Municipal Fire and Police Retirement System of Iowa

Financial Statements as of and for the
Years Ended June 30, 2014 and 2013,
Required Supplementary Information, and
Related Independent Auditor's Reports

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

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Independent Auditors Report

To the Board of Trustees
Municipal Fire and Police Retirement System of Iowa
Des Moines, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the Municipal Fire & Police Retirement System of Iowa (MFPRSI), which comprise the statements of fiduciary net position as of June 30, 2014, and the related statements of changes in fiduciary net position, for the year 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinions.

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 Municipal Fire & Police Retirement System of Iowa, as of June 30, 2014, 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.

Emphasis of Matter

As discussed in Notes 2 and 4 to the financial statements, total System investments include investments valued at $699.7 million (30.5% of total assets) as of June 30, 2014, 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 matter.

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 required supplementary information on pages 4-7 and 19-22 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 Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements as a whole.

The additional supplementary information accompanying financial information listed as supplemental schedules in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying financial information listed as supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Period Financial Statements
The financial statements of the System as of June 30, 2013 were audited by other auditors whose report dated November 6, 2013, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2014, 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

November 14, 2014
Boise, Idaho

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, 2014 and 2013. 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 2014 and 2013 by $2,278,456,923 and $1,964,266,618 (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, 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. 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.

- Benefit payments were $142,640,646 and $136,593,585 for the years ended June 30, 2014 and 2013, respectively, a 4.4% increase from year to year.

THE STATEMENT OF FIDUCIARY NET POSITION AND THE STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

This annual financial report consists of two financial statements; the Statement of Fiduciary Net Position and the Statement 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, 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 Statement of Fiduciary Net Position presents 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 Statement of Changes in Fiduciary Net Position presents the changes in plan net assets during the respective fiscal year.

FINANCIAL ANALYSIS

System assets as of June 30, 2014 and 2013 were approximately $2.30 billion and $1.98 billion, respectively, and were primarily comprised of investments, cash, receivables from brokers, and contributions due from employers. The $314,615,977, or 15.9%, increase in assets from June 30, 2013 to June 30, 2014 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 $699.7 million (30.5% of total assets) and $644.0 million (32.5% of total assets) as of June 30, 2014 and 2013, 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, 2014 and 2013 were $18,143,032 and $17,717,360, respectively, and were primarily comprised of obligations under benefits and refunds payable, as well as investment management expenses payable. The $425,672, or 2.4%, increase in liabilities from June 30, 2013 to June 30, 2014 was due to an increase in payables for investment management expenses.

System assets exceeded liabilities at the close of fiscal year 2014 by $2,278,456,923. During the year ended June 30, 2014 plan net position restricted for pension benefits increased $314,190,305, or 16.0%, 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 $179,038,105, or 10.0%, from the prior year.

Municipal Fire and Police Retirement System of Iowa
Condensed Statement of Fiduciary Net Position
(In Thousands of $)

	2014	2013	2014/2013 Inc/(Dec)	2012	2013/2012 Inc/(Dec)
Assets:					
Cash	56,944	4,965	1046.9%	3,929	26.4%
Investments	2,234,763	1,970,919	13.4%	1,794,484	9.8%
Receivables	4,817	6,016	(19.9)%	4,347	38.4%
Other assets	76	84	(9.5)%	57	47.4%
Total assets	2,296,600	1,981,984	15.9%	1,802,817	9.9%
Liabilities:					
Benefits and refunds payable	15,067	15,269	(1.3)%	14,117	8.2%
Investment management expenses payable	2,094	1,681	24.6%	3,202	(47.5)%
Administrative expenses payable	293	387	(24.3)%	269	43.9%
Payable to brokers for unsettled trades	689	380	81.3%	-	0.0%
Total liabilities	18,143	17,717	2.4%	17,588	0.7%
Net position restricted for pension benefits	2,278,457	1,964,267	16.0%	1,785,229	10.0%

Municipal Fire and Police Retirement System of Iowa
Condensed Statement of Changes in Fiduciary Net Position
(In Thousands of $)

