

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, 2011 AND 2010

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, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Fund as of September 30, 2011 and 2010, 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, 2011 and 2010, 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 July 7, 2012, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of funding progress (page 26) and employer contributions (page 27), notes to required supplementary schedules (pages 28 and 29) and schedule of investment securities (pages 30 through 36) as of September 30, 2011, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of funding progress and employer contributions and notes to required supplementary schedules are supplementary information required by GASB Statement No. 25. This additional information is also the responsibility of the Fund's management. These schedules and notes have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLC

July 7, 2012



REPUBLIC OF PALAU CIVIL SERVICE PENSION PLAN

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Plan Year Ended September 30, 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, 2011.

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 \$59,221,000 as of October 1, 2007 to \$64,253,066 as of October 1, 2009, an increase of \$5,032,066 or 8.5%. The funded ratio decreased from 44.95% at October 1, 2007 to 39.10% at October 1, 2009, a decrease of 13%. The required level of contribution decreased from \$12,554,000 at October 1, 2007 to \$8,798,000 at October 1, 2009, 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, 2011 to September 30, 2012.
- The Fund has time certificates of deposit of \$1,452,609 in Pacific Savings Bank (PSB) at September 30, 2011 and 2010. 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.

- The Fund's investment portfolios declined in value from \$37,692,590 in fiscal year 2010 to \$31,688,360 in fiscal year 2011. Plan net assets decreased from \$40,728,881 in fiscal year 2010 to \$36,128,666 in fiscal year 2011, a decrease of \$4,600,215.
- The Fund withdrew \$4,394,000 from investments during fiscal year 2011 to pay for benefits and administrative expenses during the same fiscal year and withdrew \$7,151,000 and \$2,813,000 for fiscal years 2010 and 2009, respectively.
- The Fund did not receive appropriations in fiscal years 2011 and 2010. The last National Government appropriation to the Fund was in fiscal year 2007 in the amount of \$400,000.

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, 2011, 2010 and 2009.

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, 2011, 2010 and 2009. 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>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Cash and cash equivalents	\$ 276,299	\$ 242,065	\$ 96,518
Time certificates of deposit with an uninsured bank	1,452,609	1,452,609	1,452,609
Investments	31,688,360	37,692,590	38,083,374
Other assets	<u>2,752,400</u>	<u>1,375,649</u>	<u>1,756,690</u>
	<u>\$ 36,169,668</u>	<u>\$ 40,762,913</u>	<u>\$ 41,389,191</u>
Liabilities and net assets:			
Liabilities	\$ 41,002	\$ 34,032	\$ 134,872
Net assets	<u>36,128,666</u>	<u>40,728,881</u>	<u>41,254,319</u>
	<u>\$ 36,169,668</u>	<u>\$ 40,762,913</u>	<u>\$ 41,389,191</u>

- Contributions receivable increased from \$1,305,218 in 2010 to \$2,694,514 in 2011 and decreased from \$1,693,398 in 2009 to \$1,305,218 in 2010.
- At September 30, 2011, 2010 and 2009, the Fund had \$57,886, \$70,431 and \$63,292, respectively, in furniture, fixtures and equipment, net of accumulated depreciation where applicable, including office equipment, furniture and vehicles, which represent a net decrease in 2011 of \$12,545 over 2010 and a net increase in 2010 of \$7,139 over 2009. See note 3 to the financial statements for more information on the Fund's furniture, fixtures and equipment.

Revenue and Expense Analysis

The Statements of Changes in Plan Net Assets summarize the Fund's financial activities that occurred during 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 2011, 2010 and 2009.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Additions:			
Contributions	\$ 5,156,060	\$ 4,953,471	\$ 5,045,213
Investment income	(1,564,230)	2,344,215	2,900,664
Other income	<u>23,865</u>	<u>17,336</u>	<u>5,091</u>
	<u>3,615,695</u>	<u>7,315,022</u>	<u>7,950,968</u>
Deductions:			
Benefit and refund payments	7,876,766	7,512,198	7,167,658
Administrative	<u>339,144</u>	<u>328,262</u>	<u>295,443</u>
	<u>8,215,910</u>	<u>7,840,460</u>	<u>7,463,101</u>
Net (decrease) increase	(4,600,215)	(525,438)	487,867
Net assets, beginning of year	<u>40,728,881</u>	<u>41,254,319</u>	<u>40,766,452</u>
Net assets, end of year	\$ <u>36,128,666</u>	\$ <u>40,728,881</u>	\$ <u>41,254,319</u>

- Contributions revenue increased from \$4,953,471 in 2010 to \$5,156,060 in 2011, an increase of \$202,589 and decreased from \$5,045,213 in 2009 to \$4,953,471 in 2010, a decrease of \$91,742.
- Investment portfolios depreciated in fair market value by \$3,996,150 and sustained a net loss of \$1,564,230 in 2011 compared to net earnings of \$2,344,215 and \$2,900,664 in 2010 and 2009, respectively.
- Benefits and refund payments increased from \$7,512,198 in 2010 to \$7,876,766 in 2011 and from \$7,167,658 in 2009 to \$7,512,198 in 2010, an increase of \$364,568 and \$344,540, respectively. The number of retirees and beneficiaries will continue to increase and benefits payments are expected to increase every year. The House of Delegates of the Seventh Congress (7th OEK) passed a proposed legislation (House Bill No. 8-171-14, HD4) abolishing service retirement (30 years of service), and earmarked money remittance and money transfer taxes to the Fund. This House Bill is currently in the Senate committee.
- Administrative expenses include \$12,545, \$4,214 and \$19,298 of depreciation expense of the Fund's fixed assets in fiscal years 2011, 2010, and 2009, respectively. Administrative expenses increased from \$328,262 in 2010 to \$339,144 in 2011 and from \$295,443 in 2009 to \$328,262 in 2010, an increase of \$10,882 and \$32,819, respectively.

