

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

FINANCIAL STATEMENTS

of the

EMPLOYEES' PENSION AND RETIREMENT SYSTEM

A PENSION TRUST FUND OF THE CITY OF LAKELAND, FLORIDA

for the

FISCAL YEAR ENDED SEPTEMBER 30, 2017



Prepared by the  
FINANCE DEPARTMENT

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## INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Employees' Pension and Retirement System of the City of Lakeland, Florida (the "Plan"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan, as of September 30, 2017, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the City's Net Pension Liability and Related Ratios, the Schedule of City Contributions, and the Schedule of Investment Returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2018, on our consideration of the Plan'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* in considering the Plan's internal control over financial reporting and compliance.



Crowe Horwath LLP

Tampa, Florida  
March 7, 2018

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION  
SEPTEMBER 30, 2017

ASSETS	
Cash equivalents	\$ 7,292,732
Receivables:	
Contributions	978,932
Accrued interest receivable	481,090
Unsettled investment sales, net	<u>646,905</u>
Total receivables	<u>2,106,927</u>
Investments:	
Mutual Funds	264,963,216
US Government Obligations	37,891,861
Corporate Notes and Bonds	39,152,362
Corporate Stocks	<u>226,547,189</u>
Total investments	<u>568,554,628</u>
Total assets	<u>577,954,287</u>
LIABILITIES	
Payables:	
Accounts payable	467,485
Unsettled investment purchases, net	<u>391,795</u>
Total liabilities	<u>859,280</u>
NET POSITION	
Net Position Restricted for DROP benefits	20,691,883
Net Position Restricted for pension benefits and other purposes	<u>556,403,124</u>
	<u>\$ 577,095,007</u>

See Accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
SEPTEMBER 30, 2017

ADDITIONS

Contributions:

Employer	\$ 14,739,830
Plan members	<u>7,600,019</u>
Total contributions	<u>22,339,849</u>

Investment income:

Interest and dividends	9,037,778
Net increase in fair value of investments	60,743,522
Less Investments Expense:	
Investment advisor fee	<u>(2,354,204)</u>
Net investment income	<u>67,427,096</u>

Miscellaneous income	<u>142,296</u>
Total additions	<u>89,909,241</u>

DEDUCTIONS

Benefits paid	41,464,441
Refunds, former employees	970,232
Administrative expenses	<u>241,172</u>
Total deductions	<u>42,675,845</u>

CHANGE IN NET POSITION	47,233,396
NET POSITION, beginning of year	<u>529,861,611</u>
NET POSITION, end of year	<u>\$ 577,095,007</u>

See Accompanying notes to financial statements



CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES**

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). 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.

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*.

Valuation 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.

Basis of Accounting The Plan is maintained using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the period in which the employee services are performed. 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. Accounting Principles Generally Accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates.

Realized Gains and Losses Realized Gains and losses, the difference between the proceeds of sale and original costs of investments sold for the year ended September 30, 2017 were \$17,688,212.

- The calculation of realized gains and losses is independent of the calculation of the net changes in the fair value of the investments.
- Realized gains and losses on investments that were held in more than one reporting period and sold in the current period were included as a change in the fair value reported in prior periods and the current period.

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

**NOTE B – PLAN DESCRIPTION**

1. General This Plan is a pension trust fund (fiduciary fund type) of the City that contains three pension plan options (Plans A, B, and C). Each plan option is part of a single employer, defined benefit pension plan offered by the City with a defined contribution option available to certain eligible employees. Plan A is eligible to employees of the City hired prior to October 1, 2003. Plan B is eligible to employees hired on or after October 1, 2003 through February 15, 2012. Plan C is eligible to employees hired after December 29, 2011 or who have made an irrevocable election to convert their prospective benefit calculation to Plan C as of February 15, 2012. The defined contribution option allows certain eligible employees to cease participation in this Plan and begin participation in the City's defined contribution plan.

2. Plan Administration The City of Lakeland Employees' Pension and Retirement System administers the City of Lakeland Employees' Pension Plan – a single, employer defined benefit pension plan that provides pensions for all full-time, regular employees of the City. The authority for the establishment and amendment of the Plan, benefits, vesting, and contributions are established by City Ordinances. Government plans are not subject to the provisions of the Employee's Retirement Income Security Act of 1974 (ERISA).

Management of the plan is vested in the Employees' Pension Board, which consists of seven (7) active members – three (3) of which are elected by plan members for 3-year terms, three (3) appointed by the City Commission for 3-year terms and one (1) appointed by the board.

