

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Republic of Palau Civil Service Pension Trust Fund (the Fund), a component unit of the Republic of Palau, as of September 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the management of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2003 and 2002, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2 to the accompanying financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of funding progress (page 17) and employer contributions (page 18), notes to required supplementary schedules (pages 19 and 20) and schedule of investment securities (page 21) as of September 30, 2003, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of funding progress and employer contributions and notes to required supplementary schedules are supplementary information required by GASB Statement No. 25. This additional information is also the responsibility of the Fund's management. These schedules and notes have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2004, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Debbie J. Touche*

January 14, 2004



# REPUBLIC OF PALAU CIVIL SERVICE PENSION PLAN

**Board of Trustees**

Evans  
Imetengel,  
Chairman

**Members**

John Wong  
Lorinda W. Baules  
Leo Ben Teriong

## MANAGEMENT DISCUSSION AND ANALYSIS

For the Plan Year Ending September 30, 2003

This section presents management's discussion and analysis of the Republic of Palau (ROP) Civil Service Pension Plan Trust (CSPP) financial position and performance for the plan year ended September 30, 2003. It is presented as a narrative overview and analysis. Please read it in conjunction with the financial statements which are presented hereafter.

### Introductory Section

The nationally recognized and renown accounting firm of Deloitte & Touche issued a clean unqualified audit opinion and certified that CSPP's financial statements were prepared in accordance with generally accepted accounting principles governed by the Governmental Accounting Standards Board (GASB).

RPPL 2-26, and now coded as 33 PNCA Chapter 20, created a seven member Board of Trustees who are appointed by the ROP President with the advice and consent of the Senate to serve 4-year terms to govern the retirement trust fund. The CSPP Board of Trustees were bestowed with a Fiduciary responsibility to oversee the Plan's administration, operation, maintenance and improvement of member contributions and benefits and review investments of Plan assets. The CSPP Board shall contract a salaried administrator to administer the daily operation of the Fund. The Plan is staffed with seven (7) employees, one (1) Administrator and six (6) supporting staff.

### Overview of the Financial Statements

CSPP is primarily a defined benefit pension trust fund where assets/contributions are held in trust for the benefit of its members, retirees and their beneficiaries for the payment of current and future benefits.

The following summarizes the financial condition and operations of CSPP as of and for the years ended September 30, 2003 and 2002:

### FINANCIAL POSITION

	<u>2003</u>	<u>2002</u>
Assets:		
Cash and cash equivalents	\$ 122,205	\$ 156,772
Restricted time certificate of deposit	398,842	370,026
Investment	35,567,397	31,040,593
Other assets	<u>194,052</u>	<u>202,685</u>
	<u>\$ 36,282,496</u>	<u>\$ 31,770,076</u>
Liabilities and Net Assets:		
Liabilities	\$ 35,684	\$ 75,484
Net Assets	<u>36,246,812</u>	<u>31,694,592</u>
	<u>\$ 36,282,496</u>	<u>\$ 31,770,076</u>

RESULTS OF OPERATIONS

	<u>2003</u>	<u>2002</u>
Additions:		
Contributions	\$ 4,214,176	\$ 4,095,592
Investment income	5,639,755	(1,521,358)
Other	<u>30,681</u>	<u>150,542</u>
Total additions	<u>9,884,612</u>	<u>2,724,776</u>
Deductions:		
Benefit and refund payments	5,068,969	4,740,376
Administrative expenses	<u>263,423</u>	<u>253,976</u>
Total deductions	<u>5,332,392</u>	<u>4,994,352</u>
Net increase (decrease)	4,552,220	(2,269,576)
Net assets, beginning of year	<u>31,694,592</u>	<u>33,964,168</u>
Net assets, end of year	<u>\$ 36,246,812</u>	<u>\$ 31,694,592</u>

This discussion and analysis is intended to serve as introduction to CSPP financial reporting which is comprised of the following components:

- The Statements of Plan Net Assets provides a snapshot of the financial position of the Fund as of September 2003 and 2002. This financial statement reflects the resources available to defray benefits to members, retirees and beneficiaries at the end of fiscal years reported.
  - a. The restricted time certificate of deposit (TCD) shown on the statement of plan net assets reflects amounts that were allocated by the Board of Trustees about five (5) years ago strictly for the construction of a proposed CSPP building. Initial funds invested were at \$300,000, yielding 7.5% for 90 days. Interest earned through September 30, 2003 was \$98,842. Due to uncertainty in location site, the Board decided to keep the funds in the TCD pending further land settlement, contingent upon the capitol relocation completion.
  - b. The appreciation in value of Plan net assets held in trust for pension benefits was attributed to increased market value of investment during the year ended September 30, 2003.
- The Statements of Changes in Plan Net Assets reasonably summarizes CSPP's financial activities that occurred during the fiscal year, and comparative amounts for the previous fiscal year. The financial statement measures the changes in resources available to defray pension benefits to members, retirees and beneficiaries for fiscal years 2003 and 2002.
  - a. Contributions revenue slightly increased by 2.9% from the previous fiscal year. This was attributed to Palau Community College (PCC) employees who paid their employee contributions (prior service) so that they may be eligible for pension benefits upon retirement.

- b. The 14.4% increase in Plan net assets held in trust for pension benefits was primarily attributed to the increase in investment income. The investment reports indicate that the average investment performance by Atalanta Sossnoff during FY 2003, was fairly moderate boosting the value of investment of CSPP's portfolio which led to a 4.2% reduction in investment expenses (fees).
- c. Despite the slight increase of 6.93% of total benefit payments from the previous year, the overall performance of the Plan's investment manager was favorable causing the Plan net assets held in trust for pension benefits to increase.
- The remaining supplementary information provides additional legislative information affecting administration of the fund.
  - a. RPPL 6-37, section 29(a) amended 33 PNC 2040, extending the maximum term of exemption from two (2) years to five (5) years.
  - b. A request by the Board is pending at the OEK seeking amendment to 33 PNC 2030 to increase the employer share by 4%, from 6% to 10%. This increase, if it becomes law, will eliminate the need for monthly withdrawals from investments to supplement the shortfall of contribution vs. benefit payout.

The Plan has funds invested in the U.S. market as mandated by Law. The Plan's investments are governed by an Investment Policy established by the CSPP Board of Trustees. The Investment Policy Statement (IPS) calls for an investment team independently selected by the Board and structured with an Investment Advisor (Investment Manager) to invest Funds, a Custodial Bank to handle the custodial services and the Investment Consultant to ensure that the investment activities are prudently performed in accordance with the IPS.

A primary element in the Plan's Investment Policy dictates that the Plan assets are invested in diverse asset classes that can achieve higher returns at the controlled and minimum risk. The IPS establishes an asset allocation plan taking into account the risk associated with each asset class as well as the financial objective of the Plan.

The Board of Trustees has amended the IPS based on the investment consultant's recommendation to have separate fixed income managers to manage approximately \$10 million of the Plan's portfolio. A recent Asset Liability Study recommended having a small cap equity manager with an objective to not only add more investment returns but to balance the Plan's portfolio when the current Plan's equity manager/mixed value and growth sector rotator (Atalanta Sossnoff) is not performing well.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Statements of Plan Net Assets  
September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ <u>122,205</u>	\$ <u>156,772</u>
Restricted time certificate of deposit	<u>398,842</u>	<u>370,026</u>
Investments, at fair value:		
Corporate stock	24,516,715	18,266,085
Obligations of U.S. Government and agencies	6,886,702	10,467,140
Money market funds	2,364,144	2,147,132
Preferred stock	1,126,600	-
Corporate bonds	513,000	-
Limited partnership interests	<u>160,236</u>	<u>160,236</u>
Total investments	<u>35,567,397</u>	<u>31,040,593</u>
Receivables:		
Employers' contributions	78,722	81,965
Members' contributions	78,722	81,965
Other receivables	<u>8,500</u>	<u>8,500</u>
Total receivables	<u>165,944</u>	<u>172,430</u>
Furniture, fixtures and equipment, net of accumulated depreciation	<u>28,108</u>	<u>30,255</u>
Total assets	<u>36,282,496</u>	<u>31,770,076</u>
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	<u>(35,684)</u>	<u>(75,484)</u>
Net assets - held in trust for pension benefits (see Schedule of Funding Progress)	\$ <u>36,246,812</u>	\$ <u>31,694,592</u>

