

**LAKE WALES FIREFIGHTERS' PENSION TRUST FUND**

**FINANCIAL STATEMENTS**

**and**

**AUDITOR'S REPORTS**

**For the Years Ended September 30, 2007 and 2006**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis (required supplementary information).....	3-9
BASIC FINANCIAL STATEMENTS	
Statement of Plan Net Assets.....	10
Statement of Changes in Plan Net Assets.....	11
Notes to Financial Statements .....	12-19
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress and Schedule of Contributions From the Employer and Other Contributing Entities.....	20
Development of Net Pension Obligation (NPO).....	21
OTHER SUPPLEMENTAL INFORMATION	
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 <i>Government Auditing Standards</i> .....	22-23
Management Letter .....	24-25

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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, 2007 and 2006, 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, 2007 and 2006 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 February 8, 2008 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, L.L.P.*

The NCT Group CPA's, L.L.P.  
Winter Haven, Florida  
February 8, 2008

## 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, 2007 and 2006.

### FINANCIAL HIGHLIGHTS

The Plan's net result from activities was an increase of \$755,940.

Employer contributions to the Plan increased \$35,234 (or a 16.27% increase) compared to 2006. The actual employer contributions were \$251,744 for 2007 and \$216,510 for 2006. The increase is attributable to unfavorable actuarial experience. The actuarial asset basis investment return was less than the 8.0% assumed rate and salary increases exceeded the 6.0 % assumed rate, based on the October 1, 2005 Actuarial Valuation Report.

Employee contributions to the Plan decreased by \$1,586 (or a 3.17% decrease) compared to 2006. The actual employee contributions were \$48,512 for 2007 and \$50,098 for 2006. The decrease in employee contributions is attributable to an increase in related payroll offset by a 0.5% decrease in the employee contribution rate from 5.5% to 5.0%.

State sources increased \$22,891 (or a 26.89% increase) compared to 2006. State sources were \$108,027 for 2007 and \$85,136 for 2006.

The net investment income increased by \$437,257 compared to 2006. The actual results were a \$805,201 increase for 2007 and a \$367,944 increase for 2006.

Benefit payments and Refunds of Contributions increased by \$4,441 (or a 1.08% increase).

### 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.

From the October 1, 2007 Actuarial Valuation Report, the actuarially smoothed positive return of 9.94% exceeded the 8.0% assumption.

**TABLE 1**

<b>Plan Year End</b>	<b>Rate of Return*</b>
9/30/04	8.89%
9/30/05	9.57%
9/30/06	7.35%
9/30/07	14.04%

\*Market Value Basis, net of investment related expenses  
Annualized Rate of Return for prior four (4) years: 9.94%

The plan's funding level increased from 69.21% in 2006 to 70.69% in 2007. 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>2007</u>	<u>2006</u>
Cash & Investments	\$ 6,793,867	\$ 6,368,805
Accrued Investment Income	15,482	19,809
Due From State	38,421	18,757
Due From Others	0	1,162
<b>Total Assets</b>	<u>6,847,770</u>	<u>6,408,533</u>
Due to DROP Participants	507,768	859,918
Prepaid City Contributions	48,084	12,637
<b>Total Liabilities</b>	<u>555,852</u>	<u>872,555</u>
<b>Restricted Net Assets</b>	<u>\$ 6,291,918</u>	<u>\$ 5,535,978</u>

The net change in net assets was an increase of \$755,940, which is largely attributable to net investment returns of \$805,201. 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 5.0% 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>2007</u>	<u>2006</u>
<b>Additions:</b>		
Employer Contributions	\$ 251,744	\$ 216,510
Employee Contributions	48,512	50,098
State of Florida	108,027	85,136
Investment Income (Net)	805,201	367,944
<b>Total Additions</b>	<u>1,213,484</u>	<u>719,688</u>
<b>Deductions:</b>		
Pension Benefits	415,531	411,090
Refund of Contributions	0	0
Administrative Expenses	42,013	34,856
<b>Total Deductions</b>	<u>457,544</u>	<u>445,946</u>
<b>Net Increase (Decrease)</b>	<u>\$ 755,940</u>	<u>\$ 273,742</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>2007</u>	<u>2006</u>	<u>Change</u>
Active Participants	21	20	1
Vested	8	8	0
Non-Vested	13	12	1
Retirees/Benef/Disab	11	9	2
Terminated Vested	1	1	0
DROP Participates	2	3	(1)

