

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2003

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
Notes to Required Supplementary Information	9

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS
SEPTEMBER 30, 2003

ASSETS	
Cash equivalents	\$ 9,109,835
Investments	361,446,426
Accrued interest receivable	250
Other receivables	<u>861,518</u>
 Total assets	 371,418,029
LIABILITIES	
Accounts payable	<u>1,574,605</u>
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	 <u><u>\$ 369,843,424</u></u>

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, 2003

ADDITIONS	
Contributions:	
City of Lakeland	\$ 11,492,503
Employees	<u>6,254,782</u>
Total contributions	17,747,285
Net investment income:	
Investment gains	51,547,490
Less investment advisor's fees	<u>(752,322)</u>
Net investment income	50,795,168
Miscellaneous income	<u>4,680</u>
Total additions	68,547,133
DEDUCTIONS	
Pension benefits paid	16,266,986
Refunds of contributions to former employees	812,390
Actuary fee	10,550
Audit fee	3,000
Legal fee	11,297
Transfer to General Fund - administrative expenses	<u>52,046</u>
Total deductions	<u>17,156,269</u>
NET INCREASE	51,390,864
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	<u>318,452,560</u>
End of year	<u>\$ 369,843,424</u>

See accompanying notes to financial statements.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

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. The plan participant contributions are recognized when they are due. The employer contributions are recognized when they are due. 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	1,972
Retirees and beneficiaries	726
Terminated vested participants	<u>57</u>
Total number of participants	<u>2,755</u>

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 includes a provision for an annual across-the-board increase in the benefit paid to all retirees if certain conditions occur. The amount of the annual increase, if any, is calculated using a Plan-defined rate of return formula that is dependent upon the investment performance of the Plan for the preceding year. 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.

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

NOTES TO FINANCIAL STATEMENTS

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 10 years of credited service, the employee will be entitled to a refund of amounts contributed by the employee.
- If the employee has ten or more years 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 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.

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 7% of their basic annual compensation. Effective October 1, 2003, the employees contribution rate will increase to 8%.

Employer Contributions - The City's contribution to the Plan equals 12.87% of employees' salaries. The amount of the covered payroll for the Plan for the year ending September 30, 2003 was \$89,002,979 (adjusted base). Effective October 1, 2003, the City's contribution rate to the plan will increase to 14.4%.

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 12.87% from the City and a contribution rate of 7% from the employee. The actuarially determined contribution rate for 2003 was 24.76% 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 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 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
- Obligations of the Federal National Conventional Long-Term

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

Credit Risk Categories - The investments and cash equivalents held as of September 30, 2003 are classified according to the 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.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE D - INVESTMENTS AND CASH EQUIVALENTS (CONTINUED)

These broad categories do not apply to all types of investments owned by the Plan. The investments in the money market funds, mutual funds, or State Board of Administration are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Schedule of Investments & Cash Equivalents – Cash Equivalents and Investments held as of September 30, 2003 are shown in the following schedule:

	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Original Cost</u>	<u>Fair Value</u>
Category A:				
Corporate Bonds	8.00	01/07	\$ -	\$ 37
Corporate Stocks	n/a	n/a	197,183,735	204,244,324
Uncategorized:				
Mutual Funds	(1)	(1)	145,907,247	157,202,065
State Board of Administration	(1)	(1)	204	204
Money Market Funds	(1)	(1)	<u>9,109,631</u>	<u>9,109,631</u>
 Total			 <u>\$ 352,200,817</u>	 <u>\$ 370,556,261</u>

(1) The rate of interest earned fluctuates based on market conditions. Also, there is no stated maturity date. These funds may be invested, withdrawn, or reinvested at the discretion of the Plan.

Cash Equivalents – Amount included in “Cash Equivalents” as reported in the accompanying “Statement of Plan Net Assets” are summarized in the following table:

State Board of Administration	\$ 204
Money Market Funds	<u>9,109,631</u>
 Total	 <u>\$ 9,109,835</u>

Schedule of Investments - “Investments” in the accompanying “Statement of Plan Net Assets” is composed of the following:

Corporate Bonds	\$ 37
Corporate Stocks	204,244,324
Mutual Funds	<u>157,202,065</u>
 Total	 <u>\$ 361,446,426</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE E - TRANSFER TO GENERAL FUND

During the current year, the Plan reimbursed \$52,046 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 LAKE LAND, 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)
% of the ARC	2003	\$ 11,492,503 52%	\$ 22,090,240
% of the ARC	2002	11,047,917 67%	16,415,394
% of the ARC	2001	10,193,063 70%	14,512,008
% of the ARC	2000	9,801,217 69%	14,145,656
% of the ARC	1999	9,435,140 70%	13,573,523
% of the ARC	1998	9,109,768 69%	13,253,714

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, 2003.

Actuarial Assumptions Utilized:

Interest Rate	7.5 %
Combined Inflation and Projected Salary Increase Rate	5.0 %
Post Retirement Benefit Increases	1.0 %