

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

FINANCIAL STATEMENTS

and

AUDITOR'S REPORTS

For the Years Ended September 30, 2006 and 2005

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The NCT Group CPA's, L.L.P.

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lake Wales Firefighters' Pension Trust Fund
City of Lake Wales, Florida

We have audited the accompanying statement of plan net assets of the Lake Wales Firefighters' Pension Trust Fund of the City of Lake Wales, Florida, as of September 30, 2006 and 2005, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the fund trustees. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 principles used and significant estimates made by the trustees, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note A, the financial statements present only the Lake Wales Firefighters' Pension Trust Fund of the City of Lake Wales, Florida, and are not intended to present fairly the financial position and results of operation of the City of Lake Wales, Florida, 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 fund's net assets held in trust for pension benefits as of September 30, 2006 and 2005 and the changes therein for the years 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 November 3, 2006 on our consideration of the Lake Wales Firefighters' Pension Trust Fund'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 the results of our audit.

The accompanying required supplementary information on pages 20 through 21 and management's discussion and analysis on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The NCT Group CPA's LLP

The NCT Group CPA's, L.L.P.
Winter Haven, Florida
November 3, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Lake Wales Firefighters' Pension Plan and Trust financial performance provides an overview of the financial activities and funding conditions for the fiscal years ended September 30, 2006 and 2005.

FINANCIAL HIGHLIGHTS

The Plan's net result from activities was an increase of \$273,742.

Employer contributions to the Plan decreased \$17,525 (or a 7.49% decrease) compared to 2005. The actual employer contributions were \$216,510 for 2006 and \$234,035 for 2005. The decrease is attributable to a change in the actuarial cost method from the Frozen Entry Age Actuarial Cost Method to the Entry Age Normal Actuarial Cost Method.

Employee contributions to the Plan increased by \$1,011 (or a 2.06% increase) compared to 2005. The actual employee contributions were \$50,098 for 2006 and \$49,087 for 2005. The increase in employee contributions is attributable to an increase in related payroll offset by a 0.5% decrease in employee contribution rate from 6.0% to 5.5%.

State sources increased \$9,897 (or a 13.15% increase) compared to 2005. State sources were \$85,136 for 2006 and \$75,239 for 2005.

The net investment income decreased by \$95,689 compared to 2005. The actual results were a \$367,944 increase for 2006 and a \$463,633 increase for 2005.

Benefit payments and Refunds of Contributions decreased by \$2,974 (or a 0.72% decrease).

PLAN HIGHLIGHTS

The Actuarial Assets for funding purposes are developed by increasing the Actuarial Assets used in the most recent actuarial valuation of the Fund by the average annual market value rate of return (net of investment related expenses) for the past four years, but are limited to 120% of Market Value, if less.

For the October 1, 2006 Actuarial Valuation Report, the -5.99% negative return for fiscal year 2002 dropped off in calculating the actuarially smoothed positive return of 9.78% exceeding the 8.0% assumption.

TABLE 1

Plan Year End	Rate of Return*
9/30/02	-5.99%
9/30/03	13.39%
9/30/04	8.89%
9/30/05	9.57%
9/30/06	7.35%

*Market Value Basis, net of investment related expenses
Annualized Rate of Return for prior four (4) years: 9.78%

The plan's funding level increased from 66.86% in 2005 to 69.21% in 2006. In addition to the plans return, the Entry Age Normal Actuarial Cost Method adopted on 10/1/2004 affects the funding level annually in lieu of the annual normal cost requirements.

USING THE ANNUAL REPORT

The annual report includes the independent auditors' report, Management's Discussion and Analysis, financial statements for the defined benefit plan and certain required supplementary information.

The financial statements reflect the activities of the Firefighters' Pension plan and are reported in the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. These statements are presented on a full accrual basis and reflect all trust activities as incurred. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Lake Wales progress in funding its obligation to provide pension benefits to its employees.

PLAN NET ASSETS

The following comparative summary of Plan Net Assets demonstrates that the defined benefit trust is primarily focused on the cash and investments and the restricted net assets.

TABLE 2
PLAN NET ASSETS
As of September 30

	<u>2006</u>	<u>2005</u>
Cash & Investments	\$ 6,368,806	\$ 5,867,348
Accrued Investment Income	19,809	15,225
Due From State	18,757	11,597
Due From Others	1,162	1,548
Total Assets	<u>6,408,534</u>	<u>5,895,718</u>
Due to DROP Participants	859,919	613,634
Prepaid City Contributions	12,637	19,848
Total Liabilities	<u>872,556</u>	<u>633,482</u>
Restricted Net Assets	<u>\$ 5,535,978</u>	<u>\$ 5,262,236</u>

The net change in net assets was an increase of \$273,742, which is largely attributable to net investment returns of \$367,944. Revenues essential to the sound funding of the plan are from contributions and net investment earnings. Contributions are made based on the actuarially determined rates in accordance with Florida Statutes (F.S.) Chapter 112. Active plan participants contribute 5.5% of their pensionable salary. The City of Lake Wales budgets and contributes the remaining required funding balance adjusted for State contributions. The State remits income received from the 1.85% excise tax on property insurance premiums per F.S. 175.101.

