

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS
LAKE WALES AIRPORT AUTHORITY
LAKE WALES, FLORIDA
SEPTEMBER 30, 2006**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**LAKE WALES AIRPORT AUTHORITY
LAKE WALES, FLORIDA**

SEPTEMBER 30, 2006

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Honorable Chairman and Board Members
Lake Wales Airport Authority
Lake Wales, Florida

We have audited the accompanying financial statements of the Lake Wales Airport Authority (the Authority), a component unit of the City of Lake Wales, Florida, as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority'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 management, 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 financial position of the Authority as of September 30, 2006, and the changes in financial position and cash flows thereof, 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 a report dated April 6, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

April 6, 2007
Sarasota, Florida

Purvis, Gray and Company, LLP

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LAKE WALES AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006**

The Lake Wales Airport Authority's (the "Authority") management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, and (b) provide an overview of the Authority's financial activity for the year ended September 30, 2006, the Authority's initial year.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Authority's financial statements, notes to the financial statements and the auditor's report, which are essential to a full understanding of the financial statement data.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$3,564,206 (net assets). Of this amount, \$2,401,174 (unrestricted net assets) may be used to meet the Authority's ongoing obligations, to make payments to creditors, to pay for projects in the capital improvement plan, or to establish reserves for emergencies or catastrophic events.
- The Authority's total capital assets net of depreciation as of September 30, 2006, were \$1,163,032.
- The Authority's total operating revenues were \$7,079, primarily consisting of campground rental income. Due to the 2004 hurricanes, most of the airplanes based at the Airport were relocated to other airports and most payments under the fixed based operator's agreement were suspended. Fuel flowage fees were reinstated in August 2006.
- The Authority's total operating expenses were \$133,636. The operating expense total includes \$91,777 in depreciation. The net operating loss was \$126,577.
- Total non-operating revenue was \$63,561, interest income.
- Capital grant revenue totaled \$450,048 and was used toward rebuilding the airport hangers that were destroyed during the 2004 hurricanes.
- The Authority received \$3,177,154 initial capital contribution from the City of Lake Wales. The contribution consisted of net insurance proceeds in the amount of \$2,525,585 for the extensive damage done to airport property by the 2004 hurricanes and \$651,569 capital asset contribution.

Financial Statements

All information is presented utilizing the economic resource measurement focus and the accrual basis of accounting. This method matches revenues and expenses to the period in which the revenue is earned and the expense attributed regardless of the timing of related cash flows. Capital assets are capitalized and, except for land and construction work in progress, depreciated over their useful lives.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted (if applicable); and unrestricted. The focus of the Statement of Net Assets (the "unrestricted net assets") is designed to be similar to bottom line results for private sector companies. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Authority's net assets changed during the most recent fiscal year, focusing on both the gross and net costs of various activities. It details the costs associated with operating the Authority and how those costs were funded.

**LAKE WALES AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006**

The Statement of Cash Flows presents information showing how the Authority's cash and cash equivalents changed during the fiscal year. The Statement of Cash Flows classifies cash receipts and cash payments as resulting from operating activities, capital and non-capital related financing activities, and investing activities.

The basic financial statements also include notes that provide required disclosures and other information necessary to gather the full meaning of the material presented in the statements.

Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. For the current fiscal year, the Authority's assets exceeded liabilities by \$3,564,206. This is the Authority's initial year. Consequently, there are no prior fiscal year data. The net assets of the Authority increased primarily as a result of initial capital contributions from the City of Lake Wales. The following table reflects the condensed Statement of Net Assets for the current year. Comparative information will be presented in subsequent years.

**Statement of Net Assets (Summary)
As of September 30**

	2006
Current and Other Assets	\$ 2,403,899
Capital Assets, Net of Depreciation	1,163,032
Total Assets	3,566,931
Current and Other	
Liabilities	2,725
Total Liabilities	2,725
Net Assets:	
Investment in Assets, Net of Related Debt	1,163,032
Restricted	0
Unrestricted	2,401,174
Total Net Assets:	\$ 3,564,206

Thirty-three percent (33%) of the Authority's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure and equipment) less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Currently, none of the Authority's capital assets have related debt.

Sixty-seven percent (67%) of the Authority's net assets, \$2,401,174, may be used to meet the Authority's ongoing obligations to customers, creditors and capital projects. Currently, none of the Authority's net assets are subject to external restrictions on how they may be used other than for Airport operations.

**LAKE WALES AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006**

Statement of Activities

The following is a summary of the information presented in the Statement of Activities.