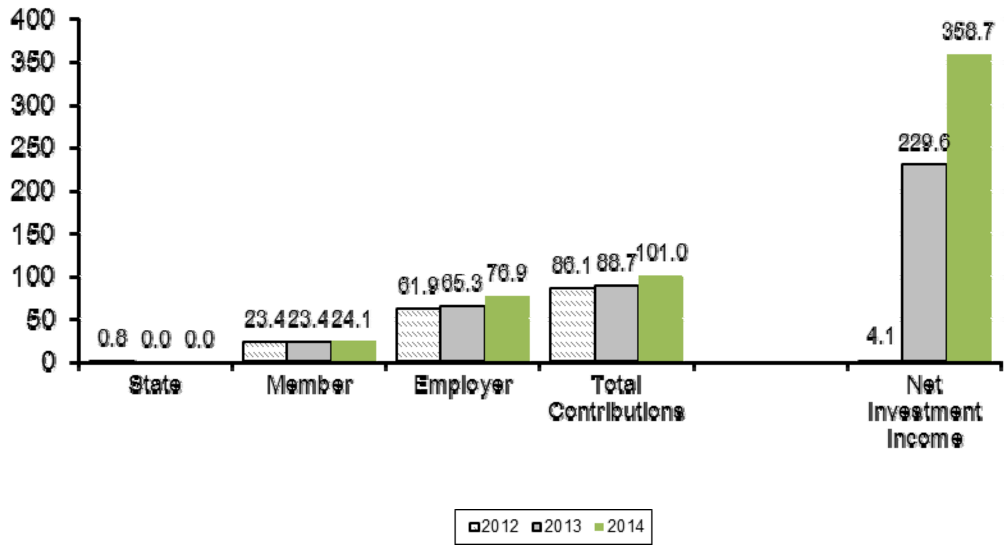
	2014	2013	2014/2013 Inc/(Dec)	2012	2013/2012 Inc/(Dec)
Additions:					
Contributions	100,972	88,687	13.9%	86,082	3.0%
Net Investment Income	358,680	229,592	56.2%	4,058	5557.8%
Other Income	44	3	1334.7%	3	7.3%
Total additions	459,696	318,282	44.4%	90,142	253.1%
Deductions:					
Benefits and refund payments	143,833	137,618	4.5%	132,612	3.8%
Expenses	1,673	1,626	2.9%	1,707	(4.8)%
Total deductions	145,506	139,244	4.5%	134,319	3.7%
Net increase (decrease)	314,190	179,038	75.5%	(44,177)	505.3%
Plan net postion restricted for pension benefits:					
Beginning of year	1,964,267	1,785,229	10.0%	1,829,406	(2.4)%
End of year	2,278,457	1,964,267	16.0%	1,785,229	10.0%

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 2014 totaled $459,652,683.

Contributions increased from the previous year by $12,285,391. This increase is primarily due to an increase in the employer contribution rate from 26.12% to 30.12% for the years ended June 30, 2013 and 2014, respectively. Net investment income increased from the previous year by $129,088,607. This change is primarily due to an increase in the appreciation of the fair value of investments.