CHANGES IN PLAN NET ASSETS

The following table shows a comparative summary of the changes in net assets and reflects the activities of the trust.

TABLE 3
CHANGES IN PLAN NET ASSETS
For the Years Ended September 30

	<u>2006</u>	<u>2005</u>
Additions:		
Employer Contributions	\$ 216,510	\$ 234,035
Employee Contributions	50,098	49,087
State of Florida	85,136	75,239
Investment Income (Net)	367,944	463,633
Total Additions	<u>719,688</u>	<u>821,994</u>
Deductions:		
Pension Benefits	411,090	414,064
Refund of Contributions	0	0
Administrative Expenses	34,856	30,297
Total Deductions	<u>445,946</u>	<u>444,361</u>
Net Increase (Decrease)	<u>\$ 273,742</u>	<u>\$ 377,633</u>

The Plan's investment activity, measured as of the end of any month, quarter or year, is a function of the underlying marketplace for the period measured and the investment policy's asset allocation.

The benefit payments are a function of payments to retirees, their beneficiaries (if the retiree is deceased) and new retirements during the period. Refund of contribution is a refund of an employee's contributions distributed to terminated employees who are not vested or vested and elect to terminate plan benefits.

PLAN MEMBERSHIP

The tables below reflect the Plan membership as of the beginning and ending of the year.

TABLE 4
CHANGES IN PLAN MEMBERSHIP SEPTEMBER 30

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Active Participants	20	18	2
Vested	8	9	(1)
Non-Vested	12	9	3
Retirees/Benef/Disab	9	10	(1)
Terminated Vested	1	0	1
DROP Participates	3	3	0

TABLE 5
CHANGES IN RETIREES & BENEFICIARIES

	<u>10/1/2005</u>	<u>In</u>	<u>Out</u>	<u>9/30/2006</u>
Retirees Receiving Benefits	7	-	1	6
Beneficiaries Receiving Benefits	1	-	-	1
Disability Benefits	2	-	-	2
Vested Deferred	-	1	-	1
DROP	3	-	-	3
TOTAL	<u>13</u>	<u>1</u>	<u>1</u>	<u>13</u>

Table 4 reflects changes in active participants. Table 5 demonstrates the changes in retirees and beneficiaries during the period.

FUNDING STATUS

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, defined pension plans have been under funded when the employer failed to make annual actuarially required contributions to the Plan. The City's Defined Benefit Plan has been subject to the minimum funding standards since the adoption of the "Florida Protection of Public Employee Retirement Benefits Act" (Part VII of Chapter 112, Florida Statutes) in 1980. Accordingly, the City has funded the actuarially determined required contribution for all years from October 1, 1987, through the transition date, October 1, 1997. Thus the NPO (Net Pension Obligation) on October 1, 1997, is 0. The NPO for the year ended September 30, 2006 is a negative (over funded) \$69,932.

For plan funding purposes, the Firefighters' Pension plan utilizes the Entry Age Normal Actuarial Cost Method. The use of this method involves the systematic funding of the Normal Cost and the Unfunded Actuarial Accrued (Past Service) Liability. The normal cost is the current year's cost for benefits yet to be funded. The Unfunded Actuarial Accrued Liability (UAAL) is a liability, which arises when a pension plan is initially established or improved, or actuarial assumptions or cost methods are changed and such establishment, improvement, or change is applicable to all years of past service. Under the Entry Age Normal Actuarial Cost Method, there is also a new UAAL created each year equal to the actuarial gain or loss for that year. (Prior funding method was the Frozen Entry Age Actuarial Cost Method).