**TABLE 5**

**CHANGES IN RETIREES & BENEFICIARIES**

	<u>10/1/2006</u>	<u>In</u>	<u>Out</u>	<u>9/30/2007</u>
Retirees Receiving Benefits	6	2	-	8
Beneficiaries Receiving Benefits	1	-	-	1
Disability Benefits	2	-	-	2
Vested Deferred	1	-	-	1
DROP	3	1	2	2
<b>TOTAL</b>	<u>13</u>	<u>3</u>	<u>2</u>	<u>14</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, 2007 is a negative (over funded) \$71,252.

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, 2007 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.

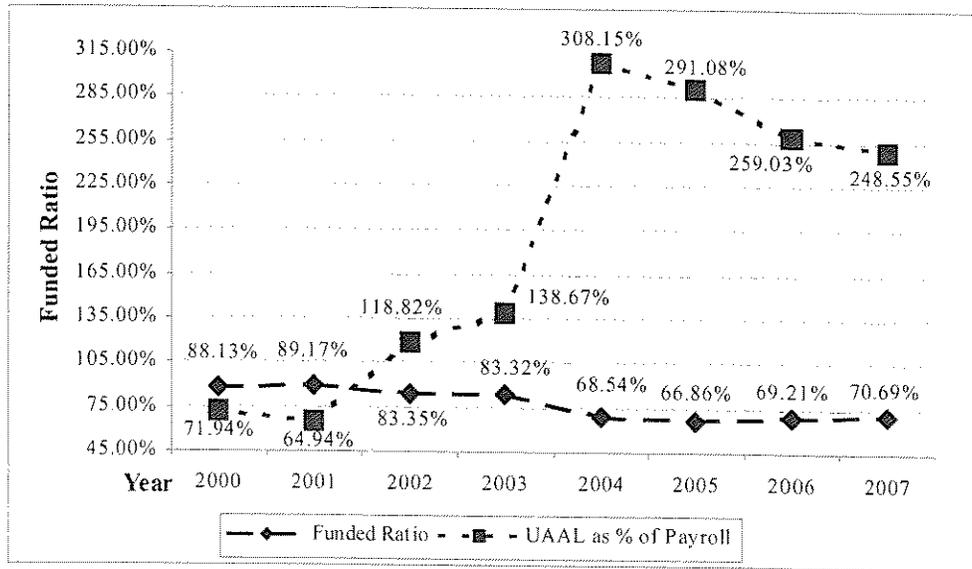
The Governmental Accounting Standards Board (GASB) per GASB 25 requires the Total Unfunded Actuarial Liability to be presented. The schedule includes two ratios or indices: the funded ratio (assets expressed as a percentage of the actuarial accrued liability) and the unfunded actuarial liability expressed 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)
10/1/07	5,679,086	8,033,286	2,354,200	70.69%	947,177(2)*	248.55%
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%

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, 2007**

	Date Established	Years Remaining	Initial UAAL	10/1/2007 Amount	Amortization Amount
A	10/1/1998	21	\$ 584,133	\$ 629,736	\$ 47,672
B	10/1/2001	24	336,705	386,598	27,253
C	10/1/2004	27	1,243,953	1,347,211	89,681
D	10/1/2005	28	150,311	155,353	10,171
E	10/1/2006	29	(160,826)	(162,326)	(10,464)
F	10/1/2007	30	(2,372)	(2,372)	(151)
<b>TOTAL UAAL</b>			<u>\$2,151,904</u>	<u>\$ 2,354,200</u>	<u>\$ 164,162</u>

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.

F – Change in UAAL due to Actuarial Gain.

#### ASSET ALLOCATION

The table below indicates the asset allocation for September 30, 2007 and 2006.

