

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Employees' Pension and Retirement System of the City of Lakeland, Florida (the "Plan"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Employees' Pension and Retirement System of the City of Lakeland, Florida, as of September 30, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Employees' Pension and Retirement System of the City of Lakeland, Florida, and do not purport to, and do not, present fairly the financial position of the City of Lakeland, Florida, as of September 30, 2013, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note E to the financial statements, in June 2011, the GASB issued GASB statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 is effective for the Plan's fiscal year ended September 30, 2013. This Statement provides a new statement of net position format to report all assets, deferred outflows or resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows or resources and deferred inflows of resources be reported separately from assets and liabilities. The Statement also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. Our opinion is not modified with respect to this matter.

As discussed in Note E to the financial statements, in March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of this Statement are effective for the Plan's fiscal year ended September 30, 2014, with earlier application being encouraged. The Plan has implemented this statement retroactively for their fiscal year ended September 30, 2013. This Statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules of Contributions and Funding Progress on page 18 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2014, 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* in considering the Plan's internal control over financial reporting and compliance.



Crowe Horwath LLP

Lakeland, Florida
February 25, 2014

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF PLAN NET POSITION
SEPTEMBER 30, 2013

ASSETS	
Cash and cash equivalents	\$ 4,547,405
Investments	472,866,029
Investments in transit	(15,696,825)
Accrued interest receivable	482,686
Unsettled investment sales, net	17,232,629
Due from employees	<u>519,285</u>
Total assets	<u>479,951,209</u>
LIABILITIES	
Accounts payable	498,079
Unsettled investment purchases, net	1,535,804
Due to other funds	<u>2,387,442</u>
Total liabilities	<u>4,421,325</u>
NET POSITION	
Held in trust for DROP benefits	15,198,578
Held in trust for pension benefits and other purposes	<u>460,331,306</u>
	<u>\$ 475,529,884</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

STATEMENT OF CHANGES IN PLAN NET POSITION
YEAR ENDED SEPTEMBER 30, 2013

Contributions:	
Employer	\$ 15,758,557
Plan members	7,774,221
Total contributions	23,532,778
Net investment income:	
Interest and dividends	9,795,745
Net increase (decrease) in the fair value of investments	55,029,291
Gain/Loss on Stock Options	(10,467,513)
Investment advisor fee	(2,986,618)
Net investment income (loss)	51,370,905
Miscellaneous income	37,961
Total additions (deductions)	74,941,644
DEDUCTIONS	
Benefits paid	30,591,024
Refunds, former employees	1,150,123
Actuarial fee	50,143
Other	274,751
Plan Asset Transfer	53,888,036
Total deductions	85,954,077
CHANGE IN NET POSITION HELD IN TRUST	(11,012,433)
NET POSITION, beginning of year	486,542,317
NET POSITION, end of year	\$ 475,529,884

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

This Plan is a pension trust fund (fiduciary fund type) of the City that contains three pension plan options. Each plan option is part of a single employer, defined benefit pension plan offered by the City with a defined contribution option available to certain eligible employees. Plan A is eligible to non-union employees of the City hired prior to October 1, 2003. Plan B is eligible to non-union employees hired on or after October 1, 2003 through February 25, 2012. Plan C is eligible to non-union employees hired after February 25, 2012. The defined contribution option allows certain eligible employees to cease participation in this Plan and begin participation in the City's defined contribution plan.

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."

Plan Restructuring

On November 19, 2012, the Lakeland City Commission adopted ordinances 5341 and 5348 – which removed all current and future retired firefighters from the City of Lakeland Employee Pension Plan (the General Plan) and transferred those individuals to an amended version of the Firefighters' Supplemental Pension and Retirement System (the Supplemental Plan) – which had the effect of creating an entirely new replacement plan called the City of Lakeland Firefighters' Retirement System (the Fire Plan).