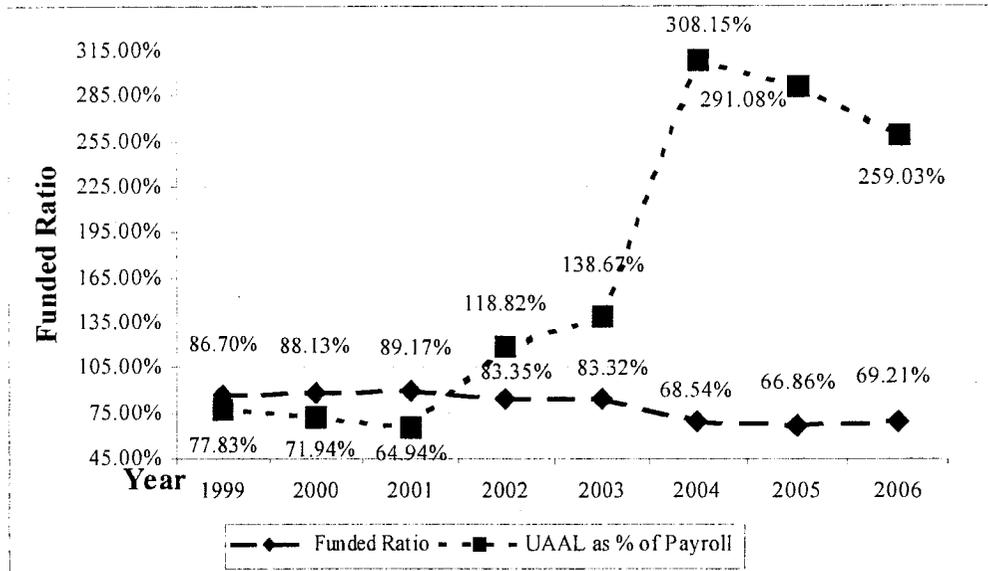
Under the Entry Age Normal Actuarial Cost Method adopted October 1, 2004 for September 30, 2006 contributions, the Actuarial Gains (Losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability (UAAL) instead of the Normal Cost. This method spreads the increase (decrease) over a longer time period and is designed to produce contribution amounts that are more stable and predictable.

The Governmental Accounting Standards Board (GASB) per GASB 25 requires the Total Unfunded Actuarial Liability to be presented. The schedule includes two ratios or indices: the funded ratio (assets expressed as a percentage of the actuarial accrued liability) and the unfunded actuarial liability expressed as a percentage of active covered payroll. The latter ratio is a measure of the significance of the unfunded actuarial liability relative to the capacity to pay it.

The trend in those two ratios provides information about whether the financial strength of the plan is improving or deteriorating over time. An improvement is indicated when the funded ratio is increasing and the ratio of the unfunded actuarial accrued liability to payroll is decreasing. However, a decrease in the funded ratio and an increase in UAAL to payroll will not necessarily indicate a plan is in financial decline. Changes in actuarial assumptions can significantly impact the Actuarial Accrued Liability. Performance in the stock and bond markets can have a material impact on the actuarial value of assets.

Table 6, on the following page, presents the funding progress utilizing the Entry Age Normal Actuarial Cost Method.

**TABLE 6
SCHEDULE OF FUNDING PROGRESS
As of October 1**



**TABLE 7
SCHEDULE OF FUNDING PROGRESS
In Accordance with the Requirements of Paragraph 37 of Statement No. 25
Of the Governmental Accounting Standards Board**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) See Table 8 (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/06	5,276,297	7,623,452	2,347,155	69.21%	906,142(3)*	259.03%
10/1/05	4,953,540	7,409,118	2,455,578	66.86%	843,618(3)*	291.08%
10/1/04	4,794,974	6,996,003	2,201,029	68.54%	714,282(4)*	308.15%
10/1/03	4,753,916	5,705,326	951,410	83.32%	686,076(3)*	138.67%
10/1/02	4,715,670	5,657,742	942,072	83.35%	792,882(1)*	118.82%
10/01/01	4,630,849	5,193,213	562,364	89.17%	865,942	64.94%
10/01/00	4,333,023	4,916,760	583,737	88.13%	811,439	71.94%
10/01/99	3,792,501	4,374,499	581,998	86.70%	747,760	77.83%

For funding purposes, the Actuary uses a 4-year market smoothing method to establish the actuarial value of the assets (used to determine the funded ratio). *(#)-Number of DROP participants.

TABLE 8
UNFUNDED ACTUARIAL ACCRUED LIABILITIES
As of October 1, 2006

	Date Established	Years Remaining	Initial UAAL	10/1/2006 Amount	Amortization Amount
A	10/1/1998	22	\$584,133	\$ 630,958	\$ 45,110
B	10/1/2001	25	336,705	385,352	25,697
C	10/1/2004	28	1,243,953	1,337,597	84,276
D	10/1/2005	29	150,311	154,074	9,548
E	10/1/2006	30	(160,826)	(160,826)	(9,813)
TOTAL UAAL			2,154,276	\$ 2,347,155	\$ 154,818

A – Plan improvements and actuarial cost method change. Plan enhancements included increasing the credited service multiplier from 2.5 to 3.0 and dropping the minimum normal retirement age from 52 with 25 years of service to age 50 with 25 years of service. The actuarial cost method was changed from the Aggregate Actuarial Cost Method to the Frozen Entry Age Actuarial Cost Method.

B. – Plan improvement. Salary definition amended to be total compensation, including lump sum sick and vacation payouts at retirement.

