the NASDAQ rose 15.9%, the S&P 500 was up 16% and the MSCI World Index was up 16.8%. The first quarter of 2013 surpassed the last quarter of 2012 giving hope that 2013 will be another good year for equity markets.

Our strategic asset allocation, asset diversification and portfolio construction is well positioned to capture opportunities in both up or down markets. We remain fully invested. We continue to look for opportunities where money could be made in the short-term, but we stay focused on our long-term objectives. Our money managers' performance added value to the portfolios in 2012, especially the third and fourth quarters of the year. In the first quarter of 2013, equities continued their fourth quarter 2012 advances despite the ongoing European economic crisis, a slowing China and the U.S. "fiscal cliff."

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Plan Years Ended September 30, 2012 and 2011**

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

We feel that the Fund plays a vital role in Palau's economy by injecting over \$650,000 a month or over \$7,800,000 a year into the hands of consumers who in turn spend these sums to support the economy. In our view, ROP national leaders must become more educated and aware of the fiscal status and financial condition of the Fund and the role it plays in the lives of the people and the Palau economy in order to make a well informed decision affecting the Fund. We feel the 9<sup>th</sup> Constitutional Government leaders understand the many fiscal issues faced by the Fund and they will be the engine to drive these changes to bring the Fund from an indebted stage to a more funded status.

#### **CONTACTING THE FUND'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2011 is set forth in the report on the audit of the Fund's financial statements which is dated July 7, 2012. That Discussion and Analysis explains the major factors impacting the 2011 financial statements. If you have questions about the 2011 or 2010 reports, or need additional information, please contact the Administrator/Chief Executive Officer at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail [cspp@palaunet.com](mailto:cspp@palaunet.com) or call 483-2523.



REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Statements of Plan Net Assets  
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ <u>658,313</u>	\$ <u>276,299</u>
Investments, at fair value:		
Corporate stock	20,359,373	18,928,728
Corporate bonds	5,924,068	6,413,594
Obligations of U.S. Government and agencies	5,008,071	5,097,978
Money market funds	<u>808,506</u>	<u>1,248,060</u>
Total investments	<u>32,100,018</u>	<u>31,688,360</u>
Receivables:		
Employers' contributions, net	1,619,348	1,342,257
Members' contributions, net	1,619,348	1,342,257
Other receivables	<u>1,107</u>	<u>10,000</u>
Total receivables	<u>3,239,803</u>	<u>2,694,514</u>
Furniture, fixtures and equipment, net of accumulated depreciation	<u>36,583</u>	<u>57,886</u>
Time certificates of deposit with an uninsured bank	<u>1,452,609</u>	<u>1,452,609</u>
Total assets	<u>37,487,326</u>	<u>36,169,668</u>
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	<u>(39,639)</u>	<u>(41,002)</u>
Contingencies		
Net assets - held in trust for pension benefits (see Schedule of Funding Progress)	\$ <u>37,447,687</u>	\$ <u>36,128,666</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Statements of Changes in Plan Net Assets  
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Additions:		
Employers' contributions	\$ 2,580,869	\$ 2,591,388
Members' contributions	<u>2,558,949</u>	<u>2,564,672</u>
	<u>5,139,818</u>	<u>5,156,060</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	2,497,098	(3,996,150)
Interest	1,898,018	2,213,727
Dividends	405,662	453,392
Investment expenses	<u>(186,120)</u>	<u>(235,199)</u>
Total investment income	<u>4,614,658</u>	<u>(1,564,230)</u>
Other income	<u>89,283</u>	<u>23,865</u>
Total additions	<u>9,843,759</u>	<u>3,615,695</u>
Deductions:		
Benefit and refund payments:		
Normal and early retirement	5,801,443	5,690,288
Survivors	1,763,161	1,655,827
Refunds to terminated employees	358,687	341,698
Lump sum death disbursement	143,729	128,383
Disability	<u>56,173</u>	<u>60,570</u>
Total benefits	8,123,193	7,876,766
Administrative expenses	<u>401,545</u>	<u>339,144</u>
Total deductions	<u>8,524,738</u>	<u>8,215,910</u>
Net increase (decrease)	1,319,021	(4,600,215)
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>36,128,666</u>	<u>40,728,881</u>
End of year	\$ <u>37,447,687</u>	\$ <u>36,128,666</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

(1) Organization and Summary of Significant Accounting Policies

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

General

The Fund is a defined benefit, multi-employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Fund was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987, and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56 and RPPL 8-10. The Fund is administered under the authority of a seven-member Board of Trustees appointed by the President with the advice and consent of the Senate of the ROP.

Under the provisions of RPPL No. 2-26, the Pension Fund's Board of Trustees adopted a Trust Fund Operation Plan which has the force and effect of law and which sets forth the procedures for the administration and coverage of the Plan. Amendments to the Plan are subject to the requirements of Title 6 of the Palau National Code.

Membership

As of September 30, 2012 and 2011, the ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, are participating in the Fund. Membership consisted of the following as of October 1, 2011:

Members currently receiving benefits:	
Early retirement	60
Retired - 30 years of service	377
Retired - age 60	431
Retired - RPPL 5-7	7
Survivor	462
Disability	<u>26</u>
	1,363
Active employees - vested	2,975
Inactive employees - vested	<u>289</u>
Total participants	<u>4,627</u>

Summary of the Principal Provisions of the Plan

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

Eligibility to Participate

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

Service

**Vesting Service:** Includes membership service and prior service credit.

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

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

Pension Benefits

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

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

Pension Benefits, Continued

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

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

<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	5 years younger to 5 years older than the member
0.75	6 to 10 years younger than the member
0.70	11 to 15 years younger than the member
0.65	16 or more years younger than the member

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

- $1/144^{\text{th}}$  per month for the first 3 years;
- $1/216^{\text{th}}$  per month for the next 3 years;
- $1/288^{\text{th}}$  per month for the next 5 years; and
- $1/600^{\text{th}}$  per month for each additional year.

