

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED
BENEFIT RETIREMENT PLAN**

LAKE WALES, FLORIDA

SEPTEMBER 30, 2006

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

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BENEFIT RETIREMENT PLAN**

LAKE WALES, FLORIDA

SEPTEMBER 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
City of Lake Wales
General Employees' Defined
Benefit Retirement Plan
City of Lake Wales, Florida

We have audited the accompanying statement of plan net assets available for benefits of the City of Lake Wales General Employees' Defined Benefit Retirement Plan (the Plan) of the City of Lake Wales, Florida, as of September 30, 2006, and the related statement of changes in plan net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the trustees, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets available for benefits of the Plan as of September 30, 2006, and the changes in its plan net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts, 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.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

To the Board of Trustees
City of Lake Wales
General Employees' Defined
Benefit Retirement Plan
City of Lake Wales, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

The management's discussion and analysis and the required supplementary information are not a required part of the basic financial statements, but are supplementary information required by principles generally accepted in the United States of America. The supplementary information is the responsibility of the management of the Plan. We have applied certain limited procedures, which consisted principally of inquiries of the 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.

November 3, 2006
Sarasota, Florida

Kurtis, Gray and Company, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Lake Wales General Employees' Defined Benefit Retirement Plan's (the Plan) financial performance provides an overview of the financial activities and funding conditions for the fiscal year ended September 30, 2006.

FINANCIAL HIGHLIGHTS

The Plan's net result from activities was an increase of \$511,847.

Employer contributions to the Plan increased \$31,137 (or a 38.27% increase) compared to 2005. The actual employer contributions were \$112,500 for 2006 and \$81,363 for 2005. The increase is attributable to net unfavorable actuarial experience. The primary components of unfavorable experience included average pensionable earnings increases of 10.8%, which exceeded the 7.0% assumed rate and the addition of 27 comparatively older members. These losses were partially offset by the effect of a 10.7% investment return (Actuarial Asset basis) that exceeded the 8.0% assumption.

Employee contributions to the Plan increased by \$21,094 (or a 17.06% increase) compared to 2005. The actual employee contributions were \$144,739 for 2006 and \$123,645 for 2005. The increase in employee contributions is attributable to the increase in related payroll.

The net investment income decreased by \$134,810 compared to 2005. The actual results were a \$493,803 increase for 2006 and a \$628,614 increase for 2005.

Benefit payments and Refunds of Contributions increased by \$36,876 (or 17.58%).

PLAN HIGHLIGHTS

The Actuarial Assets for funding purposes are developed by increasing the Actuarial Assets used in the most recent actuarial valuation of the Plan 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.

The actuarially smoothed positive return for 2006 was 10.70%.

TABLE 1

Plan Year End	Rate of Return*
9/30/03	14.08%
9/30/04	10.22%
9/30/05	10.64%
9/30/06	7.98%

*Market Value Basis, net of investment related expenses
Annualized Rate of Return for prior four (4) years: 10.70%

The Plan's funding level increased, from 95.31% to 95.37%. This level indicates that the fund remains in a reasonable well-funded financial condition.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

USING THE ANNUAL REPORT

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

The financial statements reflect the activities of the General Employees' Defined Benefit Retirement Plan and are reported in the Statement of Plan Net Assets Available for Benefits and the Statement of Changes in Plan Net Assets Available for Benefits. 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 (including 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

	2006	2005
Cash & Investments	\$ 6,980,356	\$ 6,422,399
Accrued Investment Income	18,690	13,518
Due From Others	0	6
Prepaid Member Benefits	11,140	11,199
Total Assets	7,010,186	6,447,122
Due to DROP Participants	75,861	36,288
Prepaid City Contributions	2,877	2,373
Due to General Fund	11,140	0
Total Liabilities	89,878	38,661
Restricted Net Assets	\$ 6,920,308	\$ 6,408,461

The net change in net assets was an increase of \$511,847 is largely attributable to net investment returns of \$493,803.

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% of their pensionable salary. The City of Lake Wales budgets and contributes the remaining required funding balance.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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	\$ 112,500	\$ 81,363
Employee Contributions	144,739	123,645
Military Buy-Back	27,193	-
Investment Income (Net)	493,803	628,614
Total Additions	<u>778,235</u>	<u>833,622</u>
Deductions:		
Pension Benefits	174,263	144,394
Refund of Contributions	72,382	65,375
Administrative Expenses	19,743	16,583
Total Deductions	<u>266,388</u>	<u>226,352</u>
Net Increase (Decrease)	<u>\$ 511,847</u>	<u>\$ 607,270</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 plus interest distributed to terminated employees who are not vested or vested and elect to terminate plan benefits.

