

CITY OF LAKELAND, FLORIDA
POLICE OFFICERS' SUPPLEMENTAL PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2006

CONTENTS

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 - 8

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Contributions	9
Schedule of Funding Progress	9
Notes to Required Supplementary Information	9

INDEPENDENT AUDITORS' REPORT

Board of Trustees
City of Lakeland, Florida
Police Officers' Supplemental Pension and Retirement System

We have audited the accompanying statement of plan net assets of the Police Officers' Supplemental Pension and Retirement System of the City of Lakeland, Florida, as of September 30, 2006, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Police Officers' Supplemental 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 Police Officers' Supplemental 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 Police Officers' Supplemental Pension and Retirement System of the City of Lakeland, Florida's net assets held in trust for pension benefits, as of September 30, 2006, and 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.

The Schedule of Contributions and the Schedule of Funding Progress on page 9 are 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.

July 3, 2007
Lakeland, Florida

CITY OF LAKE LAND, FLORIDA
POLICE OFFICERS' SUPPLEMENTAL PENSION AND RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS
SEPTEMBER 30, 2006

ASSETS

Defined Benefit Plan:

Cash and cash equivalents

\$ 427,149

Investments

17,170,258

Receivables

25,856

Share Plan:

Investments

892,742

Total assets

18,516,005

LIABILITIES

Accounts payable

52,409

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

\$ 18,463,596

(A Schedule of Funding Progress for the plan is presented on page 9)

See accompanying notes to financial statements.

CITY OF LAKELAND, FLORIDA
POLICE OFFICERS' SUPPLEMENTAL PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2006

ADDITIONS	
Contributions:	
State of Florida	\$ 779,989
Employee	<u>136,632</u>
Total contributions	916,621
Net investment income:	
Investment gains	1,579,088
Less investment advisory fees	<u>(98,055)</u>
Net investment income	<u>1,481,033</u>
Total additions	2,397,654
DEDUCTIONS	
Pension benefits paid	1,158,261
Refunds of contributions to former employees	12,902
Actuarial fee	3,950
Audit fee	1,500
Other expenses	<u>8,454</u>
Total deductions	<u>1,185,067</u>
NET INCREASE	1,212,587
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>17,251,009</u>
End of year	<u>\$ 18,463,596</u>

See accompanying notes to financial statements.

CITY OF LAKELAND, FLORIDA
POLICE OFFICERS' SUPPLEMENTAL PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - These financial statements represent only the Police Officers' Supplemental 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 full-time, sworn police officers.

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. The plan participant contributions are recognized when they are due. The contribution from the State of Florida is recognized in the period due, and the State has sent a formal letter of commitment to the contributions. 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 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 Ordinance. 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 defined benefit Police Officers Supplemental Plan was frozen as of April 2, 2005 and converted to a defined contribution Share plan on April 3, 2005 by ordinance approved by the City Commission. Members of the plan prior to that date will be eligible for their accrued benefits under the defined benefit portion of the plan upon satisfying all eligibility conditions. The Plan is a single employer, defined benefit pension plan and a defined contribution benefit share plan that covers substantially all full-time sworn police officers. 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	230
Retirees and beneficiaries	107
Terminated vested participants	<u>20</u>
Total number of participants	<u>357</u>

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

Plan Benefits

Pension Benefits - A member police officer prior to April 3, 2005 may retire after attaining age 50 and contributing for 10 or more years to this plan. The monthly benefit is determined by multiplying the credited service by 2% of the average salary, received prior to April 3, 2005, multiplied by a benefit factor. 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 the benefit factor table as set forth in Section 62 of Article II of the City Charter. The maximum monthly benefit is \$1,350.

The Plan member may elect to receive benefits payable under three actuarially equivalent options:

- A larger monthly benefit payable to the member for his remaining lifetime only.
- A reduced monthly benefit paid during the lifetime of the Plan member, continuing after the Plan member's death, but paid to a beneficiary.
- A reduced one time, lump sum payment based upon the present value of the retirement amount.

Under the terms of the share plan, an active member on or after April 3, 2005, may retire after attaining age 50 and contributing 20 or more years to this plan or attaining age 55 and contributing 10 or more years to this plan. The plan member shall receive a lump sum benefit of the member's share of the Plan for credited service on or after April 3, 2005 according to the share factor table as set forth in Section 62 of Article II of the City Charter.

The board of trustees shall approve the actuarially determined share of each members share of income or loss that shall be allocated to each plan member for that plan year based on each plan member's credited service during the plan year according to Section 62 of Article II of the City Charter.