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Statements of Changes in Plan Net Assets  
Years Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Additions:		
Employers' contributions	\$ 1,994,759	\$ 2,021,020
Members' contributions	<u>2,219,417</u>	<u>2,074,572</u>
	<u>4,214,176</u>	<u>4,095,592</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	5,100,862	(2,097,234)
Interest	566,227	594,692
Dividends	188,102	205,981
Investment expenses	<u>(215,436)</u>	<u>(224,797)</u>
Total investment income	<u>5,639,755</u>	<u>(1,521,358)</u>
Republic of Palau appropriation	<u>-</u>	<u>125,000</u>
Other income	<u>30,681</u>	<u>25,542</u>
Total additions	<u>9,884,612</u>	<u>2,724,776</u>
Deductions:		
Benefit and refund payments:		
Normal and early retirement	3,686,269	3,473,297
Survivors	892,475	794,451
Refunds to terminated employees	278,115	374,125
Lump sum death disbursement	168,319	52,212
Disability	<u>43,791</u>	<u>46,291</u>
Total benefits	<u>5,068,969</u>	<u>4,740,376</u>
Administrative expenses	<u>263,423</u>	<u>253,976</u>
Total deductions	<u>5,332,392</u>	<u>4,994,352</u>
Net increase (decrease)	4,552,220	(2,269,576)
Plan net assets held in trust for pension benefits:		
Beginning of year	31,694,592	33,964,168
End of year	\$ <u>36,246,812</u>	\$ <u>31,694,592</u>

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

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

General

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

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

Membership

As of September 30, 2003 and 2002, the ROP National Government, ROP State Governments and ROP public corporations, quasi-governmental organizations and other public entities of the National and State Governments of ROP, are participating in the Fund. Membership consisted of the following as of October 1, 2001:

Members currently receiving benefits:	
Early retirement	64
Retired - 30 years of service	218
Retired - age 60	397
Retired - RPPL 5-7	4
Survivor	307
Disability	<u>21</u>
	1,011
Active employees:	
Vested	2,584
Nonvested	<u>124</u>
Total participants	<u>3,719</u>

Summary of the Principal Provisions of the Plan

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2003 and 2002

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

Eligibility to Participate

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

Service

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

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

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

Pension Benefits

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

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2003 and 2002

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

Pension Benefits, Continued

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

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

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

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

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

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

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2003 and 2002

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

Pension Benefits, Continued

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

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

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

Member Contributions

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

Employer and Other Contributions

Employers are required to contribute an amount equal to that contributed by employees. Per the provisions of RPPL No. 2-26 and RPPL No. 3-21, the Government of the Republic of Palau shall from time to time contribute additional sums to the Fund in order to keep the Fund on a sound actuarial basis. Additional contributions from the Government of the Republic of Palau amounted to \$-0- and \$125,000 for the years ended September 30, 2003 and 2002, respectively.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2003 and 2002

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

Net Appreciation (Depreciation) in Fair Value of Investments

During the years ended September 30, 2003 and 2002, the Fund's investments (including investments bought, sold, as well as held during the years) appreciated (depreciated) in value by \$5,100,862 and \$(2,097,234), respectively, as follows:

	Net Appreciation (Depreciation) In Fair Value	
	<u>2003</u>	<u>2002</u>
Investments at fair value as determined by quoted market price:		
Obligations of U.S. Government and Agencies, Corporate Stocks and Foreign Stocks	\$ <u>5,100,862</u>	\$ <u>(2,097,234)</u>

Plan Administration

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

New Accounting Standards

GASB has issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, which was subsequently amended by Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and modified by Statement No. 38, *Certain Financial Statement Disclosures*. These statements establish financial reporting standards for governmental entities which require that management's discussion and analysis of the financial activities be included with the basic financial statements and notes and modifies certain other financial statement disclosure requirements. The Fund adopted GASB Statement No. 34, as amended by GASB Statement No. 37, and certain provisions of GASB Statement No. 38 in fiscal year 2003. There were no significant changes required to the Fund's financial statements.

For fiscal year 2004, the Fund will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. For fiscal year 2005, the Fund will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of September 30, 2003, the Fund has not evaluated the financial statement impact of GASB Statement Nos. 40 and 42.

Method of Accounting and Disclosure

The financial statements of the Fund are prepared on the accrual basis of accounting and the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2003 and 2002

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

Valuation of Investments

Marketable securities held for investment purposes are stated at fair value. Limited partnership interests are reported at estimated fair value. 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 investment policies are defined in its Operation Plan. The Fund's investments are held by a bank-administered trust fund. The Fund has no investments in any commercial or industrial organization whose market value exceeds five percent or more of the net assets available for benefits.

