



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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Des Moines, Iowa 50319-0004

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**NEWS RELEASE**

FOR RELEASE

December 17, 2013

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Peace Officers' Retirement, Accident and Disability System for the year ended June 30, 2013. The System provides retirement, disability and death benefits to the peace officers of the Iowa Department of Public Safety and their dependents. The System covered 1,200 active and retired peace officers in fiscal year 2013.

The System's net position restricted for pension benefits totaled \$329,920,144 at June 30, 2013. Additions included employer contributions of \$11,777,661, member contributions of \$4,512,096 and net investment income of \$45,058,709. Deductions for the fiscal year totaled \$24,251,617, primarily for pension and annuity benefits.

The System's unfunded actuarial accrued liability decreased approximately \$8,220,000 during fiscal year 2013, from approximately \$187,247,000 at June 30, 2012 to approximately \$179,027,000 at June 30, 2013. The unfunded actuarial accrued liability as a percentage of covered payroll decreased from 427% for fiscal year 2012 to 407% for fiscal year 2013.

A copy of the audit report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1460-5521-0000.pdf>.

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**PEACE OFFICERS' RETIREMENT, ACCIDENT  
AND DISABILITY SYSTEM**

**INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**JUNE 30, 2013**

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**Peace Officers'  
Retirement, Accident and Disability System**

**Officials**

Name

Title

**State**

Honorable Terry E. Branstad  
David Roederer  
Glen P. Dickinson

Governor  
Director, Department of Management  
Director, Legislative Services Agency

**Board of Trustees**

Commissioner K. Brian London  
Commissioner Larry L. Noble  
Honorable Michael L. Fitzgerald  
Chris Mayer  
Jack Wissler  
Robert Conrad

Chairperson (through September 3, 2013)  
Chairperson (effective September 4, 2013)  
Member  
Member (through April 30, 2014)  
Member (through June 30, 2014)  
Member (through June 30, 2015)

**Agency**

Martin G. Deaton  
Linda Guffey

Director of Administrative Services, Department  
of Public Safety  
Secretary, Peace Officers' Retirement, Accident  
and Disability System

**Peace Officers'  
Retirement, Accident and Disability System**



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Independent Auditor's Report

To the Board of Trustees of the Peace Officers'  
Retirement, Accident and Disability System:

Report on the Financial Statements

We have audited the accompanying financial statements of the Peace Officers' Retirement, Accident and Disability System (System), as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the System's 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 accordance 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 U.S. generally accepted auditing standards 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 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 System'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 System'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 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 fiduciary net position of the Peace Officers' Retirement, Accident and Disability System as of June 30, 2013, and the changes in fiduciary net position for the year then ended in accordance with U.S. generally accepted accounting principles.

### Emphasis of a Matter

As discussed in Note 2, the financial statements present the financial position and changes in financial position of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the Peace Officer's Retirement, Accident and Disability System. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2013, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.


### Other Matters


#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 7 through 9, the Schedule of Funding Progress on page 26 and the Schedule of Employer Contributions on page 27 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 which 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 U.S. generally accepted auditing standards, 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 December 3, 2013 on our consideration of the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 3, 2013



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This discussion and analysis of the Peace Officers' Retirement, Accident and Disability System (PORS) provides an overview of the System's financial activities for the fiscal year ended June 30, 2013.

### 2013 FINANCIAL HIGHLIGHTS

- Fiduciary net position restricted for pension benefits increased approximately \$37.1 million during fiscal year 2013 (FY13). At June 30, 2013, total assets were approximately \$340.3 million and total liabilities were approximately \$10.4 million, resulting in fiduciary net position restricted for pension benefits of approximately \$329.9 million.
- Covered payroll, upon which employee and employer pension contributions are calculated, totaled \$43,595,130 for fiscal year 2013. Member contributions in fiscal year 2013 totaled \$4,512,096, an increase of \$182,175 (4.2%) compared to fiscal year 2012. Employer contributions in fiscal year 2013 totaled \$11,777,661, an increase of \$1,036,457 (9.6%) over fiscal year 2012, primarily as a result of the contribution rate increasing from 25% to 27%.
- Net investment income, after investment-related expenses, was approximately \$45.1 million in fiscal year 2013 compared to a net investment loss of approximately \$7.3 million in fiscal year 2012. Investment performance for fiscal year 2013 was an annualized rate of 15.6% compared to an annualized rate of -2.5% for fiscal year 2012.
- Total additions for fiscal year 2013 were \$61,348,466, an increase of \$53,590,911 over fiscal year 2012 additions of \$7,757,555, primarily due to an increase in the fair value of investments during fiscal year 2013.
- Pension benefits paid to members totaled \$24,076,895, an increase of \$739,062 when compared to fiscal year 2012 when members were paid \$23,337,833.
- Administrative expenses totaled \$174,722 as compared to \$204,160 of administrative expenses for fiscal year 2012.

