

Municipal Fire and Police Retirement System of Iowa

**MFPRSI
2836 104th Street
Des Moines, Iowa 50322**

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Introduction

MUNICIPAL FIRE & POLICE RETIREMENT SYSTEM OF IOWA

2836 104th Street, Des Moines, IA 50322

*phone: (515) 254-9200
fax: (515) 254-9300
e-mail: pensions@mfprsi.org*

To: Members of the Retirement System,
City Officials, Elected Officials and Interested Parties

On behalf of the Board of Trustees (the "Board") of the Municipal Fire and Police Retirement System of Iowa, I am pleased to present the System's report for the period ending June 30, 2001.

Created by the 1990 General Assembly, the state-wide retirement System was established effective January 1, 1992. Accomplishments of the Board and Administration of the System since its inception are summarized on the following pages.

The firm of KPMG Peat Marwick LLP, Certified Public Accountants conducted an audit for the period ending June 30, 2001. A copy of the audit report has been provided to each city and is viewable at the System's office.

The Board and Administration appreciate the effort of city officials and members in support of the System.

Thank you for your interest.

Sincerely,

Judy Bradshaw, Chairperson
Board of Trustees

RETIREMENT SYSTEM'S ACCOMPLISHMENTS

The accomplishments of the consolidated retirement System since inception (1/1/1992 – 6/30/2001) are briefly described below. Additional information concerning the System's activities may be obtained by contacting the Executive Director of the System.

Summary of Accomplishments

Transition & Consolidation of Local Systems: Consolidation of the assets and the liabilities of eighty-seven local systems into a single state-wide entity.

Program Development & Policy Establishment: Identification of needed program areas, their creation and establishment of applicable policies.

Comprehensive Investment Program & Policy: Establishment and execution of a comprehensive investment policy and program in compliance with the governing statute.

Cumulative Performance of Fund (1/2/1992 – 6/30/2001):	128.74%
Actuary's Assumed Rate of Growth (1/1/1992 – 6/30/2001):	98.78%
Size of Investment Portfolio, as of 6/30/2001:	\$1,153.4 million
Size of Investment Portfolio, as of 1/1/92:	\$574.6 million

[Caveat: Historical performance is not a guarantee of future portfolio performance.]

In November 1998, the Board completed a comprehensive, eighteen month review of the System's investment policy. Based upon this review, the Board of Trustees took the following action:

- a) Adopted a revised asset allocation policy
- b) Established core and strategic components of the policy and specified levels of acceptable risk
- c) Reduced the number of external management relationships for the purpose of fee reduction and management control
- d) Established performance fee relationships with two of the investment firms
- e) Established strategic relationships with two firms for the purpose of ongoing policy development and market assessment

Accounting Requirements: Compliance with State and national accounting standards (GASB Statements) and auditor recommendations, including a specific staffing recommendation.

Protocol Development: Development, issuance and maintenance of fire and police medical protocols for hiring as required by 1990 legislation.

Disability Program Review: Review in 1999 of the disability program provisions provided under Chapter 411 of the Code of Iowa. Upon completion of the review, the Board of Trustees recommended to the General Assembly several changes to the disability program. The recommendations were adopted by the 2000 General Assembly as part of the pension legislation for that year. Subsequent to its adoption, the System has taken the necessary steps to implement the legislation.

Study of Actuarial Assumptions: In accordance with the requirements of the governing statute, the Board of Trustees in cooperation with the System’s actuary, reviewed the existing assumptions which govern the conduct of the annual valuation of plan assets and liabilities. The Board adopted certain changes based upon the findings of the review, beginning July 1, 1999.

Benefit Program: Administration of a retirement and disability benefit program at progressively increasing levels. The membership activity level has been as follows:

Benefit Applications:		1,650
service retirement applications	615	
disability retirement applications	454	
vested service retirement applications	77	
survivor retirement applications	504	
Disability Re-examinations:		39
Refund Applications:		506
Marital Property Orders:		261
Child Support Orders:		22
IRS Levies:		11

Disability Program: Establishment and execution of a systematic disability program, involving detailed requirements for each phase of the process, in compliance with the statute and as upheld by judicial decisions.

Number of disability cases:

Accidental disabilities granted:	344
Ordinary disabilities granted:	70
Disability applications denied:	40

A reduction in the “Annual Rate of Disabilities” in comparison to the rate being experienced prior to the consolidation of the local systems has resulted in a lower rate of “new” disability costs at the statewide System than that being experienced previously. The average number of disabilities has decreased from 55 per year to an average of 44 per year. A review of the additional liability costs associated with this decline, indicates that the liability costs are significantly lower due to the non-occurrence of the additional disability retirements.

Qualification of Plan: Establishment of necessary statutory and administrative provisions and the obtainment of “Qualified Plan Status” under the Internal Revenue Code.

Pre-taxation of Member Contributions: Establishment of pre-taxation of contributions under State of Iowa statutes leading to significant annual federal tax savings. A reduction in the Federal tax liability of the active membership in the range of \$250 - \$675 per annum. Additionally, the establishment of pre-tax for State of Iowa tax purposes.

Federal & State Court Decisions: Compliance with State and Federal court decisions concerning marital property orders, child support orders, federal tax liens, etc.

Communication Program: Development of a comprehensive communication program to further the awareness of the membership and the cities concerning the programs of the retirement System. The communication program includes visits to each city, issuance of annual reports, the distribution of benefit handbooks, a periodic newsletter, flash reports on the activities of the Board of Trustees, distribution of minutes of the meetings of the Board of Trustees, and presentations to the periodic meetings of the various associations and at the request of individual cities and membership groups.

Benefit Program Options: Establishment and execution of benefit options, the creation and administration of six retirement options for possible selection by individuals retiring on service retirement or as a vested retirement.

Program Review & Evaluation: Periodic examination of the programs and efforts of the System in consideration of the legislative mandates, the financial requirements, and the goals of the System.

Escalator Program: In accordance with a legislative request, development of an alternative escalator program which standardized the treatment of the membership and reduced the potential volatility of the cost associated with escalation, and submission of the recommendations to the legislature. Implementation of the new program on a state-wide basis, effective July 1, 1997. Critique of the five year experience under the new program and submission of a report to the legislature in 2001.

Contribution Program: Establishment of a standard approach to member and employer contributions and development of automated reporting for the cities.

Current Issues List: Recognition and reporting on significant issues to the legislature.

System’s Goals: In 1992, identified and implemented a set of goals for the Board and Administration of the System. From 1992 through calendar 1997, regularly reviewed and evaluated progress toward the established goals. In 1998, the Board conducted a strategic review of the System’s established goals and following the review, adopted a new mission statement and goal statement. From 1998 to 2001, the Board periodically reviewed progress toward goals. Beginning in 2001, the Board undertook a reconsideration of the goals for the System.

Legislative Study: In response to the directive of the Iowa General Assembly in the 1998 pension legislation, the System participated with representatives of IPERS and POR in the examination of various subjects concerning the individual systems. The individual associations provided input at several points during the development of the study and commented upon the findings of the report. The report was submitted to the legislative committee in December 1998.

Legislation: Development of legislative packages concerning technical provisions of the plan, excluding benefit plan enhancements, and submission for consideration of General Assembly. Implementation of plan changes as established by the General Assembly, including the recommended technical provisions and benefit plan revisions.

Y2K Phenomena: Examination of the implications of Y2K to the System's operating systems and date. Development of controls and redundant systems in anticipation of any problems created by Y2K.

VEBA: Undertook steps to establish a voluntary Employee Benefit Association for active members to provide for post-retirement healthcare costs.

Benefit Formula Change: Implemented series of benefit formula changes enacted by the General Assembly.

Direct Deposit Payroll: Establishment of a direct deposit program for retirees' monthly payments under which the payments are sent directly to their financial institutions. Program safeguards and assures speedy delivery of payments (89% participation).

Reciprocity with POR: Established by statute, portability with Peace Officers Retirement System to provide for transfer of credit of service.

Taxation Reporting: Maintained compliance with Federal regulations for tax reporting.

Benefit Estimates: Expanded programs to provide members with an estimate of their future retirement benefit and to assist them with pre-retirement planning.

Earnings Test & Disability Re-Examinations: Conduct of annual programs pertaining to earning limits for disability retirees and for re-exams of eligible disability retirees for potential return to work.

Benefit Payroll Safeguarding: Implemented programs to provide for the secure delivery of benefit payments.

The Retirement System

The System was created as a result of action taken by the Iowa General Assembly in 1990 to establish a state-wide retirement system for fire and police personnel covered by the provisions of Iowa Code Chapter 411. Upon its establishment, the System accomplished the consolidation of eighty-seven local fire and police retirement systems formerly administered by forty-nine of Iowa's largest cities.

The Municipal Fire and Police Retirement System of Iowa (the "System") initiated its formal operations on January 1, 1992 to administer the retirement benefits for fire and police personnel in Iowa's largest cities.

The purpose of the System is to provide a sound and secure retirement income for individuals receiving benefits under its programs. The programs of the System include the payment of pension benefits for service retirement, ordinary and accidental disability retirement, survivors of deceased members (spouse and dependent benefits), and the payment of contribution refunds upon withdrawal by a terminated member. In addition, the comprehensive disability program also includes standards for entrance physical examinations, guidelines for ongoing fitness and wellness, and post disability retirement compliance requirements.

