

*Financial Statements and Required Supplementary
Information*

**Republic of Palau Civil Service Pension
Plan and Trust**

(A Component Unit of the Republic of Palau)

*Years ended September 30, 2021 and 2020
with Report of Independent Auditors*



Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Financial Statements and Required Supplementary Information

Years ended September 30, 2021 and 2020

Table of Contents

Report of Independent Auditors.....	1
Management’s Discussion & Analysis	3
Audited Financial Statements:	
Statements of Fiduciary Net Position	8
Statements of Changes in Fiduciary Net Position.....	9
Notes to Financial Statements.....	10
Required Supplementary Information:	
Schedule of Changes in Net Pension Liability and Related Ratios.....	36
Schedule of Contributions.....	37
Notes to Required Supplementary Information	38
Report on Internal Control and Compliance	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40
Schedule of Finding and Response	42



Ernst & Young (CNMI), Inc.
Island Mart Building
2nd Floor, Iyebukl
P.O. Box 1016
Koror, Palau 96940

Tel: 680 488 2705
Fax: 680 488 3391
ey.com

Report of Independent Auditors

The Board of Trustees
Republic of Palau Civil Service Pension Plan and Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the Republic of Palau Civil Service Pension Plan and Trust (the Fund), a component unit of the Republic of Palau, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund at September 30, 2021, and the changes in its fiduciary net position for the year then ended in conformity with U.S. generally accepted accounting principles.

Report of Other Auditors on 2020 Financial Statements

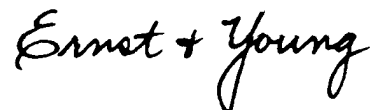
The financial statements of the Fund for the year ended September 30, 2020, were audited by other auditors who expressed an unmodified opinion on those statements on July 25, 2022.

Other Matters

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 through 7 as well as the Schedule of Changes in Net Pension Liability and Related Ratios on page 36, Schedule of Contributions on page 37 and the Notes to Required Supplementary Information on pages 38 and 39 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2024 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 solely 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 effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script font.

May 13, 2024



Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis

REPUBLIC OF PALAU
CIVIL SERVICE PENSION PLAN

Board of Trustees

Siegfried Nakamura
Chairman

Elicita N. Morei
Vice Chairperson

Presley Etibek
Secretary

Members

Felix Okabe
William Ngiraikelau
Jubilee K. Kuarteri
Temmy L. Shmull

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, 2021, with selected comparative information for the fiscal years ended September 30, 2020 and 2019.

Introductory Section

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

Accounting Methods and Policies

The accounting policies of the Fund conform to accounting principles generally accepted in the United States of America as applicable to governmental agencies, specifically state and local governmental pension plans. The Fund accounts for fiduciary net position and reporting fiduciary net position in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which were adopted during fiscal years ended September 30, 2014 and 2015, respectively. Financial statements are prepared on the accrual basis of accounting. This method records revenues when earned and expenses when liabilities are incurred.

Financial Highlights

- The *net pension liability* increased from \$308,480,463 as of September 30, 2020 to \$344,384,167 as of September 30, 2021, an increase of \$35,903,704 or 11.64%. The Board of Trustees and management of the Fund are working in collaboration with the Olbiil Era Kelulau and the Ministry of Finance to determine, based on the recommendations from the actuarial study commissioned by law in fiscal year 2018, the best solution to correct the current funding deficiency. The recommendations include the possibility of increasing the retirement age, the enrollment of the private sector or an increase in current government funding to at least \$5 million annually if there will be no changes to the current plan. House Bill No. 10-126-13 is currently under deliberation.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis, continued

Plan Year Ended September 30, 2021

Financial Highlights, continued

- The Fund has time certificates of deposit of \$1,830,801 and \$1,854,801 in Pacific Savings Bank (PSB) at September 30, 2021 and 2020, respectively. The Estate of Johnny Reklai and the Board of Trustees have signed a Settlement Agreement where the Estate will transfer possession, custody and control of the 1,500 shares of common stock of Western Caroline Trading Company to the Fund that were pledged as collateral in the event PSB defaults on the payment. Dividends collected were \$24,000 in fiscal years 2021 and 2020. The Fund recorded a recovery of \$2,000,000 for the year ended September 30, 2016 and continues to pursue legal action against the PSB Receiver, Trustee of the PSB creditors.
- The Fund's investment portfolio increased in value from \$29,165,499 in fiscal year 2020 to \$31,425,570 in fiscal year 2021. Fiduciary net position increased from \$31,666,644 in fiscal year 2020 to \$35,668,671 in fiscal year 2021, an increase of \$4,002,027.
- The Fund withdrew \$1,600,000, \$-0- and \$1,671,000 from investments during fiscal years 2021, 2020 and 2019, respectively, to pay for benefits and administrative expenses during the same periods.
- The Fund received \$435,515 and \$477,679 in fiscal years 2021 and 2020, respectively, as additional revenue from remittance and money transfer tax through RPPL No. 9-2. The Fund received \$2,611,288 through RPPL 10-25 and RPPL 11-3 for fiscal year 2021 and \$4,679,254 through RPPL 10-25 and RPPL 10-42 for fiscal year 2020.

Overview of the Financial Statements

During the year ended September 30, 2015, the Fund adopted GASB Statement Nos. 68 and 71, which established contribution pensions provided to employees of state and local governments. The implementation resulted in the recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net pension liability based on the Fund's proportionate share of those of the overall Plan. Refer to note 3 for details of GASB Statement Nos. 68 and 71.

The following summarizes the financial condition and operations of the Fund as of and for the years ended September 30, 2021, 2020 and 2019.

