CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2009

CONTENTS

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Trustees
City of Lakeland, Florida
Employees' Pension and Retirement System

We have audited the accompanying statement of plan net assets of the Employees' Pension and Retirement System of the City of Lakeland, Florida, as of September 30, 2009, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Employees' 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 and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. 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 Employees' 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 Employees' Pension and Retirement System of the City of Lakeland, Florida's net assets held in trust for pension benefits, as of September 30, 2009, and the changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 23, 2010, on our consideration of the City of Lakeland, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

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 Schedules of Contributions and Funding Progress on page 14 is 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.

Crowe Horwath LLP

Crowe Horwath LLP

February 23, 2010
Lakeland, Florida

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS
SEPTEMBER 30, 2009

ASSETS		
Cash and cash equivalents	$	9,314,831
Investments		385,965,045
Accrued interest receivable		1,293,819
Receivables		1,218,676
Total assets		397,792,371
LIABILITIES		
Accounts payable		27,710
Accrued liabilities		12,792,607
Due to other funds		1,070,304
Total liabilities		13,890,621
NET ASSETS		
Held in trust for pension benefits	$	383,901,750

(A Schedule of Funding Progress for the plan is presented on page 14)

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, 2009

ADDITIONS	
Contributions:	
Employer	$ 15,316,870
Plan members	8,188,414
Total contributions	23,505,284
Net investment income:	
Interest and dividends	(708,258)
Net increase (decrease) in the fair value of investments	3,767,146
Investment advisor fee	(1,467,965)
Net investment income (loss)	1,590,923
Miscellaneous income	263,942
Total additions (deductions)	25,360,149
DEDUCTIONS	
Benefits paid	26,270,330
Refunds, former plan members	395,934
Actuarial fee	56,148
Audit fee	603
Other	129,914
Interest on DROP Disbursements	776,588
Transfers to other funds	54,962
Plan Asset Transfer	48,754,701
Total deductions	76,439,180
CHANGE IN NET ASSETS HELD IN TRUST	(51,079,031)
NET ASSETS, beginning of year	434,980,781
NET ASSETS, end of year	$ 383,901,750

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).

Plan Restructuring - On June 1, 2009 the Lakeland City Commission adopted ordinances 5096 and 5095 – which removed all current and future retired police officers from the City of Lakeland Employee Pension Plan (the General Plan) and transferred those individual to an amended version of the Police Officers' Supplemental Pension and Retirement System (the Supplemental Plan) – which had the effect of creating an entirely new replacement plan called the Police Officers' Defined Benefit Retirement System (the Police Plan).

Under the terms of this change, all retired police officers and/or their beneficiaries who were receiving benefits from the General Plan and/or the Supplemental Plan as of the effective date of the transfer would from that point forward be paid the exact same level of combined benefits from the Police Plan. All future retired police officers and/or their beneficiaries will receive their retirement benefits exclusively from the Police Plan based on a new defined benefit calculation formula that replaces the benefit formulas that previously existed within the General Plan and the Supplemental Plan.

In conjunction with the change, certain assets and liabilities of the General Plan were transferred to the Police Plan. The value of the assets transferred was based on the relative percentage of the actuarial accrued liability (EAN method) payable from the General Plan that was determined to be attributable to both retired and current active police officers as of September 30, 2008.

Actuarial accrued liability – Police participants	78,903,141
Actuarial accrued liability – All participants	623,310,066
Relative Percentage	12.6587%

The market value of assets in the General Plan was as of May 31, 2009 was $401,991,331. Applying the relative percentage to that value yielded a targeted transfer amount of $50,886,677. Between this valuation date and the date of the transfer, the market value of specific securities earmarked for transfer increased in market value by $17,473, resulted in a gross asset transfer of $50,904,150.

The transfer itself occurred in three separate transactions. In June of 2009 certain assets of the General Plan were sold. A portion of those sales proceeds - $42,183,017 was transferred to the Police Plan. In addition, registered ownership of specific securities having a market value of $8,539,375 was transferred from the General Plan to the Police Plan. In January of 2010, a final transfer of $181,758 in cash was made from the General Plan to the Police Plan, bringing the total amount of the gross assets transferred to $50,904,150. An interfund liability appears on the balance sheet of the two funds in the amount of $181,758 as of September 30, 2009 to reflect the amount owed pursuant to the final transfer across funds.