Termination Benefits – If a police officer is terminated, either voluntarily or involuntarily, with sufficient years credited service but who has yet attained the age of eligibility for benefits to commence under the benefit provisions of the Plan, that Plan member is entitled to a refund of the contributions made by the employee to the Plan. In lieu of refund, the funds may be optionally left on deposit in the Plan for 5 years, pending the possibility of being reemployed and without losing credit for the time the member was in the plan as a police officer. Should the police officer not become reemployed within 5 years, his contributions shall be returned to him without interest. If the police officer has 10 or more years of credited service and the

CITY OF LAKELAND, FLORIDA
POLICE OFFICERS' SUPPLEMENTAL PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

contributions are left in the plan, then the police officer will be entitled to the vested portion of the accrued monthly benefit commencing on the normal retirement date.

NOTE B - DESCRIPTION OF PLAN (CONTINUED)

Disability Benefits – There is no disability benefit under this plan. A police officer who becomes totally and permanently disabled may retire from the service of the City and receive a disability benefit from the City of Lakeland Employees' Pension and Retirement System subject to the stipulations and conditions of the Plan.

Death Benefits - If a police officer remains employed beyond the retirement eligibility date and dies prior to retirement, the beneficiary would receive monthly retirement payments in the same manner as if the officer had retired under normal form retirement on the date of death. If the police officer has not attained age 50, the benefit would equal one year's compensation at the rate of pay in effect at the time of death.

Funding Requirements:

Member Contributions - Police officers participating in the Plan contribute 1% of their basic annual compensation. For benefit funding and actuarial purposes, annual member contributions shall be distributed between the defined benefit plan that existed prior to April 3, 2005 and the Share plan implemented on April 3, 2005 according to the contribution distribution table as set forth in Section 62 of Article II of the City Charter.

State Contributions - The City deposits the income received from the 0.85% excise tax on casualty insurance premiums, per Section 185.08, Florida Statutes, in the Plan. The amount of the covered payroll for the Plan for the year ending September 30, 2006 was \$13,140,339 (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

The Plan is funded from an annual contribution from a trust fund established by the State of Florida for the express purpose of providing retirement benefits to police officers. For the Defined Benefit portion, the contribution from the state trust fund for the year ended September 30, 2006 equaled 3.9% of covered payroll. The actuarially determined contribution rate was 2.8% for 2006. The date of the latest actuarial valuation of the plan was July 3, 2007.

In addition to State funds, all covered police officers are required by Ordinance to contribute 1% of their annual compensation to the Fund. The City does not contribute to the plan.

NOTE D - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Authorized Investments – Several forms of legal and contractual provisions govern the types of investments in which this Plan's 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 Government National Mortgage Association
- 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

Investment Violations - There were no 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, 2006, the City of Lakeland Police Officers' Pension Plan held \$316,141 and \$10,280,798 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 Police Officers' Retirement Pension Plan's investment policy does not limit the investment in Money Market Funds and Mutual Funds, including Commingled Trust Funds

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.

CITY OF LAKELAND, FLORIDA
POLICE OFFICERS' SUPPLEMENTAL PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

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

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 Municipal Police Officers' Pension Fund.

Investment Class	S&P Rating	Moody's Rating
Municipal Police Officers' Pension Fund		
Mortgage Backed Securities	AAA	Aaa
Fixed Income	A or higher	A1 or higher

As of September 30, 2006, the City of Lakeland's Municipal Police Officers' Pension Fund's investments in debt securities (bond mutual funds), other than obligations of the US government and obligations explicitly guaranteed by the US government, had the following aggregate S&P and Moody's credit quality ratings:

S&P Rating:

	Cost	% of Total	Market	% of Total
AAA	\$ 5,300,609	100.00%	\$ 5,589,563	100.00%
	\$ 5,300,609	100.00%	\$ 5,589,563	100.00%

Moody's Rating:

	Cost	% of Total	Market	% of Total
Aaa	\$ 5,300,609	100.00%	\$ 5,589,563	100.00%
	\$ 5,300,609	100.00%	\$ 5,589,563	100.00%