The Olbiil Era Kelulau (OEK), House of Delegates has proposed a measure to convert part of the current "defined benefit" plan to a "defined contribution" plan. This measure has passed the House of Delegates and is now pending action by the Senate. As mentioned above, the House of Delegates of the 7th OEK has enacted a measure to abolish mandatory service retirement (30 years of service) and to levy a 4% tax against persons remitting or transferring money outside of ROP. The tax shall be collected by remittance companies and banks and shall be transmitted to the National Treasury and remitted to the Fund.

ECONOMIC OUTLOOK

At its current funding level, the Fund will become insolvent within fifteen years. During fiscal year 2011, the Fund withdrew \$4,394,000 from invested funds to supplement a shortfall in benefit disbursements and to pay for administrative expenses. At this level of drawdown of Fund assets, it is estimated that Fund assets will be insolvent in less than ten years. Fair market value of investment portfolios declined (depreciated) by \$3,996,150 eliminating investment earnings and creating an investment loss of \$1,564,230.

After the Federal Reserve Bank (FRB) announced they were likely to keep low rates at least through late 2014, the European Central Bank enacted a second round of the Long-Term Refinancing Operation. Global stocks had the best first quarter rally since 1998. Focus has shifted to the strengthening U.S. economy as personal spending and consumer confidence grew and employment numbers increased. Despite these positive signs of recovery, the U.S. economy still delivered a modest positive performance and remains in a fragile state. The FRB is suggesting another quantitative easing (QE3) to further stimulate economic recovery. The European financial crisis continues to cast financial uncertainty in the global stock market.

Our strategic asset allocation, asset diversification and portfolio construction is well positioned to capture opportunities in both an up or down market. 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 fiscal year 2011, modestly out performing their benchmarks. The first half of the 2012 market performance has surpassed all expectations and the last half of the year looks promising after the recent market correction.

At home, we continue the effort of reforming the program and hope the unfortunate turn of events of the Northern Mariana Islands Retirement Fund serves as a grim reminder for the leaders of the Pacific Islands of just how troubled their retirement funds are, and to begin to address the common issues afflicting these funds. Recently, the House of Delegates passed a measure to repeal the mandatory 30-year service retirement. The same measure also proposes a new source of revenue for the Fund by levying a new tax on persons remitting or transferring money outside of Palau. Such tax shall be collected by all remittance companies and banks and remitted to the National Treasury to be paid to the Fund. This proposed measure is now pending action by the Senate. The Board of Trustees and management of the Fund support this much awaited proposal but are well aware that this action may not be enough to rescue the Fund from eminent fiscal demise, and will continue the dialogue to lobby the leadership to step up their efforts to find a permanent solution for the Fund. The Board of Trustees and management of the Fund have, in the past and current OEK, submitted legislative proposals including a comprehensive fiscal reform proposal which includes required changes to the structure of the system and an amortization schedule of the Fund's Unfunded Accrued Liability.

We feel that the Fund plays a vital role in Palau's economy by injecting over \$650,000 every month 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.

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, 2010 is set forth in the report on the audit of the Fund's financial statements which is dated May 5, 2011. That Discussion and Analysis explains the major factors impacting the 2010 financial statements. If you have questions about the 2010 or 2009 reports, or need additional information, please contact the Administrator/Chief Executive Officer at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call 483-2523.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Statements of Plan Net Assets
September 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ <u>276,299</u>	\$ <u>242,065</u>
Investments, at fair value:		
Corporate stock	18,928,728	23,509,960
Corporate bonds	6,413,594	5,782,345
Obligations of U.S. Government and agencies	5,097,978	6,289,760
Money market funds	1,248,060	1,911,263
Fixed income	<u>-</u>	<u>199,262</u>
Total investments	<u>31,688,360</u>	<u>37,692,590</u>
Receivables:		
Employers' contributions, net	1,342,257	639,609
Members' contributions, net	1,342,257	639,609
Other receivables	<u>10,000</u>	<u>26,000</u>
Total receivables	<u>2,694,514</u>	<u>1,305,218</u>
Furniture, fixtures and equipment, net of accumulated depreciation	<u>57,886</u>	<u>70,431</u>
Time certificates of deposit with an uninsured bank	<u>1,452,609</u>	<u>1,452,609</u>
Total assets	<u>36,169,668</u>	<u>40,762,913</u>
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	<u>(41,002)</u>	<u>(34,032)</u>
Contingencies		
Net assets - held in trust for pension benefits (see Schedule of Funding Progress)	<u>\$ 36,128,666</u>	<u>\$ 40,728,881</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Additions:		
Employers' contributions	\$ 2,591,388	\$ 2,464,953
Members' contributions	<u>2,564,672</u>	<u>2,488,518</u>
	<u>5,156,060</u>	<u>4,953,471</u>
Investment income:		
Net (depreciation) appreciation in fair value of investments	(3,996,150)	214,382
Interest	2,213,727	2,034,512
Dividends	453,392	334,099
Investment expenses	<u>(235,199)</u>	<u>(238,778)</u>
Total investment income	<u>(1,564,230)</u>	<u>2,344,215</u>
Other income	<u>23,865</u>	<u>17,336</u>
Total additions	<u>3,615,695</u>	<u>7,315,022</u>
Deductions:		
Benefit and refund payments:		
Normal and early retirement	5,690,288	5,565,807
Survivors	1,655,827	1,491,918
Refunds to terminated employees	341,698	367,331
Lump sum death disbursement	128,383	23,666
Disability	<u>60,570</u>	<u>63,476</u>
Total benefits	7,876,766	7,512,198
Administrative expenses	<u>339,144</u>	<u>328,262</u>
Total deductions	<u>8,215,910</u>	<u>7,840,460</u>
Net decrease	(4,600,215)	(525,438)
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>40,728,881</u>	<u>41,254,319</u>
End of year	\$ <u>36,128,666</u>	\$ <u>40,728,881</u>