PLAN MEMBERSHIP

The table below reflects 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	95	89	6
Vested	19	18	1
Non-Vested	76	71	5
Retirees & Beneficiaries	17	16	1
Terminated Vested	6	2	4
DROP Participants	2	1	1

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

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	15	1	-	16
Beneficiaries Receiving Benefits	1	-	-	1
Disability Benefits	-	-	-	-
Vested Deferred	2	4	-	6
DROP	1	1	-	2
TOTAL	19	6	-	25

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 General Employees' Defined Benefit Retirement 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 of Lake Wales 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) \$124,493.

For Plan funding purposes, the Plan utilizes the Frozen Entry Age 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 retirement plan is initially established or improved, or actuarial assumptions or cost methods changed and such establishment, improvement, or change is applicable to all years of past service.

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 funding 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 presents the funding progress utilizing the Frozen Entry Age Method.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

TABLE 6
SCHEDULE OF FUNDING PROGRESS
As of October 1

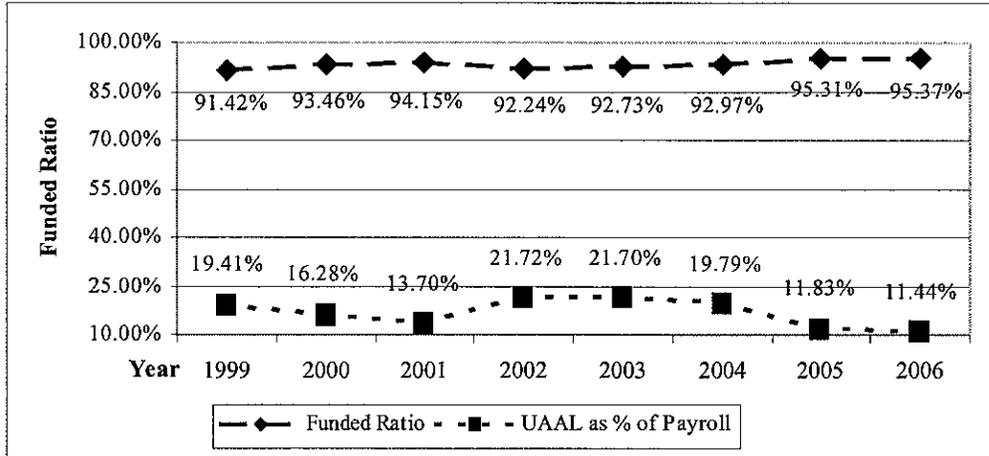


TABLE 7
SCHEDULE OF FUNDING PROGRESS
In Accordance with the Requirements of Paragraph 37 of Statement No. 25
Of the Governmental Accounting Standards Board
(Statement No. 25 requires only past six consecutive fiscal years)

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	6,762,740	7,090,693	327,953	95.37%	2,866,721	11.44%
10/1/05	6,092,211	6,391,916	299,705	95.31%	2,532,944	11.83%
10/1/04	5,760,618	6,196,381	435,763	92.97%	2,201,601	19.79%
10/1/03	5,534,573	5,968,716	434,143	92.73%	2,000,555	21.70%
10/1/02	5,271,538	5,715,262	443,724	92.24%	2,043,274	21.72%
10/01/01	5,068,628	5,383,666	315,038	94.15%	2,299,425	13.70%
10/01/00	4,701,092	5,030,070	328,978	93.46%	2,020,891	16.28%
10/01/99(D)	4,105,820	4,491,042	385,222	91.42%	1,985,157	19.41%
10/01/98	3,786,392	4,114,349	327,957	92.03%	2,407,592	13.62%

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).

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

	Date Established	Years Remaining	Initial UAAL	10/1/2005 Amount	Amortization Amount
A	1/1/1986	9	(A)\$322,121	\$92,073	\$11,743
B	1/1/1990	13	291,745	143,442	13,535
C	1/1/1995	18	72,197	42,298	3,125
D	10/1/1997	21	(D) 28,469	26,251	1,743
E	10/1/2001	25	136,609	153,593	9,108
F	10/1/2003	27	11,086	12,598	713
G	10/1/2005	29	(124,609)	(142,301)	(7,723)
TOTAL UAAL				\$327,954	\$32,244

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

A – Initial Plan established 2/15/1983, Ordinance 83-1. Original UAAL re-established by Actuary as of 1/1/1986 but to be funded over the remaining portion of the original 30-year period. The initial actuarial report covered the period from 7/1/1983 to 1/1/1986.

