

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2011

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
City of Lakeland, Florida
Employees' Pension and Retirement System

We have audited the accompanying statement of plan net assets of the Employees' Pension and Retirement System of the City of Lakeland, Florida, as of September 30, 2011, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Employees' Pension and Retirement System's Board of Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the Board of Trustees, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Employees' Pension and Retirement System of the City of Lakeland, Florida, and do not purport to, and do not, present fairly the financial position of the City of Lakeland, Florida, as of September 30, 2011, or the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Employees' Pension and Retirement System of the City of Lakeland, Florida's net assets held in trust for pension benefits, as of September 30, 2011, and the changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2012, on our consideration of the Employees' Pension and Retirement System of the City of Lakeland, Florida 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 results of our audit.

The Plan has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

The Schedules of Contributions and Funding Progress on page 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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 on it.

As discussed in Note F to the financial statements, the City changed its method of accounting for Deferred Option Retirement Plan (DROP) benefits in 2011.


Crowe Horwath LLP

Lakeland, Florida
March 29, 2012

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS
SEPTEMBER 30, 2011

ASSETS

Cash and cash equivalents	\$ 9,311,851
Investments	407,570,080
Investments in transit	75,356
Accrued interest receivable	636,594
Unsettled investment sales, net	802,193
Due from employees	368,407
	<hr/>
Total assets	418,764,481

LIABILITIES

Accounts payable	37,568
Unsettled investment purchases, net	819,321
Due to other funds	298,845
	<hr/>
Total liabilities	1,155,734

NET ASSETS

Held in trust for DROP benefits	9,561,981
Held in trust for pension benefits and other purposes	408,046,766
	<hr/>
	\$ 417,608,747

CITY OF LAKE LAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011

ADDITIONS	
Contributions:	
Employer	\$ 15,349,432
Plan members	7,682,537
Total contributions	23,031,969
Net investment income:	
Interest and dividends	7,361,479
Net increase (decrease) in the fair value of investments	(7,963,809)
Investment advisor fee	(1,662,109)
Net investment income (loss)	(2,264,439)
Miscellaneous income	85,813
Total additions (deductions)	20,853,343
DEDUCTIONS	
Benefits paid	26,782,261
Refunds, former employees	754,790
Actuarial fee	60,090
Other	131,590
Transfers to other funds	54,962
Total deductions	27,783,693
CHANGE IN NET ASSETS HELD IN TRUST	(6,930,350)
NET ASSETS, beginning of year	417,037,250
Changes in accounting principles	7,501,847
NET ASSETS, end of year	\$ 417,608,747

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – These financial statements represent only the Employees' Pension and Retirement System (Plan) of the City of Lakeland, Florida (City). The statements presented herein do not constitute the basic financial statements of the City which are issued separately under the title "Comprehensive Annual Financial Report" (CAFR).

This Plan is a pension trust fund (fiduciary fund type) of the City. This fund is the single-employer, defined benefit pension plan for all employees of the City.

The Plan has elected not to present management's discussion and analysis as required by GASB Statement No.34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments."

Basis of Accounting – The Plan is maintained using the accrual basis of accounting. Expenses are recognized when they are incurred and revenues are recognized when they are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Valuations of Investments – Plan investments are reported at fair value. Money market funds are reported at cost, which approximates fair value. Fixed income and equity securities are valued at the last reported sales price.

NOTE B - DESCRIPTION OF PLAN

General - The authority for the establishment and amendment of the Plan, benefits, vesting, and contributions are established by City Ordinances. The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

Plan Membership - The Plan is a single-employer, defined benefit pension plan that covers all full-time, regular employees of the City. Government plans are not subject to the provisions of the Employees' Retirement Income Security Act of 1974 (ERISA). The number of employees currently covered by the Plan is shown in the following table.

Active plan participants	1,660
Retirees and beneficiaries	873
DROP participants	107
Terminated vested participants	<u>44</u>
Total number of participants	<u>2,684</u>

Administrative Costs - Administrative costs are paid by the Plan from contributions and investment income.

Plan Benefits

Pension Benefits - A member employee may retire after attaining age 50 and contributing for 10 or more years to this plan. The monthly benefit is determined by multiplying the average monthly salary by a service factor and a benefit factor. Plan members who enter the plan on or after October 1, 2003 may retire after attaining age 62 and contributing to the plan for 10 or more years.