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

- If the former member is not an employee at his date of death and a spouse or beneficiary survives, the total death benefits payable shall be the actuarial equivalent of the member's present value of accrued benefit.
- If the member is an employee at his date of death and a spouse or beneficiary survives, the total death benefit payable shall be the actuarial equivalent of the greater of 3 times the member's average annual salary or the member's present value of accrued benefits.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

Pension Benefits, Continued

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

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

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

Member Contributions

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

Employer and Other Contributions

Employers are required to contribute an amount equal to that contributed by employees. Per the provisions of RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau shall from time to time contribute additional sums to the Fund in order to keep the Fund on a sound actuarial basis. The Government of the Republic of Palau provided \$-0- of additional contributions during the years ended September 30, 2012 and 2011.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

Plan Administration

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

New Accounting Standards

During fiscal year 2012, the Fund implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

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

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

New Accounting Standards, Continued

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

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

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Fund.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Fund.



REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

Basis of Accounting and Disclosure

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

The financial statements of the Fund for the years ended September 30, 2012 and 2011 have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, which requires the use of management estimates. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred. Members' contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

An actuarial valuation of the Fund was last completed on October 1, 2011.

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, 2012 and 2011, the Fund has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The Fund has not experienced any losses on such accounts.

Cash and Cash Equivalents and Time Certificates of Deposit

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

- Category 1 Deposits that are federally insured or collateralized with securities held by the Fund or its agent in the Fund's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the Fund's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the Fund's name and non-collateralized deposits.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

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

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

As of September 30, 2012 and 2011, total cash and cash equivalents were maintained in a Federal Deposit Insurance Corporation (FDIC) insured bank and amounted to \$658,313 and \$276,299, respectively, with corresponding bank balances of \$ 693,783 and \$281,518, 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, 2012 and 2011 with corresponding bank balance of \$1,464,047. The TCDs are collateralized by a first lien, existing now or in the future, on unidentified loans made by the uninsured bank in the amount of principal and interest equal to \$1,000,000; and a sole recourse first lien on 1,500 shares of common stock in a local company owned by a stockholder of the uninsured bank but not to exceed \$2,000,000. Accordingly, these deposits are exposed to custodial credit risk. The Fund does not require collateralization of its cash deposits; therefore, deposits in excess of depository insurance are uncollateralized. The TCDs are internally restricted for purposes of funding construction of a building to be used for operations. The Fund has not entered into a commitment to construct the building as of September 30, 2012 due to boundary disputes on the proposed construction site.

Investments

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

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

Investments, Continued

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

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

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

General:

1. Any pertinent restrictions existing under the laws of the ROP with respect to the Fund, that may exist now or in the future, will be the governing restriction.
2. U.S. and non-U.S. equities, American Depository Receipts, convertible bonds, preferred stocks, fixed income securities, mutual funds and short-term securities are permissible investments.
3. No individual security or any issuer, other than that of the United States Government, shall constitute more than 10% (at cost) of any investment manager's portfolio.
4. Holdings of any issuer shall constitute no more than 5% of the outstanding securities of such issuer.
5. Investments in a registered mutual fund managed by the investment manager are subject to the prior approval of the Board of Trustees.
6. The following securities and transactions are not authorized without prior written Board of Trustees approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
7. An investment manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Trustees.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

Investments, Continued

Investments may be made in:

A. Fixed Income

1. All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating.
2. No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the investment manager has specific prior written authorization from the Board of Trustees.
3. Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than "A".
4. 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, 2012 and 2011

(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.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Fund's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in the Fund's name by the Fund's custodial financial institutions at September 30, 2012 and 2011.

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, 2012 and 2011:

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

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

Investments, Continued

Investment Type	Fair Value	2012				Rating
		Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 4,667,138	\$ -	\$ -	\$ 528,180	\$ 4,138,958	AAA
Government bonds	340,933	-	-	-	340,933	AAA
Corporate bonds	520,677	-	-	520,677	-	AA+
Corporate bonds	80,084	-	-	80,084	-	AA-
Corporate bonds	164,916	-	-	164,916	-	A+
Corporate bonds	1,122,547	-	-	1,122,547	-	A
Corporate bonds	3,766,319	-	-	3,766,319	-	A-
Corporate bonds	269,525	-	-	269,525	-	BBB+
	<u>\$ 10,932,139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,452,248</u>	<u>\$ 4,479,891</u>	

Investment Type	Fair Value	2011				Rating
		Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 4,332,273	\$ -	\$ -	\$ 30,472	\$ 4,301,801	AAA
Government bonds	765,705	-	-	-	765,705	AAA
Corporate bonds	669,076	-	-	585,333	83,743	AA+
Corporate bonds	1,135,051	-	-	1,135,051	-	A+
Corporate bonds	1,126,886	-	-	1,126,886	-	A
Corporate bonds	3,091,327	-	-	3,091,327	-	A-
Corporate bonds	391,254	-	-	391,254	-	BBB
	<u>\$ 11,511,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,360,323</u>	<u>\$ 5,151,249</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.

Furniture, Fixtures and Equipment

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

Administrative expenses include depreciation and amortization expense of \$21,303 and \$12,545 in 2012 and 2011, respectively.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

(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.

Taxes

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

Estimates

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

(2) Funding Status and Funding Progress

The funded status as of October 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a / c)
\$ 36,128,666	\$ 140,027,857	\$ 103,899,191	25.80%	\$ 37,035,338	280.54 %

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

(2) Funding Status and Funding Progress, Continued

Additional information as of the latest actuarial valuation follows:

Valuation Date:	October 1, 2011
Actuarial Cost Method:	Entry age normal cost method
Amortization Method:	Level percent open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value, including accrued but unpaid contributions

Actuarial Assumptions:

Investment rate of return:	7.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