Changes in Net Assets (Summary)	
As of September 30	
	2006
Operating Revenues:	
Charges for services	\$ 7,079
Operating Expenses:	
Contractual Services	2,310
Repairs and Maintenance	9,646
Materials and Supplies	165
General and Administrative	29,738
Depreciation	91,777
Total Operating Expenses	133,636
Operating (Loss)	(126,557)
Nonoperating Revenues (Expenses) , Net	63,561
(Loss) Before Contributions and Special Items	(62,996)
Capital Contributions - Grants	450,048
Special Items - Initial Contribution from City	3,177,154
Increase (decrease) in net assets	3,564,206
Net assets - Beginning of Year	0
Net assets - End of Year	\$ 3,564,206

Overall operating revenue was \$7,079. The fixed based operator's lease payments were waived after the 2004 Hurricanes due to the complete destruction of all buildings at the airport. One corporate hanger has been completed with a second corporate hanger and two T-hangers under construction. Two other buildings are under design. Fuel flowage fees were reinstated in August 2006.

Operating expenses were \$133,636, which included \$91,777 in depreciation. This resulted in a \$126,557 operating loss. Total non-operating revenue, capital grants, and special items were \$3,690,763 resulting in a positive change in net assets of \$3,564,206.

Economic Factors

Significant economic factors affecting the Authority are as follows:

- Federal, state and local funding of airport capital projects
- Inflationary pressure on utility rates, supplies, capital construction, and other costs
- 2004 Hurricane related damages

**LAKE WALES AIRPORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006**

Capital Assets

Capital assets. The Authority's investment in capital assets as of September 30, 2006, amounts to \$1,163,032 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment. Capital assets activity for the year ended September 30, 2006 was as follows:

**Lake Wales Airport Authority's Capital Assets
(net of depreciation)
as of September 30, 2006**

	<u>Beginning Balance</u>	<u>Initial Contributions</u>	<u>Other Additions</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 0	\$ 22,431	\$ 0	\$ 22,431
Construction in Progress	0	10,000	451,256	461,256
Capital Assets Being Depreciated:				
Buildings	0	0	151,984	151,984
Improvements Other Than Buildings	0	2,059,099	0	2,059,099
Equipment	0	14,530	0	14,530
Total Capital Assets	<u>0</u>	<u>2,106,060</u>	<u>603,240</u>	<u>2,709,300</u>
Less Accumulated Depreciation for:				
Buildings	0	0	(1,013)	(1,013)
Improvements Other Than Buildings	0	(1,451,568)	(89,311)	(1,540,879)
Equipment	0	(2,923)	(1,453)	(4,376)
Total Accumulated Depreciation	<u>0</u>	<u>(1,454,491)</u>	<u>(91,777)</u>	<u>(1,546,268)</u>
Total Capital Assets, Net of Depreciation	<u>\$ 0</u>	<u>\$ 651,569</u>	<u>\$ 511,463</u>	<u>\$ 1,163,032</u>

The initial contribution from the City of Lake Wales was recorded at original cost to the City of \$2,106,060 less accumulated depreciation of \$1,454,491, as shown above. Improvements transferred in the initial contribution include runways, aprons, lighting, signage and other real property improvements constructed between 1971 and 2005. The land was acquired by the City primarily in four separate transactions in 1930 and 1941, and has not been legally transferred to the Authority. One of the four parcels contains a reversion clause where the land reverts to the donors, their heirs or assigns, if the land is used for other than a municipal airport. For financial reporting purposes, the land and improvements were transferred to the Authority's financial statements because of the intended use of the property and the limited use by the City for other purposes.

Proceeds received from a Florida Department of Transportation grant and insurance for Hurricane damage were used to fund the Airport's reconstruction projects. One corporate hanger was completed and put into service during the fiscal year. The construction in progress projects consists of an airport weather operating system, a second corporate hanger, and two T-Hangers. Additional information on the Authority's capital assets is presented in Note 3 to the financial statements.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Lake Wales Airport Authority's finances and to demonstrate the Authority's accountability for the money it received. If you have any questions regarding this report or need additional financial information, please contact the Authority's Finance Director, 201 Central Avenue West, P. O. Box 1320, Lake Wales, Florida 33859-1320.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006
LAKE WALES AIRPORT AUTHORITY
LAKE WALES, FLORIDA

Assets

Current Assets

Cash and Cash Equivalents	\$ 2,401,953
Receivables (Net of Allowance for Uncollectibles)	1,946

Total Current Assets	2,403,899
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Noncurrent Assets

Capital Assets:	
Nondepreciable	483,687
Depreciable, Net	679,345

Total Noncurrent Assets	1,163,032
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Total Assets	3,566,931
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Liabilities

Current Liabilities

Accounts Payable	2,725
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Net Assets

