

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

FINANCIAL STATEMENTS

and

AUDITOR'S REPORTS

For the Years Ended September 30, 2008 and 2007

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

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of plan net assets of the Lake Wales Police Officers' Pension Trust Fund of the City of Lake Wales, Florida, as of September 30, 2008 and 2007, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the fund trustees. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described more fully in Note A, the financial statements present only the Lake Wales Police Officers' Pension Trust Fund of the City of Lake Wales, Florida, and are not intended to present fairly the financial position and results of operation of the City of Lake Wales, Florida, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the fund's net assets held in trust for pension benefits as of September 30, 2008 and 2007 and changes therein for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2009 on our consideration of the City of Lake Wales Police Officer's Pension Trust Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying required supplementary information on pages 21 through 22 and management's discussion and analysis on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The NCT Group CPA's, LLP

The NCT Group CPA's, L.L.P.
Winter Haven, Florida
March 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Lake Wales Police Officers' Pension Plan and Trust financial performance provides an overview of the financial activities and funding conditions for the fiscal years ended September 30, 2008 and 2007.

FINANCIAL HIGHLIGHTS

The Plan's net result from activities was a decrease of \$1,530,702.

State sources increased \$141 (0.13%). State sources were \$109,741 for 2008 and \$109,600 for 2007.

Employer contributions to the Plan decreased \$49,853 (15.55%) compared to 2007. The actual employer contributions were \$270,796 for 2008 and \$320,649 for 2007.

Employee contributions to the Plan increased by \$3,334 (3.34%) compared to 2007. The actual employee contributions were \$103,332 for 2008 and \$99,998 for 2007.

The net investment income decreased by \$2,635,139 (204.10%) compared to 2007. The actual results were a \$(1,344,012) decrease for 2008 and a \$1,291,127 increase for 2007.

Benefit payments and Refunds of Contributions decreased by \$21,821 (3.40%).

During the 2007 year, the total required contribution had decreased both as a dollar amount and when expressed as a percentage of total annual payroll. These reductions are due to net favorable actuarial experience during the past year. The primary components of favorable experience included a 10.1% investment return (Actuarial Asset Basis), which exceeded the 8.0% assumption, average salary increases were less than the assumed rate, and larger than expected employee turnover. These gains were partially offset by the hiring of four relatively older Police Officers.

During the 2008 year, the total required contribution had increased as a percentage of total annual payroll. These increases are due to net unfavorable actuarial experience during the past year. The primary components of unfavorable experience are a 4.1% investment return (Actuarial Asset Basis), which is less than the 8.0% assumption and 6.8% salary increases which is higher than the assumed rate. Partially offsetting these losses is an increase in the payroll growth assumption used to amortized the unfunded actuarial accrued liability. The historical return was 2.70% in the October 1, 2007 valuation and 2.81 in the October 1, 2008 valuation report.

PLAN HIGHLIGHTS

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

From the October 1, 2008 Actuarial Valuation Report, the annualized rate of return for prior four years 4.06%

TABLE 1

Plan Year End	Rate of Return*
9/30/05	9.93%
9/30/06	7.45%
9/30/07	13.82%
9/30/08	-12.78%

*Market Value Basis, net of investment related expenses

USING THE ANNUAL REPORT

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

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

PLAN NET ASSETS

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

TABLE 2
PLAN NET ASSETS
As of September 30

	<u>2008</u>	<u>2007</u>
Cash & Investments	\$ 9,041,149	\$ 10,452,714
Accrued Investment Income	26,590	26,590
Total Assets	<u>9,041,149</u>	<u>10,479,304</u>
Due to DROP Participants	136,248	95,168
Prepaid City Contributions	89,328	37,861
Total Liabilities	<u>225,576</u>	<u>133,029</u>
Restricted Net Assets	<u>\$ 8,815,573</u>	<u>\$ 10,346,275</u>

The net change in net assets was a decrease of \$1,530,702, which is largely attributable to net loss on investment returns of \$1,344,012 and benefits paid to participants of \$609,480. 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 adjusted for State contributions. The State remits income received from the .85% excise tax on casualty insurance premiums per Florida Statutes 185.08.