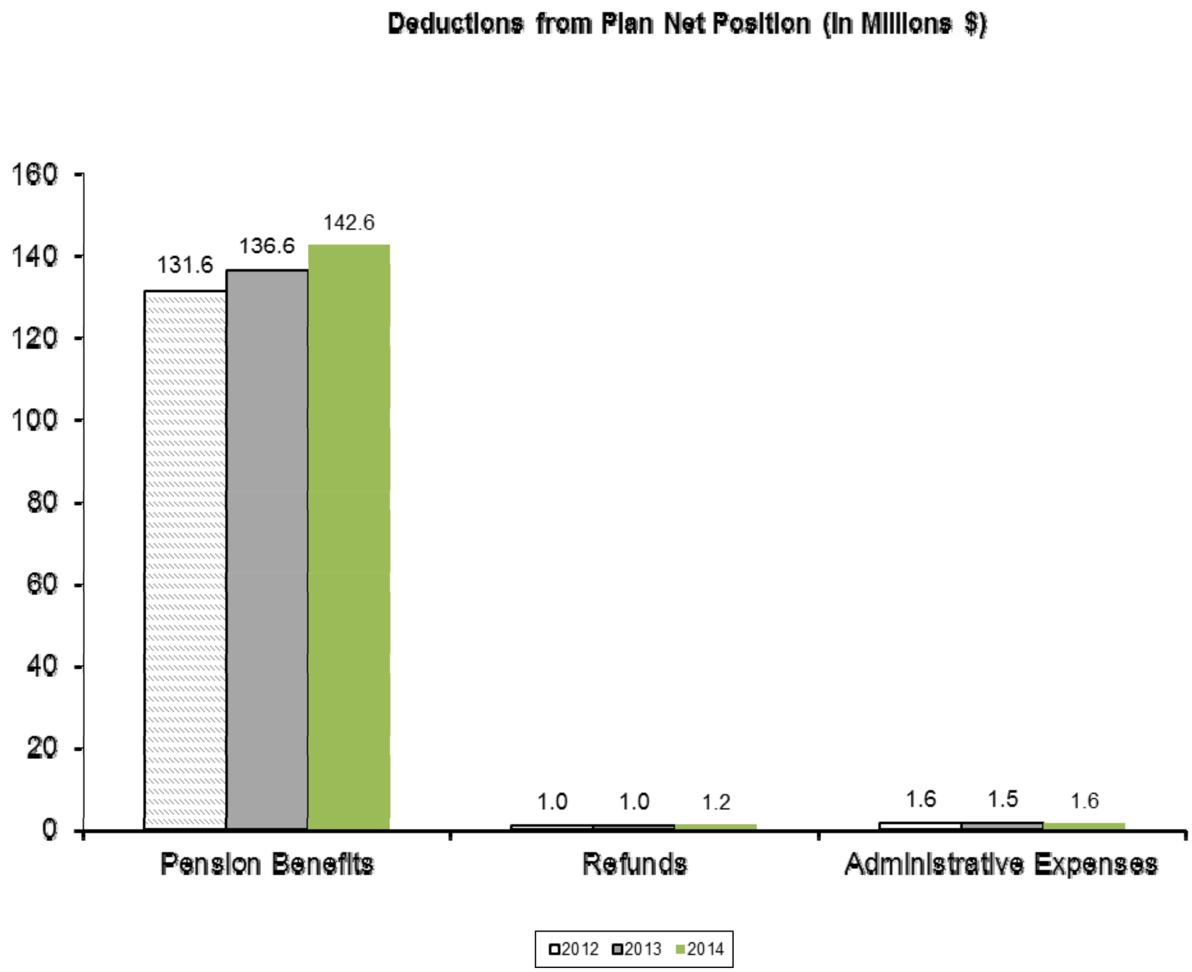
Additions to Plan Net Assets (In Millions $)



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 2014 were $145,506,237, an increase of 4.5% over fiscal year 2013 deductions.

Pension benefit payments increased by $6,047,061, or 4.4%, from the previous year. Refund of contributions increased by $168,627, or 16.5%.



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 FIDUCIARY NET POSITION
AS OF JUNE 30, 2014 AND 2013

	2014	2013
Assets		
Cash	$ 56,943,345	$ 4,964,537
Investments, at fair value:		
U.S. equity securities	493,329,995	443,271,741
Foreign equity securities	409,651,790	364,734,621
Commingled fixed income	296,083,727	189,709,264
Fund of funds commingled investment	270,728,842	247,589,014
Short-term investments and currency positions	17,993,663	16,232,704
Real Estate	235,012,853	271,974,484
Private equity	431,964,766	354,581,877
Multi-strategy commingled fund	79,997,565	82,824,878
Total investments - at fair value	2,234,763,201	1,970,918,583
Receivables:		
Contributions	3,450,680	4,342,743
Investment Income	21,965	27,306
Receivable from brokers for unsettled trades, net	1,344,540	1,646,358
Total Receivables	4,817,185	6,016,407
Other assets	76,224	84,451
Total assets	2,296,599,955	1,981,983,978
Liabilities:		
Benefits & Refunds Payable	15,066,966	15,269,329
Investment Management Expenses Payable	2,093,921	1,680,596
Administrative Expenses Payable	292,940	387,435
Payable to brokers for unsettled trades, net	689,205	380,000
Total liabilities	18,143,032	17,717,360
Plan net position restricted for pension benefits	$2,278,456,923	$1,964,266,618