- The average monthly salary is computed using the average of the highest total earnings over a consecutive period of 36 months. For members who enter the plan on or after October 1, 2003, the average monthly salary is calculated using the average of the highest total earnings over a consecutive period of 60 months.
- The service factor is based on the length of continuous service and is calculated by accumulating 3% per year for the first 25 years of service plus 1% per year for all service exceeding 25 years. The service factor for plan participants who enter the plan on or after October 1, 2003 is computed using 2% per year for the first 10 years of service, then 3% for the next 20 years plus 1% for each year over 30 years of service.
- The benefit factor is based on the age of the employee in years and months on the day retirement benefits commence. This value is derived from a benefit factor table as set forth in Section 23 of Article II, Division II, of the City Charter.

Cost of Living Increase - The Plan allows an increase in the benefit paid to all retirees if it is determined such funds are sufficient. The Board can instruct a plan actuary to conduct an actuarial impact study to determine the amount of the increase that can be funded. The Board can recommend a benefit increase to the City Commission and the Commission shall have the option to approve or disapprove the benefit increase. As defined in the Plan, any increase is subject to limitation by an actuarially calculated "assumed investment return" valuation. The maximum increase is 4% per year.

Termination Benefits - If a member employee is terminated, either voluntarily or involuntarily, the following benefits are payable:

- If the employee has less than ten years of credited service, the employee will be entitled to his or her contributions to the Plan.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011

NOTE B - DESCRIPTION OF PLAN (Continued)

- If the employee has ten or more years of credited service (terminated vested), the benefits will be calculated as described in the *Pension Benefits* section above, provided that the benefit calculation is based upon the benefits which existed at the time of termination of employment. If the participant elects to leave his or her contributions in the fund upon separation from service and is entitled to a vested deferred pension, the monthly pension income will be adjusted to reflect any increase in benefits becoming effective after the date of separation from service.

Terminated membership in the plan - Effective September 7, 2004, a member can terminate membership in the Plan if he or she is not subject to collective bargaining, has attained normal retirement status or has attained thirty years of credited service. Certified Firefighter members with twenty-five years of service or who has attained age fifty-two with ten years of credited service can elect to receive a lump sum payment, defer the receipt of the defined benefits and contribute to a defined contribution plan or the Deferred Retirement Option Program (DROP).

- The Lump Sum Payment benefit is calculated using the actuarial assumed rate of return plus one percent. The one-time lump-sum payment is based upon the present value of the retirement benefit.
- A member may elect to terminate membership in the plan with a vested benefit while still employed. This election allows the members to defer receipt of defined benefits until a later date and commence participation in the City's Deferred Compensation Plan. The member is guaranteed a life time defined benefit for the years of service vested and has the ability to manage his or her investments in the defined contribution plan.
- DROP allows members to continue working while their monthly pension benefit is deposited into a DROP account earning an annual rate of 6.5 percent. Once a member enters the DROP the decision is irrevocable. The members benefit shall be calculated as if the member had actually separated from service. The member remains an active employee of the City and agrees to terminate active service no later than sixty months following the date of entry into the DROP. Nothing prohibits a member to terminate service prior to the sixty months. If a member chooses to continue employment past the sixty months, beginning on the 61st month the DROP account will no longer be credited with the monthly pension benefits or interest.
- The termination of the DROP can be lump-sum payment, direct rollover into eligible retirement plan or partial lump-sum payment which is a combination of the lump-sum payment and direct rollover.

Death Benefits - If an employee were to die prior to normal retirement, his beneficiary would receive benefits payable as provided in the Plan including various payment options elected by the employee prior to death.

- If the employee has less than 10 years of service, the contribution is refunded.
- If the employee has more than 10 years of credited service, the benefit received is actuarially equivalent to 50% of the benefit the employee would have received on the date of death. The percentage of the benefit payment increases to 75% if the employee is age 50.

Disability Benefits - There are no disability benefits available.

Funding Requirements

Member Contributions - Employees are required to contribute 8.5% for General and Union employees and 8.0% for Fire employees of their basic annual compensation.