Under the terms of this change, all retired firefighters 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 Fire Plan. All future retired firefighters and/or their beneficiaries will receive their retirement benefits exclusively from the Fire 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 Fire Plan. The value of the assets transferred was determined as an actuarially determined percentage of the market value of the assets held for pension purposes as of March 31, 2013 attributable to the Fire members. The net amount transferred to the Fire Plan was \$52,797,105, which included a \$1,090,931 liability representing the accumulated benefit and interest as of April 1, 2013 for 13 Fire participants in the DROP Program which is described in Note B.

The market value of assets in the General Plan as of March 31, 2013 was \$517,360,252. Applying the formula yielded a gross asset transfer of \$53,888,036. The transfer itself occurred on April 1, 2013.

The net dollar amount of the Plan to Plan transfer was \$52,797,104. This amount appears in the Statement of Changes in Net Position as a plan asset transfer in the General Plan.

The transfers and market value of the plans as of March 31, 2013 are as follows:

	<u>General Plan</u>
Market Value Prior to Transfer	\$ 517,360,252
Transfers:	
Assets transferred	(53,888,036)
Liability transferred	1,090,931
Net effect of transfer	<u>\$ 464,563,147</u>

As a result of the change in the plans, on November 16, 2012 an actuarial impact review was performed based on each plans census and new asset data as of October 1, 2011 as well as the changes in the level of benefits provided within the City of Lakeland Firefighters' Retirement System. That report recommended changes in the funding requirements for the Employees' Pension and Retirement System to 17.07 percent for employer and 11.0 percent for employee to be effective for the fiscal year commencing October 1, 2012. That represents a 4% decrease in the required employer contribution with no change in the employee contribution.

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.

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

NOTES TO FINANCIAL STATEMENTS

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 covered by the Plan as of the actuary report dated October 1, 2011 is shown in the following table.

Active plan participants	1,464
Retirees and beneficiaries	845
DROP participants	124
Terminated vested participants	<u>41</u>
Total number of participants	<u>2,474</u>

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

Plan Benefits

Pension Benefits

Plan A

Plan members may retire after attaining age 60 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.

- The average monthly salary is computed using the average of the highest total earnings over a consecutive period of 36 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 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.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE B - DESCRIPTION OF PLAN (Continued)

Plan B

Plan members may retire after attaining age 62 and contributing to the plan for 10 or more years.

The monthly benefit is determined by multiplying the average monthly salary by a service factor and a benefit factor.

- The average monthly salary is computed 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 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.

Plan C

Plan members may retire after attaining age 62 and contributing to the plan for 5 or more years.

- The average monthly salary is computed 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 2.41% per year.
- 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 – Upon completion of the annual actuary valuation report, if cumulative actuarial gains are experienced within the Plan, the Board may recommend a one-time additional benefit payment to members that have been separated for 60 months or longer from the Plan as of the date of the valuation report. The amount of the benefit payable to each member will be prorated based on total years of service. Once approved by the City Commission, the benefit payment date will be March 31 of the calendar year following the effective date of the valuation report.

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 under Plan A or B or five years under Plan C of credited service, the employee will be entitled to his or her contributions to the Plan.
- If the employee more than ten years under Plan A or B or five years under Plan C 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.

- 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.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE B - DESCRIPTION OF PLAN (Continued)

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 ten years under Plan A or B or five years under Plan C of credited service, the employee will be entitled to his or her contributions to the Plan.
- If the employee has less than ten years under Plan A or B or five years under Plan C 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 under Plans A and B 11.0% for General and Union employees. Under Plan C non-union employees are required to contribute 6.25% of their basic annual compensation. The Fire employees were required to contribute 8% until the April 1, 2013 Fire Pension plan transfer.

Employer Contributions - In the actuary report dated October 1, 2011, the City's contribution to the Plan equals 17.07% of employees' salaries and the amount of the covered payroll for the Plan was \$ 89,153,459.

