



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

January 7, 2009

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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, 2008. 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 1,212 active and retired peace officers in fiscal year 2008.

The System's net assets held in trust for pension benefits totaled \$290,306,257 at June 30, 2008. Additions included employer contributions of \$6,696,538, member contributions of \$3,701,009 and net investment loss of \$11,281,908. Deductions for the fiscal year totaled \$19,298,912, primarily for pension and annuity benefits.

The System's unfunded actuarial accrued liability increased approximately \$11,236,000 during fiscal year 2008, from approximately \$98,648,000 at June 30, 2007 to approximately \$109,884,000 at June 30, 2008, 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 265% for fiscal year 2007 to 269% for fiscal year 2008.

A copy of the audit report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

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

JUNE 30, 2008

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

Officials

Name

Title

State

Honorable Chester J. Culver
Charles J. Krogmeier

Governor
Director, Department of Management

Board of Trustees

Commissioner Eugene T. Meyer
Honorable Michael L. Fitzgerald
Marland Winter
Terrance Lillis
Jack Wissler

Chairperson
Member
Member (through June 30, 2009)
Member (through April 30, 2010)
Member (through June 30, 2010)

Agency

David R. Heuton

Joanne Tinker

Director of Administrative Services,
Department of Public Safety
Secretary, Peace Officers' Retirement, Accident
and Disability System

**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, 2008, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 2008, 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, 2008, and the changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

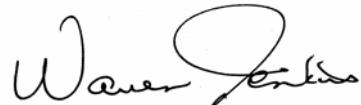
As discussed in Note 6, since June 30, 2008 the Peace Officers' Retirement, Accident and Disability System's investment portfolio has incurred significant declines in the values reported in the accompanying financial statements due to a global financial crisis that persists as of the date of this report. The amount and extent of recovery, if any, the period over which recovery may occur and the amount of losses, if any, the Peace Officers' Retirement, Accident and Disability System will recognize in future financial statements are indeterminable.

Management's Discussion and Analysis on pages 7 through 9 and the Schedule of Funding Progress and the Schedule of Employer Contributions on pages 25 and 26, respectively, 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2008 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, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 10, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Peace Officers' Retirement, Accident and Disability System (PORS) provides an overview of the retirement system's financial activities for the fiscal year ended June 30, 2008.

2008 FINANCIAL HIGHLIGHTS

- **Net plan assets** held in trust for pension benefits decreased in fiscal year 2008. On June 30, 2007, net assets totaled \$310,489,530. On June 30, 2008, net assets totaled \$290,306,257, a decrease of \$20,183,273.
- **Covered payroll**, upon which employee and employer pension contributions are calculated, was projected to increase approximately \$3,562,000 in fiscal year 2008. Member contributions in 2008 totaled \$3,701,009, an increase of \$83,166 (2.30%) compared to fiscal year 2007. Employer contributions in 2008 totaled \$6,696,538, an increase of \$443,587 (6.92%) over fiscal year 2007.
- **Investment performance** for fiscal year 2008 was an annualized rate of -3.32% compared to an annualized rate of 14.92% for fiscal year 2007.
- **Total additions** for fiscal year 2008 were \$(884,361). This compares to additions totaling \$49,172,793 for the 2007 fiscal year.
- **Pension benefits** paid to members totaled \$19,128,339, an increase of \$1,645,641 when compared to fiscal year 2007, when members were paid \$17,482,698.
- **Administrative expenses** for the 2008 fiscal year totaled \$163,180, as compared to \$130,584 in administrative expenses for 2007.

USING THIS FINANCIAL REPORT

This Financial Report reflects the activities of the Peace Officers' Retirement, Accident and Disability System as reported in the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets.

These statements are presented on an accrual basis and reflect all PORS 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 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 provide condensed summaries of plan net assets and a breakdown of the changes in plan net assets with comparisons to the previous fiscal year.

PORS total net assets on June 30, 2008 were \$290,306,257, a decrease of \$20,183,273 from the previous fiscal year-end balance.

PLAN NET ASSETS**Table 1**

June 30	2008	2007	Increase (Decrease) Amount	Increase (Decrease) Percent
Cash and investments	\$ 312,398,444	342,094,734	(29,696,290)	(8.7%)
Receivables	<u>6,917,480</u>	<u>4,311,908</u>	<u>2,605,572</u>	60.4
Total assets	319,315,924	346,406,642	(27,090,718)	(7.8)
Total liabilities	<u>29,009,667</u>	<u>35,917,112</u>	<u>(6,907,445)</u>	(19.2)
Plan net assets	<u><u>\$ 290,306,257</u></u>	<u><u>310,489,530</u></u>	<u><u>(20,183,273)</u></u>	(6.5)

A large percentage of total assets (97.3%) are 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 approximately 2.7% of total assets. Total assets decreased \$27,090,718, down 7.8% from the previous year.