See accompanying notes to financial statements.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010, 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, 2009:

Members currently receiving benefits:	
Early retirement	60
Retired - 30 years of service	299
Retired - age 60	370
Retired - RPPL 5-7	7
Survivor	377
Disability	<u>24</u>
	1,137
Active employees - vested	2,855
Inactive employees - vested	<u>298</u>
Total participants	<u>4,290</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, 2011 and 2010

(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, 2011 and 2010

(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, 2011 and 2010

(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, 2011 and 2010.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2011 and 2010

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

Net (Depreciation) Appreciation in Fair Value of Investments

During the years ended September 30, 2011 and 2010, the Fund's investments (including investments bought, sold, as well as held during the years) (depreciated) appreciated in value as follows:

	<u>Net (Depreciation) Appreciation in Fair Value</u>	
	<u>2011</u>	<u>2010</u>
Investments at fair value as determined by quoted market price:		
Obligations of U.S. Government and agencies, corporate stocks and foreign stocks	\$ <u>(3,996,150)</u>	\$ <u>214,382</u>

Plan Administration

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

New Accounting Standards

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

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

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

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

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2011 and 2010

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

New Accounting Standards, Continued

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.

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

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

In July 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of the Fund.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010 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, 2009.

Concentrations of Credit Risk

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

At September 30, 2011 and 2010, the Fund has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The Fund has not experienced any losses 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, 2011 and 2010

(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, 2011 and 2010, total cash and cash equivalents were maintained in a Federal Deposit Insurance Corporation (FDIC) insured bank and amounted to \$276,299 and \$242,065, respectively, with corresponding bank balances of \$281,518 and \$274,007, 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, 2011 and 2010 with corresponding bank balances of \$1,464,047 and \$1,462,047, respectively. 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, 2011 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, 2011 and 2010

(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, 2011 and 2010

(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, 2011 and 2010

(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, 2011 and 2010.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The following is a listing of the Fund's fixed income securities at September 30, 2011 and 2010:

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2011 and 2010

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

Investments, Continued

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>	

Investment Type	Fair Value	2010				Rating
		Investment Maturities (In Years)				
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 4,298,418	\$ -	\$ 28,285	\$ 205,153	\$ 4,064,980	AAA
Government bonds	1,991,342	-	945,302	422,427	623,613	AAA
Municipal bonds	199,262	-	-	-	199,262	AA
Corporate bonds	495,379	-	156,504	-	338,875	AAA
Corporate bonds	218,397	-	-	-	218,397	AA
Corporate bonds	228,430	-	-	228,430	-	AA-
Corporate bonds	479,763	-	282,834	196,929	-	AA+
Corporate bonds	1,112,828	-	114,535	545,333	452,960	A+
Corporate bonds	1,264,383	-	614,972	542,333	107,078	A
Corporate bonds	833,894	-	-	408,235	425,659	A-
Corporate bonds	634,840	-	354,272	280,568	-	BBB+
Corporate bonds	291,635	-	209,362	82,273	-	BBB
Corporate bonds	222,796	-	222,796	-	-	BBB-
	<u>\$ 12,271,367</u>	<u>\$ -</u>	<u>\$ 2,928,862</u>	<u>\$ 2,911,681</u>	<u>\$ 6,430,824</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.

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 \$12,545 and \$4,214 in 2011 and 2010, respectively.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2009, 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)
\$ 41,254,319	\$ 105,507,385	\$ 64,253,066	39.10%	\$ 33,027,394	194.5%

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, 2011 and 2010

(2) Funding Status and Funding Progress, Continued

Additional information as of the latest actuarial valuation follows:

Valuation Date:	October 1, 2009
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:	8.5% per year
Projected salary increases:	3% per annum
COLAS:	0%

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

(3) Furniture, Fixtures and Equipment

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

	Estimated Useful Lives	Balance at October 1, 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>
	Estimated Useful Lives	Balance at October 1, 2009	Additions	Deletions	Balance at September 30, 2010
Office equipment and furniture	3 - 10 years	\$ 109,937	\$ 11,353	\$ -	\$ 121,290
Vehicles	6 years	<u>33,149</u>	<u>-</u>	<u>-</u>	<u>33,149</u>
		143,086	11,353	-	154,439
Less accumulated depreciation		<u>(79,794)</u>	<u>(4,214)</u>	<u>-</u>	<u>(84,008)</u>
		\$ <u>63,292</u>	\$ <u>7,139</u>	\$ <u>-</u>	\$ <u>70,431</u>

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2011 and 2010

(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 \$16,084 and \$53,695 from PCC employees during the years ended September 30, 2011 and 2010, 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, 2011 and 2010, 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 \$42,782 and \$52,289 from PCC for employer contributions during the years ended September 30, 2011 and 2010, respectively.

(5) Administrative Expenses

A summary of the administrative expenses for the years ended September 30, 2011 and 2010, is set forth below:

	<u>2011</u>	<u>2010</u>
Personnel	\$ 174,698	\$ 159,189
Conference expenses	61,855	52,026
Staff training	28,943	33,403
Professional fees	13,491	38,753
Depreciation	12,545	4,214
Rent and utilities	9,178	8,348
Communications	5,736	5,767
Board compensation	1,600	2,750
Miscellaneous	<u>31,098</u>	<u>23,812</u>
	\$ <u>339,144</u>	\$ <u>328,262</u>

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements
September 30, 2011 and 2010

(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, 2011 and 2010. The uninsured bank went into receivership on November 7, 2006. It is uncertain if the Fund will realize the abovementioned deposits.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Funding Progress
September 30, 2011

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
10/01/05	\$ 41,965,000	\$ 83,169,000	\$ 41,204,000	50.46%	\$ 32,706,000	126.0%
10/01/06	Actuarial valuations are performed biennially.					
10/01/07	\$ 48,358,000	\$ 107,579,000	\$ 59,221,000	44.95%	\$ 34,763,000	170.4%
10/01/08	Actuarial valuations are performed biennially.					
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.					