The Fund's investments may be categorized as either: (1) insured and registered for which the securities are held by the Fund or its agent in the Fund's name; (2) uninsured and registered for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name; or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Fund's name. At September 30, 2003 and 2002, all of the Fund's investments are classified in category (2).

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the Statements of Plan Net Assets, the Fund considers all cash on hand, cash held in demand accounts, and highly liquid investments with an original maturity of three months or less when purchased, except money market funds held by the Fund's investment agent, to be cash and cash equivalents. Money market funds held by the Fund's investment agent are considered investments. Time certificates of deposit with an original maturity exceeding three months are separately classified.

The Fund does not require collateralization of its cash deposits. As of September 30, 2003 and 2002, total cash and cash equivalents were maintained in an Federal Deposit Insurance Corporation (FDIC) insured bank and amounted to \$122,205 and \$156,772, respectively, with corresponding bank balances of \$160,104 and \$178,899, respectively, with \$100,000 subject to insurance coverage. A time certificate of deposit (TCD) maintained in an uninsured bank amounted to \$398,842 and \$370,026 at September 30, 2003 and 2002, respectively. This TCD is restricted for purposes of funding construction of a building to be used for operations. The Fund has not entered into a commitment to construct the building as of September 30, 2003 due to boundary disputes on the proposed construction site.

Receivables

Contributions receivable from participants and employers, all of whom are situated in the Republic of Palau, are unsecured.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the respective assets.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2003 and 2002

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

Furniture, Fixtures and Equipment, Continued

Administrative expenses include depreciation and amortization expense of \$7,550 and \$8,836 in 2003 and 2002, respectively.

Accounts Payable and Accrued Expenses

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

Taxes

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

Estimates

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

(2) Funding Policy, Status and Progress

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Fund's funding status on a going-concern basis, and to evaluate progress made in accumulating adequate assets to pay benefits when due. This measure is independent of the actuarial funding method.

The pension benefit obligation was determined as part of the actuarial valuation at October 1, 2001. Significant actuarial assumptions are similar to those used in arriving at the actuarial present value of accumulated plan benefits.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2003 and 2002

(2) Funding Policy, Status and Progress, Continued

As of October 1, 2001, the unfunded pension benefit obligation was as follows:

Active participants	\$ 24,388,855
Participants in Pay Status	39,546,016
Vested deferred benefits	<u>572,878</u>
 Total pension benefit obligation	 64,507,749
Net assets available for benefits, at market value	<u>33,964,168</u>
 Unfunded benefit obligation	 \$ <u>30,543,581</u>

(3) Furniture, Fixtures and Equipment

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

	<u>Useful Lives</u>	<u>2003</u>	<u>2002</u>
Office equipment and furniture	3 - 10 years	\$ 51,696	\$ 46,293
Vehicles	6 years	<u>30,696</u>	<u>30,696</u>
 Less accumulated depreciation		 82,392 <u>(54,284)</u>	 76,989 <u>(46,734)</u>
 Net book value		 \$ <u>28,108</u>	 \$ <u>30,255</u>

(4) Republic of Palau Appropriation

RPPL 5-45 earmarked \$1,000,000 to the Fund, to be derived from revenues generated from a Virtual Pachinko Business. Of this \$1,000,000, RPPL 6-12, passed into law on September 30, 2001, allocated \$500,000 to the Fund for the employer contribution of the Palau Community College (PCC) for employees of PCC electing to participate. PCC employees opting to retroactively participate shall be enrolled in the Fund effective as of their start date with PCC or October 1, 1987, whichever is later. These employees are required to pay into the Fund their proportionate contribution for each year of retroactive participation. The Fund received \$-0- and \$125,000 related to RPPL 6-12 from ROP during the years ended September 30, 2003 and 2002, respectively.

ROP has determined that remaining amounts earmarked to the Fund through RPPLs 5-45 and 6-12 will only be remitted as revenues are generated from the Virtual Pachinko Business. Therefore, the Fund has not recognized the remaining \$875,000 as receivable and revenue in the accompanying financial statements.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Financial Statements  
September 30, 2003 and 2002

(4) Republic of Palau Appropriation, Continued

As a result of the provisions of RPPL 6-12, PCC employees who opted to claim prior years service executed payment agreements with the Fund totaling \$978,907 for prior years service claimed. As these employees are not mandated to continue payment agreements and can elect to have contributions refunded upon termination of payment agreements, and due to the uncertainty of collection of the employee's share through RPPL 6-12, the Fund has elected not to record PCC employee receivables for prior years service. The Fund received \$134,043 and \$53,552 from PCC employees during the years ended September 30, 2003 and 2002, respectively.