A large percentage of outstanding liabilities at the close of the fiscal year (nearly 80.2%) represent amounts owed for investment related transactions. Total liabilities at the end of the 2008 fiscal year were \$29,009,667, a decrease of \$6,907,445 from the end of fiscal year 2007.

CHANGES IN PLAN NET ASSETS**Table 2**

Fiscal years ended June 30	2008	2007	Increase (Decrease) Amount	Increase (Decrease) Percent
Additions:				
Member contributions	\$ 3,701,009	3,617,843	83,166	2.3%
Employer contributions	6,696,538	6,262,951	433,587	6.9
Net investment income	<u>(11,281,908)</u>	<u>39,291,999</u>	<u>(50,573,907)</u>	(128.7)
Total additions	<u>(884,361)</u>	<u>49,172,793</u>	<u>(50,057,154)</u>	(101.8)
Deductions:				
Annuity benefits	19,128,339	17,482,698	1,645,641	9.4
Administrative expenses and refunds	<u>170,573</u>	<u>141,302</u>	<u>29,271</u>	20.7
Total deductions	<u>19,298,912</u>	<u>17,624,000</u>	<u>1,674,912</u>	9.5
Change in plan net assets	<u><u>\$ (20,183,273)</u></u>	<u><u>31,548,793</u></u>	<u><u>(51,732,066)</u></u>	(164.0)

The decrease in plan net assets during fiscal year 2008 was due to the decline in market conditions. There is 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 2007 fiscal year was 14.92%. In fiscal year 2008, the annualized rate of return was -3.32%.

The following table contains the fiscal year performance for each asset class, targeted asset allocation and the Plan's actual asset allocation as of June 30, 2008.

Asset Class	Return	Targeted Asset Allocation	Actual Asset Allocation
Active Large Capital Stocks	-12.62%	13.00%	10.56
Passive Large Capital Stocks	-5.69	12.00	9.20
Small Capital Stocks	-5.70	15.00	18.60
Fixed Income (Bonds)	2	35.00	33.11
International Equity	-.02	20.00	21.08
Real Estate	6.02	5.00	6.15
Cash	1.11	0.00	1.30
Total		<u>100.00%</u>	<u>100.00%</u>

CURRENTLY KNOWN FACTS

On September 24, 2008, the President, in his address to the nation stated, "We're in the midst of a serious financial crisis..." All experts agree the nation, and much of the world, is facing an economic crisis. Investments in the System are not immune to this crisis and, therefore, did experience a downturn. Because the values of individual investments fluctuate with market conditions, the amount of losses, if any, the System will recognize in future financial statements cannot be determined.

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, Public Safety Building, Des Moines, IA. 50319.

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

Financial Statements

Exhibit A

Peace Officers'
Retirement, Accident and Disability System

Statement of Plan Net Assets

June 30, 2008

Assets:		
Cash and cash equivalents		\$ 1,614,703
Receivables:		
Investments sold	\$ 5,367,819	
Contributions	502,610	
Accrued interest	982,318	
Dividends	64,733	6,917,480
Investments, at fair value:		
Common stock	164,927,881	
Fixed income	81,915,688	
Real estate	17,926,221	
Securities on loan with brokers	22,736,397	
Securities lending collateral pool	23,277,554	310,783,741
Total assets		<u>319,315,924</u>
Liabilities:		
Payables:		
Broker rebates and collateral deposits	23,277,554	
Investments purchased	5,263,803	
Accounts	468,310	29,009,667
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 25.)		<u><u>\$ 290,306,257</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, 2008

Additions:		
Member contributions		\$ 3,701,009
Employer contributions		6,696,538
Investment income:		
Interest	\$ 8,598,342	
Dividends	1,078,357	
Net decrease in fair value of investments	(17,946,517)	
Less investment expense	<u>(3,012,090)</u>	
Net investment loss		<u>(11,281,908)</u>
Total additions		<u>(884,361)</u>
Deductions:		
Pension and annuity benefits		19,128,339
Administrative expenses		163,180
Refunds		<u>7,393</u>
Total deductions		<u>19,298,912</u>
Net decrease in net assets held in trust for pension benefits		(20,183,273)
Net assets held in trust for pension benefits:		
Beginning of year		<u>310,489,530</u>
End of year		<u>\$ 290,306,257</u>

See notes to financial statements.

Peace Officers'
Retirement, Accident and Disability System

Notes to Financial Statements

June 30, 2008

(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,	
	2008	2007
Current retirees and beneficiaries	532	523
Terminated members with deferred benefits	34	32
Active plan members:		
Fully vested	610	589
Non-vested	36	42
Total	1,212	1,186

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 or by 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.