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

(3) Furniture, Fixtures and Equipment

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

	Estimated Useful Lives	Balance at October 1, 2011	Additions	Deletions	Balance at September 30, 2012
Office equipment and furniture	3 - 10 years	\$ 100,076	\$ -	\$ -	\$ 100,076
Vehicles	6 years	<u>33,149</u>	<u>-</u>	<u>-</u>	<u>33,149</u>
		133,225	-	-	133,225
Less accumulated depreciation		<u>(75,339)</u>	<u>(21,303)</u>	<u>-</u>	<u>(96,642)</u>
		\$ <u>57,886</u>	\$ <u>(21,303)</u>	\$ <u>-</u>	\$ <u>36,583</u>
	Estimated Useful Lives	Balance at October 1, 2010	Additions	Deletions	Balance at September 30, 2011
Office equipment and furniture	3 - 10 years	\$ 121,290	\$ 5,544	\$ (26,758)	\$ 100,076
Vehicles	6 years	<u>33,149</u>	<u>-</u>	<u>-</u>	<u>33,149</u>
		154,439	5,544	(26,758)	133,225
Less accumulated depreciation		<u>(84,008)</u>	<u>(12,545)</u>	<u>21,214</u>	<u>(75,339)</u>
		\$ <u>70,431</u>	\$ <u>(7,001)</u>	\$ <u>(5,544)</u>	\$ <u>57,886</u>



REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

(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 \$27,456 and \$16,084 from PCC employees during the years ended September 30, 2012 and 2011, 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, 2012 and 2011, respectively. Therefore, the Fund has not recognized the remaining \$875,000 as a receivable or as revenue in the accompanying financial statements. However, the Fund received \$16,866 and \$42,782 from PCC for employer contributions during the years ended September 30, 2012 and 2011, respectively.

(5) Administrative Expenses

A summary of the administrative expenses for the years ended September 30, 2012 and 2011, is set forth below:

	<u>2012</u>	<u>2011</u>
Personnel	\$ 183,275	\$ 174,698
Conference expenses	65,758	61,855
Staff training	47,717	28,943
Professional fees	14,177	13,491
Depreciation	21,303	12,545
Rent and utilities	8,395	9,178
Communications	6,030	5,736
Board compensation	1,900	1,600
Miscellaneous	<u>52,990</u>	<u>31,098</u>
	\$ <u>401,545</u>	\$ <u>339,144</u>

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2012 and 2011

(6) Risk Management

The Fund is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Fund has elected to purchase commercial insurance from independent third parties for the risk of loss to which it is exposed for automobiles. The Fund does not maintain insurance coverage for office equipment and furniture. In the event of catastrophe, the Fund may be self-insured. No losses have been sustained as a result of this practice during the past three years.

(7) Contingencies

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

The Fund has TCDs of \$1,452,609 in an uninsured bank at September 30, 2012 and 2011. The uninsured bank went into receivership on November 7, 2006. It is uncertain if the Fund will realize the abovementioned deposits.

(8) Subsequent Event

On April 30, 2013, RPPL 9-2 was enacted which amends the retirement act as follows:

- a. Elimination of 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.
- b. No member receiving monthly retirement benefits may receive greater than thirty thousand dollars (\$30,000) per year. This provision shall apply only to members who retire after April 30, 2013.
- c. The amount of benefits that a member receives shall not be recalculated if the member is re-employed after the member begins receiving benefits under the Fund. This provision shall apply only to members who retire after April 30, 2013.
- d. A member shall not receive benefits during the time the member is re-employed subsequent to retirement. This provision shall apply only to members who retire after April 30, 2013.
- e. Surviving beneficiaries of an employee may only receive benefits up to the total present value of the employee's accrued benefit.
- f. Each employee of the National Government and all State Governments shall contribute to the Fund through payroll deduction. The Government of ROP shall make regular contributions to the Fund equal to the amount contributed by each and every employee of ROP.
- g. An excise tax of four percent (4%) is levied against each non-citizen person transferring money out of the Republic of Palau. The money transfer tax shall be remitted to the Fund.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Funding Progress  
September 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age Normal Cost Method	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/01/06	Actuarial valuations are performed biennially.					
10/01/07	\$ 48,358,000	\$ 107,579,000	\$ 59,221,000	44.95%	\$ 34,763,000	170.4%
10/01/08	Actuarial valuations are performed biennially.					
10/01/09	\$ 41,254,319	\$ 105,507,385	\$ 64,253,066	39.10%	\$ 33,027,394	194.5%
10/01/10	Actuarial valuations are performed biennially.					
10/01/11	\$ 36,128,666	\$ 140,027,857	\$ 103,899,191	25.80%	\$ 37,035,338	280.5%

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Employer Contributions  
September 30, 2012

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
2007	Actuarial valuations are performed biennially.		
2008	\$ 12,554,000	\$ 4,531,994	36.1%
2009	Actuarial valuations are performed biennially.		
2010	\$ 8,798,000	\$ 2,357,864	26.8%
2011	Actuarial valuations are performed biennially.		
2012	\$ 12,215,000	\$ 4,030,950	33.0%

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, 2012

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

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Fund's provisions to the service members have rendered through the most recent actuarial valuation date (October 1, 2011). Accumulated plan benefits include benefits expected to be paid to (i) retired, disabled, and terminated employees and their beneficiaries, (ii) beneficiaries of employees who have died, and to (iii) present employees and their beneficiaries. Benefits payable under all circumstances - retirement, death, disability, and termination of employment - are included, to the extent they are deemed attributable to employee service rendered through October 1, 2011.

The actuarial present value of accumulated plan benefits is determined by an independent actuarial firm and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawals, or retirement) between the most recent actuarial valuation (October 1, 2011), and the expected date of payment. The significant actuarial assumptions used to calculate the actuarial present value of accumulated plan benefits are presented below, and are based on the presumption that the Fund will continue in operation. Were the Fund to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Valuation Date:	October 1, 2011
Actuarial Cost Method:	The Plan uses the entry age normal actuarial cost method to report information about the Plan's funded status and funding progress.
Valuation of Assets:	Market value, including accrued but unpaid contributions.
Return on Investment:	7.5% per year
Salary Increase:	3% per annum
Withdrawal Rates:	5% up to age 40, 0% thereafter
Disability Rates:	Based on 2007 U.S. Social Security Trustees Report Intermediate Assumptions.
Mortality Rates:	Non - disabled lives - Based on the 1984 Unisex Pension Mortality Table.  Disabled lives - Based on the PBGC Mortality Table for disable persons receiving social security.
Retirement Age:	Earlier of age 60 or 30 years of total service.
Includes inflation at:	0%

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Required Supplementary Schedules  
September 30, 2012