See notes to financial statements

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Additions:		
Contributions:		
Member	$ 24,054,541	$ 23,358,844
Employer	76,917,460	65,327,766
State appropriations	-	-
Total contributions	100,972,001	88,686,610
Investment income:		
Interest	187,987	204,942
Dividends	16,530,308	13,061,699
Net appreciation in fair value of investments	358,885,478	230,476,832
Net investment income from investment activity	375,603,773	243,743,473
Less investment expenses:		
Management fees and other	16,923,091	14,151,398
Net investment income	358,680,682	229,592,075
Other income	43,859	3,057
Total additions	459,696,542	318,281,742
Deductions:		
Benefit payments	142,640,646	136,593,585
Refund payments	1,192,922	1,024,295
Administrative expenses	1,553,740	1,523,477
Disability expenses	105,859	102,280
Depreciation	13,070	-
Total deductions	145,506,237	139,243,637
Net increase	314,190,305	179,038,105
Plan net position restricted for pension benefits:		
Beginning of year	1,964,266,618	1,785,228,513
End of year	$2,278,456,923	$1,964,266,618

See notes to financial statements

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 for the exclusive benefit of eligible employees of participating cities (substantially all full-time employees of the respective cities' fire and police departments), (the Plan). 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, 2014, the System was comprised of 49 cities covering 3,885 active members; 321 terminated members entitled to benefits; and 3,896 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, 2014 and 2013.

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 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 30.12% and 26.12% for the years ended June 30, 2014 and 2013, 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. The State therefore is considered to be a nonemployer contributing entity in accordance with the provisions of the Governmental Accounting Standards Board Statement No. 67 – Financial Reporting for Pension Plans, (GASB 67).

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, 2014 and 2013:

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. The balance of the amounts held by the System pursuant to the DROP is $15,085,000 as of June 30, 2014 and $15,252,000 as of June 30, 2013.

Net Pension Liability of the System – The components of the net pension liability of the System at June 30, 2014, were as follows:

Total pension liability	$ 2,640,955,176
Plan fiduciary net position	-2,278,456,923
System's net pension liability	$ 362,498,253
Plan fiduciary net position as a percentage of	
the total pension liability	86.27%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of June 30, 2014, 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

Mortality rates were based on weighing equal to 2/12 of the 1971 GAM table and 10/12 of the 1994 GAM table with no projection of future mortality improvement.

The actuarial assumptions used in the June 30, 2014 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. 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 (see the discussion of the pension plan's investment policy) 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 Mkt Debt	6.5%
Private Non-Core Real Estate	9.3%
MLP	8.5%

Private Equity	9.8%
Core Plus Fixed Income	3.8%
Private Core Real Estate	6.8%
TIPS	2.8%
Tactical Asset Allocation	6.0%

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 – 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	$695,061,350	$362,498,253	$86,168,242

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 of Trustees by a majority vote of its members. It is the policy of the Board of Trustees to pursue an investment strategy the 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. The following was the Board's adopted asset allocation policy as of June 30, 2014:

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

Rate of Return – For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.97%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

New Accounting Pronouncements — The System has adopted GASB 67 which was adopted during the year ended June 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension liability, determined in accordance with GASB No. 67, is presented in Note 1 and in the Required Supplementary Information on page 20.

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, 2014 and 2013:

	2014	2013
Insured	$ 250,000	$ 250,000
Uninsured and uncollateralized	56,693,345	4,714,537
Bank balance — June 30	$ 56,943,345	$ 4,964,537

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 — As of June 30, 2014 and 2013, the System was invested in fund of funds commingled investments, which can be broken down into the following asset classes:

	2014	2013
INVESTMENTS — At fair value:		
U.S. equity securities	$ 150,025,709	$ 134,575,916
Foreign equity securities	74,766,546	75,883,390
Commingled fixed income	45,134,358	31,008,506
Short-term investments and currency positions	802,229	6,121,202
Total fund of funds commingled investments	$ 270,728,842	$ 247,589,014

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, 2014 are as follows:

Quality Rating	Fair Value	Percentage of Portfolio
AAA	$ -	- %
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 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. 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 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, 2014.

