

Municipal Fire and Police Retirement System of Iowa

Financial Statements as of and for the
Years Ended June 30, 2013 and 2012,
Required Supplementary Information, and
Related Independent Auditors' Reports

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Municipal Fire and Police Retirement System of Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Fire and Police Retirement System of Iowa (System), which comprise the statements of plan net assets as of June 30, 2013 and 2012, and the related statements of changes in plan net assets for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2013 and 2012, and the changes in its plan net assets for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of contributions from the employers and other contributing entities and of funding progress, listed in the foregoing Table of Contents, 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 audits 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.

Emphasis-of-Matter

As discussed in Notes 2 and 4 to the financial statements, total System investments include investments valued at \$644.0 million (32.5% of total assets) and \$567.3 million (31.5% of total assets) as of June 30, 2013 and 2012, 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Deloitte & Touche LLP

Des Moines, Iowa
November 6, 2013

Management's Discussion and Analysis

The following discussion and analysis of the Municipal Fire and Police Retirement System of Iowa's (System) financial performance provides an overview of the System's financial activities for the fiscal years ended June 30, 2013 and 2012. 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 the System's funding status regarding long-term benefit obligations.

FINANCIAL HIGHLIGHTS

- System assets exceeded its financial liabilities at the close of the fiscal years 2013 and 2012 by \$1,964,266,618 and \$1,785,228,513 (reported as plan net assets held in trust for pension benefits), respectively. Net assets are held in trust to meet future benefit payments.
- Additions for the year ended June 30, 2013 were \$318,281,742, which is comprised of contributions of \$88,686,610, net investment income of \$229,592,075, and other income of \$3,057. Additions for the year ended June 30, 2012 were \$90,142,336, which is comprised of contributions of \$86,081,548, net investment income of \$4,057,940, and other income of \$2,848.
- Benefit payments were \$136,593,585 and \$131,640,614 for the years ended June 30, 2013 and 2012, respectively, a 3.8% increase from year to year.

THE STATEMENTS OF PLAN NET ASSETS AND THE STATEMENTS OF CHANGES IN PLAN NET ASSETS

This Annual Financial Report consists of two financial statements; the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets. 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, better off or worse off as a result of this fiscal year's experience? These financial statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statements of Plan Net Assets present all of the System's assets and liabilities, with the difference between assets and liabilities reported as plan net assets. Over time, increases and decreases in plan net assets is one method of measuring whether the System's financial position is improving or deteriorating. The Statements of Changes in Plan Net Assets present the changes in plan net assets during the respective fiscal year.

FINANCIAL ANALYSIS

System assets as of June 30, 2013 and 2012 were approximately \$1.98 billion and \$1.80 billion, respectively, and were primarily comprised of investments, cash, receivables from brokers, and contributions due from employers. The \$179,166,608, or 9.9%, increase in assets from June 30, 2012 to June 30, 2013 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 \$644.0 million (32.5% of total assets) and \$567.3 million (31.5% of total assets) as of June 30, 2013 and 2012, 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, 2013 and 2012 were \$17,717,360 and \$17,588,857, respectively, and were primarily comprised of obligations under benefits and refunds payable, as well as investment management expenses payable. The \$128,503, or 0.7%, increase in liabilities from June 30, 2012 to June 30, 2013 was due to an increase in payables for benefits offset by a decrease in payables for investment management expenses.

System assets exceeded liabilities at the close of fiscal year 2013 by \$1,964,266,618. During the year ended June 30, 2013 plan net assets held in trust for pension benefits increased \$179,038,105, or 10.0%, from the previous fiscal year, primarily due to the unrealized gains experienced in invested assets. This is in comparison to the previous fiscal year, when net assets decreased by \$44,177,154, or 2.4%, from the prior year.

