

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2016

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, 2016



Prepared by the
FINANCE DEPARTMENT

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CONTENTS

INDEPENDENT AUDITOR'S REPORT.	1-3
FINANCIAL STATEMENTS	
Statement of Fiduciary Net Position	4
Statement of Changes in Fiduciary Net Position	5
Notes to the Financial Statements	6 - 14
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in the City's Net Pension Liability and Related Ratios	15
Schedule of City Contributions	15
Schedule of Investment Returns	15
Notes to Required Supplementary Information	16
OTHER INDEPENDENT AUDITOR'S REPORT	
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 <i>Government Auditing Standards</i>	17-18
Schedule of Findings	19
Management Letter	20-21
Independent Accountant's Report on Compliance with Section 218.415, Florida Statutes	22

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2016

ASSETS	
Cash equivalents	\$ 7,969,841
Receivables:	
Contributions	870,604
Accrued interest receivable	408,020
Unsettled investment sales, net	<u>3,845,451</u>
Total receivables	<u>5,124,075</u>
Investments:	
Mutual Funds	230,350,881
US Government Obligations	42,077,455
Corporate Notes and Bonds	32,463,887
Corporate Stocks	<u>213,244,002</u>
Total investments	<u>518,136,225</u>
Total assets	<u>531,230,141</u>
LIABILITIES	
Payables:	
Accounts payable	592,165
Unsettled investment purchases	<u>776,365</u>
Total Liabilities	<u>1,368,530</u>
NET POSITION	
Net Position Restricted for DROP benefits	21,273,824
Net Position Restricted for pension benefits and other purposes	<u>508,587,787</u>
	<u>\$ 529,861,611</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, 2016

ADDITIONS

Contributions:

Employer	\$ 29,175,783
Plan members	<u>7,468,541</u>
Total contributions	<u>36,644,324</u>

Investment income:

Interest and dividends	8,720,132
Net increase in the fair value of investments	27,344,324
Less Investments Expenses:	
Investment advisor fee	<u>(2,485,656)</u>
Net investment income	<u>33,578,800</u>

Miscellaneous income	<u>80,715</u>
Total additions	<u>70,303,839</u>

DEDUCTIONS

Benefits paid	38,124,534
Refunds, former employees	840,967
Administrative Expenses	<u>246,010</u>
Total deductions	<u>39,211,511</u>

CHANGE IN NET POSITION	31,092,328
NET POSITION, beginning of year	<u>498,769,283</u>
NET POSITION, end of year	<u>\$ 529,861,611</u>

See Accompanying notes to financial statements

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

General These financial statements represent only the Employees' Pension and Retirement System (Plan) of the City of Lakeland, Florida (City). The statements presented herein do not constitute the basic financial statements of the City which are issued separately under the title "Comprehensive Annual Financial Report" (CAFR). The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

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

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

Basis of Accounting The Plan is maintained using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the period in which the employee services are performed. Expenses are recognized when they are incurred and revenues are recognized when they are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Accounting Principles Generally Accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates.

Realized Gains and Losses Realized gains and losses, the difference between the proceeds of sale and original costs of investments sold for the year ended September 30, 2016 were \$89,457.

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

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

NOTE B – PLAN DESCRIPTION

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

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

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

3. Plan Membership Pension plan membership for the Plan as of the actuary report dated October 1, 2014 for fiscal year 2016 is shown in the following table.

Active plan members	1,407
Retirees and beneficiaries	952
DROP Participants	186
Terminated vested plan members	59
	<u>2,604</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

NOTE B – PLAN DESCRIPTION (Continued)

4. Plan Benefits

Pension Benefits

Plan A

Plan members may retire after attaining age 60 and contributing for 10 or more years to this plan.

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

- The average monthly salary is computed using the average of the highest total earnings over a consecutive period of 36 months.
- The service factor is based on the length of continuous service and is calculated by accumulating 3% per year for the first 25 years of service plus 1% per year for all service exceeding 25 years.
- The benefit factor is based on the age of the employee in years and months on the day retirement benefits commence. This value is derived from a benefit factor table as set forth in Section 23 of Article II, Division II, of the City Charter.

