

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2019

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, 2019



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, 2019, 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, 2019, 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.

(Continued)

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 on pages 17-18 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 February 26, 2020, 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 LLP

Tampa, Florida
February 26, 2020

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2019

ASSETS	
Cash and Cash Equivalents	\$ 7,166,906
Receivables:	
Contributions	1,064,421
Accrued interest receivable	588,312
Unsettled investment sales, net	<u>316,948</u>
Total receivables	<u>1,969,681</u>
Investments:	
Mutual funds	70,291,706
US government obligations	35,510,135
Corporate notes and bonds	48,590,930
Corporate stocks	192,768,993
Alternate investments	22,513,586
Fixed income funds	24,244,585
Real estate funds	70,300,972
Private equity funds	<u>128,373,412</u>
Total investments	<u>592,594,319</u>
Total assets	<u>601,730,906</u>
LIABILITIES	
Payables:	
Accounts payable	535,323
Unsettled investment purchases, net	<u>553,771</u>
Total liabilities	<u>1,089,094</u>
NET POSITION	
Net Position Restricted for DROP benefits	23,426,862
Net Position Restricted for pension benefits and other purposes	<u>577,214,950</u>
	<u>\$ 600,641,812</u>

See Accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED SEPTEMBER 30, 2019

ADDITIONS

Contributions:

Employer	\$ 15,783,779
Plan members	<u>7,755,783</u>
Total contributions	<u>23,539,562</u>

Investment income:

Interest and dividends	8,854,976
Net increase in fair value of investments	7,706,394
Less Investments Expense:	
Investment advisor fee	<u>(1,891,094)</u>
Net investment income	<u>14,670,276</u>

Miscellaneous income	<u>67,916</u>
Total additions	<u>38,277,754</u>

DEDUCTIONS

Benefits paid	45,442,520
Refunds, former employees	1,377,268
Administrative expenses	<u>252,466</u>
Total deductions	<u>47,072,254</u>

CHANGE IN NET POSITION	(8,794,500)
NET POSITION, beginning of year	<u>609,436,312</u>
NET POSITION, end of year	<u>\$ 600,641,812</u>

See Accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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. Alternative investments, private equity, real estate, and fixed income funds are reported at net asset value.

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, 2019 were \$40,073,157.

- 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 of Trustees (the 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, 2018 for fiscal year 2019 is shown in the following table.

Active plan members	1,433
Retirees and beneficiaries	1,151
DROP Participants	193
Terminated vested plan members	94
	<u>2,871</u>

(continued)

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

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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 was no cost of living increase in 2019.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE B – PLAN DESCRIPTION (continued)

4. Plan Benefits (continued)

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.

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 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 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.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE B – PLAN DESCRIPTION (continued)

4. Plan Benefits (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, 2018, there were 193 DROP participants.

As of September 30, 2019, the Plan held \$23,426,862 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.

Disability Benefits There are no disability benefits available.

5. Funding Requirements Contributions - City Ordinance No. 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. Any changes to the actuarially determined contribution rate is shared on a 1.4 to 1.00 ratio between the City and the participants of the Plan (cost sharing). 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 0.36 and the Amortization Payment on UAAL (0.05) are added to the prior Contribution Rate of 19.75%, plus Change in Cost Sharing (0.11), Change in Normal Cost Rate (0.05) and actuarial experience from DROP variable interest rate option (.22) to calculate the current year Contribution Rate of 19.68%. For the year ended September 30, 2019, the City contributed \$15,783,779, and the employees contributed \$7,755,783, including buybacks.

Member Contributions – The actuarially determined contribution rate for the actuary report dated October 1, 2017 was 11.24% for General employees, and 6.49% for employees in Plan C. As of October 1, 2017 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, 2019 was 19.68% of annual payroll. The covered payroll for the Plan was \$87,469,893. Although the actuarially determined rate was 19.68% of annual payroll, the City elected to keep the same funding level as the previous year of 19.75%

In FY 2016, an advanced payment of \$15,000,000 was made against the employer's share of the unfunded pension liability. In return for this advanced payment, the City as the employer will receive an annual credit against its regular payment into the fund.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE B – PLAN DESCRIPTION (continued)

5. Funding Requirements (continued)

Net Pension Liability of the City

The components of the net pension liability at September 30, 2019, were as follows:

Total pension liability	\$	723,381,495
Plan net position		(600,641,812)
Net pension liability	\$	122,739,683

Plan net position as a percentage of the total pension liability		83.03%
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6. Plan Assumptions The date of the actuarial valuation on which the contribution rates are based is October 1, 2017. The date of the actuarial valuation for the net pension liability is October 1, 2018 rolled forward to September 30, 2019. The following actuarial assumptions were applied to the plan for determination of total pension liability.