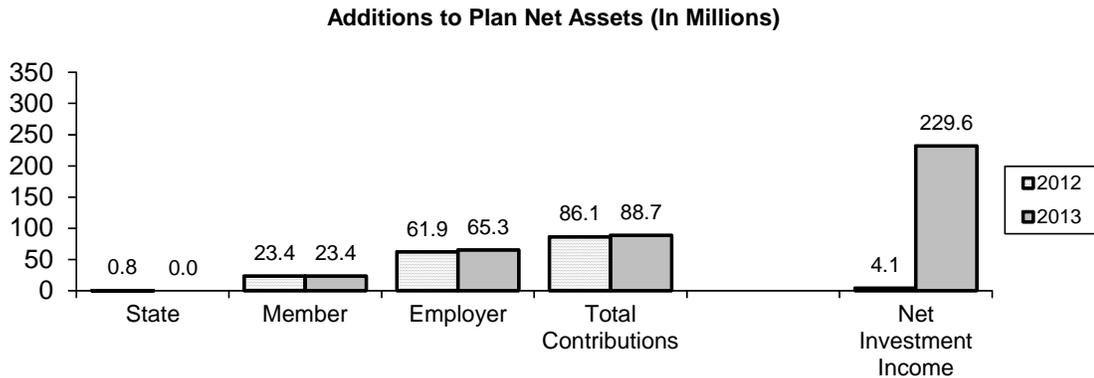
**Municipal Fire and Police Retirement System of Iowa
Condensed Statements of Plan Net Assets
(In Thousands)**

	2013	2012	Total Percentage Change
Assets:			
Cash	\$ 4,965	\$ 3,929	26.4 %
Investments	1,970,919	1,794,484	9.8 %
Receivables	6,016	4,347	38.4 %
Other assets	84	57	47.4 %
Total Assets	1,981,984	1,802,817	9.9 %
Liabilities:			
Benefits and refunds payable	15,269	14,117	8.2 %
Investment management expenses payable	1,681	3,202	(47.5) %
Administrative expenses payable	387	269	43.9 %
Payable to brokers for unsettled trades	380	-	- %
Total Liabilities	17,717	17,588	0.7 %
Plan Net Assets	\$ 1,964,267	\$ 1,785,229	10.0 %

REVENUES – ADDITIONS TO PLAN NET ASSETS

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 2013 totaled \$318,278,685.

Contributions increased from the previous year by \$2,605,062. This increase is primarily due to an increase in the employer contribution rate from 24.76% to 26.12% for the years ended June 30, 2012 and 2013, respectively. Net investment income increased from the previous year by \$225,534,135. This change is primarily due to an increase in the appreciation of the fair value of investments.

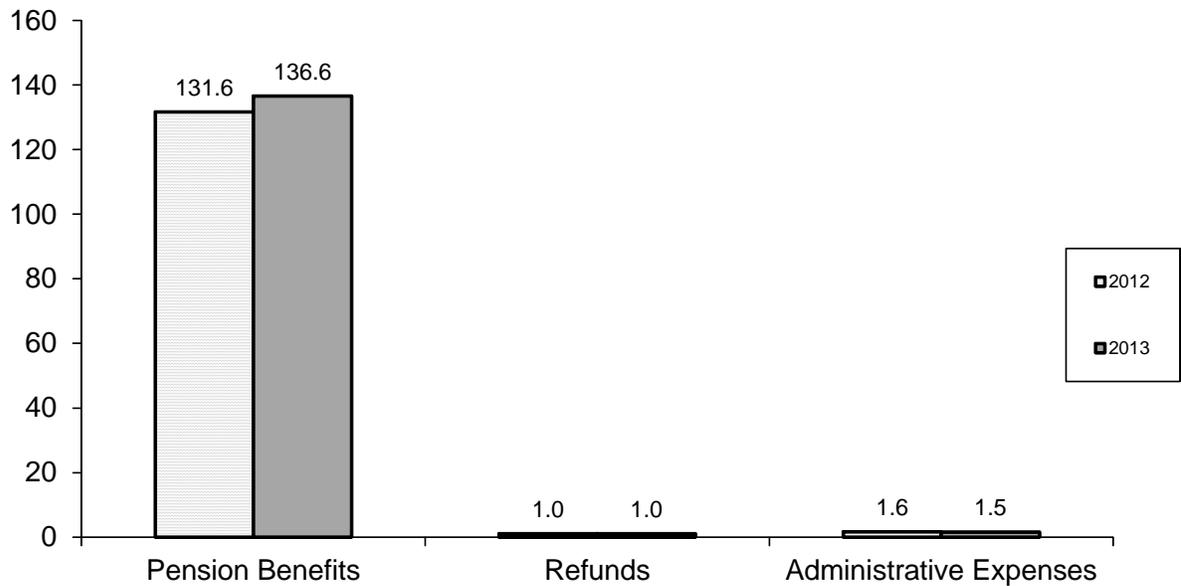


EXPENSES – DEDUCTIONS FROM PLAN NET ASSETS

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 2013 were \$139,243,637, an increase of 3.7% over fiscal year 2012 deductions.