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>2008</u>	<u>2007</u>
Additions:		
Employer Contributions	\$ 270,796	\$ 320,649
Employee Contributions	103,332	99,998
State of Florida	109,741	109,600
Net Investment Income (loss)	-1,344,012	1,291,127
Total Additions	<u>-860,143</u>	<u>1,821,374</u>
Deductions:		
Pension Benefits	609,480	551,159
Refund of Contributions	11,899	92,041
Administrative Expenses	49,180	49,438
Total Deductions	<u>670,559</u>	<u>692,638</u>
Net Increase (Decrease)	<u><u>\$ -1,530,702</u></u>	<u><u>\$ 1,128,736</u></u>

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

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

PLAN MEMBERSHIP

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

TABLE 4

CHANGES IN PLAN MEMBERSHIP SEPTEMBER 30			
	2008	2007	Change
Active Participants	39	40	(1)
Vested	18	16	2
Non-Vested	21	24	(3)
Retirees/Benef/Disab	20	20	0
Terminated Vested	2	1	1
DROP Participates	1	1	0

TABLE 5

CHANGES IN RETIREES & BENEFICIARIES				
	10/1/2007	In	Out	9/30/2008
Retirees Receiving Benefits	14	-	-	14
Beneficiaries Receiving Benefits	2	-	-	2
Disability Benefits	4	-	-	4
Terminated Vested	1	1	-	2
DROP	1	-	-	1
TOTAL	22	1	-	23

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

FUNDING STATUS

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, defined pension plans have been under funded when the employer failed to make annual actuarially required contributions to the Plan. The City's Defined Benefit Plan has been subject to the minimum funding standards since the adoption of the "Florida Protection of Public Employee Retirement Benefits Act" (Part VII of Chapter 112, Florida Statutes) in 1980. Accordingly, the City has funded the actuarially determined required contribution for all years from October 1, 1987, through the transition date, October 1, 1997. Thus the NPO (Net Pension Obligation) on October 1, 1997, is 0. The NPO for the year ended September 30, 2008 is a negative (over funded) \$143,561.

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

Under the Entry Age Normal Actuarial Cost Method adopted October 1, 2004 for September 30, 2008 contributions, the Actuarial Gains (Losses), as they occur, reduce (increase) the Unfunded Actuarial

Accrued Liability (UAAL) instead of the Normal Cost. This method spreads the increase (decrease) over a longer time period and is designed to produce contribution amounts that are more stable and predictable.

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

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

Table 6 presents the funding progress utilizing the Entry Age Normal Actuarial Cost Method.

**TABLE 6
SCHEDULE OF FUNDING PROGRESS**

As of October 1

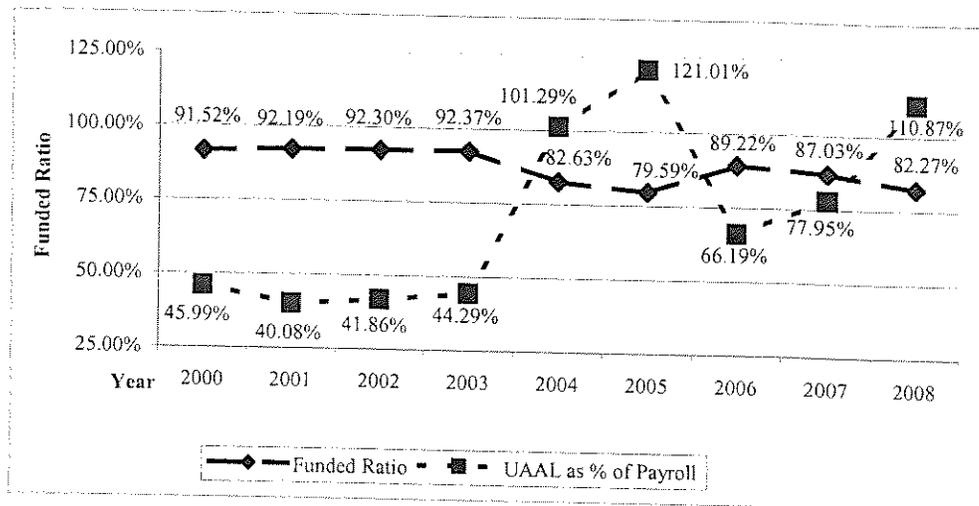


TABLE 7

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) See Table 8 (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/08	10,125,825	12,308,290	2,182,465	82.27%	1,968,564	110.87%
10/1/07	9,822,219	11,285,608	1,463,389	87.03%	1,877,296	77.95%
10/1/06	9,049,308	10,142,549	1,093,241	89.22%	1,651,717	66.19%
10/1/05	8,329,601	10,465,863	2,136,263	79.59%	1,765,347	121.01%
10/1/04	7,915,414	9,578,774	1,663,359	82.63%	1,642,104	101.29%
10/1/03	7,856,018	8,504,828	648,810	92.37%	1,464,901	44.29%
10/1/02	7,758,257	8,405,334	647,077	92.30%	1,545,797	41.86%
10/01/01	7,657,853	8,306,429	648,576	92.19%	1,618,255	40.08%
10/01/00	7,334,393	8,014,285	679,892	91.52%	1,478,384	45.99%