3. Plan Membership Pension plan membership for the Plan as of the actuary report dated October 1, 2016 for fiscal year 2017 is shown in the following table.

Active plan members	1,439
Retirees and beneficiaries	1,070
DROP Participants	192
Terminated vested plan members	68
	<u>2,769</u>

(CONTINUED)

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE B – PLAN DESCRIPTION (Continued)**

4. Plan Benefits

Pension Benefits

Plan A

Plan members may retire after attaining age 60 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.

- The average monthly salary is computed using the average of the highest total earnings over a consecutive period of 36 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 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.

Plan B

Plan members may retire after attaining age 62 and contributing to the plan for 10 or more years.

The monthly benefit is determined by multiplying the average monthly salary by a service factor and a benefit factor.

- The average monthly salary is computed 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 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.

Plan C

Plan members may retire after attaining age 62 and contributing to the plan for 5 or more years.

- The average monthly salary is computed 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 2.41% per year.
- 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 There is no cost of living increase in 2017.

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 under Plan A or B or five years under Plan C of credited service, the employee will be entitled to his or her contributions to the Plan.
- If the employee has more than ten years under Plan A or B or five years under Plan C 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.

(CONTINUED)

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE B – PLAN DESCRIPTION (Continued)**

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.

- 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.

Deferred Retirement Option Plan (DROP)

- DROP allows members to continue working while their monthly pension benefit is deposited into a DROP account. Once a member enters the DROP the decision is irrevocable. Members who enter the DROP prior to December 31, 2011 and non-bargaining unit members who enter the DROP prior to ratification of a collective bargaining agreement earn 6.5% per year. 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.
- Effective upon adoption, each member and bargaining unit members who enter the DROP after December 31, 2011 may elect investment options earning interest rate based on actual net rate of return of such investments on an annual basis to have their DROP account credited and compounded semi-monthly at a variable interest rate, not to exceed three percent (3%) per annum. The Board of Trustees shall review and set the variable interest rate once each year. Within 60 days of announcing the variable interest rate, each Member of the DROP may elect to transfer all, some, or none of their existing DROP account balance and future DROP account accruals to the City of Lakeland Defined Contribution Plan, subject to Board approval, via a plan to plan transfer; provided, that all such transfers made to the City of Lakeland Defined Contribution Plan are irrevocable and shall not be transferred back to the member's DROP account at any point thereafter.
- A failure to make such an initial election means that the Member's DROP balance will remain in the Fund and earn said variable interest rate. Each year thereafter, within 60 days of the Board of Trustees setting the variable interest rate, each Member in the DROP shall elect whether any amounts remaining in the Fund and whether DROP account accruals will either: be credited at a variable interest rate, compounded semi-monthly on the prior installment's accumulated ending balance until such time as the earlier of either: the 120th payment; or the last payment made prior to final separation from service; or death; or be irrevocably transferred to the City of Lakeland Defined Contribution Plan, as above. Any member of the DROP who fails to make such a written annual election within the prescribed time shall continue with the option, as described herein in which the Member was then currently participating.

Deferred Retirement Option Plan (DROP) (Continued)

- Under Ordinance No. 5434, adopted on March 3, 2014, for members who enter the DROP on or after December 31, 2011 who have ratified Ordinance No. 5287, the interest rate credited on DROP accounts is based on a variable interest rate not to exceed 3% per year set annually by the Board of Trustees, unless the member elects to transfer DROP accruals to the City of Lakeland Defined Contribution Plan. Any actuarial gains or losses incurred by the Plan as a result of the variable interest rate for DROP members shall not be applied in the cost sharing analysis to affect the employee contribution rates.

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. At October 1 2016, there were 192 DROP participants.

As of September 30, 2017, the Plan held \$20,691,883 pursuant to DROP benefits payable.

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 ten years under Plan A or B or five years under Plan C of credited service, the employee will be entitled to his or her contributions to the Plan.
- If the employee has more than ten years under Plan A or B or five years under Plan C 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.

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CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE B – PLAN DESCRIPTION (Continued)**

Disability Benefits There are no disability benefits available.

5. Funding Requirements Contributions - City ordinance number 5287 section 23.1.1 grants the authority to establish and modify the contribution requirements of the City and active plan members to the City Commission. The Plan is subject to periodic review by an independent actuary.