C - The actuarial cost method was changed from the Frozen Entry Age Actuarial Cost Method to the Entry Age Normal Actuarial Cost Method.

D – Change in UAAL due to Actuarial Loss.

E – Change in UAAL due to Actuarial Gain.

ASSET ALLOCATION

The table below indicates the asset allocation for September 30, 2006 and 2005.

TABLE 9
MARKET VALUE ASSET ALLOCATION BY %

	2006	2005
Cash	8.04%	19.40%
U.S. Treasury Notes & Bonds	21.16%	12.67%
Corporate Bonds	9.86%	10.83%
Stocks	60.94%	57.10%
Total	100.00%	100.00%

The Board has established the following target asset allocation for the total pension fund:

Domestic & International Equity Securities	50%
International Equity Securities	10%
Fixed-income Securities	40%

Actual cost and market fluctuations affect asset allocation percentages.

INVESTMENT ACTIVITIES

Investment income is vital to the Plan's current and continued financial stability. Therefore, Trustees have a fiduciary responsibility to act prudently and discretely when making Plan investment decisions. To assist the Board in this area, a formal investment policy has been adopted and is included with each Manager's Investment Advisory Agreement.

The plan's investment advisor makes investment decisions. The investment advisor provides quarterly reports of the investment portfolio and its performance to the Board of Trustees. Performance is assessed quarterly by A.G. Edwards.

ECONOMIC FACTORS

The primary function of the pension trust is to (a) appropriately award and pay benefits and (b) manage investments. The opportunity available considering various investment choices is invaluable in the asset allocation and money manager oversight.

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

The financial report is designed to provide citizens, taxpayers, plan participants, and marketplace's credit analysis with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or need additional financial information, please contact the City's Finance Director, 201 Central Avenue West, P. O. Box 1320, Lake Wales, Florida 33859-1320.

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

STATEMENT OF PLAN NET ASSETS

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Cash	\$ 32,088	\$ 47,512
Investments:		
Money market funds	479,858	1,128,963
Corporate bonds and government obligations	1,975,604	1,357,923
Equity funds	3,881,255	3,332,950
Total investments	<u>6,336,717</u>	<u>5,819,836</u>
Receivables:		
Accrued interest and dividends	19,809	15,225
Accounts receivable - Retirees	1,162	1,548
Due from State of Florida	18,757	11,597
Total receivables	<u>39,728</u>	<u>28,370</u>
Total assets	<u>6,408,533</u>	<u>5,895,718</u>
Liabilities:		
DROP plan payable	859,918	613,634
Prepaid contributions from City	12,637	19,848
Total liabilities	<u>872,555</u>	<u>633,482</u>
Net assets:		
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 19)	<u>\$ 5,535,978</u>	<u>\$ 5,262,236</u>

See accompanying notes to the financial statements

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Additions:		
Contributions:		
State of Florida	\$ 85,136	\$ 75,239
Employer (City of Lake Wales)	216,510	234,035
Employees	50,098	49,087
	<u>351,744</u>	<u>358,361</u>
Investment income:		
Net change in investments	413,045	511,395
Less: Investment expense	<u>(45,101)</u>	<u>(47,762)</u>
Net investment income	<u>367,944</u>	<u>463,633</u>
Total additions	<u>719,688</u>	<u>821,994</u>
Deductions:		
Benefits paid directly to participants	411,090	414,064
Refunds of contributions to employees	<u>-</u>	<u>-</u>
Total benefits	411,090	414,064
Administrative expenses	<u>34,856</u>	<u>30,297</u>
Total deductions	<u>445,946</u>	<u>444,361</u>
Net increase/(decrease)	273,742	377,633
Net assets held in trust for pension benefits:		
Beginning of year	<u>5,262,236</u>	<u>4,884,603</u>
End of year	<u>\$ 5,535,978</u>	<u>\$ 5,262,236</u>

See accompanying notes to the financial statements

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2006 and 2005

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Entity - These financial statements present only the financial status of the Lake Wales Firefighters' Pension Trust Fund of the City of Lake Wales, Florida, and not of the City as a whole.

Basis of Accounting - The accounts of the Lake Wales Firefighters' Pension Trust Fund are maintained on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Cash and Investments - If available, quoted market prices are used to value investments. Purchases and sales of investment securities are recorded on a trade-date basis. Many factors are considered in arriving at fair value. In general, however, corporate bonds and government obligations are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in equity funds are valued at the quoted market price.

All investments are held by A. G. Edwards in street name on behalf of the pension trust fund.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

B - CASH AND CASH EQUIVALENTS

From time to time small amounts of cash are recorded by the Lake Wales Firefighters' Pension Trust Fund due to isolated transactions occurring for brief periods of time. No cash funds are generally held for any length of time, and no federally insured depository institutions are used to hold cash.