The System administers a defined benefit plan. The fiscal year for the System is July 1 through June 30.

Permanent, full-time fire fighters and police officers in the participating cities are automatically System members. Participants are vested upon attaining four years of membership service under the System.

Board of Trustees

The activities of the retirement System are under the direction of a Board of Trustees, comprised of nine voting members and four non-voting legislative representatives. The voting membership of the Board represent active and retired fire and police membership (four), the cities (four), and one private citizen.

Individuals are appointed to the Board by the 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 voting membership of the Board, as of June 30, 2001, serving four year terms, are identified below:

Judy Bradshaw
Police Officer – Des Moines
Current Term Expires April 2005

Marty Pottebaum
Retired Police Officer – Sioux City
Current Term Expires April 2003

Lynn Manhart
Fire Fighter – Council Bluffs
Current Term Expires April 2002

Tom Ryan
Retired Fire Fighter – Davenport
Current Term Expires April 2004

Allen McKinley
Research and Budget Officer – Des Moines
Current Term Expires April 2003

Mary Bilden
Citizen Member – Boone
Current Term Expires April 2002

Pauline Joyce
Budget Officer - Dubuque
Current Term Expires April 2004

Sheri L Mertz
Finance Director - Carroll
Current Term Expires April 2005

William J. Kinney
City Treasurer – Cedar Rapids
Current Term Expires – April 2002

During the past fiscal year, four non-voting legislative members represented the Iowa General Assembly on the Board of Trustees. They are as follows:

Senator Mary A. Lundby
Senator Wally E. Horn

Representative Paul Bell
Representative Charles Gipp

Fiduciary Responsibilities

Upon appointment to the Board of Trustees, the individual board members have a fiduciary responsibility to the statewide retirement System.

Statutory responsibilities, as delineated within Iowa Code Chapter 411, include the following:

- a) The Board is responsible for the overall operation and administration of the System, and for the establishment of rules which govern the administration of the System.
- b) The Board is to establish the System's budget and to oversee its execution.
- c) The Board is to keep a record of all its proceedings and submit an annual report to the Governor, the General Assembly, and the City Council of each of the participating cities.
- d) The Board is to engage necessary actuarial and other services and may employ a staff as necessary to assist it in carrying out its responsibilities.
- e) The Board is responsible for ensuring that proper determinations are made on applications for benefits and that monthly benefits are paid in a timely and accurate manner.
- f) The Board is responsible for establishing the rate of interest to be paid on withdrawn contributions.
- g) The Board is responsible for the management of the fund, and the establishment of an investment policy on an annual basis. Funds are to be invested in accordance with that policy.
- h) The Board is to provide for the maintenance of actuarial data for the purpose of valuing the fund and of assessing the experience of the System. The Board is to determine a rate of contribution for the cities based upon an annual actuarial valuation and is to certify the rate to the proper officials of the cities.

To maintain the System's status as a "qualified plan," the Trustees must act in accordance with the "exclusive benefit" provision of the Internal Revenue Code which stipulates that decisions of the System must be made in the best interest of the general membership.

The Legislative Mandate

The programs of the System, its organization, and its authority to act are each provided for by the Code of Iowa. The specific authority for the System's activities is found in Chapter 411, as amended by Acts of the 1992 General Assembly.

The authority for the existence and operation of the statewide System is found in Section 411.35. This section also provided for the termination of the local fire and police retirement systems as of December 31, 1991.

Section 411.36 establishes a Board of Trustees which is responsible for the operation and administration of the statewide System and which, under 411.37, had responsibility for accomplishing the transition to the statewide System from the terminated local systems.

The administrative activities of the System are provided for by Section 411.5, to include specific authorization for each of the following:

Actuarial Services	Medical Board
Legal Services	Organization and Staff

Various sections of Chapter 411 address the benefit programs of the System, but 411.6 provides the primary description of the differing benefits for which the members and beneficiaries are eligible.

CHAPTER 411.6

- Service retirement benefit
- Allowance on service retirement
- Ordinary disability benefit
- Allowance on ordinary disability benefit
- Accidental disability benefit
- Retirement after accident
- Re-examination of beneficiaries retired on account of disability
- Ordinary death benefit
- Accidental death benefit
- Pensions offset by compensation benefits
- Pension to spouse and children of deceased pensioned members
- Annual re-adjustment of pensions
- Re-marriage of surviving spouse
- Optional retirement benefits
- Rollover of members' accounts
- Line of Duty Death Benefit

Administration

Under the direction of the Board of Trustees, the programs of the System are developed and executed by an administrative staff which currently numbers eight individuals. These individuals are willing to assist members of the System with any questions or concerns they may have about the retirement program.

The members of the Administration of the System are identified below:

Dennis L. Jacobs Executive Director	Larry Thompson Deputy Director
Sandra Wells Senior Pension Officer	Janice Bell Senior Pension Officer
Martin Johnson Pension Officer	Rhonda Little Pension Officer
Daniel Cassady Accountant	Kathleen Underwood Administrative Assistant

The offices of the System are located at:

MFPRSI
2836 104th Street
Des Moines, IA 50322

The System may be contacted at the following numbers:

Local phone:	(515) 254-9200
Toll free phone:	(888) 254-9200
Fax number:	(515) 254-9300
E-mail address:	pensions@mfprsi.org

The offices of the System are open for operation from 8:00 a.m. to 4:30 p.m., Monday through Friday, excluding recognized national holidays.

Financial Reports

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

Statements of Plan Net Assets

June 30, 2001 and 2000

	2001	2000
Assets		
Cash	\$143,836	\$611,391
Investments, at fair value:		
U.S. government obligations	150,985,444	125,181,831
U.S. corporate fixed income	132,539,289	141,608,380
U.S. equity securities	320,031,915	344,593,386
Foreign government obligations	120,019,865	141,502,264
Foreign corporate fixed income	12,720,993	18,248,200
Foreign equity securities	244,235,846	318,610,251
Short-term investments and currency positions	80,268,625	66,069,809
Securities lending short-term collateral investment pool	70,168,010	62,469,255
Real estate	81,067,922	77,106,228
	1,212,037,909	1,295,389,604
Receivables:		
Contributions & interest	2,107,795	1,889,921
Investment income	3,730,609	4,257,589
Receivable from brokers for unsettled trades, net	9,129,073	5,885,692
Total Receivables	14,967,477	12,033,202
Fixed Assets (net of accumulated depreciation of \$273,059 and \$240,048 in 2001 and 2000, respectively)	43,855	30,139
Other assets	108,581	101,199
Total assets	1,227,301,658	1,308,165,535
Liabilities:		
Outstanding checks payable	489,606	613,609
Benefits and refunds payable	122,716	15,912
Investment management expenses payable	1,265,933	3,179,792
Administrative expenses payable	181,036	157,110
Payable for securities lending	70,168,010	62,469,255
Payable to brokers for unsettled trades, net	18,485	--
Total liabilities	72,245,786	66,435,678
Plan net assets held in trust for pension benefits	1,155,055,872	1,241,729,857

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

Statements of Changes in Plan Net Assets

Years ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Additions:		
Contributions:		
Member contributions	\$15,039,155	\$14,393,323
Employer contributions	27,345,914	26,170,758
State appropriations	<u>2,942,724</u>	<u>2,942,724</u>
Total contributions	<u>45,327,793</u>	<u>43,506,805</u>
Investment income:		
Interest income	11,897,879	11,936,311
Dividend income	8,990,373	7,470,321
Securities lending Income	2,871,260	2,564,735
Real Estate Income	1,775,558	2,454,337
Net appreciation (depreciation) in fair value of investments	<u>(91,266,922)</u>	<u>86,775,908</u>
Total investment income (loss)	<u>(65,731,852)</u>	<u>111,201,612</u>
Less investment expenses:		
Securities lending	2,551,623	2,346,652
Management fees and other	<u>2,511,949</u>	<u>4,554,292</u>
Net investment income (loss)	<u>(70,795,424)</u>	<u>104,300,668</u>
Transition liability adjustments and interest	7,502	26,359
Other income	<u>2,161</u>	<u>2,029</u>
Total increase (decrease)	<u>(25,457,968)</u>	<u>147,835,861</u>
 Deductions:		
Benefit payments	59,077,295	54,297,276
Refund payments	996,549	902,401
Administrative expenses	1,011,766	934,213
Disability expenses	97,395	81,187
Other	<u>33,012</u>	<u>30,111</u>
Total deductions	<u>61,216,017</u>	<u>56,245,188</u>
Net increase (decrease)	<u>(86,673,985)</u>	<u>91,590,673</u>
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>1,241,729,857</u>	<u>1,150,139,184</u>
End of year	<u>1,155,055,872</u>	<u>1,241,729,857</u>

Plan Description

General

The Municipal Fire and Police Retirement System of Iowa (the System) was created under Chapter 411.35 of the Code of Iowa to replace 87 separate fire and police retirement systems from 49 cities and 1 county in Iowa (the 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). It is governed by a nine-member Board of Trustees who are appointed to the board by police and fire associations and by the Iowa League of Municipalities. 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, 2001, the System was comprised of 49 cities and 1 county covering 3,789 active members; 238 terminated members entitled to benefits; and 3,170 retired firefighters, police officers, bailiffs, and eligible beneficiaries across Iowa. Member contribution rates are established by statute.