The City obtains an annual review by an independent actuary utilizing census data covering both retired and active plan members and balance sheet data regarding net position of the Plan based on an effective date of October 1 with the report being issued within 6 months of the fiscal year. This review is used to determine the required funding level upon which the City bases its annual contribution to the Employees' Pension and Retirement System for the budget year commencing after the issuance of that report.

The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute at least quarterly to the fund in an amount equal to the required city contribution as shown by the applicable actuarial valuation system. The actuarial experience 0.97, a variable interest rate option of 0.02 and Change in Cost Sharing of 0.65 are added to the prior Contribution Rate (18.89%), less the Amortization Payment on UAAL (0.35), plan change of (0.73) and Change in Normal Cost Rate (0.18) to calculate the current year Contribution Rate of 19.27%. For the year ended September 30, 2017, the employees contributed \$7,456,297 and buybacks were \$143,722.

Member Contributions – The actuarially determined contribution rate for the actuary report dated October 1, 2015 was 10.75% for General employees, and 6.00% for employees in Plan C. AS of October 1, 2015 valuation date, there are no remaining members who have not ratified the plan changes under Ordinance no 5287.

Employer Contributions - The City's contribution rate for the fiscal year ended September 30, 2017 was 19.02% (before cost sharing) of annual payroll. The covered payroll for the Plan was \$84,102,850 calculated in the October 1, 2015 actuary report.

Net Pension Liability of the City

The components of the net pension liability at September 30, 2017, were as follows:

Total pension liability	\$ 692,302,517
Plan net position	(577,095,007)
Net pension liability	<u>\$ 115,207,510</u>
 Plan net position as a percentage of the total pension liability	 83.36%

6. Plan Assumptions The date of the actuarial valuation is October 1, 2016 rolled forward to September 30, 2017. The following actuarial assumptions were applied to the plan for determination of total pension liability.

Actuarial Valuation:

Frequency	Annual
Latest date	10/1/2016
Basis for contribution	10/1/2015
Cost method	Entry Age Normal

Amortization:

Method	Level Percentage of Pay, closed
Amortization period	30 years, closed
Remaining amortization period	30 years

(CONTINUED)

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE B – PLAN DESCRIPTION (Continued)**

6. Plan Assumptions (continued)

Assumptions:

Investment rate of return	7.25%
Salary increases	4.0% to 12.5% depending on service, including inflation
Inflation rate	2.50%
Post-retirement benefit increases	N/A
Retirement rate	(1)

(1) The healthy post-retirement mortality table is the RP-2000 Mortality Table for annuitants with future improvements in mortality projected to all future years using Scale BB. For females, the base mortality rates include a 100% white collar adjustment. For males, the base mortality rates include a 50% white collar adjustment. The pre-retirement mortality table is the RP-2000 Combined Healthy Participant Mortality Table with the same white and blue collar adjustments and the same mortality improvement projection scales. For disabled retirees, the mortality table is the RP-2000 Mortality Table for disabled annuitants, set-back 4 years for males and set-forward 2 years for females, with no provision made for future mortality improvements. These are the same rates used for Regular class members of the Florida Retirement System (FRS) in the July 1, 2016 FRS actuarial valuation

Mortality table

Rate of Return The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class (Market)	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.00%	7.50%
International Equity	15.00%	8.50%
Domestic Bonds	15.00%	2.50%
International Bonds	5.00%	3.50%
Real Estate	10.00%	4.50%
Alternate Assets	20.00%	6.13%

Discount Rate The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that the plan members' contributions will be made at the current contribution rate and the City contributions will be made at the rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments (7.25%) was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate The following presents the net pension liability of the City, calculated using the discount rate of 7.25%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate.

	Decrease Rate (6.25%)	Discount Rate (7.25%)	Increase Rate (8.25%)
City's net pension liability	\$ 188,694,689	\$ 115,207,510	\$ 53,345,202

Rate of Return For the year ended September 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 13.08%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

7. Termination of Plan Should the Plan terminate at some future time; its net position 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.