Employer Contributions - The City's contribution to the Plan equals 16.60% of employees' salaries. The amount of the covered payroll for the Plan in the actuary report dated October 1, 2010 was \$93,636,946.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011

NOTE B - DESCRIPTION OF PLAN (Continued)

Funding Levels - The funding activity of the Plan for the current and preceding two years is as follows:

	September 30, 2011	September 30, 2010	September 30, 2009
Annual required contribution:			
City of Lakeland	\$ 16,468,150	\$ 16,558,670	\$ 15,388,062
Interest on net pension obligation (asset)	<u>(713,683)</u>	<u>(711,688)</u>	<u>(668,391)</u>
Annual pension cost	15,754,467	15,846,982	14,719,671
Contributions made	<u>(15,349,432)</u>	<u>(15,874,500)</u>	<u>(15,316,870)</u>
Change in net pension obligation (asset)	405,035	(27,518)	(597,199)
Net pension obligation (asset) beginning of year	<u>(9,843,908)</u>	<u>(9,816,390)</u>	<u>(9,219,191)</u>
Net pension obligation (asset) end of year	<u><u>\$ (9,438,873)</u></u>	<u><u>\$ (9,843,908)</u></u>	<u><u>\$ (9,816,390)</u></u>
Percentage of annual pension cost contributed	97.43%	100.17%	104.06%

The funded status of the Plan as of October 1, 2010, the most recent actuarial valuation date is as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL % of Covered Payroll
\$ 495,690,765	\$ 593,785,813	\$ 98,095,048	83%	\$ 93,636,946	105%

The Schedule of Funding Progress, presented as Required Supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the accrued liability for benefits.

The projection of benefits for financial statement reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

CITY OF LAKE LAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011

NOTE B - DESCRIPTION OF PLAN (Continued)

Plan Assumptions

The following information is applied to the Plan:

ACTUARIAL VALUATION:

Frequency	Annual
Latest date	10/1/2010
Basis for contribution	10/1/2010
Cost method	Entry Age Normal

AMORTIZATION:

Method	Level percentage
Period	30 years (Closed)

ASSUMPTIONS:

Investment return	7.25%
Salary increases	Service based
Inflation rate	3.0%
Post-retirement benefit increases	0%
Retirement rate	(2)

ACCOUNTING POLICIES AND PLAN ASSETS:

Basis of Accounting	Accrual
Assets Valuation:	
Reporting	Fair Value
Actuarial valuation	(1)

- (1) The actuarial value of assets is determined by the expected rate of return credited to last year's actuarial asset value, the resulting amount is then compared to market value and 20% of the difference is added to the result.
- (2) Probabilities of retirement by eligible members are assigned for each attained age and length of service.

Termination of Plan

Should the Plan terminate at some future time, its net assets generally will not be available on a pro-rata basis to provide participants' benefits. Some benefits may be fully or partially provided, while other benefits may not be provided at all. This provision depends upon the priority of the benefits and the availability of plan assets existing at the time of such termination.

NOTE C - CONTRIBUTIONS

As described above, the funding policy for the Plan is a contribution rate of 17.04% from the City and a contribution rate of 8.5% for General and Union employees and 8.0% for Fire employees. The actuarially determined contribution rate for the report dated October 1, 2010 was 8.5% for General and 8.0% for Fire and Union employees and the actuary required rate is 17.04% of the covered payroll reported in the actuary report.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE D – CASH, CASH EQUIVALENTS AND INVESTMENTS

Authorized Investments - Several forms of legal provisions govern the types of investments in which the Plan monies may be invested. Plan monies may be invested in any of the following:

- Direct obligations of the Federal Government
- Interest-bearing time deposits
- The Florida State Board of Administration
- Corporate stocks and bonds
- Money market and mutual funds
- Obligations guaranteed by the Federal National Mortgage Association
- Obligations of the Federal Home Loan Mortgage Corporation
- Obligations of the Federal Home Loan Bank
- Obligations of the Federal Farm Credit Bank
- Obligations guaranteed by the Government National Mortgage Association

Investment Violations - There were no significant violations of legal or contractual provisions for deposits and investments during the year.

Custodial Credit Risk - Custodial credit risk, for an investment, is the risk that, in the event of the failure of the counterparty, the City of Lakeland will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2011, the City of Lakeland Employee Pension Fund held \$9,311,898 and \$170,399,020 in Money Market Funds and Mutual Funds respectively. These investments are held by an investment's counterparty, not in the name of the City.