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, 2011

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
2006	\$ 10,181,000	\$ 2,312,491 *	22.7%
2007	Actuarial valuations are performed biennially.		
2008	\$ 12,554,000	\$ 4,531,994	36.1%
2009	Actuarial valuations are performed biennially.		
2010	\$ 8,798,000	\$ 2,357,864	26.8%
2011	Actuarial valuations are performed biennially.		

* Required employer contribution was determined to be \$8,218,640.

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, 2011

(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, 2009). 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, 2009.

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, 2009), 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, 2009
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:	8.5% per year
Salary Increase:	3% per annum
Withdrawal Rates:	5% up to age 40, 0% thereafter
Disability Rates:	Based on 2007 U.S. Social Security Trustees Report Intermediate Assumptions.
Mortality Rates:	Non - disabled lives - Based on the 1984 Unisex Pension 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, 2011

(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, 2011

	2011			
	Face Value	Cost	Fair Value	
<u>Money Market Funds</u>				
Western Assets US Money Market Fund a Dist (D)	\$ 291,873	\$ 291,873	\$ 291,873	
Western Assets US Money Market Fund a Dist (D)	194,838	194,838	194,838	
Western Assets US Money Market Fund a Dist (D)	173,870	173,870	173,870	
Western Assets US Money Market Fund a Dist (D)	133,330	133,330	133,330	
Western Assets US Money Market Fund a Dist (D)	40,903	40,903	40,903	
Western Assets US Money Market Fund a Dist (D)	65,502	65,502	65,502	
Western Assets US Money Market Fund a Dist (D)	89,497	89,497	89,497	
Western Assets US Money Market Fund a Dist (D)	66,756	66,756	66,756	
	1,056,569	1,056,569	1,056,569	
Unsettled purchases	16,501	16,501	16,501	
Accruals	142,632	142,632	142,632	
Exchange traded and closed end funds	10,214	10,214	10,214	
Cash balance	22,144	22,144	22,144	
	<u>\$ 1,248,060</u>	<u>\$ 1,248,060</u>	<u>\$ 1,248,060</u>	
	2011			
	Face Value	Cost	Fair Value	
<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	\$ 28,039	\$ 30,472	AAA
FNMA PL # 896870 @ 5.5%, due 01/22/2022	3,250,000	760,791	745,098	AAA
FNMA PL # 889887 @ 5.5%, due 09/01/2023	1,730,000	673,323	667,861	AAA
FNMA PL # 988457 @ 5.5%, due 10/01/2023	630,000	283,545	282,096	AAA
FNMA PL # 994808 @ 5.5%, due 11/01/2023	840,000	263,395	261,314	AAA
FNMA PL # 257502 @ 5.5%, due 12/01/2023	960,000	338,003	333,831	AAA
FNMA PL # 995517 @ 5.5%, due 01/01/2024	2,410,000	847,873	834,670	AAA
FNMA PL # 923129 @ 5.5%, due 08/01/2034	1,000,000	203,485	255,518	AAA
FNMA PL # 735502 @ 6.0%, due 04/01/2035	158,000	34,053	36,503	AAA
FNMA PL # 745089 @ 6.0%, due 12/01/2035	120,000	33,381	36,600	AAA
FNMA PL # 867452 @ 6.5%, due 06/01/2036	107,000	41,974	43,314	AAA
FNMA PL # 882694 @ 6.5%, due 06/01/2036	65,000	26,019	26,938	AAA
FNMA PL # 897447 @ 6.0%, due 10/01/2036	487,076	203,885	204,550	AAA
FNMA PL # 903749 @ 6.0%, due 10/01/2036	80,000	20,315	21,883	AAA
FNMA PL # A55326 @ 6.0%, due 10/01/2036	275,000	99,543	104,427	AAA
FHLMC PL # 1G1406 @ 5.829%, due 12/01/2036	275,000	79,944	80,392	AAA
FHLMC PL # H00452 @ 5.5%, due 01/01/2037	138,000	52,626	58,987	AAA
FHLMC PL # A60299 @ 6.5%, due 05/01/2037	297,000	124,174	131,352	AAA
FNMA PL # 938171 @ 6.5%, due 07/01/2037	400,000	163,800	176,467	AAA
	<u>13,329,076</u>	<u>4,278,168</u>	<u>4,332,273</u>	
<u>Governmental Bonds</u>				
US Treasury Bonds @ 5.0%, due 5/15/2037	550,000	591,938	765,705	AAA
	<u>\$ 13,879,076</u>	<u>\$ 4,870,106</u>	<u>\$ 5,097,978</u>	
<u>Corporate Bonds</u>				
Citigroup Inc Sub Notes @ 5.5%, due 2/15/2017	\$ 585,000	\$ 593,418	\$ 582,332	A-
Merrill Lynch & Co. @ 5.7%, due 05/02/2017	220,000	220,851	196,233	A-
UBS AG Stamford CT @ 5.875%, due 12/20/2017	560,000	610,529	569,386	A+
Goldman Sachs Group Inc @ 7.5%, due 2/15/2019	525,000	607,184	585,858	A
MetLife Inc @ 7.717%, due 2/15/2019	480,000	578,635	588,365	A-
JP Morgan Chase & Co @ 6.3%, due 04/23/2019	500,000	559,687	565,665	A+
Morgan Stanley @ 7.3%, due 05/13/2019	525,000	578,379	541,028	A
AFLAC Inc @ 8.5%, due 05/15/2019	465,000	569,367	566,021	A-
Allstate Corp Book/Entry @ 7.45%, due 05/16/2019	475,000	570,050	580,645	A-
American Express @ 8.125% due 05/20/2019	310,000	383,476	391,254	BBB+
Bank of America Corp @ 7.625%, due 06/01/2019	550,000	652,145	577,731	A
General Electric Cap Corp @ 6.0%, due 08/07/2019	520,000	569,462	585,333	A+
New Valley Generation @ 4.687%, due 01/15/2022	100,000	73,890	83,743	A+
	<u>\$ 5,815,000</u>	<u>\$ 6,567,073</u>	<u>\$ 6,413,594</u>	