In accordance with House File 2418, Act of the 1994 General Assembly, to establish compliance with the Federal Older Workers Benefit Protections Act, the contribution rates for all of the active members are as follows for the specified periods:

Effective October 16, 1992	6.10% of earnable compensation
Effective July 1, 1993	7.10% of earnable compensation
Effective July 1, 1994	8.10% of earnable compensation
Effective January 1, 1995	8.35% of earnable compensation
Effective July 1, 1995	9.35% of earnable compensation

General, continued

The employers' contribution rate is based upon an actuarially determined normal contribution rate. The required actuarially determined contributions are calculated on the basis of the aggregate actuarial cost method set forth in 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. Legislatively appropriated contributions from the state may further reduce the employers' contribution rate. However, under the Code of Iowa, the employers' contribution rate cannot be less than 17 percent 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 as of June 30, 2001 and 2000:

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 spouse of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each dependent child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50 percent survivor option.

As of June 30, 2000 the base benefit was 60 percent, and the additional benefit for members who perform more than 22 years of service was 1.5 percent per year, up to a maximum of 8 years.

Benefits, continued

Disability and Death

Disability coverage is broken down into two types, ordinary and accidental. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits at 60 percent of the member's average final compensation or the member's service retirement benefit calculation amount, if greater. Ordinary disability occurs outside the call of duty and pays 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, if greater, 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 dependent children, 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 dependent child, or a lump-sum distribution to the designated beneficiary equal to 50% 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 annually in accordance with Iowa Code Chapter 411.6 which states a standard formula for the increases.

Traumatic Personal Injury

The beneficiary 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.

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on an accrual basis of accounting. Member and employer contributions are recognized as revenues when earned. Benefits and refunds are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred regardless of when payment is made. 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 preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts in the financial statements. 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. Investment income is recognized when earned. 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 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.

Office Equipment

Office equipment is stated at cost. Depreciation is recognized on a straight-line basis over estimated useful lives of three to ten years.

Cash

The table below presents a summary of cash balances of the System at June 30, 2001 and 2000:

Bank balance at June 30:	2001	2000
Insured	100,000	100,000
Uninsured and uncollateralized	43,836	511,391
Outstanding checks	<u>(489,606)</u>	<u>(613,609)</u>
Carrying amount at June 30, net	<u><u>(345,770)</u></u>	<u><u>(2,218)</u></u>

Investments

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 of trustees has adopted investment guidelines for the System’s investment managers.

The following table presents a summarization of categorization of custodial credit risk at June 30, 2001 and 2000. A security, for purposes of classification in the following table, is a transferable financial instrument that evidences ownership or creditorship. Category 1 includes investments that are registered or for which the securities are held by the System’s agent in the System’s name.

The System holds investments in pooled short-term investment funds established and managed by Mellon Trust, the System’s agent and master trustee, which are not considered securities for purposes of custodial credit risk classification. Investments in commingled investment funds are also not considered securities for purposes of custodial credit risk classification. Such investments are shown in the following table as “non categorized”.

<u>Category 1</u>	<u>2001</u>	<u>2000</u>
U.S. bonds	32,063,424	31,438,041
Foreign bonds	94,059,535	122,619,361
U.S. equity securities	41,910,907	40,296,109
Foreign equity Securities	<u>185,996,407</u>	<u>213,659,159</u>
	<u>354,030,273</u>	<u>408,012,670</u>
<u>Non-categorized</u>		
U.S. commingled bond investment funds	251,461,309	235,352,170
U.S. commingled stock investment funds	278,121,008	304,297,278
Foreign commingled stock funds	58,239,439	104,951,092
Foreign commingled bond funds	38,681,323	37,131,102
Real Estate commingled funds	81,067,922	77,106,228
Short-term investments and currency positions	80,268,625	66,069,809
Securities lending short-term collateral investment funds	<u>70,168,010</u>	<u>62,469,255</u>
	<u>858,007,636</u>	<u>887,376,934</u>
Total	<u><u>1,212,037,909</u></u>	<u><u>\$1,295,389,604</u></u>

Investments, continued

At June 30, 2001, the following investments represented more than 5% of the System's net assets: State Street Russell 1000 (passive) Index fund of \$177,234,913 and State Street Lehman Enhanced (passive) Index fund of \$194,372,220. At June 30, 2000, the following investments represented more than 5% of the System's net assets: State Street Russell 1000 (passive) Index Fund of \$208,562,268 and State Street Lehman Enhanced (passive) Index Fund of \$174,280,105.

Under the provisions of state statutes and the System's investment policy, the System lends securities, both equity and fixed income, to securities firms on a temporary basis through the master trustee, Mellon Trust. The System receives a portion of the earnings (split) for all loans and retains the right to amounts equal to all interest and dividend payments while securities are on loan. Security loan agreements are collateralized by cash, U.S. government issued securities, or irrevocable bank letters of credit. Domestic loans are initially collateralized at 102 percent of the market value plus any accrued interest. If the loans fall below 100 percent collateralization, the loan is marked back to 102 percent. Loans of non-US securities are initially collateralized at 105 percent and are marked back to 105 percent if they fall below 105 percent. Notwithstanding the forgoing, however, standard industry practices may from time to time preclude the lending agent from obtaining additional collateral in connection with loans of global securities by the close of the next business day, unless the value of collateral held by the lending agent in connection with such loans is less than 100 percent.

Mellon Bank Global Securities Lending, a division of Mellon Trust, invests all of the cash collateral generated from the System's securities loans into a collective cash collateral pool (the ASL pool). The System holds an undivided share of the collateral provided by the borrower of its securities. The System cannot pledge nor sell the collateral unless the borrower fails to return the securities borrowed.

All securities loans can be terminated on demand by either the lender or the borrower. When a loan is closed, the securities on loan are returned to the System and the collateral associated with the loan is returned to the borrower. The lending agent shall hold the System harmless for any losses, cost or expenses arising as a result of negligence, misconduct or fraud by the lending agent.

The System had no credit risk as a result of its securities lending program, as the collateral held exceeded the fair value of the securities lent. At June 30, 2001, loaned securities totaling \$66,379,173 were collateralized by cash on deposit at Mellon Trust totaling \$70,163,744 and US treasury bonds totaling \$4,266. At June 30, 2000 loaned securities totaling \$62,449,818 were collateralized by cash on deposit at Mellon Trust totaling \$62,469,255.

Investments, continued

Securities lending income is a component of investment income and was \$2,871,260 and \$2,564,735 for the years ended June 30, 2001 and 2000, respectively. Securities lending expenses of \$2,551,623 and \$2,346,652 are included in investment expenses for the years ended June 30, 2001 and 2000, respectively. Net securities lending income was \$319,637 and \$218,083 for the years ended June 30, 2001 and 2000, respectively.

Derivatives

The investment managers under contract to the System may invest in derivative securities as permitted by their contractual guidelines. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices or a market index. Derivative transactions involve, to varying degrees, credit risk and market risk.

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. Futures are acquired through a clearinghouse which guarantees delivery and accepts the risk of default by either party.

Market risk involves the potential change in economic and other conditions which may bring about a shift in the valuation of an asset. One of the conditions that affect the market risk of derivatives 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 is managed by the System by imposing contractual requirements on the investment managers as to the types of derivatives authorized and the manner in which they may be employed. Investment managers' derivative activities are reviewed on a periodic basis 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. Foreign currency forward contracts are used to hedge against the currency risk in foreign stock and fixed income security portfolios. The remaining derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

Derivatives, continued

A forward contract is an agreement to buy or sell a specific currency position or security at a specified delivery or maturity date for an agreed-upon price. As the fair value of the forward contract fluctuates, the System records an unrealized gain or loss. A summary of net forward currency contracts outstanding at June 30, 2001 and 2000, was as follows:

	2001	2000
Long Forward currency positions	142,926,829	105,906,544
Short Forward currency positions	<u>139,801,524</u>	<u>105,997,677</u>
Unrealized gain (loss)	<u>3,125,305</u>	<u>(91,133)</u>

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 same leverage prohibitions which apply to forwards and futures are applicable to options. There were no financial options outstanding at June 30, 2001 or 2000.

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 much smaller amounts potentially subject to risk. Every position which is sold or purchased must be backed by assets, since the investment managers are not allowed to leverage the portfolio.

Required Supplementary Information

Schedule of Contributions from the Employers and Other Contributing Entities

Year Ended June 30,	Annual Required Contributions			Percentage Contributed		
	<u>Employer</u>	<u>Member</u>	<u>State</u>	<u>Employer</u>	<u>Member</u>	<u>State</u>
2001	27,345,914	15,039,155	2,942,724	100%	100%	100%
2000	26,170,758	14,393,323	2,942,724	100%	100%	100%
1999	24,994,129	13,748,076	2,942,724	100%	100%	100%
1998	23,979,899	13,141,764	2,942,724	100%	100%	100%
1997	22,932,183	12,572,016	2,942,724	100%	100%	100%
1996	<u>22,642,480</u>	<u>11,949,330</u>	<u>2,942,724</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Notes to Required Supplementary Information

Valuation Date	July 1, 2001 and 2000
Actuarial cost method	Aggregate
Asset valuation method	Fair value adjusted for a four-year amortization of asset gains (losses)

Note: The System is not required to present the schedule of funding progress under the requirements of Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," because the System uses the aggregate cost method to determine its aggregate actuarial liabilities. This method does not identify or separately amortize unfunded actuarial liabilities

Actuarial assumptions:

Investment rate of return	7.50 percent
Projected salary increases	4.50 to 12.59 percent

Mortality table Effective with the July 1, 1999 actuarial valuation, the System began a 12 year phase-in of the 1994 Group Annuity Mortality Table from the 1971 Group Annuity Mortality Table. However, if the Cities' Contribution Rate exceeds 17% after reflecting an additional year of the phase-in, the phase-in will be deferred one year.

