CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2005

C O N T E N T S

INDEPENDENT AUDITORS' REPORT . . . . 1 - 2

FINANCIAL STATEMENTS

Statement of Plan Net Assets 3

Statement of Changes in Plan Net Assets 4

Notes to Financial Statements . . . . 5 - 9

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Contributions 10

Notes to Required Supplementary Information 10

Carter, Belcourt & Atkinson, P.A.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of plan net assets of the Employees' Pension and Retirement System of the City of Lakeland, Florida, as of September 30, 2005, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Employees' Pension and Retirement System's Board of Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Trustees, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Employees' Pension and Retirement System of the City of Lakeland, Florida, and are not intended to present the financial position of the City of Lakeland, Florida, and the results of its operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Employees' Pension and Retirement System of the City of Lakeland, Florida's net assets held in trust for pension benefits, as of September 30, 2005, and the changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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The Schedule of Contributions on page 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Carter, Belcourt + Atkinson, P.A.

February 20, 2006
Lakeland, Florida

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS
SEPTEMBER 30, 2005

ASSETS		
Cash equivalents	$	9,054,620
Investments		437,488,655
Accrued interest receivable		1,699,910
Other receivables		4,049,505
Total assets		452,292,690
LIABILITIES		
Accounts payable		5,551,297
Due to Employees - DROP Plan Balances		1,599,731
Total Liabilities		7,151,028
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$	445,141,662

See accompanying notes to financial statements.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2005

ADDITIONS	
Contributions:	
Employer	$ 13,283,684
Employees	7,483,593
Total contributions	20,767,277
Net investment income:	
Investment gains	40,306,259
Less investment advisor's fees	(1,488,531)
Net investment income	38,817,728
Miscellaneous income	73,928
Total additions	59,658,933
DEDUCTIONS	
Pension benefits paid	20,468,121
Refunds of contributions to former employees	1,616,964
Actuary fee	14,000
Audit fee	3,000
Interest on DROP Plan balances	579
Legal fee	11,848
Travel	2,323
Transfer to General Fund - administrative expenses	51,593
Total deductions	22,168,428
NET INCREASE	37,490,505
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	407,651,157
End of year	$ 445,141,662

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Valuations of Investments – Plan investments are reported at fair value. State Board of Administration (SBA) and money market funds are reported at cost, which approximates fair value. Fixed income and equity securities are valued at the last reported sales price.

NOTE B - DESCRIPTION OF PLAN

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

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

Active plan participants	1,928
Retirees and beneficiaries	876
Terminated vested participants	61
Total number of participants	2,865

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

Plan Benefits

Pension Benefits - A member employee may retire after attaining age 50 and contributing for 10 or more years to this plan. The monthly benefit is determined by multiplying the average monthly salary by a service factor and a benefit factor. Plan members who enter the plan on or after October 1, 2003 may retire after attaining age 52 and contributing to the plan for 10 or more years.

- The average monthly salary is computed using the average of the highest total earnings over a consecutive period of 36 months. For members who enter the plan on or after October 1, 2003, the average monthly salary is calculated using the average of the highest total earnings over a consecutive period of 60 months.

- The service factor is based on the length of continuous service and is calculated by accumulating 3% per year for the first 25 years of service plus 1% per year for all service exceeding 25 years. The service factor for plan participants who enter the plan on or after October 1, 2003 is computed using 2% per year for the first 10 years of service, then 3% for the next 20 years plus 1% for each year over 30 years of service.

- The benefit factor is based on the age of the employee in years and months on the day retirement benefits commence. This value is derived from a benefit factor table as set forth in Section 23 of Article II, Division II, of the City Charter.

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

NOTE B - DESCRIPTION OF PLAN (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 of credited service, the employee will be entitled to his or her contributions to the Plan.

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

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

- The Lump Sum Payment benefit is calculated using the actuarial assumed rate of return plus one percent. The one-time lump-sum payment is based upon the present value of the retirement benefit.

- A member may elect to terminate membership in the plan with a vested benefit while still employed. This election allows the members to defer receipt of defined benefits until a later date and commence participation in the City's Deferred Compensation Plan. The member is guaranteed a life time defined benefit for the years of service vested and has the ability to manage his or her investments in the defined contribution plan.

