CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2010

CONTENTS

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, 2010, 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, 2010, 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 22, 2011, on our consideration of the Employees' Pension and Retirement System 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 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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

Lakeland, Florida
February 22, 2011

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF PLAN NET ASSETS
SEPTEMBER 30, 2010

ASSETS		
Cash and cash equivalents	$	10,516,387
Investments		412,082,076
Investments in transit		1,943,243
Accrued interest receivable		934,677
Due from employees		1,319,617
Total assets		426,796,000
LIABILITIES		
Accounts payable		313,660
Unsettled investment purchases, net		1,943,243
Accrued liabilities		7,501,847
Total liabilities		9,758,750
NET ASSETS		
Held in trust for pension benefits and other purposes	$	417,037,250

(A Schedule of Funding Progress for the plan is presented on page 15)

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, 2010

ADDITIONS		
Contributions:		
Employer	$	15,874,500
Plan members		7,680,284
Total contributions		23,554,784
Net investment income:		
Interest and dividends		7,390,152
Net increase (decrease) in the fair value of investments		31,489,885
Investment advisor fee		(1,966,289)
Net investment income (loss)		36,913,748
Miscellaneous income		220,256
Total additions (deductions)		60,688,788
DEDUCTIONS		
Benefits paid		25,783,901
Refunds, former employees		1,072,114
Actuarial fee		54,881
Other		113,404
Interest on DROP Disbursements		474,026
Transfers to other funds		54,962
Total deductions		27,553,288
CHANGE IN NET ASSETS HELD IN TRUST		33,135,500
NET ASSETS, beginning of year		383,901,750
NET ASSETS, end of year	$	417,037,250

See accompanying 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. 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	1,674
Retirees and beneficiaries	813
DROP participants	113
Terminated vested participants	50
Total number of participants	2,650

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.

NOTE B - DESCRIPTION OF PLAN (Continued)

- 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. 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).

- 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 than 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 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 in the actuary report dated October1, 2009 was $93,375,914.

NOTE B - DESCRIPTION OF PLAN (Continued)

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

	September 30, 2010	September 30, 2009	September 30, 2008
Annual required contribution:			
City of Lakeland	$ 16,558,670	$ 15,388,062	$ 14,735,539
Interest on net pension obligation (asset)	(711,688)	(668,391)	(590,476)
Annual pension cost	15,846,982	14,719,671	14,145,063
Contributions made	(15,874,500)	(15,316,870)	(15,219,761)
Change in net pension obligation (asset)	(27,518)	(597,199)	(1,074,698)
Net pension obligation (asset) beginning of year	(9,816,390)	(9,219,191)	(8,144,493)
Net pension obligation (asset) end of year	$ (9,843,908)	$ (9,816,390)	$ (9,219,191)
Percentage of annual pension cost contributed	100.17%	104.06%	107.60%

The funded status of the Plan as of October 1, 2009, 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
$ 463,240,621	$ 567,449,029	$ 104,208,408	82%	$ 93,375,914	112%

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.

NOTE B - DESCRIPTION OF PLAN (Continued)

Plan Assumptions

The following information is applied to the Plan:

ACTUARIAL VALUATION:	
Frequency	Annual
Latest date	5/21/2010
Basis for contribution	10/1/2009
Cost method	Entry Age Normal
AMORTIZATION:	
Method	Level percentage
Period	28 years (Closed)
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 15.39% 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, 2009 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, 2010, the City of Lakeland Employee Pension Fund held $10,516,428 and $123,321,157 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 $5,401,215 in fixed income (6.10%) and equity investments of foreign issuers or non-US companies (.28%), of which, $807,121 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, 2010, 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, 2010, 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:			
Telecom Italia Capital S.A.	$ 32,232	USD	11/15/2013
Teck Resources LTD	162,745	USD	5/15/2014
ArcelorMittal	439,646	USD	8/5/2015
Standard Chartered Bank	262,709	USD	9/26/2017
Covidien International Finance S.A.	505,334	USD	10/15/2017
Abu Dhabi National Energy Company	525,563	USD	8/1/2018
Electricite de France	390,816	USD	1/26/2019
Canadian Pacific Railway Company	154,680	USD	5/15/2019
Talisman Energy Inc	114,882	USD	6/1/2019
Axtel S.A.B. dE CV	184,500	USD	9/22/2019
Telefonica Emisiones S.A.U.	250,224	USD	4/27/2020
Telecom Italia Capital S.A.	172,634	USD	11/15/2033
Telecom Italia Capital S.A.	47,168	USD	9/30/2034
America Movil	807,121	MXN	12/18/2036
Talisman Energy Inc.	68,344	USD	2/1/2037
Vodafone Group PLC	567,969	USD	2/27/2037
Talisman Energy Inc.	142,943	USD	2/1/2038
Total Corporate Bonds	$ 4,829,510		