### USING THIS FINANCIAL REPORT

This financial report reflects the activities of the Peace Officers' Retirement, Accident and Disability System as reported in the Statement of Fiduciary Net Position (see page 12) and the Statement of Changes in Fiduciary Net Position (see page 13). These statements are presented on an accrual basis and reflect all trust activities as incurred. The Notes to Financial Statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The required supplementary information following the Notes to Financial Statements provide historical and additional detailed information considered useful in evaluating the condition of the System.

## ANALYSIS OF PLAN NET POSITION

Tables 1 and 2 provide condensed summaries of the fiduciary net position and a breakdown of the changes in fiduciary net position, with comparisons to the previous fiscal year.

### FIDUCIARY NET POSITION

June 30	2013	2012	Increase (Decrease) Amount	Increase (Decrease) Percent
Cash and investments	\$ 332,510,986	\$ 304,217,205	\$ 28,293,781	9.3%
Receivables	7,758,718	4,584,059	3,174,659	69.3%
Total assets	340,269,704	308,801,264	31,468,440	10.2%
Total liabilities	10,349,560	15,977,969	(5,628,409)	-35.2%
<b>Net position</b>	<b>\$ 329,920,144</b>	<b>\$ 292,823,295</b>	<b>\$ 37,096,849</b>	<b>12.7%</b>

A large percentage of total assets (95.9%) are made up of investments held to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. Other assets, including cash, cash equivalents and receivables, comprise approximately 4.1% of total assets. Total assets increased \$31,468,440, or 10.2%, from the previous year.

Total liabilities represent current liabilities and consist primarily of amounts owed for investment-related transactions, amounts owed to members or their beneficiaries and amounts owed to contractors and vendors. Total liabilities decreased \$5,628,409, or 35.2%, from fiscal year 2012 due, in large part, to a decrease in investment-related payables.

### CHANGES IN FIDUCIARY NET POSITION

Fiscal years ended June 30	2013	2012	Increase (Decrease) Amount	Increase (Decrease) Percent
<b>Additions:</b>				
Member contributions	\$ 4,512,096	\$ 4,329,921	\$ 182,175	4.2%
Employer contributions	11,777,661	10,741,204	1,036,457	9.6%
Net investment income (loss)	45,058,709	(7,313,570)	52,372,279	716.1%
<b>Total additions</b>	<b>61,348,466</b>	<b>7,757,555</b>	<b>53,590,911</b>	<b>690.8%</b>
<b>Deductions:</b>				
Pension and annuity benefits	24,076,895	23,337,833	739,062	3.2%
Administrative expenses	174,722	204,160	(29,438)	-14.4%
<b>Total deductions</b>	<b>24,251,617</b>	<b>23,541,993</b>	<b>709,624</b>	<b>3.0%</b>
<b>Change in net position</b>	<b>\$ 37,096,849</b>	<b>\$ (15,784,438)</b>	<b>\$ 52,881,287</b>	<b>-335.0%</b>

The increase in the fiduciary net position during fiscal year 2013 was due to the increase in market conditions. There is an excess of benefits paid relative to contributions received, which is characteristic of a mature pension plan such as PORS. The Plan's annualized rate of return for fiscal year 2012 was -2.5%. In fiscal year 2013, the annualized rate of return was 15.6%.

The following table contains the fiscal year performance for each asset class, targeted asset allocation and the System's actual asset allocation as of June 30, 2013.

