

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

**CITY OF LAKE WALES
LAKE WALES, FLORIDA**

SEPTEMBER 30, 2007

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**CITY OF LAKE WALES
LAKE WALES, FLORIDA**

SEPTEMBER 30, 2007

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**FINANCIAL STATEMENTS
AND
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**CITY OF LAKE WALES
LAKE WALES, FLORIDA**

SEPTEMBER 30, 2007

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Commission
City of Lake Wales
Lake Wales, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake Wales, Florida (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2007, and the respective changes in financial position, and, where applicable, 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 30, 2008, on our consideration of the City'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.

Certified Public Accountants

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

Honorable Mayor and City Commission
City of Lake Wales
Lake Wales, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance for the year ended September 30, 2007, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.550, *Rules of the Auditor General*, and is also not a required part of the basic financial statements of the City. The combining fund statements and the schedule of expenditures of federal awards and state financial assistance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Purvis, Gray and Company, LLP

April 30, 2008
Sarasota, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007**

The City of Lake Wales' (the City) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position (its ability to address the next and subsequent year challenges), (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns.

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 City's financial statements and auditors' report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$32,324,648 (net assets). Of this amount, \$818,062 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and customers, to make payments to creditors, to pay for projects in our capital improvement plan, or to establish reserves for emergencies or catastrophic events.
- The City's total net assets increased by \$8,869,512 (or 37.8%). Governmental net assets increased by \$7,881,379 (or 64.2%) and the business-type net assets increased by \$988,133 (or 8.8%). During 2007 the City recorded additional infrastructure assets constructed or improved prior to September 30, 2002, in the amount of \$3,660,262 (net of depreciation).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,448,301, an increase of \$516,255 (or 13.1%). Of this total amount, \$666,547 (or 15.0%), is available for spending at the City's discretion (unreserved fund balance).
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reported a decrease in fund balance of \$472,345, compared to an increase of \$658,500 in the prior year. The increase of position in the prior year is attributed to insurance proceeds in the amount of \$770,222 received for disaster repair work completed in a previous year. During the current year the City experienced excess medical claims in the amount of \$867,355. The City terminated its self-insured health plan and implemented a fully insured health plan for fiscal year 2007-2008.

OVERVIEW OF FINANCIAL STATEMENTS

The City's basic financial statements provide information on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year-to-year or government-to-government) and enhance the City's accountability.

This management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The focus is on "activities," rather than "fund types." 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.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. 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. This statement combines and consolidates governmental fund current resources (short-term spendable resources) with capital assets and long-term obligations. (Note: Infrastructure assets (streets, sidewalks, etc.) were added in 2007). (See page 15).

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year, focusing on both the gross and net costs of various activities, governmental and business-type, that are supported by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy from various business-type activities. (See page 16).

Each of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, transportation (streets), physical environment, economic environment, human services, and culture and recreation. The business-type activity of the City consists of the Public Utilities System (water and sewer).

Component units are other governmental units over which the City (the City Commission, acting as a group) can exercise influence and/or may be obligated to provide financial subsidy. Discretely-presented component units (Lake Wales Airport Authority) are presented as a separate column in the government-wide statements. Blended component units (Lake Wales Community Redevelopment Agency and Lake Wales Library Board) are presented as part of the primary government activities.

The Lake Wales Airport Authority (Authority) was re-created as a dependent special district of the City, a legally separate governmental entity, by City Ordinance 2006-44 on September 29, 2005, pursuant to Section 189-.4041 Florida Statutes. The Authority has no taxing authority. The Authority is governed by a seven-member board. Appointments to the board must be approved by the City and the City retained approval rights over most of the major decisions of the Authority. The Authority has issued separate financial statements for the year ended September 30, 2007.

The City Commission approves the Lake Wales Library Board's budget, levies the ad valorem property tax for the library operations, and appoints the Library Board of Directors. Since the Library Board cannot transact business in its own name it is not considered to be a separate legal entity. Accordingly, the Library Board's operations are reported as part of the primary government (culture and recreation).

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)

Government-wide Financial Statements *(Continued)*

The Lake Wales Community Redevelopment Agency (CRA) is governed by Sections 2-71 through 2-74 of the Code of Ordinances. Section 2-73 of the Code of Ordinances states that the City Commission reserves to itself all powers delineated in Section 166.370, Florida Statutes. Although the CRA is a separate legal entity, it is subject to the primary government's will and as such it is treated as a blended component unit and included as part of the primary government for reporting purposes (economic environment).