The Statements of Fiduciary Net Position includes the Fund's assets and liabilities that provide a picture of the financial position of the Fund as of September 30, 2021, 2020 and 2019. These statements reflect resources of net position available for pension benefits to members, retirees and beneficiaries at the end of the fiscal year reported.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis, continued

Plan Year Ended September 30, 2021

Overview of the Financial Statements, continued

STATEMENTS OF FIDUCIARY NET POSITION

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets and deferred outflows of resources:			
Cash	\$ 3,108,214	\$ 1,074,774	\$ 481,412
Time certificates of deposit	---	---	1,878,801
Investments	31,425,570	29,165,499	25,931,203
Other assets	<u>2,262,887</u>	<u>2,429,965</u>	<u>371,784</u>
	36,796,671	32,670,238	28,663,200
Deferred outflows of resources	<u>298,580</u>	<u>328,232</u>	<u>155,592</u>
	<u>\$37,095,251</u>	<u>\$32,998,470</u>	<u>\$28,818,792</u>
Liabilities, deferred inflows of resources and fiduciary net position:			
Liabilities	\$ 1,193,380	\$ 1,147,144	\$ 851,906
Deferred inflows of resources	233,200	184,682	208,139
Fiduciary net position	<u>35,668,671</u>	<u>31,666,644</u>	<u>27,758,747</u>
	<u>\$37,095,251</u>	<u>\$32,998,470</u>	<u>\$28,818,792</u>

- At September 30, 2021, 2020 and 2019, the Fund had \$19,083, \$24,838 and \$21,872, respectively, in capital assets, net of accumulated depreciation, which represent net decrease of \$5,755 in 2021 over 2020 and net increase of \$2,966 in 2020 over 2019. See note 1 to the financial statements for information on the Fund's capital assets.
- At September 30, 2021, the Fund had no long-term debt outstanding. See note 3 to the financial statements for more detailed information on the Fund's long-term liabilities and changes therein.

Revenue and Expense Analysis

The Statements of Changes in Fiduciary Net Position summarize the Fund's financial activities that occurred during the fiscal year as compared to amounts for the previous fiscal years. The financial statements measure the change in resources available to defray pension benefits to members, retirees and beneficiaries for fiscal years 2021, 2020 and 2019.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis, continued

Plan Year Ended September 30, 2021

Revenue and Expense Analysis, continued

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Additions:			
Contributions	\$ 7,287,166	\$ 7,426,865	\$ 7,194,270
Investment income	4,416,244	2,020,402	1,005,113
Other income	<u>3,323,195</u>	<u>5,173,080</u>	<u>1,384,745</u>
	<u>15,026,605</u>	<u>14,620,347</u>	<u>9,584,128</u>
Deductions:			
Benefit and refund payments	10,681,257	10,299,558	9,934,096
Administrative expenses	<u>343,321</u>	<u>412,892</u>	<u>504,391</u>
	<u>11,024,578</u>	<u>10,712,450</u>	<u>10,438,487</u>
Net increase (decrease)	4,002,027	3,907,897	(854,359)
Fiduciary net position, beginning of year	<u>31,666,644</u>	<u>27,758,747</u>	<u>28,613,106</u>
Fiduciary net position, end of year	<u>\$35,668,671</u>	<u>\$31,666,644</u>	<u>\$27,758,747</u>

- Contribution revenue decreased from \$7,426,865 in 2020 to \$7,287,166 in 2021, a decrease of \$139,699 and from \$7,194,270 in 2019 to \$7,426,865 in 2020, an increase of \$232,595.
- Investment portfolios appreciated in fair market value by \$4,053,395 and yielded net earnings of \$4,416,244, \$2,020,402 and \$1,005,113 in 2021, 2020 and 2019, respectively.
- Benefit and refund payments increased from \$10,299,558 in 2020 to \$10,681,257 in 2021, an increase of \$381,699 and from \$9,934,096 in 2019 to \$10,299,558 in 2020, an increase of \$365,462. The number of retirees and beneficiaries are expected to stabilize and will slowly decline over the next several years.
- Administrative expenses decreased from \$412,892 in 2020 to \$343,321 in 2021, a decrease of \$69,571 and decreased from \$504,391 in 2019 to \$412,892 in 2020, a decrease of \$91,499.

Economic Outlook

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

The U.S. and Global Markets proved to be volatile in 2021 and 2020. Sociopolitical events around the world continue to influence market performance. Our strategic asset allocation, asset diversification and portfolio construction are well positioned to capture opportunities in both the up and down markets. We remain fully invested. We continue to look for opportunities where money could be made in the short-term, but we stay focused on our long-term objectives. Our portfolios appreciated in fair market value in 2021 and 2020.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Management's Discussion and Analysis, continued

Plan Year Ended September 30, 2021

Economic Outlook, continued

RPPL No. 10-25 appropriated \$150,000 to the Plan to work in collaboration with the Olbiil Era Kelulau and the Ministry of Finance to commission an actuarial study that shall determine viable options toward a comprehensive reform. In the latter half of fiscal year 2018, Milliman Private Limited based in Singapore was tasked to conduct such study. The final report from the actuarial firm offered three recommendations: 1) No change to vested leavers as well as current beneficiaries and active employees currently at age 55 and over. For active employees under age 55 - The normal retirement age would increase by 1 year every 5 years until it reaches 65. The current benefit formula would be 1% instead of 2% to be funded by 3% employee and employer contributions instead of 6%. All other features of the defined benefit rules would remain the same; 2) Enrollment of the Private Sector employees to a separate section of the Plan; however, the Private Sector would not accrue the 1% defined benefit pension. The new defined contribution section would be extended to the private sector with the same employee/employer contribution rate of 6% similar with public sector employees; and 3) Government subvention where the current subvention is to be increased to at least \$2 million annually with the above initiatives or be at least \$5 million annually without the above initiatives.

