CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2004

CONTENTS

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS
SEPTEMBER 30, 2004

ASSETS		
Cash equivalents	$	16,285,664
Investments		390,748,947
Accrued interest receivable		782,685
Other receivables		1,387,197
Total assets		409,204,493
LIABILITIES		
Accounts payable		1,553,336
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$	407,651,157

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, 2004

ADDITIONS	
Contributions:	
City of Lakeland	$ 13,503,859
Employees	7,486,272
Total contributions	20,990,131
Net investment income:	
Investment gains	36,194,313
Less investment advisor's fees	(1,206,023)
Net investment income	34,988,290
Miscellaneous income	15,178
Total additions	55,993,599
DEDUCTIONS	
Pension benefits paid	17,416,293
Refunds of contributions to former employees	701,873
Actuary fee	8,000
Audit fee	2,400
Legal fee	830
Travel	350
Transfer to General Fund - administrative expenses	56,120
Total deductions	18,185,866
NET INCREASE	37,807,733
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	369,843,424
End of year	$ 407,651,157

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Basis of Accounting – The Plan is maintained using the accrual basis of accounting. 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	2,009
Retirees and beneficiaries	769
Terminated vested participants	51
Total number of participants	2,829

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

Plan Benefits

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

- The average monthly salary is computed using the average of the highest total earnings over a consecutive period of 36 months. For members who enter the plan on or after October 1, 2003 the average monthly salary is calculated using the average of the highest total earnings over a consecutive period of 60 months.
- The service factor is based on the length of continuous service and is calculated by accumulating 3% per year for the first 25 years of service plus 1% per year for all service exceeding 25 years. The service factor for plan participants who enter the plan on or after October 1, 2003 is computed using 2% per year for the first 10 years of service, then 3% for the next 20 years plus 1% for each year over 30 years of service.
- The benefit factor is based on the age of the employee in years and months on the day retirement benefits commence. This value is derived from a benefit factor table as set forth in Section 23 of Article II, Division II, of the City Charter.

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

NOTE B - DESCRIPTION OF PLAN (CONTINUED)

Termination Benefits - If a member employee is terminated, either voluntarily or involuntarily, the following benefits are payable:

- If the employee has less than 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.

Terminated membership in the plan - Effective September 7, 2004, a member can terminated membership in the plan if he/she is not subject to collective bargaining, has attained normal retirement status or attains thirty years of credited service. Sworn Police Officer and certified Firefighter members, with twenty-five years of service or who attain age fifty-two with ten years of credited service can elect lump sum payment, vest the defined benefit and contribute to a defined contribution plan or DROP.

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

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

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

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

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

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

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

Disability Benefits - There are no disability benefits available.

Funding Requirements:

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

Employer Contributions - The City's contribution to the Plan equals 14.4% of employees' salaries. The amount of the covered payroll for the Plan for the year ending September 30, 2004 was $9,6,3 (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

As described above, the funding policy for the Plan is a contribution rate of 14.4% from the City and a contribution rate of 8% from the employee. The actuarially determined contribution rate for 2004 was 21% 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, 2004 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.

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, 2004 are shown in the following schedule:

	Interest Rate	Maturing Through	Original Cost	Fair Value
Category A:				
U.S. Treasury Bonds, Notes, Bills, Strips, Zeros	2.00 to 6.50	01/14	$ 9,555,723	$ 9,590,579
Federal Home Loan Mortgage Corporation	2.70 to 6.00	07/19	3,783,830	3,737,641
Federal National Mortgage Association	2.15 to 3.25	08/08	12,474,260	12,417,515
Corporate Assest Backed Securities	1.79 to 6.57	08/34	164,134	164,590
Federal Agencies Mortgage Backed	1.02 to 7.29	11/42	27,816,152	27,874,478
Corporate Bonds	0.05 to 8.38	01/41	74,410,371	74,361,151
Corporate Stocks	n/a	n/a	206,943,580	229,325,222
Uncategorized:				
Mutual Funds	(1)	(1)	26,688,588	33,277,771
State Board of Administration	(1)	(1)	1,248,228	1,248,228
Money Market Funds	(1)	(1)	15,037,436	15,037,436
Total			$ 378,122,302	$ 407,034,611

(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.

Investments to Net Assets Ratio-Those investments shown in the previous table (at carrying value) marked with an asterisk (*) each separately comprises more than 5% of the "Net Assets Held for Pension Benefits."

NOTE D - INVESTMENTS AND CASH EQUIVALENTS (CONTINUED)

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	$ 1,248,228
Money Market Funds	15,037,436
Total	$ 16,285,664

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

U.S. Treasury Bonds, Notes, Bills, Strips, Zeros	$ 9,590,579
Federal Home Loan Mortgage Corporation	3,737,641
Federal National Mortgage Association	12,417,515
Corporate Assest Backed Securities	164,590
Federal Agencies Mortgage Backed	27,874,478
Corporate Bonds	74,361,151
Corporate Stocks	229,325,222
Mutual Funds	33,277,771
	$ 390,748,947

NOTE E - TRANSFER TO GENERAL FUND

During the current year, the Plan reimbursed $56,120 to the City of Lakeland General Fund for payroll costs associated with employees involved with the internal administration of the Plan.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

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

	Fiscal Year	Employer Contributions	Annual Required Contribution (ARC)
	2004	$ 13,503,859	$ 19,290,388
% of the ARC		70%	
	2003	11,492,503	22,090,240
% of the ARC		52%	
	2002	11,047,917	16,415,394
% of the ARC		67%	
	2001	10,193,063	14,512,008
% of the ARC		70%	
	2000	9,801,217	14,145,656
% of the ARC		69%	
	1999	9,435,140	13,573,523
% of the ARC		70%	

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