Foreign Currency Risk The Employee Pension Fund held \$83,117,802 in fixed income (4.87%) and equity investments of foreign issuers of non-US companies (.67%). According to the investment policy, Fixed Income Managers of the Employee Pension Fund may invest up to 10% of the total fixed income portfolio's fair value in issuers not domiciled in the U.S. and, except for specifically hired International Fund Managers. Equity Managers are authorized to invest up to 5% in equity investments of non-U.S. companies listed on a major U.S. exchange. As of September 30, 2011, the Employee Pension Fund held the following fixed income and equity investments in non-U.S. companies and/or investments denominated in a foreign currency:

:

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE D - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

As of September 30, 2011, the Employee Pension Fund held the following fixed income and equity investments in non-U.S. companies and/or investments denominated in a foreign currency:

Foreign Investments:

Mutual Funds:

	<u>Market Value</u>	<u>\$ Denomination</u>	<u>Maturity</u>
PIMCO Diversified Income-I	\$ 11,162,886	USD	N/A
Templeton Global Total Return - AD	10,857,989	USD	N/A
Baring Focused International Equity Fund	29,905,758	USD	N/A
Manning & Napier Overseas Fund	26,751,926	USD	N/A
	<u>78,678,559</u>		

Corporate Bonds:

Non-US Companies:

	<u>Market Value</u>	<u>\$ Denomination</u>	<u>Maturity</u>
Case New Holland Inc.	52,125	USD	9/1/2013
ArcelorMittal	406,160	USD	8/5/2015
America Movil S.A.B. de C.V.	285,265	USD	9/8/2016
Schlumberger Investment SA	188,951	USD	9/14/2016
Schlumberger Norge AS	174,034	USD	9/14/2016
Covidien International Finance S.A.	504,666	USD	10/15/2017
Electricite de France	374,038	USD	1/26/2019
Canadian Pacific Railway Company	156,761	USD	5/15/2019
Talisman Energy Inc.	110,540	USD	6/1/2019
Axtel, S.A.B. de C.V.	168,000	USD	9/22/2019
BP Capital Markets plc	346,602	USD	10/1/2020
Ensco PLC	341,445	USD	3/15/2021
Talisman Energy Inc.	69,946	USD	2/1/2037
Talisman Energy Inc.	146,409	USD	2/1/2038
Total Non-US Companies	<u>3,324,942</u>		

Total Corporate Bonds

3,324,942

Corporate Stocks:

Non-US Companies:

	<u>Market Value</u>	<u>\$ Denomination</u>	<u>Maturity</u>
Teva Pharmaceutical Industries Limited	575,198	USD	N/A
Diageo PLC Spons ADR	539,103	USD	N/A

Total Corporate Stocks

1,114,301

Total Foreign Investments

\$ 83,117,802

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE D - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk - Credit risk is the risk of loss due to the failure of the security issuer or other counterparty. The purpose of the City of Lakeland's investment policy is to minimize credit risk by limiting investments in securities that have higher credit risks, pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the City will do business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized.

The City of Lakeland's investment policy requires the following Standard & Poor's or Moody's credit quality ratings for fixed income securities of the Employee Pension Fund:

Investment Class	S & P Rating	Moody's Rating	Maximum %
Employee Pension Fund			
Fixed Income	BBB	Baa	20%
Fixed Income	Less than BBB	Less than Baa	10%
Fixed Income - Single Issuer	BBB or lower	Baa or lower	2%
Commercial Paper	A-1	P-1	
Money Market Funds	A-1	P-1	

As of September 30, 2011, the City of Lakeland's Employee Pension Fund's debt security investments had the following credit quality ratings:

S&P Rating:

	Cost	% of Total	Market	% of Total
AAA	\$ (98,816)	-0.12%	\$ (108,248)	-0.13%
AA+ to AA-	2,048,778	2.43%	2,253,563	2.61%
A+ to A-	11,307,557	13.42%	12,314,688	14.29%
BBB+ to BBB-	17,418,520	20.66%	19,436,347	22.55%
BB+ to BB-	5,252,065	6.23%	4,959,233	5.75%
Below BB-	1,573,537	1.87%	1,410,342	1.64%
NR	46,784,674	55.51%	45,916,993	53.29%
	<u>\$ 84,286,315</u>	<u>100.00%</u>	<u>\$ 86,182,918</u>	<u>100.00%</u>