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

Amortization Method: Level percent open

Remaining Amortization  
Period: 30 years

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

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

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

See Accompanying Independent Auditors’ Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities  
September 30, 2012

	2012			
	Face Value	Cost	Fair Value	
<u>Money Market Funds</u>				
Western Assets US Money Market Fund a Dist (D)	\$ 2,351	\$ 2,351	\$ 2,351	
Western Assets US Money Market Fund a Dist (D)	263,677	263,677	263,677	
Western Assets US Money Market Fund a Dist (D)	244,651	244,651	244,651	
Western Assets US Money Market Fund a Dist (D)	47,214	47,214	47,214	
Western Assets US Money Market Fund a Dist (D)	25,148	25,148	25,148	
Western Assets US Money Market Fund a Dist (D)	97,672	97,672	97,672	
Western Assets US Money Market Fund a Dist (D)	45,550	45,550	45,550	
Western Assets US Money Market Fund a Dist (D)	27,629	27,629	27,629	
Western Assets US Money Market Fund a Dist (D)	296	296	296	
	<u>754,188</u>	<u>754,188</u>	<u>754,188</u>	
Unsettled purchases	41,553	41,553	41,553	
Unsettled purchases	(8,891)	(8,891)	(8,891)	
Unsettled purchases	(4,116)	(4,116)	(4,116)	
Unsettled purchases	(4,283)	(4,283)	(4,283)	
Unsettled purchases	16,540	16,540	16,540	
	<u>40,803</u>	<u>40,803</u>	<u>40,803</u>	
Cash balance	11,751	11,751	11,751	
Cash balance	378	378	378	
Cash balance	416	416	416	
Cash balance	230	230	230	
Cash balance	535	535	535	
Cash balance	209	209	205	
	<u>13,519</u>	<u>13,519</u>	<u>13,515</u>	
	<u>\$ 808,510</u>	<u>\$ 808,510</u>	<u>\$ 808,506</u>	
2012				
	Face Value	Cost	Fair Value	Ratings
<u>Obligations of U.S. Government and Agencies</u>				
<u>Mortgage and Asset Backed Securities</u>				
FHLMC PL # G 12121 @ 5.5%, due 4/01/2021	\$ 107,000	\$ 19,920	\$ 22,207	AAA
FNMA PL # 896870 @ 5.5%, due 04/1/2022	3,250,000	498,474	505,973	AAA
FNMA PL # 968649 @ 5%, due 01/01/2023	1,522,899	179,573	180,486	AAA
FNMA PL # 986196 @ 5%, due 07/01/2023	2,200,000	300,491	302,327	AAA
FNMA PL # 889887 @ 5.5%, due 09/01/2023	1,730,000	476,601	479,607	AAA
FNMA PL # 988457 @ 5.5%, due 10/01/2023	630,000	203,001	204,987	AAA
FNMA PL # 994808 @ 5.5%, due 11/01/2023	840,000	161,643	162,755	AAA
FNMA PL # 995472 @ 5%, due 11/01/2023	1,300,000	360,642	362,063	AAA
FNMA PL # 257502 @ 5.5%, due 12/01/2023	960,000	201,711	203,275	AAA
FNMA PL # 995517 @ 5.5%, due 01/01/2024	2,410,000	555,325	564,113	AAA
FNMA PL # 995957 @ 5%, due 06/01/2024	850,000	267,427	267,941	AAA
FNMA PL # AC4446 @ 5%, due 10/01/2024	405,000	207,539	209,471	AAA
FHLMC 15 YR # G13827 @ 5%, due 3/01/2025	430,000	143,908	145,668	AAA
FNMA PL # AL1029 @ 5%, due 09/01/2025	310,000	221,676	222,897	AAA
FNMA PL # 923129 @ 5.5%, due 08/01/2034	1,000,000	221,266	253,607	AAA
FNMA PL # 867452 @ 6.5%, due 06/01/2036	107,000	25,550	29,031	AAA
FNMA PL # 882694 @ 6.5%, due 06/01/2036	65,000	17,015	19,274	AAA
FNMA PL # 897447 @ 6.0%, due 10/01/2036	487,076	133,942	149,777	AAA
FHLMC PL # 1G1406 @ 5.829%, due 12/01/2036	275,000	60,615	66,027	AAA
FNMA PL # A55326 @ 6.0%, due 12/01/2036	275,000	61,171	67,085	AAA
FHLMC PL # A60299 @ 6.5%, due 05/01/2037	297,000	91,604	101,502	AAA
FNMA PL # 938171 @ 6.5%, due 07/01/2037	400,000	130,675	147,065	AAA
	<u>19,850,975</u>	<u>4,539,769</u>	<u>4,667,138</u>	
<u>Governmental Bonds</u>				
US Treasury Bonds @ 5.0%, due 5/15/2037	235,000	299,086	340,933	AAA
	<u>\$ 20,085,975</u>	<u>\$ 4,838,855</u>	<u>\$ 5,008,071</u>	

