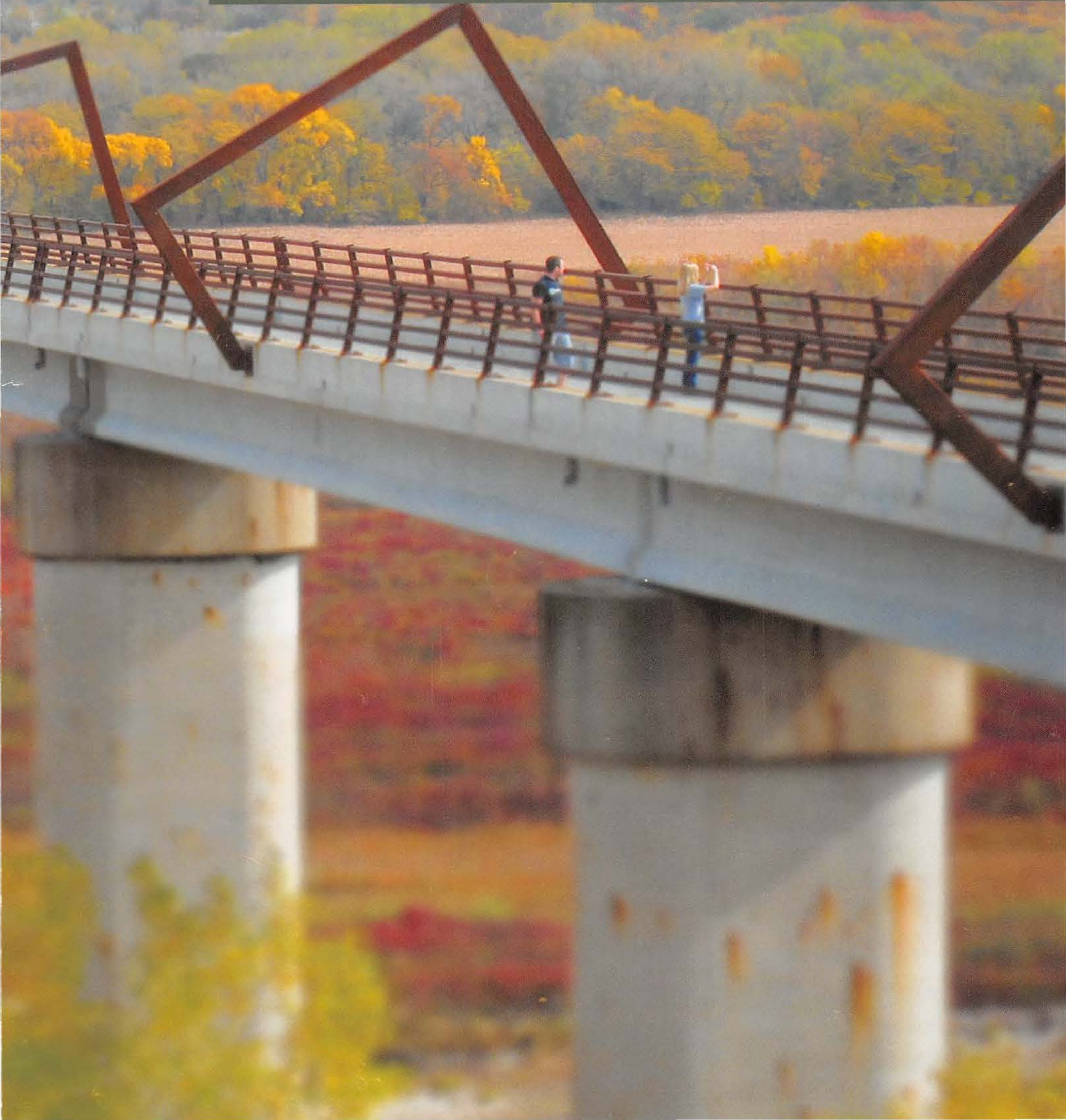
# MFPRSI MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

## Annual Report
## Fiscal Year 2015

A pension trust fund for municipal police officers and firefighters in the State of Iowa



# MFPRSI MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

## Fiscal Year 2015
## Annual Report

Prepared by MFPRSI

**MFPRSI** *provides a* **comprehensive** *set of retirement and disability benefits to eligible local police officers and firefighters in a* **sound**, **sustainable**, *and* **efficient** *manner in accordance with the requirements of the program's governing statute.*

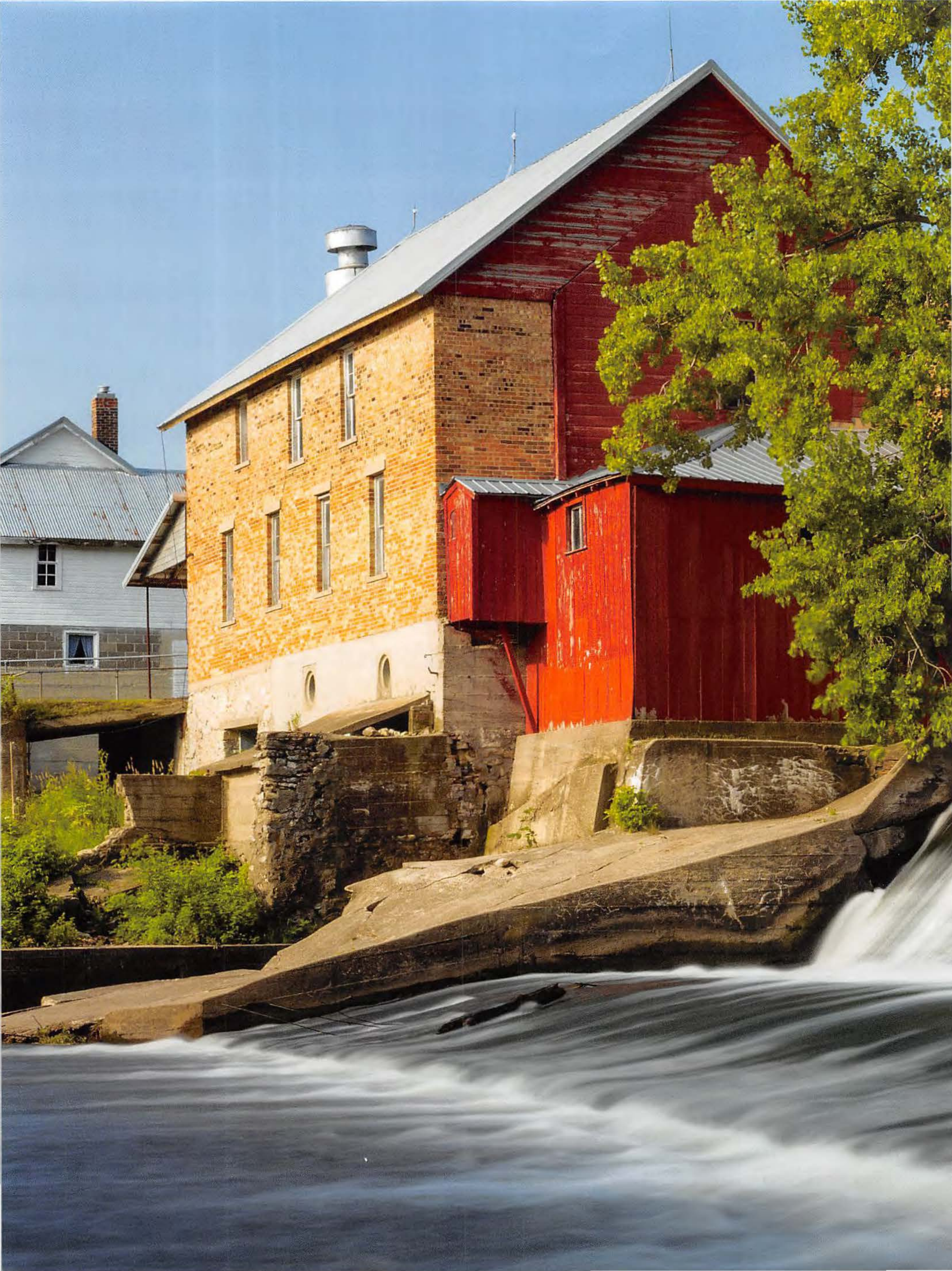

DAM
DAM

# Comprehensive

*Adequacy of retirement and disability benefits to* **attract** *and* **retain** *top quality police officers and firefighters and* **provide** *for them and their families when they are no longer working or able to do so. Retirement and disability benefits should be* **competitive** *with* **comparable** *police and fire systems.*

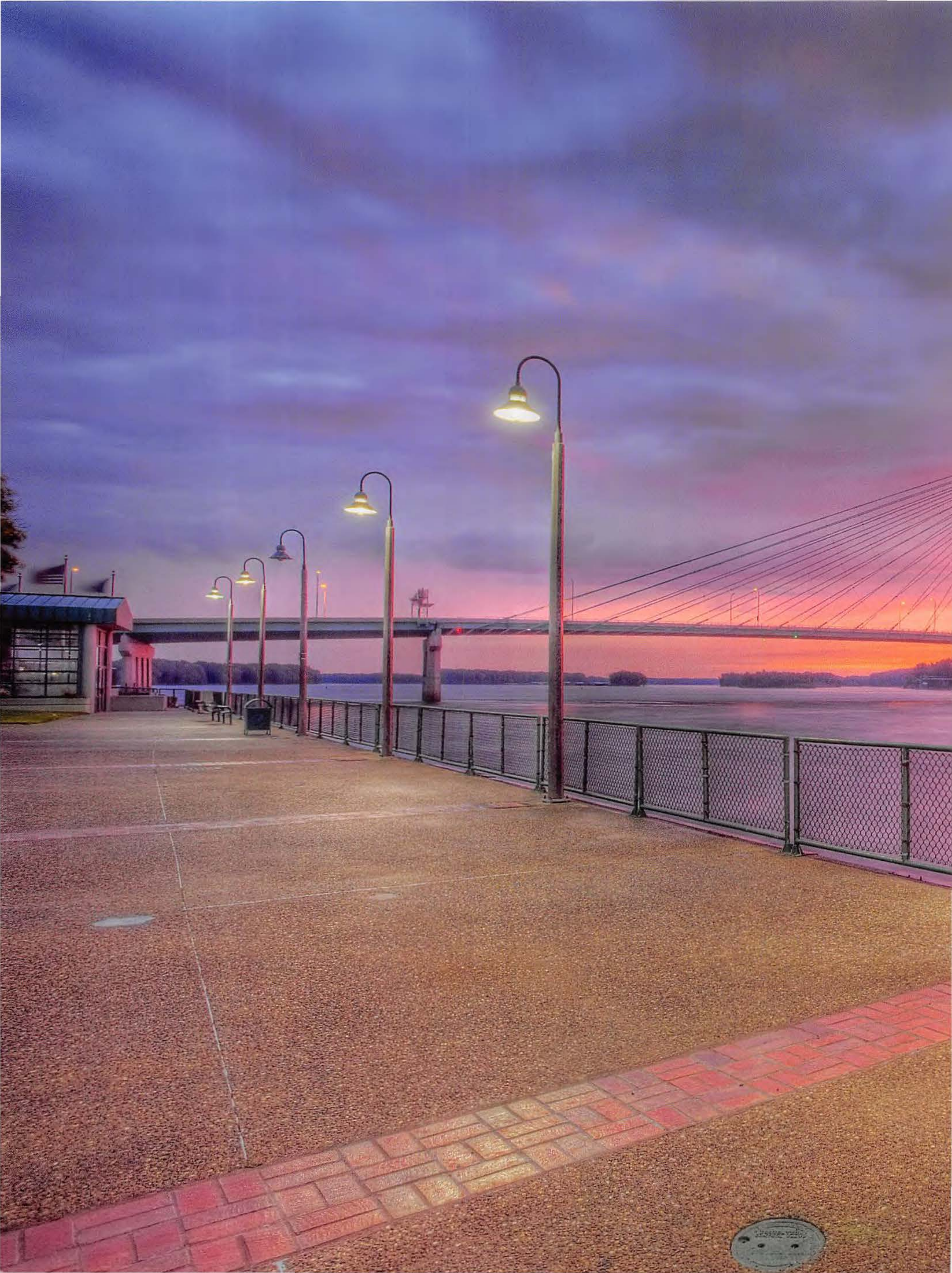
# Sound

**Stable** *and* **secure** *retirement benefits and funding policy based upon* **fiduciary principles**, *appropriate* **risk management** *policies, and* **independent governance**. *Funding should be based upon actuarially determined contribution rates and* **intergenerational** *equity, and a* **disciplined**, **accountable**, *and* **transparent** *funding policy. Investment practices should be* **cognizant** *of unexpected volatility.*



# Sustainable

*The system shall be* **economically** *and* **politically durable**. *Economically, the system should* **sustain** *progress toward 100% funded status while* **maintaining** *employer contributions on a* **consistent** *basis at 30% or less of covered payroll. Significant year-to-year variability in funding requirements should be avoided for both members and cities. Once full funded status is achieved, benefit or contribution changes should take into consideration necessary buffers against inevitable financial market downturns.*



# Efficient

*Managing the system and the investment portfolio in a* **timely**, **professional**, **cost effective** *and* **customer-oriented** *manner.* **Obtaining top-quality management services** *for a cost that is mid-range for comparable systems. The investment portfolio should* **provide net returns** *in the* **top quartile** *for similarly-sized plans. On a risk-adjusted basis the portfolio's returns should be no less than the median for public plans.*

# Fiscal Year 2015 Highlights

## Membership

| | |
|---|---|
| Active Members | 3,892 |
| Inactive Members | 4,263 |

## Investments

| | |
|---|---|
| Market Value of Portfolio* | $2,311,524,714 |
| Rate of Return* | 3.1% |

## Funding

| | |
|---|---|
| Funded Ratio** | 80.9% |

## Contributions

| | |
|---|---|
| Members Total | $24,662,310 |
| Employers Total | $79,748,943 |
| State Total | $0 |

## Distributions

| | |
|---|---|
| Benefits Paid | $149,019,028 |
| Refunds Paid | $1,007,278 |

## Actuarial

| | |
|---|---|
| Total Pension Liability | $2,769,994,684 |
| Fiduciary Net Position | $(2,300,180,355) |
| Net Pension Liability | $469,814,329 |
| Plan Fiduciary Net Position as a percentage of Total Pension Liability | 83.0% |

*The Market Value of Portfolio and Rate of Return as reported by MFPRSI's investment consultant, Summit Strategies Group.

**The Funded Ratio measures the actuarial value of assets ($2,239,539,373) to the actuarial accrued liability ($2,769,994,684).

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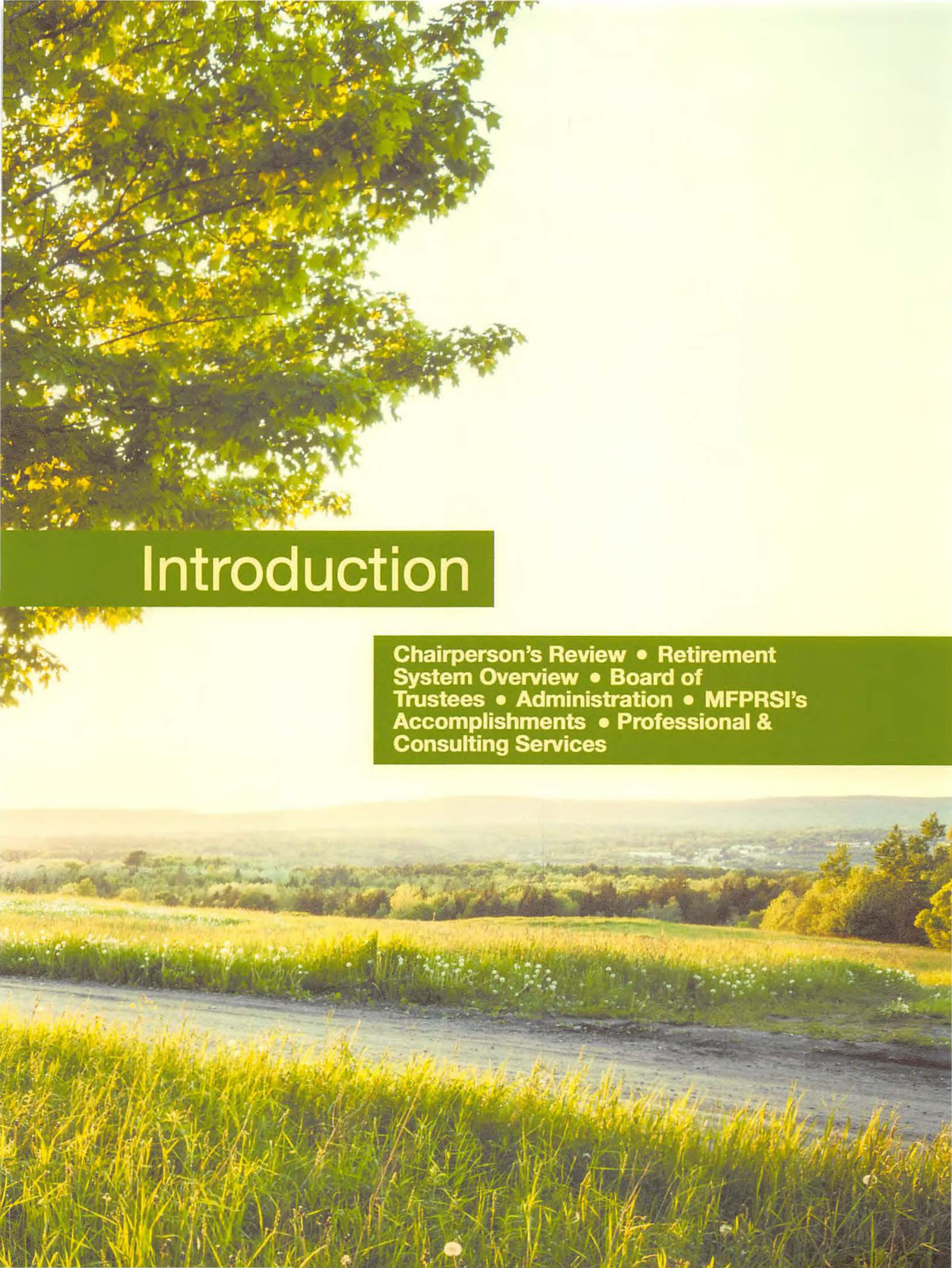

# Introduction

**Chairperson's Review • Retirement System Overview • Board of Trustees • Administration • MFPRSI's Accomplishments • Professional & Consulting Services**

On behalf of the Board of Trustees ("Board"), I am pleased to present MFPRSI's ("System" or "retirement system") report for the period ending June 30, 2015 (Fiscal Year 2015). This report provides information on the financial status of the retirement system and fulfills the obligation set forth in Iowa Code section 411.5(6).

The preparation of this report and financial statements are the result of the combined efforts of the retirement system's administration under the direction of the Executive Director and Deputy Director. The accomplishments of the Board and administration over the last fiscal year are summarized on the following pages.

MFPRSI's objective is to provide a comprehensive set of retirement and disability benefits to eligible local police officers and firefighters in a sound, sustainable, and efficient manner in accordance with the requirements of the program's governing statute. In fulfilling this objective, the Board adopted the following vision statement to further define and delineate its actions:

<u>Comprehensive:</u>

Adequacy of retirement and disability benefits to attract and retain top quality police officers and firefighters and provide for them and their families when they are no longer working or able to do so. Retirement and disability benefits should be competitive with comparable police and fire systems.

<u>Sound:</u>

Stable and secure retirement benefits and funding policy based upon fiduciary principles, appropriate risk management policies, and independent governance. Funding should be based upon actuarially determined contribution rates and intergenerational equity, and a disciplined, accountable, and transparent funding policy. Investment practices should be cognizant of unexpected volatility.

<u>Sustainable:</u>

The system shall be economically and politically durable. Economically, the system should sustain progress toward 100% funded status while maintaining employer contributions on a consistent basis at 30% or less of covered payroll. Significant year-to-year variability in funding requirements should be avoided for both members and cities. Once full funded status is achieved, benefit or contribution changes should take into consideration necessary buffers against inevitable financial market downturns.

<u>Efficient:</u>

Managing the system and the investment portfolio in a timely, professional, cost effective and customer-oriented manner. Obtaining top-quality management services for a cost that is mid-range for comparable systems. The investment portfolio should provide net returns in the top quartile for similarly-sized plans. On a risk-adjusted basis the portfolio's returns should be no less than the median for public plans.

In order to fulfill its aim to be a comprehensive plan, the Board reviewed the results of the Public Fund Survey conducted by the National Association of State Retirement Administrators in 2013. The Public Fund Survey is an online compendium of key characteristics of most of the largest public retirement systems in the United States. The data used in the survey is from 2013, but was published in January 2015. The primary source for the survey includes data from annual financial reports from public retirement systems in the U.S.

Comparing the results of the survey with MFPRSI's benefit structure, the Board concluded that the retirement system's benefit structure is commensurate with similar defined benefit plans in the U.S. MFPRSI is on par with similarly structured defined benefit plans in key variables including retirement age, final average salary, and average benefit multiplier.