Actuarial Valuation:

Frequency	Annual
Latest date	10/1/2018
Basis for contribution	10/1/2017
Cost method	Entry Age Normal

Amortization:

Method	Level Percentage of Pay, closed
Amortization period	30 years, closed
Remaining amortization period	20 years

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)
Mortality table	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, 2017 FRS actuarial valuation.

(1) Probabilities of retirement by eligible members are assigned for each attained age and length of service.

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, 2019 (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%
Aggregate Fixed Income	15.00%	2.50%
International Fixed	5.00%	3.50%
Real Estate	10.00%	4.50%
Alternate Assets	20.00%	6.13%

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE B – PLAN DESCRIPTION (continued)

6. Plan Assumptions (continued)

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. There was no change to the discount rate from the prior year.

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	\$ 198,855,433	\$ 122,739,683	\$ 58,683,495

Rate of Return For the year ended September 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 6.13%. 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.

8. Investments The following individual non-US Government secured investments individually were more than 5% of the net position.

	Non-US government Secured Investments	% of FNP
TS&W International Large Cap Equity Trust	\$ 30,043,092	5.00%
WCM Focused International Growth Fund LP	33,823,689	5.63%
Vanguard Equity Income Fund	40,672,085	6.77%
	\$ 104,538,866	17.40%
Fiduciary Net Position	\$ 600,641,812	

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CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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	\$ 7,166,906
Total cash equivalents	<u>\$ 7,166,906</u>

Investment Policy 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. There were no changes to the Investment Policy in the current year.

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

Alternative investments are authorized within specific parameters of each investment manager's management agreement.

Asset Allocation In the City of Lakeland's Employees' 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 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, 2019 are as follows:

<u>Asset Class (Market)</u>	<u>Maximum%</u>	<u>Minimum%</u>	<u>Actual %</u>
Domestic Equity	50%	30%	41%
International Equity	25%	10%	15%
Private Equity	15%	0%	4%
Global Fixed Income	10%	0%	5%
Core Fixed Income	40%	10%	14%
Non-Core Fixed Income	10%	0%	4%
Core Real Estate	10%	0%	2%
Non-Core Real Estate	10%	0%	10%
Alternative	10%	0%	4%
Cash			1%
			<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, 2019, 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.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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 Employees' Pension Fund 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, 2019, the City of Lakeland Employees' Pension Fund held \$7,166,906, \$40,672,084, \$29,619,622, and \$63,866,781 in Money Market Funds, Mutual Funds, Foreign Mutual Funds, and Foreign Private Equity, respectively. These investments are held by an investment's counterparty, not in the name of the Plan. The City of Lakeland Employees' Pension Fund 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.

- 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 disclosures are found in Note A – Summary of Significant Accounting Policies.

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.

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CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Fair Value Investment (continued)

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

Investment Type Measured at Fair Value	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	\$ 10,101,242	\$ 10,101,242	\$ -	\$ -
Federal Farm Credit Bank	1,272,909	-	1,272,909	-
Federal Home Loan Bank	5,719,948	-	5,719,948	-
Federal Home Loan Mortgage Corporation	18,416,036	-	18,416,036	-
Mutual Funds	40,672,084	40,672,084	-	-
Corporate Notes and Bonds	48,590,930	-	48,590,930	-
Corporate Stocks	183,995,107	183,884,309	110,798	-
Foreign Stocks	8,773,886	401,039	8,372,847	-
Sub-total	<u>317,542,142</u>	<u>235,058,674</u>	<u>82,483,468</u>	<u>-</u>
Foreign Mutual Funds	29,619,622	29,619,622	-	-
Sub-total	<u>29,619,622</u>	<u>29,619,622</u>	<u>-</u>	<u>-</u>
Investments at Fair Value	<u>347,161,764</u>	<u>\$ 264,678,296</u>	<u>\$ 82,483,468</u>	<u>\$ -</u>