<b>Asset Class</b>	<b>Return</b>	<b>Targeted Asset Allocation</b>	<b>Actual Asset Allocation</b>
Active large capital stocks	22.62%	12.00%	11.04%
Passive large capital stocks	2.56	13.00	12.28
Small capital stocks	27.21	15.00	20.14
Fixed income (bonds)	5.45	25.00	26.30
International equity	16.01	25.00	23.21
Real estate	13.67	10.00	6.24
Cash	.08	0.00	0.79
Total	15.6	100.00%	100.00%

### **CONTACTING SYSTEM FINANCIAL MANAGEMENT**

This financial report is designed to provide our membership, taxpayers and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Iowa Department of Public Safety Peace Officers' Retirement System, Public Safety Building, 215 East 7<sup>th</sup> Street, Des Moines, Iowa 50319.

**Peace Officers'  
Retirement, Accident and Disability System**

## **Basic Financial Statements**

**Exhibit A**

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Peace Officers'  
Retirement, Accident and Disability System

## Statement of Fiduciary Net Position

June 30, 2013

Assets:		
Cash and cash equivalents		\$ 6,026,845
Receivables:		
Investments sold	\$ 5,746,884	
Contributions	1,019,136	
Accrued interest	838,309	
Dividends	154,389	7,758,718
Investments, at fair value:		
Equity investments	212,042,007	
Fixed income securities	81,092,798	
Real estate	15,824,888	
Securities on loan with brokers	8,655,264	
Securities lending collateral pool	8,869,184	326,484,141
Total assets		<u>340,269,704</u>
Liabilities:		
Payables:		
Broker rebates and collateral deposits	8,869,184	
Investments purchased	1,149,413	
Accounts	330,963	10,349,560
Net position restricted for pension benefits		<u>\$ 329,920,144</u>

See notes to financial statements.

Peace Officers'  
Retirement, Accident and Disability System  
Statement of Changes in Fiduciary Net Position  
Year ended June 30, 2013

Additions:		
Contributions:		
Member		\$ 4,512,096
Employer		11,777,661
Investment income:		
Interest	\$ 4,644,675	
Dividends	3,158,213	
Net increase in fair value of investments	38,963,000	
Less investment expense	(1,707,179)	
Net investment income		<u>45,058,709</u>
Total additions		<u>61,348,466</u>
Deductions:		
Pension and annuity benefits		24,076,895
Administrative expenses		174,722
Total deductions		<u>24,251,617</u>
Net increase in fiduciary net position		37,096,849
Net position restricted for pension benefits:		
Beginning of year		<u>292,823,295</u>
End of year		<u>\$ 329,920,144</u>

See notes to financial statements.

Peace Officers'  
Retirement, Accident and Disability System

Notes to Financial Statements

June 30, 2013

**(1) Plan Description**

Plan Membership

The Peace Officers' Retirement, Accident and Disability System is the administrator of a single-employer defined-benefit public employee retirement system (PERS) that is a statewide retirement system for peace officers in the Iowa Department of Public Safety. Employee membership data as of June 30, 2013 was as follows:

Current retirees and beneficiaries	555
Terminated members with deferred benefits	46
Active plan members:	
Fully vested	575
Non-vested	24
	<hr/>
Total	1,200
	<hr/> <hr/>

Plan Benefits

Plan benefits are established by state law under Chapter 97A of the Code of Iowa and may be amended only by the State legislature.

1. Service Retirement Benefits – A member may retire with a service allowance after completing twenty-two years of creditable service and attaining the minimum service retirement age of fifty-five. The retirement allowance consists of a pension equal to 60.5% of the member's average final compensation plus an additional 2.75% for each year of service over twenty-two years, not to exceed ten additional years, or a maximum of 88%. The member's average final compensation is the average earnable compensation of the member during the member's highest three years of service as a member of the Iowa Department of Public Safety.
2. Ordinary Disability Retirement Benefits – A member may retire on an ordinary disability retirement allowance, provided the medical board, after a medical examination of the member, has certified the member is mentally or physically incapacitated for further performance of duty and such incapacity is likely to be permanent and the member should be retired. The ordinary disability retirement allowance consists of a pension which is equal to 50% of the member's average final compensation, except if the member has not had five or more years of membership service. Then the member will receive a pension equal to 25% of the member's average final compensation. If the member has had twenty-two or more years of membership service, the member shall receive the greater of the benefit that would be payable under a service retirement if the member were fifty-five years of age or 50% of the member's average final compensation.