Pension benefit payments increased by \$4,952,971, or 3.8%, from the previous year. Refund of contributions increased by \$52,912, or 5.4%.

Deductions from Plan Net Assets (In Millions)



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.

CONTACTING THE SYSTEM

This financial report is designed to provide the System’s Board of Trustees, membership, and cities a general overview of the System’s finances and to demonstrate accountability for assets. If you have any questions about this or need additional financial information, contact the System’s office, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

STATEMENTS OF PLAN NET ASSETS AS OF JUNE 30, 2013 AND 2012

ASSETS	2013	2012
CASH	\$ 4,964,537	\$ 3,928,871
INVESTMENTS — At fair value:		
U.S. equity securities	443,271,741	366,771,486
Foreign equity securities	364,734,621	371,703,188
Commingled fixed income	189,709,264	235,383,134
Fund of funds commingled investments	247,589,014	227,929,863
Short-term investments and currency positions	16,232,704	25,357,221
Real estate	271,974,484	182,880,399
Private equity	354,581,877	319,075,681
Multi-strategy commingled fund	<u>82,824,878</u>	<u>65,383,401</u>
Total investments — at fair value	<u>1,970,918,583</u>	<u>1,794,484,373</u>
RECEIVABLES:		
Contributions	4,342,743	4,027,239
Investment income	27,306	155,597
Receivable from brokers for unsettled trades — net	<u>1,646,358</u>	<u>164,396</u>
Total receivables	<u>6,016,407</u>	<u>4,347,232</u>
OTHER ASSETS	<u>84,451</u>	<u>56,894</u>
Total assets	<u>1,981,983,978</u>	<u>1,802,817,370</u>
LIABILITIES		
BENEFITS AND REFUNDS PAYABLE	15,269,329	14,117,497
INVESTMENT MANAGEMENT EXPENSES PAYABLE	1,680,596	3,201,956
ADMINISTRATIVE EXPENSES PAYABLE	387,435	269,404
PAYABLE TO BROKERS FOR UNSETTLED TRADES — Net	<u>380,000</u>	<u>-</u>
Total liabilities	<u>17,717,360</u>	<u>17,588,857</u>
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 1,964,266,618</u>	<u>\$ 1,785,228,513</u>

See notes to financial statements.

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

STATEMENTS OF CHANGES IN PLAN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
ADDITIONS:		
Contributions:		
Member	\$ 23,358,844	\$ 23,419,864
Employer	65,327,766	61,911,684
State appropriations	-	750,000
Total contributions	<u>88,686,610</u>	<u>86,081,548</u>
Investment income:		
Interest	204,942	1,016,001
Dividends	13,061,699	8,907,078
Net appreciation in fair value of investments	<u>230,476,832</u>	<u>9,780,524</u>
Net investment income from investment activity	243,743,473	19,703,603
Less investment expenses:		
Management fees and other	<u>14,151,398</u>	<u>15,645,663</u>
Net investment income	<u>229,592,075</u>	<u>4,057,940</u>
Other income	<u>3,057</u>	<u>2,848</u>
Total additions	<u>318,281,742</u>	<u>90,142,336</u>
DEDUCTIONS:		
Benefit payments	136,593,585	131,640,614
Refund payments	1,024,295	971,383
Administrative expenses	1,523,477	1,606,072
Disability expenses	<u>102,280</u>	<u>101,421</u>
Total deductions	<u>139,243,637</u>	<u>134,319,490</u>
NET INCREASE (DECREASE)	179,038,105	(44,177,154)
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	<u>1,785,228,513</u>	<u>1,829,405,667</u>
End of year	<u>\$1,964,266,618</u>	<u>\$1,785,228,513</u>

See notes to financial statements.

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

1. PLAN DESCRIPTION

General — The Municipal Fire and Police Retirement System of Iowa (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 (the Plan) for the exclusive benefit of eligible employees of participating cities (substantially all full-time employees of the respective cities' fire and police departments). It is governed by a nine-member Board of Trustees (Board) who are appointed to the Board 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, 2013, the System was comprised of 49 cities covering 3,866 active members; 315 terminated members entitled to benefits; and 3,862 retired firefighters, police officers, bailiffs, and eligible beneficiaries across Iowa.

Funding:

Member — 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, 2013 and 2012.