The Board, administration, and its investment consultant, Summit Strategies Group ("Summit"), also looked at the allocation policy and investment returns and analyzed how the investment portfolio compares to similarly sized retirement plans in the U.S. as of June 30, 2014. While the investment portfolio's allocation to fixed income, public equity, private markets, and real assets are approximately at the median in each category versus its peers, MFPRSI's investment returns rank higher than average when compared to the same subset of peers across 1-year, 3-year, 5-year, and 10-year return periods. The outperformance can be attributed to investment manager selection and market timing. Of course, I cannot say this without stating that past results are not indicative of future performance, but we strive to continue building an already strong investment portfolio.

Lastly, when discussing the sustainability of the retirement system the Board and its actuarial consultant, SilverStone Group ("SilverStone"), annually review contribution requirement projections of its forty-nine participating cities. The annual projection provides estimates of city contribution rates forecasting 25 years ahead using the investment portfolio's rate of return assumption as well as a return to a 100 percent funded ratio. Currently, the fund is approximately 80 percent funded and this number has risen in each of the past two years.

As for the fiscal year ending June 30, 2015, MFPRSI's investment portfolio was valued at $2.3 billion, which exceeded the previous fiscal year market value by approximately $20 million. The investment portfolio produced an annual return of 3.1 percent.

The fiscal year return was buoyed by strong performances in the domestic public equity markets. In particular, MFPRSI's strategic portfolio, a collection of investment managers with latitude to construct portfolios necessary to take advantage of market dislocations, was able to capitalize on the strong domestic equity markets. Also adding to the year's positive performance was the portfolio's positioning in real estate and private markets. Unfortunately, MFPRSI lagged behind its annualized 7.5 percent performance benchmark due to higher than usual volatility in international equity markets. The increased volatility was due to both systemic instability in European markets and economic slowing in China. Additionally, the U.S. dollar's strengthened position versus foreign currency hurt the retirement system's international fixed income positions. Despite the struggles of certain components of the investment portfolio in 2015 the Board continues to believe their commitment to multiple asset classes effectively lowers the overall risk profile of the investment portfolio. When one asset class struggles in a given year, the risk associated can be mitigated by the returns in other asset classes. Therefore, while MFPRSI underperformed its goal of 7.5 percent for the fiscal year, we continue to invest and make decisions prudently for the long-term stability of the retirement system as a whole. Our long-term view toward the investment portfolio has worked as the portfolio has returned 7.9% since inception.

The firm of Eide Bailly, LLP, conducted an audit for the period ending June 30, 2015. A copy of the audit report has been provided to each of the employing cities and is viewable at MFPRSI's website, www.mfprsi.org. The report is also available at MFPRSI's office in West Des Moines, IA. The audit report can also be viewed in the financial section of this report.

This report is intended to provide complete and reliable information as a basis for management decisions, legal compliance, and stewardship of the retirement system's assets. The Board and administration appreciate the efforts extended by city officials as well as the support given to MFPRSI by the active and retired memberships and city representatives.

Thank you for your interest.

Sincerely,

Marty Pottebaum

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Marty Pottebaum
Board of Trustees Chairperson, Retired Police Officer
MFPRSI MUNICIPAL FIRE & POLICE RETIREMENT SYSTEM OF IOWA
www.mfprsi.org

# Retirement System Overview

MFPRSI was created by the Iowa General Assembly in 1990 to establish a statewide retirement system for fire and police personnel covered by the provisions of Iowa Code Chapter 411. Upon its establishment, MFPRSI consolidated eighty-seven local fire and police retirement systems formerly administered by forty-nine of Iowa's largest cities. The System initiated its formal operations on January 1, 1992, to administer the retirement benefits for fire and police personnel in Iowa's participating cities.

The purpose of the System is to provide a sound and secure retirement income for individuals receiving benefits under its programs. The programs of the retirement system include the payment of pension benefits for service retirement, ordinary disability retirement, accidental disability retirement, survivors of deceased members (i.e., spouse and dependent benefits), and the refund of contribution upon withdrawal by a terminated member.

In its effort to accomplish its goals, MFPRSI administers a contributory defined benefit plan for firefighters and police officers as established in Iowa Code Chapter 411. The benefits available through the System are based on a formula using years of membership service, the average of the highest three years of earned wages as a member, and a multiplier.

In addition to service retirement benefits, MFPRSI offers a comprehensive disability program that includes establishing standards for entrance physical examinations, guidelines for ongoing fitness and wellness, and post-disability retirement compliance requirements. Permanent full-time firefighters and police officers in the participating cities are granted membership by Iowa Code Chapter 411. Participants are vested upon attaining four years of membership service. Vested status may also be achieved by actively earning service credit at age fifty-five.

A Board is established by Iowa Code to provide direction and administration for the System, as well as requiring it to act as fiduciaries for the retirement fund. The Board represents the police officer and firefighter memberships, cities, and citizens of Iowa, while the Iowa General Assembly provides the retirement system with direction and oversight. Iowa Code also includes specific authorization to administer each of the following: actuarial services, medical board, legal services, and organization and staff. The individuals comprising the administrative staff are available to assist members, city officials, and interested parties with any questions or concerns about the retirement program.

## Membership

MFPRSI had 8,155 members at the end of fiscal year 2015, with 3,892 active members employed by the forty-nine participating cities. Of the remainder, 1,121 receive benefits due to disability, 2,814 are either retired or a beneficiary, and 328 are terminated vested members. MFPRSI made over 48,000 accurate and timely benefit payments over the course of the fiscal year. Approximately ninety-eight percent of those payments were made via electronic funds transfer. During the year members received annual statements summarizing their contributions as well as two newsletters highlighting news, statistics, and announcements. On its website, www.mfprsi.org, MFPRSI also provides its membership with a comprehensive *Member Handbook* which details the various benefit structures that are available.

## Investments

Member benefits are made available through employee contributions, employer contributions, and investment earnings. Of those three sources, the investment portfolio provides the greatest percentage of income. MFPRSI manages an investment portfolio that is well diversified with a long-term investment horizon. The portfolio is designed to capture positive investment returns in public equity, fixed income, real assets, and private markets when the markets are up while minimizing losses during negative investment periods.

The fund is monitored by a

staff of investment officers at MFPRSI under the direction of the Executive Director who acts as the Chief Investment Officer. Investment recommendations are made by the Executive Director, Deputy Director, investment consultant, and investment officers. In turn, the Board uses the information provided by those parties to make final decisions on asset allocation. On an annual basis (and more frequently as necessary) the Board reviews and revises the investment policy.

MFPRSI's investment portfolio returned 3.1% in fiscal year 2015. The five-year return for the period ending June 30, 2015, is 11.2%. The long-term target rate of return, as determined by the Board, is 7.5%. The target rate is adopted by the Board as the investment rate of return by which the retirement system can meet its liabilities at the current level of employee and employer contributions. The investment portfolio's performance since inception in 1992 is 7.9%.

# MFPRSI's Accomplishments

Over the course of fiscal year 2015 (July 1, 2014, to June 30, 2015) MFPRSI engaged in a number of activities pertaining to both the retirement plan's active and retired memberships as well as to the financial management of the assets of the plan. The following projects were intended to either enhance the services provided to membership and cities or further the performance opportunities for the investment portfolio:

## Administration

- The Board authored both a Mission Statement and a Vision Statement. The goal of both statements was to establish a clearly communicated and concise focus for the retirement system.
- A communications plan was developed in conjunction with Wixted & Company, a communications consulting firm. The objective of the plan is to improve and increase the information disseminated on the financial strength of the retirement system and any significant actions undertaken by the Board.
- Terry Slattery, Executive Director, and Dan Cassady, Deputy Director, traveled to 12 participating employer cities to hold face-to-face meetings with city officials and other key individuals.
- An independent actuarial consulting firm, Gabriel Roeder Smith, & Co., was hired to conduct an audit of the actuarial services performed by SilverStone for the System. The services included a full replication of the July 1, 2014, actuarial valuation report. The results of the audit showed the valuation report produced by SilverStone was correct and no issues with any of the calculations were found.
- A vendor was selected by the administration to provide document imaging services. The document imaging project will convert the retirement system's paper documents into searchable electronic copies saved to a server. Additionally, a separate vendor was selected to create a database of the scanned documents. The electronic management system will be implemented in fiscal year 2016.
- Terry Slattery was nominated for Executive Director of the Year by the Investment Intelligence Network. The award, presented in Los Angeles, CA, recognized individuals regarded by peers and industry members to be true innovators, leaders, and cutting-edge thinkers in the world of public pensions.

## Financial / Investment

- The Board received the results of a study performed by Summit indicating that achieving a 7.5 percent rate of return over the next ten years is reasonable based on their projected returns. As a result, a revised *Investment Policy and Objectives* package was adopted using an assumed rate of return of 7.5 percent.
- MFPRSI continued its efforts to implement GASB Statement No. 68 in fiscal year 2015 following the successful implementation of GASB Statement No. 67 in

fiscal year 2014. These two statements provide standards for financial reporting and specify the required approach for measuring a participating employer's pension liability for all defined benefit and defined contribution plans, of which MFPRSI is a defined benefit plan.

- The Board was briefed on specific investment concepts related to the investment portfolio by Summit.

- Individuals of the administration traveled to investment firms with whom manages assets on behalf of the System and met with professionals responsible for administering its investment portfolios.

- The Board and administration conducted reviews with the investment firms managing the retirement system's assets. In addition to the written reports provided by the firms as required by the contracts established with MFPRSI, the administration engaged in regularly scheduled phone conference reviews with each investment firm.

## Benefit Plan

- The head of the System's medical board, Dr. Patrick Hartley with the University of Iowa Hospital and Clinics, instructed the Board on member entrance medical protocols. Dr. Hartley indicated that national standards for both police and firefighters have been developed and would fit the needs of the System. Along with a review of the national standards, the Board polled its cities, doctors, and clinics on their opinions about the issue.

- MFPRSI continued the administration of the retirement, disability, and DROP programs. Individual counseling with members was provided upon request. Participation in DROP remained steady year-over-year at forty-six percent of those eligible.

- The Board periodically reviewed its fiduciary standards.

- MFPRSI continued its application of the Federal Pension Protection Act of 2006. This act established a $3,000 income tax exclusion for eligible retired public safety officers who elect to use a portion of their distributions from an eligible retirement plan to directly pay for qualified health insurance premiums. The utilization of this program among eligible retirees has expanded significantly over the past several years.

## Legislation

- The Board provided the Iowa General Assembly with MFPRSI's Financial Evaluation Report in January 2015. The report included the Board's recommendation that the State resume its contribution to the retirement system at a rate of 3.79% of earnable compensation. None of the legislation introduced by the 86th Iowa General Assembly with the intent of aiding the retirement system's funding was passed into law. Despite this result, however, several bills were introduced and discussed by legislators. Included in the retirement system's lobbying efforts were two funding measures, one that would have reinstated state contributions at 3.79% and the second would have granted $58 million to MFPRSI for the fiscal year 2015.

## New Board Members

- Three new members were welcomed to the Board following the retirements of Judy Bradshaw and Jody Smith. Additionally, Scott Sanders vacated his seat due to a change in position with the City of Des Moines.

- Ms. Bradshaw's chair was filled by Sergeant Eric Court with the City of Davenport Police Department. Mr. Court has been a police officer for thirty years.

- Michelle Weidner, Chief Financial Officer for the City of Waterloo took Mr. Smith's position on the Board. She has held this position at the City of Waterloo for thirteen years.

- Dan Ritter joined the Board to replace Mr. Sanders. Mr. Ritter is the Finance Director for the City of Des Moines, where he has worked since 1989.

# Board of Trustees

The activities of MFPRSI are under the direction of its Board which has nine voting members and four non-voting, legislative representatives. The voting membership of the Board is comprised of four representatives of the active and retired fire and police membership, four representatives of the cities, and one private citizen.

Individuals are appointed to four-year terms by the fire and police associations and by the Iowa League of Cities. The eight voting members select a private citizen to serve as the ninth voting member.

The following are the Board members with voting rights as of June 30, 2015:

**Marty Pottebaum**
Chairperson
Retired Police Officer
Sioux City

**Mary Bilden**
Citizen Member
Boone

**P. Kay Cmelik**
City Clerk / Finance Officer
Grinnell

**Eric Court**
Police Officer
Davenport

**June Anne Gaeta**
Firefighter
Muscatine

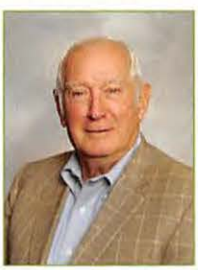
**Frank Guihan**
Retired Firefighter
West Burlington

**Duane Pitcher**
Finance Director
Ames

**Dan Ritter**
Finance Director
Des Moines

**Michelle Weidner**
Chief Financial Officer
Waterloo

The leadership of the Iowa Senate and the Iowa House of Representatives appointed the following legislative members to the Board for Fiscal Year 2015:



**Wally E. Horn**
Senator

**Jason Schultz**
Senator

**Scott Ourth**
Representative

**Dawn Pettengill**
Representative

# Administration

Under the direction of the Board, the programs of MFPRSI are developed and executed by an administrative staff. The following individuals are available to assist members, city officials, and interested parties with any questions or concerns they may have about the retirement program:

**Terry Slattery**
**Executive Director**

**Dan Cassady**
**Deputy Director**

**Brian Danielson**
**Benefits Supervisor**

**Sandra Wells**
**Sr. Pension Officer**

**Jill Hagge**
**Sr. Pension Officer**

**Angie Conner**
**Sr. Pension Officer**

**James Bybee**
**Accountant / Investment Officer**

**Blake Jeffrey**
**Accountant / Investment Officer**

**Cody Jans**
**Accountant / Investment Officer**

**BriAnna Nystrom**
**Administrative Officer**

## Hours of Operation and Contact Information

The offices of MFPRSI are open 8:00 a.m. to 4:30 p.m., Monday though Friday, excluding recognized national holidays.

| | |
|---|---|
| Local telephone | 515-254-9200 |
| Toll free telephone | 888-254-9200 |
| Fax | 515-254-9300 |
| Email | pensions@mfprsi.org |
| Website | www.mfprsi.org |
| Address | 7155 Lake Drive, Suite 201<br>West Des Moines, IA 50266 |

# Professional and Consulting Services

Legal Counsel
BrownWinick

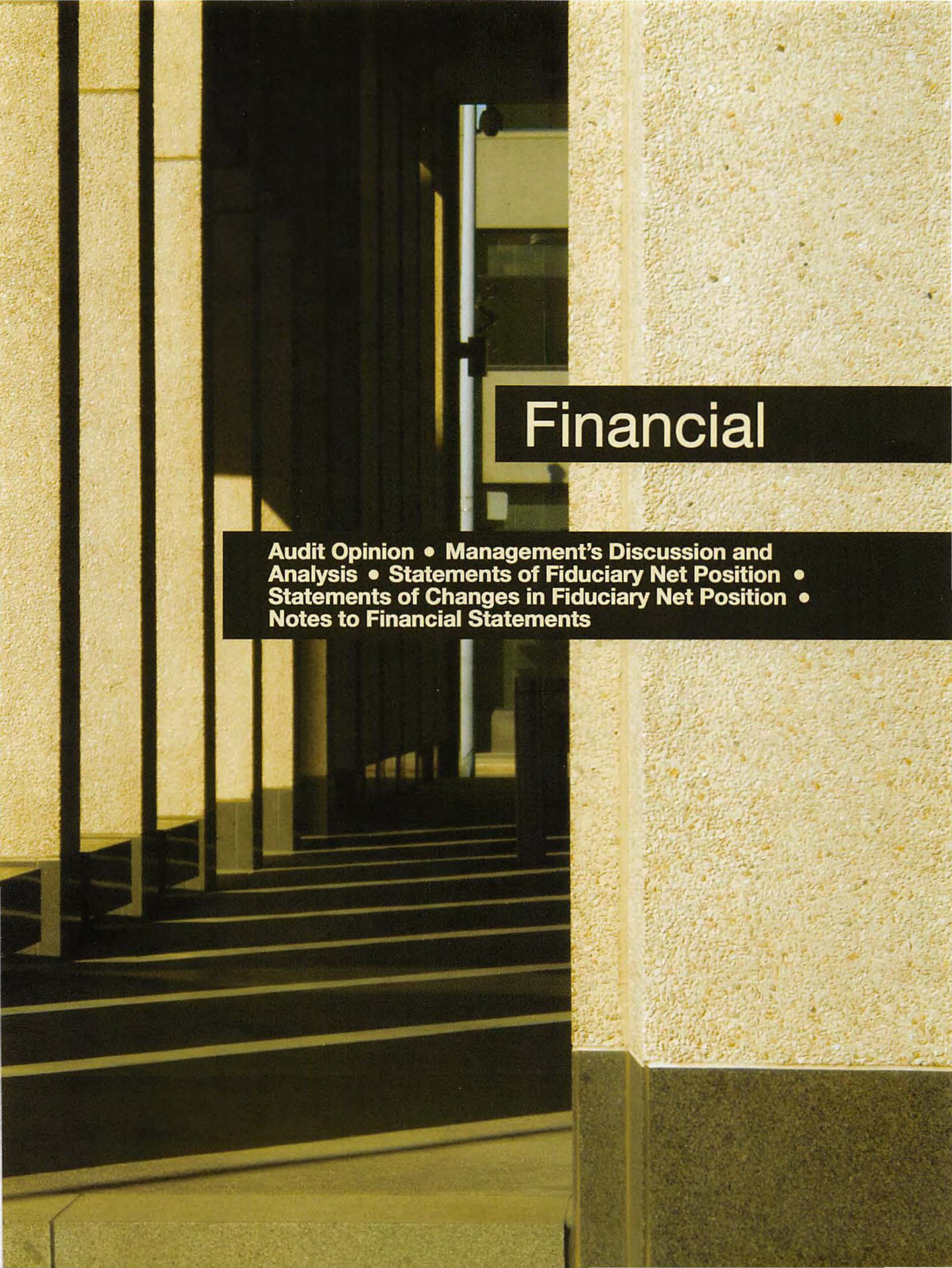
Actuary
The SilverStone Group

Auditor
Eide Bailly, LLP

Investment Management Consultant
Summit Strategies Group

Master Custodian
Wells Fargo, NA

Communications Consultant
Wixted & Company



# Financial

**Audit Opinion • Management's Discussion and Analysis • Statements of Fiduciary Net Position • Statements of Changes in Fiduciary Net Position • Notes to Financial Statements**

Report on the Financial Statements

We, Eide Bailly, LLP, have audited the accompanying financial statements of the System, which comprise the statements of fiduciary net position as of June 30, 2015, and 2014, and the related statements of changes in fiduciary net position, for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective statements of fiduciary net position of the System, as of June 30, 2015, and the respective changes in changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, MFPRSI has adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement

No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which has resulted in a restatement of the net position as of July 1, 2014. In accordance with GASB Statement No. 68, the 2014 financial statements have not been restated to reflect this change. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in notes 2 and 4 to the financial statements, total MFPRSI investments include investments valued at $752.8 million (32.4% of total assets) as of June 30, 2015, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to that or this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report on our consideration of the MFPRSI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering MFPRSI's internal control over financial reporting and compliance.

Eide Bailly LLP

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Eide Bailly, LLP
CPAs and Business Advisors
EideBailly
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# Management's Discussion and Analysis

The following discussion and analysis of the System's financial performance provides an overview of its financial activities for the fiscal years ended June 30, 2015, and 2014. Please read in conjunction with the basic financial statements, which follow this discussion. These statements represent the current condition from an accounting perspective, but do not reflect the System's actuarial status. Refer to the System's actuarial valuation for its funding status regarding long-term benefit obligations.

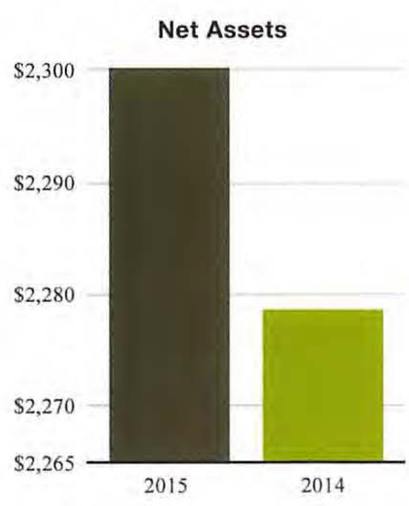
## Financial Highlights

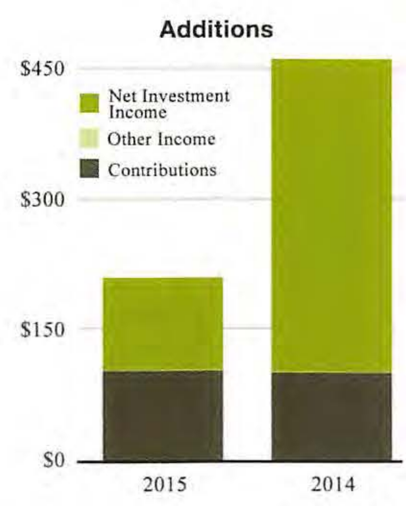
- System assets exceeded its financial liabilities at the close of the fiscal years 2015 and 2014 by $2,300,180,355 and $2,278,456,923 (reported as Plan Net Position Restricted for Pension Benefits), respectively. Net Position Restricted for Pension Benefits is held in trust to meet future benefit payments.
- Additions for the year ended June 30, 2015, were $174,222,143, which is comprised of contributions of $104,371,253, net investment income of $69,833,569, and other income of $17,321. Additions for the year ended June 30, 2014, were $459,696,542, which is comprised of contributions of $100,972,001, net investment income of $358,680,682, and other income of $43,859.
- Benefit payments were $149,019,028 and $142,640,646 for the years ended June 30, 2015, and 2014, respectively, a 4.5% increase from year to year.