C - INVESTMENTS

Investments are held with a registered securities dealer, and the Lake Wales Firefighters' Pension Trust Fund is authorized by Florida Statutes to invest in certain securities. The Trust Fund's investment policies limit investments made or held in its portfolio to the following:

1. Time, savings, and money market deposits of a national bank, a state bank or a savings and loan institution, insured by the Federal Deposit Insurance Corporation, provided the amount deposited does not exceed the insured amount.
2. Obligations issued by the United States Government, or obligations guaranteed as to principal and interest by the United States Government or by an agency of the United States Government.

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2006 and 2005

C - INVESTMENTS - (Continued)

3. Stocks, commingle funds administered by national or state banks, mutual funds and bonds or other evidences of indebtedness, issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States or the District of Columbia, provided:
 - a. Domestic equity securities must hold a ranking within the top three quality ratings of a recognized rating service, except that fifteen percent of the portfolio may be invested in lower rated (or non-rated) securities provided such issues are actively traded on a major exchange or NASDAQ. To insure proper diversification, no more than 5% (at cost) of the total portfolio may be invested in any single corporation, and exposure to any one industry sector shall not exceed 150% of the exposure represented by that industry in the S&P 500 Stock Index or 5% (at cost), whichever is greater. Up to 10% of the Fund assets may be invested in non-U.S. equities in the form of American Depository Receipts.
 - b. Fixed-income securities must, as a minimum, be rated AAA, AA, or A by Standard and Poor's or hold a Moody's rating of Aaa, Aa, or A and no more than 10% (at cost) of the fixed-income portfolio may be invested in the securities of a single corporate issuer. There is no limit on investments in fixed-income securities issued directly by the United States Government or any agency or instrumentality thereof. The average duration of the fixed-income portfolio is not expected to exceed 150% of the duration of the Lehman Brothers Government / Credit Bond Index.
 - c. Cash equivalent securities must be rated either A1 by Standard and Poor's or P1 by Moody's. Investment in a short-term investment fund (STIF) account sponsored by the fund's custodian or in Bankers Acceptances issued by the largest fifty banks in the United States shall be considered as meeting this quality restriction.

The Board of Trustees of the Plan (Board) has established the following target asset allocation for the total pension fund:

Domestic Equity Securities	50%
Fixed-Income Securities	40%
International Equity Securities	10%

The allocation target is intended as a maximum exposure to each security class based on the cost value of the assets and is consistent with the nature and size of the fund. The use of cash equivalent securities, including short-term fixed-income instruments and custodial STIF funds is not restricted and may be used within both the equity or fixed-income portfolio.

Investment decisions are made by the investment advisor. The investment advisor provides quarterly reports of the investment portfolio and its performance to the Board of Trustees. Performance is assessed quarterly by A.G. Edwards & Sons, Inc.

There were no violations of legal provisions for investments throughout the year.

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2006 and 2005

C - INVESTMENTS - (Continued)

The following table presents the fair value of the investments in this Plan. Single investments representing more than 5% of the Plan's net assets as of September 30, 2006 and 2005 are separately identified.

	<u>Interest</u>	<u>2006</u>	<u>2005</u>
Centennial money market trust		\$ 479,858	\$ 1,128,963
U.S. Treasury notes and bonds	3.35% - 6.12%	1,347,907	738,187
Corporate bonds	4.63% - 7.12%	627,697	619,736
Stocks	N/A	<u>3,881,255</u>	<u>3,332,950</u>
		<u>\$ 6,336,717</u>	<u>\$ 5,819,836</u>

Corporate and U.S. Government notes and bonds owned at September 30, 2006 are as follows:

<u>Quantity</u>	<u>Security</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Corporate Bonds:				
\$ 55,000	Citicorp	7.120%	06-15-07	55,625
70,000	Merrill Lynch	5.900%	02-17-09	71,162
75,000	Lehman Bros	4.630%	07-26-10	72,944
65,000	Goldman Sachs	6.490%	01-15-11	68,891
105,000	Intel Lease Fin. Corp.	5.720%	05-01-13	107,766
60,000	Morgan Stanley	4.990%	04-01-14	57,059
20,000	NationsBank Corp.	6.700%	09-15-16	23,292
25,000	Hershey Food Corp.	6.750%	02-15-21	32,587
55,000	Phillips Pete Co.	6.240%	03-30-29	61,669
70,000	Kohls Corp.	6.620%	06-01-29	<u>76,702</u>
Total Corporate Bonds				<u>\$627,697</u>
Government Bonds:				
210,000	United States Treasury	3.350%	01-15-09	\$ 203,658
260,000	United States Treasury	3.620%	02-15-10	251,056
5,000	United States Treasury	6.120%	11-15-16	6,125
5,000	United States Treasury	6.000%	02-15-21	6,571
40,000	United States Treasury	5.500%	08-15-25	49,976
Mortgage Pools:				
162,000	Fed'l. Nat'l. Mtg. Assn.	4.320%	02-01-20	127,025
39,734	Fed'l. Nat'l. Mtg. Assn.	4.320%	11-01-19	32,559
222,850	Fed'l. Home Loan Mtg.	4.320%	01-01-20	168,811