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued  
September 30, 2012

	2012			
	Face Value	Cost	Fair Value	Ratings
<u>Corporate Bonds</u>				
UBS AG Stamford CT @ 5.875%, due 12/20/2017	\$ 480,000	\$ 517,084	\$ 575,841	A2/A
Goldman Sachs Group Inc @ 7.5%, due 2/15/2019	500,000	569,194	624,783	A3/A-
MetLife Inc @ 7.717%, due 2/15/2019	485,333	485,333	531,508	A3/A-
JP Morgan Chase & Co @ 6.3%, due 04/23/2019	435,000	483,314	546,706	A2/A
Morgan Stanley @ 7.3%, due 05/13/2019	485,000	532,616	585,769	BAA1/A-
AFLAC Inc @ 8.5%, due 05/15/2019	420,000	507,014	575,936	A3/A-
Allstate Corp Book/Entry @ 7.45%, due 05/16/2019	190,000	228,779	253,977	A3/A-
American Express @ 8.125% due 05/20/2019	195,000	248,064	269,525	A3/BBB+
Citigroup Inc @ 8.5%, due 05/22/2019	445,000	566,061	601,966	BAA2/A-
Bank of America Corp @ 7.625%, due 06/01/2019	465,000	543,215	592,380	BAA2/A-
General Electric Cap Corp @ 6.0%, due 08/07/2019	425,000	461,013	520,677	A1/AA+
Wells Fargo & Co @ 4.6%, due 04/01/2021	140,000	157,494	164,916	A2/A+
New Valley Generation @ 4.687%, due 01/15/2022	100,000	68,997	80,084	AAA/AA-
	<u>\$ 4,765,333</u>	<u>\$ 5,368,178</u>	<u>\$ 5,924,068</u>	
	2012			
	Number of Shares	Cost	Fair Value	
<u>Corporate Stock</u>				
Allergan Inc	500	\$ 40,911	\$ 45,790	
Amazon Com Inc	303	68,738	77,059	
American Express Co	1,400	69,138	79,604	
American Tower Corp-Class A	1,000	49,976	71,390	
Apple Inc	400	39,695	266,842	
Baidu Inc Spon ADR RP Tng Ord Shs Cl A	323	44,181	37,755	
Biogen Idec Inc	600	74,412	89,526	
Boeing Co	800	60,810	55,676	
Bristol Myers Squibb Co	1,700	59,998	57,375	
Capital One Finl Corp	1,850	84,257	105,469	
Charles Schwab New	2,900	40,593	37,077	
Chevron Corp	700	70,806	81,592	
Citigroup Inc New	4,170	132,641	136,442	
Citrix System Inc	250	19,476	19,132	
Coach Inc	400	20,814	22,408	
Comcast Corp	1,800	60,780	64,341	
CVS Caremark Corp	3,000	116,978	145,260	
Du Pont Ei De Nemours & Co	800	35,272	40,216	
Ebay Inc	2,200	88,555	106,414	
EMC Corp-Mass	3,050	79,112	83,174	
ENSCO PLC ADR	750	35,943	40,920	
Express Scripts Inc. Common	1,700	85,695	106,471	
Exxon Mobil Corp	1,150	97,732	105,168	
Freeport McMoran CP & GLD	1,150	40,991	45,517	
General Electornics Co	6,900	119,531	156,699	
General Mtrs Co	2,750	65,069	62,563	
Gilead Silence	1,700	81,480	112,761	
Google Ince Class A	177	97,426	133,547	
Halliburton Co Holdings Co	1,750	59,428	58,958	
Home Depot Inc	1,900	68,423	114,703	
Intl Business Machines Corp	350	48,106	72,608	
JP Morgan Chase & Co	3,300	126,345	133,584	
Kraft Foods Inc Class A	1,250	47,852	51,688	
Las Vegas Sands Corporation	500	27,333	23,185	
Marsh & McLennan Cos Inc	1,200	40,393	40,716	
Mastercard Inc Class A	150	52,201	67,722	
Mc Donalds Corp	450	37,083	41,288	
MetLife Inc	850	36,971	29,291	
Microsoft Corp	2,300	65,158	68,448	
News Corp Class A New	5,400	97,191	132,327	
Occidental Petroleum Corp De	600	56,772	51,636	

See Accompanying Independent Auditors' Report.



REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued  
September 30, 2012

	2012		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
Pepsico Inc NC	900	61,847	63,693
Pfizer Inc	4,000	84,368	99,400
Philip Morris Intl Inc	500	34,951	44,970
Precision Castparts Corp	250	39,343	40,835
Qual Comm Inc	2,000	116,921	124,940
Schlumberger Ltd	1,200	90,546	86,796
Time Warner Cable Inc New	650	56,944	61,789
Union Pacific Corp	650	39,245	77,155
United Technologies Corp	900	68,142	70,461
United Health Group Inc	600	30,452	33,246
Walt Disney Co	2,400	97,379	125,472
Ageas Sponsored ADR	2,151	40,698	51,323
Allianz Se ADR	6,490	74,906	77,036
Alstom-EUR	13,463	55,401	46,313
Alumina Ltd Sponsored ADR	10,337	82,002	35,353
AngloGold Ashanti Ltd ADR	3,529	157,087	123,691
Axis Captial Holdings Lts-USD	2,014	72,673	70,329
Barrick Gold Corp CAD	4,094	184,538	170,965
Cameco Corp	6,302	188,882	122,574
Carrefour SA-SP ADR	29,451	155,887	121,044
Centrais Eletricas Brasileiras Spon ADR	11,098	115,806	65,811
Dai Nippon PRTG Ltd Japan Spons ADR	13,053	174,541	89,674
Daiichi Sankyo Kabushiki Kaish-JPY	2,798	53,118	45,943
East Japan Ry CO-JPY	4,252	49,426	46,772
Electricite De France-EUR	14,509	106,759	59,777
Ericsson Lm Tel ADR Class B New	7,724	73,128	70,443
Finmeccanica Spa-EUR	40,041	148,691	92,495
Fuji Film Hldgs Corp-JPY	4,034	134,304	67,005
Gazprom Oao Spons ADR	10,907	114,253	110,052
Glaxosmithkline Plc SP ADR	2,533	99,041	117,126
Gold Fields Ltd Spons ADR	7,375	121,802	94,769
Hachijuni Bank Ltd -Jpy ADR	827	46,850	45,675
Home Retail Group	8,166	60,164	46,138
Impala Platinum Holdings Ltd ADR	2,215	41,258	36,924
ING Grope NV ADR	6,526	40,626	51,490
Kinross Gold Corp-CAD (New)	13,326	188,745	136,058
Korea Elec Pwr Corp Sp ADR	6,344	84,421	78,792
ManPowerGroup Inc Com	1,289	42,725	47,435
Marine Harvest Unspn ADR	3,047	32,586	48,843
MS & AD Insuran Unspn ADR	14,554	166,954	124,146
Newcrest Mining Ltd Spon ADR	4,217	140,721	125,245
Nintendo Co Ltd ADR New	4,124	128,787	65,448
Nippon Tel & Tel Spon ADR	6,932	156,052	164,358
Orkla ADR A shares	3,342	24,644	25,299
Panasonic Corp ADR	11,044	125,024	72,559
Polyus Gold International Ltd GDR	14,828	55,083	50,267
Rohm Co Ltd-JPY	3,812	109,228	63,394
Sanofi Spons ADR	2,906	93,415	125,132
Sekisui House Unspn ADR	7,487	75,533	73,747
Seven & I Hldgs Co Ltd-JPY	1,455	77,471	88,973
Shiseido Ltd Sponsored ADR	6,526	122,861	89,080
Siemens A G Spons ADR	749	88,454	75,012
SK Telecom Ltd Spon ADR	9,629	179,843	140,006
Sumitomo Mitsu TR Spon ADR	29,028	94,827	84,471
Swisscom AG Spons ADR	2,295	100,246	92,420
Talesman Energy Inc.	4,991	64,432	66,480
Telecom Italia S.P.A ADR (New) Repstg Svg Shs	15,319	149,053	132,509
Teva Pharmaceuticals ADR	2,158	87,221	89,363
Toyota Motor Corp ADR New	866	67,485	67,990
UBS AG (New)	9,432	132,320	114,882
Vivendi Sa Unspn ADR	2,457	42,160	47,789
Vodafone Group PLC Spons ADR new	4,022	85,923	114,627
Wacoal Corp ADR	1,243	86,633	74,356
Weatherford International Ltd	4,853	61,678	61,536
Wolters Kluwer NV Sp ADR	5,264	115,124	98,121
Centrais Eletricas Brasileiras Spon ADR Pref	5,315	48,912	47,994