Plan B

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

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

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

Plan C

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

- The average monthly salary is computed using the average of the highest total earnings over a consecutive period of 60 months.
- The service factor is based on the length of continuous service and is calculated by accumulating 2.41% per year.
- The benefit factor is based on the age of the employee in years and months on the day retirement benefits commence. This value is derived from a benefit factor table as set forth in Section 23 of Article II, Division II, of the City Charter.

Cost of Living Increase There is not cost of living increase in 2016.

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.

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

NOTE B – PLAN DESCRIPTION (Continued)

Deferred Retirement Option Plan (DROP)

- DROP allows members to continue working while their monthly pension benefit is deposited into a DROP account. Once a member enters the DROP the decision is irrevocable. Members who enter the DROP prior to December 31, 2011 and non-bargaining unit members who enter the DROP prior to ratification of a collective bargaining agreement earn 6.5% per year. The members benefit shall be calculated as if the member had actually separated from service. The member remains an active employee of the City and agrees to terminate active service no later than sixty months following the date of entry into the DROP. Nothing prohibits a member to terminate service prior to the sixty months. If a member chooses to continue employment past the sixty months, beginning on the 61st month the DROP account will no longer be credited with the monthly pension benefits or interest.
- Effective upon adoption, each member and bargaining unit members who enter the DROP after December 31, 2011 may elect investment options earning interest rate based on actual net rate of return of such investments on an annual basis to have their DROP account credited and compounded semi-monthly at a variable interest rate, not to exceed three percent (3%) per annum. The Board of Trustees shall review and set the variable interest rate once each year. Within 60 days of announcing the variable interest rate, each Member of the DROP may elect to transfer all, some, or none of their existing DROP account balance and future DROP account accruals to the City of Lakeland Defined Contribution Plan, subject to Board approval, via a plan to plan transfer; provided, that all such transfers made to the City of Lakeland Defined Contribution Plan are irrevocable and shall not be transferred back to the member's DROP account at any point thereafter.
- A failure to make such an initial election means that the Member's DROP balance will remain in the Fund and earn said variable interest rate. Each year thereafter, within 60 days of the Board of Trustees setting the variable interest rate, each Member in the DROP shall elect whether any amounts remaining in the Fund and whether DROP account accruals will either: be credited at a variable interest rate, compounded semi-monthly on the prior installment's accumulated ending balance until such time as the earlier of either: the 120th payment; or the last payment made prior to final separation from service; or death; or be irrevocably transferred to the City of Lakeland Defined Contribution Plan, as above. Any member of the DROP who fails to make such a written annual election within the prescribed time shall continue with the option, as described herein in which the Member was then currently participating.
- 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 2014, there were 186 DROP participants.

As of September 30, 2016, the Plan held \$21,273,824 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.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

NOTE B – PLAN DESCRIPTION (Continued)

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

The City obtains an annual review by an independent actuary utilizing census data covering both retired and active plan members and balance sheet data regarding net position of the Plan based on an effective date of October 1 with the report being issued within 6 months of the fiscal year. This review is used to determine the required funding level upon which the City bases its annual contribution to the Employees' Pension and Retirement System for the budget year commencing after the issuance of that report. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute at least quarterly to the fund in an amount equal to the required city contribution as shown by the applicable actuarial valuation system. The actuarial experience (0.29) and the Amortization Payment on UAAL (0.43) are added to the prior Contribution Rate (18.54%), less Change in Cost Sharing (0.31) and Change in Normal Cost Rate (0.06) to calculate the current year Contribution Rate of 18.89%. For the year ended September 30, 2016, the employees contributed \$7,450,823 and buybacks were \$17,718.

Member Contributions – The actuarially determined contribution rate for the actuary report dated October 1, 2014 was 10.72% - 10.87% for General union employees, 10.87% for non-union employees in Plans A and B and 6.12% for employees in Plan C.

Employer Contributions - The City's contribution rate for the fiscal year ended September 30, 2016 was 19.29% (before cost sharing) of annual payroll. The covered payroll for the Plan was \$81,117,022 calculated in the October 1, 2014 actuary report.

Net Pension Liability of the City

The components of the net pension liability at September 30, 2016, were as follows:

Total pension liability	\$ 664,920,640
Plan net position	(529,861,611)
Net pension liability	<u>\$ 135,059,029</u>
Plan net position as a percentage of the total pension liability	79.69%

6. Plan Assumptions The date of the actuarial valuation on which the contribution rates are based, is October 1, 2014 rolled forward to September 30, 2016. The following actuarial assumptions were applied to the plan.