In the City of Lakeland's Municipal Police Officers' Retirement Fund, assets shall be diversified among equities and fixed income securities. All domestic securities must be issued by a corporation organized under the laws of the United States, or the District of Columbia and may be managed through the purchase of open-end, no-load mutual funds or commingled funds as long as these funds in aggregate adhere to the equity guidelines of the fund. No more than 5% of the cost value of assets shall be in common stock of one company. No single company's fixed securities shall represent no more than 10% of the cost value assets of the fund and no more than 5% of the cost value of assets shall be in common stock of one company. As of September 30, 2005, no single company's fixed securities and common stock represented more than 10% and 5% respectively of the cost value assets of the fund. The City of Lakeland's investment allocation limits and actual limits of the Lakeland Municipal Police Officers' Retirement Fund as of September 30, 2006 are as follows:

Asset Class (Cost)	Maximum %	Actual %
Equity	70%	71.81%
Foreign Equity	10%	-
Fixed Income	10%	-

The equity investment allocation limit is not in compliance due to the increase market value of the equity investments (11%).

CITY OF LAKELAND, FLORIDA
POLICE OFFICERS' SUPPLEMENTAL PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

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

The following investments and maturities held by the Employee Pension fund of the City as of September 30, 2006 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
Corporate Stocks	\$ 7,782,202	\$ 7,782,202	\$ -	\$ -	\$ -

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, 2006, by type and category of credit risk are as follows:

Investment Type	Primary Government	Less than 1	1-5	6-10	More than 10
	Money Market (1)	316,141	316,141	-	-
Mutual Funds (1)	10,280,798	10,280,798	-	-	-
Subtotal	10,596,939	10,596,939	-	-	-
Total	\$ 18,379,141	\$ 18,379,141	\$ -	\$ -	\$ -

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

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

Cash	\$ 99,238
State Board of Administration	11,770
Money market funds	<u>316,141</u>
 Total cash and cash equivalents	 <u>\$ 427,149</u>

Cash balances are collateralized with securities held by the pledging financial institutions but not in the name of the Plan. This collateral consists of insurance provided by the FDIC and securities held by the State of Florida Public Deposit Security Trust Fund.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKELAND, FLORIDA
POLICE OFFICERS' SUPPLEMENTAL PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS – The State Contributions are shown in the following schedule:

	Fiscal Year	Employer Contributions	State Contributions	Annual Required Contribution (ARC)
	2006	-0-	\$ 507,717 **	\$ 382,806
% of the ARC		-n/a-	133%	
	2005	-0-	507,717 **	430,098
% of the ARC		-n/a-	118%	
	2004	-0-	725,666	944,078
% of the ARC		-n/a-	77%	
	2003	-0-	701,457	800,469
% of the ARC		-n/a-	88%	
	2002	-0-	631,582	601,749
% of the ARC		-n/a-	105%	
	2001	-0-	566,261	484,430
% of the ARC		-n/a-	117%	

** Frozen per Chapter 185, Florida Statutes, as amended. Of the total State Contribution of \$779,989, the remainder, \$272,272, is allocated to Share Accounts.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL % of Covered Payroll
10/1/2005	\$ 16,913,462	\$ 22,424,832	\$ 5,511,370	75%	\$ 13,140,339	42%
10/1/2004	16,160,959	21,559,102	5,398,143	75%	12,449,376	43%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

General - As described in Note B to the financial statements, the defined benefit portion of the Plan was frozen as of April 2, 2005. As a result of this change in Plan provisions, the actuarial cost method utilized was changed from the aggregate cost method to the frozen entry age actuarial method. The information disclosed in the Schedule of Funding Progress is based on the newly adopted actuarial cost method.

The frozen entry age method divides the cost of funding benefits into two parts; normal cost and the amortization of the frozen actuarial liability. Normal cost under this method is a level percentage of salary payable over the working lifetime of the current members. The payment is used to fund the current and future pension benefits of the current members taking into consideration the assets of the Plan and the current frozen actuarial liability. The initial actuarial liability (frozen actuarial liability) is the present value of the entry age normal costs years prior to the valuation year adjusted for the assets of the plan at the date the plan establishes the use of the frozen entry age cost method. The initial frozen actuarial liability is amortized using the level percentage of payroll method over thirty years. The minimum payment includes a payment to amortize the unfunded actuarial liability. Actuarial gains or losses will arise each year from mortality, turnover rates, salary increases, new entrants, and investment gains or losses as actual experience differs from the assumptions made in the valuation.

Actuarial Assumptions Utilized:

Interest Rate	8.0 %
Combined Inflation and Projected Salary Increase Rate	6.5 %
Post Retirement Benefit Increases	0.0 %
Asset Valuation Method	Fair Market Value