



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE April 12, 2005

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Auditor of State David A. Vaudt today released an audit report on the Peace Officers' Retirement, Accident and Disability System for the year ended June 30, 2004. The System provides retirement, disability and death benefits to the peace officers of the Iowa Department of Public Safety and their dependents. The System covered 1,082 active and retired peace officers in fiscal year 2004.

The System's net assets held in trust for pension benefits totaled \$242,279,998 at June 30, 2004. Additions included employer contributions of \$5,502,718, member contributions of \$3,026,103 and net investment income of \$33,154,305. Deductions for the fiscal year totaled \$14,857,619, primarily for pension and annuity benefits.

The System's unfunded actuarial accrued liability increased approximately \$34,983,000 during fiscal year 2004, from \$59,655,000 at June 30, 2003 to \$94,638,000 at June 30, 2004, due primarily to a lower than expected rate of return on the actuarial value of assets. The unfunded actuarial accrued liability as a percentage of covered payroll increased from 181% for fiscal year 2003 to 291% for fiscal year 2004.

A copy of the audit report is available for review in the Office of Auditor of State.

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

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

JUNE 30, 2004

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

Officials

Name

Title

State

Honorable Thomas J. Vilsack
Cynthia P. Eisenhauer
Dennis C. Prouty

Governor
Director, Department of Management
Director, Legislative Services Agency

Board of Trustees

Commissioner Kevin W. Techau
Honorable Michael L. Fitzgerald
Terrance Lillis
Jack Wissler
Marland Winter

Chairperson
Member
Member (through June 30, 2004)
Member (through June 30, 2004)
Member (through June 30, 2005)

Agency

David R. Heuton

Director of Administrative Services,
Department of Public Safety

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



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Independent Auditor's Report

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

We have audited the accompanying statement of plan net assets of the Peace Officers' Retirement, Accident and Disability System (System) as of June 30, 2004, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Peace Officers' Retirement, Accident and Disability System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

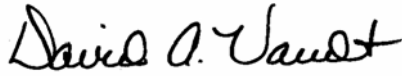
We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present the financial position and changes in financial position of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Peace Officers' Retirement, Accident and Disability System at June 30, 2004, and the changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis, the Schedule of Funding Progress and the Schedule of Employer Contributions on pages 7 through 9, 23 and 24 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2004 on our consideration of the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 17, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Peace Officers' Retirement, Accident and Disability System, also known as the Peace Officers' Retirement System or PORS, provides an overview of the retirement system's financial activities for the fiscal year ended June 30, 2004.

2004 FINANCIAL HIGHLIGHTS

- **Net plan assets** held in trust for pension benefits increased \$26,825,507 to \$242,279,998 at June 30, 2004, an increase of 12.5% over the prior year.
- **Covered payroll**, upon which member and employer pension contributions are calculated, decreased approximately \$500,000 in FY 2004. Member contributions in 2004 totaled \$3,026,103, a decrease of \$20,879, or .7%, from FY 2003. Employer contributions in FY 2004 totaled \$5,502,718, a decrease of \$37,398, or .7%, from FY 2003.
- **The annualized rate of return** was 16.43% for FY04 as compared to .74% for FY03.
- **Total additions** for FY04 were \$41,683,126, compared to total additions of \$9,510,481 for FY03.
- **Pension benefits** paid to members totaled \$14,742,141 in FY04, an increase of \$1,396,880 from FY03 when members were paid \$13,345,261.
- **Administrative expenses** for FY04 totaled \$108,459 compared to \$76,611 in administrative expenses for FY03.

USING THIS FINANCIAL REPORT

This Financial Report reflects the activities of PORS as reported in the Statement of Plan Net Assets and Statement of Changes in Plan Net Assets.

These statements are presented on an accrual basis and reflect all System activities as incurred. The Notes to Financial Statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

The required supplementary information following the notes to the financial statements provide historical and additional detailed information considered useful in evaluating the condition of the plan.

ANALYSIS OF PLAN NET ASSETS

Tables 1 and 2 on the page that follows provide condensed summaries of plan net assets and a breakdown of the changes to the plan net assets with comparisons to the previous fiscal year.

PORS total net assets on June 30, 2004 were \$242,279,998, an increase of \$26,825,807 from the previous fiscal year-end balance.

PLAN NET ASSETS**Table 1**

June 30	2004	2003	Increase (Decrease) Amount	Increase (Decrease) Percent
Cash and investments	\$ 273,332,115	256,746,272	16,585,843	6.5%
Receivables	<u>4,414,256</u>	<u>4,048,613</u>	<u>365,643</u>	9.0
Total assets	277,746,371	260,794,885	16,951,486	6.5
Total liabilities	<u>35,466,373</u>	<u>45,340,394</u>	<u>(9,874,021)</u>	(21.8)
Plan net assets	<u><u>\$ 242,279,998</u></u>	<u><u>215,454,491</u></u>	<u><u>26,825,507</u></u>	12.5

A large percentage of total assets (97%) at June 30, 2004 is made up of investments held to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. Other assets, including cash, cash equivalents and receivables, comprise less than 3% of total assets. Total assets at June 30, 2004 increased by \$16,951,486, or 6.5%, from the previous year.