**TABLE 9**  
**MARKET VALUE ASSET ALLOCATION BY %**

	2007	2006
Cash & Equivalents	10.33%	8.04%
U.S. Treasury Notes & Bonds	15.73%	21.16%
Corporate Bonds	8.25%	9.86%
Stocks	65.69%	60.94%
<b>Total</b>	<u>100.00%</u>	<u>100.00%</u>

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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Assets:</b>		
Cash	\$ 69,650	\$ 32,088
Investments:		
Money market funds	632,290	479,858
Corporate bonds and government obligations	1,628,829	1,975,604
Equity funds	<u>4,463,098</u>	<u>3,881,255</u>
Total investments	<u>6,724,217</u>	<u>6,336,717</u>
Receivables:		
Accrued interest and dividends	15,482	19,809
Accounts receivable - retirees	-	1,162
Due from State of Florida	<u>38,421</u>	<u>18,757</u>
Total receivables	<u>53,903</u>	<u>39,728</u>
Total assets	<u>6,847,770</u>	<u>6,408,533</u>
<b>Liabilities:</b>		
DROP plan payable	507,768	859,918
Prepaid contributions from City	<u>48,084</u>	<u>12,637</u>
Total liabilities	<u>555,852</u>	<u>872,555</u>
<b>Net assets:</b>		
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 20)	<u>\$ 6,291,918</u>	<u>\$ 5,535,978</u>

See accompanying notes to the financial statements

**LAKE WALES FIREFIGHTERS' PENSION TRUST FUND**

**STATEMENT OF CHANGES IN PLAN NET ASSETS**

September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Additions:</b>		
Contributions:		
State of Florida	\$ 108,027	\$ 85,136
Employer (City of Lake Wales)	251,744	216,510
Employees	48,512	50,098
	<u>408,283</u>	<u>351,744</u>
Investment income:		
Net change in investments	852,549	413,045
Less: Investment expense	<u>(47,348)</u>	<u>(45,101)</u>
Net investment income	<u>805,201</u>	<u>367,944</u>
Total additions	<u>1,213,484</u>	<u>719,688</u>
<b>Deductions:</b>		
Benefits paid directly to participants	<u>415,531</u>	<u>411,090</u>
Total benefits	415,531	411,090
Administrative expenses	<u>42,013</u>	<u>34,856</u>
Total deductions	<u>457,544</u>	<u>445,946</u>
Net increase	755,940	273,742
<b>Net assets held in trust for pension benefits:</b>		
Beginning of year	<u>5,535,978</u>	<u>5,262,236</u>
End of year	<u>\$ 6,291,918</u>	<u>\$ 5,535,978</u>

See accompanying notes to the financial statements

## LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

### NOTES TO FINANCIAL STATEMENTS

September 30, 2007 and 2006

#### 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, 2007 and 2006

#### C - INVESTMENTS - (Continued)

3. Stocks, commingled 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, 2007 and 2006

**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, 2007 and 2006 are separately identified.

	<u>Interest</u>	<u>2007</u>	<u>2006</u>
Centennial money market trust		\$ 632,290	\$ 479,858
U.S. Treasury notes and bonds	3.25% - 7.88%	1,068,498	1,347,907
Corporate bonds	4.50% - 8.80%	560,331	627,697
Stocks	N/A	<u>4,463,098</u>	<u>3,881,255</u>
		<u>\$ 6,724,217</u>	<u>\$ 6,336,717</u>

Corporate and U.S. Government notes and bonds owned at September 30, 2007 are as follows:

<u>Quantity</u>	<u>Security</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Corporate Bonds:				
70,000	Merrill Lynch	6.000%	02-17-09	70,485
75,000	Lehman Bros	4.500%	07-26-10	72,989
65,000	Goldman Sachs	6.875%	01-15-11	68,030
105,000	Intel Lease Fin. Corp.	5.875%	05-01-13	105,415
60,000	Morgan Stanley	4.750%	04-01-14	56,359
20,000	NationsBank Corp.	7.800%	09-15-16	22,410
25,000	Hershey Food Corp.	8.800%	02-15-21	31,690
55,000	Phillips Pete Co.	7.000%	03-30-29	59,500
70,000	Kohls Corp.	7.250%	06-01-29	<u>73,453</u>
Total Corporate Bonds				<u>\$560,331</u>
Government Bonds:				
210,000	United States Treasury	3.250%	01-15-09	\$ 208,179
150,000	United States Treasury	3.500%	02-15-10	148,289
5,000	United States Treasury	7.875%	02-15-21	6,487
40,000	United States Treasury	6.875%	08-15-25	49,338
Mortgage Pools:				
39,734	Fed'l. Nat'l. Mtg. Assn.	4.000%	11-01-19	28,058
222,850	Fed'l. Home Loan Mtg.	4.000%	01-01-20	149,062
162,000	Fed'l. Nat'l. Mtg. Assn.	4.000%	02-01-20	113,565