Moody's Rating:

	Cost	% of Total	Market	% of Total
Aaa	\$ 4,679,934	5.55%	\$ 5,162,676	5.99%
Aa1 to Aa3	1,957,274	2.32%	2,040,649	2.37%
A1 to A3	9,141,597	10.85%	9,692,679	11.25%
Baa1 to Baa3	17,131,522	20.32%	19,117,640	22.18%
Ba1 to Ba3	4,827,958	5.73%	4,770,356	5.54%
Below Ba3	2,663,599	3.16%	2,329,510	2.70%
NR	43,884,431	52.07%	43,069,408	49.97%
	<u>\$ 84,286,315</u>	<u>100.00%</u>	<u>\$ 86,182,918</u>	<u>100.00%</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE D - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

As of September 30, 2011, the City of Lakeland's Employee Pension Fund's investment types had the following credit quality ratings:

S&P Rating:	Corporate Bonds		US Government Agency Obligations		Foreign Securities		Money Market Funds	
	Market	% of Total	Market	% of Total	Market	% of Total	Market	% of Total
	AAA	\$ 759,371	1.83%	\$ -	0.00%	\$ -	0.00%	
AA+ to AA-	1,879,525	4.53%	-	0.00%	374,038	11.25%		0.00%
A+ to A-	10,815,170	26.06%	-	0.00%	1,499,518	45.10%		0.00%
BBB+ to BBB-	18,205,087	43.88%	-	0.00%	1,231,260	37.03%		0.00%
BB+ to BB-	4,907,108	11.82%	-	0.00%	52,125	1.57%		0.00%
Below BB-	1,242,341	2.99%	-	0.00%	168,001	5.05%		0.00%
NR	3,690,335	8.89%	10,026,267	100.00%	-	0.00%	22,020,875	0.00%
	<u>\$ 41,498,937</u>	<u>100.00%</u>	<u>\$ 10,026,267</u>	<u>100.00%</u>	<u>\$ 3,324,942</u>	<u>100.00%</u>	<u>\$ 22,020,875</u>	<u>100.00%</u>

Moody's Rating:	Corporate Bonds		US Government Agency Obligations		Foreign Securities		Bond Mutual Funds		Money Market Funds	
	Market	% of Total	Market	% of Total	Market	% of Total	Market	% of Total	Market	% of Total
	Aaa	\$ 6,030,295	14.53%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ (867,619)
Aa1 to Aa3	1,666,610	4.02%	-	0.00%	374,038	11.25%	-	0.00%	-	0.00%
A1 to A3	8,697,827	20.96%	-	0.00%	994,852	29.92%	-	0.00%	-	0.00%
Baa1 to Baa3	17,381,714	41.88%	-	0.00%	1,735,927	52.21%	-	0.00%	-	0.00%
Ba1 to Ba3	4,718,231	11.37%	-	0.00%	52,125	1.57%	-	0.00%	-	0.00%
Below Ba3	2,161,510	5.21%	-	0.00%	168,000	5.05%	-	0.00%	-	0.00%
NR	842,750	2.03%	10,026,267	100.00%	-	0.00%	22,020,875	100.00%	10,179,516	109.32%
	<u>\$ 41,498,937</u>	<u>100.00%</u>	<u>\$ 10,026,267</u>	<u>100.00%</u>	<u>\$ 3,324,942</u>	<u>100.00%</u>	<u>\$ 22,020,875</u>	<u>100.00%</u>	<u>\$ 9,311,897</u>	<u>100.00%</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE D - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