3. Accidental Disability Benefit – A member who has become totally and permanently incapacitated for duty as the result of an injury, disease or exposure occurring while in the actual performance of duty will be retired by the Board of Trustees, provided the medical board has certified such member is mentally or physically incapacitated for further performance of duty, such incapacity is likely to be permanent and the member should be retired. Upon retirement for accidental disability, a member will receive an accidental disability retirement allowance which consists of a pension equal to 60% of the member's average final compensation. If the member has had twenty-two or more years of membership service, the member will receive the greater of the benefit payable under a service retirement if the member were fifty-five years of age or 60% of the member's average final compensation.
4. Ordinary Death Benefit – Upon the death of a member who has one or more years of service and no pension payable for accidental death benefits, an amount equal to 50% of the final year of compensation will be payable to the member's beneficiary. If the member was in service at the time of death, the beneficiary, if qualified, may elect to receive a pension equal to 40% of the average final compensation, but not less than an amount equal to 25% of the compensation paid to an active member having the rank of senior patrol officer of the Iowa highway safety patrol payable immediately upon the death of the member. If the member was not in service at the time of death, the pension will be reduced to a prorated service allowance payable commencing when the member would have attained the age of fifty-five.

In addition, immediately upon death, there will be paid for each child of a member a monthly pension equal to 6% of the monthly earnable compensation payable to an active member having the rank of senior patrol officer.

5. Accidental Death Benefit – Upon the death of a member as a result of an accident or exposure occurring in the performance of duty, there will be payable to the member's surviving spouse, children or dependent parent a pension equal to 50% of the average final compensation of the member. If there is no surviving spouse, children or dependent parent, the death will be treated as an ordinary death case and the benefit will be payable to the member's estate.

In addition, immediately upon death, there will be paid for each child of a member a monthly pension equal to 6% of the monthly earnable compensation payable to an active member having the rank of senior patrol officer.

6. Line of Duty Death Benefit – Upon the receipt of evidence and proof the death of a member in service was the direct and proximate result of a traumatic personal injury incurred in the line of duty, the person authorized to receive an accidental death benefit will receive a lump sum payment equal to \$100,000.
7. Adjustments to Pensions – Each July 1 and January 1, if applicable, the following adjustments are made: Monthly earnable compensation payable to an active member, of the same rank and position in the salary scale as was held by the retired or deceased member at the time of the member's retirement or death, for July of the current year less that of the preceding July, times the following percentages:
  - (1) 40% for members receiving a service retirement allowance and for beneficiaries receiving an accidental death benefit.

- (2) 40% for members with five or more years of membership who are receiving an ordinary disability benefit.
- (3) 40% for members receiving an accidental disability benefit.
- (4) 24% for members with less than five years of membership who are receiving an ordinary disability benefit and for beneficiaries receiving an ordinary death benefit.
- (5) 50% of the amount which would have been added to the benefit of the retired member, for surviving spouses, but not less than 25% of the monthly earnable compensation paid to an active member having the rank of senior patrol officer.

Additionally, the following amounts will be added to a member or beneficiary initial monthly pension as follows:

Years Since Retired *	Amount
0-4	\$ 15
5-9	20
10-14	25
15-19	30
20 or more	35

\* Measured in whole years.

There was a change in the way the flat escalator was applied effective July 1, 2010. Prior to 2010, the amount increased for each year after retirement.

Surviving children's pensions are adjusted each July to equal 6% of monthly earnable compensation payable to an active member having the rank of senior patrol officer of the state patrol.

Vested Membership – A member leaving covered employment before attaining retirement age but after completing at least four years of covered service is entitled to receive a service retirement allowance upon attaining the minimum service retirement age provided his or her accumulated contributions have not been withdrawn.

## **(2) Summary of Significant Accounting Policies**

### **A. Reporting Entity**

For financial reporting purposes, the Peace Officers' Retirement, Accident and Disability System (System) has included all funds. The System has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the System to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the System. The System has no component units which meet the Governmental Accounting Standards Board criteria.

