

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

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2004

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

STATEMENT OF PLAN NET ASSETS
SEPTEMBER 30, 2004

ASSETS	
Cash and cash equivalents	\$ 410,752
Investments	15,641,192
Receivables	<u>4,219</u>
Total assets	16,056,163
LIABILITIES	
Accounts payable	<u>649</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 16,055,514</u></u>

See accompanying notes to financial statements.

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STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2004

ADDITIONS	
Contributions:	
State of Florida	\$ 725,666
Employee	<u>126,042</u>
Total contributions	851,708
Net investment income:	
Investment gains	1,440,172
Less investment advisory fees	<u>(93,493)</u>
Net investment income	<u>1,346,679</u>
Total additions	2,198,387
DEDUCTIONS	
Pension benefits paid	953,522
Refunds of contributions to former employees	6,029
Actuarial fee	2,500
Audit fee	1,200
Other expenses	<u>890</u>
Total deductions	<u>964,141</u>
NET INCREASE	1,234,246
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>14,821,268</u>
End of year	<u>\$ 16,055,514</u>

See accompanying notes to financial statements.

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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 to commit 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 Plan is a single employer, defined benefit pension 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	235
Retirees and beneficiaries	100
Terminated vested participants	<u>18</u>
Total number of participants	<u>353</u>

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

Plan Benefits

Pension Benefits - A member police officer 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 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.

Termination Benefits – If a police officer is terminated, either voluntarily or involuntarily, with less than 10 years of credited service, then 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 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.

Disability Benefits - A police officer who has completed ten or more years of credited service and becomes totally and permanently unable to perform useful and efficient service as a police officer may retire under this Plan. The benefit payable would be calculated as described in *Pension Benefits* above, but using a benefit factor of one (unreduced by age). The maximum benefit is \$1,350 per month.

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NOTES TO FINANCIAL STATEMENTS

NOTE B - DESCRIPTION OF PLAN (CONTINUED)

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.

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, 2004 was \$12,599,621 (adjusted base).

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. The contribution from the state trust fund for the year ended September 30, 2004 equaled 5.58% of covered payroll. The actuarially determined contribution rate was 7.9% for 2004. The date of the latest actuarial valuation of the plan was September 30, 2004.

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.

Credit Risk Categories - The investments held as of September 30, 2004 are classified according to type of credit risk. These credit risk categories are defined as follows:

Category A - Insured or registered securities held by the Plan or its agents in the Plan's name.

Category B - Uninsured and unregistered securities held by the counterparty's trust department or agent in the Plan's name.

Category C - Uninsured and unregistered securities held by the counterparty or by its trust department or agent but not in the Plan's name.

These broad categories do not apply to all types of investments owned by the Plan. The investment with the Money Market Funds and State Board of Administration is not categorized because it is not evidenced by securities that exist in physical or book entry form.

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NOTES TO FINANCIAL STATEMENTS

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

Schedule of Investments and Cash Equivalents – Cash Equivalents and Investments held as of September 30, 2004 are shown in the following table:

	<u>Rate</u>	<u>Through</u>	<u>Cost</u>	<u>Value</u>
Category A:				
Corporated Stocks	n/a	n/a	\$ 6,233,994	\$ 6,263,937
Uncategorized:				
Mutual Funds	(1)	(1)	8,351,162	9,377,255
Money Market Funds	(1)	(1)	328,568	328,568
State Board of Administration	(1)	(1)	<u>7,140</u>	<u>7,140</u>
 Total investments and cash equivalents			 <u>\$ 14,920,864</u>	 <u>\$ 15,976,900</u>

(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	\$ 75,044
State Board of Administration	7,140
Money market funds	<u>328,568</u>
Total cash and cash equivalents	<u>\$ 410,752</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.

Investments - "Investments" in the accompanying "Statement of Plan Net Assets" is composed of the following:

Corporate Stocks	\$ 6,263,937
Mutual Funds	<u>9,377,255</u>
	<u>\$ 15,641,192</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>Fiscal Year</u>	<u>Employer Contributions</u>	<u>State Contributions</u>	<u>Annual Required Contribution (ARC)</u>
	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%	
	2000	-0-	566,261	484,430
% of the ARC		-n/a-	117%	
	1999	-0-	513,944	551,143
% of the ARC		-n/a-	93%	

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

General - The actuarial cost method utilized 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. The actuarial report was done as of September 30, 2004.

Actuarial Assumptions Utilized:

Interest Rate	8.0 %
Combined Inflation and Projected Salary Increase Rate	6.5 %
Post Retirement Benefit Increases	0.0 %