Invested in Capital Assets, Net of Related Debt	1,163,032
Unrestricted	2,401,174

Total Net Assets	\$ 3,564,206
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See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
LAKE WALES AIRPORT AUTHORITY
LAKE WALES, FLORIDA**

Operating Revenues	
Charges for Services	<u>\$ 7,079</u>
Operating Expenses	
Contractual Services	2,310
Repairs and Maintenance	9,646
Materials and Supplies	165
General and Administrative	29,738
Depreciation	91,777
(Total Operating Expenses)	<u>(133,636)</u>
Operating (Loss)	<u>(126,557)</u>
Nonoperating Revenues (Expenses)	
Interest Income	<u>63,561</u>
(Loss) Before Contributions and Special Items	(62,996)
Capital Contributions - Grants	450,048
Special Items - Initial Contribution from City	<u>3,177,154</u>
Change in Net Assets	3,564,206
Total Net Assets, Beginning of Year	<u>0</u>
Total Net Assets, End of Year	<u><u>\$ 3,564,206</u></u>

See accompanying notes.

**STATEMENT OF CASH FLOWS
LAKE WALES AIRPORT AUTHORITY
FOR THE YEAR ENDED SEPTEMBER 30, 2006
CITY OF LAKE WALES, FLORIDA**

Cash Flows from Operating Activities	
Receipts from Customers	\$ 5,133
Payments to Suppliers	(39,134)
Net Cash Provided by (Used in) Operating Activities	<u>(34,001)</u>
 Cash Flows from Capital and Related Financing Activities	
Initial Contribution from City - Cash	2,525,585
Capital Grants	450,048
Acquisition and Construction of Capital Assets	(603,240)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>2,372,393</u>
 Cash Flows from Investing Activities	
Interest Income	<u>63,561</u>
 Net Increase in Cash and Cash Equivalents	2,401,953
 Cash and Cash Equivalents, Beginning of Year	<u>0</u>
 Cash and Cash Equivalents, End of Year	<u>\$ 2,401,953</u>
 <u>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:</u>	
Operating (Loss)	\$ (126,557)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Depreciation of Plant	91,777
Change in Current Assets - Decrease (Increase):	
Accounts Receivable (Net of Bad Debt Provision)	(1,946)
Change in Current Liabilities - Increase (Decrease):	
Accounts Payable	<u>2,725</u>
Net Cash Provided by Operating Activities	<u>\$ (34,001)</u>
 <u>Supplemental Disclosure of Non-cash Transactions:</u>	
 Initial Contribution from City - Capital Assets	
Original Cost	\$ 2,106,060
Accumulated Depreciation	(1,454,491)
Book Value	<u>\$ 651,569</u>

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS
LAKE WALES AIRPORT AUTHORITY**

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The Lake Wales Airport Authority (the Authority) was re-created by Ordinance 2005-44 (the Ordinance) of the City of Lake Wales, Florida (the City) on September 29, 2005, pursuant to section 189.4041, Florida Statutes. The Ordinance codified, amended, reenacted, and repealed all prior ordinances relating to the Airport Authority and the Airport Advisory Committee. Prior to the adoption of the Ordinance, the activities of the Lake Wales Municipal Airport (the Airport) had been accounted for in the general fund of the City. The Authority was re-created as a dependent special district of the City, a legally separate governmental entity. The Authority has no taxing authority.

The Ordinance gave the Authority certain powers and jurisdiction over the Airport, generally subject to the approval of the City. The Authority is governed by a board of seven members known as the Lake Wales Airport Authority Board (the Board). The Board is responsible for the establishment and adoption of policy. The execution of such policy is currently the responsibility of the City Manager, who also serves as the Airport Manager.

The Airport property was struck by three hurricanes in the late summer of 2004. Every structure at the Airport received moderate to severe damage, though the pavement surfaces remained in usable condition. During fiscal year 2006, many of the regular airport operations were suspended while reconstruction efforts got underway.

The accompanying financial statements cover the Authority's initial year of operations. They have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental units. For financial reporting, the Authority is considered a component unit of the City (the primary government). These financial statements present only the accounts and activities of the Authority, and not the City as a whole. The Authority has no additional component units of its own.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies:

B. Fund Accounting

The Authority operates as a single major enterprise fund under the fund accounting framework of governmental accounting. Within this framework, an enterprise fund accounts for operations in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods and services to the fund's customers on a continuing basis be financed or recovered primarily through user charges.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. This means that all assets and liabilities (whether current or non-current) associated with the activity are included on its statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

NOTES TO FINANCIAL STATEMENTS
LAKE WALES AIRPORT AUTHORITY
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Concluded)

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the accompanying financial statements to the extent that those standards do not conflict with or contradict guidance of GASB.