Corporate Stocks:	Market Value	$ Denomination	Maturity
Non-US Companies:			
Teva Pharmaceutical Industries Limited	$ 571,705	USD	N/A
Total Corporate Stocks	$ 571,705		
Total Foreign Investments	$ 5,401,215		

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, 2010, 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	$ 15,630,257	21.60%	$ 15,877,216	20.07%
AA+ to AA-	4,345,749	6.01%	5,026,648	6.35%
A+ to A-	15,549,174	21.49%	17,486,407	22.10%
BBB+ to BBB-	19,209,290	26.54%	22,057,093	27.88%
BB+ to BB-	5,616,834	7.76%	5,974,419	7.55%
Below BB-	3,089,880	4.27%	3,202,552	4.05%
NR	8,919,897	12.33%	9,492,981	12.00%
	$ 72,361,081	100.00%	$ 79,117,316	100.00%

Moody's Rating:

	Cost	% of Total	Market	% of Total
Aaa	$ 19,701,058	27.23%	$ 20,784,076	26.27%
Aa1 to Aa3	2,457,465	3.40%	2,692,330	3.40%
A1 to A3	12,653,827	17.49%	13,980,210	17.67%
Baa1 to Baa3	20,899,436	28.87%	24,008,842	30.35%
Ba1 to Ba3	6,860,987	9.48%	7,204,949	9.11%
Below Ba3	2,992,312	4.14%	3,071,208	3.88%
NR	6,795,996	9.39%	7,375,701	9.32%
	$ 72,361,081	100.00%	$ 79,117,316	100.00%

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

As of September 30, 2010, 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	$ 5,360,788	9.28%	$ -	0.00%	$ -	0.00%	$ 10,516,428	100.00%
AA+ to AA-	5,026,648	8.70%	-	0.00%	-	0.00%	-	0.00%
A+ to A-	14,702,235	25.45%	-	0.00%	2,784,172	57.65%	-	0.00%
BBB+ to BBB-	20,721,818	35.87%	-	0.00%	1,335,275	27.65%	-	0.00%
BB+ to BB-	5,974,419	10.34%	-	0.00%	-	0.00%	-	0.00%
Below BB-	3,018,052	5.22%	-	0.00%	184,500	3.82%	-	0.00%
NR	2,968,202	5.14%	5,999,216	100.00%	525,563	10.88%	-	0.00%
	$ 57,772,162	100.00%	$ 5,999,216	100.00%	$ 4,829,510	100.00%	$ 10,516,428	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	$ 10,267,648	17.77%	$ -	0.00%	$ -	0.00%	$ 10,516,428	100.00%
Aa1 to Aa3	2,301,515	3.98%	-	0.00%	390,815	8.09%	-	0.00%
A1 to A3	12,384,817	21.44%	-	0.00%	1,595,393	33.03%	-	0.00%
Baa1 to Baa3	21,350,040	36.96%	-	0.00%	2,658,802	55.06%	-	0.00%
Ba1 to Ba3	7,204,949	12.47%	-	0.00%	-	0.00%	-	0.00%
Below Ba3	2,886,708	5.00%	-	0.00%	184,500	3.82%	-	0.00%
NR	1,376,485	2.38%	5,999,216	100.00%	-	0.00%	-	0.00%
	$ 57,772,162	100.00%	$ 5,999,216	100.00%	$ 4,829,510	100.00%	$ 10,516,428	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, 2010, 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, 2010 are as follows:

Asset Class (Market)	Maximum%	Minimum%	Actual %
Domestic Equity:			
Large Cap Equity	20%	10%	13%
All Cap Equity	15%	5%	10%
Broadcap Growth	35%	15%	25%
International Equity	25%	10%	15%
Total Fixed Income	45%	20%	20%
TIPS	7.5%	0%	0%
Real Estate	7.5%	0%	0%
Alternative	7.5%	0%	0%

The following investments and maturities held by the Employee Pension fund of the City as of September 30, 2010 are collateralized by registered securities held by the City or its agents in the City's name:

Investment Type	Reported Amount Fair Value Employee Pension	Investment Maturities (in years) Less than 1	1-5	6-10	More than 10
US Treasury Notes	$ 15,154,863	$ -	$ 14,239,512	$ -	$ 915,351
US Treasury TIPS	891,398	-		891,398	-
Fed Home Loan Mortgage Corp.	993,672	-	-	214,897	778,775
Federal National Mortgage Assoc	5,005,504	-	-	615,500	4,390,004
Federal Agencies Mortgage Backed	-	-	-	-	-
Freddie Mac Gold	-	-	-	-	-
Corporate Notes and Bonds (2)	57,772,162	-	14,163,433	21,841,481	21,767,248
Corporate Stocks (2)	205,485,308	205,485,308	-	-	-
Foreign Stocks (2)	571,705	571,705	-	-	-
Foreign Securities	4,829,510	-	634,623	2,388,708	1,806,179
Subtotal	290,704,122	206,057,013	29,037,568	25,951,984	29,657,557

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, 2010, by type and category of credit risk are as follows:

Investment Type	Reported Amount Fair Value Employee Pension	Investment Maturities (in years) Less than 1	1-5	6-10	More than 10
Money Market Funds (1)	10,516,427	10,516,427	-	-	-
Mutual Funds (1)	123,321,157	123,321,157	-	-	-
Accrued Interest Receivable	934,677	934,677	-	-	-
Subtotal	134,772,261	134,772,261	-	-	-
Total Investments	$ 425,476,383	$ 340,829,274	$ 29,037,568	$ 25,951,983	$ 29,657,557

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

(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.

(2) Corporate notes and bonds balance includes $391,710 in net transactions in the Pension Funds that had been executed but not settled as of September 30, 2010. Corporate stocks balance includes $1,696,613 in net transactions in the Employee Pension Fund that had been executed but not settled as of September 30, 2010. Foreign stocks balance includes $145,080 in sales in the Employee Pension Fund that had been executed but not settled as of September 30, 2010. Summary of the Investments in Transit are as follows:

Purchases:	
Corporate stocks	$ 3,117,482
Corporate notes and bonds	426,118
	$ 3,543,600
Sales:	
Corporate stocks	$ 1,420,869
Foreign stocks	145,080
Corporate notes and bonds	34,408
	$ 1,600,357
Net	
Corporate stocks	$ 1,696,613
Foreign stocks	(145,080)
Corporate notes and bonds	391,710
	$ 1,943,243

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

Equity in pooled cash	$	6
Cash held with investment manager		(46)
Money market funds		10,516,427
Total cash equivalents	$	10,516,387

NOTE E - TRANSFER TO OTHER FUNDS

For the year ended September 30, 2010, 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.

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)
	2010	$ 15,874,500	$ 16,558,670
% of the ARC		96%	
	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%	

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 PROGESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ration	Covered Payroll	UAAL % of Covered Payroll
10/1/2009	$463,240,621	$567,449,029	$104,208,408	82%	$93,375,914	112%
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%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

General – As of October 1, 2009, the actuarial cost method utilized in the actuarial report was changed from Frozen Entry Age cost method to Entry Age Normal cost method. The information disclosed in the Schedule of Funding Progress is based on the newly adopted actuarial cost method.

Individual Entry-Age Actuarial Cost Method uses normal cost and the allocation of benefit values between service rendered before and after the valuation date. It has the following characteristics:

(i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;

(ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains/(losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

INDEPENDENT AUDITORS REPORT AND SCHEDULES

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, 2010, and have issued our report thereon dated February 22, 2011. 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.

Internal Control Over Financial Reporting

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.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings as item 10-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

We noted certain matters that we reported to management of the Plan in a separate letter dated February 22, 2011.

The Plan's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Plan's response and, accordingly, we express no opinion on it.