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

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

	Date Established	Years Remaining	10/1/2008 Amount	Amortization Amount
Benefit Method	10/1/1998	20	\$ 687,832	\$ 52,756
Prior Losses	10/1/2004 **	26	553,349	36,826
Loss	10/1/2004 **	20	553,349	42,441
Loss	10/1/2005	20	406,066	31,145
Gain	10/1/2006	20	(1,123,328)	(86,158)
Loss	10/1/2007	20	448,228	34,378
Loss	10/1/2008	10	479,557	36,781
Assumptions	10/1/2008	20	270,284	33,399
Method	10/1/2008	20	(92,872)	(7,123)
TOTAL UAAL			\$ 2,182,465	\$ 174,445

* Includes \$43,678 for expected administrative expenses.

** It is assumed that 50% of the cost method change base from 2004 was attributable to unfavorable actuarial experience prior to that date. This loss will be amortized over a 20 year period effective with October 1, 2008 valuation (compared to 26 years). Additional prior gain and loss bases are amortized over 20 years (compared to 30 years), and new gain and loss bases on and after October 1, 2008 will be amortized over 10 years.

ASSET ALLOCATION

The table below indicates the asset allocation for September 30, 2008 and 2007.

TABLE 9
MARKET VALUE ASSET ALLOCATION BY %

	<u>2008</u>	<u>2007</u>
Cash & Equivalent	13.48%	11.63%
U.S. Treasury Notes & Bonds	24.48%	17.94%
Corporate Bonds	6.83%	7.40%
Stocks	55.21%	63.03%
Total	<u>100.00%</u>	<u>100.00%</u>

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

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

Actual cost and market fluctuations affect asset allocation percentages.

INVESTMENT ACTIVITIES

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

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

ECONOMIC FACTORS

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

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

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

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

STATEMENT OF PLAN NET ASSETS

September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Cash	\$ 166,774	\$ 141,130
Investments:		
Money market funds	1,015,300	1,074,868
Corporate bonds and government obligations	2,833,747	2,648,428
Equity funds	4,998,738	6,588,288
Total investments	8,847,785	10,311,584
Receivables:		
Accrued interest and dividends	26,590	26,590
Total assets	<u>9,041,149</u>	<u>10,479,304</u>
Liabilities:		
Due to DROP Participants	136,248	95,168
Prepaid contributions from City	89,328	37,861
Total liabilities	<u>225,576</u>	<u>133,029</u>
Net assets:		
Net assets held in trust for pension benefits	<u>\$ 8,815,573</u>	<u>\$ 10,346,275</u>

See accompanying notes to the financial statements.

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

Years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Additions:		
Contributions:		
State of Florida	\$ 109,741	\$ 109,600
Employer (City of Lake Wales)	270,796	320,649
Employees	103,332	99,998
	<u>483,869</u>	<u>530,247</u>
Investment income:		
Net change in investments	(1,269,133)	1,363,297
Less: Investment expense	<u>(74,879)</u>	<u>(72,170)</u>
Net investment income (loss)	<u>(1,344,012)</u>	<u>1,291,127</u>
Total additions	<u>(860,143)</u>	<u>1,821,374</u>
Deductions:		
Benefits paid directly to participants	609,480	551,159
Refund of contributions to employees	<u>11,899</u>	<u>92,041</u>
Total benefits	621,379	643,200
Administrative expenses	<u>49,180</u>	<u>49,438</u>
Total deductions	<u>670,559</u>	<u>692,638</u>
Net increase/(decrease)	(1,530,702)	1,128,736
Net assets held in trust for pension benefits:		
Beginning of year	<u>10,346,275</u>	<u>9,217,539</u>
End of year	<u>\$ 8,815,573</u>	<u>\$ 10,346,275</u>

See accompanying notes to the financial statements.