Also, through RPPL No. 10-25, the Plan was appropriated \$1,000,000 for the purpose of satisfying the National Government's debt owed to the Fund. The entire amount shall come from fifty percent of the \$25 allocation of the "Pristine Paradise Environmental Fee" (PPEF) for fiscal year 2018. On the same legislation, fifty percent of the \$25 PPEF paid by each passenger shall be transmitted by the Ministry of Finance and remitted to the Fund. As of September 30, 2021, the Fund has been allotted \$2,299,488. Accordingly, the Board is lobbying the lawmakers to amend the language of the legislation to revert to the original language of \$25. If the Board is successful in changing the law to a \$25 share of the PPEF to the Fund, it will result in additional new revenue to the Fund of an estimated \$1.5 to \$2.0 million a year.

The Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in the Fund's report on the audit of financial statements, which is dated May 13, 2024. That Discussion and Analysis explains the major factors impacting the 2021 financial statements and can be viewed at the Office of the Public Auditor's website at www.palauopa.org.

Contacting the Fund's Financial Management

This financial report is designed to provide a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Administrator/Chief Executive Officer at the Republic of Palau Civil Service Pension Trust Fund, P.O. Box 1767, Koror, Republic of Palau 96940, or e-mail cspp@palaunet.com or call 483-2523.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Statements of Fiduciary Net Position

September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets and Deferred Outflows of Resources		
Cash	\$ 3,108,214	\$ 1,074,774
Investments, at fair value:		
Corporate stock	18,994,689	15,351,786
Corporate bonds and preferred securities	4,880,141	7,575,983
Obligations of U.S. Government and agencies	7,550,740	4,846,740
Mutual funds	---	<u>1,390,990</u>
Total investments	<u>31,425,570</u>	<u>29,165,499</u>
Receivables:		
Members' contributions, net	172,375	168,224
Employers' contributions, net	172,235	168,359
Other receivables	<u>1,899,194</u>	<u>2,068,544</u>
Total receivables	<u>2,243,804</u>	<u>2,405,127</u>
Capital assets, net of accumulated depreciation	<u>19,083</u>	<u>24,838</u>
Total assets	36,796,671	32,670,238
Deferred outflows of resources from pension	<u>298,580</u>	<u>328,232</u>
Total assets and deferred outflows of resources	<u>\$37,095,251</u>	<u>\$32,998,470</u>
Liabilities, Deferred Inflows of Resources and Fiduciary Net Position		
Accounts payable and accrued expenses	\$ 165,683	\$ 68,897
Net pension liability	<u>1,027,697</u>	<u>1,078,247</u>
Total liabilities	1,193,380	1,147,144
Deferred inflows of resources from pension	<u>233,200</u>	<u>184,682</u>
Total liabilities and deferred inflows of resources	<u>1,426,580</u>	<u>1,331,826</u>
Fiduciary net position - held in trust for pension benefits	<u>35,668,671</u>	<u>31,666,644</u>
	<u>\$37,095,251</u>	<u>\$32,998,470</u>

See accompanying notes to basic financial statements.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Statements of Changes in Fiduciary Net Position

Years ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Additions:		
Employers' contributions	\$ 3,653,872	\$ 3,721,624
Members' contributions	<u>3,633,294</u>	<u>3,705,241</u>
	<u>7,287,166</u>	<u>7,426,865</u>
Investment income (expense):		
Net appreciation in fair value of investments	4,053,395	1,555,420
Dividends	327,995	391,609
Interest	247,885	270,445
Investment expenses	<u>(213,031)</u>	<u>(197,072)</u>
Total investment income	<u>4,416,244</u>	<u>2,020,402</u>
Other income:		
Appropriations	2,611,288	4,679,254
Remittance tax	435,515	477,679
Other	<u>276,392</u>	<u>16,147</u>
Total other income	<u>3,323,195</u>	<u>5,173,080</u>
 Total additions	 <u>15,026,605</u>	 <u>14,620,347</u>
Deductions:		
Benefit and refund payments:		
Normal and early retirement	8,162,186	7,567,841
Survivors	1,890,190	1,942,335
Refunds to terminated employees	378,430	451,318
Disability	155,949	141,027
Lump sum death disbursement	<u>94,502</u>	<u>197,037</u>
Total benefits	10,681,257	10,299,558
Administrative expenses	<u>343,321</u>	<u>412,892</u>
Total deductions	<u>11,024,578</u>	<u>10,712,450</u>
Net increase	4,002,027	3,907,897
Fiduciary net position held in trust for pension benefits:		
Beginning of year	<u>31,666,644</u>	<u>27,758,747</u>
End of year	<u>\$35,668,671</u>	<u>\$31,666,644</u>

See accompanying notes to basic financial statements.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements

Years Ended September 30, 2021 and 2020

1. Organization and Summary of Significant Accounting Policies

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

General

The Fund is a defined benefit, cost-sharing multiple employer plan, which is a component unit of the Republic of Palau (ROP) National Government, providing retirement, security and other benefits to employees, their spouses and dependents, of the ROP, ROP State Governments and ROP agencies, funds and public corporations. The Fund was established pursuant to Republic of Palau Public Law (RPPL) No. 2-26 passed into law on April 3, 1987 and began operations on October 1, 1987. Portions of RPPL No. 2-26 were revised by RPPL 3-21, RPPL 4-40, RPPL 4-49, RPPL 5-30, RPPL 6-37, RPPL 7-56, RPPL 8-10, RPPL 9-2 and RPPL 10-53. The Fund is administered under the authority of a seven-member Board of Trustees (the Board) appointed by the President with the advice and consent of the Senate of the ROP.