(CONTINUED)

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash Equivalents Cash equivalents in the accompanying Statement of Fiduciary Net Pension is composed of the following:

Money market funds	\$	7,673,942
Money Market Funds - City of Lakeland		(387,344)
Cash held with investment manager		6,134
Total cash equivalents	<u>\$</u>	<u>7,292,732</u>

Investment Policy The Pension Board of Trustees (the Board) maintains that an important determinant of future investment returns is the expression and periodic review of the City of Lakeland Employees' Retirement Plan investment objectives. To that end, the Board has adopted a statement of Investment Policy and directs that it applies to all assets under their control. In fulfilling their fiduciary responsibility, the Board recognizes that the retirement system is an essential vehicle for providing income benefits to retired participants and their beneficiaries. The Board is to review the Statement of Investment Policy and any addendum from time to time and to amend them if necessary to reflect any changes in philosophy or objectives. If at any time the investment manager believes that the specific objectives defined cannot be met, or that the guidelines unnecessarily constrict performance, the Trustees shall be so notified in writing. The Board, in performing their investment duties, shall comply with the fiduciary standards set forth in Employee Retirement Income Security Act of 1974 (ERISA) at 29 U.S.C. s. 1104(a) (1) (A) – (C). In case of conflict with other provisions of law authorizing investments, the investment and fiduciary standards set forth in this section shall prevail.

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

Asset Allocation In the City of Lakeland's Employee Pension Fund, assets shall be diversified among equities and fixed income investments to minimize overall portfolio risk consistent with the level of expected return and thereby improve the long-term return potential of assets. The Pension Board of Trustees (Board) employs professional Investment Management firms to invest the assets of the City of Lakeland's Employee Pension Fund. Assets shall be diversified to minimize overall portfolio risk consistent with the level of expected return and thereby improve the long-term return potential of assets. The performance of the Portfolio is compared to the return of a customized blended market index comprised of domestic and international equity, aggregate and international fixed income, real estate and alternatives investments. If at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances, the asset allocation will be rebalanced into the allowable range. The City of Lakeland's investment allocation limits and actual limits for the Employee Pension Fund as of September 30, 2017 are as follows:

<u>Asset Class (Market)</u>	<u>Maximum%</u>	<u>Minimum%</u>	<u>Actual %</u>
Domestic Equity	50%	35%	44%
International Equity	20%	10%	18%
Aggregate Fixed Income	40%	10%	19%
International Fixed	10%	0%	5%
Real Estate	15%	0%	11%
Alternative	15%	0%	3%
			<u>100%</u>

Concentrations The Investment Manager is expected to diversify the portfolio sufficiently to minimize the risk of a large loss from a single security. As of September 30, 2017, no single company's fixed securities and common stock represented more than 3% and 5% respectively of the market value assets of the fund.

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

(CONTINUED)

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**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, 2017, the City of Lakeland held \$7,286,598, \$230,016,306, \$133,567,232 in Money Market Funds, Mutual Funds, and Foreign Mutual Funds respectively. These investments are held by an investment's counterparty, not in the name of the City. The City of Lakeland's investment policy limits the investment in Money Market Funds and Mutual Funds, including Commingled Trust Funds, to 10% of total investments in each.

**Fair Value Investment**

The City implemented GASB Statement No. 72, *Fair Value Measurement and Application* during fiscal year 2016. The objective of this statement is to address accounting and financial reporting issues related to fair value measurements. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The valuation techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. Valuation techniques should be applied consistently; maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels.

**Fair Value Investment (Continued)**

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs are inputs-other than quoted prices-included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable inputs such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

This Statement requires disclosures to be made about the fair value measurements, the level of fair value hierarchy, and the valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value and requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). These new disclosures were added to Note 1 – Summary of Significant Accounting Policies Section H – Fair Value Measurement.

Debt and equity securities classified as Level 1 were valued using quoted prices as of September 30 (or the most recent market close date if the markets were closed on September 30) in active markets, from the custodian bank's primary external pricing vendors.

Debt and equity securities classified as Level 2 are evaluated prices from the custodian bank's external pricing vendors. The pricing methodology involves the use of evaluation models such as matrix pricing, which is based on the securities' relationship to benchmark quoted prices. Other evaluation models use actual trade data, collateral attributes, broker bids, new issue pricings, other observable market information, or alternative pricing source, such as investment managers, if information is not available from the primary vendors.

Debt and equity securities classified as Level 3 are prices from the custodian bank's external pricing vendors or an alternative pricing source, utilizing inputs such as stale prices, cash flow models, broker bids, or cost. Cost or book value may be used as an estimate of fair value when there is a lack of an independent pricing source.

There are sixteen alternate investment securities, including nine private equity funds with some exposure to special situations and seven joint venture real estate funds that invest in real estate assets such as commercial office buildings, retail properties, multi-family residential properties, or developments. These securities are valued based on annual external and/or quarterly internal appraisals and are classified as Level 3. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

(CONTINUED)

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

The following table illustrates employee pension investment holdings by the fair value hierarchy.