Benefit Information

Description of Benefit Plan

The following section describes the eligibility of the membership of the System for different types of retirement benefits. Benefit formulas are established by Iowa Code Chapter 411. Revisions to the benefit program can only be instituted by the Iowa General Assembly. The Board of Trustees and the Administration of the retirement System are required to administer the System in compliance with the statutory provisions. Questions concerning an individual's eligibility should be directed to the Administration of the retirement System.

Retirement Age

To qualify for a full service retirement, the member shall be age 55 or older with a minimum of 22 years of service at termination of employment. The other forms of benefits, with the exception of vested retirement, do not have specific age or length of service requirements. Retirement under the "ordinary or accidental" disability programs of the System are available to members who become permanently (defined as a duration of one year or longer) disabled while employed as a fire fighter or police officer without regard to the age of the member.

Benefit Amounts

Current benefit amounts are based upon a percentage of the member's average monthly earnable compensation. The average monthly earnable compensation is calculated by adding the member's earnable compensation for the highest three years of service and dividing it by 36. The percentage multiplier varies by type of retirement, whether or not "service credits" have been earned; and in the case of ordinary disability, the length of the member's service. A "service credit" is an additional percentage for each year of service beyond twenty-two years up to a maximum of thirty years. Effective July 1, 2000 the percentage is 2% per year. The base percentage for a service retirement is 66% with the maximum percentage (based on "service credits") of 82.0%.

Refunds

Members who terminated service after July 1, 1990 (other than by death, disability, or an involuntary layoff) may withdraw their contributions in total from their date of hire through their termination date. If a member withdraws contributions, the member waives any claim to benefits and service for the period of membership for which the withdrawal is made. Effective July 1, 1994, members who terminate service also have the option to rollover the taxable portion of their refund to another qualified retirement plan or to an Individual Retirement Account (IRA). Such rollovers must be approved in advance by the MFPRSI. The contributions being withdrawn are credited with an annualized simple interest rate determined by the Board, currently set at 5%.

Vesting

If the employment of a member is terminated (other than by death or disability) before age 55, or after age 55 but with less than twenty-two years of service, and the member has at least four years of service, the member is entitled to a vested service retirement upon reaching age 55 that is a fraction of the pension the member would have received under a regular service retirement.

Optional Forms of Payment

On July 1, 1993, the System initiated a new program for those retiring under a service or vested retirement. Members retiring under these two benefit provisions have the opportunity to select either the “basic benefit” as provided by Chapter 411, or one of six optional forms of benefit. Each of the optional forms are based on the member’s average monthly compensation and number of years of service. From this basis, the options are calculated using actuarial tables which were developed to consider the age of the member at retirement, the age of the member’s beneficiary, and the assumed life expectancy of both. An explanation of each option is listed below:

Straight Life Annuity – An actuarially adjusted benefit is payable to the member for their lifetime. At the member’s death, no further benefits are payable.

Single Life Annuity with 10 Years Certain – The member receives an actuarially adjusted benefit for their lifetime. In the event of the member’s death within the first ten years of retirement, the beneficiary receives the remainder of the payments until the completion of the ten years or the death of the beneficiary. If the member survives ten years, no further payments are due upon the member’s death. If the beneficiary pre-deceases the member, the benefit ends with the death of the member. If the member and beneficiary die before ten years of payments are made, the balance of payments are made to the estate.

Joint and 100% Survivor Annuity – The member receives an actuarially adjusted benefit for their lifetime, and, upon their death, the named beneficiary receives the same amount for their lifetime. Upon the death of the beneficiary, the benefit ends. If the beneficiary pre-deceases the member, the benefit ends with the death of the member.

Joint and 50% Survivor Annuity – The member receives an actuarially adjusted benefit for their lifetime, and, upon their death, the named beneficiary receives half of the amount of the member’s benefit at the time of the member’s death for their lifetime. Upon the death of the beneficiary, the benefit ends. If the beneficiary dies before the member, the benefit ends with the member’s death.

Single Life Annuity with Designated Lump Sum – The member receives an actuarially adjusted benefit for their lifetime. Upon the death of the member, a pre-designated lump sum is paid to the named beneficiary and the benefit ends. If the beneficiary pre-deceases the member, the lump sum is paid to the member's estate.

Joint and 75% Survivor Annuity – The member receives an actuarially adjusted benefit for their lifetime, and, upon their death, the named beneficiary receives 75% of the amount of the member's benefit at the time of the member's death for their lifetime. Upon the death of the beneficiary, the benefit ends. If the beneficiary dies before the member, the benefit ends with the member's death.

Examples of Benefit Computations

(Using Average Monthly Compensation of \$2,236.94)

Service Retirement

Percentage: 66% (base) to 82% (maximum service credits)
Benefit Amount: $\$2,236.94 \times 66\% = \$1,476.38$ (base)
 $\$2,236.94 \times 82.0\% = \$1,834.29$ (maximum)

Optional Forms of Payment:

Variables: Member Age = 55; Beneficiary Age = 54; Lump Sum = \$100,000

Basic Benefit:	\$1,476.38	Joint & 50% Survivor:	\$1,476.38
Single Life Annuity with 10 Years Certain:	\$1,598.89	Single Life Annuity with Lump Sum:	\$1,409.85
Joint & 100% Survivor:	\$1,341.72	Joint & 75% Survivor	\$1,405.77
Straight Life Annuity:	\$1,642.25		

Accidental Disability

Percentage: 60% (base) to 82% (maximum service credits)
Benefit Amount: $\$2,236.94 \times 60\% = \$1,342.16$ (base)
 $\$2,236.94 \times 82.0\% = \$1,834.29$

Ordinary Disability

Percentage: 50% (more than 5 years), 25% (if less than 5 years), or 82% (maximum service credits)
Benefit Amount: $\$2,236.94 \times 50\% = \$1,118.47$
 $\$2,236.94 \times 25\% = \559.24
 $\$2,236.94 \times 82\% = \$1,834.29$

Accidental/Ordinary Death

Percentage: 50% (Accidental) or 40% (Ordinary)
Benefit Amount: $\$2,236.94 \times 50\% = \$1,118.47$ (Accidental)
 $\$2,236.94 \times 40\% = \894.78 (Ordinary)

Death after Retirement (Spousal and Dependent Benefit)

Percentage (Spousal): 50% of member's gross monthly benefit
Member Gross Monthly Benefit: \$1,476.38
Benefit Amount: $\$1,476.38 \times 50\% = \738.19

Percentage (Dependent): 6% of earnable compensation of highest paid in rank of police officer or fire fighter (whichever is applicable)

Earnable Compensation: \$2,236.94
Benefit Amount: $\$2,236.94 \times 6\% = \134.22

Statistical Summaries

Membership Data

The following table provides a profile of the current membership of the System:

MEMBERSHIP PROFILE

(July 1, 2001)

Active Members:

• Number	3,789
• Average age	39.9
• Average past service	13.3
• Annual participating payroll	
~ Total	\$166,087,647
~ Average	\$43,834

Non-Active Members with Deferred Benefits:

• Number	238
• Average age	45.3
• Annual benefits	
~ Total	\$3,102,822
~ Average	\$13,037

Non-Active Members in Pay Status:

• Number	3,170
• Average age	66.9
• Annual benefits	
~ Total	\$62,645,095
~ Average	\$19,762

Membership Data, continued

The membership of the MFPRSI includes fire fighters and police officers from the largest cities within the state of Iowa. The forty-nine cities and one public entity, whose fire and/or police personnel are covered by Chapter 411 of the Iowa Code, are as follows (*italics denotes police department only*):

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

Membership Data, continued

The following table reflects a statistical history of the benefit, disability, beneficiary, and refund activity of the System since its inception on January 1, 1992.

MEMBERSHIP ACTIVITY

Type	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	Total
MEMBERS											
Service Retirement	8	51	82	90	92	48	32	89	31	92	615
Disability Retirements											
Accidental granted	28	25	17	34	39	43	32	38	37	51	344
Ordinary granted	6	3	2	5	14	10	10	4	9	7	70
Denied	3	3	6	9	2	6	2	4	4	1	40
Vested into Pay Status	5	9	5	11	3	8	10	6	8	12	77
BENEFICIARIES											
Service Retirements	9	18	25	29	23	25	21	25	38	17	230
Disability Retirements											
Accidental	10	20	9	10	10	9	23	9	13	6	119
Ordinary	2	4	2	1	4	4	1	4	2	5	29
Vested into Pay Status	1	3	1	2	2	2	2	2	4	4	23
Accidental Death	1	3	0	2	3	1	1	1	4	2	18
Ordinary Death	1	2	0	3	3	0	3	2	0	1	15
Dependents	8	13	3	10	2	3	3	5	14	9	70
SUBTOTAL	82	154	152	206	197	159	140	189	164	207	1650
Marital Property Orders											261
Child Support Orders											22
IRS Levys											11
Disability Re-examinations	1	1	2	7	3	5	4	4	9	3	39
Refunds	21	43	44	57	47	45	69	65	58	57	506
TOTAL ACTIVITY	104	198	198	270	247	209	213	258	231	267	2489

Contributions to the Plan

The financing of the System is derived from the payment of funds in the form of regular contributions from the membership and the cities and from the growth of invested funds.