- DROP allows members to continue working while their monthly pension benefit is deposited into a DROP account earning an annual rate of 6.5 percent. Once a member enters the DROP the decision is irrevocable. The members benefit shall be calculated as if the member had actually separated from service. The member remains an active employee of the City and agrees to terminate active service no later then sixty months following the date of entry into the DROP. Nothing prohibits a member to terminate service prior to the sixty months. If a member chooses to continue employment past the sixty months, beginning on the 61st month the DROP account will no longer be credited with the monthly pension benefits or interest.

- The termination of the DROP can be lump-sum payment, direct rollover into eligible retirement plan or partial lump-sum payment which is a combination of the lump-sum payment and direct rollover.

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

- If the employee has less than 10 years of service, the contribution is refunded.

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

Disability Benefits - There are no disability benefits available.

Funding Requirements

Member Contributions - Employees are required to contribute 8% of their basic annual compensation.

Employer Contributions - The City's contribution to the Plan equals 14.4% of employees' salaries. The amount of the covered payroll for the Plan for the year ending September 30, 2005 was $89,692,347 (adjusted basis).

Termination of Plan

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

NOTE C - CONTRIBUTIONS

As described above, the funding policy for the Plan is a contribution rate of 14.4% from the City and a contribution rate of 8% from the employee. The actuarially determined contribution rate for the report dated October 1, 2005 was 21.79% of actuarially determined covered payroll.

NOTE D - INVESTMENTS AND CASH EQUIVALENTS

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

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

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

Custodial Credit Risk - Custodial credit risk, for an investment, is the risk that, in the event of the failure of the counterparty, the City of Lakeland will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2005, the City of Lakeland Employee Pension Fund held $8,634,120, and $39,856,217 in Money Market Funds and 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 each.

Foreign Currency Risk - Foreign currency risk, for an investment, is the risk associated with currency fluctuations when an investment is denominated in a foreign currency. As of September 30, 2005, the City of Lakeland did not hold any investments denominated in a foreign currency. The Employee Pension Fund held investments denominated in U.S. dollars in foreign government securities. As of September 30, 2005, the City held investments in the United Kingdom and the Republic of Argentina in the amounts of $3,066,221 and $369,656 respectively. According to the investment policy, Fixed Income Managers of the Employee Pension Fund are authorized to invest up to 10% of their respective portfolio's fair value in issuers not domiciled in the U.S. and, except for specifically hired International Fund Managers, Equity Managers are authorized to invest up to 5% in equity investments of non-U.S. companies listed on a major U.S. exchange.

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

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

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

As of September 30, 2005, the City of Lakeland's Employee Pension Fund's debt security investments had the following credit quality ratings:

S& P	or	Moodys	Market	% of Total
AAA		Aaa	$ 87,570,866	48.04%
AA+ to AA-		Aa1 to Aa3	14,435,365	7.92%
A+ to A-		A1 to A3	20,252,923	11.11%
BBB+ to BBB-		Baa1 to Baa3	25,832,319	14.17%
BB+ to BB-		Ba1 to Ba3	4,805,991	2.64%
Below BB-		Below Ba3	881,605	0.48%
NR		NR	28,526,951	15.65%
			$ 182,306,020	100.00%

NOTE D - INVESTMENTS AND CASH EQUIVALENTS (Continued)

In the City of Lakeland's Employee Pension Fund, assets shall be diversified among equities, fixed income, and real estate to minimize overall portfolio risk consistent with the level of expected return and thereby improve the long-term return potential of assets. The diversification of the equity and fixed income securities held in the portfolio among sectors and issuers is the responsibility of the respective Investment Manager, subject to the general policy and specific guidelines of each manager. The Investment Manager is expected to diversify the portfolio sufficiently to minimize the risk of a large loss from a single security. Accordingly, no single company's fixed securities shall represent more than 5% of the market value of fund assets and no more than 10% of the market value of assets shall be in common stock of one company. Equity portfolios and all equity investments must be traded on national stock exchange or NASDAQ. As of September 30, 2005, no single company's fixed securities and common stock represented more than 5% and 10%, respectively, of the market value of fund assets The City of Lakeland's investment allocation limits and actual limits of the Employee Pension Fund as of September 30, 2005 are as follows:

Asset Class (Market)	Maximum%	Minimum%	Actual %
Equity	70%	60%	67.24%
Foreign Securities	10%	-	0.10%

The following investments and maturities held by the Employee Pension fund of the City as of September 30, 2005 are collateralized by registered securities held by the City or its agents in the City's name:

	Reported Amount Fair Value	Investment Maturities (in years)			
Investment Type	Primary Government	Less than 1	1-5	6-10	More than 10
US Treasury Notes (1)	$ 15,790,941	$ 358,425	$ 7,201,571	$ 8,230,945	$ -
U.S. Treasury Bonds	560,156	-	-	-	560,156
Fed Home Loan Mortgage Corp.	7,112,856	-	-	3,150,609	3,962,247
Federal National Mortgage Assoc (1)	13,023,059	2,817,937	450,144	2,615,978	7,139,000
Federal Agencies Mortgage Backed	26,894,656	31,932	4,643,129	1,013,791	21,205,804
Corporate Notes and Bonds (1)	66,541,898	219,173	28,017,158	26,700,623	11,604,944
Corporate Stocks (1)	263,816,755	263,816,755	-	-	-
Corporate Asset Backed Securities	456,240	-	-	-	456,240
Foreign Government Securities:					
United Kingdom	3,066,221	-	-	3,066,221	-
Republic of Argentina	369,656	-	-	369,656	-
Subtotal	397,632,438	267,244,222	40,312,002	45,147,823	44,928,391

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, 2005, by type and category of credit risk are as follows:

	Reported Amount Fair Value	Investment Maturities (in years)			
Investment Type	Primary Government	Less than 1	1-5	6-10	More than 10
Money Market (2)	8,634,120	8,634,120	-	-	-
Mutual Funds (2)	39,856,217	39,856,217	-	-	-
Total	$ 446,122,775	$ 315,734,559	$ 40,312,002	$ 45,147,823	$ 44,928,391

(1) Corporate Stocks balance includes ($83,166) in net transactions in the Pension Funds that had been executed but not settled as of September 30, 2005. Corporate Notes and Bonds balance includes $171,159 in net transactions in the Pension Funds that had been executed but not settled as of September 30, 2005. U.S. Treasury Notes balance includes $214,361 in net transactions in the Pension Funds that had been executed but not settled as of September 30, 2005. Federal National Mortgage Association balance includes $1,470,625 in net transactions in the Pension Funds that had been executed but not settled as of September 30, 2005.

(2) The rate of interest earned fluctuates during the year based on market conditions. Also, there is no stated maturity date for these types of investments. Funds may be invested, withdrawn, or reinvested at the discretion of the Plan.

NOTE D - INVESTMENTS AND CASH EQUIVALENTS (Continued)

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

State Board of Administration	$	420,500
Money market funds		8,634,120
Total cash & cash equivalents	$	9,054,620

NOTE E - TRANSFER TO GENERAL FUND

For the year ended September 30, 2005, the Plan reimbursed $51,593 to the City of Lakeland General Fund for payroll costs associated with employees involved with the internal administration of the Plan.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

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

	Fiscal Year	Employer Contributions	Annual Required Contribution (ARC)
	2005	$ 13,283,684	$ 19,678,365
% of the ARC		68%	
	2004	13,503,859	19,290,388
% of the ARC		70%	
	2003	11,492,503	22,090,240
% of the ARC		52%	
	2002	11,047,917	16,415,394
% of the ARC		67%	
	2001	10,193,063	14,512,008
% of the ARC		70%	
	2000	9,801,217	14,145,656
% of the ARC		69%	

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

General - The actuarial cost method utilized in the actuarial report dated October 1, 2005 is the aggregate actuarial cost method. This method does not identify or separately amortize unfunded actuarial accrued liabilities. The actuarial value of assets was determined by applying an actuarial adjustment factor to the market value of assets. The actuarial adjustment factor was determined as the amount by which current market prices were inflated in relation to a longer-range trend.

Actuarial Assumptions Utilized:

Interest Rate	7.5 %
Combined Inflation and Projected Salary Increase Rate	5.0 %
Post Retirement Benefit Increases	0 %