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

Membership

As of September 30, 2021 and 2020, the ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, are participating in the Fund. Membership consisted of the following as of September 30, 2019 (the valuation date):

Inactive members currently receiving benefits	1,629
Inactive members entitled to but not yet receiving benefits	1,252
Active members	<u>3,480</u>
Total members	<u>6,361</u>

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

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

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Pension Benefits, continued

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

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

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

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

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

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Pension Benefits, continued

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

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

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

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

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

- If the former member is not an employee at the date of death, a refund of the total amount of contributions made by the member.
- If the member was an employee at the date of death and had completed one year of total service, the estate of the member shall be entitled to a death benefit equal to the greater of 3 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.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Pension Benefits, continued

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 Plan and Trust Operation Plan subject to the requirements of Title 6 of the Palau National Code. RPPL 9-2 requires each employee of the National Government and all State Governments, without regard to whether the employee is employed part-time or on a temporary basis, seasonal or an impermanent basis, to contribute to the Fund through payroll deduction.

Employer and Other Contributions

Employers are required to contribute an amount equal to that contributed by employees. Pursuant to RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau must from time to time contribute additional sums to the Fund in order to keep the Fund on a sound actuarial basis. RPPL 9-2 requires the Government of ROP to make regular contributions to the Fund equal to the amount contributed by each and every employee of ROP (see note 4).

Plan Administration

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

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements

During the year ended September 30, 2021, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending December 31, 2020.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending December 31, 2020.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management believes that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending December 31, 2021.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending December 31, 2022.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In January 2020, GASB issued statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. GASB Statement No. 98 will be effective for fiscal year ending December 15, 2021.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Guidance is effective for fiscal year ending September 30, 2023.
- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Guidance is effective for fiscal year ending September 30, 2023.
- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal years ending September 30, 2025.

The Fund is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

Basis of Accounting and Disclosure

The financial statements of the Fund for the years ended September 30, 2021 and 2020 have been prepared using the economic resources measurement focus and the accrual basis of accounting 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.

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, 2021 and 2020, 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

For purposes of the statements of fiduciary net position, the Fund considers all cash on hand, cash held in demand accounts, and highly liquid investments with an original maturity of three months or less when purchased.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents, continued

As of September 30, 2021 and 2020, total deposits were maintained in a Federal Deposit Insurance Corporation (FDIC) insured bank and amounted to \$3,108,109 and \$1,074,654, respectively, with corresponding bank balances of \$2,905,270 and \$1,072,338. Of those bank balances \$1,592,256 and \$322,338 were uninsured and uncollateralized at September 31, 2021 and 2020, respectively. The Fund does not require collateralization of its cash deposits; therefore, deposits in excess of depository insurance are uncollateralized.

Investments

Marketable securities held for investment purposes are stated at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined. 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 Plan and Trust. The Fund has no investments in any commercial or industrial organization whose market value exceeds five percent or more of the net position available for benefits. Investments in common stock for which a readily determinable fair value is unavailable is measured at its net asset value (NAV).

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, and alternative investments, 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.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Investments, continued

General, continued:

6. The following securities and transactions are not authorized without prior written Board of Trustees approval: letter stock and other unregistered securities; non-negotiable securities; commodities or other commodity contracts; options; futures; short sales; and, margin transactions.
7. An investment manager's portfolio shall not be excessively over weighted in any one industry (as compared to respective benchmark index) without prior approval by timely reporting and advice to the Board of Trustees.

Investments may be made in:

A. Fixed Income

1. All fixed income securities held in the portfolio shall have a Standard & Poor's credit quality rating of no less "BBB", or an equivalent credit quality rating from Moody's (Baa) or Fitch (BBB). U.S. Treasury and U.S. Government agencies, which are unrated securities, are qualified for inclusion in the portfolio and will be considered to be of the highest rating. These restrictions do not apply to fixed income securities held in other portfolios, most specifically convertible securities.
2. No more than 20% of the market value of the portfolio shall be rated less than single "A" quality, unless the investment manager has specific prior written authorization from the Board of Trustees.
3. Total portfolio quality (capitalization weighted) shall maintain a credit quality rating of no less than "A".
4. U.S. SEC registered mutual funds that invest in fixed income securities, either U.S. or non U.S., will not be subject to the above guidelines.
5. It is the policy of the Board to place assets in Local Certificates of Deposit (Local CDs) issued by local banking institutions, with the express purpose of making funds available to the local community in the form of loans. While these Local CDs are held, they will be included in the "strategic asset allocation" as fixed income investments. However, these Local CDs and the local banking institutions must meet the following criteria on an ongoing basis:
 - a. Local CDs must offer a competitive return relative to alternative issuers.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Investments, continued

A. Fixed Income, continued

- b. The local banking institutions must provide annual audited financial statements for Board of Trustee review. The Board of Trustees is charged with monitoring the financial health of the local banking institutions. Should concerns arise with respect to the financial condition of the local banking institutions, the Board of Trustees shall take appropriate action.
- c. The local banking institution shall promptly inform the Board of Trustees, in writing, of any significant or material matters pertaining to the institution, including, but not limited to: ownership; organizational structure; financial condition; and, any material proceedings affecting the firm.
- d. Provide collateral, acceptable to the Board, to secure the Local CDs.

B. Equities

1. Consistent with the desire to maintain broad diversification, allocations to any economic or industry sector should not be excessive.
2. Equity holdings shall be restricted to readily marketable securities of corporations that are traded on the major exchanges and over the counter.
3. The investment managers shall have the discretion to invest a portion of the assets in cash reserves when they deem appropriate. However, as per the Investment Policy Statement, 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.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Investments, continued

C. Cash/Cash Equivalents, continued

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.

D. Real Estate Investment Trusts (REITS):

1. These investments are expected to offer higher current yields than fixed income investments or the overall equity market, while reducing overall portfolio risk due to relative correlation.
2. Investments in publicly-traded vehicles can offer greater liquidity over private real estate market opportunities; however, they tend to be more correlated with equities than private real estate investments.
3. These investments offer tactical return opportunities with the potential to achieve higher nominal rates of return at a level of risk equal to or lower than private markets.