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2011

	2011		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock</u>			
Allergan Inc	1,000	\$ 80,895	\$ 82,380
Amazon Com Inc	1,000	175,576	216,230
American Express Co	1,900	94,461	85,310
American Tower Corp-Class A	1,200	59,847	64,560
Apache Corp	300	38,346	24,072
Apple Inc	600	59,543	228,792
Baidu Inc Spon ADR RP Tng Ord Shs Cl A	400	57,620	42,764
Boeing Co	700	52,702	42,357
CVS Caremark Corp	3,100	114,026	104,129
Capital One Finl Corp	1,600	73,873	63,408
Citigroup Ince	1,270	61,126	32,531
Coach Inc	400	20,882	20,732
Walt Disney Co	1,800	66,718	54,288
DirectTV CL A	3,200	111,292	135,264
E I Du Pont De Nemours & Co	1,000	44,091	39,970
EMC Corp-Mass	1,900	53,066	39,881
ENSCO PLC ADR	500	22,832	20,215
Express Scripts Inc. Common	2,200	106,191	81,554
Exxon Mobil Corp	1,800	154,308	130,734
Google Ince Class A	382	201,790	196,745
Halliburton Co Holdings Co	2,300	107,296	70,196
Intel Corp	1,900	43,398	40,537
Intl Business Machines Corp	1,314	174,071	229,779
JP Morgan Chase & Co	2,900	127,881	87,348
Johnson & Johnson	1,900	126,194	121,011
Kraft Foods Inc Class A	1,200	40,858	40,296
Mastercard Inc	249	86,794	78,973
Mc Donalds Corp	900	73,396	79,038
MetLife Inc	3,300	138,520	92,433
Microsoft Corp	5,300	142,623	131,917
News Corp Class A New	7,000	114,855	108,360
Oracle Corp	3,900	93,635	112,086
Pfizer Inc	2,400	47,908	42,432
Philip Morris Intl Inc	600	41,837	37,428
Precision Castparts Corp	500	56,024	77,730
Proctor & Gamble Co	700	46,854	44,226
Qual Comm Inc	1,300	69,308	63,219
Schlumberger Ltd	1,900	128,256	113,487
Union Pacific Corp	1,000	60,377	81,670
United Parcel Service CL B	700	48,211	44,205
United Technologies Corp	1,900	113,350	133,684
United Health Group Inc	1,900	94,632	87,628
Viacom Inc New Class B	1,400	71,071	54,236
Well Point Inc	1,400	96,455	91,392
Axis Captial Holdings Lts-USD	2,014	72,673	52,243
UBS AG (New)	5,222	84,763	59,687
Allianz Se ADR	6,996	80,864	65,343
Alstom-EUR	11,850	52,126	37,565
Alumina Ltd Sponsored ADR	8,472	73,120	47,867
AngloGold Ashanti Ltd ADR	3,009	144,504	124,452
Astrazeneca PLC Spon ADR	2,799	144,220	124,164
Barrick Gold Corp CAD	3,393	171,402	158,283
Cameco Corp	6,652	224,765	121,865
Carrefour SA-SP ADR	14,049	117,028	62,097
Centrais Eletricas Brasileiras Spon ADR	6,564	86,818	57,566
Daiichi Sankyo Kabushiki Kaish-JPY	2,970	56,310	61,063
Dai Nippon PRTG Ltd Japan Spons ADR	14,639	196,184	149,025
East Japan Ry CO-JPY	5,088	59,098	50,829
Electricite De France-EUR	10,545	86,455	60,528
Finmeccanica Spa-EUR	32,394	151,221	109,492
Fuji Film Hldgs Corp-JPY	3,247	115,754	75,071
Gazprom Oao Spons ADR	9,693	109,565	92,568
Glaxosmithkline Plc SP ADR	3,185	124,585	131,509
Gold Fields Ltd Spons ADR	7,482	129,603	114,624
Hachijuni Bank Ltd -Jpy ADR	1,043	59,086	63,227
Home Retail Group	6,355	69,428	43,913
Kinross Gold Corp-CAD (New)	7,414	133,664	109,579