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 22, 2011

EMPLOYEES' PENSION AND RETIREMENT SYSTEM

SCHEDULE OF FINDINGS

YEAR ENDED SEPTEMBER 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified	None Reported
Significant deficiency identified not considered to be material weakness	Yes
Noncompliance material to financial statements noted	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies:

10-1.	Investments in Transit
Condition:	We observed during our testing of investment purchases and sales, that the plan is recording investment transactions based on settlement date instead of trade date. The Plan's investment managers committed to net investment purchases on September 30, 2010 of $1,943,243 and ownership of the underlying investments were transferred to the City and payment was made in October 2010. The Plan should have recorded these investments as assets of the plan with an offsetting liability as of September 30, 2010, even though the investments were not settled until the following fiscal year. There is no impact on the net assets of the Plan as of September 30, 2010.
Criteria:	GASB 25 paragraph 20 requires that investment transactions should be recorded based upon trade date when trade date differs from the settlement date.
Effect:	The Plan's investments and payables were understated by $1,943,243 for net unsettled investment purchases as of September 30, 2010.
Cause:	The investment safekeeping report format was modified and in-transit information was no longer reported on the monthly statement. The Plan had previously recorded the in-transit sales and purchases on the trade date; however, additional procedures were not developed to identify the transactions when the reporting format changed.
Recommendation:	The Plan should develop additional procedures to identify in transit purchases and sales and record these transactions based on the trade date in accordance with the applicable guidance.
Management's Response:	Management has recorded the in-transit investment transactions as of September 30, 2010, and will put in place year-end procedures to ensure that in-transit transactions continue to be recorded in future fiscal years. Management notes, however, that this adjustment to recognize "in-transit" investment transactions with offsetting liabilities does not change the level or composition of net assets in the pension fund. Furthermore, notwithstanding the guidance provided by GASB 25, it is Management's position that recording in-transit transactions by grossing up plan assets and increasing liabilities for a transaction that is in effect a like-kind exchange of assets that occurred in a following fiscal year and is misleading to the user of the financial statements in that it inflates the value and composition of the investment portfolio.

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED SEPTEMBER 30, 2009

Auditor Reference

Number: 09-1

Defined Benefit Pension Plan Policies and Procedures

A) Policies and Procedures **-** *Insure that established and in practice policies and procedures are consistent with Board approved ordinances***:**

Still applicable

B) Census Data:

Corrected

C) Review and Approval of Benefit Payment and Refund Requests

Corrected

Crowe Horwath LLP
Independent Member Crowe Horwath International

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, 2010, and have issued our report thereon dated February 22, 2011.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our Report of Independent Auditors on Compliance and Internal Control Over Financial Reporting and Schedule of Findings. Disclosures in those reports and schedule, which are dated February 22, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report except as noted below under the heading Prior Year Findings and Recommendations.

- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined the Plan complied with Section 218.415, Florida Statutes.

- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we have noted our findings and recommendations under the heading Comments on Current Year Findings and Recommendations.

(Continued)

- Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statement; and (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to; (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transaction; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we have noted our findings under the heading Comments on Current Year Findings and Recommendations.

COMMENTS ON PRIOR YEAR RECOMMENDATIONS

COMMENTS ON PRIOR YEAR	**Level**	**Status**
Defined Benefit Pension Plan Policies and Procedures	Significant Deficiency	Partially implemented see comments in the current year

COMMENTS ON CURRENT YEAR

Investments In-Transit	**Significant Deficiency**
Observation:	We observed during our testing of investment purchases and sales, that the plan is recording investment transactions based on settlement date instead of trade date. The Plan's investment managers committed to net investment purchases on September 30, 2010 of $1,943,243 and ownership of the underlying investments were transferred to the City and payment was made in October 2010. The Plan should have recorded these investments as assets of the plan with an offsetting liability as of September 30, 2010, even though the investments were not settled until the following fiscal year. There is no impact on the net assets of the Plan as of September 30, 2010. GASB 25 paragraph 20 requires that investment transactions should be recorded based upon trade date when trade date differs from the settlement date. The Plan's investments and payables were understated by $1,943,243 for net unsettled investment purchases as of September 30, 2010. The investment safekeeping report format was modified and in-transit information was no longer reported on the monthly statement. The Plan had previously recorded the in-transit sales and purchases on the trade date; however, additional procedures were not developed to identify the transactions when the reporting format changed.

