

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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

**LAKE WALES, FLORIDA**

**SEPTEMBER 30, 2007**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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

**LAKE WALES, FLORIDA**

**SEPTEMBER 30, 2007**

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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 statements 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, 2007 and 2006, and the related statements of changes in plan net assets available for benefits for the years 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 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 accounting 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.

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, 2007 and 2006, and the changes in its Plan net assets available for benefits 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 19, 2008, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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 audits.

**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 accounting 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 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.

*Purvis, Gray and Company, LLP*

February 19, 2008  
Sarasota, Florida

**CITY OF LAKE WALES GENERAL EMPLOYEES'  
DEFINED BENEFIT RETIREMENT PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007**

The management's discussion and analysis of the City of Lake Wales General Employees' 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 \$1,288,443.

Employer contributions to the Plan increased \$47,946 (or a 42.62% increase) compared to 2006. The actual employer contributions were \$160,446 for 2007 and \$112,500 for 2006. The increase is attributable to net unfavorable actuarial experience. The actuarial asset basis investment return was less than the 8.0% assumed rate and salary increases exceeded the 7.0% assumed rate. Based on the October 1, 2005 Actuarial Valuation Report.

Employee contributions to the Plan increased by \$16,279 (or an 11.25% increase) compared to 2006. The actual employee contributions were \$161,018 for 2007 and \$144,739 for 2006. The increase in employee contributions is attributable to the increase in related payroll.

The net investment income increased by \$534,282 compared to 2006. The actual results were a \$1,028,085 increase for 2007 and a \$493,803 increase for 2006.

One-time employees' opt in opportunity provided \$284,070 in employee contributions.

Benefit payments and refunds of contributions increased by \$54,032 (or 21.91%).

**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.

The actuarially smoothed positive return for 2007 was 10.74%.

**TABLE 1**

<b>Plan Year End</b>	<b>Rate of Return*</b>
9/30/04	10.22%
9/30/05	10.62%
9/30/06	7.98%
9/30/07	14.24%

\*Market Value Basis, net of investment-related expenses  
Annualized Rate of Return for prior four (4) years: 10.74%

The Plan's funding level increased, from 85.69% to 86.98%. This level indicates that the fund remains in a reasonable well-funded financial condition.

**CITY OF LAKE WALES GENERAL EMPLOYEES'  
DEFINED BENEFIT RETIREMENT PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(Continued)**

**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 General Employees' 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**

	<b>2007</b>	<b>2006</b>
Cash and Investments	\$ 8,341,542	\$ 6,980,356
Accrued Investment Income	16,971	18,690
Due From City of Lake Wales	12,641	0
Prepaid Member Benefits	0	11,140
<b>Total Assets</b>	<b>8,371,154</b>	<b>7,010,186</b>
Due to DROP Participants	129,890	75,861
Prepaid City Contributions	32,432	2,877
Due to City of Lake Wales	81	11,140
<b>Total Liabilities</b>	<b>162,403</b>	<b>89,878</b>
<b>Restricted Net Assets</b>	<b>\$ 8,208,751</b>	<b>\$ 6,920,308</b>

The net change in net assets, an increase of \$1,288,443, is largely attributable to net investment returns of \$1,028,085.

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.

**CITY OF LAKE WALES GENERAL EMPLOYEES'  
DEFINED BENEFIT RETIREMENT PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(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>2007</u>	<u>2006</u>
<b>Additions:</b>		
Employer Contributions	\$ 160,446	\$ 112,500
Employee Contributions	161,018	144,739
Employee Buy-In	284,070	27,193
Investment Income (Net)	1,028,085	493,803
<b>Total Additions</b>	<u>1,633,619</u>	<u>778,235</u>
<b>Deductions:</b>		
Pension Benefits	185,199	174,263
Refund of Contributions	115,478	72,382
Administrative Expenses	44,499	19,743
<b>Total Deductions</b>	<u>345,176</u>	<u>266,388</u>
<b>Net Increase (Decrease)</b>	<u>\$ 1,288,443</u>	<u>\$ 511,847</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>2007</u>	<u>2006</u>	<u>Change</u>
Active Participants	98	95	3
Vested	20	19	1
Non-Vested	78	76	2
Retirees and Beneficiaries	18	17	1
Terminated Vested	4	6	(2)
DROP Participants	3	2	1