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued  
September 30, 2012

	2012		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
A O Smith Corp	577	31,376	33,201
Acme Packet	2,202	60,165	37,654
Actuant Corp Class A New	1,730	41,159	49,513
Airgas Inc.	491	31,688	40,409
Allegheny Technologies Inc	1,011	53,536	32,251
Arch Capital Group Ltd	1,693	64,887	70,497
Avis Budget Group Inc	485	5,988	7,459
Bally Technologies Inc	976	31,891	48,205
Buffalo Wild Wings Inc	513	39,773	43,985
Cabot Oil & Gas Corp	1,203	39,716	54,015
Cadence Design and System	3,699	46,269	47,588
Cavium Inc Com	1,521	47,610	50,665
Centene Corporation	970	38,972	36,288
Chart Industries	702	45,595	51,843
Chemtura Corp Com new	1,844	33,153	31,754
Chicos Fas Inc	3,121	45,840	56,521
Cinemark Holdings Inc	1,304	27,213	29,249
Comerica Inc	2,126	68,134	66,012
Constellation Brands Inc CL A	1,062	30,537	34,356
Crown Holdings Inc	1,086	39,612	39,911
Diamondrock Hospitality Co	1,939	16,624	18,673
Esterline Technologies Corp	892	57,223	50,077
Flowserve Corp	433	48,562	55,311
Gaylord Entertainment Co New	1,398	37,562	55,263
Guess Inc	1,217	38,421	30,936
Hancock Holdings Inc	2,262	70,293	70,077
Harry Wilson Diamond	3,547	48,560	41,996
Hercules Offshore Corp	9,290	37,569	45,289
Hologic Inc	3,298	53,410	66,686
Icon PLC Sponsored ADR	2,462	51,534	59,999
IDEX Corporation Delaware	982	41,857	41,018
Illumina Inc	541	25,369	26,071
Informatica Corp	1,469	52,587	51,195
Interpublic Group of Cos Ince	4,509	37,785	50,140
JDS Uniphase Cp New	4,099	44,959	50,746
Kansas City Southern Inds New	726	39,097	55,016
KBR Inc	1,835	55,941	54,720
Key Energy Svc Inc	6,042	52,507	42,294
Kirby CP	586	32,034	32,394
LaSalle Hotel Properties	1,434	40,427	38,273
Lear Corp	1,271	59,856	48,031
Legg Mason Inc	1,506	47,030	37,168
Myriad Genetics Inc	2,123	43,211	57,215
Nisource Inc	2,478	55,071	63,139
Penn National Gaming Inc	1,341	49,800	57,824
Plains Expl & Prdtn Co	894	35,305	33,498
Qlik Technologies	2,091	47,820	46,817
Regal-Beloit Corp	659	41,981	46,446
RF Micro Devices Inc	12,724	63,875	50,196
Riverbed Tech Inc	3,088	67,211	71,889
Rowan Companies	1,802	61,202	60,854
SBA Communications Corp	1,164	41,340	73,216
SL Green Realty Corp	750	50,422	60,053
Spirit Aerosystems Hldgs Inc Class A	1,764	36,004	39,178
Tanger Factory Outlet Centers	1,173	39,222	37,923
Timken Co	946	38,885	35,153
Trinity Ind Delaware	1,564	39,721	46,873
Triquint Semiconductor Inc	10,837	66,004	54,618
Triumph Group Inc	752	45,801	47,000
Ultra Petroleum Corp	707	17,149	15,540
USG Corporation	1,862	39,644	40,871
Valueclick Inc.	2,317	30,377	39,760
Varian Medical Systems Inc	571	34,433	34,443
Warnaco Group Inc	743	35,872	38,562
Warner Chilcott Plc Ireland A	3,086	51,402	41,661