Actuarial Valuation:

Frequency	Annual
Latest date	10/01/2015
Basis for contribution	10/01/2014
Cost method	Entry Age Normal

Amortization:

Method	Level Percentage of Pay, closed
Amortization period	30 years, closed
Remaining amortization period	27 years

Assumptions:

Investment rate of return	7.25%
Salary increases	4.0% to 14.0% depending on service, including inflation
Inflation rate	3.0%
Post-retirement benefit increases	N/A
Retirement rate	(1)
Mortality table	RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvement projected using Scale AA after 2000.

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

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

NOTE B – PLAN DESCRIPTION (Continued)

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, 2016 (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	40.00%	7.50%
International Equity	15.00%	8.50%
Domestic Bonds	20.00%	2.50%
International Bonds	5.00%	3.50%
Real Estate	10.00%	4.50%
Alternate Assets	10.00%	6.00%

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

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

	Decrease Rate (6.25%)	Discount Rate (7.25%)	Increase Rate (8.25%)
City's net pension liability	\$ 202,571,992	\$ 135,059,029	\$ 77,848,730

Rate of Return For the year ended September 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 6.16%. 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.

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	\$ 8,666,747
Cash held with investment manager	3,755
Money Market Funds - City of Lakeland	(700,661)
Total cash equivalents	\$ 7,969,841

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

Asset Allocation In the City of Lakeland's Employee Pension Fund, assets shall be diversified among equities and fixed income investments to minimize overall portfolio risk consistent with the level of expected return and thereby improve the long-term return potential of assets. The Pension Board of Trustees (Board) employs professional Investment Management firms to invest the assets of the City of Lakeland's Employee Pension Fund. Assets shall be diversified to minimize overall portfolio risk consistent with the level of expected return and thereby improve the long-term return potential of assets. The performance of the Portfolio is compared to the return of a customized blended market index comprised of domestic and international equity, aggregate and international fixed income, real estate and alternatives investments. If at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances, the asset allocation will be rebalanced into the allowable range. The City of Lakeland's investment allocation limits and actual limits for the Employee Pension Fund as of September 30, 2016 are as follows:

Asset Class (Market)	Maximum%	Minimum%	Actual %
Domestic Equity	50%	35%	43%
International Equity	20%	10%	16%
Aggregate Fixed Income	40%	10%	21%
International Fixed	10%	0%	5%
Real Estate	15%	0%	10%
Alternative	15%	0%	5%

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, 2016, 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.

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, 2016, the City of Lakeland held \$17,667,300, \$362,808,599, and \$34,904,257 in Money Market Funds, Mutual Funds, and Commingled Trust Funds respectively. These investments are held by an investment's counterparty, not in the name of the City. The City of Lakeland's investment policy limits the investment in Money Market Funds and Mutual Funds, including Commingled Trust Funds, to 10% of total investments in each.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

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

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 new disclosures were added to Note 1 – Summary of Significant Accounting Policies Section H – Fair Value Measurement.

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

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

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

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

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

Investment Type	Total	Quoted Prices in Active	Significant Other	Significant
		Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
US Treasury Bonds	\$ 7,126,573	\$ 7,126,573	\$ -	\$ -
Federal Farm Credit Bank	6,453,704	-	6,453,704	-
Federal Home Loan Bank	7,997,951	-	7,997,951	-
Federal Agencies Mortgage Backed	20,499,228	-	20,499,228	-
Corporate Notes and Bonds	32,463,887	-	32,463,887	-
Corporate Stocks	213,211,836	203,076,833	10,135,003	-
Foreign Stocks	32,165	-	32,165	-
Sub-total	<u>287,785,344</u>	<u>210,203,406</u>	<u>77,581,938</u>	<u>-</u>
Mutual Funds	201,523,080	28,081,468	-	173,441,612
Comingled Trust Funds	28,827,801	-	28,827,801	-
Sub-total	<u>230,350,881</u>	<u>28,081,468</u>	<u>28,827,801</u>	<u>173,441,612</u>
Total Investments	<u>\$ 518,136,225</u>	<u>\$ 238,284,874</u>	<u>\$ 106,409,739</u>	<u>\$ 173,441,612</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