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2006 and 2005

C - INVESTMENTS - (Continued)

Mortgage Pools: - (continued)

115,000	Fed'l. Home Loan Mtg.	4.720%	08-01-20	100,058
60,000	Fed'l. Nat'l. Mtg. Assn.	4.320%	10-01-20	51,736
72,000	Fed'l. Home Loan Mtg.	4.320%	02-01-21	64,594
130,000	Gov't. Nat'l. Mtg. Assn.	5.540%	12-20-31	37,017

Government-

Sponsored Bonds:

45,000	Fed'l. Nat'l. Mtg. Assn.	5.780%	03-15-12	47,642
115,000	Fed'l. Nat'l. Mtg. Assn.	4.340%	04-15-14	109,235
5,000	Fed'l. Nat'l. Mtg. Assn.	5.480%	11-15-30	6,037
75,000	Fed'l. Nat'l. Mtg. Assn.	4.330%	05-15-09	73,542
10,000	Fed'l. Home Loan Mtg.	5.500%	03-15-31	<u>12,264</u>

Total Government Bonds, Mortgage Pools, and
Government-Sponsored Bonds

\$1,347,906

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the plan's investment policy expects the average duration of the fixed-income portfolio to not exceed 150% of the duration of the Lehman Brothers Government / Credit Bond Index.

Credit Risk Fixed-income securities must, as a minimum, be rated AAA, AA, or A by Standard and Poor's or hold a Moody's rating of Aaa, Aa, or A.

The average credit rating of the entire portfolio is AAA. The credit ratings for the Plan's fixed income securities at September 30, 2005 are as follows:

		<u>S&P</u>	<u>Moody</u>
55,000	Citicorp	A+	AA2
210,000	US Treasury Note	AAA	AAA
70,000	Merrill Lynch & Co	A+	AA3
75,000	Fed'l Nat'l Mtg. Assn.	AAA	AAA
260,000	US Treasury Note	AAA	AAA
75,000	Lehman Bros HLDG Inc	A+	A1
65,000	Goldman Sachs Group	A+	AA3
39,734	Fed'l Nat'l Mtg. Assn.	AAA	AAA
222,850	Fed'l Nat'l Loan Mtg. Corp	AAA	AAA
162,000	Fed'l Nat'l Mtg. Assn.	AAA	AAA
115,000	Fed'l Nat'l Loan Mtg. Corp	AAA	AAA
60,000	Fed'l Nat'l Mtg. Assn.	AAA	AAA
72,000	Fed'l Nat'l Loan Mtg. Corp	AAA	AAA
45,000	Fed'l Nat'l Mtg. Assn.	AAA	AAA
130,000	Gov't Nat'l Mtg. Assn. II	AAA	AAA

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2006 and 2005

C - INVESTMENTS - (Concluded)

105,000	Int'l Lease Fin Corp	AA-	A1
60,000	Morgan Stanley	A	A1
115,000	Fed'l Nat'l Mtg. Assn.	AAA	AAA
20,000	NationsBank/Bank of Am.	A+	AA3
5,000	US Treasury Bond	AAA	AAA
25,000	Hershey Foods Corp	A+	A1
5,000	US Treasury Bond	AAA	AAA
40,000	US Treasury Bond	AAA	AAA
55,000	Phillips Pete Co	A-	A1
70,000	Kohls Corp	BBB+	A3
5,000	Fed'l Nat'l Mtg. Assn.	AAA	AAA
10,000	Fed'l Nat'l Mtg. Assn.	AAA	AAA

Concentration of Credit Risk: No more than 5% (at cost) of the total portfolio may be invested in any single corporation, and exposure to any one industry sector shall not exceed 150% of the exposure represented by that industry in the S&P 500 Stock Index or 5% (at cost), whichever is greater. At September 30, 2006 7.1% of the Plan's investments were in bonds and mortgage pools of the Federal National Mortgage Association and 5.5% were in bonds and mortgage pools of the Federal Home Loan Mortgage Corporation.

D - DESCRIPTION OF PLAN

The following brief description of the Lake Wales Firefighters' Pension Trust Fund Plan is provided for general information purposes only. Participants should refer to City of Lake Wales Ordinance No. 2003-01 for more complete information. The Plan is administered by the Lake Wales Firefighters' Pension Trust Fund Board. The Board may propose amendments to the Plan, but any such amendments must be ordinances approved by the City of Lake Wales City Commission.