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued  
September 30, 2012

	2012		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
Whiting Petroleum Corp	1,296	59,788	61,404
WMS IND INC	1,885	41,928	30,876
Zions Ban Corp	3,571	66,403	73,777
AAC Techonologies Holdings	626	17,923	22,348
Advance Semiconductor Engrn SP ADR	6,213	30,437	23,174
Agile Pty Holdings Ltd ADR	294	17,479	16,185
America Movil S.A.B De CV Ser L Spons ADR	1,865	45,078	47,427
Anhui Conch Cement H Unspn ADR	1,437	25,073	22,345
Antofagasta PLC-ADR	691	28,630	28,027
Baidu Inc Spon ADR Rptng Ord Shs Cl A	401	50,708	46,873
Banco Bradesco Spon sADR (New)	1,835	31,970	29,488
BRF Brasil Foods S A Spon ADR	542	8,357	9,377
Carlsberg AS	1,202	20,187	21,504
China Communications Constr Co	1,072	19,846	17,731
China Constr Bk Corp -CNY	3,400	55,403	46,750
China Minseng Bkg Corp Ltd	1,747	16,540	13,609
China Overseas Lan Unspn ADR	335	22,855	25,175
Cnooc Ltd Spons ADR	206	38,893	41,762
Compania De Minas Buenaventura	660	25,472	25,714
Credicorp Ltd -UDS	199	23,822	24,931
Dr Reddy's Laboratory	396	11,005	12,221
Galaxy Entertainment Group Ltd Spon ADR	532	14,586	17,620
Gazprom Oao Spons ADR	2,822	30,337	28,474
HDFC Bank Ltd ADR	1,173	36,162	44,081
Icici Bank Ltd-Spon ADR INR	927	32,018	37,210
Industrial & Coml Bk China-CNY Spons ADR	2,908	38,679	33,907
Infosys Ltd Sponsored ADR	533	27,673	25,872
Ishares MSCI STH Korea IND FD	1,242	69,357	73,439
Itau Unibanco Multiple ADR	3,093	61,761	47,261
Jiangxi Copper Co Ltd Sponsored ADR	172	15,276	17,157
JSC MMC Norilsk Nickel ADR	1,043	17,298	16,490
KB Financial Group Inc ADR	1,138	43,779	40,160
Keppel Corp Ltd ADR Sponsored	1,760	30,560	32,560
Las Vegas Sands Corp	979	39,720	45,396
Mobile Telesystems OJSC Spon ADR	954	14,490	16,714
Naspers Ltd Spon ADR	646	30,725	40,110
Oil CO Lukoil SPN ADR	829	48,756	51,017
Pacific Rubiales Energy Corp New	1,249	28,396	29,764
Petroleo Bras Sa ADS	758	22,843	17,385
Petroleo Brasileiro Sa ADR	862	23,051	19,024
Posco ADS	199	17,628	16,226
PT BK Mandiri Persero Tbk Unsp	2,834	21,488	23,806
PT Perusahaan Gas Negara Perse	846	16,340	17,132
Sberbank Russia Sponsored ADR	3,711	41,838	43,233
Sembcorp Marine Ltd Unspn ADR	419	16,611	16,814
Shinhan Financial Grp Co Ltd ADR	602	46,456	40,418
Slicon Prec Ind Ltd SP ADR	40,418	32,904	31,187
Silver Standard Resources Inc -CAD	2,136	35,185	34,240
Souther Copper Corp	789	25,480	27,110
Taiwan Semiconductor Mfg Co Ltd ADR	3,276	38,007	51,826
Tata Motors Ltd	740	15,772	19,003
Telefonica Brasil SA Spon ADR	966	23,867	21,001
Tencent Hldgs Ltd-HKD	655	16,575	22,191
The India Fund Inc	371	7,532	8,622
Tim Participacoes SaA Sponsored New	773	20,728	14,857
Turkiye Garanti Bankasi A S Sponsored ADR	7,760	29,908	33,601
Vale S A Spon ADR	2,403	62,162	43,014
Yamana Gold Inc	1,437	21,468	27,461
Yandex N.V A	666	12,391	16,084
Zijin Mining Group Co Ltd ADR Class H	1,264	8,929	10,112
Zoomlion Heavy Industry Un-sponsored ADR	1,502	18,120	17,048
AK Bank Turk Anonim Sirketi -ADR	2,837	30,406	22,356
America Mobil S.A.B De CV Ser L Son sADR	1,839	63,572	46,766
Banco Do Brasil Sa	4,150	70,281	51,626
Banco Macro S.A Spons ADR Repstg Cl B	1,164	48,155	16,506

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REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued  
September 30, 2012

	2012		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
Bidvest Group Ltd Spon ADR	894	40,605	44,342
China Constr Bk Corp-CNY	4,176	66,507	57,420
China Mobile Ltd	956	49,162	52,924
Cielo Sa Spon ADR	1,427	24,133	36,075
Clicks Group Limited	1,365	34,199	37,701
Cnooc Ltd ADS	163	31,568	33,045
Commercial Intl Bk ADR	3,868	25,912	21,351
Compania De Beb Ambev SP ADR	880	26,104	33,669
Companhia Siderurgica Nacional Sponsored ADR Repstg Ord Shs-USD	3,138	47,334	17,667
Gazprom Oao Spons ADR	3,407	36,713	34,377
Grupo Televisa Sa De CV Spon ADR	1,358	34,297	31,927
Infosys Ltd Sponsored ADR	502	36,632	24,367
KB Financial Group Inc ADR	1,187	43,393	41,889
Kimberly Clarke De Mex Sa Spon ADR -USD	3,483	35,171	41,831
KOC Holding AS Unspns ADR	1,600	33,721	31,796
Mobile Telesystems OJSC Spon ADR	2,395	47,196	41,960
Ned Bank Group Ltd Sponsored ADR	1,776	33,850	39,072
Netease.com Inc ADR	512	19,187	28,744
Lukoil Oil Spons ADR	529	29,473	32,555
Orascom Constr Inds S a E Sponsored ADR	761	33,596	35,219
Oriflame Cosmetics Unspn ADR	1,873	47,324	31,923
Phillippine Long Distance Tel Co Spons ADR -USD	808	45,887	53,336
Pretoria Portland Unspn ADR	2,812	26,763	19,543
PT BK Mandiri Persero Tbk Un-sponsored	4,733	35,523	39,757
PT Semen Gresik Persero ADR	782	15,313	23,194
PT Telekomunikasi Indonesia Spons ADR	1,379	47,643	53,684
PT United Tractors ADR	672	31,949	28,788
PTT Exploration and Production-THB Spons ADR	1,823	20,606	18,675
Sanlam Ltd Spon ADR	1,237	25,151	27,907
Sber Bank Sponsored Adr	4,781	40,041	55,699
Shinhan Financial Grp Co Ltd Adr	608	53,312	40,821
Shoprite Holdings Unspn ADR	944	27,498	38,515
Standard BankGroup ADR	2,054	17,327	26,312
Taiwan Semiconductor Mfg Co Ltd Adr	3,505	43,952	55,449
Tiger Brands Ltd Sponsored ADR new	858	23,493	28,134
Turkcell Iletis Hizmet ADR	3,129	51,815	47,373
Vodacom Group Ltd Un-sponsored ADR	1,705	23,359	20,801
Vale Sa S[on ADR Repstg 1 Class A Pfd	2,435	68,755	42,272
Weichai Power Co Unspn ADR	1,929	39,827	23,368
YPF Asa Spon ADR	847	37,510	11,011
Amgen Inc	2,303	72,973	75,515
Anglogold Ashanti Ltd ADR	2,561	121,573	89,763
Aon Corp	1,231	60,417	64,369
Apache Corp	1,108	124,458	95,809
Barrick Gold Corp Cad	1,343	69,133	56,084
Best Buy	1,910	41,727	32,852
CA Inc	5,197	127,886	133,901
Canadian Natural Res Ltd	2,799	112,819	86,181
Capital Once Financial Corp	732	41,024	41,731
Cisco Sys Inc	4,770	82,089	91,083
Citigroup Inc	2,868	112,844	93,841
CVS Caremark Corp	1,132	37,556	54,811
EMC Corp-Mass	1,114	26,027	30,379
General Motors Company	2,918	89,706	66,385
Goldman Sachs Group Inc	509	67,199	57,863
Halliburton Holdings Co	1,371	47,356	46,189
Hartford Finl Svcs Group Inc	4,849	94,008	94,265
Hewlett Packard	3,699	85,947	63,105
Ingersoll-Rand Public Ltd Co	1,049	48,795	47,016
JP Morgan Chase & Co	1,413	60,101	57,198
Lincoln National Corp -IND	1,060	29,954	25,641
Loews Corp	1,313	51,474	54,174
Merck & Co Inc New	1,213	43,978	54,700
MetLife Inc	2,368	97,303	81,601
Microsoft Corp	2,074	58,117	61,722