## The Statements of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position

This annual financial report consists of two financial statements; the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position. These financial statements report information about the System as a whole and financial condition that should help answer the question: Is the System, as a whole, in a better or worse position as a result of this fiscal year's experience? These financial statements include all assets and liabilities using the accrual basis of accounting under which all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statements of Fiduciary Net Position present all of the System's assets and liabilities, with the difference between assets and liabilities reported as Plan Net Position Restricted for Pension Benefits. Over time, increases and decreases in Plan Net Position Restricted for Pension Benefits is one method of measuring whether the System's financial position is improving or deteriorating. The Statements of Changes in





Data on the charts on this page are displayed in millions.

Fiduciary Net Position present the changes in plan net assets during the respective fiscal year.

## Financial Analysis

System assets as of June 30, 2015, and 2014 were approximately $2.32 billion and $2.30 billion, respectively, and were primarily comprised of investments, cash, receivables from brokers, and contributions due from employers. The $23,208,031, or 1.0%, increase in assets from June 30, 2014, to June 30, 2015, was primarily due to the unrealized gains experienced in invested assets.

As discussed in notes 2 and 4 to the financial statements, total System investments include investments valued at $752.8 million (32.4% of total assets) and $699.7 million (30.5% of total assets) as of June 30, 2015, and 2014, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Total liabilities as of June 30, 2015, and 2014, were $19,545,447 and $18,143,032, respectively, and were primarily comprised of obligations under benefits and refunds payable, as well as investment management expenses payable. The $1,402,415, or 7.7%, increase in liabilities from June 30, 2014, to June 30, 2015, was due to an increase in payables for investment management expenses.

During the year ended June 30, 2015, plan net position restricted for pension benefits increased $22,359,902, or 1.0%, from the previous fiscal year, primarily due to unrealized gains experienced in invested assets. This is in comparison to the previous fiscal year, when net assets increased by $314,190,305, or 16.0%, from the prior year.

## Condensed Statement of Fiduciary Net Position
### (In Thousands of $)

| | | | 2015/2014 | | 2014/2013 |
|---|---|---|---|---|---|
| **Assets** | 2015 | 2014 | Inc/(Dec) | 2013 | Inc/(Dec) |
| Cash | $4,330 | $56,944 | (92.4)% | $4,965 | 1,046.9% |
| Investments | 2,311,197 | 2,234,763 | 3.4% | 1,970,919 | 13.4% |
| Receivables | 4,220 | 4,817 | (12.4)% | 6,016 | (19.9)% |
| Other Assets | 61 | 76 | (19.7)% | 84 | (9.5)% |
| Total assets | $2,319,808 | $2,296,600 | 1.0% | $1,981,984 | 15.9% |
| Pension Related Deferred Outflows | 115 | 0 | 0.0% | 0 | 0.0% |
| **Liabilities** | | | | | |
| Benefits and Refunds Payable | $15,775 | $15,067 | 4.7% | $15,269 | (1.3)% |
| Investment Management Expenses Payable | 2,818 | 2,094 | 34.6% | 1,681 | 24.6% |
| Administrative Expenses Payable | 365 | 293 | 24.6% | 387 | (24.3)% |
| Net Pension Liability attributed to IPERS | 516 | 0 | 0.0% | 0 | 0.0% |
| Payable to Brokers for Unsettled Trades | 71 | 689 | (89.7)% | 380 | 0.0% |
| Total Liabilities | $19,545 | $18,143 | 7.7% | $17,717 | 2.4% |
| Pension Related Deferred Inflows | 197 | 0 | 0.0% | 0 | 0.0% |
| Net Position Restricted for Pension Benefits | $2,300,180 | $2,278,457 | 1.0% | $1,964,267 | 16.0% |

## Condensed Statement of Changes in Fiduciary Net Position
**(In Thousands of $)**

| Additions | 2015 | 2014 | 2015/2014 Inc/(Dec) | 2013 | 2014/2013 Inc/(Dec) |
|---|---|---|---|---|---|
| Contributions | $104,371 | $100,972 | 3.4% | 88,687 | 13.9% |
| Net Investment Income | 69,834 | 358,681 | (80.5)% | 229,592 | 56.2% |
| Other Income | 17 | 44 | (61.4)% | 3 | 1,339.3% |
| Total Additions | 174,222 | 459,697 | (62.1)% | 318,282 | 44.4% |
| **Deductions** | | | | | |
| Benefits and Refund Payments | 150,026 | 143,834 | 4.3% | 137,618 | 4.5% |
| Administrative Expenses | 1,836 | 1,673 | 9.7% | 1,626 | 0.0% |
| Total Deductions | 151,862 | 145,507 | 4.4% | 139,244 | 4.5% |
| Net Increase (Decrease) | 22,360 | 314,190 | (92.9)% | 179,038 | (75.5)% |
| **Plan Net Position Restricted for Pension Benefits** | | | | | |
| Beginning of Year | 2,278,457 | 1,964,267 | 16.0% | 1,785,229 | 0.1% |
| Prior Period Adjustment | (637) | 0 | 0.0% | 0 | 0.0% |
| End of Year | 2,300,180 | $2,278,457 | 1.0% | $1,964,267 | 16.0% |

### Revenues - Additions to Fiduciary Net Position

Reserves needed to finance retirement benefits are accumulated through the collection of contributions and earnings on investments. Contributions and net investment income for the fiscal year 2015 totaled $174,204,822.

Contributions increased from the previous year by $3,399,252. This increase is primarily due to an increase in the employer contribution rate from 30.12% to 30.41% for the years ended June 30, 2014, and 2015, respectively. Net investment income decreased from the previous year by $288,847,113. This change is primarily due to a reduced net appreciation in the fair value of investments.

### Expenses - Deductions from Fiduciary Net Position

The principal expenses of the System include the payment of pension benefits to retired members and beneficiaries, refund of contributions to former members, and the cost of administering the System. Total deductions for the fiscal year 2015 were $151,862,241, an increase of 4.4% over fiscal year 2014 deductions.

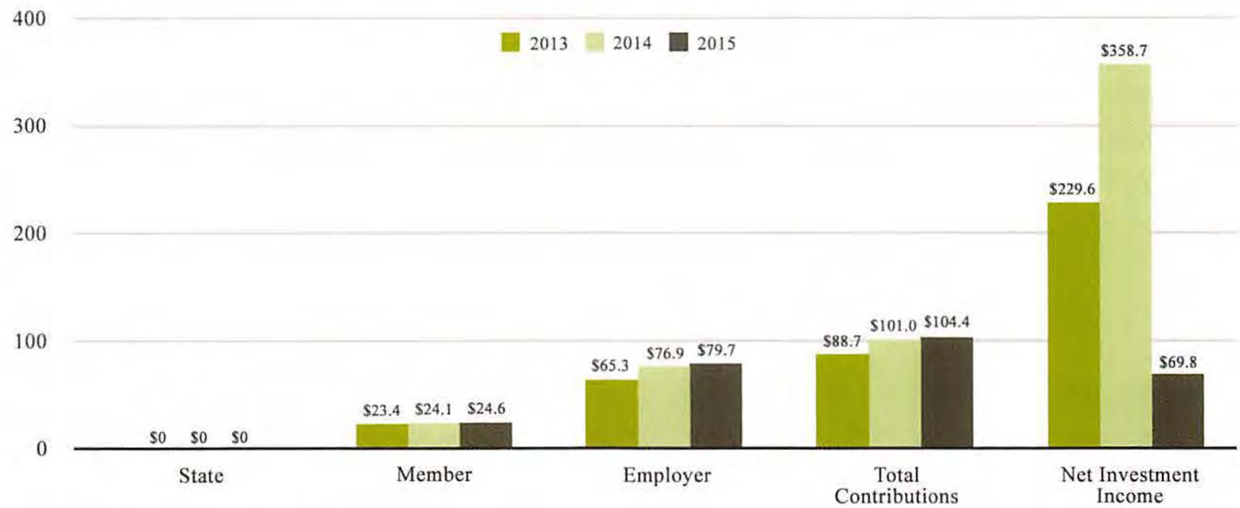
Pension benefit payments increased by $6,378,382, or 4.5%, from the previous year. Refund of contributions decreased by $185,644, or 15.6%. These changes are primarily due to the annual escalator applied to benefit payments and the decrease in number of applications for refunds in 2015.

### Retirement System as a Whole

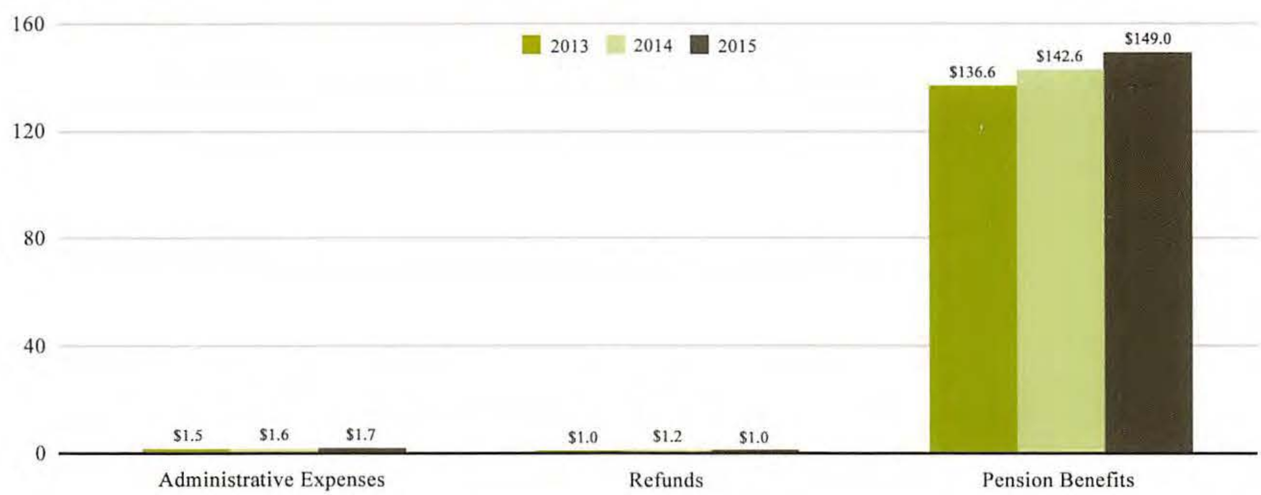
It is important to note the financial obligations established by the Iowa legislature in Iowa Code Chapter 411 are committed benefits, which are to be funded through the contributions made by the employers and the membership, in concert with the long-term return on investments. The "public policy" within Iowa has always been to meet the benefit commitments of the pension plans. The history of the plan benefits under Chapter 411 traces to 1934. The funding methods established by the legislature in the Iowa Code, whereby contributions are made from the individual employers and members, coupled with the "prudent person" concept for investment policy, provides the financial foundation for this public policy.

This financial report is designed to provide the Board, membership, and cities a general overview of the System's finances and to demonstrate accountability for assets.

## Additions to Fiduciary Net Position (in millions)




## Deductions from Plan Net Position (in millions)



# Statements of Fiduciary Net Position

**as of June 30, 2015, and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Assets** | | |
| Cash | $4,329,908 | $56,943,345 |
| Investments, at Fair Value: | | |
| U.S. Government Obligations | 33,776,151 | 0 |
| U.S. Corporate Fixed Income | 35,285,709 | 0 |
| U.S. Equity Securities | 449,327,518 | 493,329,995 |
| Foreign Equity Securities | 373,891,720 | 409,651,790 |
| Commingled Fixed Income | 203,854,797 | 296,083,727 |
| Multi-Strategy Commingled Fund | 66,986,892 | 79,997,565 |
| Short-Term Investments and Currency Positions | 27,261,270 | 17,993,663 |
| Real Estate | 256,962,404 | 235,012,853 |
| Private Markets | 475,228,624 | 431,964,766 |
| Fund-of-Funds Commingled Investment | 388,622,191 | 270,728,842 |
| Total Investments, at Fair Value | 2,311,197,276 | 2,234,763,201 |
| Receivables: | | |
| Contributions | 3,610,291 | 3,450,680 |
| Investment Income | 23,271 | 21,965 |
| Receivable from Brokers for Unsettled Trades, Net | 586,764 | 1,344,540 |
| Total Receivables | 4,220,326 | 4,817,185 |
| Other Assets | 60,476 | 76,224 |
| Total Assets | 2,319,807,986 | 2,296,599,955 |
| Pension Related Deferred Outflows | 114,745 | 0 |
| **Liabilities** | | |
| Benefits & Refunds Payable | 15,774,792 | 15,066,966 |
| Investment Management Expenses Payable | 2,817,909 | 2,093,921 |
| Administrative Expenses Payable | 365,052 | 292,940 |
| Net Pension Liability Attributed to IPERS | 516,371 | 0 |
| Payable to Brokers for Unsettled Trades, Net | 71,323 | 689,205 |
| Total Liabilities | 19,545,447 | 18,143,032 |
| Pension Related Deferred Inflows | 196,929 | 0 |
| **Plan Net Position Restricted for Pension Benefits** | $2,300,180,355 | $2,278,456,923 |

See notes to financial statements.

# Statements of Changes in Fiduciary Net Position

**for the Years ended June 30, 2015, and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Additions** | | |
| Contributions: | | |
| Member | $24,622,310 | $24,054,541 |
| Employer | 79,748,943 | 76,917,460 |
| State Appropriations | 0 | 0 |
| Total Contributions | 104,371,253 | 100,972,001 |
| Investment Income: | | |
| Interest | 1,504,352 | 187,987 |
| Dividend | 24,417,637 | 16,530,308 |
| Net Appreciation in Fair Value of Investments | 61,544,290 | 358,885,478 |
| Net Investment Income from Investment Activity | 87,466,279 | 375,603,773 |
| Less Investment Expenses: | | |
| Management Fees and Other | 17,632,710 | 16,923,091 |
| Net Investment Income | 69,833,569 | 358,680,682 |
| Other Income | 17,321 | 43,859 |
| Total Additions | 174,222,143 | 459,696,542 |
| **Deductions** | | |
| Benefit Payments | 149,019,028 | 142,640,646 |
| Refund Payments | 1,007,278 | 1,192,922 |
| Administrative Expenses | 1,694,014 | 1,566,810 |
| Disability Expenses | 141,921 | 105,859 |
| Total Deductions | 151,862,241 | 145,506,237 |
| Net Increase | 22,359,902 | 314,190,305 |
| Plan Net Position Restricted for Pension Benefits: | | |
| Beginning of Year | 2,277,820,453 | 1,964,266,618 |
| End of Year | $2,300,180,355 | $2,278,456,923 |

See notes to financial statements.

# Notes to Financial Statements

**as of and for the Years ended June 30, 2015, and 2014**

## 1. Plan Description

### General

The System was created under Chapter 411.35 of the Code of Iowa to replace 87 separate fire and police retirement systems from 49 cities and 1 county in Iowa (Separate Systems). Effective January 1, 1992, the Separate Systems were terminated, and the respective entities were required to transfer assets to the System equal to their respective accrued liabilities (as measured by the System's actuary). Upon transfer of the assets, the System assumed all membership, benefits rights and financial obligations of the Separate Systems.

The System is the administrator of a multi-employer, cost sharing, defined benefit pension plan for the exclusive benefit of eligible employees of participating cities which is substantially all full-time employees of the respective cities' fire and police departments (the Plan). It is governed by a nine-member Board who are appointed by police and fire associations and by the Iowa League of Cities. The eight voting members select a private citizen to serve as the ninth voting member. The Board is authorized by the state legislature to make investments, pay benefits, set contributions rates, hire staff and consultants and perform all necessary functions to carry out the provisions of the Code of Iowa. The System is separate and apart from state government and is not included in the state's financial statements.

At June 30, 2015, the System was comprised of 49 cities covering 3,892 active members; 328 terminated members entitled to benefits; and 3,935 retired firefighters, police officers, bailiffs, and eligible beneficiaries across Iowa.

### Funding

Member contribution rates are set by state statute. In accordance with Iowa Code Chapter 411 as modified by act of the 1994 General Assembly, to establish compliance with the Federal Older Workers Benefit Protections Act, the contribution rate was 9.40% of earnable compensation for the years ended June 30, 2015, and 2014.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1 percent of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa the employer's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 30.41% and 30.12% for the years ended June 30, 2015, and 2014, respectively.

State appropriations are approved by the state legislature and may further reduce the employer's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State therefore is considered to be a non-employer contributing entity in accordance with the provisions of the GASB Statement No. 67 – Financial Reporting for Pension Plans.

### Benefits Provided

Participating members are entitled to the benefit provisions in effect on the member's date of termination. The following is a summary of the System benefit provisions for the years ended June 30, 2015, and 2014:

### Retirement

Members with four or more years of service are entitled to pension benefits beginning at age fifty-five. Full service retirement benefits are granted to members with twenty-two years of service, while partial benefits are available to those members with four to twenty-two years of service based on the ratio of years completed to years required (twenty-two years). Members with less than four years of service are entitled to a refund of their contribution only, with interest for the period of employment.

Benefits are calculated based upon the member's highest three years of compensation. The average of these three years becomes the member's average final compensation. The base benefit is sixty-six percent of the member's average final compensation. Additional benefits are available to members who perform more than twenty-two years of service (two percent for each additional year of service, up to a maximum of eight years). Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a fifty percent surviving spouse benefit.

## Disability and Death

Disability coverage is broken down into two types, accidental and ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of sixty percent of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of fifty percent of the member's average final compensation, for those with five or more years of service, or the member's service retirement benefit calculation amount, and twenty-five percent of average final compensation for those with less than five years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are fifty percent of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to forty percent of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to fifty percent of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased (escalated) annually in accordance with Iowa Code Chapter 411.6 which states a standard formula for the increases.

## Traumatic Personal Injury

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a $100,000 lump-sum payment.

## Deferred Retirement Option Program (DROP)

Active members, at least fifty-five years of age, with twenty-two or more years of service have the option to participate in the DROP Program. The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a three, four, or five year DROP period. By electing to participate in DROP the member is signing a contract indicating the member will retire at the end of the selected DROP period. During the DROP period the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to fifty-two percent of the member's retirement benefit at the member's earliest date eligible and one hundred percent if the member delays enrollment for twenty-four months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan. The balance of the amounts held by the System pursuant to the DROP is $15,580,000 as of June 30, 2015 and $15,085,000 as of June 30, 2014.

## Net Pension Liability of the System

The components of the net pension liability of the System as of the end of the fiscal year are listed on Table 1.

### Actuarial Assumptions

Table 2 lists the assumptions used to determine the fiscal year 2015 actuarial valuation. Mortality rates were based on weighing equal to 1/12 of the 1971 GAM table and 11/12 of the 1994 GAM table with no projection of future mortality improvement. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period of July 1, 2002, to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Table 3 lists real rates of return for the major asset classes included in the System's investment portfolio.

### Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

Table 4 provides the System's net pension liability using various discount rates.

#### Table 1: Net Pension Liability of the System

The components of the net pension liability of the System at June 30, 2015, were as follows:

| | |
|---|---|
| Total Pension Liability | $2,769,994,684 |
| Plan Fiduciary Net Position | (2,300,180,355) |
| System's Net Pension Liability | $469,814,329 |
| | |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 83.04% |

#### Table 2: Actuarial Assumptions for 2015 Actuarial Valuation

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation: | 3.0 percent |
| Salary Increases: | 4.50 to 15.11 percent including inflation |
| Investment Rate of Return: | 7.5 percent, net of pension plan investment expense |

### Table 3: Actuarial Assumptions - Estimated Real Rates of Return

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of October 1, 2013, are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|---|---|
| Large Cap | 6.0% |
| Small Cap | 5.8% |
| International Large Cap | 7.0% |
| Emerging Markets | 8.8% |
| Emerging Markets Debt | 6.5% |
| Private Non-Core Real Estate | 9.3% |
| Master Limited Partnerships (MLPS) | 8.5% |
| Private Markets | 9.8% |
| Core-Plus Fixed Income | 3.8% |
| Private Core Real Estate | 6.8% |
| Treasury Inflation Protected Securities (TIPS) | 2.8% |
| Tactical Asset Allocation | 6.0% |

### Table 4: Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System calculated using the discount rate of 7.5 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|---|---|---|
| System's Net Pension Liability | $817,960,726 | $469,814,329 | $180,545,400 |

# 2. Summary of Significant Accounting Policies

## Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The System prepared its financial statements using the accrual basis of accounting. It recognizes member and employer contributions as revenues in the month member earnings are paid. Benefits and refunds are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

## Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements. The System's estimates are primarily related to the valuation of various investment instruments, including real estate, private equity, and the multi-strategy commingled fund. Actual results could differ from those estimates.