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2011

	2011		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
Korea Elec Pwr Corp Sp ADR	6,510	86,630	55,335
MS & AD Insuran Unspn ADR	12,285	149,868	132,432
Marine Harvest Unspn ADR	4,539	49,362	38,763
Newcrest Mining Ltd Spon ADR	2,887	116,924	94,867
Nexen Inc	6,181	128,941	95,744
Nintendo Co Ltd ADR New	4,124	128,787	74,851
Nippon Tel & Tel Spon ADR	8,021	180,741	192,103
Nokia Corp Sponsored ADR	16,133	151,482	91,313
Panasonic Corp ADR	6,992	94,932	66,564
PT Telekomunikasi Indonesia Spons ADR	1,755	59,201	58,038
Polyus Gold International Ltd GDR	14,828	55,083	45,967
Rohm Co Ltd-JPY	2,658	86,890	68,789
Royal Dutch Shell Plc ADR CL B	1,572	103,851	97,543
SK Telecom Ltd Spon ADR	9,805	183,208	137,956
Sanofi Spons ADR	4,495	144,495	147,436
Sekisui House Unspn ADR	8,612	86,882	80,264
Seven & IHldgs Co Ltd-JPY	1,803	95,469	100,607
Shiseido Ltd Sponsored ADR	6,625	138,122	127,001
Siemens A G Spons ADR	749	88,454	67,253
Societe Generale Spon ADR	4,317	46,926	22,578
Statoil Hydro Asa Spons ADR	1,982	46,231	42,712
Sumitomo Mitsu TR Spon ADR	19,317	67,607	63,553
Swisscom AG Spons ADR	2,415	105,487	97,928
TNT Express NV ADR	9,639	90,628	65,545
Telecom Italia S.P.A ADR (New) Repstg Svg Shs	12,666	137,455	122,860
Toyota Motor Corp ADR New	943	73,486	64,369
Vodafone Group PLC Spons ADR new	4,901	107,277	125,760
Wacoal Corp ADR	1,290	89,909	81,270
Wolters Kluwer NV Sp ADR	5,264	115,124	85,066
Nabors Industries Ltd-USD New	4,671	107,463	57,266
Seagate Technology Plc	4,818	67,027	49,505
AGCO Corp	859	36,115	29,696
Actuant Corp Class A	1,231	30,040	24,312
Airgas Inc.	1,116	71,611	71,223
Alere Inc	1,784	52,044	35,056
Allegheny Technologies Inc	1,167	67,486	43,167
Allscripts Healthcare Solutions Inc	3,146	62,966	56,691
Avis Budget Group Inc	3,656	50,506	35,354
Bally Technologies Inc	1,720	58,096	46,406
Bank United Inc	1,992	55,527	41,354
Brocade Communications Systems Inc - New	18,189	94,296	78,576
Carefusion Corp	3,208	79,691	76,832
Cinemark Holdings Inc	2,555	50,855	48,238
Comerica Inc	3,080	99,404	70,748
Comstock Res Inc New	2,231	63,938	34,491
Constellation Brands Inc CL A	2,483	40,784	44,694
Davita Inc	572	41,117	35,847
Diamondrock Hospitality Co	5,800	54,748	40,542
Digital River Inc	2,533	75,794	52,509
Dolby Laboratories Inc Class A	1,024	41,312	28,099
Exco Resources Inc-New	3,826	61,117	41,015
Energys	2,004	55,023	40,120
Esterline Technologies Corp	550	40,156	28,512
Gaylord Entertainment Co New	1,787	51,204	34,561
Hancock Holdings Inc	2,571	81,472	68,929
Harsco Corp	1,271	39,910	24,645
Hologic Inc	6,602	108,309	100,416
Icon PLC Sponsored ADR	3,410	73,274	54,833
Interpublic Group of Cos Inc	4,102	32,900	29,534
Kansas City Southern Inds New	929	25,794	46,413
Leap Wireless International Inc New	3,060	34,113	21,145
Lear Corp	1,494	72,171	64,093
Legg Mason Inc	1,825	61,600	46,921
Lincoln National Corp-IND-	2,224	52,820	34,761
Manitowoc Co Inc	4,451	70,130	29,866
Masco Corp De	3,043	34,579	21,666
Monster Worldwide Inc	4,265	57,435	30,623

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2011

	2011		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
Myriad Genetics Inc	3,476	67,892	65,140
NII Hldgs Inc Class B new	2,495	74,050	67,240
Navistar Intl Corp New	1,124	54,886	36,103
Nisource Inc	1,079	23,365	23,069
Owens Illinois Inc New	3,013	81,554	45,557
PMC Sierra Inc	8,187	57,230	48,958
Patterson Uti Energy Inc	1,293	38,838	22,421
Penn National Gaming Inc	1,948	71,470	64,849
Pharmaceutical Product Dev Inc	1,788	46,028	45,880
Pinnacle Entmt Inc	1,618	19,789	14,691
RF Micro Devices Inc	6,713	41,278	42,560
Regal-Beloit Corp	942	62,399	42,748
SBA Communications Corp	2,218	68,215	76,477
SL Green Realty Corp	970	67,216	56,406
Sealed Airp Corp-New	2,780	56,245	46,426
Spirit Aerosystems Hldgs Inc Class A	3,904	84,925	62,269
Titanium Metals Corp (New)	1,494	25,888	22,380
Trinity Industries Inc.	1,753	44,983	37,532
Triquint Semiconductor Inc	9,836	64,391	49,377
Valueclick Inc.	2,630	32,374	40,923
Varian Medical Systems Inc	1,216	63,853	63,427
Visteon Corp	1,397	89,795	60,071
Warnaco Group Inc	667	34,257	30,742
Zions Ban Corp	2,661	55,376	37,467
Credicorp Ltd -UDS	186	19,486	17,149
Cosan Ltd Cl A-BRL	2,636	34,314	24,963
America Movil S.A.B De CV Ser L Spons ADR	1,640	41,222	36,211
Anhui Conch Cement H Unspn ADR	1,565	33,265	21,096
Antofagasta PLC-ADR	558	24,145	15,964
Baidu Inc Spon ADR Rptng Ord.Shs Cl A	286	38,202	30,576
Banco Bradesco Spon sADR (New)	1,877	36,879	27,761
Cnooc Ltd Spons ADR	262	46,130	41,999
China Constr Bk Corp -CNY	4,622	83,333	55,002
China Shenhua Energy Co Ltd-CNY	515	22,804	20,111
Ctrip.com International Ltd-CNY	1,334	56,664	42,895
Gafisa S A Spon ADR-USD	4,558	62,069	26,300
Gazprom Oao Spons ADR	3,374	38,346	32,222
Gerdau Sa Spon sADR	2,953	40,252	21,055
HDFC Bank Ltd ADR	1,187	37,998	34,601
Icici Bank Ltd-Spon ADR INR	215	11,032	7,465
Industrial & Coml Bk China-CNY Spons ADR	2,094	30,572	20,102
Infosys Ltd Sponsored ADR	906	55,364	46,269
Itau Unibanco Banco Hldg S A ADR	4,788	100,386	74,310
Jiangxi Copper Co Ltd Sponsored ADR	320	38,501	22,096
KB Financial Group Inc ADR	1,301	55,727	42,621
Las Vegas Sands Corp	1,250	42,526	47,925
McDermott International Inc	1,166	15,669	12,546
Mechel OAO Spons ADR	1,453	34,621	14,806
Mobile Telesystems OJSC Spon ADR	3,580	70,772	44,034
Mtn Group Ltd Sponsored ADR	860	16,024	14,104
Naspers Ltd Spon ADR	709	30,963	30,522
Lukoil Oil Spons ADR	753	45,088	37,793
Posco Spon ADR	465	53,126	35,345
United Tractors Unspn ADR	531	26,173	25,164
Pacific Rubiales Energy Corp New	1,161	28,046	24,733
Petroleo Brasileiro Sa ADR	1,389	51,133	28,780
Petroleo Brasileiro Sa Petrobras	1,195	49,247	26,828
ADR Sakari Resources Limited	459	21,426	14,091
Sberbank Sponsored ADR	2,008	24,445	17,269
Shinhan Financial Grp Co Ltd ADR	734	57,359	50,235
Silver Standard Resources Inc -CAD	1,154	31,715	21,176
Taiwan Semiconductor Mfg Co Ltd ADR	3,211	34,015	36,702
Tencent Hldgs Ltd-HKD	1,420	35,410	29,493
Turkiye Garanti Bankasi A S Sponsored ADR	4,738	24,411	18,526
Vale S A Spon ADR	3,622	105,957	82,582
Woori Fin Hldgs Co Ltd -ADR	523	20,788	13,253
Yanzhou Coal Mining Co Ltd Spons ADR Repstg H Shs	1,634	40,391	34,477