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Schedule of Investment Securities, Continued  
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	2012		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
Nrg Energy Inc New	1,581	30,295	33,818
Noble Energy Inc	367	31,154	34,025
Occidental Petroleum Corp -Del	448	43,567	38,555
Paccar Inc -Del	966	34,067	38,659
Pfizer Inc	4,394	77,394	109,191
Philip Morris Intl Inc	324	19,001	29,140
Pitney Bowes Inc	1,383	33,980	19,113
Raytheon Company New	773	34,633	44,185
Sanofi Spons ADR	2,884	92,669	124,185
Talisman Energy Inc	8,731	136,643	116,297
Teva Pharmaceutical Inc Inds Ltd ADR	1,616	70,544	66,918
The Mosaic Co	621	34,126	35,776
Time Warner Inc	1,624	52,596	73,624
Union Pacific Corp	346	31,911	41,070
Unumprovident Corp	4,262	100,185	81,916
Viacom Inc New Class B	1,631	64,325	87,405
Wells Fargo & Co New	1,972	61,050	68,093
Altera Corp	765	29,486	26,010
Amazon.com Inc	214	39,351	54,424
American Tower Corp-Class A	627	32,355	44,762
Apple Inc	341	130,378	227,483
Biogen Idec Inc	267	28,794	39,839
Blackrock	162	26,139	28,885
Borgwarner Inc	470	33,264	32,482
Cabot Oil & Gas Corp A	630	25,496	28,287
Cameron Intl Corp	503	26,761	28,203
Caterpillar Inc	311	33,322	26,758
CBS Corp New Class B shares	842	27,655	30,590
Celgene Corp	598	38,809	45,687
Cerner Corp	485	30,859	37,533
Citrix Systems Inc	251	18,929	19,209
Coach Inc	490	31,700	27,450
Concho Resources Inc	378	33,969	35,816
Costco Wholesale Corp New	302	21,955	30,248
Covidien Plc new	617	33,449	36,662
CVS Caremark Corp	904	40,242	43,772
Danaher Corp De	1,502	70,507	82,835
Dollar Gen Corp new	628	30,413	32,367
Ebay Inc	689	28,093	33,327
Ecolab Inc	681	34,208	44,135
Edwards Lifesciences Corp	331	25,033	35,539
EMC Corp-Mass	2,010	45,724	54,813
Estee Lauder Cos Inc Cl A	377	16,160	23,212
Express Scripts Inc.Common	1,178	62,022	73,778
FMC Technologies Inc	840	37,160	38,891
Fluor Corp New	620	41,082	34,894
Franklin Resources Inc	346	38,240	43,274
GAP Inc	854	30,707	30,556
Google Inc Class A	128	74,780	96,576
Illinois Tool Works Inc	469	25,128	27,891
Intercontinental Exchange Inc	155	18,299	20,679
International Business Machine Corp	411	80,568	85,262
Intuitive Surgical Inc	62	18,062	30,729
Intuit Inc	488	23,822	28,733
Las Vegas Sands Corp	632	27,860	29,306
Mastercard Inc. class A	83	35,763	37,473
Michael Cors Holding Ltd	567	25,166	30,153
Monsanto Co New	827	58,039	75,274
O Reilly Automotive Inc	235	14,280	19,651
Precision Castpart Corp	244	40,458	39,855
Priceline.Com Inc (New)	113	65,626	69,954
Qualcomm Inc	1,425	72,497	89,020
Ralph Lauren Corp Cl A	213	30,168	32,212
Range Resources Corp	419	25,631	29,276
Ross Stores	244	16,115	15,760

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Schedule of Investment Securities, Continued  
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	2012		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
Salesforce.com Inc	472	62,064	72,070
SBA Communications Corp	448	25,042	28,179
Schlumberger Ltd	396	29,670	28,643
Shire PLC ADR	123	9,794	10,910
Starbucks Corp	745	28,649	37,779
Teradata Corp	366	24,005	27,600
Unta Salon Cos & Fragr Inc	252	21,434	24,268
Union Pacific Corp	806	73,226	95,671
United Technologies Corp	540	42,513	42,277
United Health Group Inc	636	31,035	35,241
Verisign Inc	604	19,285	29,408
Visa Inc Com Cl A	775	58,269	104,066
Yum Brands Inc	345	16,983	22,885
	<u>\$ 960,510</u>	<u>\$ 20,094,844</u>	<u>\$ 20,359,373</u>

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