## Investments

The System's securities are reported at fair value. Where appropriate, the fair value includes estimated disposition costs. Certificates of deposit are recorded at amortized cost, which approximates fair value. Interest income is recognized when earned.

Dividend income is recognized on the ex-dividend date. Gains or losses on stocks and bonds are recognized on an average cost basis calculated separately for each investment manager. Other gains and losses are recognized on an identified cost basis. Gains and losses on sales and exchanges are recognized on the trade date. The fair values of marketable securities held at June 30 are determined by using the closing price listed on national securities exchanges and quoted market prices provided by independent pricing services. For commingled funds, the net asset value is determined and certified by the commingled fund manager. Investments in real estate, private equities, and the multi-strategy commingled fund which invest in both publicly and privately owned securities are valued based on estimates and assumptions of general partners, partnership valuation committees, or third party appraisal firms, in the absence of readily determined market values. Such valuations generally reflect cash flows, discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information.

### Investment Policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Table 5 lists the System's asset allocation policy as of the end of the fiscal year.

### Rate of Return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.02%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Deferred Outflows / Inflows of Resources and Unavailable Revenue

In addition to assets, the statement of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The System has only one item related to pensions which qualifies for reporting in this category.

In addition to liabilities, the statement of fiduciary net position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to future periods, so will not be recognized as an inflow of resources (revenue) until that time. The System has only one item related to pensions which qualifies for reporting in this category.

### Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**Table 5: Asset Allocation Policy as of June 30, 2015**

| Asset Class | Target Allocation |
|---|---|
| Core Investments | 40% |
| Strategic Investments | 35% |
| Private Markets | 15% |
| Real Assets | 10% |
| Total | 100% |

## New Accounting Pronouncements

The System adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, during the year ended June 30, 2015. These statements address accounting and financial reporting requirements for pension plans. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/ expenditures. For defined benefit pensions, these statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. These statements also require enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. As it was implemented during the current year, GASB 68 standards can only be applied to the current year.

Table 6 denotes the effects of implementing GASB Statements 68 and 71.

## Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to / deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Table 6: Implementation of GASB Statements 68 & 71**

| | |
|---|---|
| The implementation of GASB Statements 68 and 71 had the following effect: | |
| Net Position June 30, 2014, as Previously Reported | $2,278,456,923 |
| Recognition of Net Pension Liability at June 30, 2014 | (712,084) |
| Deferred Outflows of Resources | |
| Related to Prior Year Contribution Made After the June 30, 2014, Measurement Date | 76,084 |
| Net Position July 1, 2014, as Restated | $2,277,820,453 |

# 3. Cash

For cash deposits, custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. A summary of the System's cash balances is listed in Table 7.

**Table 7: Summary of Cash Balances at June 30, 2015**

| | 2015 | 2014 |
|---|---|---|
| Insured | $250,000 | $250,000 |
| Uninsured and Uncollateralized | 4,992,421 | 56,693,345 |
| Bank Balance - June 30 | $5,242,421 | $56,943,345 |

# 4. Investments

## Investment Policy

The investment authority, as prescribed by the Code of Iowa, is governed by the "prudent person rule." This rule requires that an investment be made with the care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an entity of a like character with like aims. Within the "prudent person" framework, the Board has adopted investment guidelines for the System's investment program.

The System is prohibited from holding direct investments in the Sudan and Iran due to State statute.

The following investment vehicles are permitted by the System's investment policy and may be considered for the System's funds: Stocks and Bonds (Domestic, International & Emerging Markets):

- Securities issued by and the obligations of or guaranteed by the United States of America or U.S. government sponsored enterprises or by the Dominion of Canada or any province thereof, financial futures and options;
- Bonds issued by the State of Iowa or its political subdivisions;
- Common stock, American Depository Receipts, corporate bonds or other evidences of indebtedness issued under the laws of the Dominion of Canada or any province thereof;
- Common stock, bonds, or other evidences of indebtedness issued under the laws of selected foreign countries or their political subdivisions;
- Debt instruments issued by multinational organizations on behalf of selected nations or groups of nations, such as Brady Bonds, whether in U.S. dollars or foreign currencies;
- Mutual funds, commingled funds, or private equity which are comprised of stocks, equity, and or debt instruments including those which hold positions in emerging markets, whether in U.S. dollars or foreign currencies;
- Derivative instruments, such as futures and options, can be utilized as an alternative to a stock or bond position, as specified.

## Other Asset Classes

The currency positions of the System include the currency of a group of selected nations, which have well established and stable economic and political structures. Currency positions are only taken in countries or in multinational currencies (for examples, Euros) in which the System has determined to invest the System's assets. The currency assets of the System are represented within the individual portfolios of the investment managers, which have mandates, which include international bonds or stocks. The benchmark against which these managers run the portfolios shall include a zero percent hedged position to the U.S. dollar for the international portions of the mandate.

## Derivative Instruments

Derivative instruments, such as futures and options, may be utilized in selected portfolios for the following purposes:

1. As an alternative to maintaining a selected asset position;
2. To maintain the duration of securities in a portfolio;
3. To gain exposure in a time of dollar strength to a foreign bond market with minimal exposure to the currency of the country;
4. To hedge or otherwise protect existing or anticipated portfolio positions;
5. To establish and maintain the currency positions for the currency overlay portfolio and for the individual currency activities of the individual portfolios; and,
6. Not to speculate or leverage (gear-up) the portfolio.

Derivative instruments are generally defined as contracts whose value depends on ("derives" from) the value of an underlying asset, reference rate, or index.

Derivative instruments include both of the following:

a) "Over the counter" (OTC) derivatives: privately negotiated contracts provided directly by dealers to end-users; which include swaps, futures and options, based upon interest rates, currencies, equities, and commodities; and

b) Standardized contracts sold on exchanges: futures and options.

### Real Estate

The real estate positions of the System may include domestic or international real estate investments in individual properties or groups of properties, through one or more of the following: direct purchase or mortgage of individual properties, participation in a commingled fund (open-ended or closed-ended), or in a trust or a partnership which has positions in one or more properties.

The real estate positions of the System may include investment in securitized real estate, via publicly traded or privately held Real Estate Investment Trusts (REITs).

### Fund of Funds Commingled Investments

Table 8 offers information pertaining to the System's fund-of-funds commingled investments.

### Investment Risk Disclosure: Credit Risk

Table 9 provides information pertaining to the System's credit risk profile.

### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name.

Iowa Code 411.7 establishes the secretary of the Board as the custodian of the fund and provides for the System to select master custodian banks to provide custody of the System's assets. The System has arranged for Wells Fargo Bank to act as the master custodian bank. The master custodian bank may hold System property in the name of its nominee, bearer form, or in book entry form, so long as the custodian's records clearly indicate that such property is held as part of the System's account.

### Concentration of Credit Risk

The System is guided by statute and policy in the selection of security investments. No investments in any one organization represent five percent or more of plan assets.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Table 10 displays more information.

Duration is a measure of interest rate risk. The greater the duration of a bond, or portfolio of bonds, the greater its price volatility will be in response to a change

**Table 8: Fund-of-Funds Commingled Investments as of June 30, 2015, and 2014**

| | 2015 | 2014 |
|---|---|---|
| Investments - At Fair Value | | |
| U.S. Equity Securities | $175,859,026 | $150,025,709 |
| Foreign Equity Securities | 106,029,744 | 74,766,546 |
| Fixed Income | 57,902,612 | 45,134,358 |
| Alternative Investments | 6,639,964 | 0 |
| Short-Term Investments and Currency Positions | 42,190,845 | 802,229 |
| Total Fund of Funds Commingled Investments | 388,622,191 | 270,728,842 |

in interest rates and vice-versa. Duration is the measure of a bond price's sensitivity to a one hundred-basis point change in interest rates. Duration of eight would mean that, given a one hunred-basis point change up/down in rates, a bond's price would move up/down by 8%.

## Commitments

The System is committed, as of June 30, 2015, to invest approximately $364,000,000 in certain private equity and real estate partnerships, and real estate commingled funds.

## Table 9: Risk Disclosure - Credit Risk as of June 30, 2015, and 2014

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations as of June 30, 2015, and 2014, are as follows:

**2015**

| Quality Rating | Fair Value | Percentage of Portfolio |
|---|---|---|
| AAA | $2,680,090 | 0.98% |
| AA | 91,087,429 | 33.38% |
| A | 84,763,542 | 31.06% |
| BBB | 86,243,656 | 31.60% |
| BB | 4,007,821 | 1.47% |
| B | 2,125,098 | 0.78% |
| NR | 2,009,022 | 0.74% |
| Total Fixed Income Securities | $272,916,658 | 100% |

**2014**

| Quality Rating | Fair Value | Percentage of Portfolio |
|---|---|---|
| AA | $139,543,334 | 47.13% |
| A | 76,630,851 | 25.88% |
| BBB | 63,930,408 | 21.59% |
| BB | 15,979,134 | 5.40% |
| Total Fixed Income Securities | $296,083,727 | 100% |

The System does not have a formal policy that limits the quality grade in which it may invest.

## Table 10: Interest Rate Risk

The following discloses the fair value and average duration of fixed income investments as of June 30, 2015.

| Investment type | Fair Value | Duration |
|---|---|---|
| Short-Term | $11,637,329 | 0.0303 |
| Fixed Income | 69,061,861 | 4.8947 |
| Commingled | 203,854,797 | 4.0716 |
| Total Fair Value | $284,553,987 | |
| Portfolio Modified Duration | | 4.1061 |

# 5. Derivatives

The System's investment managers may invest in derivative securities as permitted by their contracts. A derivative security is an investment whose payoff depends upon the value of an underlying asset such as bond and stock prices or a market index. All derivatives are considered investments. The fair values of all derivative financial instruments are reported in the Statements of Fiduciary Net Position as "Short-Term Investments and Currency Positions." Changes in the values of derivative financial instruments are reported in the Statements of Changes in Fiduciary Net Position as "Net Appreciation in Fair Value of Investments." Derivative financial instruments involve, to varying degrees, credit risk and market risk. At June 30, 2015, and 2014, the System had no derivative financial instruments.

Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. To limit credit risk, each investment manager screens potential counter-parties and establishes and maintains an approved list of acceptable firms which meet a high level of credit-worthiness.

Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is managed by imposing contractual requirements on the investment managers as to the types, amounts, and degree of risk they may undertake. Investment managers' derivative activities are reviewed on a periodic basis by the administration as well as the Board to monitor compliance with the contracts. The System does not purchase derivatives with borrowed funds and does not allow the leveraging of the portfolios.

The System's derivative investments may include foreign currency forward contracts, options, futures, and collateralized mortgage obligations. Derivative securities may also be used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

# 6. Iowa Public Employees Retirement System (IPERS)

## IPERS Plan Description

IPERS membership is mandatory for employees of MFPRSI. Employees of MFPRSI are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. A stand-alone financial report is issued by IPERS which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only.

## IPERS Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age sixty-five, anytime after reaching age sixty-two with twenty or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds eighty-eight, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age fifty-five.

The formula used to calculate a regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age sixty-five.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

## IPERS Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement death benefits depend on the benefit option the member selected at retirement.

## IPERS Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point.

IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a thirty-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, regular members contributed 5.95 percent of pay and MFPRSI contributed 8.93 percent for a total rate of 14.88 percent.

MFPRSI's total contributions to IPERS for the year ended June 30, 2015, were $78,347.

### IPERS Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, MFPRSI reported a liability of $516,371 for its proportionate share of the IPERS net pension liability. The IPERS net pension liability was measured as of June 30, 2014, and the IPERS total pension liability used to calculate the IPERS net pension liability was determined by an actuarial valuation as of that date. MFPRSI's proportion of the IPERS net pension liability was based on MFPRSI's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, MFPRSI's proportion was 0.012759 percent, which was an increase of 0.000174 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, MFPRSI recognized pension expense of $40,842. Table 11 reports the deferred outflows and inflows for the System.

$78,347 reported as deferred outflows of resources related to pensions resulting from MFPRSI contributions subsequent to the measurement date will be recognized as a reduction of the

### Table 11: Pension Deferred Outflows and Deferred Inflows

At June 30, 2015, MFPRSI reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Experience | $5,612 | $0 |
| Changes of Assumptions | 22,789 | 0 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 0 | 196,929 |
| Changes in Proportion and Differences Between System Contributions and Proportionate Share of Contributions. | 7,997 | 0 |
| System Contributions Subsequent to the Measurement Date of June 30, 2014 | 78,347 | 0 |
| Total | $114,745 | $196,929 |

### Table 12: Pension Deferred Outflows and Inflows Expenses

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30: | |
|---|---|
| 2016 | $(42,596) |
| 2017 | (42,596) |
| 2018 | (42,596) |
| 2019 | (42,596) |
| 2020 | 1,856 |

There were no non-employer contributing entities at IPERS.

net pension liability in the year ended June 30, 2016.

Table 12 displays the deferred outflows and the deferred inflows of resources to be recognized in the next five years.

### IPERS Actuarial Assumptions

The actuarial assumptions used by IPERS to determine its total pension liability as of June 30, 2014, are listed in Table 13. Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Table 14 lists the target allocation and best estimates for real rates of return for the major asset classes in IPERS' investment portfolio.

### IPERS - Discount Rate.

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from MFPRSI will be made at

#### Table 13: IPERS Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

| | |
|---|---|
| Rate of Inflation (effective June 30, 2014): | 3.0 percent per annum |
| Rates of Salary Increase (effective June 30, 2010): | 4.00 to 17.00 percent, average, including inflation. Rates vary by membership group. |
| Long-Term Investment Rate of Return (effective June 30, 1996): | 7.5 percent, compounded annually, net of investment expense, including inflation. |

The IPERS actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies with the dates corresponding to those listed above.

#### Table 14: IPERS Target Allocation and Estimated Real Rates of Return

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | IPERS' Target Allocation | IPERS' Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. Equity | 23% | 6.31% |
| Non-U.S. Equity | 15% | 6.76% |
| Private Equity | 13% | 11.34% |
| Real Estate | 8% | 3.52% |
| Core-Plus Fixed Income | 28% | 2.06% |
| Credit Opportunities | 5% | 3.67% |
| Treasury Inflation Protected Securities (TIPS) | 5% | 1.92% |
| Other Real Assets | 2% | 6.27% |
| Cash | 1% | (0.69)% |
| Total | 100% | |

contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Sensitivity of MFPRSI's proportionate share of the IPERS net pension liability to changes in the discount rate

Table 15 lists IPERS' net pension liability using various discount rates.

### Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

### Payables to IPERS

At June 30, 2015, MFPRSI reported payables to the defined benefit pension plan of $6,094 for legally required employer contributions and $4,060 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**Table 15: Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents MFPRSI's proportionate share of the IPERS net pension liability calculated using the discount rate of 7.50 percent as well as what MFPRSI's proportionate share of the IPERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

| | Decrease (6.5%) | Rate (7.5%) | Increase (8.5%) |
|---|---|---|---|
| MFPRSI's Proportionate Share of the IPERS Net Pension Liability | $975,668 | $516,371 | $128,676 |

# Required Supplementary Information

## Schedule of Changes in the System's Net Pension Liability
## Last 4 Fiscal Years

| **Total Pension Liability** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Service Cost | $49,893,939 | $48,020,046 | $47,487,380 | $45,660,053 |
| Interest | 196,289,405 | 187,172,397 | 185,532,855 | 177,678,499 |
| Differences Between Expected and Actual Experience | 15,374,059 | (1,248,941) | (22,020,082) | 14,628,549 |
| Changes of Assumptions | 17,508,411 | 32,616,664 | (49,002,711) | 0 |
| Benefit Payments, Including Refunds | (150,026,306) | (143,833,568) | (137,617,880) | (132,611,997) |
| Net Change in Total Pension Liability | 129,039,508 | 122,726,598 | 24,379,562 | 105,355,104 |
| Total Pension Liability - Beginning | 2,640,955,176 | 2,518,228,578 | 2,493,849,016 | 2,388,493,912 |
| Total Pension Liability - Ending | 2,769,994,684 | 2,640,955,176 | 2,518,228,578 | 2,493,849,016 |
| **Plan Fiduciary Net Position** | | | | |
| Contributions - Employer | 79,748,943 | 76,917,460 | 65,327,766 | 62,661,684 |
| Contributions - Member | 24,622,310 | 24,054,541 | 23,358,844 | 23,419,864 |
| Net Investment Income | 69,833,569 | 358,680,682 | 229,592,075 | 4,057,940 |
| Benefit Payments, Including Refunds | (150,026,306) | (143,833,568) | (137,617,880) | (132,611,997) |
| Administrative Expense | (1,680,944) | (1,553,740) | (1,523,477) | (1,606,072) |
| Other | (774,140) | (75,070) | (99,223) | (98,573) |
| Net Change in Plan Fiduciary Net Position | 21,723,432 | 314,190,305 | 179,038,105 | (44,177,154) |
| Plan Fiduciary Net Position - Beginning | 2,278,456,923 | 1,964,266,618 | 1,785,228,513 | 1,829,405,667 |
| Plan Fiduciary Net Position - Ending | $2,300,180,355 | $2,278,456,923 | $1,964,266,618 | $1,785,228,513 |
| **System's Net Pension Liability (Asset) - Ending** | $469,814,329 | $362,498,253 | $553,961,960 | $708,620,503 |

GASB Statement 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, MFPRSI will present information for those years with information available.

See Notes to Required Supplementary Information.

## Schedule of System's Net Pension Liability
## Last 4 Fiscal Years

| | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Total Pension Liability | $2,769,994,684 | $2,640,955,176 | $2,518,228,578 | $2,493,849,016 |
| Plan Fiduciary Net Position | 2,300,180,355 | 2,278,456,923 | 1,964,266,618 | 1,785,228,513 |
| System's Net Pension Liability (Asset) | 469,814,329 | $362,498,253 | $553,961,960 | $708,620,503 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 83.04% | 86.27% | 78.00% | 71.59% |
| Actuarial Projected Covered-Employee Payroll | $262,260,060 | 255,370,044 | 250,107,112 | 250,047,187 |
| System's Net Pension Liability (Asset) as a Percentage of Covered-Employee Payroll | 179.14% | 141.95% | 221.49% | 283.39% |

GASB Statement 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, MFPRSI will present information for those years with information available.

See Notes to Required Supplementary Information.

## Schedule of System's Contributions
## Last 4 Fiscal Years

| | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Actuarially Determined Contribution | $79,748,943 | $76,917,460 | $65,327,766 | $61,911,684 |
| Contributions in Relation to the Actuarially Determined Contribution | 79,748,943 | 76,917,460 | 65,327,766 | 61,911,684 |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| Reported Covered-Employee Payroll | $262,260,060 | $255,370,044 | $250,107,112 | $250,047,187 |
| Contributions as a Percentage of Covered-Employee Payroll | 30.41% | 30.12% | 26.12% | 24.76% |

GASB Statement 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, MFPRSI will present information for those years with information available.

See Notes to Required Supplementary Information.

## Schedule of Investment Returns
## Last 10 Fiscal Years

| Fiscal Year | Annual Money-Weighted Rate of Return, Net of Investment Expense |
|---|---|
| 2015 | 3.02% |
| 2014 | 17.97% |
| 2013 | 13.10% |
| 2012 | (0.27)% |
| 2011 | 23.34% |
| 2010 | 11.48% |
| 2009 | (21.80)% |
| 2008 | (1.60)% |
| 2007 | 19.35% |
| 2006 | 14.10% |

See Notes to Required Supplementary Information.

## Schedule of MFPRSI Proportionate Share of the Net Pension Liability

### IPERS 2014

| | |
|---|---|
| MFPRSI's Proportion of the Net Pension Liability | 0.012759% |
| MFPRSI's Proportionate Share of the Net Pension Liability (Asset) | $516,371 |
| MFPRSI's Covered-Employee Payroll | $891,359 |
| MFPRSI's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | 57.93% |
| Plan Fiduciary Net Position as a Percentage of the Total Net Pension Liability | 56.84% |

The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, MFPRSI will present information for those years for which information is available.

See Notes to Required Supplementary Information.

## Schedule of MFPRSI's Contributions Last Fiscal Year

| | 2015 |
|---|---|
| Actuarially Determined Contribution | $78,347 |
| Contributions in Relation to the Actuarially Determined Contribution | (78,347) |
| Contribution Deficiency (Excess) | $0 |
| Reported Covered-Employee Payroll | $891,359 |
| Contributions as a Percentage of Covered-Employee Payroll | 8.79% |

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, MFPRSI will present information for those years for which information is available.

See Notes to Required Supplementary Information.