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2008 and 2007

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting - The accounts of the Lake Wales Police Officers' Pension Trust Fund are maintained on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Investment income is recognized as revenue when earned. The net appreciation/(depreciation) in fair value of investments is recorded as an increase/(decrease) to investment income based on the valuation of investments. The entire expense of Plan administration is charged against the earnings of the Plan. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Cash and Investments - Plan investments are presented at fair value or estimated fair value. During 2008, if available, quoted market prices were 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 Wachovia Securities, L.L.C. in street name on behalf of the pension trust fund.

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

B - CASH AND CASH EQUIVALENTS

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

C - INVESTMENTS

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

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

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2008 and 2007

C - INVESTMENTS - (Continued)

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

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

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

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

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

The Plan's holding of Lehman Brothers Holdings Inc. is a violation of the investment policy regarding minimum rating for fixed-income securities. The Plan is aware of the violation and the Investment Manager will bring the portfolio bank into compliance when economically feasible.

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2008 and 2007

C - INVESTMENTS - (Continued)

The following table presents the fair value of the investments in this Plan. Single investments representing more than 5% of the Plan's net assets as of September 30, 2008 and 2007 are separately identified:

	<u>Interest</u>	<u>2008</u>	<u>2007</u>
Centennial money market trust		\$ 1,015,300	\$ 1,074,868
U.S. Treasury notes and bonds	3.25% - 7.5%	2,215,506	1,875,422
Corporate bonds	4.375% - 8.8%	618,241	773,006
Stocks	N/A	<u>4,998,738</u>	<u>6,588,288</u>
		<u>\$ 8,847,785</u>	<u>\$ 10,311,584</u>

Corporate and U.S. Government notes and bonds owned at September 30, 2008 are as follows:

<u>Quantity</u>	<u>Security</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Market Value</u>
Corporate Bonds:				
40,000	Merrill Lynch	6.000%	02-17-09	\$ 38,826
120,000	Lehman Bros Hldg	4.500%	07-26-10	15,000
105,000	Goldman Sachs	6.875%	01-15-11	100,372
105,000	Morgan Stanley	4.750%	04-01-14	55,661
75,000	GlaxoSmithKline	4.375%	04-15-14	71,149
25,000	NationsBank Corp.	7.800%	09-15-16	23,857
100,000	Verizon Communications	5.500%	04-01-17	89,776
105,000	Mid-America Energy	5.300%	03-15-18	95,339
50,000	Hershey Foods Corp.	8.800%	02-15-21	62,697
65,000	Phillips Pete Co.	7.000%	03-30-29	<u>65,564</u>
Total Corporate Bonds				<u>\$ 618,241</u>
Government Bonds:				
470,000	United States Treasury	3.250%	01-15-09	\$ 473,234
270,000	United States Treasury	3.500%	02-15-10	276,032
10,000	United States Treasury	7.500%	11-15-16	12,567
60,000	United States Treasury	6.875%	08-15-25	77,423
150,000	United States Treasury	5.000%	05-15-37	166,863
105,000	United States Treasury	4.375%	02-15-38	106,337
Mortgage Pools:				
74,376	Fed'l. Nat'l. Mtg. Assn.	4.000%	11-01-19	48,932
321,225	Fed'l. Home Loan Mtg.	4.000%	01-01-20	186,649
244,000	Fed'l. Nat'l. Mtg. Assn.	4.000%	02-01-20	151,208
174,000	Fed'l. Home Mtg. Assn.	4.500%	08-01-20	118,690
40,000	Fed'l. Nat'l. Mtg. Assn.	4.000%	10-01-20	24,039
103,000	Fed'l. Home Mtg. Assn.	4.000%	02-01-21	80,042
215,000	Gov't. Nat'l Mtg. Assn.	5.500%	12-20-31	47,524

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2008 and 2007

C - INVESTMENTS - (Continued)

Government-

Sponsored Bonds:

105,000	Fed'l. Nat'l. Mtg. Assn.	4.250%	05-15-09	105,591
155,000	Fed'l. Nat'l Mtg. Assn.	4.125%	04-15-14	154,904
125,000	Fed'l. Nat'l Mtg. Assn.	5.500%	12-14-22	124,493
15,000	Fed'l. Nat'l Mtg. Assn.	6.625%	11-15-30	18,103
35,000	Fed'l. Home Mtg. Assn.	6.750%	03-15-31	<u>42,875</u>
Total Government Bonds, Mortgage Pools, and Government-Sponsored Bonds				<u>\$2,215,506</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 to not exceed 150% of the duration of the Lehman Brothers Government / Credit Bond Index.