	Fair Value	Duration
Investment type:		
Short-term	$ 2,908,629	0.1582
Commingled	296,083,727	4.7979
Total fair value	$ 298,992,356	
Portfolio modified duration		4.7527

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, 2014, to invest approximately $358,000,000 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 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, 2014 and 2013, 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. Derivative securities may also be used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE SYSTEM'S NET PENSION LIABILITY

Last 3 Fiscal Years

	2014	2013	2012
Total pension liability			
Service cost	$ 48,020,046	$ 47,487,380	$ 45,660,053
Interest	187,172,397	185,532,855	177,678,499
Changes in benefit terms	-	-	-
Differences between expected and actual experience	(1,248,941)	(22,020,082)	14,628,549
Changes of assumptions	32,616,664	(49,002,711)	-
Benefit payments, including refunds	(143,833,568)	(137,617,880)	(132,611,997)
Net change in total pension liability	122,726,598	24,379,562	105,355,104
Total pension liability - beginning	2,518,228,578	2,493,849,016	2,388,493,912
Total pension liability - ending	2,640,955,176	2,518,228,578	2,493,849,016
Plan fiduciary net position			
Contributions - employer	76,917,460	65,327,766	62,661,684
Contributions - member	24,054,541	23,358,844	23,419,864
Net investment income	358,680,682	229,592,075	4,057,940
Benefit payments, including refunds	(143,833,568)	(137,617,880)	(132,611,997)
Administrative expense	(1,553,740)	(1,523,477)	(1,606,072)
Other	(75,070)	(99,223)	(98,573)
Net change in plan fiduciary net position	314,190,305	179,038,105	(44,177,154)
Plan fiduciary net position - beginning	1,964,266,618	1,785,228,513	1,829,405,667
Plan fiduciary net position - ending	$ 2,278,456,923	$ 1,964,266,618	$ 1,785,228,513
System's net pension liability(asset) - ending	$ 362,498,253	$ 553,961,960	$ 708,620,503

Last 3 Fiscal Years

	2014	2013	2012
Total pension liability	$ 2,640,955,176	$ 2,518,228,578	$ 2,493,849,016
Plan fiduciary net position	2,278,456,923	1,964,266,618	1,785,228,513
System's net pension liability (asset)	$ 362,498,253	$ 553,961,960	$ 708,620,503
Plan fiduciary net position as a percentage of the total pension liability	86.27%	78.00%	71.59%
Actuarial projected covered-employee payroll	255,370,044	250,107,112	250,047,187
System's net pension liability (asset) as a percentage of covered-employee payroll	141.95%	221.49%	283.39%

SCHEDULE OF SYSTEM'S CONTRIBUTIONS
Last 3 Fiscal Years

	2014	2013	2012
Actuarially determined contribution	$ 76,917,460	$ 65,327,766	$ 61,911,684
Contributions in relation to the actuarially determined contribution	76,917,460	65,327,766	61,911,684
Contribution deficiency (excess)	-	-	-
Reported covered-employee payroll	255,370,044	250,107,112	250,047,187
Contributions as a percentage of covered-employee payroll	30.12%	26.12%	24.76%

SCHEDULE OF INVESTMENT RETURNS
LAST 10 Fiscal Years

Fiscal Year	Annual money-weighted rate of return, net of investment expense
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%
2005	12.53%

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:

Valuation date	July 1, 2014
Actuarial cost method	Entry age normal *
Amortization method	Level Dollar, layered closed
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
Post-retirement mortality table:	
Ordinary	A weighting equal to 2/12 of the 1971 Group Annuity Mortality Table, Male and Female and 10/12 of the 1994 Group Annuity Mortality Static Table, Male and Female with no projection of future mortality improvement
Disabled	A weighting equal to 2/12 of the 1971 Group Annuity Mortality Table — Male, set forward three years and 10/12 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

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

To the Board of Trustees
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 the Municipal Fire & Police Retirement System of Iowa (MFPRSI), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MFPRSI'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MFPRSI's internal control. Accordingly, we do not express an opinion on the effectiveness of the MFPRSI's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 MFPRSI'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.

Eide Bailly LLP

Boise, Idaho
November 14, 2014