In the City of Lakeland's Employee Pension Fund, assets shall be diversified among equities, fixed income, and real estate to minimize overall portfolio risk consistent with the level of expected return and thereby improve the long-term return potential of assets. The diversification of the equity and fixed income securities held in the portfolio among sectors and issuers is the responsibility of the respective Investment Manager, subject to general policy and specific guidelines of each manager. The Investment Manager is expected to diversify the portfolio sufficiently to minimize the risk of a large loss from a single security. Accordingly, no single company's fixed securities shall represent more than 5% of the market value assets of the fund and no more than 10% of the market value of assets shall be in common stock of one company. Equity portfolios and all equity investments must be traded on national stock exchange or NASDAQ. As of September 30, 2011, no single company's fixed securities and common stock represented more than 5% and 10% respectively of the market value assets of the fund. The City of Lakeland's investment allocation limits and actual limits for the Employee Pension Fund as of September 30, 2011 are as follows:

<u>Asset Class (Market)</u>	<u>Maximum%</u>	<u>Minimum%</u>	<u>Actual %</u>
Domestic Equity:			
Large Cap Equity	20%	10%	11%
All Cap Equity	15%	5%	8%
Broadcap Growth	35%	15%	21%
International Equity	25%	10%	14%
Total Fixed Income	45%	20%	16%
TIPS	7.5%	0%	0%
Real Estate	7.5%	0%	6%
Alternative	7.5%	0%	0%

The following investments and maturities held by the Employee Pension fund of the City as of September 30, 2011 are collateralized by registered securities held by the City or its agents in the City's name:

<u>Investment Type</u>	<u>Reported Amount</u>				
	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
	<u>Employee Pension</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
US Treasury Notes	\$ 13,232,992	\$ 7,344,875	\$ 3,084,845	\$ 2,234,845	\$ 568,427
US Treasury TIPS	1,830,873			1,830,873	
Fed Home Loan Mortgage Corp.	1,010,812				1,010,812
Federal National Mortgage Assoc	8,932,959			526,464	8,406,495
Federal Agencies Mortgage Backed	82,495				82,495
Corporate Notes and Bonds (2)	41,766,533		4,804,814	21,142,989	15,818,730
Corporate Stocks (2)	165,983,076	165,983,076			
Foreign Stocks (2)	1,114,301	1,114,301			
Foreign Securities	3,272,818		1,054,410	2,002,053	216,355
Subtotal	<u>237,226,859</u>	<u>174,442,252</u>	<u>8,944,069</u>	<u>27,737,224</u>	<u>26,103,314</u>

Other investments of the fund are collateralized by securities that exist in physical or book entry form and thus cannot be held in the City's name. The breakdown of investments, held as of September 30, 2011, by type and category of credit risk are as follows:

<u>Investment Type</u>	<u>Reported Amount</u>				
	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
	<u>Employee Pension</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Money Market Funds (1)	9,311,898	9,311,898	-	-	-
Mutual Funds (1)	170,399,020	170,399,020	-	-	-
Accrued Interest Receivable	636,594	636,594	-	-	-
Subtotal	<u>180,347,512</u>	<u>180,347,512</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 417,574,371</u>	<u>\$ 354,789,764</u>	<u>\$ 8,944,069</u>	<u>\$ 27,737,224</u>	<u>\$ 26,103,314</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE D - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- (1) The rate of interest earned fluctuates during the year based on market conditions. Also, there is no stated maturity date for these types of investments. Funds may be invested, withdrawn, or reinvested at the discretion of the Plan.
- (2) Corporate notes and bonds balance includes \$215,472 in sales in the Pension Funds that had been executed but not settled as of September 30, 2011. Corporate stocks balance includes \$235,029 in net transactions in the Employee Pension Fund that had been executed but not settled as of September 30, 2010. Summary of the Investments in Transit are as follows:

Purchases:	
Corporate stocks	\$ 769,453
Corporate notes and bonds	49,844
	<u>\$ 819,297</u>
Sales:	
Corporate stocks	\$ 534,424
Corporate notes and bonds	265,316
	<u>\$ 799,740</u>
Net	
Corporate stocks	\$ 235,029
Corporate notes and bonds	(215,472)
	<u>\$ 19,557</u>

Cash Equivalents - Cash equivalents in the accompanying Statement of Plan Net Assets is composed of the following:

Equity in pooled cash	\$ -
Cash held with investment manager	(47)
Money market funds	<u>9,311,898</u>
Total cash equivalents	<u>\$ 9,311,851</u>

NOTE E - TRANSFER TO OTHER FUNDS

For the year ended September 30, 2011, the Plan reimbursed \$54,962 to the City of Lakeland General Fund for payroll costs associated with employees involved with the internal administration of the Plan.