B – Plan Improvements Ordinance 89-23; (1) Effective 10/1/1989 Credited service multiplier increased from 1.76 to 2.0; (2) Effective 10/1/1990 Credited service multiplier increased from 2.0 to 2.25; and (3) Effective 10/1/1991 - Minimum normal retirement age dropped from 65 with 10 years of service to 62 with 25 years of service.

C – Two actuarial assumptions changed as recommended by the State's actuary. (1) A 5.0% load was added to retirement benefits attributable to the inclusion of pay for unused accumulated leave time in determining average annual compensation. (2) The administrative expense assumption was increased from an assumed .50% of payroll to .75% of payroll to better reflect experience.

D – A negative UAAL established on October 1, 1997 was netted with a positive UAAL established on 10/1/1999. Actuarial assumptions and valuation methods were changed effective with the 10/1/1997 evaluation establishing a negative \$90,800 UAAL. Plan enhancements were adopted 10/1/1999 establishing a positive \$99,179 UAAL. The unamortized negative UAAL balance was netted with the 10/1/1999 UAAL. Plan enhancements included increasing the credited service multiplier from 2.25 to 2.5, provide disability benefits, and provide an opt out provision for certain employees. Covered payroll decreased due to employees exercising the opt out provision.

E – Plan improvement – Minimum normal retirement dropped from 62 with 25 years of service (or 65 with 10 years of service) to 60 with 10 years of service. UAAL established - \$136,609.

F – Amended the Early Retirement Reduction Factor to be 1/15th for each of the first 2.5 years (formerly first 5 years) and 1/30th for each additional year that Early Retirement proceeds the Normal Retirement Date.

G – One assumption change and one change in the cost method assumption – (1) Assumption change - Turnover scale was increased to more closely mirror historic and anticipated experience. (2) Cost method assumption change - Payroll growth assumption used in amortizing the UAAL was increased from 3.0% to 5.0% (not to exceed the average payroll growth over the most recent 10-year period).

ASSET ALLOCATION

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

TABLE 9
MARKET VALUE ASSET ALLOCATION BY %

	2006	2005
U.S. Treasury Notes & Bonds	18.7%	10.6%
Corporate Bonds	8.8%	9.8%
Cash & Equivalents	5.2%	16.5%
Stocks	67.3%	63.1%
Total	100.0%	100.0%

The Plan's Board of Trustees (the Board) has established the following target asset allocation for the Plan:

- *Domestic & International Equity Securities 65%
- Fixed-income Securities 35%
- *International Equity Securities are limited to no more than 10%

Market fluctuations affect the asset allocations by percentage.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Concluded)

The Plan's investment advisor makes investment decisions. The investment advisor, ICC Capital Management, Inc., 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.

ECONOMIC FACTORS

The primary function of the Plan 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.

STATEMENT OF PLAN NET ASSETS AVAILABLE FOR BENEFITS
SEPTEMBER 30, 2006
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA

Assets

Investments:

Money Market Funds	\$ 363,858
Corporate Bonds and Government Obligations	1,917,519
Equity Funds	4,698,979
Total Investments	<u>6,980,356</u>

Receivables - Accrued Interest and Dividends	18,690
Prepaid Member Benefits	<u>11,140</u>

Total Assets	<u>7,010,186</u>
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Liabilities

Accounts Payable - D.R.O.P. Program	75,861
Prepaid Contributions from the City of Lake Wales	2,877
Due to the City of Lake Wales	<u>11,140</u>

Total Liabilities	<u>89,878</u>
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Net Assets:

Net Assets Held in Trust for Pension Benefits (A Schedule of Funding Progress is Presented on Page 20)	<u>\$ 6,920,308</u>
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See accompanying notes.