### **B. Fund Accounting**

The System is treated for accounting purposes as a Pension Trust Fund. The operations of the fund are accounted for with a separate set of self-balancing accounts which comprise its assets, liabilities, net position, additions and deductions.

### **C. Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The System's financial statements are prepared using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles as applied to governmental units. Contributions are recognized in the period in which the contributions are due. Pension benefits and annuities are recognized when due and payable in accordance with the terms of the plan.

### **D. Cash and Cash Equivalents**

Cash and cash equivalents represent cash and money market investments held by the Treasurer of State and cash allocated to the System's investment managers for investment. The System's deposits throughout the year and at year end were entirely covered by federal depository insurance or by the State Sinking Fund.

### **E. Investments**

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments without an established market are reported at estimated fair value.

The Board of Trustees is responsible for investing the Peace Officers' Retirement, Accident and Disability System's funds. The System is authorized by statute to invest in any form of indebtedness issued, assumed or guaranteed by the federal government. In addition, the fund may be invested in a manner consistent with the "Uniform Prudent Investor Act." The act requires a trustee to invest and manage trust property as a prudent investor would, by considering the purposes, terms, distribution requirements and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution.

Investments in governmental bonds and treasury notes constitute approximately 7.52% of total assets.

The System spent \$1,707,179 for investment management expenses, which was .5% of the market value of the total assets at June 30, 2013.

The System's investments in common stock and fixed income securities, stated at cost, are \$161,278,612 and \$80,220,408, respectively.

Credit risk – Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation to the System. As of June 30, 2013, the System's fixed income assets not government guaranteed represented 83.76% of the fixed income holdings. The following table summarizes the System's portfolio exposure levels and credit qualities for fixed income and fixed income securities on loan with brokers.

**Credit Risk - S&P Quality Ratings (Amounts rounded to the nearest thousand)**

Investment Type:	TSY	AAA	AA	A	BBB	BB	B	Below B	Not	
									Rated	Total
1) Short Term Investments:										
A) Short Term Pooled Funds and Mutual Funds	\$ -	-	-	-	-	-	-	-	5,690	5,690
2) Fixed Income Investments:										
A) U.S. Government:										
1) U.S. Government Treasury Notes	10,753	-	-	-	-	-	-	-	-	10,753
2) U.S. Government Treasury Bonds	3,772	-	-	-	-	-	-	-	-	3,772
3) Other Government Fixed Income	-	2,691	2,668	1,571	1,029	295	-	-	2,823	11,077
B) Mortgage Backed:										
1) Federal National Mortgage Association	-	-	3,445	-	-	-	-	-	-	3,445
2) Collateralized Mortgage Backed Securities	-	-	142	1,138	1,750	-	-	-	293	3,323
C) Corporate Fixed Income:										
1) Government CMO's	-	-	132	192	-	-	-	-	90	414
D) State and Local Obligations	-	-	10	188	-	-	-	-	-	198
E) Corporate:										
1) Corporate Bonds	-	-	1,672	4,018	18,959	3,813	1,927	209	2,002	32,600
2) Corporate Asset Backed	-	731	-	-	-	-	-	-	398	1,129
3) Private Placement	-	-	-	4,336	7,010	2,012	81	-	2,135	15,574
4) Preferred Stock	-	-	-	-	203	419	-	-	836	1,458
<b>Total</b>	<b>14,525</b>	<b>3,422</b>	<b>8,069</b>	<b>11,443</b>	<b>28,951</b>	<b>6,539</b>	<b>2,008</b>	<b>209</b>	<b>14,267</b>	<b>89,433</b>

There are no system-wide policy limitations for credit risk exposures within the portfolio. Each portfolio is managed in accordance with an investment contract specific as to permissible credit quality ranges and the average credit quality of the overall portfolios. Policies related to credit risk pertaining to the System's securities lending program are included within the securities lending disclosures found later in this note to financial statements.

Concentration of credit risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issue.

The System's investment policy states no investment manager shall be permitted to invest more than 4.9% of its System account in any one corporate issuer without written direction and approval of the Treasurer of State of Iowa.

Interest rate risk – Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration methodology. It is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve.