NOTE F - CHANGES IN ACCOUNTING PRINCIPLES

During fiscal year 2011, the City changed the accounting principal used to report the City's Deferred Retirement Option Program (DROP) liability. In prior fiscal years, the liability relating to the estimated benefit payable to Employee's entering the DROP was accrued on the balance sheet as a long-term liability. Per GAAP, liabilities related to the pension plan's obligation for employee benefits (and refunds) should be recognized "when due and payable in accordance with the terms of the plan."

CITY OF LAKE LAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE F – CHANGES IN ACCOUNTING PRINCIPLES (Continued)

It was determined that based on the interpretation of current GAAP, the liability is not due and payable in the current period and it is more appropriate to show the liability for DROP benefits as a deduction of fund balance as it is an accumulation of resources for benefits payable. Under the current policy, the estimated amount payable to DROP employees is reserved in fund balance.

The net assets balance, as previously reported in the Statement of Changes in Fiduciary Net Assets for the Employees' Pension and Retirement System for the year ended September 30, 2010, have been restated based on the change in accounting principal. The effect of the restatement is as follows:

	<u>2010</u>
Net Assets, as originally stated	\$ 518,824,509
Change in accounting principal	
Employee's Pension and Retirement System	<u>7,501,847</u>
Net Assets, as restated	<u><u>\$ 526,326,356</u></u>

The change in accounting principal caused an increase of \$7,501,847 in the change net assets for the year ended September 30, 2010 of the amounts previously reported.

NOTE G – SUBSEQUENT EVENTS

Effective February 26, 2011, the General employee pension plan will have another option called Plan C. This plan will be for non-collectively bargained employees, which will be mandatory for new hires after February 26, 2011 and is optional for current employees. Plan C normal retirement is age 62, 5% penalty for each year between ages 52-62, a 2.41% benefit accrual rate for all years of service, a 5 year vesting schedule, a 60 month Average Final Compensation period. The member contribution rate is 6.25%, and the City contribution rate is 19.6%. The City will match up to 5% of salary into the Defined Contribution Plan.

Also effective February 26, 2011, all non-collectively bargained employees will receive a 2.5% increase on their March 16, 2012 paycheck offsetting the required 11% pension plan contribution rate increase from 8.5% for those remaining in Plan A or Plan B. Those employees that have opted into Plan C will still receive the 2.5% increase and their contribution to the Plan will decrease from 8.5% to 6.25% (see provisions above for Plan C) effective with the March 16, 2012 paycheck.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS – The contributions from the City are shown in the following schedule:

	Fiscal Year	Employer Contributions	Annual Required Contribution (ARC)
	2011	\$ 15,349,432	\$ 16,468,150
% of the ARC		93%	
	2010	15,874,500	16,558,670
% of the ARC		96%	
	2009	15,316,870	15,388,062
% of the ARC		100%	
	2008	15,219,761	14,735,539
% of the ARC		103%	
	2007	14,151,537	14,528,242
% of the ARC		97%	
	2006	13,359,576	13,913,026
% of the ARC		96%	

During fiscal year 2006, a correction regarding the calculation of the net pension obligation (NPO) was made. In prior fiscal years, the employee's annual required contributions and actual contributions (approximately \$2.4 million since 1988) were included in the calculation of the NPO. Under the correct policy, only the City's annual required contribution and actual contributions are used in computing the NPO.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL % of Covered Payroll
10/1/2010	\$495,690,765	\$593,785,813	\$98,095,048	83%	\$93,636,946	105%
10/1/2009	463,240,621	567,449,029	104,208,408	82%	93,375,914	112%
10/1/2008	456,592,011	544,406,925	87,814,914	84%	91,735,753	96%
10/1/2007	515,648,042	589,120,143	73,472,101	88%	101,485,956	72%
10/1/2006	478,396,090	540,833,785	62,437,695	88%	95,616,093	65%
10/1/2005	433,459,145	483,329,674	49,870,529	90%	95,815,348	52%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

General – As of October 1, 2009, the actuarial cost method utilized in the actuarial report was changed from Frozen Entry Age cost method to Entry Age Normal cost method. The information disclosed in the Schedule of Funding Progress is based on the newly adopted actuarial cost method.