On June 30, 2009 the liabilities associated with retired police officers who were active participants in the DROP program were transferred from the General Plan to the Police Plan. The aggregate dollar value of that liability transfer was $2,149,449 – representing the accumulated benefit and interest as of June 30, 2009 for 19 DROP Participants.

The net dollar amount of the Plan to Plan transfer was $48,754,701. This amount appears in the Statement of Changes in Net Assets of each plan as an Addition (in the Police Plan) and as a Deletion (in the General Plan).

The transfers and market value of the plans as of May 31, 2009 are as follows:

	General Plan	Police Officers' Plan
Market Value Prior to Transfer	$ 401,991,331	$ 15,069,764
Transfers:		
Market value of assets transferred	(50,904,150)	50,904,150
DROP liability	2,149,449	(2,149,449)
Net effect of transfer	$ 353,236,630	$ 63,824,465

As a result of the change in the plans, an actuarial impact review was performed based on each plans census and new asset data as of October 1, 2008 as well as the changes in the level of benefits provided within the Police Officers' Defined Benefit Retirement System. That report recommended changes in the funding requirements for the Employees' Pension and Retirement System to 17.44 percent employer and 8.5 percent employee to be effective for the fiscal year commencing October 1, 2010. That represents an increase in the required employer contribution increased by 0.10 percent with no change in the employee contribution.

That report also established funding requirements for the Police Officers' Defined Benefit Retirement System equal to 15.96 percent employer and 12.01 percent employee to be effective for the fiscal year commencing October 1, 2010. That represents a decrease in the contribution that would have been required to be made by the employer into the Employees' Pension and Retirement System for these participants of 1.38 percent and an increase in the aggregate employee contribution of 1.51 percent

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."

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting – The Plan is maintained using the accrual basis of accounting. 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.

Valuations 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.

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	1,702
Retirees and beneficiaries	794
DROP participants	103
Terminated vested participants	47
Total number of participants	2,646

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 62 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.

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 of credited service, the employee will be entitled to his or her contributions to the Plan.

- If the employee has ten or more years 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. Sworn Police Officer and certified Firefighter members with twenty-five years of service or who has attained age fifty-two with ten years of credited service can elect to receive a lump sum payment, defer the receipt of the defined benefits and contribute to a defined contribution plan or the Deferred Retirement Option Program (DROP).

NOTE B - DESCRIPTION OF PLAN (Continued)

- 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'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.

- 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 61^{st} 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 payment which is a combination of the lump-sum payment 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 8.5% for General and 8.0% for Fire and Union employees of their basic annual compensation.

Employer Contributions - The City's contribution to the Plan equals 17.44% of employees' salaries. The amount of the covered payroll for the Plan for the year ending September 30, 2009 was $117,512,559 (adjusted basis).

Funding Levels - The funding activity of the Plan for the current and preceding two years is as follows:

	September 30, 2009	September 30, 2008	September 30, 2007
Annual required contribution:			
City of Lakeland	$ 15,388,062	$ 14,735,539	$ 14,528,242
Interest on net pension obligation (asset)	(668,391)	(590,476)	(576,025)
Annual pension cost	14,719,671	14,145,063	13,952,217
Contributions made	(15,316,870)	(15,219,761)	(14,151,537)
Change in net pension obligation (asset)	(597,199)	(1,074,698)	(199,320)
Net pension obligation (asset) beginning of year	(9,219,191)	(8,144,493)	(7,945,173)
Net pension obligation (asset) end of year	$ (9,816,390)	$ (9,219,191)	$ (8,144,493)
Percentage of annual pension cost contributed	104.06%	107.60%	101.43%

NOTE B - DESCRIPTION OF PLAN (Continued)

The funded status of the Plan as of October 1, 2008, the most recent actuarial valuation date is as follows:

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL % of Covered Payroll
$ 456,592,011	$ 544,406,925	$ 87,814,914	84%	$ 91,735,753	96%

The Schedule of Funding Progress, presented as Required Supplementary information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the accrued liability for benefits.