The private sector follows the pronouncements issued by:

- Financial Accounting Standards Board (FASB) Statements and Interpretations;
- Accounting Principles Board (APB) Opinions; and
- Accounting Research Bulletins.

D. Operating and Nonoperating Activities

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. As is traditional with many small airports, the Authority has granted to a "Fixed Based Operator" (FBO) the exclusive right to use the Airport's principal structures and surrounding area, and provide certain sales (e.g., fuel) and services. The Authority receives a percentage of those sales. In addition, operating revenues of the Authority include facility rental, and tie-down and hanger rentals. Operating expenses for the Authority include commissions paid to the FBO, maintenance, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Special items are significant items subject to management control, that are either unusual in nature or infrequent in occurrence, but not both.

During 2006, the Authority received state grant monies to begin reconstruction efforts. These state grants had matching requirements. When both restricted and unrestricted resources are available for use, it is generally the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents and Investments

The Authority did not maintain its own bank account during 2006. Instead it participated in the cash and investment pool of the City. For purposes of the statement of cash flows, the Authority considers all investments with an original maturity of three months or less, as well as investments in the City's cash and investment pool to be cash equivalents. The City's cash and investment pool invests City funds to maximize investment yield, and essentially allows individual funds (or component units), to deposit additional cash or make withdrawals at any time without prior notice or penalties. Investment earnings are distributed monthly in accordance with the participants' relative percentage of the pool.

The City's cash and investment pool include cash deposits, and investments with an original maturity of three months or less (these include investments with the State Board of Administration and money market mutual funds). It excludes certain restricted cash and investments of the City.

NOTES TO FINANCIAL STATEMENTS
LAKE WALES AIRPORT AUTHORITY
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

F. Accounts Receivable

Accounts receivable are recorded at their net realizable value, reduced by an allowance for doubtful accounts, where appropriate. All receivables are less than ninety days past due at September 30, 2006. The allowance for doubtful accounts is \$0.

G. Capital Assets

Capital assets include land, buildings, other improvements (e.g., runways and aprons), and equipment. Capital assets purchased, acquired, or constructed, are recorded at their historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation, however capital assets contributed by other governmental entities are recorded at the donors' original cost less accumulated depreciation.

Capital assets are defined by City Ordinance as items with an individual cost of \$750 or more and an estimated useful life of one year or more. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Construction projects which meet the criteria for capital assets are capitalized as projects are constructed. Interest cost is not capitalized because the projects are generally grant-funded, and the Authority has no outstanding debt. Construction work in progress is not depreciated until completed and placed into service.

Provision has been made for the depreciation of such property, plant and equipment using the straight-line method with a half-year convention over the following estimated useful lives:

<u>Class of Assets</u>	<u>Estimated Life - Years</u>
Runways and Other Infrastructure	10-20
Buildings	20-50
Equipment	5-10

H. Revenue Recognition

Revenues are recognized when earned and measurable. Grants which finance current operations are recorded as nonoperating revenues. Grants which finance capital assets are recorded as capital contributions.

I. Equity Classifications

Enterprise fund equity is classified as net assets and displayed in three components:

- Invested in capital assets net of related debt - consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets;
- Restricted net assets - consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation; and

NOTES TO FINANCIAL STATEMENTS
LAKE WALES AIRPORT AUTHORITY
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

I. Equity Classifications (Concluded)

- Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of disclosures. Actual results could differ from those estimates.

Note 2 - Cash and Investments

A. Deposits

All of the Authority's deposits at September 30, 2006, are held in the City's cash and investment pool. Deposits in the City's cash and investment pool are held in qualified public depositories pursuant to Florida Statutes, Chapter 280, "Florida Security for Public Deposits Act." Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledged level. The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial institution. Any losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

At September 30, 2006, the carrying amount of cash on deposit in the City's cash and investment pool was \$2,401,953. The carrying value of the total pool was \$6,319,973 and the related bank balance was \$6,495,546.

B. Investments - City

As of September 30, 2006, the Authority did not have its own investment policy. All its cash balances were invested in the City's cash and investment pool. By City Ordinance 95-44 and Florida Statutes, the City is authorized to invest in the State Board of Administration Local Government Surplus Funds Trust Fund (SBA); negotiable direct obligations of the United States Government, or obligations unconditionally guaranteed by the U.S. government; bonds, debentures, notes or other indebtedness of U.S. agencies which are backed by the full faith and credit of the U.S. Government; obligations of certain other government agencies (the Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation, (FHLMC), and the Student Loan Marketing Association (SLMA). In addition, the City may invest in

NOTES TO FINANCIAL STATEMENTS
LAKE WALES AIRPORT AUTHORITY
(Continued)

Note 2 - Cash and Investments (Concluded)

B. Investments – City (Concluded)

nonnegotiable interest bearing time certificates of deposits or repurchase agreements in qualified public depositories, as well as certain banker' acceptances, commercial paper, State and/or local government taxable and tax-exempt debt, general obligation and/or revenue bonds, or fixed income mutual funds, assuming they are rated as specified in the Ordinance.