Investment Type	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Treasury Bonds	\$ 8,646,821	\$ 8,646,821	\$ -	\$ -
Federal Farm Credit Bank	7,236,468	-	7,236,468	-
Federal Home Loan Bank	1,114,752	-	1,114,752	-
Federal Home Loan Mortgage Corporation	17,386,729	-	17,386,729	-
Federal National Mortgage Association	3,507,091	-	3,507,091	-
Corporate Notes and Bonds	39,152,362	-	39,152,362	-
Corporate Stocks	215,980,997	213,964,503	2,016,494	-
Foreign Stocks	10,566,192	-	10,566,192	-
Sub-total	<u>303,591,412</u>	<u>222,611,324</u>	<u>80,980,088</u>	<u>-</u>
Mutual Funds	230,016,306	29,681,036	76,421,923	123,913,347
Comingled Trust Funds	34,946,910	-	34,946,910	-
Sub-total	<u>264,963,216</u>	<u>29,681,036</u>	<u>111,368,833</u>	<u>123,913,347</u>
Total Investments	<u>\$ 568,554,628</u>	<u>\$ 252,292,360</u>	<u>\$ 192,348,921</u>	<u>\$ 123,913,347</u>

**Foreign Currency Risk** The Employee Pension Fund held \$144,133,424 (25.01%) in fixed income and equity investments of foreign issuers of non-US companies. The investment policy for this fund limits the investments in foreign securities to 25% of the total assets held by the fund. As of September 30, 2017, 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:	Market Value	Denomination	Maturity
Non-US Companies:			
PIMCO DIVERSIFIED INCOME FUND INSTITUTIONAL CLASS #106	\$ 15,050,715	USD	N/A
TEMPLETON GLOBAL TOTAL RETURN FUND CLASS R6	14,630,321	USD	N/A
TS&W INTERNATIONAL LARGE CAP EQUITY TRUST	33,160,242	USD	N/A
WCM FOCUSED INTERNATIONAL GROWTH FUND LP	35,779,044	USD	N/A
LEE MUNDER EMERGING MARKETS	34,946,910	USD	N/A
Total Mutual Funds	<u>133,567,232</u>		
Corporate Stocks:			
TRINITY BIOTECH PLC SPONSORED ADR NEW	11,248	USD	N/A
CHIPMOS TECHNOLOGIES INC.	116,268	USD	N/A
AON PLC	4,101,173	USD	N/A
ARRIS INTERNATIONAL PLC	115,954	USD	N/A
THE BANK OF N.T. BUTTERFIELD & SON LIMITED	147,146	USD	N/A
COCA-COLA EUROPEAN PARTNERS PLC	876,600	USD	N/A
FABRINET	130,229	USD	N/A
ICHOR HOLDINGS LTD	187,788	USD	N/A
LIBERTY GLOBAL PLC	3,408,910	USD	N/A
LIBERTY LILAC GROUP	424,479	USD	N/A
LIVANOVA PLC	189,793	USD	N/A
MAIDEN HOLDINGS LTD SHS	90,042	USD	N/A
NABORS INDUSTRIES LTD SHS	80,353	USD	N/A
TECNOGLASS INC	39,330	USD	N/A
VENATOR MATERIALS PLC	67,981	USD	N/A
GOLAR LNG LTD	107,782	USD	N/A
KORNIT DIGITAL LTD	93,070	USD	N/A
NOVA MEASURING INSTRUMENTS	84,948	USD	N/A
CONSTELLIUM NV	118,982	USD	N/A
TRONOX INCORPORATED	106,534	USD	N/A
GENER8 MARITIME INC	67,582	USD	N/A
Total Corporate Stocks	<u>10,566,192</u>		
Total Foreign Investments	<u>\$ 144,133,424</u>		

(CONTINUED)



CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE C – 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 (S&P) or Moody's uninsured 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 Investments	BBB	Baa	20%
Fixed Income Investments	Less than BBB	Less than Baa	10%
Fixed Income - Single Issuer	BBB or lower	Baa or lower	2%

As of September 30, 2017, the City of Lakeland's Employee Pension Fund's debt security investments had the following credit quality ratings:

S&P Rating:	Fair Value		Moody's Rating:	
	Fair Value	% of Total	Fair Value	% of Total
AAA	\$ 7,286,598	8.64%	\$ 27,657,595	32.80%
AA+ to AA-	18,327,401	21.73%	3,366,991	3.99%
A+ to A-	15,745,166	18.67%	21,474,791	25.46%
BBB+ to BBB-	16,364,125	19.40%	14,310,580	16.97%
NR	26,607,531	31.56%	17,520,864	20.78%
	<u>\$ 84,330,821</u>	<u>100.00%</u>	<u>\$ 84,330,821</u>	<u>100.00%</u>

As of September 30, 2017, the City of Lakeland's Employee Pension Fund's investment types had the following credit quality ratings:

S&P Rating:	US Government Agency Obligations		Corporate Bonds		Money Market Funds	
	Fair Value	% of Total	Fair Value	% of Total	Fair Value	% of Total
AAA	\$ -	0.00%	\$ -	0.00%	\$ 7,286,598	100.00%
AA+ to AA-	11,284,330	29.78%	7,043,071	17.99%	-	0.00%
A+ to A-	-	0.00%	15,745,166	40.21%	-	0.00%
BBB+ to BBB-	-	0.00%	16,364,125	41.80%	-	0.00%
NR	26,607,531	70.22%	-	0.00%	-	0.00%
	<u>\$ 37,891,861</u>	<u>100.00%</u>	<u>\$ 39,152,362</u>	<u>100.00%</u>	<u>\$ 7,286,598</u>	<u>100.00%</u>

Moody's Rating:	US Government Agency Obligations		Corporate Bonds		Money Market Funds	
	Fair Value	% of Total	Fair Value	% of Total	Fair Value	% of Total
Aaa	\$ 20,370,997	53.76%	\$ -	0.00%	\$ 7,286,598	100.00%
Aa1 to Aa3	-	0.00%	3,366,991	8.60%	-	0.00%
A1 to A3	-	0.00%	21,474,791	54.85%	-	0.00%
Baa1 to Baa3	-	0.00%	14,310,580	36.55%	-	0.00%
NR	17,520,864	46.24%	-	0.00%	-	0.00%
	<u>\$ 37,891,861</u>	<u>100.00%</u>	<u>\$ 39,152,362</u>	<u>100.00%</u>	<u>\$ 7,286,598</u>	<u>100.00%</u>

(CONTINUED)

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

**NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

The following investments and maturities held by the Employee Pension Fund of the City as of September 30, 2017 are collateralized by registered securities held by the City or its agents in the City's name:

Investment Type	Reported Amount Fair Value				
	Primary Government	Less than 1	1-5	6-10	More than 10
US Treasury Notes /Bonds	\$ 8,646,821	\$ -	\$ -	\$ -	\$ 8,646,821
Federal Farm Credit Bank	7,236,468	5,030,928	2,205,540	-	-
Federal Home Loan Bank	1,114,752	439,846	674,906	-	-
Federal Agencies Mortgage Backed	17,386,729	579,745	3,340,429	1,171,670	12,294,885
Fed National Mortgage Assoc.	3,507,091	-	20,652	647,415	2,839,024
Corporate Notes and Bonds	39,152,362	1,402,982	22,337,669	9,791,840	5,619,871
Corporate Stocks	215,980,997	215,980,997	-	-	-
Foreign Stocks	10,566,192	10,566,192	-	-	-
Sub-total	<u>\$ 303,591,412</u>	<u>\$ 234,000,690</u>	<u>\$ 28,579,196</u>	<u>\$ 11,610,925</u>	<u>\$ 29,400,601</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, 2017, by type and category of credit risk are as follows:

Investment Type	Reported Amount Fair Value				
	Primary Government	Less than 1	1-5	6-10	More than 10
Mutual Funds (1)	264,963,216	264,963,216	-	-	-
Sub-total	<u>264,963,216</u>	<u>264,963,216</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 568,554,628</u>	<u>\$ 498,963,906</u>	<u>\$ 28,579,196</u>	<u>\$ 11,610,925</u>	<u>\$ 29,400,601</u>

(1) The rate of return on the money market funds, commingled trust funds, and mutual funds fluctuates during the year based on market conditions. Also, there is no stated maturity date for this type of investment. These funds may be invested, withdrawn, or reinvested at the discretion of the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2017

**SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS(2)**

Fiscal year ending September 30th	2017	2016	2015	2014
<b>Total pension liability:</b>				
Service cost	\$ 12,438,914	\$ 12,454,643	\$ 12,479,291	\$ 12,663,875
Interest	47,570,311	46,369,839	45,023,294	43,427,938
Changes in benefit terms	-	(1,360,522)	-	-
Differences between expected and actual experience	2,417,270	(189,908)	(2,382,849)	(310,956)
Other (Adjustment to DROP Balance)	-	-	278,076	110,082
Assumption Changes	7,390,055	-	-	-
Benefit payments, including refunds of member contributions	<u>(42,434,673)</u>	<u>(38,965,501)</u>	<u>(34,634,781)</u>	<u>(32,658,024)</u>
Net change in total pension liability	<u>27,381,877</u>	<u>18,308,551</u>	<u>20,763,031</u>	<u>23,232,915</u>
Total pension liability, beginning	664,920,640	646,612,089	625,849,058	602,616,143
Total pension liability, ending	<u>\$ 692,302,517</u>	<u>\$ 664,920,640</u>	<u>\$ 646,612,089</u>	<u>\$ 625,849,058</u>
<b>Plan fiduciary net position:</b>				
Contributions, employer	\$ 14,739,830	\$ 29,175,783	\$ 15,697,557	\$ 15,395,603
Contributions, members	7,600,019	7,468,541	7,394,407	7,129,361
Net investment income	67,569,392	33,659,515	6,072,542	39,349,445
Benefit payments, including refunds of member contributions	(42,434,673)	(38,965,501)	(34,634,781)	(32,658,024)
Administrative expenses	<u>(241,172)</u>	<u>(246,010)</u>	<u>(217,810)</u>	<u>(288,901)</u>
Net change in plan fiduciary net position	47,233,396	31,092,328	(5,688,085)	28,927,484
Plan fiduciary net position, beginning	529,861,611	498,769,283	504,457,368	475,529,884
Plan fiduciary net position, ending	<u>\$ 577,095,007</u>	<u>\$ 529,861,611</u>	<u>\$ 498,769,283</u>	<u>\$ 504,457,368</u>
Net pension liability, ending	<u>\$ 115,207,510</u>	<u>\$ 135,059,029</u>	<u>\$ 147,842,806</u>	<u>\$ 121,391,690</u>
Plan fiduciary net position as a % of total pension liability	83.36%	79.69%	77.14%	80.60%
Covered payroll	\$ 84,102,850	\$ 80,367,748	\$ 79,725,716	\$ 78,211,736
Net pension liability as a % of covered payroll	136.98%	168.05%	185.44%	155.21%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2017

**SCHEDULE OF CITY CONTRIBUTIONS (2)**

Year Ended	Percentage of Actuarially determined contributions(ADC)	Actuarially determined contributions (ADC) (1)	Actual contribution	Contribution deficiency (excess)	Actual Covered payroll (3)	Contribution as a percentage of covered payroll
2017	19.27%	\$ 16,206,619	\$ 14,739,830	\$ 1,466,789	\$ 84,102,850	17.53%
2016	18.89%	15,181,468	29,175,783	(13,994,315)	80,367,748	36.30%
2015	18.54%	14,781,148	15,697,557	(916,409)	79,725,716	19.69%
2014	18.00%	14,078,112	15,395,603	(1,317,491)	78,211,736	19.68%

- (1) The actuarially determined contribution (ADC) is calculated as the actuarially determined contribution percentage multiplied by the actual pensionable payroll for the year.
- (2) Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.
- (3) City of Lakeland covered payroll calculation is in compliance with GASB 82. All covered payroll represents the earnings on which contributions to the Plan are based.

The City contributed \$15 million to the Employee Pension Fund in FY 2016 as an advance payment against the employer's share of the unfunded pension liability. In return for this advance payment, the City (as the employer) will receive an annual credit against its regular payment into the fund. As a result of the \$15,000,000 advance payment, a contribution deficiency will be reflected in future years thru FY 2031 as the credit will be amortized over the next 15 years.

**SCHEDULE OF INVESTMENT RETURNS (3)**

	2017	2016	2015	2014	2013
Annual money-weighted rate of return, net of investment expense	13.08	6.16	1.02	8.03	11.23

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available. See Accompanying notes to required supplementary information

CITY OF LAKELAND, FLORIDA  
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2017

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**General** – Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using and Individual Entry-Age Actuarial Cost Method having 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.