Asset Allocation

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

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Investments, continued

Asset Allocation, continued

The following strategic asset allocation for the Fund was selected as of September 30, 2021 and 2020:

	<u>Strategic Allocation</u>
US Equities (Large Cap Value)	16%
US Equities (Large Cap Growth)	16%
Non-US Equities (Mature Markets)	20%
Fixed Income (US Core)	35%
Alternatives (Real Estate Investment Trusts)	6%
Alternatives (Convertible Securities)	<u>7%</u>
Total	<u>100%</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 against its corresponding revenue. Accounts are charged against the allowance when management believes that the collection of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible, based on evaluations of collectability and prior loss experience. Bad debts are written-off against the allowance based on the specific identification method.

Capital Assets

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

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Deferred Outflows of Resources

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

Accounts Payable and Accrued Expenses

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

Deferred Inflows of Resources

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

Pensions

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

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

1. Organization and Summary of Significant Accounting Policies, continued

Estimates

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

Reclassification

Certain reclassifications have been made to the 2020 financial statements for comparative purposes. Such reclassifications have no effect on the previously reported net increase.

Subsequent Events

The Company has evaluated subsequent events through May 13, 2024, the date on which the financial statements were available to be issued. Based on the Company's evaluation, there were no subsequent events that require adjustments to or disclosures in the consolidated financial statements.

2. Investments

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, 2021 and 2020.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

2. Investments, continued

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, 2021 and 2020:

Investment Type	Fair Value	2021 Investment Maturities (In Years)				Moody's Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 3,102,892	\$ ---	\$ ---	\$ ---	\$3,102,892	Not rated
U.S. Treasury securities	4,092,859	---	1,491,823	2,088,240	512,796	Aaa
U.S. Treasury securities	354,989	354,989	---	---	---	Not rated
Preferred securities	66,440	---	66,440	---	---	Baa
Preferred securities	15,594	15,594	---	---	---	Ba
Preferred securities	290,299	87,722	202,577	---	---	Not rated
Corporate bonds	2,259,782	---	24,965	2,224,261	10,556	A
Corporate bonds	140,744	---	140,744	---	---	Ba
Corporate bonds	55,517	---	55,517	---	---	B
Corporate bonds	122,945	---	114,970	7,975	---	Baa
Corporate bonds	<u>1,928,820</u>	<u>---</u>	<u>1,682,136</u>	<u>246,684</u>	<u>---</u>	Not rated
	<u>\$12,430,881</u>	<u>\$ 458,305</u>	<u>\$3,779,172</u>	<u>\$4,567,160</u>	<u>\$3,626,244</u>	

Investment Type	Fair Value	2020 Investment Maturities (In Years)				Moody's Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 32,397	\$ ---	\$ 32,397	\$ ---	\$ ---	Not rated
Government sponsored enterprise securities	2,429,047	1,904,745	524,302	---	---	Aaa
Government sponsored enterprise securities	1,454,007	---	1,454,007	---	---	Not rated
U.S. Treasury securities	931,289	---	---	931,289	---	Aaa
Preferred securities	204,164	22,443	181,721	---	---	Not rated
Corporate bonds	5,733,428	---	635,506	4,978,049	119,873	A
Corporate bonds	23,385	---	18,795	4,590	---	B
Corporate bonds	21,450	---	21,450	---	---	Baa
Corporate bonds	<u>1,593,556</u>	<u>81,714</u>	<u>1,093,230</u>	<u>363,486</u>	<u>55,126</u>	Not rated
	<u>\$12,422,723</u>	<u>\$2,008,902</u>	<u>\$3,961,408</u>	<u>\$6,277,414</u>	<u>\$174,999</u>	

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

2. Investments, continued

Fair Value Measurement

The Fund categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The following table sets forth by fair value hierarchy level assets carried at fair value at September 30, 2021 and 2020:

	<u>Total</u>	<u>2021</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities				
U.S. Treasury securities	\$ 4,447,848	\$ 4,447,848	\$ ---	\$ ---
Fanny Mae Pool	3,102,892	---	3,102,892	---
Preferred securities	372,333	---	372,333	---
Corporate bonds	<u>4,507,808</u>	<u>---</u>	<u>4,507,808</u>	<u>---</u>
Total debt securities	<u>\$12,430,881</u>	<u>\$ 4,447,848</u>	<u>\$7,983,033</u>	<u>---</u>
Equity securities				
Real Estate Investment Trusts	\$ 2,058,187	\$ 2,058,187	\$ ---	\$ ---
Other - U.S. equities	9,280,673	9,280,673	---	---
Other - non-U.S. equities	<u>7,655,829</u>	<u>7,655,829</u>	<u>---</u>	<u>---</u>
Total equity securities	<u>18,994,689</u>	<u>18,994,689</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>\$31,425,570</u>	<u>\$23,442,537</u>	<u>\$7,983,033</u>	<u>\$ ---</u>
	<u>Total</u>	<u>2020</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
Debt securities				
U.S. Treasury securities	\$ 931,289	\$ 931,289	\$ ---	\$ ---
Federal Home Loan Banks	2,429,047	---	2,429,047	---
Federal Agriculture Mortgage Corporation	1,454,007	---	1,454,007	---
Fanny Mae Pool	32,397	---	32,397	---
Preferred securities	204,164	---	---	204,164
Corporate bonds	<u>7,371,819</u>	<u>---</u>	<u>5,716,736</u>	<u>1,655,083</u>
Total debt securities	<u>12,422,723</u>	<u>931,289</u>	<u>9,632,187</u>	<u>1,859,247</u>
Equity securities				
Real Estate Investment Trusts	1,531,919	1,531,919	---	---
Other - U.S. equities	7,372,518	7,372,518	---	---
Other - non-U.S. equities	<u>6,447,349</u>	<u>6,447,349</u>	<u>---</u>	<u>---</u>
Total equity securities	<u>15,351,786</u>	<u>15,351,786</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>27,774,509</u>	<u>\$16,283,075</u>	<u>\$9,632,187</u>	<u>\$1,859,247</u>