The projection of benefits for financial statement reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Plan Assumptions

The following information is applied to the Plan:

ACTUARIAL VALUATION:	
Frequency	Annual
Latest date	5/22/2009
Basis for contribution	10/1/2008
Cost method	Frozen Entry Age
AMORTIZATION:	
Method	Level percentage
Period	29 years (Open)
ASSUMPTIONS:	
Investment return	7.25%
Salary increases	Service based
Inflation rate	3.0%
Post-retirement benefit increases	0%
Retirement rate	(2)
ACCOUNTING POLICIES AND PLAN ASSETS:	
Basis of Accounting	Accrual
Assets Valuation:	
Reporting	Fair Value
Actuarial valuation	(1)

(1) The actuarial value of assets is determined by the expected rate of return credited to last year's actuarial asset value, the resulting amount is then compared to market value and 20% of the difference is added to the result.
(2) Probabilities of retirement by eligible members are assigned for each attained age and length of service.

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 17.44% from the City and a contribution rate of 8.5% for General and 8.0% for Fire and Union employees. The actuarially determined contribution rate for the report dated October 1, 2008 was 8.5% for General and 8.0% for Fire and Union employees and the actuary required rate is 17.44% of actuarially determined covered payroll.

NOTE D – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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, 2009, the City of Lakeland Employee Pension Fund held $9,314,878 and $102,395,905 in Money Market Funds and Mutual Funds respectively. These investments are held by an investment's counterparty, not in the name of the City.

Foreign Currency Risk The Employee Pension Fund held $13,423,750 in fixed income (6.71%) and equity investments of foreign issuers or non-US companies (3.89%), of which, $1,652,698 is denominated in foreign currencies. According to the investment policy, Fixed Income Managers of the Employee Pension Fund may invest up to 10% of the total fixed income portfolio's fair value in issuers not domiciled in the U.S. and, except for specifically hired International Fund Managers. Equity Managers are authorized to invest up to 5% in equity investments of non-U.S. companies listed on a major U.S. exchange. As of September 30, 2009, 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:

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

As of September 30, 2009, 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:

Corporate Bonds:	Market Value	$ Denomination	Maturity
Non-US Companies:			
KFW	$ 33,628	ISK	2/1/2010
Eurofima	98,811	ISK	2/5/2010
Telecom Italia Capital S.A.	31,558	USD	11/15/2013
Bell Canada	114,017	CAD	2/15/2017
Telus Corporation	381,328	CAD	3/15/2017
Enel Finance International S.A.	215,418	USD	9/15/2017
Standard Chartered Bank	244,520	USD	9/26/2017
Covidien International Finance S.A.	471,508	USD	10/15/2017
Petrobras International Finance Company	409,706	USD	3/1/2018
Rio Tinto Finance (USA) Limited	516,163	USD	7/15/2018
Abu Dhabi National Energy Company	503,455	USD	8/1/2018
Electricite de France	366,659	USD	1/26/2019
Canadian Pacific Railway Company	145,014	USD	5/15/2019
Talisman Energy Inc.	105,825	USD	6/1/2019
Bell Canada	36,694	CAD	5/1/2029
Bell Canada	99,690	CAD	2/23/2032
Telecom Italia Capital S.A.	178,813	USD	11/15/2033
Telecom Italia Capital S.A.	48,744	USD	9/30/2034
Bell Canada	317,579	CAD	3/16/2035
Telecom Italia Capital S.A.	395,455	USD	7/18/2036
America Movil	570,950	MXN	12/18/2036
Talisman Energy Inc.	62,520	USD	2/1/2037
Vodafone Group PLC	518,630	USD	2/27/2037
Talisman Energy Inc.	132,618	USD	2/1/2038
Total Corporate Bonds	$ 5,999,302		

Corporate Stocks:	Market Value	$ Denomination	Maturity
Non-US Companies:			
Barrick Gold Corporation	$ 353,607	USD	N/A
Canadian National Railway Company	410,536	USD	N/A
Carnival Corporation	742,144	USD	N/A
Covidien PLC	492,731	USD	N/A
McDermott International, Inc	1,263,500	USD	N/A
Petroleo Brasileiro SA-Petrobras	151,470	USD	N/A
Schlumberger Limited	1,445,896	USD	N/A
Suncor Energy Inc	152,755	USD	N/A
Tesco Corporation	718,200	USD	N/A
Teva Pharmaceutical Industries Limited	725,991	USD	N/A
Teva Pharmaceutical Industries Limited	967,617	USD	N/A
Total Corporate Stocks	$ 7,424,448		
Total Foreign Investments	$ 13,423,750		

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

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 or Moody's credit quality ratings for fixed income securities of the Employee Pension Fund:

Investment Class	S &P Rating	Moody's Rating	Maximum %
Employee Pension Fund			
Fixed Income	BBB	Baa	20%
Fixed Income	Less than BBB	Less than Baa	10%
Fixed Income - Single Issuer	BBB or lower	Baa or lower	2%
Commercial Paper	A-1	P-1	
Money Market Funds	A-1	P-1	

As of September 30, 2009, the City of Lakeland's Employee Pension Fund's debt security investments had the following credit quality ratings:

S&P Rating:

	Cost	% of Total	Market	% of Total
AAA	$ 22,538,700	26.17%	$ 22,670,137	25.35%
AA+ to AA-	2,440,848	2.83%	2,719,018	3.04%
A+ to A-	15,680,042	18.21%	16,728,919	18.71%
BBB+ to BBB-	20,199,026	23.46%	21,470,931	24.01%
BB+ to BB-	4,072,375	4.73%	4,064,511	4.55%
Below BB-	1,895,996	2.20%	1,764,118	1.97%
NR	19,286,910	22.40%	20,000,117	22.37%
	$ 86,113,897	100.00%	$ 89,417,751	100.00%

Moody's Rating:

	Cost	% of Total	Market	% of Total
Aaa	$ 21,864,024	25.39%	$ 21,714,539	24.28%
Aa1 to Aa3	2,272,880	2.64%	2,421,537	2.71%
A1 to A3	13,911,111	16.15%	14,444,896	16.15%
Baa1 to Baa3	21,391,932	24.84%	23,285,073	26.05%
Ba1 to Ba3	4,742,247	5.51%	4,609,107	5.15%
Below Ba3	2,355,624	2.74%	2,227,606	2.49%
NR	19,576,079	22.73%	20,714,993	23.17%
	$ 86,113,897	100.00%	$ 89,417,751	100.00%

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

As of September 30, 2009, the City of Lakeland's Employee Pension Fund's investment types had the following credit quality ratings:

S&P Rating:	Corporate Bonds		US Government Agency Obligations		Foreign Securities		Money Market Funds	
	Market	% of Total	Market	% of Total	Market	% of Total	Market	% of Total
AAA	$ 13,224,320	23.93%	$ -	0.00%	$ 132,439	2.21%	$ 9,313,378	100.00%
AA+ to AA-	2,215,563	4.01%	-	0.00%	503,455	8.39%	-	0.00%
A+ to A-	14,912,184	26.97%	-	0.00%	1,816,735	30.28%	-	0.00%
BBB+ to BBB-	17,924,258	32.43%	-	0.00%	3,546,673	59.12%	-	0.00%
BB+ to BB-	4,064,511	7.35%	-	0.00%	-	0.00%	-	0.00%
Below BB-	1,764,118	3.19%	-	0.00%	-	0.00%	-	0.00%
NR	1,170,910	2.12%	18,829,207	100.00%	-	0.00%	-	0.00%
	$ 55,275,864	100.00%	$ 18,829,207	100.00%	$ 5,999,302	100.00%	$ 9,313,378	100.00%

Moody's Rating:	Corporate Bonds		US Government Agency Obligations		Foreign Securities		Money Market Funds	
	Market	% of Total	Market	% of Total	Market	% of Total	Market	% of Total
Aaa	$ 12,268,722	22.20%	$ -	0.00%	$ 132,439	2.21%	$ 9,313,378	100.00%
Aa1 to Aa3	1,551,423	2.81%	-	0.00%	870,114	14.50%	-	0.00%
A1 to A3	13,414,008	24.27%	-	0.00%	1,030,888	17.18%	-	0.00%
Baa1 to Baa3	19,319,212	34.94%	-	0.00%	3,965,861	66.11%	-	0.00%
Ba1 to Ba3	4,609,107	8.34%	-	0.00%	-	0.00%	-	0.00%
Below Ba3	2,227,606	4.03%	-	0.00%	-	0.00%	-	0.00%
NR	1,885,786	3.41%	18,829,207	100.00%	-	0.00%	-	0.00%
	$ 55,275,864	100.00%	$ 18,829,207	100.00%	$ 5,999,302	100.00%	$ 9,313,378	100.00%