**LAKE WALES FIREFIGHTERS' PENSION TRUST FUND**

**NOTES TO FINANCIAL STATEMENTS** - (Continued)

September 30, 2007 and 2006

**C - INVESTMENTS** - (Continued)

Mortgage Pools: - (continued)

115,000	Fed'l. Home Loan Mtg.	4.500%	08-01-20	89,329
60,000	Fed'l. Nat'l. Mtg. Assn.	4.000%	10-01-20	42,090
72,000	Fed'l. Home Loan Mtg.	4.000%	02-01-21	61,916
130,000	Gov't. Nat'l. Mtg. Assn.	5.500%	12-20-31	31,760

Government-

Sponsored Bonds:

75,000	Fed'l. Nat'l. Mtg. Assn.	4.250%	05-15-09	74,813
45,000	Fed'l. Nat'l. Mtg. Assn.	6.125%	03-15-12	47,742
5,000	Fed'l. Nat'l. Mtg. Assn.	6.625%	11-15-30	5,892
10,000	Fed'l. Home Loan Mtg.	6.750%	03-15-31	<u>11,978</u>

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

\$1,068,498

*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, 2007 are as follows:

		<u>S&amp;P</u>	<u>Moody</u>
210,000	US Treasury Note	AAA	AAA
70,000	Merrill Lynch & Co	AA-	AA3
75,000	Fed'l Nat'l Mtg. Assn.	AAA	AAA
150,000	US Treasury Note	AAA	AAA
75,000	Lehman Bros HLDG Inc	A+	A1
65,000	Goldman Sachs Group	AA-	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
45,000	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
105,000	Int'l Lease Fin Corp	AA-	A1
130,000	Gov't Nat'l Mtg. Assn. II	AAA	AAA

**LAKE WALES FIREFIGHTERS' PENSION TRUST FUND**

**NOTES TO FINANCIAL STATEMENTS** - (Continued)

September 30, 2007 and 2006

**C - INVESTMENTS** - (Concluded)

60,000	Morgan Stanley	A+	A1
20,000	NationsBank/Bank of Am.	AA-	AA2
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+	BAA1
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.

**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, 2006, employee membership data related to the plan is as follows:

	<u>2006</u>
City of Lake Wales firefighter retirees and beneficiaries currently receiving benefits	<u>13</u>
Vested terminated employees	<u>-</u>
Active plan participants:	
Vested	8
Nonvested	<u>12</u>
Total active plan participants	<u>20</u>

## LAKE WALES FIREFIGHTERS' PENSION TRUST FUND

### NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2007 and 2006

#### 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, 2007 and 2006

**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 – Member contributions were 5% and 5.5% of the salary of each firefighter for 2007 and 2006. Contributions are 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, 2007 is as follows:

Contribution rates as of September 30, 2007:

City	28.5%
Plan members	5.0%
Annual pension cost	\$ 251,744
Contributions made	\$ 251,744

**LAKE WALES FIREFIGHTERS' PENSION TRUST FUND**

**NOTES TO FINANCIAL STATEMENTS - (Continued)**

September 30, 2007 and 2006

**D - DESCRIPTION OF PLAN - (Concluded)**

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

Actuarial valuation date	10/01/04
Actuarial cost method	Entry Age Normal (as of 10/1/06)
Amortization method	Level percentage of pay, closed
Remaining amortization period	30 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>
9/30/07	\$251,744	100%	\$ (71,252)
9/30/06	216,510	100%	(69,932)
9/30/05	235,629	100%	(70,708)