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

	September 30, 2013	September 30, 2012	September 30, 2011
Annual required contribution:			
City of Lakeland	\$ 14,340,564	\$ 15,060,473	\$ 16,468,150
Interest on net pension obligation (asset)	(764,082)	(684,318)	(713,683)
Annual pension cost	13,576,482	14,376,155	15,754,467
Contributions made	(15,758,557)	(15,476,342)	(15,349,432)
Change in net pension obligation (asset)	(2,182,075)	(1,100,187)	405,035
Net pension obligation (asset) beginning of year	(10,539,060)	(9,438,873)	(9,843,908)
Net pension obligation (asset) end of year	<u>\$ (12,721,135)</u>	<u>\$ (10,539,060)</u>	<u>\$ (9,438,873)</u>
Percentage of annual pension cost contributed	116.07%	107.65%	97.43%

The funded status of the Plan in the actuary report dated October 1, 2011, 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
\$ 491,568,515	\$ 613,022,106	\$ 121,453,591	80%	\$ 90,161,635	135%

*October 1, 2012 Valuation Report for the Employee Pension not available.

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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE B - DESCRIPTION OF PLAN (Continued)

Plan Assumptions

The following information is applied to the Plan:

ACTUARIAL VALUATION:

Frequency	Annual
Latest date	11/16/2012
Basis for contribution	10/1/2011
Cost method	Entry Age Normal

AMORTIZATION:

Method	Level percentage
Period	30 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 19.60% from the City and a contribution rate of 11.0% for General employees and 8.50% for Fire employees in Plans A and B and a contribution rate of 6.25% for employees in Plan C. The actuarially determined contribution rate for the report dated October 1, 2012 was 11.0% for General employees and 8.5% for Fire employees in Plans A and B and 6.25% for employees in Plan C and the actuary required rate is 17.81% of the covered payroll reported in the actuary report.

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

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, 2013, the City of Lakeland Employee Pension Fund held \$4,547,405 and \$175,705,085 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 \$101,518,890 in fixed income (15.75%) and equity investments of foreign issuers of non-US companies (6.38%). The investment policy for this fund limits the investments in foreign securities to 25% of the total assets held by the fund. As of September 30, 2013, 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:

:

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

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

As of September 30, 2013, 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:

Foreign Investments:

Mutual Funds:	<u>Market Value</u>	<u>\$ Denomination</u>	<u>Maturity</u>
Non-US Companies:			
Templeton Global Total Return - AD	12,391,364	USD	N/A
Baring Focused International Equity Fund	37,609,390	USD	N/A
Manning & Napier Overseas Fund	37,540,759	USD	N/A
Total Mutual Funds	<u>87,541,513</u>		

Corporate Bonds:	<u>Market Value</u>	<u>\$ Denomination</u>	<u>Maturity</u>
Non-US Companies:			
Petrobras International	236,076	USD	01/27/21
Total Corporate Bonds	<u>236,076</u>		

Corporate Stocks:	<u>Market Value</u>	<u>\$ Denomination</u>	<u>Maturity</u>
Non-US Companies:			
Maiden Holdings Ltd.	14,210	USD	N/A
Safe Bulkers Inc.	678	USD	N/A
Safe Bulkers Inc.	6,383	USD	N/A
Taro Pharmaceutical Indus	3,682	USD	N/A
Taro Pharmaceutical Indus	6,481	USD	N/A
Delphi Automotive PLC	1,058,512	USD	N/A
Ingersoll Rand PLC	1,189,766	USD	N/A
Nestle SA Sponsored A D R	1,920,264	USD	N/A
Aon PLC	4,092,041	USD	N/A
Liberty Global PLC Series C	2,894,551	USD	N/A
Cott Corporation	95,056	USD	N/A
First Bancorp Puerto Rico	14,115	USD	N/A
GSI Group Inc	22,352	USD	N/A
Himax Technologies Inc A D R	305,880	USD	N/A
McDermott Intl Inc	87,726	USD	N/A
North American Energy Partners Inc	73,537	USD	N/A
Chipmos Technologies Bermuda	287,680	USD	N/A
Fabrinet	153,396	USD	N/A
Maiden Holding LTD	74,875	USD	N/A
Pacific Drilling SA	31,512	USD	N/A
Nova Measuring Instruments LTD	133,564	USD	N/A
Orbotech LTD	61,617	USD	N/A
Perion Network LTD	63,550	USD	N/A
Taro Pharmaceutical Indus	129,352	USD	N/A
AVG Technologies NV	108,807	USD	N/A
Tronox LTD CL A	232,661	USD	N/A
Safe Bulkers Inc.	17,143	USD	N/A
Stealthgas Inc	107,157	USD	N/A
AVG Technologies NV	(12,376)	USD	N/A
Total Corporate Stocks	<u>13,741,301</u>		