The City seeks to optimize return on investments within the constraints of safety and liquidity. The investment portfolio is designed with the annual objective of equaling or exceeding the average annual return earned on investments held by the SBA. However, the City's cash and investment pool held no investments at September 30, 2006. The entire balance was held in interest-bearing bank accounts.

C. Other Risk Disclosures

The City's investment policies broadly address exposure to interest rate changes, custodial credit risk, and quality credit risk. The following items discuss the City's exposure to various risks in their investment portfolios:

Interest Rate Risk. Interest rate risk is the risk that change in interest rates will adversely affect the fair value of the investment. The City limits its exposure to fair value losses arising from rising interest rates by varying investment maturities.

Custodial Credit Risk. For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investment policies require that securities and repurchase agreements only be purchased from certain qualified financial institutions or dealers, that repurchase agreements require a master repurchase agreement, and that all securities purchased (or collateral obtained) be properly designated as an asset of the City and held in safekeeping by a qualified third party custodial bank or institution.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of government's investment in single issuer. The City's investment policies require that assets be diversified to control the risk of loss resulting from over concentration in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. To further insure proper diversification, the City policy permits no more than 5% (at cost) of the total portfolio to be invested in any single corporation, and specifies that 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.

Note 3 - Capital Assets

Capital asset activity for the year ended September 30, 2006, was as follows:

NOTES TO FINANCIAL STATEMENTS
LAKE WALES AIRPORT AUTHORITY
(Continued)

Note 3 - Capital Assets (Continued)

	Beginning Balance	Initial Contribution	Other Additions	Disposals	Ending Balance
Capital Assets Not Being Depreciated					
Land	\$ 0	\$ 22,431	\$ 0	\$ 0	\$ 22,431
Construction in Progress	0	10,000	451,256	0	461,256
Total Capital Assets Not Being Depreciated	0	32,431	451,256	0	483,687
Capital Assets Being Depreciated					
Buildings	0	0	151,984	0	151,984
Improvements Other Than Buildings	0	2,059,099	0	0	2,059,099
Equipment	0	14,530	0	0	14,530
Total Capital Assets Being Depreciated	0	2,073,629	151,984	0	2,225,613
Total All Capital Assets	0	2,106,060	603,240	0	2,709,300
Less Accumulated Depreciation for:					
Buildings	0	0	(1,013)	0	(1,013)
Improvements Other Than Buildings	0	(1,451,568)	(89,311)	0	(1,540,879)
Equipment	0	(2,923)	(1,453)	0	(4,376)
Total Accumulated Depreciation	0	(1,454,491)	(91,777)	0	(1,546,268)
Depreciable Capital Assets, Net	0	619,138	60,207	0	679,345
Total All Capital Assets, Net	\$ 0	\$ 651,569	\$ 511,463	\$ 0	\$ 1,163,032

Depreciation recorded in the accompanying financial statements was \$91,777 for the year ended September 30, 2006.

The initial contribution from the City was recorded at the original cost to the City of \$2,106,060 less accumulated depreciation of \$1,454,491, as shown above. Improvements transferred in the initial contribution include runways, aprons, lighting, signage and other real property improvements constructed between 1971 and 2005. The land was acquired by the City primarily in four separate transactions in 1930 and 1941, and has not been legally transferred from the City to the Authority. One of the four parcels contains a reversion clause where the land reverts to the donors, their heirs or assigns, if the land is used for other than a municipal airport. For financial reporting, the land and improvements were transferred to the Authority's financial statements because of the intended use of the property and the limited use by the City for other purposes.

Construction in progress at September 30, 2006, is comprised of the following:

Project	Estimated Amount	Committed Amount	Expended to 9/30/06	Remaining Commitment
Airport Weather Operating System	\$ 103,587	\$ 103,587	\$ 10,000	\$ 93,587
Corporate Hanger 2	223,760	223,760	111,779	111,981
T-Hanger 1	361,385	361,385	165,405	195,980
T-Hanger 2	405,309	405,309	174,072	231,237
Total	\$ 1,094,041	\$ 1,094,041	\$ 461,256	\$ 632,785

NOTES TO FINANCIAL STATEMENTS
LAKE WALES AIRPORT AUTHORITY
(Continued)

Note 3 - Capital Assets (Concluded)

The above projects are being constructed with the proceeds of a grant from the Florida Department of Transportation to the City. The grant amount is \$762,506, of which \$450,048 has been reimbursed on project costs through September 30, 2006.