(5) Administrative Expenses

A summary of the administrative expenses for the years ended September 30, 2003 and 2002, is set forth below:

	<u>2003</u>	<u>2002</u>
Personnel	\$ 132,427	\$ 132,756
Conference expenses	36,787	46,310
Professional fees	25,462	4,010
Staff training	22,769	25,000
Rent and utilities	17,508	17,759
Depreciation	7,550	8,836
Communications	3,975	5,347
Board compensation	3,600	3,450
Miscellaneous	<u>13,345</u>	<u>10,508</u>
	\$ <u>263,423</u>	\$ <u>253,976</u>

(6) Risk Management

The Fund is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Fund has elected to purchase commercial insurance from independent third parties for the risk of loss to which it is exposed for automobiles. The Fund does not maintain insurance coverage for office equipment and furnitures. In the event of catastrophe, the Fund may be self-insured.

(7) Subsequent Event

At a meeting held on December 31, 2003, the Board of Trustees ratified a move to increase the employer contribution percentage from 6% to 10%. The increase shall be enacted by means of the Administrative Procedures Act and shall take effect on October 1, 2004. An actuarial study has not been performed to quantify the effect this will have on the Plan's funded status.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Funding Progress  
September 30, 2003

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -Aggregate Cost Method	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
10/01/94	\$ 8,487,789	\$ 8,487,789	\$ -	100.00%	\$ 22,024,534	0.0%
10/01/95	Actuarial valuations are performed biennially.					
10/01/96	See Note 3					
10/01/97	\$ 20,407,619	\$ 43,164,224	\$ 22,756,605	47.30%	\$ 21,644,941	105.1%
10/01/98	Actuarial valuations are performed biennially.					
10/01/99*	\$ 31,093,274	\$ 57,916,503	\$ 26,823,229 **	53.69%	\$ 24,676,493 **	108.7%
10/01/00	Actuarial valuations are performed biennially.					
10/01/01	\$ 33,964,168	\$ 64,507,749	\$ 30,543,581	52.65%	\$ 23,985,123	127.3%
10/01/02	Actuarial valuations are performed biennially.					

\* Reflects RPPL 4-49 and RPPL 5-30. See Notes to Required Supplementary Schedules, Note 2.

\*\* Includes Palau Community College based on "revised" actuarial valuation report dated July 29, 2001.

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Employer Contributions  
September 30, 2003

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>
1995	\$ 4,139,906	\$ 1,407,568	34.0%
1996	See Note 3	See Note 3	See Note 3
1997	See Note 3	See Note 3	See Note 3
1998	\$ 5,814,816	\$ 1,570,000	27.0%
1999	Actuarial valuations are performed biennially.		
2000*	\$ 6,415,562 **	\$ 1,668,046 **	26.0% **
2001	Actuarial valuations are performed biennially.		
2002	\$ 6,902,655 **	\$ 2,021,020	28.8%
2003	Actuarial valuations are performed biennially.		

\* Reflects RPPL 4-49 and RPPL 5-30. See Notes to Required Supplementary Schedules, Note 2.

\*\* Includes Palau Community College based on "revised" actuarial valuation report dated July 29, 2001.

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

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Required Supplementary Schedules  
September 30, 2003

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

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Fund's provisions to the service members have rendered through the most recent actuarial valuation date (October 1, 2001). Accumulated plan benefits include benefits expected to be paid to (i) retired, disabled, and terminated employees and their beneficiaries, (ii) beneficiaries of employees who have died, and to (iii) present employees and their beneficiaries. Benefits payable under all circumstances - retirement, death, disability, and termination of employment - are included, to the extent they are deemed attributable to employee service rendered through October 1, 2001.

The actuarial present value of accumulated plan benefits is determined by an independent actuarial firm and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawals, or retirement) between the most recent actuarial valuation (October 1, 2001), and the expected date of payment. The significant actuarial assumptions used to calculate the actuarial present value of accumulated plan benefits are presented below, and are based on the presumption that the Fund will continue in operation. Were the Fund to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Valuation Date:	October 1, 2001
Actuarial Cost Method:	Aggregate cost method
Valuation of Assets:	Market value, including accrued but unpaid contributions.
Return on Investment:	10.0% per year
Salary Increase:	3% per annum
Withdrawal Rates:	None
Disability Rates:	None
Mortality Rates:	Pre-retirement: None Post-retirement: Based on UP-84 Mortality Table
Retirement Age:	Members are assumed to retire at their normal retirement date.
Includes inflation at	0%

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Notes to Required Supplementary Schedules  
September 30, 2003

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

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

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

(3) Exceptions to GASB Statement 25

The Fund follows the financial reporting standards of GASB 25. Contrary to GASB 25, the Fund did not have an actuarial valuation performed at least biennially for years 1996 and 1997.