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

In the City of Lakeland's Employee Pension Fund, assets shall be diversified among equities, fixed income, and real estate to minimize overall portfolio risk consistent with the level of expected return and thereby improve the long-term return potential of assets. The diversification of the equity and fixed income securities held in the portfolio among sectors and issuers is the responsibility of the respective Investment Manager, subject to general policy and specific guidelines of each manager. The Investment Manager is expected to diversify the portfolio sufficiently to minimize the risk of a large loss from a single security. Accordingly, no single company's fixed securities shall represent more than 5% of the market value assets of the fund and no more than 10% of the market value of assets shall be in common stock of one company. Equity portfolios and all equity investments must be traded on national stock exchange or NASDAQ. As of September 30, 2009, no single company's fixed securities and common stock represented more than 5% and 10% respectively of the market value assets of the fund. The City of Lakeland's investment allocation limits and actual limits for the Employee Pension Fund as of September 30, 2009 are as follows:

Asset Class (Market)	Maximum%	Minimum%	Actual %
Domestic Equity:			
Large Cap Equity	20%	10%	58%
Small Cap Equity	15%	5%	15%
Broadcap Growth	35%	15%	15%
International Equity	25%	5%	22%
Total Fixed Income	45%	30%	63%
TIPS	7.5%	0	0%

The following investments and maturities held by the Employee Pension fund of the City as of September 30, 2009 are collateralized by registered securities held by the City or its agents in the City's name:

	Reported Amount Fair Value	Investment Maturities (in years)			
Investment Type	Employee Pension	Less than 1	1-5	6-10	More than 10
US Treasury Notes	$ 11,965,772	$ 1,870,239	$ 7,777,649	$ -	$ 2,317,884
US Treasury TIPS	829,146	-	829,146	-	-
Federal Agencies Mortgage Backed	18,829,207	-	-	1,140,327	17,688,880
Corporate Notes and Bonds	38,586,945	-	8,415,089	19,547,138	10,624,718
Corporate Stocks	183,245,401	183,245,401	-	-	-
Corporate Asset Backed Securities	16,688,919	-	1,092,980	2,925,158	12,670,781
Foreign Stocks	7,424,448	7,424,448	-	-	-
Foreign Securities	5,999,302	132,439	-	3,505,170	2,361,693
Subtotal	283,569,140	192,672,527	18,114,864	27,117,793	45,663,956

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, 2009, by type and category of credit risk are as follows:

	Reported Amount Fair Value	Investment Maturities (in years)			
Investment Type	Employee Pension	Less than 1	1-5	6-10	More than 10
Money Market Funds (1)	9,314,831	9,314,831	-	-	-
Mutual Funds (1)	102,395,905	102,395,905	-	-	-
Accrued Interest Receivable	1,293,819	1,293,819	-	-	-
Subtotal	113,004,555	113,004,555	-	-	-
Total Investments	$ 396,573,695	$ 305,677,082	$ 18,114,864	$ 27,117,793	$ 45,663,956

(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.

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

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

Money market funds	9,314,831
Total cash equivalents	$ 9,314,831

NOTE E - TRANSFER TO OTHER FUNDS

For the year ended September 30, 2009, the Plan reimbursed $54,962 to the City of Lakeland General Fund for payroll costs associated with employees involved with the internal administration of the Plan. There is also an interfund receivable/payable from the General Fund to the Plan in the amount of $888,545 which represents the cash the General Fund is deemed to have loaned the Plan to cover the cash deficit in the fund.

REQUIRED SUPPLEMENTARY INFORMATION

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)
	2009	$ 15,316,870	$ 15,388,062
% of the ARC		100%	
	2008	15,219,761	14,735,539
% of the ARC		103%	
	2007	14,151,537	14,528,242
% of the ARC		97%	
	2006	13,359,576	13,913,026
% of the ARC		96%	
	2005	13,283,684	12,047,146
% of the ARC		110%	
	2004	13,474,963	11,942,056
% of the ARC		113%	

During fiscal year 2006, a correction regarding the calculation of the net pension obligation (NPO) was made. In prior fiscal years, the employee's annual required contributions and actual contributions (approximately $2.4 million since 1988) were included in the calculation of the NPO. Under the correct policy, only the City's annual required contribution and actual contributions are used in computing the NPO.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ration	Covered Payroll	UAAL % of Covered Payroll
10/1/2008	$456,592,011	$544,406,925	$87,814,914	84%	$91,735,753	96%
10/1/2007	515,648,042	589,120,143	73,472,101	88%	101,485,956	72%
10/1/2006	478,396,090	540,833,785	62,437,695	88%	95,616,093	65%
10/1/2005	433,459,145	483,329,674	49,870,529	90%	95,815,348	52%
10/1/2004	410,451,251	439,216,904	28,765,653	93%	95,390,235	30%
10/1/2003	389,641,017	404,103,398	14,462,381	96%	91,854,151	16%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

General – As of October 1, 2006, the actuarial cost method utilized in the actuarial report was changed from Aggregate cost method to Frozen Entry Age cost method. The information disclosed in the Schedule of Funding Progress is based on the newly adopted actuarial cost method.