Note 4 - Related Party – City of Lake Wales

In the Ordinance that re-created the Authority, the City retained approval rights over most of the major decisions of the Authority. The following Board actions are subject to the approval of the Lake Wales City Commission:

- Adopting bylaws;
- Adopting an official seal;
- Maintaining an office;
- Suing or being sued;
- Acquiring, leasing, constructing, reconstructing, improving, extending, enlarging, equipping, repairing, maintaining or operating any airport which may be located on the property of the Authority;
- Issuing bonds, refunding bonds, revenue certificates;
- Fixing and revising rates, fees or other charges;
- Acquiring real or personal property;
- Entering into certain contracts or agreements, including those to operate other airports
- Accepting grant money; and
- Doing all things necessary or convenient to carry out the powers granted by the Ordinance.

In addition, the City has provided the use of certain City personnel to the Authority at no cost. The City Manager and City Finance Director currently serve as the Airport Manager and Airport Finance Director, respectively. The City's Emergency Management Director/Assistant to the City Manager served as a project coordinator for the Authority projects, and the City's Public Service Director acted in a liaison capacity between the City Commission and the Airport Authority Board. Additional services were provided by City purchasing, information technology, and finance departments.

As of September 30, 2006, the two parties (City and Authority) had not agreed to a charge-out methodology for these services. An interlocal agreement that may address this issue was still in draft stages at September 30, 2006. For fiscal year 2006, the City defaulted to the charge-out methodology for its various departments in its 2006 budget. Public Service department costs totaling \$7,712 were charged to the Authority for the year ended September 30, 2006.

Note 5 - FBO Lease

The City is operating under a revised Fixed Base Operator Franchise (FBO) Agreement (the Agreement) dated October 31, 1995, which grants Lake Wales Aviation, Inc. the exclusive right to use certain Airport facilities for the purposes of conducting business as a fixed base operator. The term of the contract is ten years, with four successive five year renewal options, at the option of the FBO. During 2006, the City turned over the revenues it collected under this agreement to the Authority.

NOTES TO FINANCIAL STATEMENTS
LAKE WALES AIRPORT AUTHORITY
(Concluded)

Note 5 - FBO Lease (Concluded)

Under terms of the agreement, the FBO pays the City \$2,500 per month for rent of the facilities (adjusted annually after the first five years of the Agreement by the lower of the increase in the consumer price index or the increase in the general aviation growth rate) plus ten cents per gallon on fuel sales. The FBO receives a credit of \$1,500 against the rent as reimbursement for certain leasehold improvements constructed by the FBO, and a \$500 credit for mowing. In addition, the FBO pays the costs of electricity and routine maintenance. The FBO also acts as the City's agent for the collection of T-hanger rent and tie-down fees, and remits 87.5% of the amount collected to the City. Because of the damage done by the 2004 hurricanes, most of the airplanes based at the Airport were relocated to other airports and most payments under the Agreement were suspended. Beginning August 2006, the fuel flowage fees were reinstated. The rents are expected to be reinstated once the facilities are reconstructed.

Note 6 - Special Item – Initial City Contribution

To provide initial capital funding for the reconstruction efforts, the City turned over the insurance proceeds it had received from the extensive damage done to airport property by the 2004 hurricanes. Total insurance proceeds related to the damage of airport property were \$2,678,053, of which \$152,468 was expended by the City for demolition efforts prior to the recreation of the Authority. The net insurance proceeds of \$2,525,585, plus the capital asset contribution of \$651,569 is recorded as a *special item* on the accompanying statement of revenues, expenses and changes in net assets.

Asset Transferred	
Cash	\$ 2,525,585
Capital Assets	<u>651,569</u>
Total Special Item	<u>\$ 3,177,154</u>

The transaction is recorded as a special item because it was a one-time contribution that is not expected to recur in the foreseeable future.

Note 7 - Subsequent Events – Grants

On June 27, 2006, the City signed a Joint Participation Agreement with the FDOT for a \$1.5 million Hurricane Relief Funding appropriation. The City intends that the grant will be utilized by the Authority to construct a well and fire line on the Airport property. Original cost estimates for the project are in excess of \$2.1 million.

On March 10, 2007, the City signed a grant agreement with the Executive Office of the Governor, Office of Tourism, Trade and Economic Development (OTTED) for \$3.0 million, to be expended solely for the purpose of the project, the extension of runway 06-24 at the Airport.