Investments in governmental bonds and treasury notes constitute approximately 6.40% of net assets held in trust for pension benefits.

The System spent \$3,012,090 for investment management expenses, which was 1.04% of the market value of the net assets held in trust for pension benefits at June 30, 2008.

The System's investments in common stock and fixed income securities, stated at cost, are \$136,277,014 and \$93,586,454, respectively.

Credit risk – Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations to the Peace Officers' Retirement, Accident and Disability System. As of June 30, 2008, the System's fixed income assets that are not government guaranteed represented 80.34% of the fixed income holdings, including collateral for repurchase agreements and securities lending collateral. The following table summarizes the System's portfolio exposure levels and credit qualities for fixed income and fixed income securities on loan with brokers.

Credit Risk-Quality Ratings (Amounts rounded to the nearest thousand)

Investment Type:	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	Not Rated	Total
U.S. Fixed Income:											
A) U.S. Government:											
1) U.S. Government Treasury, Notes and Bonds	\$ 2,027	2,332	12,574	-	1,665	-	-	-	-	-	18,598
B) Mortgage Backed:											
1) Federal National Mortgage Association	-	435	-	-	-	-	-	-	-	-	435
2) Other Government Mortgage Backed	-	2,207	-	-	287	410	-	-	-	-	2,904
C) Corporate Bonds	-	-	2,669	5,308	12,457	19,340	2,224	2,410	567	1,120	46,095
D) State and Local Obligations	-	-	151	201	98	-	-	-	-	17	467
E) Commingled Bond Funds	-	-	-	-	-	-	-	-	-	950	950
F) Other Fixed Income:											
1) Miscellaneous Other Fixed Income	-	-	-	-	-	-	-	-	-	27,189	27,189
G) Convertible Corporate Bonds	-	-	-	-	-	169	-	-	149	-	318
Total (includes accrued income)	\$ 2,027	4,974	15,394	5,509	14,507	19,919	2,224	2,410	716	29,276	96,956

There are no system-wide policy limitations for credit risk exposures within the portfolio. Each portfolio is managed in accordance with an investment contract specific as to permissible credit quality ranges and the average credit quality of the overall portfolios. Policies related to credit risk pertaining to the System's securities lending program are included within the securities lending disclosures found later in this note to financial statements.

Concentration of credit risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issue. The Peace Officers’ Retirement, Accident and Disability System’s investment policy states no investment manager shall be permitted to invest more than 4.9% of its System account in any one corporate issuer without written direction and approval of the Treasurer of State of Iowa.

Interest rate risk – Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration methodology. It is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve.

Interest Rate Sensitivity-Duration

Investment Type:	Fair Value	Duration
U.S. Fixed Income:		
A) U.S. Government:		
1) U.S. Government Treasury, Notes and Bonds	\$18,598,416	4.86
B) Mortgage Backed:		
1) Federal National Mortgage Association	434,715	0.91
2) Other Government Mortgage Backed	2,903,576	3.60
C) Corporate Bonds	46,095,872	7.66
D) State and Local Obligations	466,281	11.79
E) Commingled Bond Funds	949,843	-
F) Other Fixed Income:		
1) Miscellaneous Other Fixed Income	27,189,161	-
G) Convertible Corporate Bonds	317,850	1.56
Total	<u>\$96,955,714</u>	
Portfolio duration		<u>6.7</u>

Foreign currency risk – Foreign currency risk is the risk changes in exchange rates will adversely impact the fair value of an investment. From time to time, the Peace Officers’ Retirement, Accident and Disability System’s external managers may or may not hedge the portfolio’s foreign currency exposures with forward foreign exchange contracts, currency options, currency futures, or options on currency futures depending on their views on a specific foreign currency relative to the U.S. dollar.

Foreign Currency Risk (Rounded to the nearest thousand)

Currency by Investment	Fair Value		
	Cash	Fixed Income	Equity
Australian Dollar	\$ -	964	9
Canadian Dollar	-	2,313	-
Euro Currency	-	-	9
Iceland Krona	-	721	-
Mexican Nuevo Peso	-	1,665	-
Singapore Dollar	-	1,120	-
Total	<u>\$ -</u>	<u>6,783</u>	<u>18</u>

The Board of Trustees has authorized participation in the securities lending program administered by the Treasurer of State. The Treasurer of State has selected Bank of New York to serve as the custodian bank for the Peace Officers' Retirement, Accident and Disability System and the lending agent for the securities lending program. In its capacity as lending agent, Bank of New York is responsible for operating the program and 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 Bank of New York 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 fair value of any U.S. securities lent and 105 percent of the fair 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.