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

The average credit rating of the entire portfolio is AAA. The credit ratings for the Plan's fixed income securities at September 30, 2008 are as follows:

		<u>S&P</u>	<u>Moody</u>
40,000	Merrill Lynch	A	A2
120,000	Lehman Bros Hldg Inc	D	B3
105,000	Goldman Sachs	AA-	AA3
105,000	Morgan Stanley	A	A2
75,000	GlaxoSmithKline	A+	A1
25,000	NationsBank Corp.	A+	AA3
100,000	Verizon Communications	A	A3
105,000	Mid-America Energy	A-	A2
50,000	Hershey Food Corp.	A	A2
65,000	Phillips Pete Co.	A	A1
470,000	United States Treasury	AAA	AAA
270,000	United States Treasury	AAA	AAA
10,000	United States Treasury	AAA	AAA
60,000	United States Treasury	AAA	AAA
150,000	United States Treasury	AAA	AAA
105,000	United States Treasury	AAA	AAA
105,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
74,376	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
321,225	Fed'l. Home Loan Mg.	AAA	AAA
244,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
174,000	Fed'l. Home Loan Mg.	AAA	AAA
40,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2008 and 2007

C - INVESTMENTS - (Concluded)

103,000	Fed'l. Home Loan Mg.	AAA	AAA
215,000	Gov't, Nat'l. Mtg. Assn.	AAA	AAA
155,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
125,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
15,000	Fed'l. Nat'l. Mtg. Assn.	AAA	AAA
35,000	Fed'l. Home Loan Mtg.	AAA	AAA

Concentration of Credit Risk: No more than 5% (at cost) of the total portfolio may be invested in any single corporation, and exposure to any one industry sector shall not exceed 150% of the exposure represented by that industry in the S&P 500 Stock Index or 5% (at cost), whichever is greater.

D - DESCRIPTION OF PLAN

The following brief description of the Lake Wales Police Officers' Pension Trust Fund Plan is provided for general information purposes only. Participants should refer to City of Lake Wales Ordinance No. 2000-13 for more complete information. The Plan is administered by the Lake Wales Police Officers' Pension Trust Fund Board. The Board may propose amendments to the Plan, but any such amendments must be ordinances approved by the City of Lake Wales City Commission.

1. Plan Membership:

The plan is a single-employer, defined benefit pension plan that covers substantially all full-time police officers of the City of Lake Wales, Florida. Government plans are not subject to the provisions of the Employee Pension Income Security Act of 1974 (ERISA). Based on an actuarial report as of October 1, 2008, employee membership data related to the plan is as follows:

	<u>2008</u>
City of Lake Wales police officer retirees and beneficiaries currently receiving benefits	<u>21</u>
Vested terminated employees	<u>2</u>
Active plan participants:	
Vested	18
Nonvested	<u>21</u>
Total active plan participants	<u>39</u>

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2008 and 2007

D - DESCRIPTION OF PLAN - (Continued)

2. Plan Benefits:

Eligibility - Effective October 1, 1986, Chapter 185, Florida Statutes was amended to provide that a member police officer may retire and receive normal retirement benefits after completing 10 years of creditable service and attaining the age of 55 or completing 25 years of creditable service and attaining the age of 50. Previously a police officer was required to complete 10 years of creditable service and attain the age of 60.

Pension Benefits - The amount of the monthly retirement income payable to a police officer who retires on or after his normal retirement date will equal 2.5% of his average final compensation multiplied by the number of years of credited service for members separating from service prior to October 1, 1998, or 3% of average final compensation for each year of credited service for members separating from service on or after October 1, 1998. The average final compensation is based on annual compensation of the 3 highest paid years of the last 10 years of creditable service. Prior to October 1, 1986, average final compensation was based on compensation during the last 10 years of service. However, if city and state contributions are not adequate to provide the benefits currently provided in Chapter 185, only increment increases shall be provided as state moneys become available.

Members who have satisfied the requirements for normal retirement are eligible to participate in the Deferred Retirement Option Program (DROP) for up to 5 years. During the DROP period the member accrues a benefit amount equal to what would have been the members retirement benefit had the member retired as of the date of entry into the DROP program plus earnings. At the members' election, earnings are calculated either at the same rate of return earned by the total trust fund, or the rate of return of the trust fund's money market account. This accumulated amount is paid in a lump sum when the member leaves active service at the end of the DROP period.