Outstanding liabilities at the close of the 2004 fiscal year represent amounts owed for investment related transactions. Total liabilities at June 30, 2004 were \$35,466,373, a decrease of \$9,874,021, or 21.8%, from fiscal year 2003.

CHANGES IN PLAN NET ASSETS**Table 2**

Fiscal years ended June 30	2004	2003	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions:				
Member contributions	\$ 3,026,103	3,046,982	(20,879)	(0.7)%
Employer contributions	5,502,718	5,540,116	(37,398)	(0.7)
Net investment income	<u>33,154,305</u>	<u>923,383</u>	<u>32,230,922</u>	3,490.5
Total additions	<u>41,683,126</u>	<u>9,510,481</u>	<u>32,172,645</u>	338.3
Deductions:				
Annuity benefits	14,742,141	13,345,261	1,396,880	10.5
Administrative expenses and refunds	<u>115,478</u>	<u>84,284</u>	<u>31,194</u>	37.0
Total deductions	<u>14,857,619</u>	<u>13,429,545</u>	<u>1,428,074</u>	10.6
Increase (decrease) in plan net assets	<u><u>\$ 26,825,507</u></u>	<u><u>(3,919,064)</u></u>	<u><u>30,744,571</u></u>	784.5

The increase in plan net assets during fiscal year 2004 is due to the improvement in market conditions. There was an excess of benefits paid relative to contributions received, which is characteristic of a mature pension plan such as PORS. The Plan's annualized rate of return for the 2004 fiscal year was 16.43%. In fiscal year 2003, the annual rate of return was 0.74%.

The following table contains the fiscal year performance for each asset class, the targeted asset allocation and the Plan's actual asset allocation as of June 30, 2004.

Table 3

Asset Class	Rate of Return	Targeted Asset Allocation	Actual Asset Allocation
Passive large capital stocks	20.52%	25.00%	19.97%
Small capital stocks	40.32	15.00	22.07
Fixed income (bonds)	1.24	40.00	39.07
International equity	32.05	20.00	16.63
Cash	1.01	0.00	2.26
Total		<u>100.00%</u>	<u>100.00%</u>

CONTACTING SYSTEM FINANCIAL MANAGEMENT

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

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

Basic Financial Statements

Exhibit A

Peace Officers'
Retirement, Accident and Disability System

Statement of Plan Net Assets

June 30, 2004

Assets:		
Cash and cash equivalents		\$ 3,633,230
Receivables:		
Investments sold	\$ 3,059,681	
Contributions	291,288	
Accrued interest	1,033,690	
Dividends	<u>29,597</u>	4,414,256
Investments, at fair value:		
Fixed income	72,783,782	
Common stock	132,306,418	
Securities on loan with brokers	32,019,504	
Securities lending cash collateral pool	<u>32,589,181</u>	<u>269,698,885</u>
Total assets		<u>277,746,371</u>
Liabilities:		
Payables:		
Brokers rebate and collateral deposits	32,589,181	
Investments purchased	2,622,617	
Accounts	<u>254,575</u>	<u>35,466,373</u>
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 23.)		<u><u>\$242,279,998</u></u>

See notes to financial statements.

Peace Officers'
Retirement, Accident and Disability System

Statement of Changes in Plan Net Assets

Year ended June 30, 2004

Additions:	
Member contributions	\$ 3,026,103
Employer contributions	5,502,718
Investment income:	
Interest	\$ 5,742,949
Dividends	1,384,884
Net increase in fair value of investments	27,492,039
Less investment expense	<u>(1,465,567)</u>
Net investment income	<u>33,154,305</u>
Total additions	<u>41,683,126</u>
Deductions:	
Pension and annuity benefits	14,742,141
Administrative expenses	108,459
Refunds	<u>7,019</u>
Total deductions	<u>14,857,619</u>
Net increase in net assets held in trust for pension benefits	26,825,507
Net assets held in trust for pension benefits:	
Beginning of year	<u>215,454,491</u>
End of year	<u><u>\$ 242,279,998</u></u>

See notes to financial statements.