**STATEMENT OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA**

Additions

Contributions:	
Employer (City of Lake Wales)	\$ 112,500
Employees	144,739
Employee Buy-in	27,193
Total Contributions	<u>284,432</u>
Investment Income:	
Net Appreciation in Investments	336,299
Interest, Dividends and Other Income	207,340
	<u>543,639</u>
Less: Investment Expense	<u>(49,836)</u>
Net Investment Income	<u>493,803</u>
Total Additions	<u>778,235</u>

Deductions

Benefits Paid :	
Benefits Paid to Participants	174,263
Refund of Contributions to Employees	72,382
Total Benefits Paid	<u>246,645</u>
Administrative Expenses	<u>19,743</u>
Total Deductions	<u>(266,388)</u>

Net Increase 511,847

Net Assets Held in Trust for Benefits, Beginning of Year

As Originally Reported	6,397,262
Adjustment	11,199
As Restated	<u>6,408,461</u>

Net Assets Held in Trust for Benefits, End of Year \$ 6,920,308

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA

Note 1 - Summary of Significant Accounting Policies

Entity

These financial statements present only the financial status of the City of Lake Wales General Employee's Defined Benefit Retirement Plan (the Plan) of the City of Lake Wales, Florida, and not of the City as a whole.

Basis of Accounting

The accounts of the Plan are maintained on the accrual basis of accounting. The Plan members' contributions are deducted from the employees' wages or salary and remitted to the Plan at the end of each pay period. The employer makes periodic contributions to the Plan which total 100% of the annual actuarially determined contribution. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Cash and Investments

During 2006, 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, the Plan's custodial agent, in street name on behalf of the Plan.

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.

Note 2 - Cash and Cash Equivalents

From time to time, small accounts of cash are recorded by the Plan due to isolated transactions occurring for brief periods. No cash funds are generally held for any length of time, and no federally insured depository institutions are used to hold cash.

Note 3 - Investments

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

- Time, savings, and money market deposits of a national bank, a state bank or a savings and loan institution, issued by the Federal Deposit Insurance Corporation, provided the amount deposited does not exceed the insured amount.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 3 - Investments (Continued)

- 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.
- 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:
 - 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 nonrated) 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 Plan asset may be invested in non-U.S. equities in the form of American Depository Receipts.
 - Fixed-income securities must, as a minimum, be rated AAA, AA, or A by Standard and Poors 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 the single corporate issuer. There is no limit on investments in fixed-income 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.
 - 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 Plan'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 (the Board) has established the following target asset allocation for the total pension Plan:

Domestic and International Equity Securities	65%
Fixed Income Securities	35%

No more than 10% of the Plan assets may be invested in international equity securities. 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 Plan. 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.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 3 - Investments (Continued)

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.

Investments held by the various Plan types at September 30, 2006, are as follows:

	<u>Interest</u>	<u>Fair Value</u>
Money Market Funds	N/A	\$ 363,858
Corporate Bonds	4.5% - 7.8%	610,210
Government Obligations	3.25% - 7.875%	1,307,309
Stocks	N/A	4,698,979

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

	<u>Par</u>	<u>Security</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Market Value</u>
Corporate Bonds:					
	60,000	Citicorp	7.200%	06-15-07	\$ 60,682
	95,000	Merrill Lynch	6.000%	01-07-09	96,577
	80,000	Lehman Bros.	4.500%	07-26-10	77,807
	80,000	Goldman Sachs	6.875%	01-15-11	84,785
	105,000	Morgan Stanley	4.750%	04-01-14	99,853
	45,000	NationsBank Corp	7.800%	09-15-16	52,407
	20,000	Becton Dickinson	6.700%	08-01-28	22,026
	40,000	Phillips Pete Co.	7.000%	03-30-29	44,850
	65,000	Kohls Corp.	7.250%	06-21-29	71,223
Total Corporate Bonds					<u>\$ 610,210</u>
Government Bonds/Notes:					
	150,000	United States Treasury	3.250%	01-15-09	\$ 145,470
	290,000	United States Treasury	3.500%	02-15-10	280,024
	5,000	United States Treasury	7.875%	02-15-21	6,570
	35,000	United States Treasury	6.875%	08-15-25	43,729
Government Sponsored Mortgage Pools:					
	64,185	Fed'l. Nat'l. Mtg. Assn.	4.000%	11-01-19	52,596
	45,000	Fed'l. Nat'l. Mtg. Assn.	4.000%	01-01-20	38,802
	218,834	Fed'l. Home Loan Mtg.	4.000%	01-01-20	165,769
	213,000	Fed'l. Nat'l. Mtg. Assn.	4.000%	02-01-20	167,014
	101,000	Fed'l. Home Loan Mtg.	4.000%	08-01-20	87,877
	29,000	Fed'l. Home Loan Mtg.	4.000%	02-01-21	26,017

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 3 - Investments (Continued)