Total Foreign Investments \$ 101,518,890

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

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, 2013, 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
AA+ to AA-	28,252,079	23.15%	27,979,954	21.34%
A+ to A-	24,074,405	19.73%	23,271,758	17.75%
BBB+ to BBB-	11,890,176	9.74%	11,247,559	8.58%
NR	57,819,908	47.38%	68,632,364	52.33%
	<u>\$ 122,036,568</u>	<u>100.00%</u>	<u>\$ 131,131,635</u>	<u>100.00%</u>

Moody's Rating:

	Cost	% of Total	Market	% of Total
Aaa	\$ 21,750,525	17.82%	\$ 21,619,144	16.49%
Aa1 to Aa3	3,044,189	2.49%	3,022,949	2.31%
A1 to A3	23,143,090	18.96%	22,378,787	17.07%
Baa1 to Baa3	16,263,852	13.33%	15,462,043	11.79%
NR	57,834,912	47.40%	68,648,712	52.34%
	<u>\$ 122,036,568</u>	<u>100.00%</u>	<u>\$ 131,131,635</u>	<u>100.00%</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

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

As of September 30, 2013, 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	
	Market	% of Total	Market	% of Total	Market	% of Total
	AA+ to AA-	5,223,833	13.22%	22,756,121	100.00%	-
A+ to A-	23,271,758	58.91%	-	0.00%	-	0.00%
BBB+ to BBB-	11,011,483	27.87%	-	0.00%	236,076	100.00%
	<u>\$ 39,507,074</u>	<u>100.00%</u>	<u>\$ 22,756,121</u>	<u>100.00%</u>	<u>\$ 236,076</u>	<u>100.00%</u>

S&P Rating:

	Money Market Funds		Bond Mutual Funds	
	Market	% of Total	Market	% of Total
	NR	4,547,405	100.00%	64,084,959
	<u>\$ 4,547,405</u>	<u>100.00%</u>	<u>\$ 64,084,959</u>	<u>100.00%</u>

Moody's Rating:

	Corporate Bonds		US Government Agency Obligations		Foreign Securities	
	Market	% of Total	Market	% of Total	Market	% of Total
	Aaa	\$ -	0.00%	\$ 21,619,144	95.00%	\$ -
Aa1 to Aa3	3,022,949	7.65%	-	0.00%	-	0.00%
A1 to A3	21,241,810	53.77%	1,136,977	5.00%	-	0.00%
Baa1 to Baa3	15,225,967	38.54%	-	0.00%	236,076	100.00%
NR	16,348	0.04%	-	0.00%	-	0.00%
	<u>\$ 39,507,074</u>	<u>100.00%</u>	<u>\$ 22,756,121</u>	<u>100.00%</u>	<u>\$ 236,076</u>	<u>100.00%</u>

Moody's Rating:

	Money Market Funds		Bond Mutual Funds	
	Market	% of Total	Market	% of Total
	NR	4,547,405	100.00%	64,084,959
	<u>\$ 4,547,405</u>	<u>100.00%</u>	<u>\$ 64,084,959</u>	<u>100.00%</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