Benefits generally terminate upon the police officer's death. If the police officer dies after retirement but prior to receiving benefits for a period of 10 years, the same monthly payment will be paid to the beneficiary designated by the police officer for the balance of the 10-year period.

A police officer may elect a reduced early retirement benefit after completing 10 years credited service and attaining age 50.

Disability Benefits - An officer with 10 years credited service who becomes totally and permanently disabled may retire from service, with benefits computed and payable in the same manner as normal retirement benefits. If the officer recovers prior to his normal retirement date, the disability retirement benefit will be discontinued.

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2008 and 2007

D - DESCRIPTION OF PLAN - (Continued)

2. Plan Benefits: - (Continued)

Termination Benefits - An officer 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 normal retirement upon attaining the normal retirement age. Officers separating from a municipal employment prior to attaining 10 years of service, receive no benefits but are entitled to a refund of 100%, without interest, of the contributions made to the retirement trust fund.

Death Benefits - If an officer dies after completing 10 years credited service but prior to retirement, the officer's beneficiary is entitled to the benefits otherwise payable to the officer at early or normal retirement age. If an officer dies before being eligible to retire, the officer's beneficiary will be entitled to a refund of 100%, without interest, of the contributions made to the retirement trust fund by the deceased officer.

3. Funding Policy:

Member Contributions - 5.0% of the salary of each officer shall be deducted from the officers' salary by the City and paid over to the Board of Trustees of the pension trust fund.

City Contributions - The City shall make an annual contribution to the fund in an amount which is actuarially determined after adjustment for State contributions, 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.

State Contributions - The State remits income received from the .85% excise tax on casualty insurance premiums, per Florida Statutes 185.08, to the Lake Wales Police Officers' Pension Trust Fund.

4. Termination of Plan:

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

5. Contributions Required and Contributions Made:

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

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Continued)

September 30, 2008 and 2007

D - DESCRIPTION OF PLAN - (Concluded)

5. Contributions Required and Contributions Made - (Concluded)

Information related to contributions for the year ended September 30, 2008 is as follows:

Contribution rates as of September 30, 2008:

City	15.6%
Plan members	5.0%
Annual pension cost	\$ 267,653
Contributions made	\$ 270,796
Actuarial valuation date	10/1/06
Actuarial cost method	Entry age normal
Amortization method	Level percentage of Pay, closed
Remaining amortization period	30 years
Asset valuation period	4-Year Smoothing
Actuarial assumptions:	
Investment rate return	8.0%
Projected salary increases	6.0%
Includes inflation at	3.0%
Post retirement cost-of-living adjustments	0.0%

Three-Year Trend Information

<u>Year Ending</u>	<u>Actuarially Determined Contribution (A)</u>	<u>Percentage of (A) Contributed</u>	<u>Net Pension Obligation</u>
9/30/08	\$270,796	100%	\$(143,561)
9/30/07	320,649	100%	(140,418)
9/30/06	270,637	100%	(137,343)

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO FINANCIAL STATEMENTS - (Concluded)

September 30, 2008 and 2007

D - DESCRIPTION OF PLAN - (Continued)

6. Development of Net Pension Obligation (NPO):

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

The development of the Net Pension Obligation is as follows:

	<u>9/30/07</u>	<u>9/30/08</u>
Actuarially determined contribution (A)	\$ 320,649	\$ 270,796
Interest on NPO	(10,987)	(11,233)
Adjustment to (A)	<u>7,912</u>	<u>8,090</u>
Annual pension cost	317,574	267,653
Contributions made	<u>320,649</u>	<u>270,796</u>
Increase in NPO	(3,075)	(3,143)
NPO beginning of year	<u>(137,343)</u>	<u>(140,418)</u>
NPO end of year	<u>\$ (140,418)</u>	<u>\$ (143,561)</u>

E - TAX STATUS

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

F - STATE OF FLORIDA CONTRIBUTION

The 2008 state contribution totaled \$109,741.