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

Foreign Currency Risk The Employee Pension Fund held \$112,165,796 (21.32%) in fixed income and equity investments of foreign issuers of non-US companies. The investment policy for this fund limits the investments in foreign securities to 25% of the total assets held by the fund. As of September 30, 2016, the Employee Pension Fund held the following fixed income and equity investments in non-U.S. companies and/or investments denominated in a foreign currency:

Foreign Investments:

Mutual Funds:	<u>Market Value</u>	<u>Denomination</u>	<u>Maturity</u>
Non-US Companies:			
PIMCO DIVERSIFIED INCOME FUND INSTITUTIONAL CLASS #106	\$ 14,068,701	USD	N/A
TEMPLETON GLOBAL TOTAL RETURN FUND CLASS R6	12,854,036	USD	N/A
TS&W INTERNATIONAL LARGE CAP EQUITY TRUST	27,024,959	USD	N/A
WCM FOCUSED INTERNATIONAL GROWTH FUND LP	29,358,134	USD	N/A
LEE MUNDER EMERGING MARKETS	28,827,801	USD	N/A
Total Mutual Funds	<u>112,133,631</u>		
Corporate Stocks:	<u>Market Value</u>	<u>\$ Denomination</u>	<u>Maturity</u>
Non-US Companies:			
CANADIAN SOLAR INC COM STK USD0	32,165	USD	N/A
Total Corporate Stocks	<u>32,165</u>		
Total Foreign Investments	<u>\$ 112,165,796</u>		

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:

<u>Investment Class</u>	<u>S & P Rating</u>	<u>Moody's Rating</u>	<u>Maximum %</u>
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, 2016, the City of Lakeland's Employee Pension Fund's debt security investments had the following credit quality ratings:

S&P Rating:

	<u>Cost</u>	<u>% of Total</u>	<u>Market</u>	<u>% of Total</u>
AAA	\$ 7,966,085	9.86%	\$ 7,966,085	9.65%
AA+ to AA-	44,610,018	55.18%	45,752,468	55.45%
A+ to A-	10,842,009	13.41%	10,987,865	13.32%
BBB+ to BBB-	17,424,773	21.55%	17,801,010	21.58%
	<u>\$ 80,842,885</u>	<u>100.00%</u>	<u>\$ 82,507,428</u>	<u>100.00%</u>

Moody's Rating:

	<u>Cost</u>	<u>% of Total</u>	<u>Market</u>	<u>% of Total</u>
Aaa	\$ 49,071,524	60.70%	\$ 50,043,541	60.65%
Aa1 to Aa3	1,078,407	1.33%	1,113,420	1.35%
A1 to A3	14,729,070	18.22%	15,007,690	18.19%
Baa1 to Baa3	15,963,884	19.75%	16,342,777	19.81%
	<u>\$ 80,842,885</u>	<u>100.00%</u>	<u>\$ 82,507,428</u>	<u>100.00%</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

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

Credit Risk (continued)

As of September 30, 2016, 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	
	Market	% of Total	Market	% of Total	Market	% of Total
	AAA	\$ -	0.00%	\$ -	0.00%	\$ 7,966,086
AA+ to AA-	42,077,455	100.00%	3,675,012	11.32%	-	0.00%
A+ to A-	-	0.00%	10,987,865	33.85%	-	0.00%
BBB+ to BBB-	-	0.00%	17,801,010	54.83%	-	0.00%
	<u>\$ 42,077,455</u>	<u>100.00%</u>	<u>\$ 32,463,887</u>	<u>100.00%</u>	<u>\$ 7,966,086</u>	<u>100.00%</u>

Moody's Rating	US Government Agency Obligations		Corporate Bonds		Money Market Funds	
	Market	% of Total	Market	% of Total	Market	% of Total
	Aaa	\$ 42,077,455	100.00%	\$ -	0.00%	\$ 7,966,086
Aa1 to Aa3	-	0.00%	1,113,420	3.43%	-	0.00%
A1 to A3	-	0.00%	15,007,690	46.23%	-	0.00%
Baa1 to Baa3	-	0.00%	16,342,777	50.34%	-	0.00%
	<u>\$ 42,077,455</u>	<u>100.00%</u>	<u>\$ 32,463,887</u>	<u>100.00%</u>	<u>\$ 7,966,086</u>	<u>100.00%</u>