(Continued)

Investments In-Transit (Continued)	**Significant Deficiency**
Recommendation:	The Plan should develop additional procedures to identify in transit purchases and sales and record these transactions based on the trade date in accordance with the applicable guidance.
Management's Response:	Management has recorded the in-transit investment transactions as of September 30, 2010, and will put in place year-end procedures to ensure that in-transit transactions continue to be recorded in future fiscal years. Management notes, however, that this adjustment to recognize "in-transit" investment transactions with offsetting liabilities does not change the level or composition of net assets in the pension fund. Furthermore, notwithstanding the guidance provided by GASB 25, it is Management's position that recording in-transit transactions by grossing up plan assets and increasing liabilities for a transaction that is in effect a like-kind exchange of assets that occurred in a following fiscal year and is misleading to the user of the financial statements in that it inflates the value and composition of the investment portfolio.

Defined Benefit Pension Plan Policies and Procedures	**Deficiency**
Observation:	A) Plan Administration in Accordance with Plan Ordinances We continue to observe inconsistencies with regard to current practices within plan administration versus the Plan Ordinance. We observed an inconsistency related to the "Benefit Factor" in the calculation of the amount received by the spouse of a deceased retiree. The benefit factor reduces the monthly benefit amount by a percentage for those members that have not yet reached the normal retirement age of sixty (60). Under Section 26.1(c)(1) of the Ordinance, it states the beneficiary shall receive a monthly benefit equal to what the employee "...would have received upon retirement on the date of death". The member involved in this case had not yet reached age sixty at the time of his death which would indicate the calculation of his benefit at that time had he not died would have included a reduced benefit factor due to his age which would have reduced his monthly benefit. We noted within the same section of the Ordinance, the following statement "The benefit factor shall be one (1) for purpose of computing the retirement benefit" which seems to contradict the aforementioned Ordinance. The benefit of the spouse was calculated with a benefit factor of one (1). We noted a letter from the actuary to Retirement Services that indicates they believe the calculation should have been performed with a reduced benefit factor but acknowledged the City's interpretation and past practice is not to use a reduced benefit factor. B) Updating of Published Ordinances The Plan Ordinance posted on the City's website has not been updated to reflect the current contribution rates.
Recommendation:	The Plan should insure that established Plan administration in practice is consistent with Board approved ordinances. In addition, posted Ordinances should be current and updated timely.
Management's Response:	Management is contemplating a significant modification to the pension plan that addresses not only these issues identified by the auditors, but the overall sustainability of the plan considered in light of the current economic environment. Such amendments are expected to be presented to the City Commission within the next few months.

(Continued)

Retirement Application Review		Deficiency
Observation:	We observed during our testing, one of 24 benefit payments sampled, where the completed and signed Application for Retirement Benefits was not documented consistently with the actual election executed. The application was reviewed by Retirement Services. The application indicated the employee had not elected to participate in the Deferred Retirement Option Program (DROP) and had elected a retirement payment in the form of a 100% joint/survivor benefit. However, the employee also completed an Application for DROP Election. The DROP Election form was also reviewed by Retirement Services. It was observed that the employee did enter DROP. There was inconsistent documentation on file related to the retirement election actually chosen and authorized by this employee.	
Recommendation:	Retirement Services should document their review of the applications signed by the employees for any inconsistencies in order to avoid possible future disputes about the retirement option chosen by the employee and the retirement option implemented by Retirement Services. In the event that a different election is made by the employee, the file documentation should be corrected.	
Management's Response:	The Retirement services office concurs with the recommendation, and will be implementing procedures whereby each retirement application is reviewed by the Pension Benefits Manager before it is closed to ensure the election forms are in good order.	

* * * *

CONCLUSION

Management's written responses to the matters identified in our audit have not been subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on those responses.

This management letter is intended solely for the information of the Plan and management, and the State of Florida Office of the Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to thank the Board and the staff for the many courtesies and cooperation extended to our representatives during the course of our audit.

Crowe Horwath LLP

Crowe Horwath LLP

Lakeland, Florida
February 22, 2011