1. Plan Membership:

The plan is a single-employer, defined benefit pension plan that covers substantially all full-time firefighters of the City of Lake Wales, Florida. Government plans are not subject to the provisions of the Employee Pension Income Security Act of 1974 (ERISA). Based on an actuarial report as of October 1, 2005, employee membership data related to the plan is as follows:

	<u>2005</u>
City of Lake Wales firefighter retirees and beneficiaries currently receiving benefits	<u>13</u>
Vested terminated employees	<u>-</u>
Active plan participants:	
Vested	9
Nonvested	<u>9</u>
Total active plan participants	<u>18</u>

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2006 and 2005

D - DESCRIPTION OF PLAN - (Continued)

2. Plan Benefits:

Pension Benefits - Effective October 1, 1986, Chapter 175, Florida Statutes was amended to provide that a member firefighter may retire and receive normal retirement benefits after completing 10 years of creditable service and attaining the age of 55 or completing 25 years of creditable service and attaining the age of 50. Previously a firefighter was required to complete 10 years of creditable service and attain the age of 60. The amount of the monthly retirement income payable to a firefighter who retires on or after his normal retirement date will equal 2-1/2% of his average final compensation multiplied by the number of years of credited service for members separating from service prior to October 1, 1998, or 3% of his average final compensation for each year of credited service for members separating from service on or after October 1, 1998. The average final compensation is based on annual compensation of the 3 highest paid years of the last 10 years of creditable service. Prior to October 1, 1986, average final compensation was based on compensation during the last 10 years of service. However, if city and state contributions are not adequate to provide the benefits currently provided in Chapter 175, only incremental increases shall be provided as state moneys become available.

Members who have satisfied the requirements for normal retirement are eligible to participate in the Deferred Retirement Option Program (DROP) for up to five years. During the DROP period the member accrues a benefit amount equal to what would have been the members retirement benefit had the member retired as of the date of entry into the DROP program plus earnings. At the members' election, earnings are calculated either at the same rate of return earned by the total trust fund, or the rate of return on the trust fund's money market account. This accumulated amount is paid in a lump sum when the member leaves active service at the end of the DROP period.

Benefits generally terminate upon the firefighter's death. If the firefighter dies after retirement but prior to receiving benefits for a period of ten years, the same monthly payment will be paid to the beneficiary designated by the firefighter for the balance of the ten-year period.

A firefighter may elect a reduced early retirement benefit after completing ten years credited service and attaining age 50.

Disability Benefits - A firefighter with ten years credited service who becomes totally and permanently disabled may retire from service, with benefits computed and payable in the same manner as normal retirement benefits. If the firefighter recovers prior to his normal retirement date, the disability retirement benefit will be discontinued.

Termination Benefits - A firefighter separating from municipal employment before attaining early retirement age but after completing ten years of credited service, becomes eligible for a deferred benefit, computed and paid in the same manner as normal retirement upon attaining the normal retirement age. Firefighters separating from a municipal employment prior to attaining ten years of service, receive no benefits but are entitled to a refund of 100%, without interest, of the contributions made to the retirement trust fund.

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2006 and 2005

D - DESCRIPTION OF PLAN - (Continued)

2. Plan Benefits: - (Concluded)

Death Benefits - If a firefighter dies after completing ten years credited service but prior to retirement, the firefighter's beneficiary is entitled to the benefits otherwise payable to the firefighter at early or normal retirement age. If a firefighter dies before being eligible to retire, the firefighter's beneficiary will be entitled to a refund of 100%, without interest, of the contributions made to the retirement trust fund by the deceased firefighter.

3. Funding Policy:

Member Contributions - 5.5% of the salary of each firefighter shall be deducted from the firefighters' salary by the City and paid over to the Board of Trustees of the pension trust fund.

City Contributions - The City shall make an annual contribution to the fund in an amount which is determined by the actuarially defined contribution rate adjusted for State contributions.

State Contributions - The State remits income received from the 1.85% excise tax on property insurance premiums, per Florida Statutes 175.101, to the Lake Wales Firefighters' Pension Trust Fund.

4. Termination of Plan:

Should the plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Some benefits may be fully or partially provided for by the then existing plan assets while others may not be provided for at all, depending upon the priority of those benefits and the availability of plan assets.

5. Contributions Required and Contributions Made:

The funding policy is to provide for periodic contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, when combined with employee and state contributions are designed to accumulate sufficient assets to pay benefits when due.