	<u>Par</u>	<u>Security</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Market Value</u>
Government Sponsored					
Bonds/Notes:					
	215,000	Fed'l. Nat'l Mtg. Assn.	4.250%	05-15-09	\$ 210,824
	55,000	Fed'l. Nat'l. Mtg. Assn.	4.125%	04-15-14	52,243
	15,000	Fed'l. Nat'l. Mtg. Assn.	6.625%	11-15-30	18,110
	10,000	Fed'l. Home Loan Mtg.	6.750%	03-15-31	<u>12,264</u>
Total Government - Sponsored					
Mortgage Pools, Bonds, and Notes					<u>\$ 1,307,309</u>

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 not to 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 credit ratings for the Plan's fixed income securities at September 30, 2006, are as follows:

<u>Quantity</u>	<u>Security</u>	<u>S&P</u>	<u>Moody</u>
60,000	Citicorp	A+	AA2
95,000	Merrill Lynch	A+	AA3
80,000	Lehman Bros.	A+	A1
80,000	Goldman Sachs	A+	AA3
105,000	Morgan Stanley	A	A1
45,000	NationsBank Corp.	A+	AA3
20,000	Becton Dickinson	A+	A2
40,000	Phillips Pete Co.	A-	A1
65,000	Kohls Corp.	BBB+	A3
150,000	United States Treasury	AAA	AAA
290,000	United States Treasury	AAA	AAA
5,000	United States Treasury	AAA	AAA
35,000	United States Treasury	AAA	AAA
64,185	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
45,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
218,834	Fed'l. Home Loan Mtg.	AAA	AAA
213,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
101,000	Fed'l Home Loan Mtg.	AAA	AAA
29,000	Fed'l Home Loan Mtg	AAA	AAA
215,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
55,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
15,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
10,000	Fed'l. Home Loan Mtg.	AAA	AAA

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 3 - Investments (Concluded)

Concentration of 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, 7.7% of the Plan's investments were in bonds and mortgage pools of the Federal National Mortgage Association.

Note 4 - Description of Plan

Pursuant to City Ordinance No. 2003-39, the City implemented the City of Lake Wales General Employees' Defined Benefit Retirement Plan. The following brief description is provided for general information purposes only. Participants should refer to the ordinance for more complete information. The Plan is administered by the Lake Wales General Employees' Defined Benefit Retirement Plan 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.

■ **Plan Membership**

All of the City's full-time general employees are eligible to participate in this single-employer Defined Benefit Retirement Plan. Employees who serve in Opt-Out positions may make an irrevocable election to opt-out of the Plan. Government Funds are not subject to provisions of the Employee Retirement 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:

	2005
Retirees and Beneficiaries Currently Receiving Benefits	16
Vested Terminated Employees	2
DROP Participant	1
Active Plan Participants:	
Vested	18
Nonvested	71
Total Active Plan Participants	89

■ **Plan Benefits**

Eligibility - A member of the pension Plan is eligible for normal retirement benefits upon attainment of age 60 with 10 years of credited service. A member is eligible for early retirement benefits upon attainment of age 55 and 10 years of credited service.

Pension Benefits - The normal retirement benefit is equal to the number of years of credited service multiplied by 2.5 percent of average annual compensation. The early retirement benefit is computed as the normal retirement benefit, with an actuarial reduction of 1/15th for each of the first 2 ½ years and 1/30th for each of the next 2 ½ years by which the benefit commencement date precedes the normal retirement date. The average annual compensation is based on the highest 5 consecutive years of service.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 4 - Description of Plan (Continued)

■ **Plan Benefit (Concluded)**

Pension Benefits - (Concluded)

Members who have satisfied the requirements for normal retirement are eligible to participate in the Deferred Retirement Option Program (DROP) for a period not to exceed sixty months. 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' irrevocable election, earnings are calculated either at the same rate of return earned by the total trust Plan or by interest based on the 91-day T-bill interest rate. This accumulated amount is paid in a lump sum when the member leaves active service at the end of the DROP period.

Termination Benefits - An employee 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 early retirement if he elects to begin receiving monthly pension at age 55 or normal retirement if he elects to begin receiving at age 60. Employees separating from municipal employment prior to attaining ten years of service, receive a refund benefit in an amount equal to the total contribution made by the participant to the Plan, with an interest rate of 5%.

Death Benefits - If an employee dies after payment of benefits has begun, payment will be completed over a period which does not exceed the payment period which had begun. If an employee dies before payment of benefits has begun, the beneficiary will receive a refund benefit in an amount equal to the total contribution made by the participant to the Plan, with an interest rate of 5%.