Individual Entry-Age Actuarial Cost Method uses normal cost and the allocation of benefit values between service rendered before and after the valuation date. It has the following characteristics:

- (i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- (ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains/(losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

INDEPENDENT AUDITORS REPORT AND SCHEDULES

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

Board of Trustees
City of Lakeland, Florida
Employees' Pension and Retirement System

We have audited the statement of plan net assets of the Employees' Pension and Retirement System (The Plan) of the City of Lakeland, Florida, as of September 30, 2011, and have issued our report thereon dated March 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Plan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan'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 an opinion on effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 and Other Matters

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

We noted certain matters that we reported to management of the Plan in a separate letter dated March 29, 2012.

This report is intended solely for the information and use of management and various state agencies and is not intended to be and should not be used by anyone other than these specified parties.


Crowe Horwath LLP

Lakeland, Florida
March 29, 2012

EMPLOYEES' PENSION AND RETIREMENT SYSTEM

SCHEDULE OF FINDINGS

YEAR ENDED SEPTEMBER 30, 2011

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified	None Reported
Significant deficiency identified not considered to be material weakness	No
Noncompliance material to financial statements noted	No

EMPLOYEES' PENSION AND RETIREMENT SYSTEM

SCHEDULE OF FINDINGS

YEAR ENDED SEPTEMBER 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

None noted

EMPLOYEES' PENSION AND RETIREMENT SYSTEM

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED SEPTEMBER 30, 2010

Auditor Reference

Number: 10-1

Investments in Transit: The plan is recording investment transactions based on settlement date instead of trade date.

Corrected

Board of Trustees
City of Lakeland, Florida
Employees' Pension and Retirement System

In planning and performing our audit of the financial statements of the Hillsborough Transit Authority (the Authority) as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting ("internal control") 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 an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control. Matters communicated in this letter are classified based on Statement on Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit, as follows.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we are required to or wish to communicate to you. We have audited the statement of plan net assets of the Employees' Pension and Retirement System (The Plan) of the City of Lakeland, Florida, as of September 30, 2011, and have issued our report thereon dated March 29, 2012.

(Continued)

Board of Trustees
City of Lakeland, Florida
Employees' Pension and Retirement System

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Report of Independent Auditors on Compliance and Internal Control Over Financial Reporting and Schedule of Findings. Disclosures in those reports and schedule, which are dated March 29, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report except as noted below under the heading Prior Year Findings and Recommendations.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined the Plan complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we have noted our findings and recommendations under the heading Comments on Current Year Findings and Recommendations.
- Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statement; and (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transaction; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we have noted our findings under the heading Comments on Current Year Findings and Recommendations.

(Continued)

COMMENTS ON PRIOR YEAR RECOMMENDATIONS

<u>COMMENTS ON PRIOR YEAR</u>	<u>Level</u>	<u>Status</u>
Investments In-Transit	Significant Deficiency	Implemented
Defined Benefit Pension Plan Policies and Procedures	Deficiency	Policies and procedures recently updated
Retirement Application Review	Deficiency	Implemented

COMMENTS ON CURRENT YEAR

Alternative Investments	Deficiency
Observation:	During our testing of the market value for the investments in the Employee Pension Plan, we noted one security that was not updated for the most current market value as of September 30, 2011. This investment is considered an "alternative" investment and the valuation is often not available until after the Investment Safekeeper provides the monthly statements.
Recommendation:	The Plan should implement procedures that ensure that all of investments are adjusted to the correct September 30, 2011 valuation.
Management's Response:	Management concurs with the recommendation. The market value adjustment of the investment in question was immaterial (\$99,805) and the market value adjustment of the alternative investment in question was reported in the subsequent month's report of the investment manager. The Plan will request the year end reports directly from the Investment Safekeeper for all alternative investments.

* * * *

Board of Trustees
City of Lakeland, Florida
Employees' Pension and Retirement System

CONCLUSION

Management's written responses to the matters identified in our audit have not been subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on those responses.

This management letter is intended solely for the information of the Plan and management, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to thank the Board and the staff for the many courtesies and cooperation extended to our representatives during the course of our audit.


Crowe Horwath LLP

Lakeland, Florida
March 29, 2012