Information related to contributions for the year ended September 30, 2004 is as follows:

Contribution rates as of September 30, 2005:

City	28.8%
Plan members	6.0%
Annual pension cost	\$ 235,629
Contributions made	\$ 235,629

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2006 and 2005

D - DESCRIPTION OF PLAN - (Concluded)

5. Contributions Required and Contributions Made - (Continued):

Actuarial valuation date	10/01/03
Actuarial cost method	Frozen entry age
Amortization method	Level percentage of pay, closed
Remaining amortization period	28 years
Asset valuation period	4-Year Smoothing
Actuarial assumptions:	
Investment rate return	8.0%
Projected salary increases*	6.0%
*Includes inflation at	3.0%
Post retirement cost-of-living adjustments	0.0%

Three-Year Trend Information

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
9/30/05	\$235,629	100%	\$ (70,708)
9/30/04	207,675	100%	(71,493)
9/30/03	176,722	100%	(72,287)

E - TAX STATUS

The fund is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code.

F - STATE OF FLORIDA CONTRIBUTION

The 2006 state contribution totaled \$85,136.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

DEVELOPMENT OF NET PENSION OBLIGATION (NPO)

September 30, 2006

This municipal Defined Benefit Plan has been subject to the minimum funding standards since the adoption of the "Florida Protection of Public Employee Retirement Benefits Act" (Part VII of Chapter 112, Florida Statutes) in 1980. Accordingly, the sponsor has funded the actuarially determined required contributions for all years from October 1, 1987, through the transition date, October 1, 1997. Thus, the NPO on October 1, 1997, is -0-.

The development of the Net Pension Obligation is as follows:

	<u>9/30/04</u>	<u>9/30/05</u>
Actuarially determined contribution (A)	\$ 207,675	\$ 235,629
Interest on NPO	(5,783)	(5,719)
Adjustment to (A)	<u>6,577</u>	<u>6,504</u>
Annual pension cost	208,469	236,414
Contributions made	<u>207,675</u>	<u>235,629</u>
Increase in NPO	794	785
NPO beginning of year	<u>(72,287)</u>	<u>(71,493)</u>
NPO end of year	<u>\$ (71,493)</u>	<u>\$ (70,708)</u>



The NCT Group CPA's, L.L.P.

Certified Public Accountants and Consultants

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

Board of Trustees
Lake Wales Firefighters' Pension Trust Fund
City of Lake Wales, Florida

We have audited the financial statements of the Lake Wales Firefighters' Pension Trust Fund, Lake Wales, Florida, as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated November 3, 2006. 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 Lake Wales Firefighters' Pension Trust Fund, Lake Wales, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Lake Wales Firefighters' Pension Trust Fund, Lake Wales, Florida'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*.

Board of Trustees
Lake Wales Firefighters' Pension Trust Fund
Page Two

This report is intended solely for the information and use of management of the City of Lake Wales, Florida, and the Auditor General, State of Florida and is not intended to be and should not be used by anyone other than those specified parties.

The NCT Group CPA's LLP

The NCT Group CPA's, L.L.P.
Winter Haven, Florida
November 3, 2006



The NCT Group CPA's, L.L.P.

Certified Public Accountants and Consultants

MANAGEMENT LETTER

Board of Trustees
Lake Wales Firefighters' Pension Trust Fund
City of Lake Wales, FL

We have audited the financial statements of the Lake Wales Firefighters' Pension Trust Fund, Lake Wales, Florida, as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated November 3, 2006.

We have issued our Independent Auditor's Report on Internal Control and on Compliance and Other Matters over Financial Reporting dated November 3, 2006. Disclosures in those reports, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with United States generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554 (1) (h) 1.) require that we comment as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual financial audit report.

As required by the Rules of the Auditor General (Section 10.554 (1) (h) 2.) we determined that the entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The Rules of the Auditor General (Sections 10.554 (1) (h) 3., 4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on the internal control structure or compliance: recommendations to improve financial management, accounting procedures, and internal controls; violations of laws, rules, regulations and contractual provisions or abuses that may have occurred, or were likely to have occurred, and were discovered within the scope of the audit; improper or illegal expenditures discovered within the scope of the audit that may not materially affect the financial statements; improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that came to the attention of, the auditor. Our audit disclosed no matters required to be disclosed by Rules of the Auditor General (Sections 10.554 (1) (h) 3., 4.).

Board of Trustees
Lake Wales Firefighters' Pension Trust Fund

The Rules of the Auditor General (Section 10.554 (1) (h) 5.) also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The Lake Wales Firefighters' Pension Trust Fund included no component units.

Status of Prior Year Findings

There were no prior year findings.

Current Year Findings

There are no current year findings.

This management letter is intended solely for the information of the Lake Wales, Florida management, and the State of Florida Office of the Auditor General. However, this report is a matter of public record and its distribution is not limited.

The NCT Group CPA's

The NCT Group CPA's, L.L.P.
Winter Haven, Florida
November 3, 2006