■ **Funding Policy**

Member Contributions - Five percent of the salary of each member shall be deducted from the member's salary by the City, and paid over to the Board of Trustees of the Plan.

City Contributions - The City contributes an actuarially determined amount, which, together with member contributions, equals the sum of the normal cost and payments for the amortization of the unfunded actuarial accrued liability over 30 years beginning with the fiscal year in which the liability is first recognized.

■ **Termination of Plan**

Should the Plan terminate at some future time, its net assets generally will be allocated as follows:

- The participant's refund benefit from employee contributions;
- Benefits payable as an annuity;
- All other Plan benefits;
- All other non-forfeitable benefits under the Plan; and
- Any other benefits under the Plan.

**NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA
(Continued)**

Note 4 - Description of Plan (Concluded)

■ **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 contributions are designed to accumulate sufficient assets to pay benefits when due.

Information related to contributions for the year ended September 30, 2005, is as follows:

Contribution Rates as of September 30, 2005:

City	3.3%
Plan Members	5.0%
Annual Pension Cost	\$ 81,363
Contributions Made	81,363
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 Smoothing	4 Year
Actuarial Assumptions:	
Investment Rate Return	8.0%
Projected Salary Increases*	7.0%
*Includes Inflation at	3.0%
Post Retirement Cost-of-Living Adjustments	0.0%

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/05	\$ 81,363	100%	\$ (125,875)
9/30/04	69,328	100%	(127,272)
9/30/03	68,482	100%	(128,685)

Note 5 - E-Tax Status

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

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA
(Concluded)

Note 6 - Prior Period Adjustment

Beginning net assets available for benefits have been restated as of October 1, 2005, by an increase of \$11,199. The correction related to recording prepaid employee benefits. The effect on the prior year changes in net assets available for benefits has not been determined.

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF FUNDING PROGRESS
CITY OF LAKE WALES
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN
CITY OF LAKE WALES, FLORIDA**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
10/1/2005	\$ 6,092,211	\$ 6,391,916	\$ 299,705	95.31%	\$ 2,532,944	11.83%
10/1/2004	5,760,618	6,196,381	435,763	92.97%	2,201,601	19.79%
10/1/2003	5,534,573	5,968,716	434,143	92.73%	2,000,555	21.70%
10/1/2002	5,271,538	5,715,262	443,724	92.24%	2,043,274	21.72%
10/1/2001	5,068,628	5,383,666	315,038	94.15%	2,299,425	13.70%
10/1/2000	4,701,092	5,030,070	328,978	93.46%	2,020,891	16.28%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	City Contribution	Percentage Contribution
9/30/2006	\$ 112,500	\$ 112,500	100.00%
9/30/2005	81,363	81,363	100.00%
9/30/2004	69,328	69,328	100.00%
9/30/2003	68,482	68,482	100.00%
9/30/2002	63,348	63,348	100.00%
9/30/2001	33,739	41,001	121.52%

**DEVELOPMENT OF NET PENSION OBLIGATION
CITY OF LAKE WALES
LAKE WALES GENERAL EMPLOYEES' PENSION TRUST FUND
CITY OF LAKE WALES, FLORIDA**

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 Net Pension Obligation (NPO) on October 1, 1997, is \$0.

The development of the NPO is as follows:

	<u>2005</u>	<u>2004</u>
Actuarially Determined Contribution (A)	\$ 81,363	\$ 69,328
Interest on NPO	(10,182)	(10,295)
Adjustment to (A)	<u>11,579</u>	<u>11,708</u>
Annual Pension Cost	82,760	70,741
Contribution Made	<u>81,363</u>	<u>69,328</u>
Increase in NPO	<u>1,397</u>	<u>1,413</u>
NPO Beginning of Year	<u>(127,272)</u>	<u>(128,685)</u>
NPO End of Year	<u><u>\$ (125,875)</u></u>	<u><u>\$ (127,272)</u></u>

OTHER SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITORS' 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***

To the Board of Trustees
City of Lake Wales
General Employees' Defined
Benefit Retirement Plan
City of Lake Wales, Florida

We have audited the financial statements of the City of Lake Wales General Employees' Defined Benefit Retirement Plan (the Plan), of the City of 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 Plan'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 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 and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

Certified Public Accountants

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MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

To the Board of Trustees
City of Lake Wales
General Employees' Defined
Benefit Retirement Plan
City of Lake Wales, Florida

**INDEPENDENT AUDITORS' 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*
(Concluded)**

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

November 3, 2006
Sarasota, Florida

Furkie, Gray and Company, LLP