Peace Officers'
Retirement, Accident and Disability System

Notes to Financial Statements

June 30, 2004

(1) Plan Description

Plan Membership

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

	June 30,	
	2004	2003
Current retirees and beneficiaries	485	472
Terminated members with deferred benefits	31	26
Active plan members:		
Fully vested	534	502
Non-vested	32	98
Total	1,082	1,098

Plan Benefits

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

1. Service Retirement Benefits – A member may retire with a service allowance after completing twenty-two years of creditable service and attaining the minimum service retirement age of fifty-five. The retirement allowance consists of a pension equal to sixty and one-half percent of the member's average final compensation plus an additional two and three-fourths percent for each year of service over twenty-two years, not to exceed ten additional years, or a maximum of 88 percent. The member's average final compensation is the average earnable compensation of the member during the member's highest three years of service as a member of the Iowa Department of Public Safety.

2. Ordinary Disability Retirement Benefits – A member may retire on an ordinary disability retirement allowance, provided the medical board, after a medical examination of the member, has certified the member is mentally or physically incapacitated for further performance of duty and such incapacity is likely to be permanent and the member should be retired. The ordinary disability retirement allowance consists of a pension which is equal to fifty percent of the member's average final compensation, except if the member has not had five or more years of membership service. Then the member will receive a pension equal to twenty-five percent of the member's average final compensation. If the member has had twenty-two or more years of membership service, the member shall receive the greater of the benefit that would be payable under a service retirement if the member were fifty-five years of age or fifty percent of the member's average final compensation.

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

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

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

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

6. Line of Duty Death Benefit – Upon the receipt of evidence and proof the death of a member in service was the direct and proximate result of a traumatic personal injury incurred in the line of duty, the person authorized to receive an accidental death benefit will receive a lump sum payment equal to one hundred thousand dollars.

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

(2) Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Fund Accounting

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

C. Basis of Accounting

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

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

D. Cash and Cash Equivalents

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

E. Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Investments without an established market are reported at estimated fair value.

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

The System has no investment in any specific stock or bond issues of any commercial or industrial organization other than the U.S. government and its instrumentalities where market value exceeds five percent of the net assets held in trust for pension benefits. The System does not invest in obligations of the State of Iowa or its political subdivisions.

The System spent \$1,465,567 for investment management expenses, which was .60% of the market value of the net assets held in trust for pension benefits at June 30, 2004.

The System's investments are categorized to give an indication of the level of credit risk assumed by the System at year end. Category 1 includes registered securities held by the custodian in the System's name to facilitate trading.

The System's investments at June 30, 2004 are as follows:

Type	Cost	Fair Value
Investments – Category 1:		
Fixed income securities:		
U.S. government securities	\$ 50,839,429	50,489,608
Bonds and notes	22,164,999	22,294,174
Common stock	108,168,769	132,306,418
	<u>181,173,197</u>	<u>205,090,200</u>
Investments – Not Categorized:		
Investments held by broker-dealers under securities on loan for cash or cash collateral:		
U. S. government securities	20,784,372	20,641,357
Bonds and notes	813,486	818,227
Common stock	8,633,395	10,559,920
Securities lending cash collateral pool	<u>32,589,181</u>	<u>32,589,181</u>
	<u>62,820,434</u>	<u>64,608,685</u>
Total investments	<u>\$ 243,993,631</u>	<u>269,698,885</u>

The Board of Trustees has authorized a securities lending program in which the System's custodial bank is permitted to lend any of the securities it holds in custody for the System to broker-dealers and other entities in exchange for collateral. The custodian bank is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities or irrevocable letters of credit. A borrower is required to initially deliver collateral in an amount equal to 102 percent of the market value of any U.S. securities lent and 105 percent of the market value of any non-U.S. securities lent. Borrowers are required to provide additional collateral any time the value of the collateral drops below 100 percent of the value of the security lent plus accrued interest income. The System cannot pledge or sell collateral securities received unless the borrower defaults. Securities lent at year end for cash collateral are presented as unclassified in the schedule of custodial credit risk.

The contract with the custodial bank requires it to indemnify the System if a borrower fails to return the securities or fails to return all of the income attributable to securities on loan. As of June 30, 2004, the System had securities on loan, including accrued interest income, with a total value of \$32,019,504 against collateral with a total value of \$32,589,181.

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

(3) Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation to the Peace Officers' Retirement, Accident and Disability System for the current year were as follows:

Annual required contribution	\$ 9,446,823
Interest on net pension obligation	(1,216,369)
Adjustment to annual required contribution	<u>1,234,931</u>
Annual pension cost	9,465,385
Contributions made	<u>5,502,718</u>
Increase in net pension obligation	3,962,667
(Assets in excess of) net pension obligation beginning of year	<u>(15,204,612)</u>
(Assets in excess of) net pension obligation end of year	<u><u>\$ (11,241,945)</u></u>

For calculation of the net pension obligation, the actuary has set the transition date as July 1, 1995. The end of year net pension obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the System's actual contributions for fiscal years 1988 through 2004.