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

3. Net Pension Liability

The components of the net pension liability of the Fund as of September 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Total pension liability	\$376,050,811	\$336,239,210
Fiduciary net position	(<u>31,666,644</u>)	(<u>27,758,747</u>)
Net pension liability	<u>\$344,384,167</u>	<u>\$308,480,463</u>
 Fiduciary net position as a percentage of the total pension liability	 8.42%	 8.26%

Actuarial Assumptions

The total pension liability was determined for measurement date of September 30, 2019 by an actuarial valuation as of October 1, 2019, using the following actuarial assumptions:

Actuarial Cost Method:	Normal costs are calculated under the entry age normal method
Amortization Method:	Level dollar, open with remaining amortization period of 30 years
Asset Valuation Method:	Market Value of Assets
Investment Income:	6.74% per year, net of investment expenses, including price inflation
Inflation:	2.5%
Interest on Member Contributions:	5.0% per year
Salary Increase:	3.0% per year
Expenses:	\$300,000 added to normal cost
Mortality:	RP-2000 Combined Healthy Mortality Table, set forward four years for all members except disability recipients, where the table is set forward ten years
Termination of Employment:	5% for ages 20 to 39; none for all other ages

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

3. Net Pension Liability, continued

Actuarial Assumptions, continued

Disability:	<u>Age</u>	<u>Disability</u>
	25	0.21%
	30	0.18%
	35	0.25%
	40	0.35%
	45	0.50%
	50	0.76%
	55	1.43%
	60	2.12%
 Retirement Age:	100% at age 60	
 Form of Payment:	Single: Straight life annuity; Married: 100% joint and survivor	
 Marriage Assumption:	80% of the workers are assumed to be married and males are assumed to be 3 years older than their spouses. Beneficiaries are assumed to be the opposite gender of the member.	
 Duty vs Non-duty related disability:	100% Duty related	
 Refund of Contributions:	80% of terminated vested members elect a refund of contributions	

Investment Rate of Return

The long-term expected rate of return on the Fund's investments of 6.74% was determined using log-normal distribution analysis, creating a best-estimate range for each asset class.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

3. Net Pension Liability, continued

Investment Rate of Return, continued

As of the September 30, 2020 actuarial valuation, the arithmetic real rates of return for each major investment class are as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
US Large Cap Value Equity	10%	8.70%
US Large Cap Growth Equity	10%	9.13%
Mature Markets Non-US Equity	15%	9.19%
Emerging Markets Non-US Equity	10%	12.52%
US Core Fixed Income	35%	3.82%
Global Fixed Income	10%	3.40%
Global REIT	<u>10%</u>	8.33%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 2.28% at the current measurement date from 2.85% at the prior measurement date. The discount rate was determined using the current assumed rate of return until the point where the plan fiduciary net position is negative. Using the current contribution rates, a negative position happens in 2025 for the 2020 measurement date. For years on or after 2025, a discount rate of 2.28% is used. This rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Fund as of September 30, 2020, calculated using the discount rate of 2.28%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00% lower (1.28%) or 1.00% higher (3.28%) from the current rate.

<u>1% Decrease 1.28%</u>	Current Single Discount Rate <u>Assumption 2.28%</u>	<u>1% Increase 3.28%</u>
\$401,901,772	\$344,384,167	\$296,942,944

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

3. Net Pension Liability, continued

Schedule of Changes in Net Pension Liability

Based on the September 30, 2020 and 2019 measurement dates, the changes in net pension liability were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	
Balance at 09/30/19	<u>\$279,481,890</u>	<u>\$28,613,106</u>	<u>\$250,868,784</u>
Changes for the year:			
Service cost	8,418,805	---	8,418,805
Interest	11,772,145	---	11,772,145
Difference between expected and actual experience	(11,196,567)	---	(11,196,567)
Assumption changes	57,697,033	---	57,697,033
Employers' contributions	---	3,596,124	(3,596,124)
Members' contributions	---	3,598,146	(3,598,146)
Net investment income	---	1,005,113	(1,005,113)
Benefit payments, including refunds of members' contributions	(9,934,096)	(9,934,096)	---
Administrative expense	---	(504,391)	504,391
Recovery and other income	---	<u>1,384,745</u>	<u>(1,384,745)</u>
Net changes	<u>56,757,320</u>	<u>(854,359)</u>	<u>57,611,679</u>
Balance at 09/30/20	<u>336,239,210</u>	<u>27,758,747</u>	<u>308,480,463</u>
Changes for the year:			
Service cost	12,226,835	---	12,226,835
Interest	9,785,545	---	9,785,545
Assumption changes	28,098,779	---	28,098,779
Employers' contributions	---	3,721,624	(3,721,624)
Members' contributions	---	3,705,241	(3,705,241)
Net investment income	---	2,020,402	(2,020,402)
Benefit payments, including refunds of members' contributions	(10,299,558)	(10,299,558)	---
Administrative expense	---	(412,892)	412,892
Recovery and other income	---	<u>5,173,080</u>	<u>(5,173,080)</u>
Net changes	<u>39,811,601</u>	<u>3,907,897</u>	<u>35,903,704</u>
Balance at 09/30/21	<u>\$376,050,811</u>	<u>\$31,666,644</u>	<u>\$344,384,167</u>

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

3. Net Pension Liability, continued

Defined Benefit Plan

Pension Liability: At September 30, 2021 and 2020, the Fund reported a liability of \$1,078,247 for its proportionate share of the net pension liability. The Fund's proportion of the net pension liability was based on the projection of the Fund's long-term share of contributions to the Plan relative to the projected contributions of Republic of Palau, Republic of Palau's component units and other Government agencies, actuarially determined. At September 30, 2021 and 2020, the Fund's proportion was 0.3131% and 0.3495%, respectively.