Employer — 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 of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the rate percent of the earnable compensation of all members equal to the rate required by the System to discharge its liabilities, stated as a percentage of the earnable compensation of all members, and reduced by the employee contribution rate. Under the Code of Iowa the employer's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 26.12% and 24.76% for the years ended June 30, 2013 and 2012, respectively.

State Appropriations — 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.

Benefits — 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, 2013 and 2012:

Retirement — Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (22 years). Members with less than 4 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 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66 percent of the member's average final compensation. Additional benefits are available to members who perform more than 22 years of service (2 percent for each additional year of service, up to a maximum of 8 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 50 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 60 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 50 percent of the member's average final compensation, for those with 5 or more years of service, or the member's service retirement benefit calculation amount, and 25 percent of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50 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 40 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 50 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 55 years of age, with 22 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 3, 4, or 5 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 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 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.

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 has elected to apply only applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, that do not contradict Governmental Accounting Standards Board (GASB) pronouncements.

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.

Risks and Uncertainties — The System utilizes various investment securities including U.S. government securities, corporate debt instruments, mutual funds, private equities, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the financial statements.

Plan contributions are made and the actuarial accrued liability of plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and member demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

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 active 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 certain real estate, private equities, and the multi-strategy commingled fund which invest in both publicly and privately owned securities are valued by management based on estimates and assumptions provided by fund managers, general partners, partnership valuation committees, or third party appraisal firms, in the absence of readily determined market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information.

Income Taxes — The System has a tax determination letter from the Internal Revenue Service stating that it qualifies under the provision of Section 401 of the Internal Revenue Code and is exempt from federal and state income taxes.

New Accounting Standards Not Yet Effective —In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25. The System will be subject to the provisions of GASB Statement No. 67 beginning with the fiscal year ending June 30, 2014. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans and enhances note disclosures and required supplementary information. In addition, it requires the presentation of new information about the annual money-weighted rates of return on pension plan investments in the notes to the financial statements and in the required supplementary information schedules. The System is evaluating the impact of the new GASB standard.

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. The table below presents a summary of cash balances of the System at June 30, 2013 and 2012:

	2013	2012
Bank balance — June 30:		
Insured	\$ 250,000	\$ 250,000
Uninsured and uncollateralized	<u>4,714,537</u>	<u>3,678,871</u>
Carrying amount — June 30	<u>\$ 4,964,537</u>	<u>\$ 3,928,871</u>

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 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 — As of June 30, 2013 and 2012, the System was invested in fund of funds commingled investments, which can be broken down into the following asset classes:

	2013	2012
INVESTMENTS — At fair value:		
U.S. equity securities	\$ 134,575,916	\$ 126,640,255
Foreign equity securities	75,883,390	62,029,538
Commingled fixed income	31,008,506	31,450,162
Short-term investments and currency positions	<u>6,121,202</u>	<u>7,809,908</u>
Total fund of funds commingled investments	<u>\$ 247,589,014</u>	<u>\$ 227,929,863</u>

Investment Risk Disclosure:

Credit Risk — The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations as of June 30, 2013 are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$ -	- %
AA	26,892,078	14.18
A	76,125,377	40.13
BBB	-	-
BB	5,890,105	3.10
B	-	-
N/A	<u>11,174,217</u>	<u>5.89</u>
Total credit risk debt securities	120,081,777	63.30
U.S. Government Fixed Income Securities*	<u>69,627,487</u>	<u>36.70</u>
Total fixed income securities	<u>\$ 189,709,264</u>	<u>100 %</u>

*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

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

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. On December 1, 2011, the System arranged for Wells Fargo Bank (previously Bank of New York Mellon Corporation) 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 5% 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. The following table discloses the fair value and average duration of fixed income investments as of June 30, 2013.

	Fair Value	Duration
Investment type:		
Short-term	\$ 980,427	0.0225
Commingled	<u>189,709,264</u>	<u>5.4478</u>
Total fair value	<u>\$ 190,689,691</u>	
Portfolio modified duration		<u>5.4199</u>

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 in interest rates and vice-versa. Duration is the measure of a bond price's sensitivity to a 100-basis point change in interest rates. Duration of eight would mean that, given a 100-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, 2013, to invest approximately \$302,000,000 in certain private equity, real estate partnerships, and real estate commingled funds.