Members' Rate of Contribution

Member contributions to the System are based on a percentage of earnable compensation as defined in Chapter 411 of the Iowa Code, and further defined in the Administrative Rules of the System. To establish compliance with the Federal Older Workers Benefit Protection Act, the contribution rate for all active membership was statutorily adjusted to 9.35%, in 1986.

Cities' Rate of Contribution

Contributions to the System by the member cities are based on an annual actuarial valuation of the accrued liabilities and assets of the System and the amount needed to fund future benefit accruals of the membership. The contribution rate for the cities is discussed in the Actuarial sections of this report.

Funds from the State of Iowa

The Board and Administration of the System have actively sought re-establishment of the full contributions from the State of Iowa and repayment of the under-funding over the last four fiscal years. The State has been providing \$2,942,724.00 per year toward its commitment (enacted by 1976 legislation).

Investment Report

Investment Performance

The performance of the retirement System’s composite portfolio and that of the individual manager portfolios is periodically reviewed by the Board of Trustees and Administration.

An investment consulting firm, Rogers Casey, submits a report to the System each quarter and provides technical information and investment advisory services to the Board and Administration. At least annually, the Board reviews the investment policy of the System and implements changes to the strategic and tactical policies of the investment program.

The performance of the System’s portfolio from the inception of the fund through the latest fiscal year is reported on the following chart:

“Investment Performance”

	Fiscal Year Ending 6/30/01	Inception to Date Annualized*	Inception to Date Cumulative*
Total Fund	(5.26%)	9.10%	128.74%
Target Actuarial Assumed Rate of Growth	7.5%	7.5%	98.78%

[* Inception to Date: January 1, 1992 – June 30, 2001]

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

Investment Policy

(from “Statement of Investment Policy and Objectives”)

I. DESCRIPTION OF SYSTEM

The Municipal Fire and Police Retirement System of Iowa (the “System”) is a statewide retirement system for fire-fighters and police officer personnel employed in Iowa’s largest cities.

Pursuant to the State of Iowa Code Section 411.7 (as amended by Chapter 1240, Act of the 1990 Iowa General Assembly), effective January 1, 1992, the retirement System consolidated eighty-seven local retirement systems previously administered in forty-nine cities.

Permanent, full-time firefighters and police officers in the participating cities are automatically System members (“Participants”). Participants are vested upon attaining four years of membership service under the System.

The System is a defined benefit plan, maintained to provide income to employees upon their retirement. The System also provides benefits in the event of an employee’s death or disability, or in the event of a vested employee’s termination of employment prior to normal retirement. The System’s fiscal year runs from July 1 through June 30.

II. A. STATEMENT OF PURPOSE

The “Statement of Investment Objectives and Policies” (the “Statement”) is intended to:

- A. Delineate the investment related responsibilities of the Board of Trustees, the Administration, and the providers of investment services which the System retains to manage the System’s assets.
- B. Establish formal yet flexible investment guidelines which incorporate prudent asset allocation and realistic total return goals.
- C. Provide a framework for ongoing communication between the Board of Trustees, the Administration of the System and the System’s providers of investment services.
- D. Create standards of investment performance that are reasonable, consistent with the goals of the Board of Trustees, and by which the investment managers agree to be measured over time.

It is anticipated that this Statement will be reviewed annually by the Board of Trustees to insure the relevance of its contents to investment market conditions and System needs.

II. B. INVESTMENT GOALS & STRATEGIC ASSUMPTIONS

1) INVESTMENT GOALS

The investment activities of the System are designed to meet the ongoing funding requirements of the benefit plans with which it is charged under Iowa Code Chapter 411.

The comprehensive goals of the investment program are as follows:

- Meet the ongoing financial needs of the benefit plan as defined by the System's actuary, consistent with conservative actuarial policies.
- Create the opportunity for periodic consideration (targeted at every 2 – 5 years) of benefit program enhancements and contribution rate levels, contingent upon the availability of favorable returns in the various capital markets.

Additional goals for the retirement system's investment program are as follows:

- To implement the requirements of the program as delineated within this "Statement of Investment Policies and Objectives".
- To provide for an investment program which shall serve the best interests of the members and beneficiaries of the System and which are reflective of the financial capabilities of their employers.
- To provide for a return on investment that, when combined with the periodic contributions of the membership and their employers, will meet the funding needs of the benefit plans.
- To meet or exceed the actuarial interest rate assumption as established by the Board of Trustees, over extended periods.
- To meet or surpass the performance expectations established for the portfolios as described in this document.
- To provide for the establishment of relationships with investment management firms and consultants which further the achievement of the System's financial purposes and which provide for the continuing refinement of a comprehensive investment program.

Obtaining specific performance goals in individual portfolios and in the various investment markets is contingent upon the continuing growth of the capital markets. Performance over specific periods will vary in concert with the economic conditions of the environments in which the assets are invested.

2) STRATEGIC ASSUMPTIONS

Certain basic assumptions concerning the investment markets are the foundation for the development of the System's investment policy.

- Over the long-term there is a distinct relationship between return and risk. Cash should be used for liquidity, bonds to provide income and reduce volatility of quarterly returns, stocks for long-term appreciation of assets above inflation, and real estate for diversification of risk.
- It is extremely difficult to “time the stock market.” Therefore, cash should be kept to a minimum and target allocations to stocks and bonds should be maintained within reasonable bands.
- Diversification into global markets, by investment style, and across the market capitalization spectrum (in stocks) is essential both to manage risk and to maintain exposure to the entire capital markets opportunity set for maximum return.
- The role of active portfolio management is to add incremental value relative to the diversification strategy of the plan. The “role of passive management” is to provide a core exposure in each of the various markets and to lower the overall costs of the management of the assets of the plan.
- Diversification of the plan may include consideration and potential implementation of portfolios involving additional asset classes, such as real estate, emerging markets, etc.

II. C. GENERAL INVESTMENT POLICIES

The following general investment policies of the System are intended to meet the System's investment goals and represent the resolution of the Board of Trustees, in accordance with the "Prudent Person" mandate of Iowa Code Chapters 411 and 97B.

1) ASSET ALLOCATION POLICIES

- a) "Asset Allocation Policy" – The System shall adopt and execute an asset allocation policy that is predicated on a number of factors, to include:
- The projected liability stream of benefits and their cost
 - The level of expected risk and of long term capital markets' performance
 - The historical performance of the capital markets
 - The view of future economic conditions, to include inflation and interest rates assumptions
 - The relationship between the current and projected assets of the plan and its actuarial requirements
 - The projected or expected changes in the level of financial support from its funding sources.

The policy will identify the classes of assets the System will utilize and the percentage they are intended to represent of the total fund. The policy is designed to provide for diversification of assets in an effort to enhance the investment return to the System consistent with market and economic risk. Additionally, this policy provides the framework for distribution of cash flows and establishes the projected rate of return and standard deviation of return. Section IV of this document delineates the "Asset Allocation Policy" as adopted by the Board of Trustees.

- b) "Operational Expectations" – The System will invest its resources in conformity with the asset allocation policy enumerated in Section IV. The System expects that compliance with the specific allocation targets will, due to the fluctuation of the capital markets, be difficult to exactly obtain. Therefore, the Systems shall be viewed to be in compliance with the Asset Allocation Policy if the range of weights for the overall equity and debt portfolios is maintained.

2) PERFORMANCE POLICIES

“General Performance Expectations” – The performance of the System’s investment program shall periodically be evaluated by and the Board of Trustees. The general long-term performance expectations for the composite fund are as follows:

- a) Performance which exceeds the rate of inflation as determined by the consumer price index (CPI)
- b) Performance which exceeds the assumed actuarial rate of interest
- c) Performance which reflects the target asset allocation and appropriate indices for the various asset categories.

3) RELATIONSHIP POLICIES:

- a) “Investment Manager Policies” – To achieve optimum performance results in concert with diversification of its assets the System selects and utilizes external investment managers to manage portions of its assets. The selection of the managers is accomplished through a Request for Proposal (RFP) process or Request for Information process (RFI) (see 3-h below). Each investment manager functions under a formal contract that delineates its responsibilities and the appropriate performance expectation. When appropriate, the System may compensate the external investment managers through the use of performance fees. Soft dollars generated through brokerage activity may, if authorized by the contract, be used to acquire investment research and analysis and to defray various administrative expenses. The System may determine to have a portion of its portfolio managed by the Administration of the System.
- b) “Manager Investment Discretion” – The investment managers under contract to the System shall have full discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document, applicable federal and state statutes and regulations, and the executed contracts.
- c) “Manager Brokerage Discretion” – The investment managers under contract to the System shall have discretion to establish and execute through accounts with one or more securities broker/dealer as the managers may select. The investment managers will attempt to obtain the “best available price and most favorable execution” with respect to portfolio transactions, unless such standard is not applicable in the applicable markets (foreign markets). At the direction of the System, selected portions of the manager’s transactions may be directed to specific brokers by the System’s Administration for the purpose of recapturing commissions for the System.