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

In the City of Lakeland's Employee Pension Fund, assets shall be diversified among equities and fixed income investments 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. Allowable fixed income investments include US government or agency obligations, marketable corporate, GNMA's, US collateral mortgaged back securities, debentures, hybrid securities, commercial paper, or certificates of deposits. 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 3% of the market value assets of the fund and no more than 5% 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, 2013, no single company's fixed securities and common stock represented more than 3% and 5% 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, 2013 are as follows:

Asset Class (Market)	Maximum%	Minimum%	Actual %
Domestic Equity:			
Large Cap Equity	20%	10%	15.0%
All Cap Equity	15%	5%	8.0%
Broadcap Growth	35%	15%	23.0%
International Equity	25%	10%	16.0%
Total Fixed Income	45%	20%	20.0%
TIPS	7.5%	0%	0.0%
Real Estate	7.5%	0%	7.6%
Alternative	7.5%	0%	0.0%

The following investments and maturities held by the Employee Pension fund of the City as of September 30, 2012 are collateralized by registered securities held by the City or its agents in the City's name:

Investment Type	Reported Amount				
	Fair Value	Investment Maturities (in years)			
	Employee Pension	Less than 1	1-5	6-10	More than 10
US Treasury Notes	\$ 1,304,368	\$ 1,304,368	\$ -	\$ -	\$ -
US Treasury Bonds	2,184,178	-	-	-	2,184,178
Federal Home Loan Bank	1,136,977	-	1,136,977	-	-
Federal Home Loan Mortgage Corporation	617,682	-	-	617,682	-
Federal National Mortgage Association	580,560	-	580,560	-	-
Federal Agencies Mortgage Backed	20,420,902	-	-	1,106,787	19,314,115
Corporate Notes and Bonds (2)	39,507,073	-	11,578,396	23,845,587	4,083,090
Corporate Stocks (2)	201,735,002	201,735,002	-	-	-
Foreign Stocks (2)	13,741,301	13,741,301	-	-	-
Foreign Securities	236,076	-	-	236,076	-
Subtotal	<u>281,464,119</u>	<u>216,780,671</u>	<u>13,295,933</u>	<u>25,806,132</u>	<u>25,581,383</u>

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, 2013, by type and category of credit risk are as follows:

Investment Type	Reported Amount				
	Fair Value	Investment Maturities (in years)			
	Employee Pension	Less than 1	1-5	6-10	More than 10
Money Market Funds (1)	4,547,405	4,547,405	-	-	-
Mutual Funds (1)	175,705,085	175,705,085	-	-	-
Accrued Interest Receivable	482,686	482,686	-	-	-
Subtotal	<u>180,735,176</u>	<u>180,735,176</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 462,199,295</u>	<u>\$ 397,515,847</u>	<u>\$ 13,295,933</u>	<u>\$ 25,806,132</u>	<u>\$ 25,581,383</u>

CITY OF LAKELAND, FLORIDA
EMPLOYEES' PENSION AND RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

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 \$65,693 in net purchases, the corporate stocks balance includes \$153,337 in net sales, the federal mortgage backed securities balance includes \$117,419 in net purchases and the mutual fund balance includes \$15,726,600 in net sales in the Employee Pension Fund that had been executed but not settled as of September 30, 2013. Summary of the Investments in Transit are as follows:

Purchases:	
Corporate stocks	\$ 170,486
Mutual funds	1,182,206
Federal Mortgage Backed Security	117,419
Corporate notes and bonds	65,693
	<u>\$ 1,535,804</u>
Sales:	
Corporate stocks	\$ 323,823
Mutual funds	16,908,806
	<u>\$ 17,232,629</u>
Net	
Corporate stocks	\$ (153,337)
Mutual funds	(15,726,600)
Federal Mortgage Backed Security	117,419
Corporate notes and bonds	65,693
	<u>\$ (15,696,825)</u>

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

Equity in pooled cash	\$ 991,340
Cash held with investment manager	(991,340)
Money market funds	4,547,405
	<u>\$ 4,547,405</u>
Total cash equivalents	<u>\$ 4,547,405</u>