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2011

	2011		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
AK Bank Turk Anonim Sirketi -ADR	2,996	32,920	22,919
America Mobil S.A.B De CV Ser L Son sADR	2,011	60,789	44,403
Banco Do Brasil Sa	3,407	63,006	44,189
Banco Macro S.A Spons ADR Repstg Cl B	1,238	53,777	24,772
Bidvest Group Ltd Spon ADR	977	45,183	35,866
China Constr Bk Corp-CNY	1,867	33,859	22,217
Cielo Sa Spon ADR	2,281	45,842	50,638
Clicks Group Limited	1,476	37,642	27,026
Commercial Intl Bk ADR	7,693	58,501	28,772
Companhia Siderurgica Nacional Sponsored ADR	3,432	53,832	27,250
Companhia Energetica De Minas SP ADR	3,189	50,823	47,325
Companhia De Bebidas Das Amers Spons ADR	1,209	34,584	37,056
Desarrolladora Homex S.A De C.V ADR -UDS	869	27,631	11,732
Gazprom Oao Spons ADR	2,864	32,801	27,351
Grupo Televisa Sa De CV Spon ADR	1,485	38,111	27,309
Infosys Ltd Sponsored ADR	549	40,947	28,037
KB Financial Group Inc ADR	860	32,620	28,174
Kimberly Clarke De Mex Sa Spon ADR -USD	1,270	38,707	32,703
KOC Holding AS Unspons ADR	1,667	37,893	30,773
Kumba Iron Ore-Spon ADR	183	11,632	9,534
Massmart Holdings Ltd ADR	185	8,022	6,329
Mobile Telesystems OJSC Spon ADR	2,619	52,854	32,214
Ned Bank Group Ltd Sponsored ADR	1,942	37,375	32,373
Netease.com Inc ADR	560	20,719	21,370
Lukoil Oil Spons ADR	574	32,183	28,809
Orascom Constr Inds S a E Sponsored ADR	840	38,089	28,594
Oriflame Cosmetics Unspn ADR	2,048	52,852	37,171
PTT Exploration and Production-THB Spons ADR	1,902	21,944	17,004
Semen Gresik Unspn ADR	650	33,124	29,263
PT Perusahaan Gas Negara Perse-IDR	1,513	35,403	22,044
United Tractors Unspn ADR	445	22,991	21,089
Bank Mandiri TBK Unspn ADR	1,971	14,304	13,698
PT Telekomunikasi Indonesia Spons ADR	1,508	52,339	49,870
Phillippine Long Distance Tel Co Spons ADR -USD	983	56,531	48,688
Pretoria Portland Unspn ADR	2,970	29,176	16,781
Sanlam Ltd Spon ADR	1,353	27,918	22,379
Sber Bank Sponsored Adr	2,969	40,041	25,533
Shinhan Financial Grp Co Ltd Adr	562	52,178	38,463
Shoprite Holdings Unspn ADR	1,308	38,426	36,362
Standard BankGroup ADR	1,123	35,589	25,582
Taiwan Semiconductor Mfg Co Ltd Adr	3,115	38,609	35,604
Tiger Brands Ltd Sponsored ADR new	1,359	38,014	34,926
Turkcell Iletis Hizmet ADR	3,422	58,130	38,600
Vale Sa S[on ADR Repstg 1 Class A Pfd	2,349	69,457	49,329
Weichai Power Co Unspn ADR	1,757	45,364	31,468
YPF Asa Spon ADR	895	40,151	30,618
Ingersoll-Rand Public Ltd Co	1,049	49,246	29,466
Amgen Inc	2,227	124,622	122,396
Anglogold Ashanti Ltd ADR	2,804	133,194	115,973
Aon Corp	1,593	73,045	66,874
Apache Corp	1,147	133,525	92,035
Barrick Gold Corp Cad	2,085	107,329	97,265
CVS Caremark Corp	1,635	55,032	54,920
CA Inc	6,483	159,739	125,835
Canadian Natural Res Ltd	1,881	82,227	55,057
Cisco Sys Inc	4,461	74,094	69,146
Citigroup Inc	3,078	131,833	78,843
General Motors Company	1,875	65,712	37,838
Genworth Finl Inc Class A	9,446	104,464	54,220
Goldman Sachs Group Inc	577	88,182	54,555
Halliburton Holdings Co	702	27,861	21,425
Hartford Finl Svcs Group Inc	3,804	86,593	61,397
Hess Corp	654	49,255	34,309
JP Morgan Chase & Co	1,413	60,101	42,560
Lincoln National Corp -IND	1,600	45,213	25,008
Loews Corp	1,869	73,270	64,574
Merck & Co Inc New	1,358	49,235	44,407