**Interest Rate Sensitivity-Duration**

<b>Investment Type:</b>	<b>Fair Value</b>	<b>Duration (in years)</b>
1) Short Term Investments:		
A) Short Term Pooled Funds and Mutual Funds	5,689,843	0.00
2) U.S. Fixed Income:		
A) U.S. Government:		
1) U.S. Government Treasury Notes	10,753,652	3.81
2) Other Government Treasury Bonds	3,771,727	12.95
3) U.S. Government Agencies	-	
4) Other Government Fixed Income	11,077,936	5.27
B) Mortgage Backed:		
1) Government National Mortgage Association	24	0.13
2) Federal national Mortgage Association	3,445,300	5.16
3) Collateralized Mortgage Backed Securities	3,322,821	3.35
C) Corporate Fixed Income:		
1) Government CMO's	413,335	0.57
D) State and Local Obligations	197,934	9.11
E) Corporate Fixed Income:		
1) Corporate Bonds	32,601,109	6.72
2) Coporate Asset Backed	1,128,388	1.22
3) Private Placement	15,574,268	6.54
4) Preferred Stock	1,457,084	3.49
<b>Total</b>	<b>\$ 89,433,421</b>	
Portfolio duration		<b>5.66</b>

Foreign currency risk – Foreign currency risk is the risk changes in exchange rates will adversely impact the fair value of an investment. From time to time, the System’s external managers may or may not hedge the portfolio’s foreign currency exposures with forward foreign exchange contracts, currency options, currency futures or options on currency futures depending on their views on a specific foreign currency relative to the U.S. dollar.

**Foreign Currency Risk (Rounded to the nearest thousand)**

<u>Currency by Investment</u>	<u>Fair Value</u>	
	<u>Cash</u>	<u>Fixed Income</u>
Australian Dollar	\$ 8	361
Brazil Real		1,551
Canadian Dollar		3,040
Chilean Peso		198
Columbian Peso		50
Euro Currency Unit	3	2,442
Iceland Krona		41
Malaysian Ringgit		750
Mexican New Peso		1,778
New Zealand Dollar		1,444
Norwegian Krone		1,501
Pound Sterling		317
Singapore Dollar		1,479
<b>Total</b>	<b>\$ 11</b>	<b>14,952</b>

The Board of Trustees has authorized participation in the securities lending program administered by the Treasurer of State. The Treasurer of State has selected Bank of New York Mellon to serve as the custodian bank for the System and the lending agent for the securities lending program. In its capacity as lending agent, Bank of New York Mellon is responsible for operating the program and is permitted to lend any of the securities it holds in custody for the System to broker-dealers and other entities in exchange for collateral. The Bank of New York Mellon is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities or irrevocable letters of credit. A borrower is required to initially deliver collateral in an amount equal to 102% of the fair value of any U.S. securities lent and 105% of the fair value of any non-U.S. securities lent. Borrowers are required to provide additional collateral any time the value of the collateral drops below 100% of the value of the security lent plus accrued interest income.

At year-end, the System had no credit risk exposure to borrowers because the amounts they owed to the System did not exceed the amount the System owed the borrowers. The contract with Bank of New York Mellon requires it to indemnify the System if a borrower fails to return the securities or fails to return all of the income attributable to securities on loan. The securities lending contract does not allow the System to pledge or sell collateral securities received unless the borrower defaults. As of June 30, 2013, the System had securities on loan, including accrued interest income, with a total value of \$8,655,264 against collateral with a total value of \$8,869,184.

The majority of securities loans are open loans, i.e., one day maturity, where the rebate rate due the borrower is renegotiated daily. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from borrowers is invested in a cash collateral investment pool which is managed by the custodian bank in accordance with investment guidelines established by the System. The System bears investment risk if Bank of New York Mellon invests in securities which decrease in value or default. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturity of the investments with the loans.

Derivatives

GASB Statement No. 53 requires the fair value of financial arrangements called “derivatives” or “derivative instruments” be reported in the financial statements of state and local governments. The statement further requires derivatives be categorized as either a hedging derivative or an investment derivative. All of the System’s derivative exposures at June 30, 2013 are categorized as investment derivatives and, therefore, the hedge accounting provisions of GASB Statement No. 53 are not applicable.