- d) “Manager Evaluation” – The external investment managers under contract with the System will meet with the Investment Committee and/or the Board of Trustees for the purpose of reviewing the investment activities of the individual portfolio, its performance under the contract, the investment strategy which governs its management and the market place in which it exists. The external investment managers are expected to meet periodically with the Administration at the Administration’s request. Such meetings may be conducted at the offices of the investment firms.
- e) “Short Term Investments” – Cash allocated for investment by the investment management firms is managed in accordance with the guidelines established in the contractual agreement with each firm. Said guidelines stipulate that the firms shall invest their cash primarily in the STIF account of the System’s custodial bank. Due to the fluid nature of the capital markets, cash allocation decisions shall be made by the Administration of the System consistent with the Board of Trustees asset allocation policy.
- f) “Investment Consultants” – The System may utilize the services of investment consultants for the purpose of performance review, asset allocation studies, manager selection screening and topical studies. The comments and recommendations of the consultant(s) will be considered in conjunction with other available information for the purpose of making an informed and prudent decision. The selection of the consultant(s) is accomplished through a Request for Proposal (RFP) process (see 3-h below). Each consultant shall function under a formal contract that delineates its responsibilities.
- g) “Custodial Bank” – The investment assets of the System shall be held in a custody/record keeping account in a master custody bank and in the international sub-custodian banks under contract to the custodian bank. The selection of the Custodial Bank is accomplished through a Request for Proposal (RFP) process (see 3-h below). The Custodial Bank shall function under a formal contract that delineates its responsibilities. The System authorizes the execution of a “Security Lending Program” which will be performed by the Custody Bank, under contract to the System.
- h) “Selection and Retention” – The System will normally utilize a competitive Request for Proposal (RFP) or Request for Information process to select investment managers, consultants and the custodian bank. The contract with each of the firms shall provide for an ongoing relationship with the System and will establish definite service requirements for the firm. In selecting an individual firm through the RFP or RFI process, the System will evaluate, at a minimum, information relating to the following general categories:
- Organizational Structure & Relevant Experience
 - Investment Philosophy or Service Philosophy
 - Personnel & Staff Qualifications and Experience
 - Cost to the System

The contract with the firm will provide for the termination of the relationship at the System's discretion. Action to terminate a relationship with a firm will be based upon the firm's performance under the contract and may take into consideration up to date information relating to the above general categories.

4) ADMINISTRATIVE POLICIES

- a) "Proxy Voting" – Voting rights of the stocks of American corporations will be exercised by the System's Administration or, at its direction by selected managers, in the best interest of the System and in accordance with the applicable statutes. The custodial bank will forward all proxies to the Administration of the System or to the designated Manager. The Administration or the Managers will execute the voting of the proxies in accordance with the "prudent person" standard delineated in Iowa Code Chapter 97B. It is the general policy of the System to vote its shares against measures that would hinder or preclude the acquisition or takeover of a corporation or company where a takeover or acquisition may be beneficial to the long-term earnings of the fund. Additionally, it is the general policy of the System to abstain from voting its shares on social issues, except where the voting of said proxy may serve to further the safety of the membership of the System, if consistent with the execution of the System's fiduciary responsibility. Issues arising in the proxy process may include:

- Election of directors, including the number and terms of office, attendance and the number of meetings held
- Selection and ratification of auditors
- Stock splits, dividend and fractional share issues
- Application for listing of securities
- Corporate name changes
- Remuneration of management, directors and employees, including ratification of employee stock option plans
- Employment issues
- Cumulative voting issues

- Fees paid to auditors or consultants.
 - Date or location of annual meetings.
 - Contributions to charities or educational institutions.
 - All other items which are not expected to have a material adverse effect on the price of the security or which would not substantially affect the rights or privileges of the security.
 - Acquisitions, mergers and divestitures.
 - Significant changes in the company's articles of incorporation or by-laws, such as anti-takeover provisions, "poison pills" or "rights" issues.
 - Increases in the number of authorized shares.
 - Business abroad.
- b) "Education and Due Diligence" – To maintain and strengthen the investment management of the System, the members of the Board of Trustees and the Administration may, when appropriate:
- 1) Participate in conferences/seminars related to the investment activities of public and private institutional investors and participate in the meetings of organizations of which the System is a member,
 - 2) Meet periodically with the System's investment managers at the home office of each firm to perform a review and to clarify investment or administrative issues related to the management of the portfolio,
 - 3) Participate in the investors meetings conducted by the various managers of the System's assets, and
 - 4) Conduct due diligence visits to ascertain the acceptability of a firm or firms under consideration for management of the System's assets.
- c) "Organizations" – To maintain and strengthen the investment management of the System, the retirement System shall join national organizations related to institutional management, finance, and education.

III. RESPONSIBILITIES

1) BOARD OF TRUSTEES

The Board of Trustees acknowledge their responsibility as fiduciaries of the System. In the management and administration of the invested assets (the “Funds”) that comprise the System, the Board of Trustees strives to act prudently and for the best long-term interest of the System and the membership.

The Board will periodically review the progress of the System in achieving its investment objectives, on the compliance with the policies and guidelines as outlined in this Statement, and on other matters, as appropriate. The Board of Trustees’ shall, as an Investment Committee of the whole, or periodically through an AD-HOC Investment Committee appointed to represent the Board, perform the following:

- a) Ensure that the contributions to the System and the proceeds from the investments are used in accordance with the objectives of the System.
- b) Evaluate and select an independent investment consultant, if deemed necessary, to assist the Board of Trustees in forming investment objectives and policies, allocating assets, selecting investment vehicles and Managers, monitoring performance, and considering other appropriate issues as they may occur.
- c) Develop investment objectives, guidelines and performance standards which are consistent with the risk, return, and policy parameters of each investment component.
- d) Evaluate and select investment managers, pooled funds, mutual funds, or other appropriate investment vehicles for each investment component of the portfolio.
- e) Communicate the investment objectives, guidelines and standards (including any material changes that may occur) to the investment managers or responsible representatives of the selected investment alternatives of the Funds.
- f) Review and evaluate results of each investment component in context with established standards of performance.
- g) Take or direct the taking of appropriate action as deemed prudent and appropriate if investment results are below expectations or if prevailing conditions warrant.
- h) Ensure the compliance with the provisions and reporting requirements of pertinent federal, state, and local regulations and rulings.
- i) Oversee the allocation of the State, City and membership contributions.

2) INVESTMENT CONSULTANT

The Investment Consultant(s), in recognition of their role as a fiduciary of the System, shall perform the following:

- a) Support the development of the “Statement of Investment Policies and Objectives” which identifies the various policy issues affecting the System’s investment of assets.
- b) Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards, based upon material and sustained changes in the capital markets.
- c) Make recommendations, with supporting materials, as to the appropriate portfolio weights among the various major asset classes (stocks, bonds, cash) within the Funds.
- d) Assist the Board of Trustees in the conduct of manager selections by:
 - Identifying and screening candidates for appropriate portfolio and organizational characteristics;
 - Performance of due diligence reviews and evaluations;
 - Quantifying of the trade-off between expected returns and risks among various investment alternatives; and
 - Functioning as an information gathering agent.
- e) Perform a quarterly performance evaluation of the System’s portfolios and their components and provide a written report to the Board of Trustees following the end of each quarter. The written report will cover four basic areas:
 - Returns – Total time-weighted rates of returns.
 - Comparisons – Returns will be compared to appropriate benchmark indices and a universe of similar funds.
 - Diagnostics – Measurement of risk-adjusted performance, analysis of risks, style characteristics, and return attribution.
 - Compliance – Manager’s compliance with the requirements of the individual contracts.

f) Participate in periodic review meetings with the Board of Trustees and/or the administration to evaluate and assess the performance and quality of the individual managers. The purpose of such meetings will be to provide:

- A review and re-appraisal of the investment program.
- A commentary on investment results in light of the appropriate standards of performance.
- A discussion of any key policy issues.
- Any other matters as deemed appropriate by the Board of Trustees or the administration.

3) ADMINISTRATION

The Administration shall perform the following on behalf of the Board of Trustees:

- a) Coordinate the development of the “Statement of Investment Policies and Objectives” which identifies the various policy issues affecting the System’s investment of assets.
- b) Make recommendations concerning changes in the objectives, or guidelines, or standards, based upon material and sustained changes in the capital markets.
- c) Administer the various policies delineated by this document to include the development of the asset allocation policy. Execute decisions made by the Board of Trustees concerning the investment program.
- d) Participate in periodic review meetings with the Board of Trustees to evaluate and assess the performance and quality of the individual managers. Periodically, meet with individual investment managers, the custodian bank, and consultants to assess the quality of the services being provided to the System.
- e) Establish contracts with the support of the System’s legal counsel with investment managers, consultants and the custodian bank.
- f) Vote the shares of the System’s equity assets through the proxy process in consideration of its economic interests or direct the managers to vote the proxies of the System.
- g) Upon authorization of the Board of Trustees and the establishment of specific guidelines, manage a portion of the System’s assets.