**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 2007 state contribution totaled \$108,027.

**REQUIRED SUPPLEMENTARY INFORMATION**

**LAKE WALES FIREFIGHTERS' PENSION TRUST FUND**

September 30, 2007

**SCHEDULE OF FUNDING PROGRESS**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
10/01/06	\$ 5,276,297	\$ 7,623,452	\$ 2,347,155	69.21%	\$ 906,142	259.03%
10/01/05	4,953,540	7,409,118	2,455,578	66.86%	843,618	291.08%
10/01/04	4,794,974	6,996,003	2,201,029	68.54%	714,282	308.15%
10/01/03	4,753,916	5,705,326	951,410	83.32%	686,076	138.67%
10/01/02	4,715,670	5,657,742	942,072	83.35%	792,882	118.82%
10/01/01	4,630,849	5,193,213	562,364	89.17%	865,942	64.94%

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES**

<u>Year Ended 9/30</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>State Contribution</u>	<u>Percentage Contribution</u>
2007	\$ 340,107	\$ 251,744	\$ 88,363	100.00%
2006	294,486	216,510	77,976	100.00%
2005	314,374	235,629	78,745	100.00%
2004	275,583	207,675	67,908	100.00%
2003	238,835	176,722	62,113	100.00%
2002	193,271	132,608	60,663	100.00%

**LAKE WALES FIREFIGHTERS' PENSION TRUST FUND**

**DEVELOPMENT OF NET PENSION OBLIGATION (NPO)**

September 30, 2007

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>9/30/06</u>	<u>9/30/07</u>
Actuarially determined contribution (A)	\$ 216,510	\$ 251,744
Interest on NPO	( 5,657)	( 5,595)
Adjustment to (A)	<u>6,433</u>	<u>4,275</u>
Annual pension cost	217,286	250,424
Contributions made	<u>216,510</u>	<u>251,744</u>
Increase in NPO	776	( 1,320)
NPO beginning of year	<u>( 70,708)</u>	<u>( 69,932)</u>
NPO end of year	<u>\$ ( 69,932)</u>	<u>\$ ( 71,252)</u>



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

Certified Public Accountants and Consultants

**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  
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, 2007, and have issued our report thereon dated February 8, 2008. 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 as a basis for designing our auditing procedures 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 Lake Wales Firefighters' Pension Trust Fund, Lake Wales, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lake Wales Firefighters' Pension Trust Fund, Lake Wales, Florida's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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.

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

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Lake Wales Firefighters' Pension Trust Fund, Lake Wales, Florida in a separate letter dated February 8, 2008.

This report is intended solely for the information and use 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, L.L.P.*

The NCT Group CPA's, L.L.P.  
Winter Haven, Florida  
February 8, 2008



# 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 year ended September 30, 2007, and have issued our report thereon dated February 8, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government auditing standards*, issued by the Comptroller General of the United States. We have also issued our Independent Auditor's Report on Compliance and Internal Control over Financial Reporting. Disclosures in that report, which is dated February 8, 2008, should be considered in conjunction with this management letter.

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.

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. There were no prior year findings.

Section 10.554(1)(i)2., Rules of the Auditor General requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Lake Wales Firefighters' Pension Trust Fund complied with Section 218.415, Florida Statutes.

Section 10.554(1)(i)3., Rules of the Auditor General require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we had the following recommendation.

### Current Year Recommendations

One corporate bond was downgraded to a B rating for both Standard and Poor's and Moody's ratings. The investment policy of the plan requires that fixed-income securities must at a minimum, be rated AAA, AA or A by Standard and Poor's or hold a Moody's rating of Aaa, Aa, or A. We recommend that the investment manager review the ratings of all fixed-income securities on a periodic basis to ensure that the plan is in compliance with its investment policy. The security was sold subsequent to year end.

Section 10.554(1)(i)4, Rules of the Auditor General require that we address violations of provisions of contracts or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5, Rules of the Auditor General requires, based on professional judgement, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors; (1) Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; b.) Improper expenditures or illegal acts that would have an immaterial effect on the financial statements; c. Control deficiencies that are not significant deficiencies, including, but not limited to, (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements). (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.

Section 10.554 (1)(i)6. Rules of the Auditor General 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.

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

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

The NCT Group CPA's, L.L.P.  
Winter Haven, Florida  
February 8, 2008