The derivatives utilized by System investment managers are described below. Although the notional values associated with these derivative instruments are not recorded in the financial statements, the fair value amounts of exposure (unrealized gains/losses) are reported in the Statement of Fiduciary Net Position.

Futures Contracts – The System had investments in futures during the year. These contracts are reported at their fair value in the Statement of Fiduciary Net Position.

Futures can potentially offer lower-cost and more efficient alternatives to buying the underlying securities or currency. Futures can also serve to minimize certain unwanted risks within the portfolio. The market, currency and credit risk of the futures were the same as if the System had owned the underlying securities or currency.

For the overlay portion of the strategy managed by Dix Hills Partners, exchange traded futures are utilized due to their high liquidity, transparent pricing and limited counterparty risk. On a daily basis, the futures are marked to market and cash in excess of the exchange regulated margin requirements are “swept” into the custodial account (the Core Portfolio) to earn interest and minimize counterparty risk.

	Expiration Date	Long/ Short	Notional Value	Fair Value
10-year U.S. Treasury notes	September 2013	Long	\$ 1,200,000	1,518,750

### (3) Annual Pension Cost and Net Pension Obligation

The annual pension cost and the net pension obligation of the System for the current year were as follows:

Annual required contribution	\$ 18,785,849
Interest on net pension obligation	3,123,201
Adjustment to annual required contribution	(2,464,239)
Annual pension cost	19,444,811
Contributions made	11,777,661
Increase in net pension obligation	7,667,150
Net pension obligation beginning of year	39,040,010
Net pension obligation end of year	<u>\$ 46,707,160</u>

For calculation of the net pension obligation, the actuary has set the transition date as July 1, 1995. The end of year net pension obligation was calculated by the actuary as the cumulative difference between the System's annual required contributions and the System's actual contributions for fiscal years 1988 through 2013.

Three-year trend information is as follows:

Year Ended June 30,	Annual Pension Cost (APC)	Employer Contributions Made	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 15,666,594	9,554,014	61%	\$ 32,315,752
2012	17,465,462	10,741,204	61	39,040,010
2013	19,444,811	11,777,661	61	46,707,160

As of July 1, 2013, the most recent actuarial valuation date, the plan was 64% funded. The actuarial accrued liability for benefits was \$498,468,989 and the actuarial value of assets was \$319,441,635, resulting in an unfunded actuarial accrued liability (UAAL) of \$179,027,354. The projected covered payroll (annual payroll of active employees covered by the plan) was \$43,984,577 and the ratio of the UAAL to the covered payroll was 407%.

The Schedule of Funding Progress, presented as Required Supplementary Information in Schedule 1 following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared beginning July 1, 2008 using the entry age actuarial cost method for that purpose and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

The annual required contribution for the current year was determined as part of the July 1, 2013 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) 8% investment rate of return, (b) projected salary increases of 7.25% for the first fourteen years, 6.50% for years fifteen through nineteen, 5.25% for year twenty and 4.25% thereafter, (c) payroll growth of 3.75% and (d) postretirement benefits based on expected payroll growth and provision of the law. The actuarial value of assets was determined using a smoothing method that spreads the difference between the actual return and the expected return over four years. The UAAL is amortized as a level percent of payroll over a closed 30-year period commencing July 1, 2008.



**(4) Contributions Required and Contributions Made**

The contributions to the System were made pursuant to Chapter 97A of the Code of Iowa and were not based upon actuarial determinations. Therefore, actual contributions differ from the annual required contribution described in Note 3, which is actuarially determined.

Member contribution rates are established by statute at 10.35% of covered payroll. HF 2518 enacted by the 2010 Legislature changed the scheduled contribution rates for both the employee and the employer. Employee contributions are scheduled to increase by 0.5% each year for four years, beginning at 9.35% in fiscal year 2011 and increasing to 11.35% on July 1, 2014. This is deducted from the member's gross pay and remitted by the employer.

The employer rate is scheduled to increase from 27% for plan year 2013 by 2% each year until reaching 37% in the year beginning July 1, 2017. The State will also begin contributing an additional \$5 million each year, beginning July 1, 2013, until the funded status of the system attains 85%. Contribution provisions are established by State law and may be amended only by the State legislature. The State of Iowa has historically followed a contribution policy of appropriating funds based upon a percentage of the current salaries for which funds are appropriated.