The following investments and maturities held by the Employee Pension Fund of the City as of September 30, 2016 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	\$ 7,126,573	\$ -	\$ -	\$ -	\$ 7,126,573
Federal Farm Credit Bank	6,453,704	-	6,453,704	-	-
Federal Home Loan Bank	7,997,951	4,519,927	3,478,024	-	-
Federal Agencies Mortgage Backed	20,499,228	-	953,016	3,731,225	15,814,987
Corporate Notes and Bonds	32,463,887	-	9,277,578	17,093,957	6,092,352
Corporate Stocks	213,211,836	213,211,836	-	-	-
Foreign Stocks	32,165	32,165	-	-	-
Sub-total	<u>287,785,344</u>	<u>217,763,928</u>	<u>20,162,322</u>	<u>20,825,182</u>	<u>29,033,912</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, 2016, by type and category of credit risk are as follows:

Investment Type	Reported Amount				
	Amount Fair		Investment Maturities (in years)		
	Primary Government	Less than 1	1-5	6-10	More than 10
Money Market Funds (1)	7,966,086	7,966,086	-	-	-
Mutual Funds (1)	230,350,881	230,350,881	-	-	-
Accrued Interest Receivable (2)	408,020	408,020	-	-	-
Sub-total	<u>238,724,987</u>	<u>238,724,987</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 526,510,331</u>	<u>\$ 456,488,915</u>	<u>\$ 20,162,322</u>	<u>\$ 20,825,182</u>	<u>\$ 29,033,912</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) Represents accrued interest accounted for within the internally managed investment pool.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

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

Fiscal year ending September 30th	2016	2015	2014
Total pension liability:			
Service cost	\$ 12,454,643	\$ 12,479,291	\$ 12,663,875
Interest	46,369,839	45,023,294	43,427,938
Changes in benefit terms	(1,360,522)	-	-
Differences between expected and actual experience	(189,908)	(2,382,849)	(310,956)
Other (Adjustment to DROP Balance)	-	278,076	110,082
Benefit payments, including refunds of member contributions	(38,965,501)	(34,634,781)	(32,658,024)
Net change in total pension liability	18,308,551	20,763,031	23,232,915
Total pension liability, beginning	646,612,089	625,849,058	602,616,143
Total pension liability, ending	<u>\$ 664,920,640</u>	<u>\$ 646,612,089</u>	<u>\$ 625,849,058</u>
Plan fiduciary net position:			
Contributions, employer	\$ 29,175,783	\$ 15,697,557	\$ 15,395,603
Contributions, members	7,468,541	7,394,407	7,129,361
Net investment income	33,659,515	6,072,542	39,349,445
Benefit payments, including refunds of member contributions	(38,965,501)	(34,634,781)	(32,658,024)
Administrative expenses	(246,010)	(217,810)	(288,901)
Net change in plan fiduciary net position	31,092,328	(5,688,085)	28,927,484
Plan fiduciary net position, beginning	498,769,283	504,457,368	475,529,884
Plan fiduciary net position, ending	<u>\$ 529,861,611</u>	<u>\$ 498,769,283</u>	<u>\$ 504,457,368</u>
Net pension liability, ending	<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	79.69%	77.14%	80.60%
Covered payroll	\$ 80,367,748	\$ 79,725,716	\$ 78,211,736
Net pension liability as a % of covered payroll	168.05%	185.44%	155.21%

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

SCHEDULE OF CITY CONTRIBUTIONS ⁽²⁾

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

(1) The actuarially determined contribution (ADC) is calculated as the actuarially determined contribution percentage multiplied by the actual pensionable payroll for the year.

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

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

SCHEDULE OF INVESTMENT RETURNS

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

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

See Accompanying notes to required supplementary information

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: October 1, 2014

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	27 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increases	4% to 14% 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	RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvement projected using Scale AA after 2000.
Cost of Living Adjustment	None

NOTES TO SCHEDULE OF NET PENSION LIABILITY

Valuation Date: October 1, 2015

Measurement Date: September 30, 2016

Methods and assumptions used to determine net pension liability:

Actuarial cost method	Entry age normal
Amortization method	Level percentage
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increases	4% to 14% 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	RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvement projected using Scale AA after 2000.
Cost of Living Adjustment	None