The annual required contribution for the current year was determined as part of the July 1, 2003 actuarial valuation using the aggregate actuarial cost method. This method does not identify or separately amortize unfunded actuarial liabilities. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 10% for the first year, 5% for each of the next 4 years and 5.5% thereafter, (c) payroll growth of 4% and (d) post retirement benefits based on expected payroll growth and provision of the law. The actuarial value of assets was determined using a smoothing method. Any unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2004 was 17 years.

Three-year trend information is as follows:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	(Assets in Excess) of Net Pension Obligation
2002	\$ 5,298,340	103%	(17,495,537)
2003	7,831,041	71	(15,204,612)
2004	9,465,385	58	(11,241,945)

(4) Contributions Required and Contributions Made

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

Member contribution rates are established by statute at 9.35 percent of covered payroll. However, the System shall increase the member's contribution rate as necessary to cover any increase in cost to the System resulting from statutory changes which are enacted by any session of the General Assembly meeting after January 1, 1991, if the increase cannot be absorbed within the contribution rates established, but subject to a maximum employee contribution rate of 11.3 percent. After the employee contribution reaches 11.3 percent, sixty percent of the additional cost of such statutory changes shall be paid by employers and forty percent of the additional cost shall be paid by employees. This is deducted from the member's salary and remitted by the employer.

The employer is obligated by statute to contribute 17 percent of covered payroll. Contribution provisions are established by State law and may be amended only by the State legislature. The State of Iowa has historically followed a contribution policy of appropriating funds based upon a percentage of the current salaries for which funds are appropriated.

The member contribution required and contributed was \$3,026,103 representing 9.35 percent of current year covered payroll. The State contribution required by statute was \$5,502,718 and the amount actually contributed was \$5,502,718. Costs of administering the plan are financed through employer contributions and investment income.

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

(5) Risk Management

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

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

Required Supplementary Information

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

Peace Officers'
Retirement, Accident and Disability System

Schedule of Funding Progress
Required Supplementary Information

For the Last Six Fiscal Years
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets** (a)	Actuarial Accrued Liability [AAL]* (b)	(Funded) Unfunded AAL [UAAL] (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL/ Covered Payroll ((b-a)/c)
7/1/1999	\$ 219,463	187,312	(32,151)	117	28,059	(115)
7/1/2000	239,568	240,785	1,217	99	30,293	4
7/1/2001	249,227	263,002	13,775	95	30,926	44
7/1/2002	250,914	294,514	43,600	85	32,154	136
7/1/2003	246,443	306,098	59,655	81	33,019	181
7/1/2004	244,161	338,799	94,638	72	32,520	291

* This amount is based on the Projected Unit Credit method. The Aggregate Actuarial Cost method is used to determine the required contribution.

** As permitted by the Code of Iowa, effective July 1, 2001 and beginning with the July 1, 2001 valuation, a smoothing method was adopted by the Board of Trustees to determine the actuarial (market related) value of assets. The smoothing method is designed to reduce changes in the normal contribution rate which could result from fluctuations in the market value of the assets of the System. Prior to this, market value was used.

The increase in unfunded AAL for the July 1, 2004 valuation was primarily due to a lower than expected rate of return on investments.

See Note 3 for additional information on actuarial valuation.

See accompanying independent auditor's report.

Schedule 2

Peace Officers'
Retirement, Accident and Disability SystemSchedule of Employer Contributions
Required Supplementary Information

For the Last Six Fiscal Years

Fiscal Year Ended June 30,	Annual Required Contribution	Total Employer Contribution	Percentage Contributed
1999	\$ 556,317	4,860,834	874%
2000	948,875	3,990,488	421
2001	4,231,914	5,291,371	125
2002	5,332,844	5,466,366	103
2003	7,883,879	5,540,116	70
2004	9,446,823	5,502,718	58

See Note 3 for additional information on actuarial valuation.

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

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

We have audited the financial statements of the Peace Officers' Retirement, Accident and Disability System, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

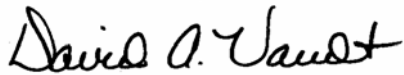
As part of obtaining reasonable assurance about whether the Peace Officers' Retirement, Accident and Disability System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Peace Officers' Retirement, Accident and Disability System, citizens of the State of Iowa and other parties to whom the Peace Officers' Retirement, Accident and Disability System may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

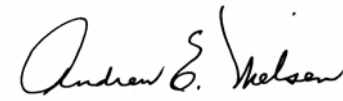
December 17, 2004

Peace Officers'
Retirement, Accident and Disability System

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Steven O. Fuqua, CPA, Senior Auditor
Brad T. Holtan, Assistant Auditor
Jessica L. Christensen, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State