4) INVESTMENT MANAGERS

The investment managers, in recognition of their role as fiduciaries of the System, shall assume the following responsibilities as they pertain to:

- a) Legally commit to invest the System's funds in accordance with the objectives, guidelines and standards delineated in the contractual document established between the System and the investment firm.
- b) Exercise full discretionary authority as to all buy, hold, and sell decisions for each asset under the firm's management, subject to the requirements of the contract.
- c) Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards, contained within the contract, based upon material and sustained changes in the capital markets.
- d) Produce a statement for the System at the end of each month describing the portfolio asset class weights, individual security positions showing both cost and market value, and all principal cash transactions, including all buys and sells in sufficient descriptive detail. For commingled assets, this statement should show unit position and unit value.
- e) At the request of the System, participate in periodic review meetings with any or all of the following: the Board of Trustees, the System's administration, or the System's Consultant. The subjects to be discussed shall include:
 - A review of the activities of the manager pertaining to the individual portfolio and commentary upon the specifics of the investment strategy.
 - A commentary on investment results in light of the appropriate standards of performance.
 - A synopsis of the key investment decisions made by the Manager, the underlying rationale, and how those decisions could affect future results.
 - A discussion of the Manager's outlook, what specific investment decisions this outlook may trigger and how these decisions could affect future results.

- f) Provide frequent and open communication with the System on all material matters pertaining to investment policies and the management of the System's assets. In particular, the investment managers will:
- Provide notice of any material changes in their investment outlook, strategy, and portfolio structure.
 - Notify the System of material changes in the investment firm's ownership, organizational structure, financial condition, senior staffing and management.
 - Provide a copy to the System of each Manager's periodic S.E.C. Form ADV filing and of any other documents required by the contract with the System.
- g) The investment managers will use their best judgment to obtain brokerage services based upon consideration of the objectives of the best execution of trades and the lowest cost to the System. The System may direct the investment manager to direct a reasonable amount of brokerage fees to particular brokerage firms in payment for certain third-party services as may be determined to be needed by the System.
- h) The investment managers shall, upon request from the Administration, provide information concerning individual proxy issues. Issues arising in the proxy process may include both routine and non-routine matters.

5) CUSTODIAN BANK

The Custodian Bank, in recognition of its role as a fiduciary of the System, shall assume the following responsibilities as they pertain to:

- a) Hold all System deposits in the appropriate accounts, and provide highly secure storage of stock certificates and bonds, such that there is essentially no risk of loss due to theft, fire, or accident.
- b) Arrange for timely and business-like settlement of all purchases and sales made for the System. Transactions shall be on a “delivery versus payment” basis unless dictated by the requirements of the markets in which the transactions are conducted. The Bank shall act to insure the safety of the assets in the markets in which the transactions are conducted.
- c) Provide for receipt and prompt crediting of all dividend and interest payments received as a result of the System’s holdings. Monitor income receipts to ensure that income is received when due and institute investigative process to track and correct late or insufficient payments, including reimbursement interest lost due to tardiness or shortfall.
- d) Sweep excess cash daily into an interest bearing account featuring a high degree of safety of principal and liquidity.
- e) Provide monthly reports showing individual asset holdings with sufficient descriptive detail to include units, unit price, cost, market value, CUSIP number (where available), and any other information requested by the System. Principal cash transactions, including dividends and interest received, deposits and withdrawals, securities purchased, sold, and matured, and fee payments will also be listed.
- f) At the direction of the Executive Secretary (Executive Director) or their appointed representative, transfer funds into and out of specified accounts.
- g) The Custodian Bank will promptly forward all proxy materials received to the Administration of the System or at the Administration’s direction, to the appropriate investment manager for execution.

IV. ASSET ALLOCATION

A. ASSET ALLOCATION

The asset allocation policy (targets and ranges) shall be as follows:

“ASSET ALLOCATION POLICY”					
	CORE	STRATEGIC	BASE	RANGES	
	PORTFOLIO POLICY	PORTFOLIO POLICY	ALLOCATION POLICY	MINIMUM	MAXIMUM
(Percentages) of Fund	60	40	100		
Equity Target	60	65	62	54.20	70.69
Debt Target	40	35	38	29.31	45.80
Performance Expectations	9.04	9.36	9.17		
Standard Deviation (expected volatility)	10.22	10.26	10.23		

ALLOCATION POLICY DETAIL		
	CORE PORTFOLIO	STRATEGIC PORTFOLIO
	%	%
<u>Equities</u>		
U.S. Stocks	30.80	30.80
International Stocks	21.70	21.70
Emerging Markets	2.50	5.00
Real Estate	<u>5.00</u>	<u>7.50</u>
Total Equity	60.00	65.00
<u>Debt</u>		
Domestic Fixed Income	24.30	19.30
International Fixed Income	15.70	15.70
Cash	<u>0.00</u>	<u>0.00</u>
Total Debt	40.00	35.00

Caveats:

- 1) In the absence of suitable opportunities within a specific market, the funds shall be directed to the other components within the debt or equity category. Due to the fluctuation of market values, positioning within a range shall constitute compliance with the policy. The acceptable range is identified for each major component of assets.

- 2) A review of the allocation policy shall occur periodically to allow the Board of Trustees to consider the impact of any changes in market conditions or of the expectations for the retirement system.

B. PORTFOLIO DEFINITIONS

The individual portfolios are established through contracts with the investment management firms selected to manage the assets of the System. The definition of each portfolio is described in Exhibit A to this document. Refinements and additions to the portfolios and to the applicable definitions will be performed as the investment program is reviewed periodically by the Board of Trustees.

C. PORTFOLIO ADJUSTMENTS

The System will allocate cash flows to establish the portfolios consistent with the target allocation for each portfolio type. Periodically, the Board of Trustees will examine the weights of each portfolio relative to the targets and to the ranges established by the Asset Allocation policy. The System may act to adjust the size of individual portfolios through the withdrawal of funds from individual portfolios and the reallocation to under-weighted portfolios or may rely upon the commitment of future cash flow to increase the size of individual portfolios.

V. ASSET GUIDELINES

The assets to be held in each portfolio shall be delineated in the contract to be established with the individual investment management firm. The requirements for the individual manager's shall be consistent with the general policies described, as follows:

A. STOCKS AND BONDS (DOMESTIC, INTERNATIONAL & EMERGING MARKETS)

The stock and bond holdings of the System may include:

- 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 or commingled funds which are comprised of stocks 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, which shall be utilized as an alternative to a stock or bond position, as specified.

B. OTHER ASSET CLASSES

The currency position of the system shall include the currency of a group of selected nations which have well established and stable economic and political structures. Currency positions will be 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 shall be represented within the individual portfolios of the investment managers which have mandates which include international bond or stocks. The benchmark against which these managers run the portfolios shall include a fifty percent hedged position to the U. S. dollar for the international portions of the mandates.

C. DERIVATIVE INSTRUMENTS

Derivative instruments, such as futures and options, may be utilized in selected portfolio 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: which include futures and options.

D. 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).

VI. INVESTMENT OBJECTIVE & PERFORMANCE STANDARDS

The primary objective of the System is to pay benefits when and as they come due. The assets of the System will be actively invested to achieve growth of capital through appreciation of securities and through the accumulation and reinvestment of dividend and interest income. The performance standards for the System's portfolios are developed consistent with those commonly found to be applicable to large institutional investors of a similar nature to the System.

A. TIME HORIZON

Progress of the System, its Funds and their components against their return objectives will typically be measured over a full market cycle. Market cycles may differ markedly in length, and there is no standardized measure for a market cycle's term. For the System's purposes, a full market cycle encompass both a down leg and an up leg, in either order. The up or down portions each will be of at least two consecutive quarters in length. Thus, a full market cycle may be as short as one year, though generally market cycles are expected to last from three to five years.

The above described concept does not preempt the periodic review and evaluation of the activities and performance of individual investment managers over a period of time that is of longer or shorter duration than a market cycle. The Board of Trustees reserves to itself the right to take action relative to individual managers or to the portfolio as a whole without regard to the above described concept.

B. RETURN OBJECTIVE

Over a full Market Cycle, the assets of the System will be invested in a diversified manner which has as its performance objective a return of 9.17% with an annualized rate of inflation of 3.5 % and a Standard Deviation of 10.23%.

C. STATISTICAL COMPARISON

The total returns on each asset class, equity and fixed income manager, and the total investment portfolios will be compared to the appropriate index for the market in which they invest and/or to the interest rate assumption of the retirement System.

EXHIBIT A - DEFINITIONS & DESCRIPTIONS OF PORTFOLIOS

The System shall utilize both index fund management and active portfolio management for investment of the portfolio:

"INDEX MANAGEMENT":

A series of portfolios which are intended to emulate the performance of specific indices which are representative of all or a portion of a specific capital market or markets. The portfolios will be fully invested except during periods of re-balancing.

"ACTIVE MANAGEMENT"

A series of portfolios which are actively managed by individual investment management firms with the intent of achieving performance which surpasses that of the capital market(s) in which they are invested, as measured by relevant market(s) indices or composite benchmarks.

"PORTFOLIO DESCRIPTIONS"

CORE PORTFOLIOS - DOMESTIC INDEX STOCK FUNDS ("INDEX MANAGEMENT")

STATE STREET GLOBAL ADVISERS (BOSTON)

- Russell 1000 & 2000 Equity (stock) Index Funds
- Shearson Lehman Aggregate Domestic Fixed Income Fund

CORE ACTIVELY MANAGED INTERNATIONAL BALANCED PORTFOLIOS

LOMBARD ODIER INTERNATIONAL PORTFOLIO MANAGEMENT LIMITED

A diversified portfolio comprised of fixed income, equity and cash which is invested in securities of recognized markets with the intent to out-perform a composite index which is weighted sixty percent to equity and forty percent to fixed income. The portfolio shall not be invested in emerging markets. [Effective August 1, 1999, the international component of the portfolio benchmark is re-weighted to a fifty percent hedged position to the U.S. dollar.]