### Methods and assumptions used in calculations of actuarially determined contributions.

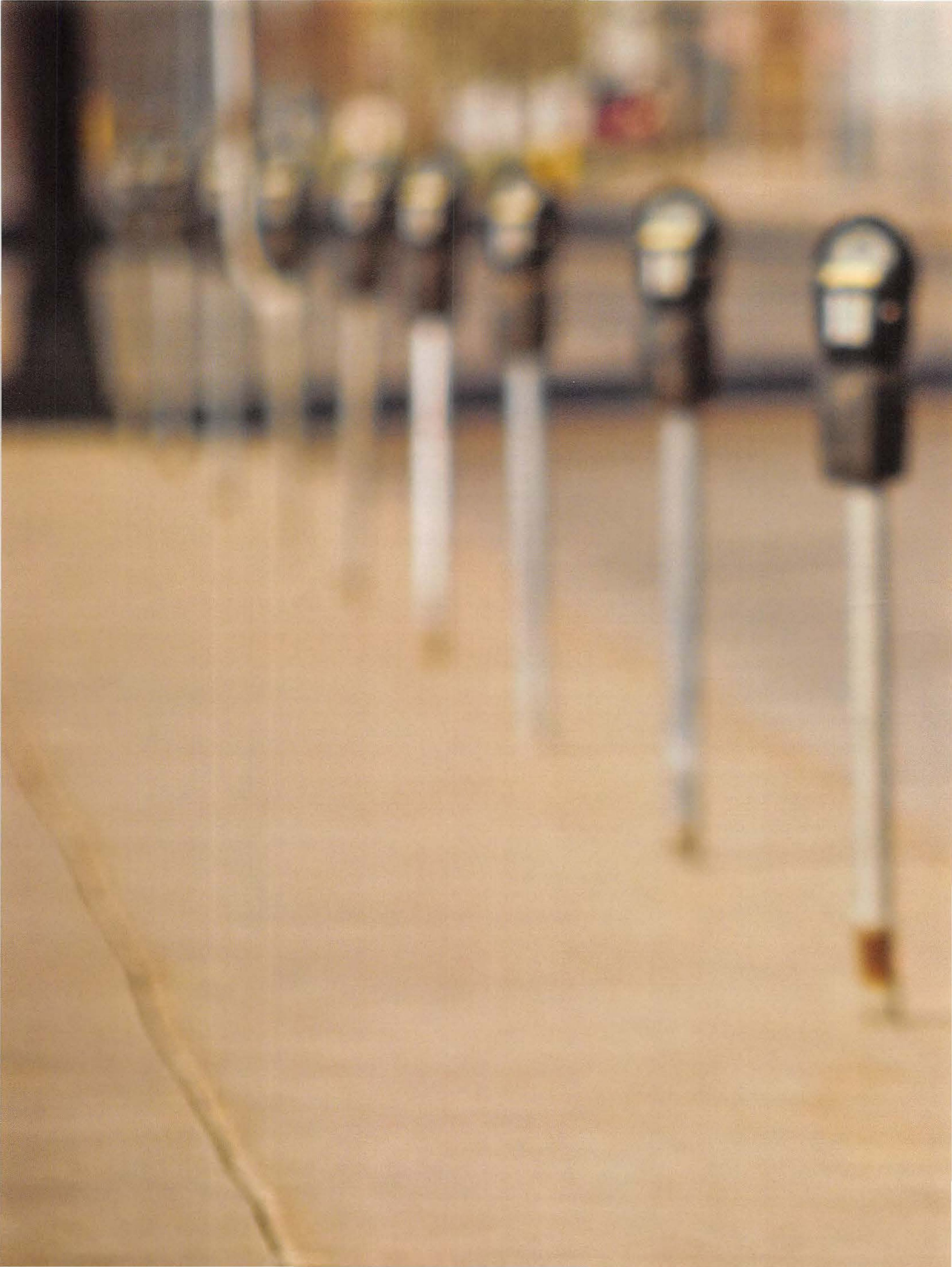
The actuarially determined contribution rates in the schedule of System's contributions are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

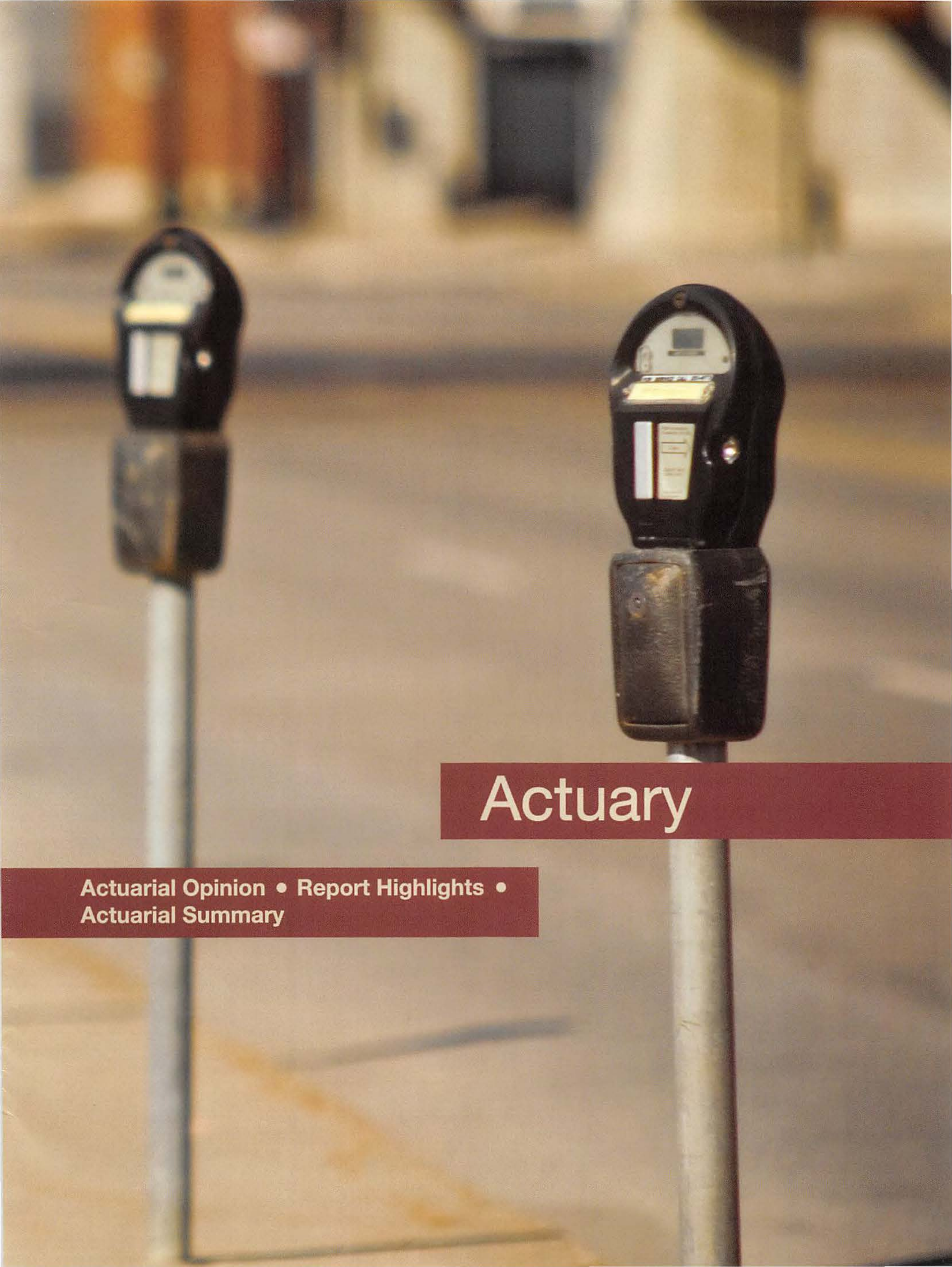
The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

## Notes to the Required Supplementary Information

| | |
|---|---|
| Valuation Date | July 1, 2015 |
| Actuarial Cost Method | Entry Age Normal * |
| Amortization Method | Level dollar, closed, layered |
| Remaining Amortization Period | 25 years |
| Asset Valuation Method | Five-year smoothed market |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.50 percent |
| Projected Salary Increases | 4.50 percent to 15.11 percent |
| Post-Retirement Mortality Table: | |
| Ordinary | A weighting equal to 1/12 of the 1971 Group Annuity Mortality Table, Male and Female and 11/12 of the 1994 Group Annuity Mortality Static Table, Male and Female with no projection of future mortality improvement. |
| Disabled | A weighting equal to 1/12 of the 1971 Group Annuity Mortality Table — Male, set forward three years and 11/12 of the 1994 Group Annuity Mortality Static Table — Male, set forward three years with no projection of future mortality improvement. |

* Aggregate cost method used July 1, 2003, - July 1, 2010.





# Actuary

**Actuarial Opinion • Report Highlights • Actuarial Summary**

We, SilverStone, are pleased to submit this actuarial report of MFPRSI. The costs developed and presented in this report are based on asset values as of June 30, 2015, member census data as of July 1, 2015, and current System provisions, all of which were supplied by MFPRSI.

The purposes of the actuarial report are:

1. To determine the normal contribution rate which is payable by the Cities under Chapter 411 of the Code of Iowa;
2. To determine the funded status of the System; and
3. To provide information relating to the disclosure requirements of the Governmental Accounting Standards Board (GASB) Statement No. 67 – Financial Reporting for Defined Benefit Pension Plans (an amendment of GASB Statement No. 25).

All costs and liabilities were determined in accordance with generally accepted actuarial principles and procedures and are based on the actuarial assumptions and methods prescribed by the Board. To the best of our knowledge, the information supplied in this report is complete and accurate and in our opinion the assumptions are reasonably related to the experience of the System and to reasonable expectations under the System. The amounts presented in the accompanying report have been determined appropriately according to the actuarial assumptions and methods stated herein, and fully and fairly disclose the actuarial position of the System. The undersigned meets the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained in this report.

Sincerely,

Glen C. Gahan & Michael S. Ehmke

---

Glen C. Gahan, FSA
Principal
SilverStone
Member of American Academy of Actuaries
Enrolled Actuary No. 14-4875

Michael S. Ehmke, ASA
Principal
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Enrolled Actuary No. 14-5811

# Actuarial Report Highlights

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Cities Recommended Contribution** | $70,844,369 | $73,941,905 | $78,587,107 |
| **Normal Contribution Rate** | 25.92% | 27.77% | 30.41% |
| **Plan Assets** | | | |
| Market Value | 2,300,180,355 | 2,278,456,923 | 1,964,266,618 |
| Actuarial Value | 2,239,539,373 | 2,054,844,278 | 1,860,947,878 |
| **Prior Year Investment Return** | | | |
| Market Value | 3.07% | 18.47% | 13.04% |
| Actuarial Value | 11.43% | 12.96% | 4.02% |
| **Actuarial Accrued Liability** | 2,769,994,684 | 2,640,955,176 | 2,518,228,578 |
| Funded Ratio* | 80.85% | 77.81% | 73.90% |
| **Annual Participating Payroll** | 273,319,323 | 266,265,413 | 258,425,211 |
| **Annual Normal Cost** | 51,366,130 | 49,893,939 | 48,020,046 |
| Percent of Payroll | 18.79% | 18.74% | 18.58% |
| **Annual Pension Benefits** | | | |
| Service Retirement | 79,525,488 | 75,127,236 | 71,753,820 |
| Disabled Retirement | 44,024,136 | 42,097,668 | 40,798,932 |
| Vested Retirement | 5,747,688 | 5,136,468 | 4,791,024 |
| Beneficiaries | 17,506,836 | 16,613,052 | 16,020,192 |
| Total | 146,804,148 | 138,974,424 | 133,363,968 |
| **Number of Members** | | | |
| Active | 3,892 | 3,885 | 3,866 |
| Disabled | 1,121 | 1,121 | 1,121 |
| Retirees & Beneficiaries | 2,814 | 2,775 | 2,741 |
| Vested Terminated | 328 | 321 | 315 |
| Total | 8,155 | 8,102 | 8,043 |

*Based on the ratio of the Actuarial Value of Assets to Actuarial Accrued Liability.

## Actuarial Value of Assets
## Year Ending June 30, 2015

| | | |
|---|---|---|
| 1. | Actuarial Value of Assets at July 1, 2014 | $2,054,844,278 |
| 2. | Contributions for 2014 Plan Year (Members, Cities, and State) | 104,371,253 |
| 3. | Benefit Distributions and Refunds for 2014 Plan Year | (150,026,306) |
| 4. | Non-Investment Expenses | |
| | a. Administrative Expenses | (1,680,944) |
| | b. Disability Expenses | (141,921) |
| | c. Other Expenses | (13,070) |
| | d. Total | (1,835,935) |
| 5. | Expected Return on Market Value of Assets for Year at 7.5% | 169,135,552 |

6. Asset Gains/(Losses) for Prior Five Plan Years

| | (I) Asset Gain or (Loss) | Years Recognized | Years Remaining | (II) Recognition Percentage | (I) x (II) Recognized Amount |
|---|---|---|---|---|---|
| a. 2014 | $(99,921,132) | 1 | 4 | 20.00% | $(19,984,226) |
| b. 2013 | 213,044,387 | 2 | 3 | 20.00% | 42,608,877 |
| c. 2012 | 97,564,609 | 3 | 2 | 20.00% | 19,512,922 |
| d. 2011 | (131,368,417) | 4 | 1 | 20.00% | (26,273,683) |
| e. 2010 | 235,933,207 | 5 | 0 | 20.00% | 47,186,641 |
| f. Total | | | | | $63,050,531 |

| | | |
|---|---|---|
| 7. | Asset Gains/(Losses) to be Recognized = 6(f) | 63,050,531 |
| 8. | Actuarial Value of Assets at July 1, 2015 = (1) + (2) + (3) + (4d) + (5) + (7) | 2,239,539,373 |
| 9. | Market Value of Assets at July 1, 2015 | 2,300,180,355 |
| 10. | Ratio of Actuarial Value to Market Value at July 1, 2015 = (8) / (9) | 97.36% |

## Unfunded Actuarial Accrued Liability

The unfunded actuarial accrued liability is the amount the actuarial accrued liability exceeds the actuarial value of plan assets determined as of the actuarial valuation date. The unfunded actuarial accrued liability is reduced during a year when System funding exceeds the annual normal cost and interest accrued on the prior year unfunded accrued liability. The unfunded actuarial accrued liability is also reduced (increased) when the investment return on System assets exceeds (is less than) the assumed investment return. The actuarial accrued liability is increased if there are amendments that revise benefits payable from the System. The actuarial accrued liability may be increased or decreased as the result of System experience or if there are changes in the actuarial assumptions used to determine annual contributions.

### Unfunded Actuarial Accrued Liability

| | As of July 1, 2015 | As of July 1, 2014 |
|---|---|---|
| 1. Actuarial Accrued Liability Before Changes | | |
| a. Active Members | | |
| Service Retirements / DROP | $926,424,549 | $883,537,548 |
| Ordinary Disability | 20,208,715 | 19,548,505 |
| Accidental Disability | 128,987,635 | 124,061,238 |
| Ordinary Death | 5,369,614 | 5,224,878 |
| Accidental Death | 3,462,910 | 3,360,545 |
| Withdrawal | 21,200,739 | 21,279,758 |
| Total Active | 1,105,654,162 | 1,057,012,472 |
| b. Inactive Members | | |
| Members Receiving Benefits | 1,610,490,711 | 1,514,329,690 |
| Deferred Vested Terminations | 36,157,699 | 36,871,674 |
| Refund of Member Contributions Due | 183,701 | 124,676 |
| Total Inactive | 1,646,832,111 | 1,551,326,040 |
| c. Total Actuarial Accrued Liability | 2,752,486,273 | 2,608,338,512 |
| 2. Actuarial Value of Plan Assets | 2,239,539,373 | 2,054,844,278 |
| 3. Unfunded Actuarial Accrued Liability Before Changes = [Excess of (1) over (2)] | 512,946,900 | 553,494,234 |
| 4. Change in Unfunded Actuarial Accrued Liability | | |
| a. Change in System Provisions | 0 | 0 |
| b. Change in Actuarial Assumptions | 17,508,411 | 32,616,664 |
| 5. Unfunded Actuarial Accrued Liability After Changes | 530,455,311 | 586,110,898 |

## Annual Normal Cost

The annual normal cost is the portion of the total System costs assigned to the current year by the Actuarial Cost Method.

### Annual Normal Cost

| | As of July 1, 2015 | As of July 1, 2014 |
|---|---|---|
| 1. Annual Normal Cost | | |
| Benefit Normal Cost | $51,366,130 | $49,893,939 |
| Other | 0 | 0 |
| Total | $51,366,130 | 49,893,939 |
| 2. Annual Participating Payroll | 273,319,323 | 266,265,413 |
| 3. Annual Normal Cost as a Percentage of Participating Payroll = (1) / (2) | 18.79% | 18.74% |

### Annual Contributions

| | As of July 1, 2015 | As of July 1, 2014 |
|---|---|---|
| Preliminary Total Contribution | | |
| 1. Annual Normal Cost | $51,366,130 | $49,893,939 |
| 2. Estimated Member Contributions | 25,692,016 | 25,028,949 |
| 3. Unfunded Actuarial Accrued Liability Amortization Payment | 45,164,944 | 49,082,088 |
| 4. Total (Cities plus State) Contributions (1) – (2) + (3) | 70,839,058 | 73,947,078 |
| Cities' Contribution | | |
| 5. Preliminary Total Contribution (4) | 70,839,058 | 73,947,078 |
| 6. Estimated State Contribution | 0 | 0 |
| 7. Preliminary Cities' Contribution (5) – (6) | 70,839,058 | 73,947,078 |
| 8. Covered Payroll | 273,319,323 | 266,265,413 |
| 9. Cities' Contribution as a percent of payroll (7) / (8) | 25.92% | 27.77% |
| 10. Minimum Required Contribution Rate for Cities | 17.00% | 17.00% |
| 11. Cities' Contribution [Greater of (9) or (10)] x (8) | 70,844,369 | 73,941,905 |

## Unfunded Accrued Liability Payments

One of the components included to determine the recommended contribution is the Unfunded Accrued Liability Payment. The Unfunded Accrued Liability Payment is an annual amount that will amortize over twenty-five years on a closed, layered, level dollar basis:

- The unfunded accrued liability established as of July 1, 2013.
- An increase in unfunded accrued liability if System benefits are improved through amendments.
- An increase or decrease in the unfunded accrued liability associated with a change in actuarial assumptions.
- An increase or decrease in the unfunded accrued liability resulting from actuarial gains or losses due to System experience more or less favorable than expected.

This section of the report documents the amortization bases established for the System and displays other values associated with determining the unfunded accrued liability payment.

### Unfunded Accrued Liability Payments

| Amortization Base | Date Established | Source of Base |
|---|---|---|
| $657,280,700 | July 1, 2013 | Initial Unfunded |
| (101,748,328) | July 1, 2014 | Actuarial Gain |
| 32,616,664 | July 1, 2014 | Assumption Change |
| (64,447,420) | July 1, 2015 | Actuarial Gain |
| 17,508,411 | July 1, 2015 | Assumption Change |

#### Charge Bases

| Initial Amortization Base | Initial Term-Years | Remaining Term on Valuation Date | Amortization Payment |
|---|---|---|---|
| $657,280,700 | 25 | 23 | $54,851,249 |
| 32,616,664 | 25 | 24 | 2,721,919 |
| 17,508,411 | 25 | 25 | 1,461,108 |
| | | Total | 59,034,276 |

#### Credit Bases

| Initial Amortization Base | Initial Term-Years | Remaining Term on Valuation Date | Amortization Payment |
|---|---|---|---|
| $101,748,328 | 25 | 24 | $8,491,080 |
| 64,447,420 | 25 | 25 | 5,378,252 |
| | | Total | 13,869,332 |
| Net Amortization Payment | | | $45,164,944 |

## Actuarial Gain / Loss

| Expected Unfunded Accrued Liability | |
|---|---|
| 1. Expected Actuarial Accrued Liability | |
| Actuarial Accrued Liability on July 1, 2014 | $2,640,955,176 |
| Normal Cost | 49,893,939 |
| Benefit Distributions | (150,026,306) |
| Interest on Above at 7.50% to June 30, 2015 | 196,289,405 |
| Total | 2,737,112,214 |
| 2. Expected Assets | |
| Actuarial Value of Assets on July 1, 2014 | 2,054,844,278 |
| Contributions | 104,371,253 |
| Benefit Distributions and Non-Investment Expenses | (151,862,241) |
| Interest on Above at 7.50% to June 30, 2015 | 152,364,604 |
| Total | 2,159,717,894 |
| 3. Expected Unfunded Actuarial Accrued Liability on June 30, 2015 | 577,394,320 |

| Actual Unfunded Actuarial Accrued Liability | |
|---|---|
| 1. Actuarial Accrued Liability Before Changes | 2,752,486,273 |
| 2. Actuarial Value of Assets | 2,239,539,373 |
| 3. Actual Unfunded Actuarial Accrued Liability on July 1, 2015 = (1) - (2) | 512,946,900 |

| Actuarial Gain or (Loss) | |
|---|---|
| 1. Expected Unfunded Actuarial Accrued Liability | 577,394,320 |
| 2. Actual Unfunded Actuarial Accrued Liability | 512,946,900 |
| 3. Actuarial Gain or (Loss) for 2015 Fiscal Year = (1) - (2) | 64,447,420 |

## Actuarial Present Value of Accrued Benefits

| | As of July 1, 2015 | As of July 1, 2014 |
|---|---|---|
| 1. Present Value of Vested Accrued Benefits | | |
| a. Present Value of Vested Accrued Benefits for Active Members | $829,725,368 | $801,692,387 |
| b. Present Value of Benefits for Terminated Members | 36,509,148 | 37,334,678 |
| c. Present Value of Benefits Being Paid to Retirees and Beneficiaries | 1,621,932,989 | 1,535,499,420 |
| Total | $2,488,167,505 | $2,374,526,485 |
| 2. Present Value of Accrued Non-Vested Benefits | 30,463,572 | 29,434,334 |
| 3. Present Value of All Accrued Benefits = (1) + (2) | $2,518,631,077 | $2,403,960,819 |
| 4. Market Value of Assets | $2,300,180,355 | $2,278,456,923 |
| 5. Ratio of Market Value of Assets to the Present Value of All Accrued Benefits = (4) / (3) | 91.33% | 94.78% |
| 6. Ratio of Market Value of Assets to the Present Value of Vested Accrued Benefits = (4) / (1) | 92.44% | 95.95% |

### Change in Actuarial Present Value of Accrued Benefits

The change in actuarial present value of accrued benefits due to various factors including benefits accumulated, the passage of time, benefits paid, changes in assumptions and changes in System provisions is displayed below.

| Change in Actuarial Present Value of Accrued Benefits | |
|---|---|
| Actuarial Present Value of Accrued Benefits on July 1, 2014 | $2,403,960,819 |
| Change in Present Value of Accrued Benefits from July 1, 2014, to July 1, 2015 due to: | |
| • Additional Benefits Accumulated | $73,735,430 |
| • Interest Due to Passage of Time | 174,772,783 |
| • Benefits Paid | (150,026,306) |
| • Change in Assumptions | 16,188,351 |
| • Changes in System Provisions | 0 |
| Actuarial Present Value of Accrued Benefits on July 1, 2015 | $2,518,631,077 |

# Benefits

**Benefits Plan Summary • Description of Benefit Plan • Optional Forms of Payment • DROP - Deferred Retirement Option Program**

The retirement system's purpose is to promote economy and efficiency in the municipal public safety service within the State of Iowa. In order to achieve its purpose, MFPRSI is charged with the administration of a retirement plan which makes pension payments to its members who have retired from public service as a police officer or firefighter and to their beneficiaries. MFPRSI administers a comprehensive disability program for its membership and the 49 employing cities.