GOVERNMENT AUDITING SECTION

**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***

Honorable Chairman and Board Members
Lake Wales Airport Authority
Lake Wales, Florida

We have audited the accompanying financial statements of the Lake Wales Airport Authority (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 6, 2007.

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 Authority'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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

We noted certain matters that we reported to management of the Authority in separated letter dated April 6, 2007.

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

Honorable Chairman and Board Members
Lake Wales Airport Authority
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 Board members and management of the Authority, the City of Lake Wales, Florida, the Auditor General of the State of Florida, and federal and state grantor agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

April 6, 2007
Sarasota, Florida

Turtis, Gray and Company, LLP

MANAGEMENT LETTER

Honorable Chairman and Board Members
Lake Wales Airport Authority
Lake Wales, Florida

We have audited the basic financial statements of the Lake Wales Airport Authority (the Authority) as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated April 6, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our independent auditors' report on internal control over financial reporting and on compliance and other matters dated April 6, 2007. In addition, we conducted a federal and state single audit of the City of Lake Wales, Florida (the City), and included the grants of the Authority in those reports. Disclosures in any of these reports, if any, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* [Section 10.554(1)(h)1.] require that we address in the management letter, if not already addressed in the auditors' report internal control over financial reporting and on compliance and other matters or in the Citywide single audit reports, whether or not recommendations made in the preceding annual financial audit report have been corrected. This is the first year of activity for the Authority. Accordingly, there were no prior financial audit reports.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)2.] the scope of our audit included a review of provision of Section 218.415, Florida Statutes, regarding investment of public funds. In connection with our audit, we determined that the Authority had not adopted an investment policy as of September 30, 2006. All its funds were invested in the City's cash and investment pool. Accordingly, we could not verify compliance with Section 218.415, Florida Statutes.

The *Rules of the Auditor General* [Section 10.554(1)(h)3.] require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. We offer the following current year findings or recommendations:

06.01 City Indirect Services

The City provides personnel (e.g., an Airport Manager and Finance Director) and services (e.g., purchasing, project management, accounting and administration) to the Authority, yet there is no agreement that covers the provision of these resources, or the cost, if any. We recommend the City and Authority formalize this arrangement through an interlocal agreement.

Certified Public Accountants

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

Honorable Chairman and Board Members
Lake Wales Airport Authority
Lake Wales, Florida

MANAGEMENT LETTER
(Continued)

06.02 Airport Property

The Airport property is in the name of City, and has not been legally transferred to the Authority, nor is there a written lease that covers the use of the property by the Authority. We recommend the City and Authority formalize the terms related to the use of this City-owned land by the Authority.

06.03 Purchasing Policy

The Authority had not adopted a purchasing policy as of September 30, 2006. During the audit, it was unclear to us whether the Authority was following the City's purchasing policy, or whether there were other authorizations required, perhaps by the Authority Board. We recommend the Authority either adopt a new purchasing policy, or adopt the City's policy.

06.04 Board Action, Generally

During our review of the Authority's Board minutes, it was difficult for us to determine when official action had been taken by this public body. For example, we could not tell whether they had formally adopted a budget, or approved certain grants, costs or contracts. We recommend the Board formalize and standardize their methodology for taking action, whether by resolution or formal policy.

06.05 Fixed Base Operator's (FBO) Franchise Agreement

The FBO is currently operating under an agreement with the City dated October 31, 1995. This agreement provides for certain payments and credits between the City and the FBO that might be considered revenues/expenses of the Authority. We recommend the Authority's entitlement to the revenues and responsibility for the expenses under this agreement be clarified in the interlocal agreement between the City and the Authority.

In addition, we are aware that the City Commission suspended the requirement for the FBO to make rent payments to the City on structures destroyed by the hurricanes until such time as those structures are reconstructed. The Commission action did not discuss the treatment of any "credits" the FBO was receiving against those rents, whether there was any rent due on the property itself, or how the rent or credits would be reinstated as replacement structures are built. We recommend these issues be clarified with the FBO.

In addition, our review of this agreement raised an accounting issue. The agreement refers to a loan from the FBO to the City for up to \$390,000, and the repayment of that loan through reductions in rent. We did not see any formal note and there appears to be no repayment schedule; therefore we were unable to determine the loan balance, whether in fact there was an outstanding obligation, and whether that obligation, if it exists, is the responsibility of the City or the Authority. If this is indeed an obligation of the City or the Authority, it should be recorded on the appropriate set of books at discounted fair value.

The FBO Agreement specifies a rent escalator after the original five year term (and annually thereafter) that appears not to have been implemented. We recommend the City review this clause of the agreement for compliance.