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2011

	2011		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
MetLife Inc	2,913	125,177	81,593
Microsoft Corp	2,416	67,733	60,134
Motorola Solutions Inc	2,057	74,970	86,188
Nrg Energy Inc New	1,581	30,295	33,533
Noble Energy Inc	682	57,893	48,286
Occidental Petroleum Corp -Del	453	44,054	32,389
Paccar Inc -Del	1,140	40,421	38,555
Pfizer Inc	6,516	114,563	115,203
Philip Morris Intl Inc	757	44,395	47,222
Pitney Bowes Inc	1,396	34,300	26,245
Raytheon Company New	1,203	54,221	49,167
Sanofi Spons ADR	2,884	92,669	94,595
Talisman Energy Inc	4,112	84,873	50,454
Teva Pharmaceutical Inc Inds Ltd ADR	1,534	68,865	57,095
Time Warner Inc	2,033	65,843	60,929
Union Pacific Corp	535	49,342	43,693
Unum Group	3,055	74,900	64,033
Viacom Inc New Class B	2,719	107,235	105,334
Wells Fargo & Co New	2,834	87,992	68,356
Abercrombie & Fitch Co Class A	506	33,168	31,149
Altera Corp	396	16,637	12,486
Amazon.com Inc	370	68,004	80,005
American Tower Corp-Class A	1,107	56,920	59,557
Apple Inc	341	110,883	130,030
Baidu Inc Spon ADR Rptng Ord Shs Cl A	369	37,340	39,450
Borgwarner Inc	560	39,779	33,897
C.H. Robinson Worldwide Inc	390	31,206	26,703
CME Group Inc Class A	110	35,511	27,104
Celgene Corp	442	28,142	27,364
Cerner Corp	512	24,489	35,082
Citrix Systems Inc	663	45,343	36,153
Cliffs Natural Resources	410	33,150	20,980
Cognizant Tech Solutions Cl A	1,239	91,290	77,685
Concho Resources Inc	542	54,249	38,558
Costco Wholesale Corp New	360	26,171	29,567
Ctrip.com International Ltd-CNY	906	34,614	29,132
Danaher Corp De	1,882	88,405	78,931
Deere & Co	640	53,360	41,325
EMC Corp-Mass	3,040	69,794	63,809
Ecolab Inc	811	40,781	39,650
Edwards Lifesciences Corp	582	45,569	41,485
Express Scripts Inc.Common	698	37,693	25,875
FMC Technologies Inc	1,579	69,951	59,370
Fluor Corp New	750	49,696	34,912
Franklin Resources Inc	426	47,037	40,743
General Mills Inc	729	28,795	28,059
Goodrich Corp	271	23,587	32,704
Google Inc Class A	158	92,163	81,376
Green Mountain Coffee Roaster Inc	348	13,375	32,343
Illinois Tool Works Inc	619	33,164	25,750
Intercontinental Exchange Inc	322	38,312	38,080
Intuitive Surgical Inc	62	18,062	22,585
Intui Inc	638	31,278	30,267
JP Morgan Chase & Co	787	33,201	23,704
Las Vegas Sands Corp	1,220	55,615	46,775
Estee Lauder Cos Inc Cl A	318	26,522	27,933
Monsanto Co New	896	63,382	53,796
Netapp Inc	704	37,471	23,887
O Reilly Automotive Inc	510	30,990	33,981
Occidental Petroleum Corp -Del	641	62,980	45,831
Oracle Corp	2,477	77,842	71,189
Peabody Energy Corp	589	27,534	19,955
Perrigo Company	309	26,409	30,007
Priceline.Com Inc (New)	124	54,208	55,733
Qualcomm Inc	1,660	83,090	80,726
Ralph Lauren Corp Cl A	296	38,047	38,391
Range Resources Corp	218	13,940	12,744

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities, Continued
September 30, 2011

	2011		
	Number of Shares	Cost	Fair Value
<u>Corporate Stock, Continued</u>			
Salesforce.com Inc	340	44,824	38,855
Schlumberger Ltd	959	80,014	57,281
Scripps Network Interactive	366	18,343	13,604
Shire PLC ADR	421	30,284	39,544
Starbucks Corp	995	37,906	37,103
TD Ameritrade Holding Corp	1,420	26,710	20,881
Union Pacific Corp	1,016	92,509	82,977
United Technologies Corp	710	55,897	49,955
United Health Group Inc	1,780	87,396	82,093
Varian Medical Systems Inc	525	36,427	27,384
Verisign Inc	1,019	34,609	29,153
Visa Inc Com Cl A	975	72,334	83,577
Yum Brands Inc	555	27,320	27,411
	<u>\$ 903,755</u>	<u>\$ 22,430,915</u>	<u>\$ 18,928,728</u>

See Accompanying Independent Auditors' Report.