MFPRSI offers several types of retirement benefits. The eligibility requirements, descriptions, and benefit formulas for each type of retirement benefit are provided in this section. A member's eligibility for retirement and which type of retirement benefit awarded primarily depend on the amount of credited service the member has acquired as well as his or her age. The Board and administration manage the retirement system in compliance with statutory provisions. Revisions can only be instituted by the Iowa General Assembly.

Regards,

Dan Cassady

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Dan Cassady
Deputy Director
MFPRSI MUNICIPAL FIRE & POLICE RETIREMENT SYSTEM OF IOWA
www.mfprsi.org

# Description of Benefit Plan

Benefit formulas are established by Iowa Code Chapter 411 and revisions to the benefit program can only be instituted by the Iowa General Assembly. The Board and administration are required to administer retirement benefits in compliance with the statutory provisions. Questions concerning an individual's eligibility should be directed to the administration.

## Retirement Age

To qualify for a full service retirement, the member must be age fifty-five or older with a minimum of twenty-two years of service at termination of employment. The other forms of benefits, with the exception of vested retirement and DROP, do not have specific age or length of service requirements. Retirement under the ordinary disability or accidental disability programs of MFPRSI are available to members who become permanently disabled (permanently defined as a duration of one year or longer) while employed as a firefighter or police officer without regard to the age of the member.

## Benefit Amounts

Current benefit amounts are based upon a percentage of the member's average monthly earnable compensation. The average monthly earnable compensation is calculated by adding the member's earnable compensation for the highest three years of service and dividing it by thirty-six. The percentage multiplier varies by type of retirement and the length of the member's service. The benefit percentage for a service retirement is sixty-six percent with twenty-two years of service and eighty-two percent with thirty years of service.

## Refunds

Since July 1, 1990, members who terminate service (other than by death or disability) may withdraw their contributions in total from their date of hire through their termination date. If a member withdraws contributions, the member waives any claim to benefits for the period of membership for which the withdrawal is made.

Members who terminate service also have the option to rollover the eligible portion of their refund to another qualified retirement plan or to an Individual Retirement Account (IRA). Such rollovers must be approved in advance by MFPRSI. The contributions being withdrawn are credited with an annualized simple interest rate determined by the Board, currently set at 5 percent.

## Vesting

If the employment of a member is terminated before age fifty-five (other than by death or disability) and the member has at least four years of service, or if the member retires after age fifty-five but with less than twenty-two years of service the member is entitled to a vested service retirement payable at age fifty-five or at termination. The benefit formula is a fraction of the pension the member would have received under a regular service retirement.

# Optional Forms of Payment

Members retiring as service or vested service retirement have the opportunity to select either the basic benefit as provided by Chapter 411, or one of six optional forms of benefit. The basic benefit is a lifetime based on the member's average monthly compensation and number of years of service. Each option is an actuarially adjusted benefit based on the basic benefit.

### Basic Benefit

The member receives a lifetime monthly benefit. Upon the member's death the surviving spouse is entitled to fifty percent of the member's gross benefit at the time of the member's death. If there is no surviving spouse, the benefit ends. Please visit www.mfprsi.org for more information about the basic benefit.

The optional forms of payment are calculated using actuarial tables which consider the age of the member at retirement, the age of the member's beneficiary, and the assumed life expectancy of both.

### Joint and Seventy-Five Percent Survivor Annuity Benefit

The named beneficiary receives seventy-five percent of the gross amount of the member's payment at the time of the member's death. The beneficiary receives this amount for his or her lifetime.

Upon the death of the beneficiary, the benefit ends. If the beneficiary dies before the member, the benefit ends with the death of the member.

### Joint and Seventy-Five Percent Survivor Annuity with Pop-up

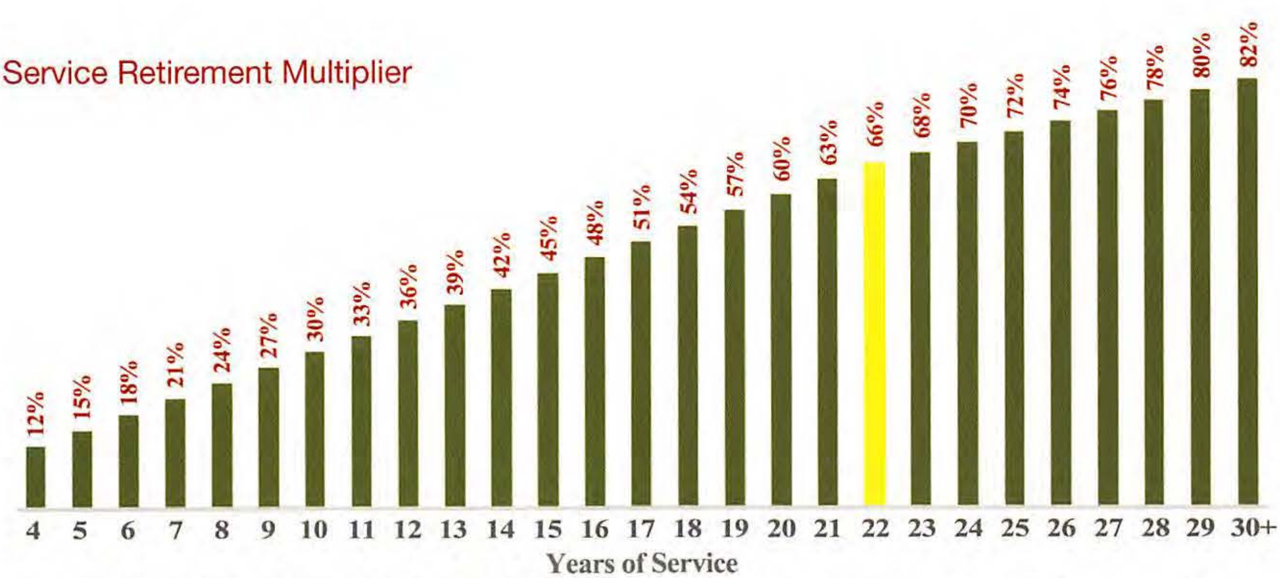
The designated beneficiary of the member will receive, for the duration of his or her lifetime, seventy-five percent of the member's retirement allowance at the time of the member's death.

If the designated beneficiary predeceases the member, the member's retirement allowance shall be increased to the amount of the service retirement allowance under the basic benefit and no survivor benefit is payable following the death of the member.

### Joint and One Hundred Percent Survivor Annuity Benefit

The named beneficiary

### Service Retirement Multiplier




Members must have completed twenty-two years of service and reach age fifty-five in order to qualify for the annual escalator upon retirement. The basic benefit provides a lifetime annuity to retired members and a surviving spouse annuity equal to fifty percent of the basic benefit. For more information on the benefits offered by MFPRSI, visit www.mfprsi.org.

receives one hundred percent of the gross amount of the member's payment at the time of the member's death. The beneficiary receives this amount for the duration of his or her lifetime. Upon the death of the beneficiary, the benefit ends.

If the beneficiary dies before the member, the benefit ends with the death of the member.

### Joint and One Hundred Percent Survivor Annuity with Pop-up

Following the member's death, the designated beneficiary of the member will receive, for the duration of his or her lifetime, one hundred percent of the member's retirement allowance at the time of the member's death.

If the designated beneficiary predeceases the member, the member's retirement allowance shall be increased to the amount of the service retirement allowance under the basic benefit and no survivor benefit is payable following the death of the member.

### Single Life Annuity with Designated Lump Sum Benefit

Upon the death of the member, a pre-designated lump sum is paid to the named beneficiary or beneficiaries and the benefit ends.

If the beneficiary dies before the member, the lump sum is paid to the member's estate.

### Straight Life Annuity Benefit

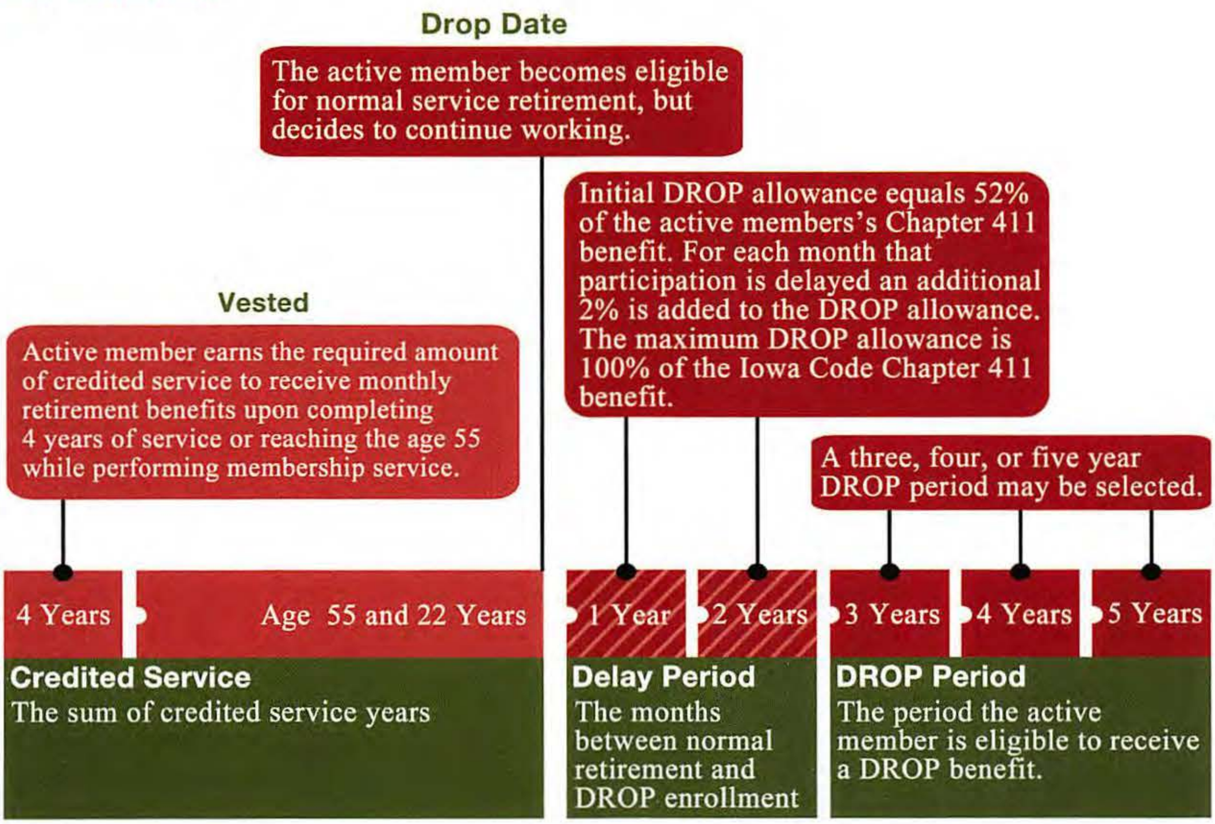
Following the member's death, no further benefits are payable.

# DROP - Deferred Retirement Option Program

Active members, at least fifty-five years old, with twenty-two or more years of service have the option to participate in DROP which is an arrangement whereby a member who is otherwise eligible to retire and begin benefits opts to continue working. A member can elect a three, four, or five year DROP period. By electing to participate in DROP the member is signing a contract indicating the member will retire at the end of the selected DROP period.

During the DROP period the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. The DROP benefit is equal to fifty-two percent of the member's retirement benefit at the member's earliest date eligible and one hundred percent if the member delays enrollment for twenty-four months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

## DROP Illustration



# Investments

Investments Review • Investment Performance • Investment Overview • Investment Allocation • Investment Managers

For the annual period ending June 30, 2015, the investment portfolio returned 3.1 percent. While this is a positive overall performance in what was a difficult and highly volatile investment market this fiscal year, this return is below our annualized actuarial target of 7.5 percent.

A strong bull market in the second half of 2014 gave way to uncertainty in the first half of 2015. Governmental instability in Greece, economic slowing in China, collapsing oil prices, and a surging U.S. Dollar were factors that all weighed heavily on our investment portfolio this year. These events impacted our international equity returns. Our domestic fixed income positions struggled in a low interest environment and our foreign fixed income positions struggled against a strong U.S. Dollar. Meanwhile, several portions of our portfolio performed well. Our private equity investments delivered 11.3 percent return for the year and our core domestic equity composite return ranked in the 9th percentile compared to our peers.

Of course, this is investment return information for the fiscal year, which is a relatively short period of time. Our portfolio is designed to weather bumps in the road and is built to maximize its expected return for a given amount of risk over the long-term. We have diversified the portfolio so when one sector has a difficult year, other sectors pick up the slack and soften any underperformance for the portfolio as a whole. Most importantly, our investment return since inception in January 1992 is 7.9 percent and above our actuarial target rate of return. That's an aggregated return using over 23 years worth of performance! This indicates the portfolio has been and continues to be well structured to withstand multiple market cycles.

The following pages in the Investment section provide the performance returns as of fiscal year end as well as the guidelines to our current asset allocation. Additional information describing the performance of the investment portfolio can be found at www.mfprsi.org.

Regards,

Terry Slattery

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Terry Slattery
Executive Director
MFPRSI MUNICIPAL FIRE & POLICE RETIREMENT SYSTEM OF IOWA
www.mfprsi.org

# Investment Performance
### as of June 30, 2015

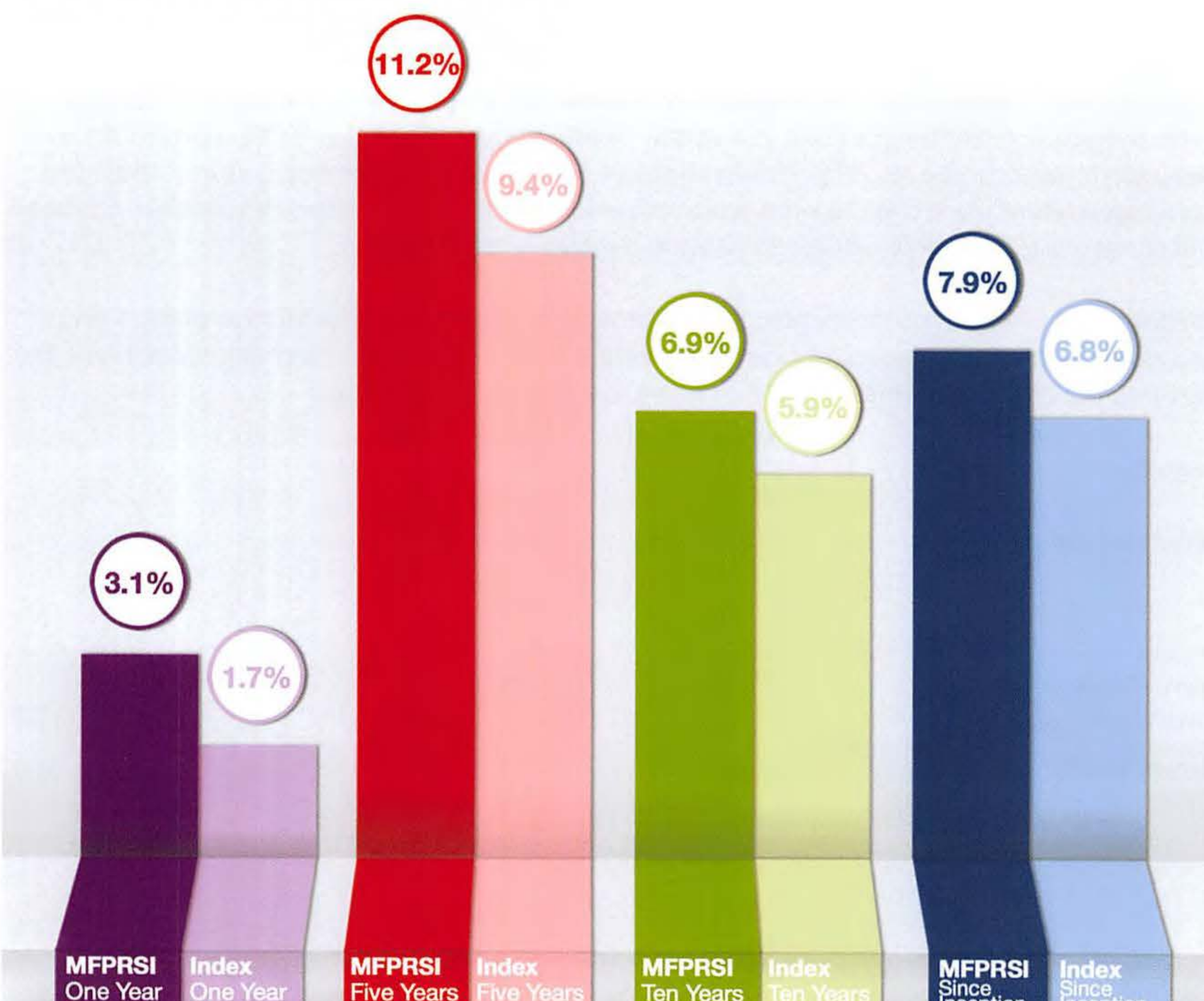
| | One Year | Five Years | Ten Years | Since Inception* |
|---|---|---|---|---|
| Total Fund | 3.1% | 11.2% | 6.9% | 7.9% |
| Policy Index** | 1.7% | 9.4% | 5.9% | 6.8% |
| Excess Return | 1.4% | 1.8% | 1.0% | 0.9% |
| Target Actuarial Rate | 7.5% | 7.5% | 7.5% | 7.5% |

* Inception Date: January 1, 1992

** Policy index = 60% MSCI ACWI IMI Index; 40% BarCap Aggregate Index

It is important to note that historical performance is not a guarantee of future performance of the portfolio due to the cyclical nature of markets and the individual components thereof.

## Investment Returns as of June 30, 2015



# Investment Overview

Investment returns play an important role in the funded status of the MFPRSI investment portfolio. The Board has adopted an *Investment Policy & Objectives* statement designed to position the investment portfolio to meet the ongoing requirements of the benefit plan. The complete *Investment Policy & Objectives* statement is available on MFPRSI's website, www.mfprsi.org.

MFPRSI's overall investment performance goal is to exceed an annualized actuarial assumed rate of return of 7.5 percent over a long-term time horizon. The actuarial assumed rate of return is the rate of return which will meet or exceed the benefits and administrative funding requirements of the retirement system. While the investment portfolio will exceed or fall short of that goal in shorter time periods it is designed to withstand all market environments and outpace the actuarial assumed rate of return over the long-term.

MFPRSI's investments are managed by professional investment management firms who have full discretion to direct the investment and reinvestment of the assets in their respective accounts in accordance with the System's investment policies, applicable to federal and state statutes and regulations, and the executed and detailed investment management agreements.

The net investment market values reported in this section differ from those shown in the Financial and Actuary sections of this report. The values used in this section are the appropriate industry standard basis for investment return calculations.