Investment Type Measured at Net Asset Value	Fair Value	Unfunded Commitments	Redemption Frequency if Currently Eligible	Redemption Notice Period
Fixed Income Strategies	24,244,585	\$ 4,740,477	n/a or quarterly*	100 days written*
Real Estate Strategies	70,300,972	17,033,046	n/a or quarterly*	30 days, subjective*
Private Equity Strategies	128,373,412	35,918,082	n/a, daily or quarterly*	n/a or 5-10 days*
Alternative Investment Funds	22,513,586	14,865,699	n/a*	n/a*
Total Investments at NAV	<u>245,432,555</u>	<u>72,557,304</u>		
Total Investments	<u>\$ 592,594,319</u>	<u>\$ 72,557,304</u>		

There are 22 investment securities measured at the net asset value (NAV) due to the nature and frequency of their pricing methods. The four principal types of investment holdings measured at their NAV include:

Fixed income strategies - This type includes four private equity fixed income type securities invested primarily in secured and unsecured debt instruments of middle market companies and institutions. These securities can include special situations like rescue financing and restructuring to optimize liquidity often with lower fee structures. *These investments are typically illiquid with disbursements received as underlying assets are liquidated; however, one of these funds is eligible for quarterly redemption with 100 days written notice.

Real estate strategies - This type includes eight real estate funds invested primarily in commercial and residential real estate. Participation in these funds is typically as a limited partnership with ownership measured in shares of partners' capital. *These holdings are typically illiquid with distributions received as underlying asset are liquidated; however, one fund is eligible for quarterly disbursement with 30 days notice subject to available cash as determined by the trustee.

Private equity strategies - This type includes seven private equity funds with a variety of investment strategies that include growth or value assets. Ownership is measured in shares of partners' capital with distributions received as the underlying investments of the fund are liquidated. *These holdings are typically illiquid with distributions received as underlying assets are liquidated; however, two of these funds are eligible for daily withdrawal subject to a 5 or 10 day notice and one fund is eligible for monthly withdrawal subject to a 5 day notice before month end.

Alternative investments - This type includes three alternative investment funds with a variety of investment strategies that typically offer superior long-term risk/reward profiles, but with more limited liquidity characteristics. These assets include dislocation opportunities resulting from liquidity-driven capital markets and deteriorating underwriting standards, as well as differentiated private investments which do not typically fall into a strategy silo. None of these investment funds are eligible for redemption upon request. Funds become available as underlying assets are liquidated.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Foreign Currency Risk The Employee Pension Fund held \$102,260,289, (17%) in fixed income and equity investments of foreign issuers of non-U.S. 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, 2019, 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:

Non-US Companies:

	Market Value	Denomination	Maturity
PIMCO DIVERSIFIED INCOME FUND INSTITUTIONAL CLASS #106	\$ 15,590,883	USD	N/A
TEMPLETON GLOBAL TOTAL RETURN FUND CLASS R6	14,028,739	USD	N/A
Total Mutual Funds	<u>29,619,622</u>		

Private Equity:

TS&W INTERNATIONAL LARGE CAP EQUITY TRUST	30,043,092	USD	N/A
WCM FOCUSED INTERNATIONAL GROWTH FUND LP	33,823,689	USD	N/A
Total Private Equity	<u>63,866,781</u>		

Corporate Stocks:

CITY OFFICE REIT INC	102,457	USD	N/A
ALIBABA GROUP HOLDING LTD	212,382	USD	N/A
ANCHIANO THERAPEUTICS LTD	6,698	USD	N/A
BIOHAVEN PHARMACEUTICAL HOLDING LTD	46,267	USD	N/A
BUNGE LIMITED	212,891	USD	N/A
CANADIAN PAC RY LTD COM	505,429	USD	N/A
GATES INDUSTRIAL CORPORATION	133,357	USD	N/A
CONSTELLIUM NV-CLASS A	137,700	USD	N/A
COTT CORPORATION	164,255	USD	N/A
FGL HOLDINGS	175,496	USD	N/A
KORNIT DIGITAL LTD	153,808	USD	N/A
NABORS INDUSTRIES LTD	73,035	USD	N/A
HIMAX TECHNOLOGIES, INC	9,811	USD	N/A
ICHOR HOLDINGS LTD	157,218	USD	N/A
SILICON MOTION TECHNOL-AD	154,727	USD	N/A
BANK OF NT BUTTERFIELD &	67,016	USD	N/A
IHS MARKIT LTD	261,033	USD	N/A
LULULEMON ATHLETICA INC.	226,030	USD	N/A
MAGNACHIP SEMICONDUCTOR CORP	72,552	USD	N/A
MEDTRONIC, PLC	1,095,324	USD	N/A
MELLANOX TECHNOLOGIES LTD	120,001	USD	N/A
PERNOD RICARD SA	145,360	USD	N/A
SHOPIFY INC - A W/I	64,202	USD	N/A
SMART GLOBAL HOLDINGS INC	142,178	USD	N/A
SPOTIFY TECHNOLOGY S.A.	92,340	USD	N/A
TRONOX HOLDINGS PLC	153,766	USD	N/A
WNS HOLDINGS LTD ADR	189,762	USD	N/A
AERCAP HOLDINGS NV	607,725	USD	N/A
AON PLC	1,910,343	USD	N/A
LIVANOVA PLC	61,615	USD	N/A
LIBERTY GLOBAL PLC-SERIES	1,319,108	USD	N/A
Total Corporate Stocks	<u>8,773,886</u>		

Total Foreign Investments	<u>\$ 102,260,289</u>		
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CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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 unsecured 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, 2019, the City of Lakeland's Employee Pension Fund's debt security investments had the following credit quality ratings:

	S&P Rating:		Moody's Rating:	
	Fair Value	% of Total	Fair Value	% of Total
AAA	\$ 7,166,906	7.85%	\$ 42,677,041	46.75%
AA+ to AA-	40,868,974	44.78%	2,298,340	2.52%
A+ to A-	26,328,358	28.85%	31,047,241	34.02%
BBB+ to BBB-	16,903,733	18.52%	13,604,087	14.91%
NR	-	-	1,641,262	1.80%
	<u>\$ 91,267,971</u>	<u>100.00%</u>	<u>\$ 91,267,971</u>	<u>100.00%</u>

As of September 30, 2019, 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%	\$ 7,166,906	100.00%
AA+ to AA-	35,510,135	100.00%	5,358,839	11.03%	-	0.00%
A+ to A-	-	0.00%	26,328,358	54.18%	-	0.00%
BBB+ to BBB-	-	0.00%	16,903,733	34.79%	-	0.00%
NR	-	0.00%	-	0.00%	-	0.00%
	<u>\$ 35,510,135</u>	<u>100.00%</u>	<u>\$ 48,590,930</u>	<u>100.00%</u>	<u>\$ 7,166,906</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	\$ 35,510,135	100.00%	\$ -	0.00%	\$ 7,166,906	100.00%
Aa1 to Aa3	-	0.00%	2,298,340	4.73%	-	0.00%
A1 to A3	-	0.00%	31,047,241	63.89%	-	0.00%
Baa1 to Baa3	-	0.00%	13,604,087	28.00%	-	0.00%
NR	-	0.00%	1,641,262	3.38%	-	0.00%
	<u>\$ 35,510,135</u>	<u>100.00%</u>	<u>\$ 48,590,930</u>	<u>100.00%</u>	<u>\$ 7,166,906</u>	<u>100.00%</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Credit Risk (continued)

The following investments and maturities held by the Employee Pension Fund of the City as of September 30, 2019 are collateralized by registered securities held by the City or its agents in the City's name:

Investment Type	Reported Amount Fair Value		Investment Maturities (in years)		
	Primary Government	Less than 1	1-5	6-10	More than 10
US Treasury Notes/Bonds	\$ 10,101,242	\$ -	\$ -	\$ 282,436	\$ 9,818,806
Federal Home Loan Bank	5,719,948	1,903,590	3,816,358	-	-
Federal Agencies Mortgage Backed	18,416,036	-	-	60,504	18,355,532
Federal Farm Credit Bank	1,272,909	-	1,272,909	-	-
Mutual Funds	40,672,084	40,672,084	-	-	-
Corporate Notes and Bonds	48,590,930	3,534,089	26,579,124	11,831,028	6,646,689
Corporate Stocks	183,995,107	183,995,107	-	-	-
Foreign Stocks	8,773,886	8,773,886	-	-	-
Sub-total	<u>317,542,142</u>	<u>238,878,756</u>	<u>31,668,391</u>	<u>12,173,968</u>	<u>34,821,027</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, 2019, by type and category of credit risk are as follows:

Investment Type	Reported Amount Fair Value		Investment Maturities (in years)		
	Primary Government	Less than 1	1-5	6-10	More than 10
Mutual Funds (1)	29,619,622	29,619,622	-	-	-
Fixed Income Strategies (2)	24,244,585	17,879,461	5,525,103	840,021	-
Real Estate Strategies (2)	70,300,972	10,919,434	43,623,255	15,758,283	-
Alternative Investment Funds	22,513,586	-	19,004,308	3,509,278	-
Private Equity Strategies (2)	128,373,412	92,739,229	11,638,081	23,996,102	-
Sub-total	<u>275,052,177</u>	<u>151,157,746</u>	<u>79,790,747</u>	<u>44,103,684</u>	<u>-</u>
Total Investments	<u>\$ 592,594,319</u>	<u>\$ 390,036,502</u>	<u>\$ 111,459,138</u>	<u>\$ 56,277,652</u>	<u>\$ 34,821,027</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.
- (2) The investment maturities of the fixed income strategies, real estate strategies, and private equity strategies are based principally on redemption eligibility. For funds where early redemption is not available, maturities have been estimated based on past experience with similar investment funds in relation to remaining uncalled capital and typical liquidation of underlying assets.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2019

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

Fiscal year ending September 30th	2019	2018	2017	2016	2015	2014
Total pension liability:						
Service cost	\$ 11,588,821	\$ 11,698,378	\$ 12,438,914	\$ 12,454,643	\$ 12,479,291	\$ 12,663,875
Interest	50,814,102	49,542,535	47,570,311	46,369,839	45,023,294	43,427,938
Changes in benefit terms	-	-	-	(1,360,522)	-	-
Difference between expected and actual experience	(4,906,876)	472,973	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	(46,819,788)	(41,311,167)	(42,434,673)	(38,965,501)	(34,634,781)	(32,658,024)
Net change in total pension liability	<u>10,676,259</u>	<u>20,402,719</u>	<u>27,381,877</u>	<u>18,308,551</u>	<u>20,763,031</u>	<u>23,232,915</u>
Total pension liability, beginning	<u>712,705,236</u>	<u>692,302,517</u>	<u>664,920,640</u>	<u>646,612,089</u>	<u>625,849,058</u>	<u>602,616,143</u>
Total pension liability, ending	<u>723,381,495</u>	<u>712,705,236</u>	<u>692,302,517</u>	<u>664,920,640</u>	<u>646,612,089</u>	<u>625,849,058</u>
Plan fiduciary net position:						
Contributions, employer	15,783,779	15,473,351	14,739,830	29,175,783	15,697,557	15,395,603
Contributions, members	7,755,783	7,593,222	7,600,019	7,468,541	7,394,407	7,129,361
Net investment and miscellaneous income	14,738,192	50,808,890	67,569,392	33,659,515	6,072,542	39,349,445
Benefit payments, including refunds of member contributions	(46,819,788)	(41,311,167)	(42,434,673)	(38,965,501)	(34,634,781)	(32,658,024)
Administrative expenses	(252,466)	(222,991)	(241,172)	(246,010)	(217,810)	(288,901)
Net change in plan fiduciary net position	<u>(8,794,500)</u>	<u>32,341,305</u>	<u>47,233,396</u>	<u>31,092,328</u>	<u>(5,688,085)</u>	<u>28,927,484</u>
Plan fiduciary net position, beginning	<u>609,436,312</u>	<u>577,095,007</u>	<u>529,861,611</u>	<u>498,769,283</u>	<u>504,457,368</u>	<u>475,529,884</u>
Plan fiduciary net position, ending	<u>600,641,812</u>	<u>609,436,312</u>	<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>\$ 122,739,683</u>	<u>\$ 103,268,924</u>	<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	83.03%	85.51%	83.36%	79.69%	77.14%	80.60%
Covered payroll	\$ 87,469,893	\$ 84,816,890	\$ 84,102,850	\$ 80,367,748	\$ 79,725,716	\$ 78,211,736
Net pension liability as a % of covered payroll	140.32%	121.76%	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, 2019