At year-end, the Peace Officers' Retirement, Accident and Disability System had no credit risk exposure to borrowers because the amounts they owed to the System did not exceed the amount the System owed the borrowers. The contract with Bank of New York 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. The securities lending contract does not allow the System to pledge or sell collateral securities received unless the borrower defaults. As of June 30, 2008, the System had securities on loan, including accrued interest income, with a total value of \$22,736,397 against collateral with a total value of \$23,277,554.

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 the net pension obligation of the Peace Officers' Retirement, Accident and Disability System for the current year were as follows:

Annual required contribution	\$ 13,599,115
Interest on net pension obligation	570,297
Adjustment to annual required contribution	<u>(604,863)</u>
Annual pension cost	13,564,549
Contributions made	<u>6,696,538</u>
Increase in net pension obligation	6,868,011
Net pension obligation beginning of year	<u>7,128,715</u>
Net pension obligation end of year	<u><u>\$ 13,996,726</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 annual pension cost and the System's actual contributions for fiscal years 1988 through 2008.

Three-year trend information is as follows:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 11,920,811	49%	1,008,924
2007	12,382,742	51	7,128,715
2008	13,564,549	49	13,996,726

As of July 1, 2008, the most recent actuarial valuation date, the plan was 74% funded. The actuarial accrued liability for benefits was \$417,176,049 and the actuarial value of assets was \$307,291,608, resulting in an unfunded actuarial accrued liability (UAAL) of \$109,884,441. The covered payroll (annual payroll of active employees covered by the plan) was \$40,829,801 and the ratio of the UAAL to the covered payroll was 269 percent.

The Schedule of Funding Progress, presented as RSI following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared beginning July 1, 2008 using the entry age actuarial cost method for that purpose and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

The annual required contribution for the current year was determined as part of the July 1, 2008 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 6.75% for the first five years, 6.5% for year six, 6.00% for year seven, 5.25% for years eight through twenty-four and 4.75% 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 that spreads the difference between the actual return and the expected return over four years. Since the System is using the Aggregate cost method to determine the annual required contribution, there is no specific amortization method or period.

(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, 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, 1995, 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 the employer 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 \$3,701,009, representing 9.35 percent of current year covered payroll. The State contribution required by statute was \$6,696,538 and the amount actually contributed was \$6,696,538. 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).

(6) Subsequent Event

Capital markets have experienced unprecedented volatility and selling pressure since June 30, 2008, due to a global financial crisis that persists as of the date of this report. As a result, virtually all investments held by the portfolio comprising the Peace Officers' Retirement, Accident and Disability System reported in the accompanying financial statements have incurred significant declines in value. Because the values of individual investments fluctuate with market conditions, the amount of losses, if any, the Peace Officers' Retirement, Accident and Disability System will recognize in future financial statements cannot be determined.

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

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)	Unfunded AAL [UAAL] (b-a)	Funded Ratio (a/b)	Projected Covered Payroll (c)	UAAL/ Covered Payroll ((b-a)/c)
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
7/1/2005	251,829	343,117	91,289	73	33,337	274
7/1/2006	267,813	358,845	91,031	75	36,232	251
7/1/2007	293,375	392,023	98,648	75	37,268	265
7/1/2008	307,292	417,176	109,884	74	40,830	269

* This amount is based on the Projected Unit Credit method. The Aggregate Actuarial Cost method is used to determine the annual required contribution. Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared beginning July 1, 2008 using the entry age actuarial cost method for that purpose and the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

A smoothing method is used 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 fair value of the assets of the System.

The increase in unfunded AAL for the July 1, 2008 valuation was primarily due to a lower than expected rate of return on the actuarial value of assets.

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
2003	\$ 7,883,879	5,540,116	70%
2004	9,446,823	5,502,718	58
2005	11,577,021	5,442,868	47
2006	11,914,592	5,817,819	49
2007	12,383,974	6,262,951	51
2008	13,599,115	6,696,538	49

See Note 3 for additional information on actuarial valuation.

See accompanying independent auditor's report.



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees 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, 2008, and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Peace Officers' Retirement, Accident and Disability System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Peace Officers' Retirement, Accident and Disability System's financial statements that is more than inconsequential will not be prevented or detected by the Peace Officers' Retirement, Accident and Disability System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Peace Officers' Retirement, Accident and Disability System's internal control.

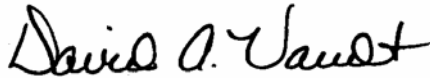
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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

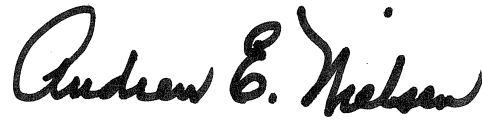
November 10, 2008

Peace Officers'
Retirement, Accident and Disability System

Staff

This audit was performed by:

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Deborah J. Moser, CPA, Manager
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Samantha J. Brincks, Assistant Auditor
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