Pension Expense: For the years ended September 30, 2021 and 2020, the Fund recognized pension expense of \$72,607 and \$58,398, respectively.

Deferred Outflows and Inflows of Resources: At September 30, 2021 and 2020, the Fund reported total deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 34,591	\$ 27,185	\$ 54,833	\$ 42,036
Change of assumptions	220,528	64,599	223,771	98,299
Net difference between projected and actual earnings on pension plan investments	1,920	1,315	2,999	2,560
Contributions subsequent to measurement date	11,805	---	10,981	---
Changes in proportion and difference between the Fund's contributions and proportionate share of contributions	29,736	140,101	35,648	41,787
	\$ 298,580	\$ 233,200	\$ 328,232	\$ 184,682

Deferred outflows resulting from contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the following year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2021 will be recognized in pension expense as follows:

Year ending September 30,

2022	\$ 8,913
2023	\$ 14,825
2024	\$ 8,797
2025	\$ 9,167
2026	\$ 17,540
Thereafter	\$(5,667)

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Financial Statements, continued

4. Republic of Palau

ROP Interest Receivable

The Fund has determined interest due from the ROP National Government related to delinquent contributions in prior years. The Fund believes amounts due approximate \$2.8 million, including lost earnings of \$1.4 million. At September 30, 2021 and 2020, the Fund has recorded the following receivable from the ROP National Government as follows reflected as a component of other receivables:

	<u>2021</u>	<u>2020</u>
Due from ROP National Government	\$4,342,047	\$4,342,047
Allowance for uncollectible receivables	<u>(4,342,047)</u>	<u>(4,342,047)</u>
	\$ <u>---</u>	\$ <u>---</u>

ROP National Government Appropriations

For the years September 30, 2021 and 2020, ROP appropriated \$2,611,288 and \$4,679,254, respectively to the Fund to help maintain the ROP Civil Service Pension Plan to a sound actuarial basis. The amount reflected as appropriations in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Schedule of Changes in Net Pension Liability and Related Ratios

September 30, 2021

	2020 <u>Valuation</u>	2019 <u>Valuation</u>	2018 <u>Valuation</u>	2017 <u>Valuation</u>	2016 <u>Valuation</u>	2015 <u>Valuation</u>	2014 <u>Valuation</u>	2013 <u>Valuation</u>
Total Pension Liability								
Service cost	\$ 12,226,835	\$ 8,418,805	\$ 9,253,291	\$ 8,610,570	\$ 6,858,499	\$ 6,086,938	\$ 4,638,484	\$ 5,913,261
Interest cost	9,785,545	11,772,145	10,615,203	8,422,663	9,414,565	10,085,993	10,319,767	9,146,830
Difference between expected and actual experience	---	(11,196,567)	---	27,975,168	---	(9,041,017)	---	---
Assumptions changes	28,098,779	57,697,033	(19,464,397)	(25,315,236)	28,447,659	8,361,854	15,568,918	(17,639,038)
Benefit changes	---	---	---	---	---	---	---	(6,941,763)
Benefit payments	(10,299,558)	(9,934,096)	(9,726,689)	(9,763,956)	(9,506,766)	(9,403,007)	(9,298,152)	(8,930,543)
Net change in total pension liability	39,811,601	56,757,320	(9,322,592)	9,929,209	35,213,957	6,090,761	21,229,017	(18,451,253)
Total pension liability - beginning	<u>336,239,210</u>	<u>279,481,890</u>	<u>288,804,482</u>	<u>278,875,273</u>	<u>243,661,316</u>	<u>237,570,555</u>	<u>216,341,538</u>	<u>234,792,791</u>
Total pension liability - ending	<u>\$ 376,050,811</u>	<u>\$ 336,239,210</u>	<u>\$ 279,481,890</u>	<u>\$ 288,804,482</u>	<u>\$ 278,875,273</u>	<u>\$ 243,661,316</u>	<u>\$ 237,570,555</u>	<u>\$ 216,341,538</u>
Fund Fiduciary Net Position								
Employer contributions	\$ 3,721,624	\$ 3,596,124	\$ 3,519,989	\$ 3,412,047	\$ 3,177,790	\$ 2,909,824	\$ 2,820,693	\$ 2,506,605
Employee contributions	3,705,241	3,598,146	3,507,075	3,410,992	3,149,619	2,920,101	2,797,512	2,515,177
Pension plan net investment income (loss)	2,020,402	1,005,113	2,406,323	3,303,967	2,337,406	(1,219,199)	3,077,767	2,628,027
Benefit payments	(10,299,558)	(9,934,096)	(9,726,689)	(9,763,956)	(9,506,766)	(9,403,007)	(9,298,152)	(8,930,543)
Pension plan administrative expense	(412,892)	(504,391)	(503,069)	(374,886)	(426,021)	(381,902)	(369,703)	(1,905,747)
Recovery and other income	5,173,080	1,384,745	---	---	2,574,145	---	---	---
Net change in plan fiduciary net position	3,907,897	(854,359)	(796,371)	(11,836)	1,306,173	(5,174,183)	(971,883)	(3,186,481)
Plan fiduciary net position - beginning	<u>27,758,747</u>	<u>28,613,106</u>	<u>29,409,477</u>	<u>29,421,313</u>	<u>28,115,140</u>	<u>33,289,323</u>	<u>34,261,206</u>	<u>37,447,687</u>
Plan fiduciary net position - ending	<u>\$ 31,666,644</u>	<u>\$ 27,758,747</u>	<u>\$ 28,613,106</u>	<u>\$ 29,409,477</u>	<u>\$ 29,421,313</u>	<u>\$ 28,115,140</u>	<u>\$ 33,289,323</u>	<u>\$ 34,261,206</u>
Net pension liability - ending	<u>\$ 344,384,167</u>	<u>\$ 308,480,463</u>	<u>\$ 250,868,784</u>	<u>\$ 259,395,005</u>	<u>\$ 249,453,960</u>	<u>\$ 215,546,176</u>	<u>\$ 204,281,232</u>	<u>\$ 182,080,332</u>
Plan fiduciary net position as a percentage of total pension liability	8.42%	8.26%	10.24%	10.18%	10.55%	11.54%	14.01%	15.84%
Covered payroll	62,027,067	59,760,383	58,666,483	57,893,300	52,963,167	48,497,067	47,011,550	41,776,750
Net pension liability as a percentage of covered payroll	555.22%	516.20%	427.62%	448.06%	471.00%	444.45%	434.53%	435.84%