## Asset Allocation and Diversification

Asset allocation is a process designed to construct an optimal long-term mix that achieves a specific set of investment objectives. The *Investment Policy & Objectives* establishes the retirement system's asset allocation policy to meet those objectives. The asset allocation policy is adopted to provide for diversification of assets in order to maximize return within appropriate levels of market and economic risks. The complete *Investment Policy & Objectives* document can be viewed at www.mfprsi.org

MFPRSI also pursues diversification in the investment portfolio by varying its investment style. The success of any individual investment style tends to be cyclical. For example, growth equities may outperform value equities over several consecutive time periods and then reverse over several consecutive time periods.

Another example would be value add/opportunistic real estate may outperform core real estate for multiple consecutive time periods and then reverse for multiple time periods. Ultimately, investment markets are cyclical and no one investment style outperforms over the long-term. Investment styles come in and out of fashion and using this logic, MFPRSI utilizes multiple approaches to investing. Performance at the total investment fund level, therefore, avoids dependency on any one style of investment.

Overall, diversification of assets within the investment portfolio enhances the potential to achieve MFPRSI's long-term goal of meeting a 7.5 percent annualized actuarial assumed rate of return.

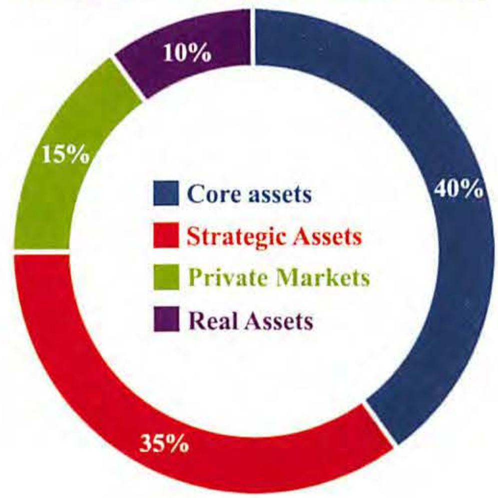
# Investment Allocation

| Asset Class | Portfolio Target Percentage |
|---|---|
| Core investments[1] | 40% |
| Strategic investments[2] | 35% |
| Private markets | 15% |
| Real assets | 10% |
| Total | 100% |

| | |
|---|---|
| Total plan ten-year performance expectation* | 8.0% |
| Standard deviation (risk projection)* | 12.2% |

*Performance expectation and risk projection based upon Summit Strategies' 2012 assumptions.

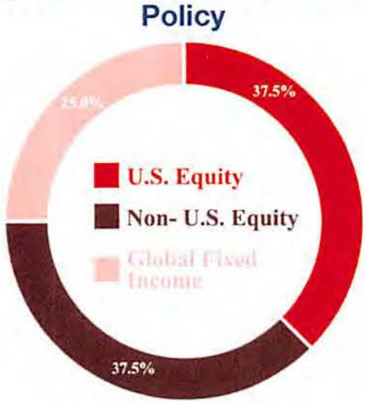
## Total Fund Asset Allocation Policy




## [1]Core Investments Asset Allocation Policy


| [1]Core Investments Asset Class | Portfolio Target Percentage |
|---|---|
| U.S. Equity | 37.5% |
| Non-U.S. Equity | 37.5% |
| Global Fixed Income | 25.0% |
| Total | 100.0% |

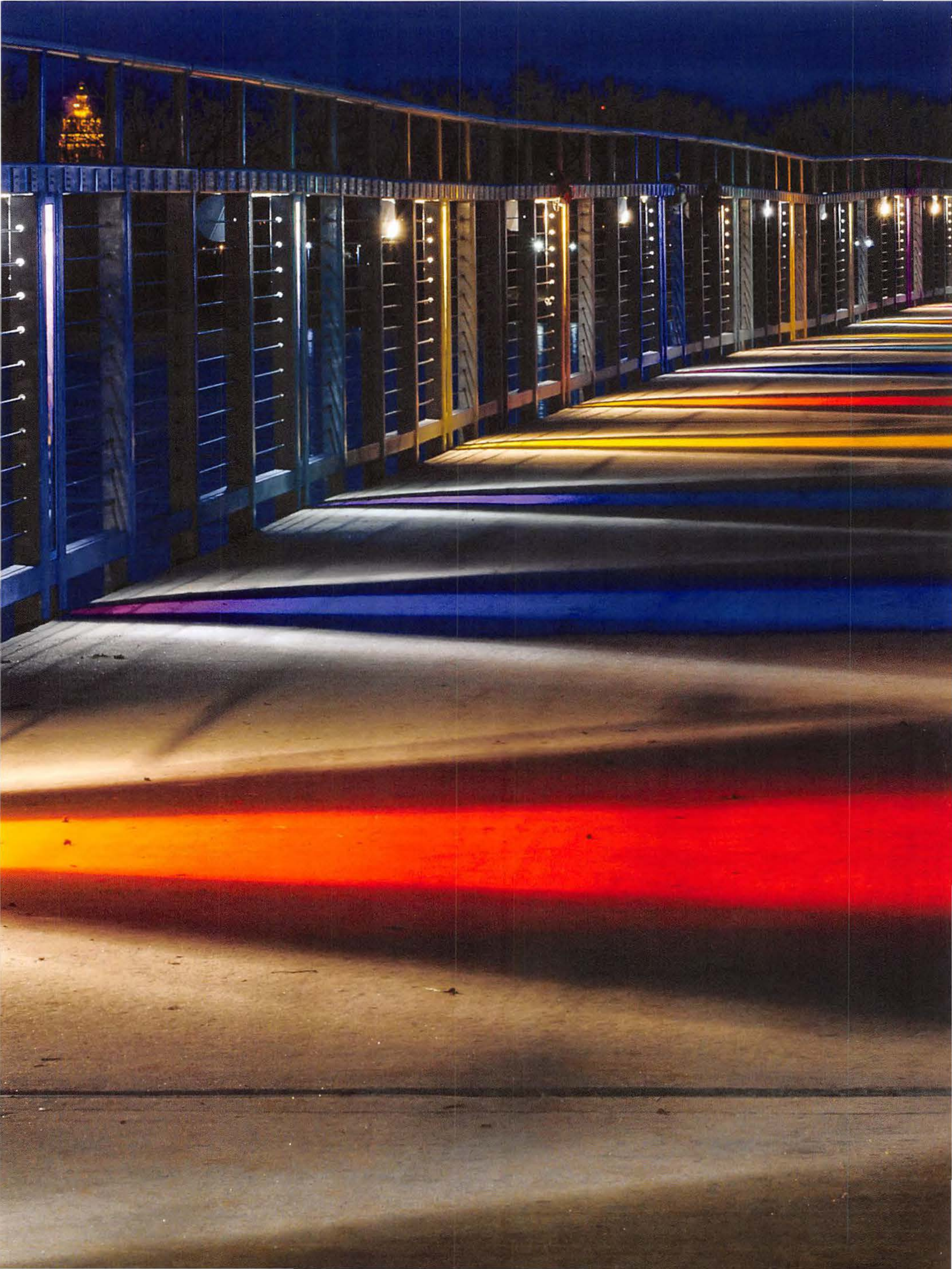
## [2]Strategic Investments Asset Allocation Policy

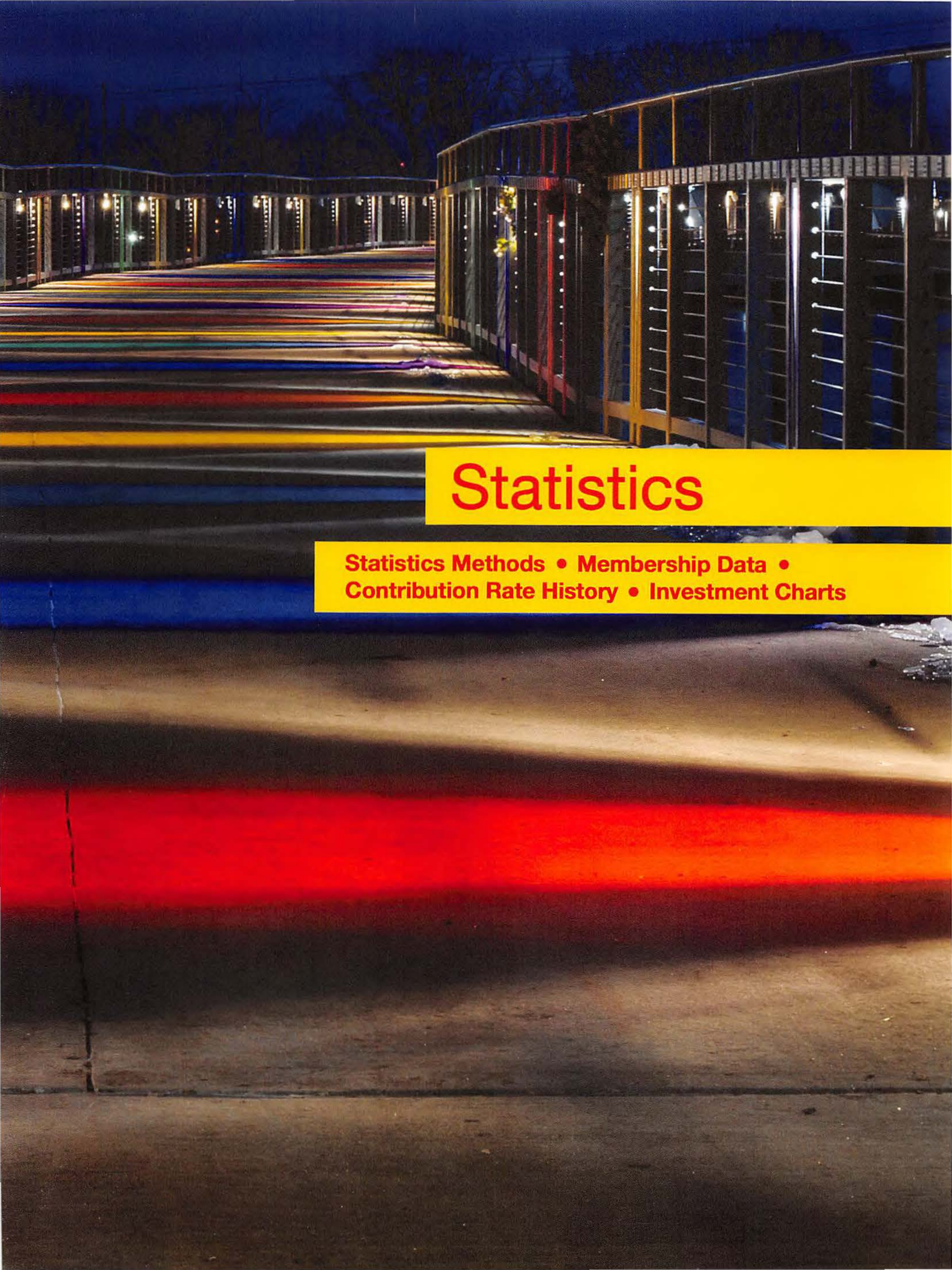



| [2]Strategic Investments Asset Class | Portfolio Target Percentage |
|---|---|
| U.S. Equity | 37.5% |
| Non-U.S. Equity | 37.5% |
| Global Fixed Income | 25.0% |
| Total | 100.0% |

# Investment Managers

| Investment Manager | Portfolio | Style |
|---|---|---|
| Aberdeen Asset Management | Total Return Bond Plus Strategy | Core-Plus Fixed Income |
| Adams Street Partners | 2003 Vintage | Private Markets |
| Adams Street Partners | 2006 Vintage | Private Markets |
| Adams Street Partners | 2014 Global | Private Markets |
| Adams Street Partners | Co-Investment 3 | Private Markets |
| Ares Partners | Fund 5 | Value Added/Opportunistic Real Estate |
| Baillie Gifford Overseas Limited | International Choice Fund | International Equity - Growth |
| Contrarian Capital Management | Distressed Real Estate Fund 2 | Value Added/Opportunistic Real Estate |
| DFA | U.S. Small Cap Subtrust | Domestic Small Cap Equity |
| Dodge & Cox | Separate Account | Core-Plus Fixed Income |
| GMO | Strategic Fund | Global Tactical Asset Allocation |
| Harbourvest Partners | Buyout 7 | Private Markets |
| Harbourvest Partners | Buyout 8 | Private Markets |
| Harbourvest Partners | Venture 7 | Private Markets |
| Harbourvest Partners | Venture 8 | Private Markets |
| Harbourvest Partners | Venture 9 | Private Markets |
| Harbourvest Partners | HIPEP 6 | Private Markets |
| Harbourvest Partners | Dover Street 8 | Private Markets |
| Harvest Group Advisors | Separate Account | Master Limited Partnerships |
| Hines Interests | U.S. Office Value Added Fund 1 | Value Added/Opportunistic Real Estate |
| Hines Interests | U.S. Office Value Added Fund 2 | Value Added/Opportunistic Real Estate |
| Intech Investment Management | U.S. Broad Enhanced Plus | Domestic Enhanced Equity |
| JPMorgan Asset Management | 130/30 | Domestic Enhanced Equity |
| JPMorgan Asset Management | Strategic Property Fund | Core Real Estate |
| JPMorgan Asset Management | Strategic Fund | Global Tactical Asset Allocation |
| Long Wharf Real Estate Partners | Fidelity Real Estate Growth Fund 2 | Value Added/Opportunistic Real Estate |
| Long Wharf Real Estate Partners | Fidelity Real Estate Growth Fund 3 | Value Added/Opportunistic Real Estate |
| Mondrian Investment Partners | ACWI Ex-U.S. Equity Fund | International Equity - Value |
| Neuberger Berman Group LLC | Crossroads 2010 Fund | Private Markets |
| Neuberger Berman Group LLC | Crossroads XX Fund | Private Markets |
| Pictet Asset Management | Emerging Local Currency Debt Fund | Emerging Markets Debt |
| Principal Global Investors | Enhanced Property Fund | Core/Core-Plus Real Estate |
| Principal Global Investors | CMBS Fund | Commercial Mortgage Backed Securities |
| Tortoise Capital Advisors | Separate Account | Master Limited Partnerships |
| Schroders | Diversified Growth - Strategic Fund | Global Tactical Asset Allocation |
| Sentinel Real Estate Corporation | Sentinel Realty Partners Fund VI | Core/Core-Plus Real Estate |
| Siguler Guff & Company | Distressed Opportunities Fund 2 | Private Markets |
| Siguler Guff & Company | Distressed Opportunities Fund 3 | Private Markets |
| Siguler Guff & Company | BRIC Fund 2 | Private Markets |
| Siguler Guff & Company | Hawkeye - Separate Account | Private Markets |
| SSGA | ACWI | Global Equity Index |
| TA Associates Realty | Realty Associates Fund Fund VIII | Value Added/Opportunistic |
| Tortoise Capital Advisors | Separate Account | Master Limited Partnerships |





# Statistics

**Statistics Methods • Membership Data • Contribution Rate History • Investment Charts**

Financial, demographic, operating, and investment trend information are provided in the Statistical section in order to provide the detail needed for a better understanding of MFPRSI's financial condition.

Data for the Statistical section are derived from data and information provided by MFPRSI's actuarial consultant, SilverStone, and investing consultant, Summit. Additionally, data is also derived from financial statements and internal sources as prepared by MFPRSI. In order to extrapolate the data, Microsoft Excel was utilized for further analysis.

Active members are defined as those with wages reported for the last quarter of each fiscal year. Retired members and beneficiaries are those who were paid benefits in the last month of the fiscal year. Members receiving either an accidental or an ordinary disability are those who were paid accidental or ordinary disability benefits in the last month of the fiscal year. Terminated-Vested members are those who left the retirement system after achieving vested status, but before reaching eligibility for a service retirement in the last month of the fiscal year.

Regards,

Terry Slattery

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Terry Slattery
Executive Director
MFPRSI MUNICIPAL FIRE & POLICE RETIREMENT SYSTEM OF IOWA
www.mfprsi.org

# Membership Data

## Membership Profile
## July 1, 2015

| Active Members | 2015 | +/- |
|---|---|---|
| Number | 3,892 | 7 |
| Average Age | 41.1 | 0.1 |
| Average Past Service | 13.8 | 0.1 |
| Total Annual Covered Payroll | $273,319,323 | $7,053,910 |
| Average Annual Compensation | $70,226 | $1,689 |
| **Non-Active Members with Deferred Benefits** | | |
| Number* | 328 | 7 |
| Average Age | 44.1 | (0.5) |
| Total Annual Benefits | $5,459,448 | $1,368 |
| Average Annual Benefit | $16,645 | $(358) |
| **Members and Beneficiaries in Pay Status** | | |
| Number | 3,935 | 39 |
| Average Age (Excluding Children) | 69.3 | 0.1 |
| Total Annual Benefits | $146,804,148 | $7,829,724 |
| Average Annual Benefit | $37,307 | $1,636 |

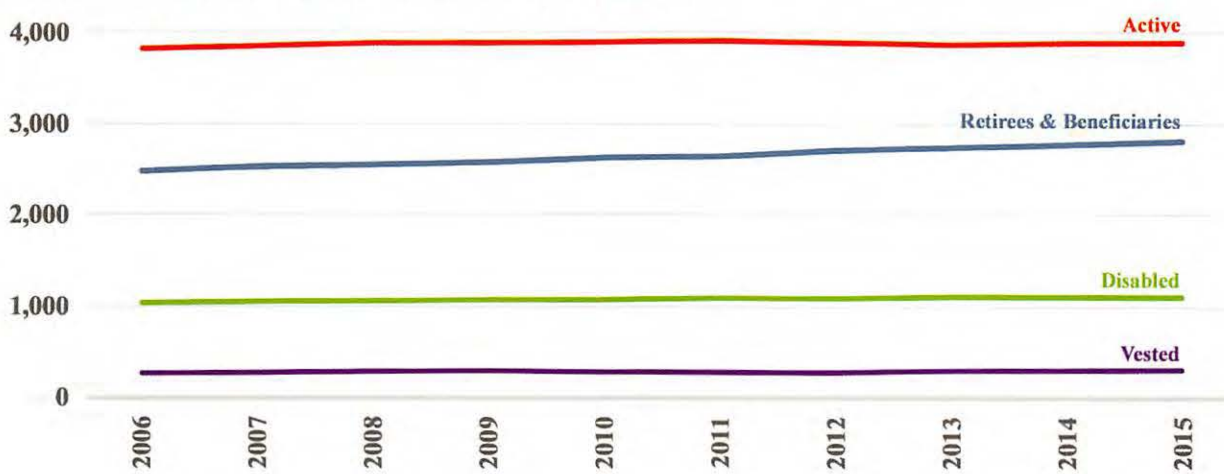
* Excludes 24 and 31 terminated non-vested members who had not yet received a refund of contributions as of 2014 and 2015, respectively.

+/- column compares data as of July 1, 2015, to data as of July 1, 2014.