The government-wide financial statements can be found on pages 15-16 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over the resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Traditional users of governmental financial statements will find the fund financial statement presentation more familiar.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term* inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's *near-term* financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's *near-term* financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances, for which the General Fund, Debt Service Fund, Community Redevelopment Fund and Historic Preservation Fund are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in this report, immediately following the Required Supplementary Information.

The City adopts an annual appropriated budget for its General Fund, as well as the other nine governmental funds. Budgetary comparison statements are required only for the general and major special revenue funds. A budgetary comparison statement has been provided for the General Fund, the Community Redevelopment Fund and the Historic Preservation Fund to demonstrate compliance with the budget, immediately following the Notes to the Financial Statements. (See pages 61-64).

**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)**

Fund Financial Statements

Governmental Funds – (Concluded)

The basic governmental fund financial statements can be found on pages 17-20 of this report.

Proprietary Funds - The City maintains only one of the two proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Public Utilities System (water and sewer). Internal service funds are an accounting device used to accumulate and allocate costs internally among a governments various functions. The City does not utilize internal service funds.

The proprietary fund statements provide the same type of information as the business-type activities in the government-wide financial statements, only in a different format.

The basic proprietary fund financial statements can be found on pages 21-24 of this report.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 25-26 of this report.

Notes to the financial statement - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They can be found on pages 27-60 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 61-68 of this report. The combining statements of non-major governmental funds and fiduciary funds are presented following the required supplementary information.

Infrastructure Assets

GASB Statement No. 34 (GASB 34) required governments to record certain infrastructure assets (roads, bridges, tunnels, sidewalks, parking lots, drainage systems and lighting systems) for the first time. To allow governments time to generate this information, GASB 34 provided a deferral period of up to four additional years before the assets were required to be recorded. The deferral period for the City ended in this fiscal year ending September 30, 2007. During 2007, the City recorded additional infrastructure assets constructed (or improved) prior to September 30, 2002, with an original cost of \$5,348,945 and accumulated depreciation of \$1,688,683 as of September 30, 2006. The net adjustment to beginning net assets – governmental activities of \$3,660,262 represents a change in accounting principles.

**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)**

Government-wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the current fiscal year, the City's assets exceeded liabilities by \$32,324,648. The overall financial position of the City was improved by \$8,869,512 from the prior year, an increase of approximately 37.8% from \$23.5 million in 2006 to \$32.3 million in 2007. The net assets of the business-type activities increased primarily as a result of operations. The net assets of the governmental type activities increase is attributable to recording of the infrastructure assets and capital grant funding. The following table reflects the condensed Statement of Net Assets for the current year with comparative information for fiscal year 2006 (see page 15):

Statement of Net Assets (Summary)						
As of September 30						
	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 6,788,716	\$ 5,952,904	\$ 1,914,629	\$ 2,358,950	\$ 8,703,345	\$ 8,311,854
Capital Assets, Net of						
Depreciation	27,027,970	21,091,317	22,274,945	20,563,336	49,302,915	41,654,653
Total Assets	<u>33,816,686</u>	<u>27,044,221</u>	<u>24,189,574</u>	<u>22,922,286</u>	<u>58,006,260</u>	<u>49,966,507</u>
Current and Other						
Liabilities	2,949,706	3,334,440	1,979,621	1,476,791	4,929,327	4,811,231
Long-term Debt						
Outstanding	10,710,392	11,434,572	10,041,893	10,265,568	20,752,285	21,700,140
Total Liabilities	<u>13,660,098</u>	<u>14,769,012</u>	<u>12,021,514</u>	<u>11,742,359</u>	<u>25,681,612</u>	<u>26,511,371</u>
Net Assets:						
Investment in Assets,						
Net of Related Debt	16,349,902	9,349,135	11,516,914	10,143,995	27,866,816	19,493,130
Restricted	3,319,481	2,160,716	320,289	402,875	3,639,770	2,563,591
Unrestricted	487,205	765,358	330,857	633,057	818,062	1,398,415
Total Net Assets:	<u>\$ 20,156,588</u>	<u>\$ 12,275,209</u>	<u>\$ 12,168,060</u>	<u>\$ 11,179,927</u>	<u>\$ 32,324,648</u>	<u>\$ 23,455,136</u>

Eighty-six percent (86%) of the City's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and vehicles and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Two and one-half percent (2.5%) of the City's net assets, \$818,062, may be used to meet the City's ongoing obligations to citizens and creditors. Eleven percent (11%) of the City's net assets represents resources that are subject to external restrictions on how they may be used.