G - SUBSEQUENT EVENTS

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Plan's investments have likely incurred a significant decline in fair value since September 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

REQUIRED SUPPLEMENTARY INFORMATION

(UNAUDITED)

September 30, 2008

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/01/08	\$10,125,825	\$12,308,290	\$2,182,465	82.27%	\$1,968,564	110.87%
10/01/07	9,822,219	11,285,608	1,463,389	87.03%	1,877,296	77.95%
10/01/06	9,049,308	10,142,549	1,093,241	89.22%	1,651,717	66.19%
10/01/05	8,329,601	10,465,863	2,136,263	79.59%	1,765,347	121.01%
10/01/04	7,915,414	9,578,774	1,663,359	82.63%	1,642,104	101.29%
10/01/03	7,856,018	8,504,828	648,810	92.37%	1,464,901	44.29%

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

Year Ended 9/30	Annual Required Contribution	City Contribution	State Contribution	Percentage Contribution
2008	\$380,537	\$270,796	\$109,741	100.00%
2007	430,249	320,649	109,600	100.00%
2006	381,939	270,637	111,302	100.00%
2005	358,590	252,658	105,932	100.00%
2004	277,944	174,138	103,806	100.00%
2003	226,158	133,762	92,396	100.00%

LAKE WALES POLICE OFFICERS' PENSION TRUST FUND

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

UNAUDITED

September 30, 2008

A— DESCRIPTION

Five year historical trend information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. This information is presented to enable the reader to assess the progress made by the Plan in accumulating sufficient assets to pay pension benefits as they become due.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the benefit obligation as a factor. The September 30, 2008 actuarial valuation reflects an unfavorable actuarial experience when compared with expectations. The primary components of unfavorable experience included a 4.1% investment return (Actuarial Asset basis) that was less than the 8.0% assumption and average salary increases that were higher than the assumed rate.

The Schedule of Funding Progress and Schedule of Employer Contributions are reported as historical trend information. The Schedule of Funding Progress is presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedule of Employer Contributions is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the Plan on a sound financial basis.

B—SUMMARY OF ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Actuarial valuation date	10/01/06
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	30 years
Asset valuation period	4-Year Smoothing
Actuarial assumptions:	
Investment rate return	8.0%
Projected salary increases	6.0%
Includes inflation at	3.0%
Post retirement cost-of-living adjustments	0.0%



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

Certified Public Accountants and Consultants

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

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

We have audited the financial statements of the Lake Wales Police Officers' Pension Trust Fund as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated March 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lake Wales Police Officers' Pension Trust Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lake Wales Police Officers' Pension Trust Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lake Wales Police Officers' Pension Trust Fund's internal control over financial reporting.

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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

08-1 Review of Reconciliations and Journal Entries

Finding:

Our audit procedures over the investments found that account reconciliations were not performed adequately, resulting in material audit adjustments recorded to the beginning trial balance. There was also a lack of evidence of any review over the process by management.

08-1 Review of Reconciliations and Journal Entries - concluded

The following misstatements were corrected by audit journal entries:

- Investment gain/losses were incorrectly recorded throughout the year.
- D.R.O.P. account reconciliation was not performed throughout the year resulting in incorrect account balance at year end.
- Prepaid contributions from City where not recorded. This resulted in a material overstatement of Plan revenues.

Recommendation:

We recommend that a reconciliation of account balances is performed on a regular basis and that evidence exists to document and support supervisory review. A process should be in place to ensure that the Plan assets are properly accounted for; management should be actively involved in overseeing the process of accounting for Plan assets throughout the year. The reconciliation process should not be a "year-end" procedure only.

Management response:

To ensure future compliance, pension training will be provided/obtained for employees involved with pension review/journal entries. Also, a more documented monthly procedure will be implemented for internal control checks and balances relating to journal entries.

08-2 Reconciliation of account balances and year-end financial close

Finding:

There wasn't a clear understanding of who was assigned to review the plan statements to ensure that plan assets were properly accounted for. Management has not taken an active role in ensuring that the Plan was properly accounted for.

Recommendation:

The Director of Finance should review and approve the monthly internal financial statements. This review should consist of inspecting the general ledger detail trial balance (which details all transactions posted thereto), significant journal entries and the reconciliations of subsidiary ledgers or schedules to significant account balances. As part of this review, all entries which are unusual as to amount, posting reference or timing should be investigated. Financial statement balances should be analytically reviewed for unusual relationships between critical items, inconsistency with trends developed over the Pension Trust Fund's operating history, balances which are out of line with expectations or any other unusual items which come to the reviewer's attention. All questions and expectations should be resolved promptly.