NOTE E - CHANGE IN ACCOUNTING PRINCIPLE

During the fiscal year ended September 30, 2013, the Plan implemented the requirements of GASB Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. Statement 63 is effective for the Fund's fiscal year ending September 30, 2013 and provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). This Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. As such, the Plan modified its financial statement presentation to incorporate these requirements. Statement 65 is effective for the Plan's fiscal year ended September 30, 2014, with earlier application being encouraged. The Fund has implemented this statement retroactively as of their fiscal year ended September 30, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

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)
	2013	\$ 15,758,557	\$ 14,340,564
% of the ARC		110%	
	2012	\$ 15,476,342	\$ 15,060,473
% of the ARC		103%	
	2011	15,349,432	16,468,150
% of the ARC		93%	
	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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL % of Covered Payroll
10/1/2011	491,568,515	613,022,106	121,453,591	80%	90,161,635	135%
10/1/2010	495,690,765	593,785,813	98,095,048	83%	93,636,946	105%
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%

*October 1, 2012 Valuation Report for the Employee Pension not available.

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 services 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 AUDITOR'S REPORT AND SCHEDULES

INDEPENDENT AUDITOR'S REPORT 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, in accordance with the 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, the financial statements of the Employees' Pension and Retirement System (The Plan) of the City of Lakeland, Florida, as of and for the year ended September 30, 2013, and the related notes to the financial statements and have issued our report thereon dated February 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Lakeland, Florida
February 25, 2014

EMPLOYEES' PENSION AND RETIREMENT SYSTEM

SCHEDULE OF FINDINGS

YEAR ENDED SEPTEMBER 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

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

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

We have audited the financial statements of the Employees' Pension and Retirement System of the City of Lakeland, Florida, (the Plan) as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated February 25, 2014.

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 Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of The Financial Statements Performed in Accordance with Government Auditing Standards and Schedule of Findings. Disclosures in that report and schedule, which are dated February 25, 2014, 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. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- 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. Our results are as follows:

Tabulation of Uncorrected Findings and Summary of Prior Year Findings:			
Current Year Finding #	2011-12 FY Finding #	2010-11 FY Finding #	Status
None	None	N/A	N/A

- 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, nothing came to our attention that caused us to believe that the Plan failed to comply with Section 218.415, *Florida Statutes*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Plan's noncompliance with Section 218.415, *Florida Statutes*, insofar as they relate to accounting matters.

- 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 Current Year Recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuses that have occurred, or are likely to have occurred, that have an effect on the financial statement amounts that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we have noted our findings and recommendations under the heading Current Year Recommendations.

CURRENT YEAR RECOMMENDATIONS

13-01 Benefit Overpayment		Deficiency
Condition:	A benefit in the amount of one semi-monthly payment was overpaid to a beneficiary of a retiree.	
Criteria:	Benefit payments are required to be paid in accordance with plan provisions.	
Cause:	The retiree died during the year. A check for one benefit payment was voided and subsequently reissued. At a later date another check was issued again to replace the voided check. Controls were not adequate to detect that a replacement check had already been issued.	
Effect:	Benefits were overpaid to the beneficiary of the retiree by approximately \$2,500.	
Recommendation:	Controls should be reviewed to ensure that procedures are adequate to detect that all benefit payments are verified prior to payment and are in accordance with Plan provisions.	
Management's Response:	<p>A parallel run report called PAYLINECOMPARE.rpt (description below) was created that is a new tool for investigating changes and has successfully aided as a new control.</p> <p><u>Report description:</u> Is used to compare last pay run earnings to the current pay run deductions to assist the payroll staff in ensuring all updates or changes have been accounted for. You will be prompted to identify the old pay period end date and the new pay period end date and the report does the rest. There is also a parameter option to select all records or only those with difference. Input <> 0 for those with differences and it is suggested you use 999999 to get all records.</p>	

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

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

The purpose of this management letter is to communicate certain matters prescribed by *Chapter 10.550 Rules of the Auditor General*. Accordingly, this management letter is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Lakeland, Florida
February 25, 2014