## Membership by Type
## Fiscal Years ended June 30

| | Active Members | Accidental and Ordinary Disabled Members | Retirees & Beneficiaries | Terminated-Vested Members |
|---|---|---|---|---|
| 2006 | 3,816 | 1,052 | 2,479 | 286 |
| 2007 | 3,847 | 1,068 | 2,532 | 293 |
| 2008 | 3,881 | 1,073 | 2,552 | 306 |
| 2009 | 3,886 | 1,088 | 2,582 | 315 |
| 2010 | 3,895 | 1,090 | 2,631 | 302 |
| 2011 | 3,908 | 1,108 | 2,645 | 298 |
| 2012 | 3,888 | 1,105 | 2,711 | 296 |
| 2013 | 3,866 | 1,121 | 2,741 | 315 |
| 2014 | 3,885 | 1,121 | 2,775 | 321 |
| 2015 | 3,892 | 1,121 | 2,814 | 328 |

## Member Counts for Fiscal Years ended June 30



## Average Annual Benefits

### Service Benefits

| Age | Number | Total Annual Benefit | Average Annual Benefit |
|---|---|---|---|
| 55-59 | 150 | $9,476,112 | $63,174 |
| 60-64 | 358 | 20,686,548 | 57,784 |
| 65-69 | 385 | 20,697,108 | 53,759 |
| 70-74 | 258 | 12,182,400 | 47,219 |
| 75-79 | 198 | 8,141,688 | 41,120 |
| 80-84 | 137 | 4,775,640 | 34,859 |
| Over 84 | 113 | 3,565,992 | 31,557 |
| Total | 1,599 | $79,525,488 | $49,735 |

### Accidental Disability Benefits

| Age | Number | Total Annual Benefit | Average Annual Benefit |
|---|---|---|---|
| Under 40 | 18 | $673,392 | $37,411 |
| 40-44 | 24 | 869,100 | 36,213 |
| 45-49 | 37 | 1,372,164 | 37,086 |
| 50-54 | 57 | 2,357,772 | 41,364 |
| 55-59 | 124 | 5,338,248 | 43,050 |
| 60-64 | 173 | 7,685,400 | 44,424 |
| 65-69 | 186 | 7,725,336 | 41,534 |
| 70-74 | 146 | 5,694,804 | 39,006 |
| 75-79 | 90 | 3,313,272 | 36,814 |
| 80-84 | 59 | 1,999,740 | 33,894 |
| Over 84 | 27 | 895,632 | 33,172 |
| Total | 941 | $37,924,860 | $40,303 |

### Ordinary Disability Benefits

| Age | Number | Total Annual Benefit | Average Annual Benefit |
|---|---|---|---|
| Under 40 | 7 | $165,168 | $23,595 |
| 40-44 | 10 | 299,124 | 29,912 |
| 45-49 | 15 | 438,408 | 29,227 |
| 50-54 | 14 | 438,408 | 31,316 |
| 55-59 | 24 | 906,468 | 37,770 |
| 60-64 | 33 | 1,300,788 | 39,418 |
| 65-69 | 37 | 1,280,304 | 34,603 |
| 70-74 | 19 | 657,660 | 34,614 |
| 75-79 | 15 | 442,632 | 29,509 |
| Over 80 | 6 | 170,304 | 28,384 |
| Total | 180 | $6,099,276 | $33,885 |

## Beneficiaries (Spouse) Benefits

| Age | Number | Total Annual Benefit | Average Annual Benefit |
|---|---|---|---|
| Under 40 | 4 | $116,052 | $29,013 |
| 40-44 | 4 | 104,388 | 26,097 |
| 45-49 | 15 | 346,740 | 23,116 |
| 50-54 | 12 | 272,616 | 22,718 |
| 55-59 | 35 | 792,396 | 22,640 |
| 60-64 | 69 | 1,686,072 | 24,436 |
| 65-69 | 93 | 2,153,256 | 23,153 |
| 70-74 | 103 | 2,190,888 | 21,271 |
| 75-79 | 151 | 2,934,552 | 19,434 |
| 80-84 | 143 | 2,691,804 | 18,824 |
| Over 84 | 222 | 3,976,152 | 17,911 |
| Total | 851 | $17,264,916 | $20,288 |

## Beneficiaries (Children) Benefits

| Age | Number | Total Annual Benefit | Average Annual Benefit |
|---|---|---|---|
| 6-11 | 5 | $25,956 | $5,191 |
| 12-14 | 4 | 21,096 | 5,274 |
| 15-17 | 10 | 60,792 | 6,079 |
| 18-20 | 11 | 62,988 | 5,726 |
| Over 20 | 10 | 71,088 | 7,109 |
| Total | 40 | $241,920 | $6,048 |

## Vested Benefits

| Age | Number | Total Annual Benefit | Average Annual Benefit |
|---|---|---|---|
| 55-59 | 91 | $1,830,648 | $20,115 |
| 60-64 | 89 | 1,887,816 | 21,211 |
| 65-69 | 76 | 1,225,488 | 16,125 |
| 70-74 | 30 | 459,192 | 15,306 |
| 75-79 | 15 | 163,524 | 10,902 |
| 80-84 | 19 | 155,772 | 8,199 |
| Over 84 | 4 | 25,428 | 6,357 |
| Total | 324 | $5,747,688 | $17,740 |

## Terminated Vested Benefits

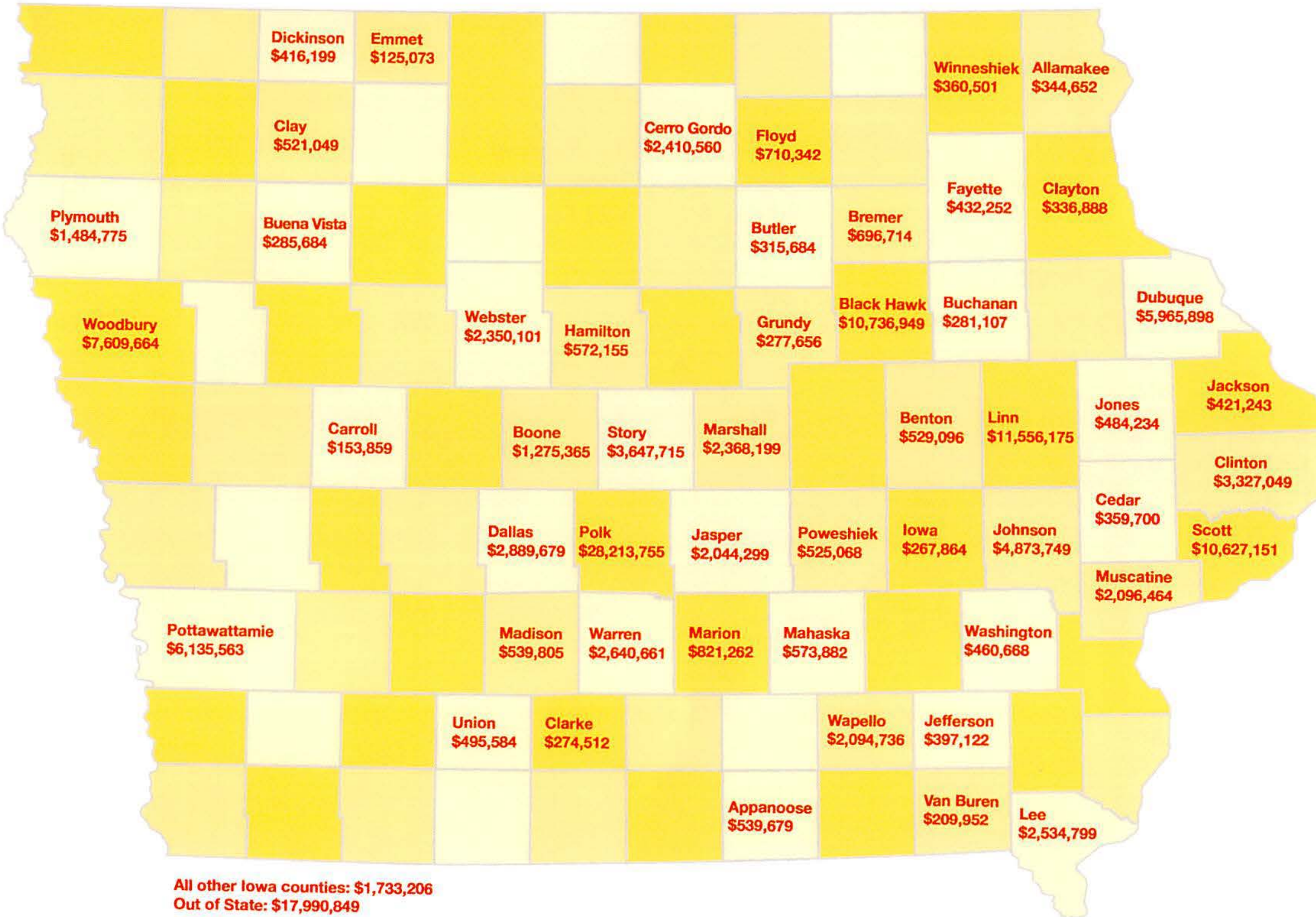
| Age | Number | Total Annual Benefit | Average Annual Benefit |
|---|---|---|---|
| Under 40 | 99 | $1,152,096 | $11,637 |
| 40-44 | 59 | 856,056 | 14,509 |
| 45-49 | 66 | 1,261,680 | 19,116 |
| Over 50 | 104 | 2,189,616 | 21,054 |
| Total | 328 | $5,459,448 | $16,645 |

## Participating Cities

| City | City |
|---|---|
| Ames | Grinnell |
| Ankeny | Indianola* |
| Bettendorf | Iowa City |
| Boone | Keokuk |
| Burlington | Knoxville* |
| Camanche | Le Mars* |
| Carroll* | Maquoketa* |
| Cedar Falls | Marion |
| Cedar Rapids | Marshalltown |
| Centerville | Mason City |
| Charles City | Muscatine |
| Clinton | Newton |
| Clive | Oelwein |
| Council Bluffs | Oskaloosa |
| Creston | Ottumwa |
| Davenport | Pella* |
| Decorah | Sioux City |
| Des Moines | Spencer |
| DeWitt* | Storm Lake |
| Dubuque | Urbandale |
| Estherville | Waterloo |
| Evansdale | Waverly* |
| Fairfield | Webster City |
| Fort Dodge | West Des Moines |
| Fort Madison | |

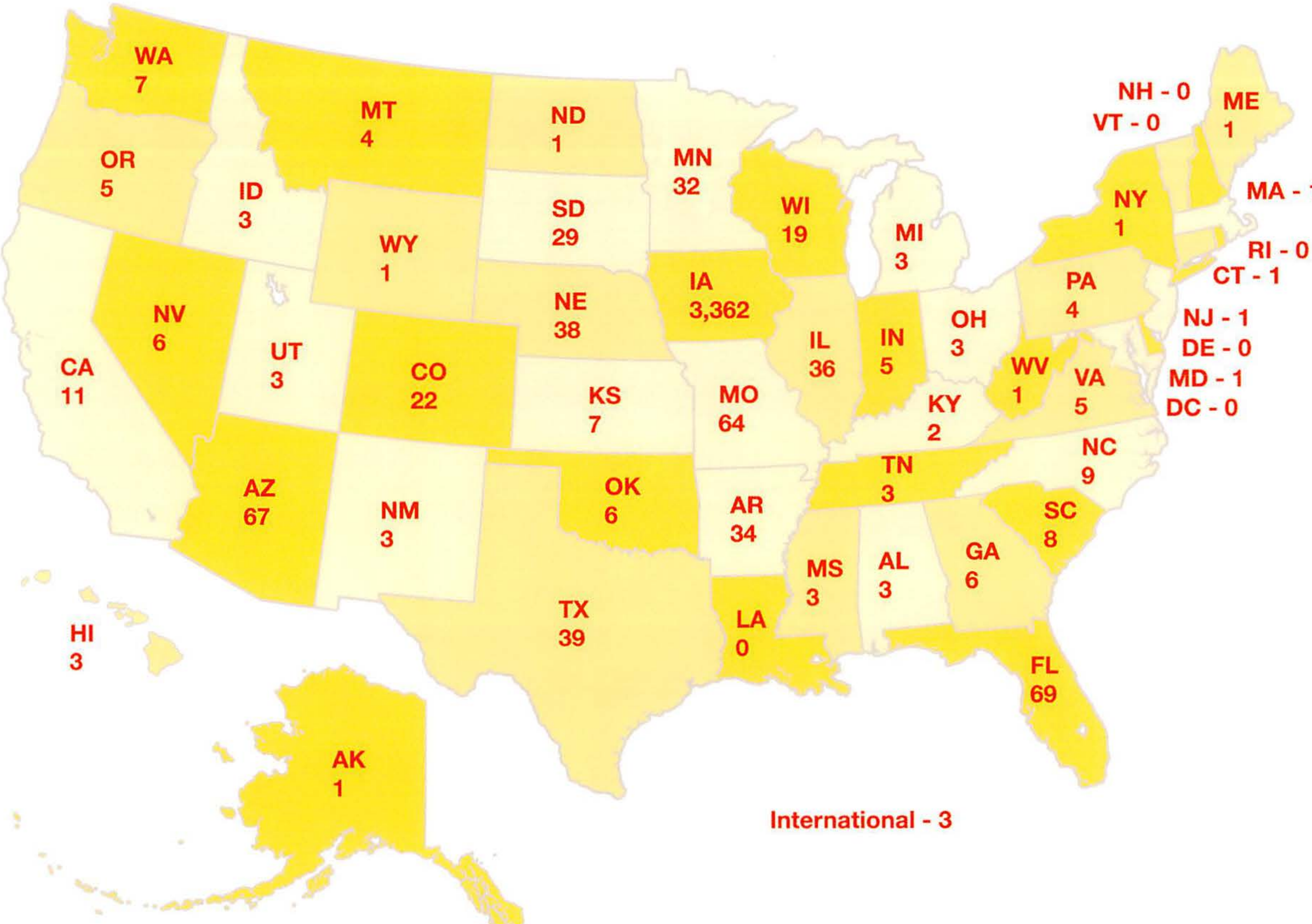
**Police department only*

# Total Benefit Payments by Iowa County
# During Fiscal Year 2015




All other Iowa counties: $1,733,206
Out of State: $17,990,849

## Number of Benefit Payments by State as of June 30, 2015



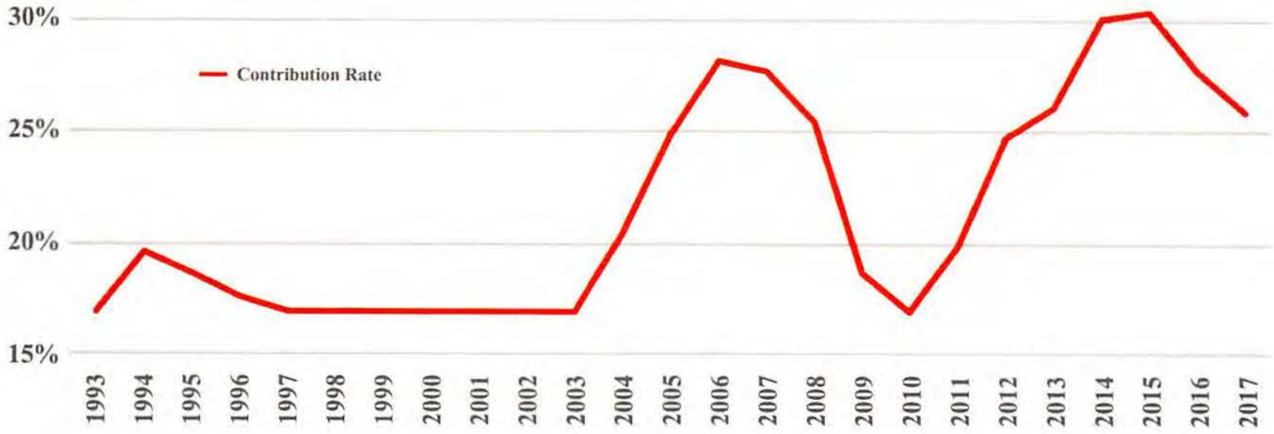
# Contribution Rate

## Contribution Rate History

| Fiscal Year | Rate | Fiscal Year | Rate |
|---|---|---|---|
| 1/1/92 - 6/30/93* | 17.00% | 7/1/05 - 6/30/06 | 28.21% |
| 7/1/93 - 6/30/94 | 19.66% | 7/1/06 - 6/30/07 | 27.75% |
| 7/1/94 - 6/30/95 | 18.71% | 7/1/07 - 6/30/08 | 25.48% |
| 7/1/95 - 6/30/96 | 17.66% | 7/1/08 - 6/30/09 | 18.75% |
| 7/1/96 - 6/30/97* | 17.00% | 7/1/09 - 6/30/10* | 17.00% |
| 7/1/97 - 6/30/98* | 17.00% | 7/1/10 - 6/30/11 | 19.90% |
| 7/1/98 - 6/30/99* | 17.00% | 7/1/11 - 6/30/12 | 24.76% |
| 7/1/99 - 6/30/00* | 17.00% | 7/1/12 - 6/30/13 | 26.12% |
| 7/1/00 - 6/30/01* | 17.00% | 7/1/13 - 6/30/14 | 30.12% |
| 7/1/01 - 6/30/02* | 17.00% | 7/1/14 - 6/30/15 | 30.41% |
| 7/1/02 - 6/30/03* | 17.00% | 7/1/15 - 6/30/16 | 27.77% |
| 7/1/03 - 6/30/04 | 20.48% | 7/1/16 - 6/30/17 | 25.92% |
| 7/1/04 - 6/30/05 | 24.92% | | |

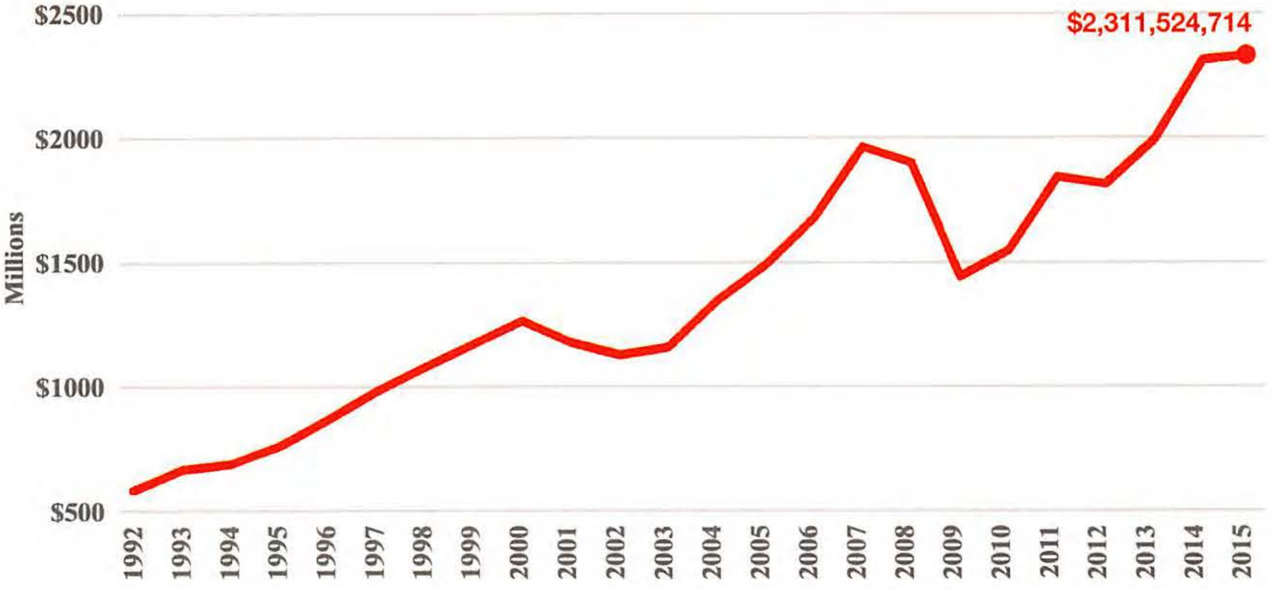
* Rate certified at statutory minimum of 17.00%

## City Contribution Rate 1993-2017

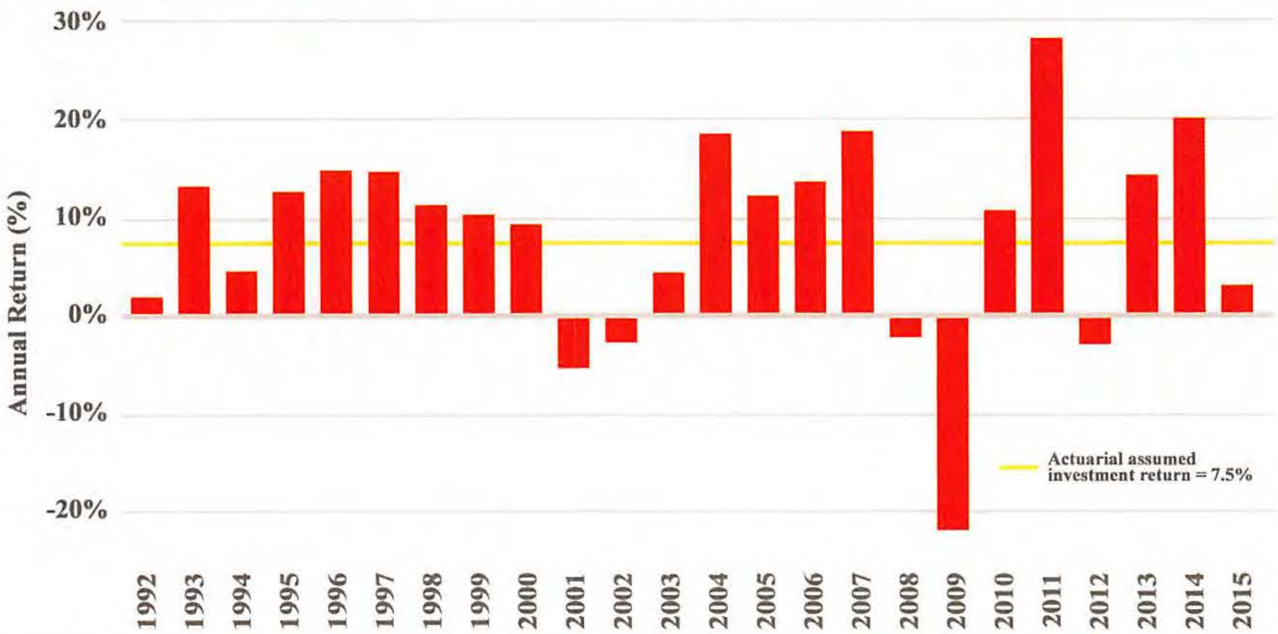


# Investment Graphs

## Growth of Net Investment Portfolio Assets
## Fiscal Years ended June 30




## Investment Returns
## Fiscal Years ended June 30




MFPRSI initiated formal operations on January 1, 1992. Therefore, the 1992 investment return is comprised of two quarters ending March 31 and June 30.

The charts on this page use data as reported by MFPRSI's investment consultant, Summit Strategies Group.

*MFPRSI Annual Report Fiscal Year 2015* is prepared by MFPRSI staff using data gathered from various sources, including MFPRSI's actuarial services provider, SilverStone Group, and investment consultant, Summit Strategies Group.

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