SCHEDULE OF CITY CONTRIBUTIONS

<u>Year Ended</u>	<u>Percentage of Actuarially determined contributions(ADC)</u>	<u>Actuarially determined contributions (ADC) (1)</u>	<u>Actual contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Actual Covered payroll (2)</u>	<u>Contribution as a percentage of covered payroll</u>
2019	19.68%	\$ 17,214,075	\$ 15,783,779	\$ 1,430,296	\$ 87,469,893	18.04%
2018	19.75%	16,751,336	15,473,351	1,277,985	84,816,890	18.24%
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) City of Lakeland covered payroll calculation is in compliance with GASB 82. All covered payroll represent 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. Although the ADC for 2019 was 19.68%, the City elected to maintain a level of funding at 19.75%.

SCHEDULE OF INVESTMENT RETURNS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Annual money-weighted rate of return, net of investment expense	6.13	6.13	13.08	6.16	1.02	8.03	11.23

Schedules are 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, 2019

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.

NOTE TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: October 1, 2017

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	20 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary Increases	4% to 12.5% 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	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 preretirement 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, setback 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

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2019

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (continued)

NOTE TO SCHEDULE OF NET PENSION LIABILITY

Valuation Date: October 1, 2018

Measurement Date: September 30, 2019

Methods and assumptions used to determine net pension liability:

Actuarial cost method	Entry age normal
Amortization method	Level percentage
Remaining amortization period	20 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-200 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, 2017 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, 2019, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated February 26, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

(Continued)

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 Plan'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 LLP

Crowe LLP

Tampa, Florida
February 26, 2020

EMPLOYEES' PENSION AND RETIREMENT SYSTEM

SCHEDULE OF FINDINGS

YEAR ENDED SEPTEMBER 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued

Unmodified

Internal control over financial reporting:

Material weakness identified

No

Significant deficiency identified not considered to be material weakness

None
Reported

Noncompliance material to financial statements noted

No

SECTION II – CURRENT YEAR FINDINGS

No current year findings.

EMPLOYEES' PENSION AND RETIREMENT SYSTEM

SUMMARY OF PRIOR YEAR FINDINGS

YEAR ENDED SEPTEMBER 30, 2019

MATERIAL WEAKNESS:

Finding 2018-001 – Alternative Investment Fair Value

Condition: Two out of twenty alternative investment net asset values recorded on the financial statements did not reconcile back to the investment statements provided by the investment managers.

Cause: As the individual alternative investment statements were received, the net asset value utilized in the investment reconciliations were incorrect, causing the general ledger balances to be misstated.

Current Year Update: This finding was remediated in 2019.

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, 2019, and have issued our report thereon dated February 26, 2020.

Auditor's Responsibility

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; 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 Reporting Requirements

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, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports and schedule, which are dated February 26, 2020, 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. Corrective actions have been taken to address findings and recommendations made in the preceding financial audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is disclosed in the financial statements.

(Continued)

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the Plan has met once or more of the conditions described in Section 218.503(1), *Florida Statutes*, and to identify the specific condition(s) met. In connection with our audit, we determined that Plan did not meet any of the conditions described in Section 218.503(1), *Florida Statutes*.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the City in which the Plan is presented as a blended component unit and included in the City's assessment. It is management's responsibility to monitor the Plan's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by same.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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, the City of Lakeland, Florida, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.



Crowe LLP

Tampa, Florida
February 26, 2020

**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, 2019. 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* during the year ended September 30, 2019.

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 LLP

Crowe LLP

Tampa, Florida
February 26, 2020