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 System has no hedging derivatives because all derivatives are entered primarily for the purpose of achieving a positive return. The fair values of all derivative financial instruments are reported in the Statements of Plan Net Assets as 'Short-term investments and currency positions'. Changes in the values of derivative financial instruments are reported in the Statements of Changes in Plan Net Assets as 'Net appreciation in fair value of investments'. Derivative financial instruments involve, to varying degrees, credit risk and market risk. At June 30, 2013 and 2012, 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 System 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. The remaining derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

A forward contract is an agreement to buy or sell a specific currency position or security at a specified delivery or maturity date. As the fair value of the forward contract fluctuates, the System records an unrealized gain or loss. There were no forward contracts outstanding at June 30, 2013 or 2012.

A financial option is an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. The System's leverage prohibitions which apply to forwards and futures also apply to options. There were no financial options outstanding at June 30, 2013 or 2012.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the System's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. As of June 30, 2013 and 2012, the System was not invested in futures.

Contractual amounts, which represent the fair value of the underlying assets the derivative contracts control, are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the amounts potentially subject to risk because long positions are offset with short positions and vice versa. Every position which is sold or purchased must be backed by assets, since the investment managers are not allowed to leverage the portfolio.

Derivatives which are exchange traded are not subject to the custodial credit risk disclosure. As of June 30, 2013 and 2012, the System was not invested in currency forwards.

6. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of July 1, 2013 as calculated using entry age normal using a 25 year amortization period is as follows (dollar amounts in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>\$1,860,948</u>	<u>\$2,518,229</u>	<u>\$ 657,281</u>	<u>73.9 %</u>	<u>\$258,425</u>	<u>254.3 %</u>

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar open
Remaining amortization period	25 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50 percent
Projected salary increases	4.50 to 15.11 percent
COLAs	Annual adjustment in accordance with Iowa Code Chapter 411.6

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Year Ended June 30,	Annual Required Contributions			Percentage Contributed		
	Employer	Member	State	Employer	Member	State
2013	\$ 65,327,766	\$ 23,358,844	N/A	100 %	100 %	N/A
2012	61,911,684	23,419,864	\$ 750,000	100	100	100
2011	47,392,747	22,328,836	1,500,000	100	100	100
2010	39,852,678	21,874,015	2,253,158	100	100	100
2009	42,112,894	20,909,488	2,704,597	100	100	100
2008	54,565,393	20,009,916	2,745,784	100	100	100
2007	57,019,034	19,146,427	2,745,784	100	100	100
2006	56,078,840	18,525,032	2,745,784	100	100	100
2005	47,717,299	17,672,155	2,745,784	100	100	100
2004	36,868,735	16,772,145	2,745,784	100	100	100

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) — Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/2013*	\$1,860,948	\$2,518,229	\$657,281	73.9 %	\$258,425	254.3 %
07/01/2012*	1,838,607	2,493,849	655,242	73.7	258,518	253.5
07/01/2011**	1,867,281	2,388,494	521,213	78.2	248,869	209.4
07/01/2010**	1,862,630	2,296,382	433,752	81.1	242,481	178.9
07/01/2009**	1,897,931	2,216,645	318,714	85.6	232,872	136.6
07/01/2008**	1,891,172	2,109,111	217,939	89.7	223,752	97.4

* 25 year amortization period

** 30 year amortization period

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Valuation date	July 1, 2013
Actuarial cost method	Entry age normal *
Remaining amortization period	25 years
Asset valuation method	Fair value adjusted for a five-year amortization of asset gains as of July 1, 2013, 2012, 2011, 2010, and 2009.
Actuarial assumptions:	
Investment rate of return	7.50 percent
Projected salary increases	4.50 to 15.11 percent
Post-retirement mortality table:	
Ordinary	A weighting equal to 4/12 of the 1971 Group Annuity Mortality Table, Male and Female and 8/12 of the 1994 Group Annuity Mortality Static Table, Male and Female with no projection of future mortality improvement
Disabled	A weighting equal to 4/12 of the 1971 Group Annuity Mortality Table — Male, set forward three years and 8/12 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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Municipal Fire and Police Retirement System of Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Municipal Fire and Police Retirement System of Iowa (System) as of and for the year ended June 30, 2013, and have issued our report thereon dated November 6, 2013 (which report expresses an unmodified opinion on the financial statements and includes an emphasis of a matter paragraph relating to certain investments whose fair values have been estimated by management in the absence of readily determinable fair values).

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Deloitte & Touche LLP

Des Moines, Iowa
November 6, 2013