See Accompanying Independent Auditors' Report.

REPUBLIC OF PALAU  
CIVIL SERVICE PENSION TRUST FUND

Schedule of Investment Securities  
September 30, 2003

	2003		
	Face Value	Cost	Fair Value
<u>Money Market Funds</u>			
Pacific Capital U.S. Government Securities	\$ 2,364,144	\$ 2,364,144	\$ 2,364,144
<u>Obligations of U.S. Government and Agencies</u>			
Federal National Mtg Assn Notes @ 6.25%, due 2/01/2011	\$ 3,590,000	\$ 3,660,690	\$ 4,034,263
Federal National Mtg Assn Notes @ 2.125%, due 4/15/2006	2,840,000	2,842,662	2,852,439
	<u>\$ 6,430,000</u>	<u>\$ 6,503,352</u>	<u>\$ 6,886,702</u>
<u>Corporate Bonds</u>			
Toys R Us Inc Bonds @ 7.375%, due 10/15/2018	\$ 500,000	\$ 501,920	\$ 513,000
	<u>\$ 500,000</u>	<u>\$ 501,920</u>	<u>\$ 513,000</u>
		2003	
	Number of Shares	Cost	Fair Value
<u>Preferred Stock</u>			
Ace Ltd Pfd 7.8% Ser C Cumulative	43,000	\$ 1,100,030	\$ 1,126,600
<u>Corporate Stock</u>			
Ace Ltd	21,600	\$ 403,539	\$ 714,528
Aetna Inc New	18,300	1,078,450	1,116,849
American Express Co	7,800	351,374	351,468
Amgen Inc	13,000	903,946	838,760
AOL Time Warner	45,000	555,975	679,950
Berkshire Hathaway Inc Class B	385	883,572	960,960
Boston Scientific Corp	11,900	493,710	759,220
Cisco Systems	93,200	1,383,784	1,825,788
Citigroup Inc.	24,394	669,493	1,110,171
Clear Channel Communications Inc	17,298	721,727	662,513
Comcast Corp Special Cl A	42,700	1,098,457	1,265,628
Dell Inc	29,300	825,773	979,206
D.R. Horton Inc	12,600	382,850	412,020
Echostar Communications - A	31,800	544,357	1,218,258
Fox Entertainment Grp Inc - A	23,600	546,987	660,564
Goldman Sachs Group Inc	6,100	435,306	511,790
Hewlett-Packard Company	34,500	729,687	667,920
Int'l Business Machines	20,200	1,636,509	1,784,266
JP Morgan Chase & Co	31,200	1,078,933	1,071,096
Lehman Bros Holdings Inc Common	7,700	482,357	531,916
Lowes Cos Inc	12,300	320,280	638,370
Microsoft Corp.	62,800	1,240,363	1,745,840
Nextel Communications Inc. Class A	29,100	256,241	573,561
Renaissancere Holdings Ltd.	8,200	247,846	374,166
Staples Inc	15,600	360,385	371,904
Taiwan Semiconductors - SP ADR	93,189	743,583	1,009,237
Toys R Us Inc	25,800	343,364	310,374
Unitedhealth Group Inc	18,100	963,332	910,792
Viacom Inc Class B (Non Voting)	12,000	439,309	459,600
	<u>769,666</u>	<u>\$ 20,121,489</u>	<u>\$ 24,516,715</u>
<u>Limited Partnership Interests</u>			
Angeles Income Properties, Inc.	10	\$ 10,000	\$ 2,400
Brauvin Real Estate Fund	60	60,000	59,626
High Equity Partners, Ser. 88	100	25,000	18,535
Jones Cable TV Fund	80	40,000	22,800
PLM Egt. Growth Fund III	3,000	60,000	22,500
Public Storage Partners PFD. YLD.	100	50,000	34,375
	<u>3,350</u>	<u>\$ 245,000</u>	<u>\$ 160,236</u>

See Accompanying Independent Auditors' Report.