**CITY OF LAKE WALES GENERAL EMPLOYEES'  
DEFINED BENEFIT RETIREMENT PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(Continued)**

**PLAN MEMBERSHIP (Concluded)**

**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	16	2	1	17
Beneficiaries Receiving Benefits	1	-	-	1
Disability Benefits	-	-	-	-
Vested Deferred	6	2	4	4
DROP	2	1	-	3
<b>TOTAL</b>	<u>25</u>	<u>5</u>	<u>5</u>	<u>25</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 benefit pension plans have been underfunded 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) \$118,853.

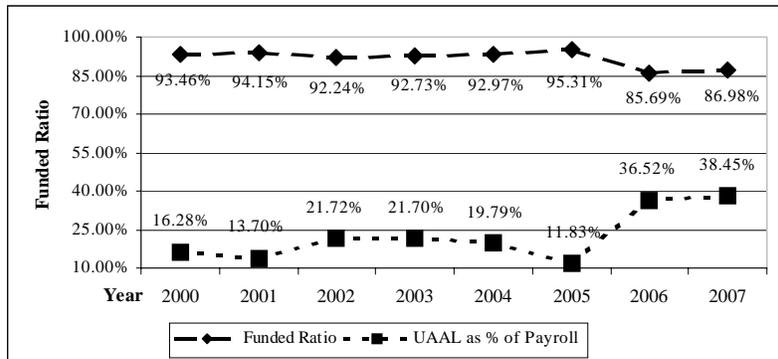
For Plan funding purposes, the General Employees' Pension Plan utilizes the Frozen Entry Age Method. The use of this method involves the systematic funding of the Normal Cost and the Unfunded Actuarial Accrued (Past Service) Liability. The normal cost is the current year's cost for benefits yet to be 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 Statement No. 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.

**CITY OF LAKE WALES GENERAL EMPLOYEES'  
DEFINED BENEFIT RETIREMENT PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(Continued)**

**FUNDING STATUS (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)
10/1/07	\$8,048,493	\$9,253,494	\$1,205,001	86.98%	\$3,133,820	38.45%
10/1/06	6,762,740	7,891,683	1,128,943	85.69%	3,091,143	36.52%
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	435,764	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	5,715,261	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%

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).

**CITY OF LAKE WALES GENERAL EMPLOYEES'  
DEFINED BENEFIT RETIREMENT PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(Continued)**

**FUNDING STATUS (Continued)**

**TABLE 8  
UNFUNDED ACTUARIAL ACCRUED LIABILITIES  
As of October 1, 2007**

	<u>Date Established</u>	<u>Years Remaining</u>	<u>Initial UAAL</u>	<u>10/1/2006 Amount</u>	<u>Amortization Amount</u>
A	1/1/1986	8	\$ 322,121	\$ 91,834	\$ 13,447
B	1/1/1990	12	291,745	148,511	15,807
C	1/1/1995	17	72,197	44,783	3,733
D	10/1/1997	20	28,469	28,018	2,109
E	10/1/2001	24	136,609	165,177	11,198
F	10/1/2003	26	11,086	13,587	883
G	10/1/2005	28	(124,609)	(153,851)	(9,638)
H	10/1/2006	29	800,989	866,942	53,410
<b>TOTAL UAAL</b>				<u>\$ 1,205,001</u>	<u>\$ 90,949</u>

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 1/15<sup>th</sup> for each of the first 2.5 years (formerly first 5 years) and 1/30<sup>th</sup> for each additional year that Early Retirement precedes 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).