The member contribution required and contributed was \$4,512,096 representing 10.35% of current year covered payroll. The State contribution required by statute and the amount actually contributed was \$11,777,661. Costs of administering the plan are financed through employer contributions and investment income.

An actuarial valuation of the System's assets and liabilities is required at least once every two years per Chapter 97A of the Code of Iowa.

**(5) Risk Management**

State employee benefits for health, dental, long-term disability and life insurance coverage are fully insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years. The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts.

A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

**Peace Officers'  
Retirement, Accident and Disability System**

**Required Supplementary Information**

**Schedule 1**

Peace Officers'  
Retirement, Accident and Disability System

Schedule of Funding Progress  
Required Supplementary Information

For the Last Six Fiscal Years  
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Projected Covered Payroll (c)	UAAL/ Covered Payroll ((b-a)/c)
		Accrued Liability [AAL] (b)	Unfunded AAL [UAAL] (b-a)			
7/1/2008 *	\$ 307,292	417,176	109,884	74%	\$ 40,830	269%
7/1/2009	300,262	432,894	132,632	69	41,862	317
7/1/2010	290,559	433,402	142,844	67	41,955	340
7/1/2011	288,851	461,595	172,744	63	43,494	397
7/1/2012	292,910	480,157	187,247	61	43,902	427
7/1/2013	319,442	498,469	179,027	64	43,985	407

\* Prior to July 1, 2008, this amount was based on the projected unit credit method and the aggregate actuarial cost method was used to determine the annual required contribution. Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared beginning July 1, 2008 using the entry age actuarial cost method for that purpose and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

A smoothing method is used to determine the actuarial (market related) value of assets. The smoothing method is designed to reduce changes in the normal contribution rate which could result from fluctuations in the fair value of the assets of the System. The actuarial value of assets spreads the difference between the actual return and the expected return evenly over four years.

The actuarial contribution rate for fiscal year 2013 was 42.79%, but the statutory contribution rate was only 27% of covered payroll. This difference between the actual and actuarial contribution rate increased the UAAL by approximately \$7 million. The \$5 million supplemental appropriation for fiscal year 2014 is expected to nearly eliminate the increase in the UAAL that would occur for fiscal year 2014 due to the contribution shortfall of 12.48% of covered payroll.

See Note 3 for additional information on the actuarial valuation.

See accompanying independent auditor's report.

Peace Officers'  
Retirement, Accident and Disability System

Schedule of Employer Contributions  
Required Supplementary Information

for the Last Six Fiscal Years

Year Ended June 30,	Annual Required Contribution	Total Employer Contribution	Percentage Contributed
2008	\$ 13,599,115	6,696,538	49%
2009	13,118,615	7,898,356	59
2010	14,727,191	8,498,523	58
2011	15,116,242	9,554,014	63
2012	16,826,611	10,741,204	64
2013	18,785,849	11,777,661	63

See Note 3 for additional information on the actuarial valuation.

See accompanying independent auditor's report.

**Independent Auditor's Report 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**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA  
Auditor of State

Independent Auditor's Report 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

To the Board of Trustees of the Peace Officers'  
Retirement, Accident and Disability System:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Peace Officers' Retirement, Accident and Disability System, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the basic financial statements, and have issued our report thereon dated December 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting to determine the audit procedures 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 Peace Officers' Retirement, Accident and Disability System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Peace Officers' Retirement, Accident and Disability System'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 a material misstatement of the System'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 which 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. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Peace Officers' Retirement, Accident and Disability System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards.

### 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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Peace Officers' Retirement, Accident and Disability System during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 3, 2013

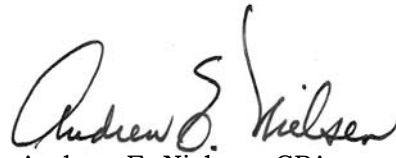


Peace Officers'  
Retirement, Accident and Disability System

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager  
Keith C. Kistenmacher, Senior Auditor  
Ryan J. Pithan, Assistant Auditor  
Miranda A. Shipman, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State