Management response:

To ensure future compliance, pension training will be provided/obtained for employees involved with pension review/journal entries. Also, a more documented monthly procedure will be implemented for internal control checks and balances relating to journal entries.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Wales Police Officers' Pension Trust Fund'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*.

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

The NCT Group CPA's LLP

The NCT Group CPA's, L.L.P.
Winter Haven, Florida
March 31, 2009



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

Certified Public Accountants and Consultants

MANAGEMENT LETTER

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

We have audited the financial statements of the Lake Wales Police Officers' Pension Trust Fund, as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated March 31, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting. Disclosures in that report, which is dated March 31, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. As of September 30, 2007, one corporate bond was downgraded below an A rating for both Standard and Poor's and Moody's ratings. The investment policy of the plan requires that fixed-income securities must at a minimum, be rated AAA, AA or A by Standard and Poor's or hold a Moody's rating of Aaa, Aa, or A. The security was sold subsequent to September 30, 2007. This finding was not noted in 2008.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we had the following recommendations:

08-1 Review of Reconciliations and Journal Entries

Finding:

Our audit procedures over the investments found that account reconciliations were not performed adequately, resulting in material audit adjustments recorded to the beginning trial balance. There was also a lack of evidence of any review over the process by management.

The following misstatements were corrected by audit journal entries:

- Investment gain/losses were incorrectly recorded throughout the year.
- D.R.O.P. account reconciliation was not performed throughout the year resulting in incorrect account balance at year end.
- Prepaid contributions from City were not recorded. This resulted in a material overstatement of Plan revenues.

Recommendation:

We recommend that a reconciliation of account balances is performed on a regular basis and that evidence exists to document and support supervisory review. A process should be in place to ensure that the Plan assets are properly accounted for; management should be actively involved in overseeing the process of accounting for Plan assets throughout the year. The reconciliation process should not be a "year-end" procedure only.

Management response:

To ensure future compliance, pension training will be provided/obtained for employees involved with pension review/journal entries. Also, a more documented monthly procedure will be implemented for internal control checks and balances relating to journal entries.

08-2 Reconciliation of account balances and year-end financial close

Finding:

There wasn't a clear understanding of who was assigned to review the plan statements to ensure that plan assets were properly accounted for. Management has not taken an active role in ensuring that the Plan was properly accounted for.

Recommendation:

The Director of Finance should review and approve the monthly internal financial statements. This review should consist of inspecting the general ledger detail trial balance (which details all transactions posted thereto), significant journal entries and the reconciliations of subsidiary ledgers or schedules to significant account balances. As part of this review, all entries which are unusual as to amount, posting reference or timing should be investigated. Financial statement balances should be analytically reviewed for unusual relationships between critical items, inconsistency with trends developed over the Pension Trust Fund's operating history, balances which are out of line with expectations or any other unusual items which come to the reviewer's attention. All questions and expectations should be resolved promptly.

Management response:

To ensure future compliance, pension training will be provided/obtained for employees involved with pension review/journal entries. Also, a more documented monthly procedure will be implemented for internal control checks and balances relating to journal entries.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

Section 10.554(1)(i)6., Rules of the Auditor General, 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 this management letter, unless disclosed in the notes to the financial statements. The Lake Wales Police Officers' Pension Trust Fund included no component units.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Lake Wales Police Officers' Pension Trust Fund did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Lake Wales Police Officers' Pension Trust Fund for the fiscal year ended September 30, 2008, filed with the Florida Department of 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, 2008. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Lake Wales Police Officers' Pension Trust Fund'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.

Board of Trustees
Lake Wales Police Officers' Pension Trust Fund
Page Four

Our procedures noted the following other matters for further consideration:

At September 30, 2008, a corporate bond with Lehman Brothers Holding, Inc. had a Moody's rating of B3 and a Standard and Poor's rating of D. The investment policy of the plan requires that fixed-income securities must at a minimum, be rated AAA, AA or A by Standard and Poor's or hold a Moody's rating of Aaa, Aa. or A. Subsequent to September 30, 2008, Lehman Brothers Holding, Inc.'s rating was withdrawn. The Board of Trustees is aware of the downgraded bond and has instructed management to monitor the bond to determine when it would be economically feasible to dispose of to bring the investment portfolio into compliance in accordance with the Plan's investment policy.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

The NCT Group CPA's LLP

The NCT Group CPA's, L.L.P.
Winter Haven, Florida
March 31, 2009