**CITY OF LAKE WALES GENERAL EMPLOYEES'  
DEFINED BENEFIT RETIREMENT PLAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2007  
(Concluded)**

**FUNDING STATUS (Concluded)**

H – Two Plan Amendments adopted. Ordinance 2006-50 provided former members who opted out in 1999 the opportunity to opt back in during 2007. UAAL established \$716,561. Ordinance 2007-38 established service incurred disability benefits for non-vested employees, established service and non-service disability benefits based on appropriate criteria and removed social security eligibility requirement. UAAL established \$84,428.

**ASSET ALLOCATION**

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

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

	<b>2007</b>	<b>2006</b>
U.S. Treasury Notes and Bonds	15.08%	18.73%
Corporate Bonds	6.46%	8.74%
Cash and Equivalents	11.45%	5.21%
Stocks	67.01%	67.32%
<b>Total</b>	100.00%	100.00%

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

* Domestic and 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.

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 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.

**STATEMENTS OF PLAN NET ASSETS AVAILABLE FOR BENEFITS  
 SEPTEMBER 30, 2007 AND 2006  
 CITY OF LAKE WALES  
 GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN  
 CITY OF LAKE WALES, FLORIDA**

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Investments:		
Money Market Funds	\$ 955,019	\$ 363,858
Corporate Bonds and Government Obligations	1,796,728	1,917,519
Equity Funds	5,589,795	4,698,979
Total Investments	8,341,542	6,980,356
Receivables - Accrued Interest and Dividends	16,971	18,690
Prepaid Member Benefits	0	11,140
Due from the City of Lake Wales	12,641	0
<b>Total Assets</b>	<b>8,371,154</b>	<b>7,010,186</b>
<b>Liabilities</b>		
Accounts Payable - DROP Program	129,890	75,861
Prepaid Contributions from the City of Lake Wales	32,432	2,877
Due to the City of Lake Wales	81	11,140
<b>Total Liabilities</b>	<b>162,403</b>	<b>89,878</b>
<b>Net Assets</b>		
Net Assets Held in Trust for Pension Benefits (A Schedule of Funding Progress is Presented on Page 20)	<b>\$ 8,208,751</b>	<b>\$ 6,920,308</b>

See accompanying notes.

**STATEMENTS OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS  
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006  
CITY OF LAKE WALES  
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN  
CITY OF LAKE WALES, FLORIDA**

	<u>2007</u>	<u>2006</u>
<b>Additions</b>		
Contributions:		
Employer (City of Lake Wales)	\$ 160,446	\$ 112,500
Employees	161,018	144,739
Employee Buy-in	284,070	27,193
Total Contributions	<u>605,534</u>	<u>284,432</u>
Investment Income:		
Net Appreciation in Investments	859,453	336,299
Interest, Dividends and Other Income	225,135	207,340
	<u>1,084,588</u>	<u>543,639</u>
(Investment Expense)	<u>(56,503)</u>	<u>(49,836)</u>
Net Investment Income	<u>1,028,085</u>	<u>493,803</u>
<b>Total Additions</b>	<u>1,633,619</u>	<u>778,235</u>
<b>Deductions</b>		
Benefits Paid :		
Benefits Paid to Participants	185,199	174,263
Refund of Contributions to Employees	115,478	72,382
Total Benefits Paid	<u>300,677</u>	<u>246,645</u>
Administrative Expenses	<u>44,499</u>	<u>19,743</u>
<b>Total Deductions</b>	<u>(345,176)</u>	<u>(266,388)</u>
<b>Net Increase</b>	1,288,443	511,847
<b>Net Assets Held in Trust for Benefits, Beginning of Year</b>	<u>6,920,308</u>	<u>6,408,461</u>
<b>Net Assets Held in Trust for Benefits, End of Year</b>	<u>\$ 8,208,751</u>	<u>\$ 6,920,308</u>

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 totals 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 2007, 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 & Sons, Inc., 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 amounts 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, insured 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 at least one recognized rating service and shall be limited to those 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 assets 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 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 the 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.
  - 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, 2007 and 2006, are as follows:

	<u>Interest</u>	<u>2007</u>	<u>2006</u>
Money Market Funds	N/A	\$ 955,019	\$ 363,858
Corporate Bonds	4.5% - 7.8%	538,596	610,210
Government Obligations	3.25% - 7.875%	1,258,132	1,307,309
Stocks	N/A	5,589,795	4,698,979

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

	<u>Par</u>	<u>Security</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Market Value</u>
<b>Corporate Bonds</b>					
	\$ 95,000	Merrill Lynch	6.000%	01-07-09	\$ 95,658
	80,000	Lehman Bros.	4.500%	07-26-10	77,855
	80,000	Goldman Sachs	6.875%	01-15-11	83,729
	105,000	Morgan Stanley	4.750%	04-01-14	98,629
	45,000	NationsBank Corp.	7.800%	09-15-16	50,423
	20,000	Becton Dickinson	6.700%	08-01-28	20,824
	40,000	Phillips Pete Co.	7.000%	03-30-29	43,272
	65,000	Kohl's Corp.	7.250%	06-21-29	<u>68,206</u>
<b>Total Corporate Bonds</b>					<u>\$ 538,596</u>
<b>Government Bonds/Notes</b>					
	\$ 150,000	United States Treasury	3.250%	01-15-09	\$ 148,700
	290,000	United States Treasury	3.500%	02-15-10	286,691
	5,000	United States Treasury	7.875%	02-15-21	6,487
	35,000	United States Treasury	6.875%	08-15-25	43,170
<b>Government Sponsored Mortgage Pools</b>					
	\$ 64,185	Fed'l. Nat'l. Mtg. Assn.	4.000%	11-01-19	45,324
	45,000	Fed'l. Nat'l. Mtg. Assn.	4.000%	01-01-20	31,567
	218,834	Fed'l. Home Loan Mtg.	4.000%	01-01-20	146,376
	213,000	Fed'l. Nat'l. Mtg. Assn.	4.000%	02-01-20	149,318
	101,000	Fed'l. Home Loan Mtg.	4.000%	08-01-20	78,454
	29,000	Fed'l. Home Loan Mtg.	4.000%	02-01-21	24,938

**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>
<b>Government Sponsored Bonds/Notes</b>					
	\$ 215,000	Fed'l. Nat'l. Mtg. Assn.	4.250%	05-15-09	\$ 214,463
	55,000	Fed'l. Nat'l. Mtg. Assn.	4.125%	04-15-14	52,989
	15,000	Fed'l. Nat'l. Mtg. Assn.	6.625%	11-15-30	17,677
	10,000	Fed'l. Home Loan Mtg.	6.750%	03-15-31	<u>11,978</u>
<b>Total Government – Government/Sponsored Mortgage Pools and Bonds/Notes</b>					<u>\$ 1,258,132</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 & 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, 2007, are as follows:

<u>Quantity</u>	<u>Security</u>	<u>S&amp;P</u>	<u>Moody</u>
\$ 95,000	Merrill Lynch	AA-	AA3
80,000	Lehman Bros.	A+	A1
80,000	Goldman Sachs	AA-	AA3
105,000	Morgan Stanley	A+	A1
45,000	NationsBank Corp.	AA-	AA2
20,000	Becton Dickinson	A+	A2
40,000	Phillips Pete Co.	A-	A1
65,000	Kohl's Corp.	BBB+	BAA1
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, 2007, 6.1% 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. 99-02, 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, 2006, employee membership data related to the Plan is as follows:

	<b>2006</b>
Retirees and Beneficiaries Currently	
Receiving Benefits	17
Vested Terminated Employees	6
DROP Participant	2
Active Plan Participants:	
Vested	19
Nonvested	76
Total Active Plan Participants	95

■ **Plan Benefits**

Eligibility - A member of the 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% of average annual compensation. The early retirement benefit is computed as the normal retirement benefit, with an actuarial reduction of 1/15<sup>th</sup> for each of the first 2½ years and 1/30<sup>th</sup> for each of the next 2½ years by which the benefit commencement date precedes the normal retirement date. The average annual compensation is based on the highest five 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 60 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 10 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 10 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 - 5% 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 nonforfeitable 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 years ended September 30, 2007 and 2006, are as follows:

Contribution Rates as of September 30:	<b>2006</b>	<b>2007</b>
City	4.9%	5.9%
Plan Members	5.0%	5.0%
 Annual Pension Cost	 \$112,500	 \$160,446
Contributions Made	\$112,500	\$160,446
Actuarial Valuation Date	10/01/04	10/01/05
Actuarial Cost Method	Frozen Entry Age	Frozen Entry Age
Amortization Method	Level Percentage of Pay Closed	Level Percentage of Pay Closed
Remaining Amortization Period	29 Years	30 Years
Asset Valuation Period Smoothing	4-Year	4-Year
Actuarial Assumptions:		
Investment Rate Return	8.0%	8.0%
Projected Salary Increases*	7.0%	7.0%
*Includes Inflation at 3.0%		
Postretirement Cost-of-Living Adjustments	0.0%	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>
9/30/07	\$ 160,446	100%	\$ (118,853)
9/30/06	112,500	100%	(124,493)
9/30/05	81,363	100%	(125,875)

**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 - Employee Buy In**

Pursuant to a Plan amendment passed through City Ordinance 2006-50, certain employees who opted out of the Plan in 1999 were given a one-time opportunity to opt back into the Plan under certain conditions. Four employees submitted an election to rejoin the Plan. These former opt out members took the option to purchase prior creditable service with the City and were required to pay the cost of the prior service purchased by June 30, 2007, or within 90 days from the expiration of the election period. The actuarially determined and contributed amount for the year ended September 30, 2007, is \$284,070. The amendment increased the unfunded actuarial accrual liability at October 1, 2006, by \$716,561, and increased 2008 pension cost by \$37,106.

The employee buy in amount for the year ended September 30, 2006, was \$24,193 and related to the purchase of creditable service due to military service.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percent of Covered Payroll ((b-a)/c)</b>
10/1/2006	\$ 6,762,740	\$ 7,891,683	\$ 1,128,943 (1)	85.69%	\$ 3,091,143	36.52%
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%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<b>Year Ended</b>	<b>Annual Required Contribution</b>	<b>City Contribution</b>	<b>Percentage Contribution</b>
9/30/2007	\$ 160,446	\$ 160,446	100.00%
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%

(1) The UAAL increased due to two plan amendments adopted in the current year. City Ordinance 2006-50 provided former members who opted out in 1999 the opportunity to opt back in during 2007 and increased the UAAL \$716,561. City Ordinance 2007-38 established service and nonservice disability benefits based on appropriate criteria and removed Social Security eligibility requirements and increased the UAAL \$84,428.

**DEVELOPMENT OF NET PENSION OBLIGATION  
CITY OF LAKE WALES  
GENERAL EMPLOYEES' DEFINED BENEFIT RETIREMENT PLAN  
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>2006</u>	<u>2005</u>
<b>Actuarially Determined Contribution (A)</b>	\$ 112,500	\$ 81,363
<b>Interest on NPO</b>	(10,070)	(10,182)
<b>Adjustment to (A)</b>	<u>11,452</u>	<u>11,579</u>
<b>Annual Pension Cost</b>	113,882	82,760
<b>Contribution Made</b>	<u>(112,500)</u>	<u>(81,363)</u>
<b>Increase in NPO</b>	1,382	1,397
<b>NPO Beginning of Year</b>	<u>(125,875)</u>	<u>(127,272)</u>
<b>NPO End of Year</b>	<u><u>\$ (124,493)</u></u>	<u><u>\$ (125,875)</u></u>

**OTHER SUPPLEMENTAL INFORMATION**

**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, 2007, and have issued our report thereon dated February 19, 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 Plan'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 Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow Plan 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 Plan'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 Plan's financial statements, that is more than inconsequential will not be prevented or detected by the Plan'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 Plan's internal control.

**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

**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)**

**Internal Control Over Financial Reporting (Concluded)**

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 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*.

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 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.

*Purvis, Gray and Company, LLP*

February 19, 2008  
Sarasota, Florida