DELAWARE INTERNATIONAL ADVISERS, LTD (LONDON)

A diversified portfolio comprised of fixed income, equity and cash which is invested in securities of recognized markets with the intent to out-perform a composite index which is weighted sixty percent to equity and forty percent to fixed income. The portfolio shall not be invested in emerging markets. [Effective August 1, 1999, the international component of the portfolio benchmark is re-weighted to a fifty percent hedged position to the U.S. dollar.]

CORE ACTIVELY MANAGED EMERGING MARKET PORTFOLIO (INTERNATIONAL)

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT INC

A diversified Portfolio of emerging markets securities, comprised of emerging country equity securities, bonds, notes and debentures, stock warrants and rights, equity interests in trusts and partnerships and American, global or other depository receipts, and cash investments.

CORE ACTIVE REAL ESTATE PORTFOLIO

J.P. MORGAN INVESTMENT MANAGEMENT, INC. (NEW YORK)

A diversified portfolio comprised of investments in non-leveraged and leveraged real estate properties, either directly through individual ownership, through participation in one or more commingled real estate property funds, or through the acquisition of REITs, either directly or through a fund.

*STRATEGIC (GLOBAL BALANCED) PORTFOLIOS
(U.S. Equity, International Equity, U.S. Fixed Income,
International Fixed Income, Emerging Markets, Real Estate)*

MORGAN STANLEY DEAN WITTER ASSET MANAGEMENT (NEW YORK)

A diversified portfolio comprised of fixed income, equity, emerging market equity and debt, real estate, and cash which is invested in securities of recognized markets with the intent to outperform a composite index which is weighted sixty-five percent to equity and thirty-five percent to fixed income. [Effective August 1, 1999, the international component of the portfolio benchmark is re-weighted to a fifty percent hedged position to the U.S. dollar.]

J.P. MORGAN INVESTMENT MANAGEMENT, INC. (NEW YORK)

A diversified portfolio comprised of fixed income, equity, emerging market equity and debt, real estate, and cash which is invested in securities of recognized markets with the intent to outperform a composite index which is weighted sixty-five percent to equity and thirty-five percent to fixed income. [Effective August 1, 1999, the international component of the portfolio benchmark is re-weighted to a fifty percent hedged position to the U.S. dollar.]

CASH and TRANSITION ASSETS

CUSTODIAL BANK - MELLON TRUST (BOSTON)

Cash and Short Term Investments - The cash portion of the Funds will be invested in a Short Term Investment Fund (“STIF”) administered by the Custodian Bank which emphasizes safety of principal, a Money Market Mutual Fund as evaluated and selected by the Custodian Bank or investment managers. Money held in the cash reserve shall be viewed as essentially with out risk.

Transition Assets - Selected assets transferred to the System as of the date of the consolidation which due to the market conditions, the maturity of the asset or the specific nature of the asset, have not been immediately liquidated by the System.

Actuarial Information

Actuarial Summary

An actuarial valuation of the Municipal Fire and Police Retirement System of Iowa was made as of July 1, 2001 based on the funding method mandated under Iowa Code Chapter 411.

As of July 1, 2001, the System covered 3,789 active employees with an annual payroll (earnable compensation) of \$166.1 million, and 3,408 inactive participants.

The required contribution rate for the Cities for the 2001-02 plan year has been certified by the Board of Trustees at the statutory minimum of 17.00% of covered payroll (earnable compensation). The contribution rate calculated by the actuary was determined to be 16.74% as shown on the following page.

The following table shows the required contribution rates for the Cities since the inception of the retirement System.

TABLE: CITIES REQUIRED CONTRIBUTION RATE

17.00% for the period 1/1/92 - 6/30/93 *

19.66% for the period 7/1/93 - 6/30/94

18.71% for the period 7/1/94 - 6/30/95

17.66% for the period 7/1/95 - 6/30/96

17.00% for the period 7/1/96 - 6/30/97*

17.00% for the period 7/1/97 - 6/30/98*

17.00% for the period 7/1/98 - 6/30/99*

17.00% for the period 7/1/99 - 6/30/00*

17.00% for the period 7/1/00 - 6/30/01*

17.00% for the period 7/1/01 - 6/30/02*

17.00% for the period 7/1/02 - 6/30/03*

* Rate certified at statutory minimum of 17.00%

The 2001 valuation is based on asset values as of June 30, 2001, participant census data as of July 1, 2001 and current system provisions.

All other system provisions and actuarial assumptions remained unchanged from the prior valuation.

Contribution Rate

The required contribution rate as determined by the System's actuary is developed below:

	July 1, 2001
1. Actuarial Present Value of all Future Benefits	
a. Active Members:	
• Service Retirement	634,046,868
• Ordinary Disability	74,342,237
• Accidental Disability	199,074,346
• Ordinary Death	23,065,811
• Accidental Death	25,374,584
• Withdrawal	<u>19,846,764</u>
• <u>Total Active</u>	975,750,610
b. Inactive Members:	
Members receiving benefits	745,512,070
• Deferred vested terminations	20,742,470
• Refund of member contributions due	<u>164,409</u>
• <u>Total Inactive</u>	766,418,949
c. <u>Total Present Value of Future Benefits</u>	1,742,169,559
2. Actuarial Value of Plan Assets	1,262,325,433
3. Actuarial Present Value of Future Member Contributions	161,049,434
4. Present Value of Unfunded Future Benefits (1) – (2) – (3)	318,794,692
5. Present value of future payroll of all covered members	1,722,453,837
6. Total (Cities plus State) normal Contribution Rate (4)/(5)	18.51%
7. Covered Payroll	166,018,043
8. Preliminary total contribution from Cities and State (6) x (7)	30,729,940
9. Estimated State Contribution	2,943,000
10. Estimated State Contribution as a percent of payroll: (9)/(7)	1.77%
11. Preliminary Cities' Contribution (8) – (9)	27,786,940
12. Cities' Contribution as a Percent of Covered Payroll (11)/(7)	16.74%
13. Minimum required contribution rate for Cities	17.00%
14. Cities' contribution (Greater of 12 or 13) x (7)	28,223,067

Actuarial Present Value of Accrued Benefits

A comparison of market value of assets with the actuarial present value of accumulated plan benefits provides one measure of the funded status of the System. The actuarial present value of accumulated plan benefits consists of the liability for pension and ancillary benefits that have been earned on the basis of each participant's salary and service history as of the valuation date. These values under the current assumptions as of the current valuation date are shown below along with funded percentage (the market value of assets divided by the actuarial present value of accumulated plan benefits).

	July 1, 2001
1. Present value of vested accrued benefits	
a. Present value of vested accrued benefits for active members	426,469,502
b. Present value of benefits for terminated members	20,906,879
c. Present value of benefits being paid to retirees and beneficiaries	<u>745,512,070</u>
Total	1,192,888,451
2. Present value of accrued non-vested benefits	<u>81,519,995</u>
3. Present value of all accrued benefits (1) + (2)	1,274,408,446
4. Market value of assets	1,155,055,872
5. Ratio of market value of assets to the present value of all accrued benefits (4) / (3)	91%
6. Ratio of market value of assets to the present value of vested accrued benefits (4) / (1)	97%

Actuarial Cost Method

The Aggregate Actuarial Cost method was used to determine recommended contributions. Using this method, the present value of benefits to be funded by future contributions is determined by subtracting the actuarial value of plan assets and the actuarial present value of future member contributions from the present value of projected benefits. This result, the present value of unfunded future benefits, is divided by the present value of future salaries of active members included in the valuation to determine a normal cost accrual rate. The normal cost accrual rate is multiplied by the total of current annual salaries of members in the valuation to determine the recommended contribution.

Using the aggregate method, gains and losses that arise due to actual experience are not directly determined and recognized each year. Gains and losses are included in the present value of unfunded future benefits and affect the normal cost accrual rate. As a result, gains and losses are spread over the remaining period to retirement members in the valuation and are recognized as a portion of future annual contributions.

Funded Status

Measurements used to evaluate the funding status of the system are based on procedures set forth by GASB (Government Accounting Standards Board). In an effort to enhance the understandability and usefulness of the pension information that is included in the financial reports of pension plans for state and local governments, GASB has issued Statement No. 25—Financial Reporting for Defined Benefit Pension Plans.

GASB Statement No. 25 establishes a financial reporting framework for defined benefit plans. In addition to two required statements regarding plan assets, the statement requires two schedules, the Schedule of Funding Progress and Schedule of Employer contributions, and accompanying notes disclosing information relative to the funded status of the plan and historical contribution patterns.

- The Schedule of Funding Progress is not required for systems which use the Aggregate Method to determine the Annual Required contribution (ARC). Since the Retirement System uses the Aggregate Method to determine the ARC, this schedule has not been developed.
- The Schedule of Employer Contributions provides historical information about the Annual Required Contribution (ARC) and the percentage of the ARC that was actually contributed. For the Retirement System, the ARC is equal to the normal contribution rate before any adjustment for minimum contribution rates or state contributions, multiplied by the covered payroll for the year or \$30,729,940 for 2001.