The Frozen Entry Age cost 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.

INDEPENDENT AUDITORS REPORT AND SCHEDULES

Crowe Horwath

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
City of Lakeland, Florida
Employees' Pension and Retirement System

We have audited the statement of plan net assets of the Employees' Pension and Retirement System (The Plan) of the City of Lakeland, Florida, as of September 30, 2009, and have issued our report thereon dated February 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Plan's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Plan's financial statements that is more than inconsequential will not be prevented or detected by the Plan's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 09-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

The Plan's response to the significant deficiencies identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Plan's response and accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and various state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath LLP

Lakeland, Florida
February 23, 2010

CITY OF LAKELAND, FLORIDA

SCHEDULE OF FINDINGS

YEAR ENDED SEPTEMBER 30, 2009

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiency identified not considered to be material weakness	Yes
Noncompliance material to financial statements noted	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies:

09-1. Defined Benefit Pension Plan Policies and Procedures

Condition: *A) Policies and Ordinances*:

We noted that some of the policies used to administer the pension plans have not been formally approved by the City Commission through ordinances applicable to the Plan. The City has created a task force to review the provisions within the City's retirement systems, including evaluating all of the operating practices to insure they are consistent with the intent of the Pension Boards and the City Commission. This review will result in revisions to the Ordinances accordingly; however, the evaluation and review had not been completed as of the end of the fiscal year.

B) Census DATA:

While testing participant census data, we noted errors in the information that was provided to the actuary. Since this information impacts the actuarial assumptions and valuation, it is important that correct data be provided to the actuary. We observed that there are no procedures in place to review the data before it is submitted to the actuary.

C) Review and Approval of Benefit Payments and Refund Requests:

In testing the procedures for benefit payments and refund requests, we observed that the level of accuracy associated with the calculation, review and approval for benefit payments and refund requests by retirement services is not consistent. For example, during our testing, we observed a request for refund for Employee Pension that was filled out, documented as approved by retirement services; however, the resulting paperwork was signed by the wrong employee. A review was performed and approval documented within the retirement services office but the error was not detected until the paperwork was being processed within the payroll office. We observed that a review and approval procedure is performed as a back up by the payroll department prior to processing payments; however the level of accuracy associated with procedures being performed in advance of that review should be improved.

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

09-1. Defined Benefit Pension Plan Policies and Procedures

Criteria: The following is the specific criteria for the conditions on the preceding page:

A) The implemented policies should agree with the Board approved ordinances.
B) The reported census data should be accurate.
C) Review and approval should be accurate and consistently documented.

Effect: A combination of control deficiencies could adversely affect the City's ability to record and process pension plan data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Cause: The City is in the process of amending the Ordinances and has been reviewing a number of these procedures, but had not yet completed these changes as of the end of the fiscal year.

Recommendation: The City should:

A) Insure that established and in practice policies and procedures are consistent with Board approved ordinances;
B) Data provided from the payroll records for the census data reports to the actuary should be reviewed for accuracy;
C) Review and approval of benefit payments and refund requests should be accurate and consistently documented;

Management's Response:

A) Your report is correct and the process you describe is continuing.
B) Retirement Services is continually improving the accuracy of the review of census data provided to the actuary. We are still working with a relatively new query to pull the data. We felt the errors noted did not impact any of the information the actuary relies upon.
C) Internal control procedures will be adopted that provide for independent verification of the census data that is provided to actuaries on an annual basis AND for all changes that involve benefit payments to plan participants. Both the Retirement Services office and the Finance Department will independently validate all such data prior to taking any action based on that data. In addition, to avoid the error with the approval of refund request forms in the future the name of the member will be repeated at the top and the bottom of the form. The member will be asked to sign above his preprinted name.