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date:** October 1, 2015

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay (closed)
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary Increases	4% to 14% depending on service, including inflation
Investment rate or return	7.25%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Healthy Participant Mortality Table of males and females with mortality improvement projected using Scale AA after 2000
Cost of Living Adjustment	None

**NOTES TO SCHEDULE OF NET PENSION LIABILITY**

**Valuation Date:** October 1, 2016

**Measurement Date:** September 30, 2017

Methods and assumptions used to determine net pension liability:

Actuarial cost method	Entry age normal
Amortization method	Level percentage
Remaining amortization period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary increases	4% to 12.5% depending on service, including inflation
Investment rate of return	7.25%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	The healthy post-retirement mortality table is the RP-2000 Mortality Table for annuitants with future improvements in mortality projected to all future years using Scale BB. For females, the base mortality rates include a 100% white collar adjustment. For males, the base mortality rates include a 50% blue collar adjustment and a 50% white collar adjustment. The pre-retirement mortality table is the RP-2000 Combined Healthy Participant Mortality Table with the same white and blue-collar adjustments and the same mortality improvement projection scales. For disabled retirees, the mortality table is the RP-2000 Mortality Table for disabled annuitants, set back 4 years for males and set-forward 2 years for females, with no provision made for future mortality improvements. These are the same rates used for Regular Class members of the Florida Retirement System (FRS) in the July 1, 2016 FRS actuarial valuation
Cost of Living Adjustment	None

INDEPENDENT AUDITOR'S REPORT AND SCHEDULES

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*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Employees' Pension and Retirement System (The Plan) of the City of Lakeland, Florida, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated March 7, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a material weakness.



### **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*.

### **The Plan's Response to Findings**

The Plan's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe Horwath LLP

Tampa, Florida  
March 7, 2018

EMPLOYEES' PENSION AND RETIREMENT SYSTEM

SCHEDULE OF FINDINGS

YEAR ENDED SEPTEMBER 30, 2017

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

FINANCIAL STATEMENTS

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

**SECTION II – CURRENT YEAR FINDINGS**

**Material Weakness:**

**Finding 2017-001 – Alternative Investment Fair Value**

<b>Condition:</b>	Three out of sixteen alternative investment fair values recorded on the financial statements did not reconcile back to the investment statements provided by the investment managers.
<b>Criteria:</b>	Investment balances recorded on the financial statements should be agree to supporting documentation.
<b>Effect:</b>	The financial statements were misstated.
<b>Cause:</b>	As the individual alternative investment statements were received, the fair value utilized in the investment reconciliations were incorrect, causing the general ledger balances to be misstated.
<b>Recommendation:</b>	We recommend the investment statement reconciliations be reviewed by an additional individual familiar with alternative investment reporting prior to adjustment to the general ledger.

**Management's  
Response:**

**SECTION III – PRIOR YEAR FINDINGS**

None reported for the year ended September 30, 2016.

**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH  
SECTION 218.415, FLORIDA STATUTES**

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

We have examined the Employees' Pension and Retirement System of the City of Lakeland, Florida (the "Plan") compliance with Section 218.415, *Florida Statutes*, concerning the investment of public funds during the year ended September 30, 2017. Management of the Plan is responsible for the Plan's compliance with the specific requirements. Our responsibility is to express an opinion on the Plan's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Plan complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Plan complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Plan's compliance with specified requirements.

In our opinion, the Plan complied, in all material respects, with the requirements contained in Section 218.415, *Florida Statutes* for the year ended September 30, 2017.

The purpose of this report is solely to comply with Chapter 10.550, *Rules of the Florida Auditor General*. Accordingly, this report is not suitable for any other purpose.



Crowe Horwath LLP

Tampa, Florida  
March 7, 2018

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

### **Report on the Financial Statements**

We have audited the financial statements of the Employees' Pension and Retirement System of the City of Lakeland, Florida (the "Plan"), as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated March 7, 2018.

### **Auditor's Responsibility**

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*.

### **Other Reports and Schedule**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, Section 601, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated March 7, 2018, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

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 findings and recommendations made in the preceding annual financial audit report. There were no findings in the prior year.

### **Additional Matters**

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuses that have occurred, or are likely to have occurred, that have an effect on the financial statement amounts that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

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

**Purpose of this Letter**

The purpose of this management letter is to communicate certain matters prescribed by Chapter 10.550, *Rules of the Auditor General*. Accordingly, this management letter is not suitable for any other purpose. Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Auditor General of the State of Florida, the Plan, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Horwath LLP

Tampa, Florida  
March 7, 2018