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

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Schedule of Contributions

September 30, 2021

<u>Actuarial Valuation Ending 09/30</u>	<u>Actuarially Employer Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2013	\$ 10,065,829	\$ 2,515,982	\$ 7,549,847	\$ 41,776,750	6.02%
2014	\$ 10,623,488	\$ 2,768,315	\$ 7,855,173	\$ 47,011,550	5.89%
2015	\$ 10,899,899	\$ 2,890,454	\$ 8,009,445	\$ 48,497,067	5.96%
2016	\$ 14,417,419	\$ 3,134,262	\$ 11,283,157	\$ 52,963,167	5.92%
2017	\$ 17,178,902	\$ 3,473,598	\$ 13,705,304	\$ 57,893,300	6.00%
2018	\$ 17,312,479	\$ 3,519,989	\$ 13,792,490	\$ 58,666,483	6.00%
2019	\$ 14,090,813	\$ 3,585,623	\$ 10,505,190	\$ 59,760,383	6.00%
2020	\$ 15,754,875	\$ 3,721,624	\$ 12,033,251	\$ 62,027,067	6.00%

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

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Required Supplementary Information

September 30, 2021

1. Methods and Assumptions Used to Calculate Actuarially Determined Contributions

Valuation Date:	September 30, 2020, which was based on the results of the October 1, 2019 actuarial valuation
Actuarial Cost Method:	Entry-age normal
Amortization Method:	Level dollar, open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Market value of assets
Price Inflation:	2.5%
Salary Increases:	3.0%
Wage Inflation:	3.0%
Investment Rate of Return:	6.74%, net of investment expense, including price inflation
Mortality:	RP 2000 Combined Mortality Table, set forward four years for all members except disability recipients, where the table is set forward 10 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. In December 2008, RPPL 7-56 eliminated early retirement and thirty-year mandatory service provisions. These provisions were restored through RPPL 8-10 in October, 2009. On April 30, 2013, RPPL 9-2 eliminated the mandatory service retirement after thirty years of service. After December 31, 2013, no employee shall be entitled to pension benefits until reaching the age of sixty.

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Notes to Required Supplementary Information, continued

2. Factors that Significantly Affect the Identification of Trends in the Amounts Reported, continued

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

Republic of Palau Civil Service Pension Plan and Trust

Report of Independent Auditors
on Internal Control and on Compliance

Year ended September 30, 2021

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Republic of Palau Civil Service Pension Plan and Trust

We have audited, 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, the financial statements of the Republic of Palau Civil Service Pension Plan and Trust (the Fund), which comprise the statement of fiduciary net position as of September 30, 2021, and the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements, and have issued our report thereon dated May 13, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Finding and Response as item 2021-001 that we consider to be material weakness.

Compliance and Other Matters

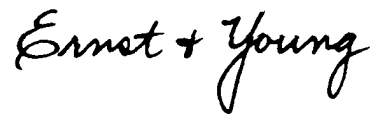
As part of obtaining reasonable assurance about whether the Fund’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Finding and Response as item 2021-001.

The Fund’s Response to the Finding

The Fund’s response to the finding identified in our audit is described in the accompanying Schedule of Finding and Response. The Fund’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script font.

May 13, 2024

Republic of Palau Civil Service Pension Plan and Trust
(A Component Unit of the Republic of Palau)

Schedule of Finding and Response

Year ended September 30, 2021

Finding No. 2021-001

Area: Investment in Common Stock

Criteria:

GASB Codification (Cod). N70.103 Nonmonetary Transactions states that in non-monetary transactions, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it.

GASB Cod. C55.101 Common Stock – Cost Method states equity interest in common stock that does not meet the definition of an investment should be accounted for using the cost method.

GASB Cod. I50.745 states that an investment is impaired when a decline in its fair value below the cost basis is other than temporary.

Condition: The Fund recorded the stocks held in Western Caroline Trading Co. (WCTC) as other receivables. The value of the asset is maintained at a value other than the fair value of the asset surrendered.

Cause: The cause of the above condition is due to a settlement reached in the Superior Court of Palau in July 2015 for amounts owned by Pacific Savings Bank (PSB) to the Fund for amounts invested in Time Certificate Deposit (TCD) by the Fund. PSB failed as a bank and entered into receivership in previous fiscal years. The Court ordered the transfer of 1,500 shares in WCTC to the Fund as a relief for TCD unfulfilled by PSB amounting to \$1,452,609.

Effect: The equity interest in common stock is improperly presented as other receivable and not valued in accordance with GASB Cod. C55.101.

Recommendation: We recommend that the Fund ensure the proper classification and valuation of stocks held in accordance with the aforementioned accounting standards.

Corrective Action: The Board of Trustees and Management of the Fund will continue to reach out to WCTC for further information on the actual value of these stocks as well as copies of their audited financial statements. The Fund is aware of the importance of complying with GASB but it is also in the interest of our fiduciary responsibilities to make sure that the valuation and classification of these stocks are realistic and not valued in any amount that would be misconstrued as more than their actual worth.