Honorable Chairman and Board Members
Lake Wales Airport Authority
Lake Wales, Florida

MANAGEMENT LETTER
(Continued)

06.05 Fixed Base Operator's (FBO) Franchise Agreement (Concluded)

Finally, the Agreement is silent as to the use by the FBO of the new facilities being constructed on Airport property, and the payments for that use, if any. We recommend this issue be clarified. Finally, rent income should generally be grossed up for financial reporting and any allowances (e.g., mowing) be recorded as expenses.

The *Rules of the Auditor General* [Section 10.554(1)(h)4.] require disclosure in the management letter of the following matters if not already addressed in the auditors' report on internal control over financial reporting and on compliance and other matters, or the City-wide Single Audit reports and schedules, and are not clearly inconsequential: (1) violations of laws, rules, regulations and contractual provisions or abuse that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, and defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed the following matter required to be disclosed by *Rules of the Auditor General* [Section 10.554(1)(h)4.]:

06.06 Investment Policy

The Authority had not adopted an investment policy as of September 30, 2006. Florida Statute 218.415 requires every governmental entity to either adopt an investment policy, or adopt the standard requirements of Florida Statutes. We recommend the Authority review this statute for compliance.

The *Rules of the Auditor General* [Section 10.554(1)(h)5.] also requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The applicable disclosure can be found in Note 1 to the financial statements. The Authority is a component unit of the City of Lake Wales, a dependent special district. The Authority has no component units of its own.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.a], a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the Authority did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.b], we determined that the annual financial report for the Authority for the fiscal year ended September 30, 2006, was filed with the Department Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2006.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.c. and 10.556(7)], we applied financial assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. There were no findings of deteriorating financial condition, which were required to be reported.

Honorable Chairman and Board Members
Lake Wales Airport Authority
Lake Wales, Florida

MANAGEMENT LETTER
(Concluded)

This management letter is intended solely for the information and use of the Board members and management of the Authority, the City of Lake Wales, Florida, the Auditor General of the State of Florida, and federal and state grantor agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

April 6, 2007
Sarasota, Florida

Russell, Gray and Company, LLP



**City of
Lake Wales**

201 Central Avenue W.
P. O. Box 1320
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Fax (863) 678-4180

May 4, 2007

Honorable Chairman and Board Members
Lake Wales Airport Authority
Lake Wales, Florida

Re: Response to Auditor's Management Letter Comments
Year Ended September 30, 2006

In accordance with Florida Statutes and the rules of the Auditor General, the following is provided in response to comments made by the Authority's Independent Auditors, Purvis, Gray and Company, in connection with their audit of the Authority's Financial Statements for the year ended September 30, 2006.

Management Letter

Status of Prior Year recommendations and Compliance Violations:

This is the first year of activity for the Authority. Accordingly, there were no prior year recommendations or compliance violations.

Current Year Recommendations:

- 06-01. City Indirect Services** – An interlocal agreement between the Airport Authority and the City of Lakes covering the services and costs, if any, that is to be provided by City Staff will be finalized during fiscal year 2006-2007. A preliminary agreement has been drafted.
- 06-02. Airport Property** – The City of Lake Wales City Commission will be petitioned to finalize the transfer of airport property to the Lake Wales Airport Authority by the end of fiscal year 2006-2007
- 06-03. Purchasing Policy** – The Authority has been following the City's purchasing policy. The Authority's management recommends that the Board officially adopt the City's purchasing policy.
- 06-04. Board Action, Generally** – The board will formalize and standardize its methodology for taking action such as formally adopting its budget or approving certain grants, costs or contracts.
- 06-05. Fixed Based Operator's (FBO) Franchise Agreement** – The Authority's entitlement to the revenues and responsibility for the expenses under this agreement will be clarified in the interlocal agreement. The FBO's lease payments suspension was approved by the City Commission, however, the Fixed Based Operator's franchise agreement was not amended.

The no-interest loan, repayment of such loan, and assignment of liability will be determined and recorded on the appropriate set of books. The receipts will be grossed up and credits for loan payments and/or operating expenses will be recorded accordingly.

The City will review the rent escalator clause for compliance and establish the correct rental payment.

The use by the FBO of the new facilities and the payments for that use needs to be addressed.

All of the issues with the FBO Franchise Agreement have been referred to legal counsel.

06-06. Investment Policy – The Authority funds have been invested in accordance with City Policy, which is in accordance with Florida Statutes. The Authority's management recommends that the Board officially adopt the standard requirements of Florida Statutes.

As Finance Director of the Lake Wales Airport Authority, I would like to note the extensive work and expertise on the part of our auditors and thank them for their efforts.

If there are any questions regarding these matters, please contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sylvia A. Edwards".

Sylvia A. Edwards, CPA, CGFO
Finance Director