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)

Statement of Activities

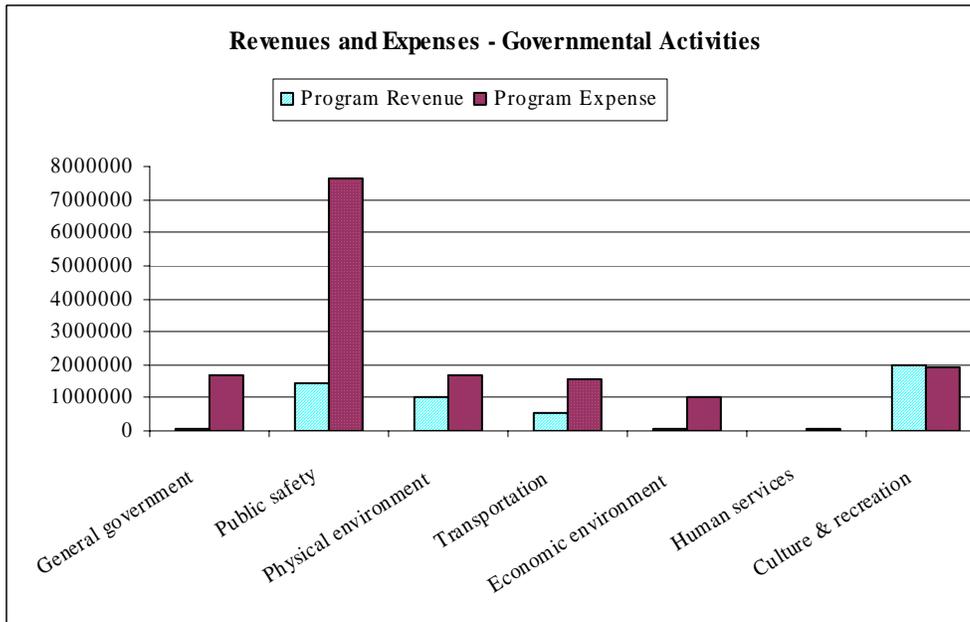
The following is a summary of the information presented in the Statement of Activities found on page 16 of this report, with comparative information for 2006:

Changes in Net Assets (Summary)						
As of September 30						
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,330,335	\$ 2,592,838	\$ 5,715,639	\$ 5,258,800	\$ 8,045,974	\$ 7,851,638
Operating Grants and Contributions	691,710	745,463	40,111	8,811	731,821	754,274
Capital Grants and Contributions	2,044,202	1,172,735	319,088	496,386	2,363,290	1,669,121
General Revenues:						
Property Taxes	6,999,147	5,473,219			6,999,147	5,473,219
Other Taxes	3,770,254	3,583,222			3,770,254	3,583,222
Other	1,921,533	3,615,176	164,029	466,459	2,085,562	4,081,635
Total Revenues	17,757,181	17,182,653	6,238,867	6,230,456	23,996,048	23,413,109
Expenses:						
General Government	1,664,465	2,254,202			1,664,465	2,254,202
Public Safety	7,616,565	7,348,265			7,616,565	7,348,265
Physical Environment	1,710,287	2,399,900			1,710,287	2,399,900
Transportation	1,561,291	270,039			1,561,291	270,039
Economic Environment	1,009,089	464,201			1,009,089	464,201
Human Services	35,333	24,402			35,333	24,402
Culture and Recreation	1,920,919	1,388,649			1,920,919	1,388,649
Interest on Long-term Debt	505,482	540,210			505,482	540,210
Public Utilities			4,954,705	4,546,209	4,954,705	4,546,209
Total Expenses	16,023,431	14,689,868	4,954,705	4,546,209	20,978,136	19,236,077
Increase (Decrease) in Net Assets						
Before Special Items and Transfers	1,733,750	2,492,785	1,284,162	1,684,247	3,017,912	4,177,032
<i>Special Items</i>	1,963,070	(3,177,154)			1,963,070	(3,177,154)
Transfers	296,029	565,961	(296,029)	(565,961)		
Change in Net Assets	3,992,849	(118,408)	988,133	1,118,286	4,980,982	999,878
Net Assets, October 1	12,275,209	12,393,617	11,179,927	10,061,641	23,455,136	22,455,258
Adjustment	3,888,530				3,888,530	
Net Assets, September 30	\$ 20,156,588	\$ 12,275,209	\$ 12,168,060	\$ 11,179,927	\$ 32,324,648	\$ 23,455,136

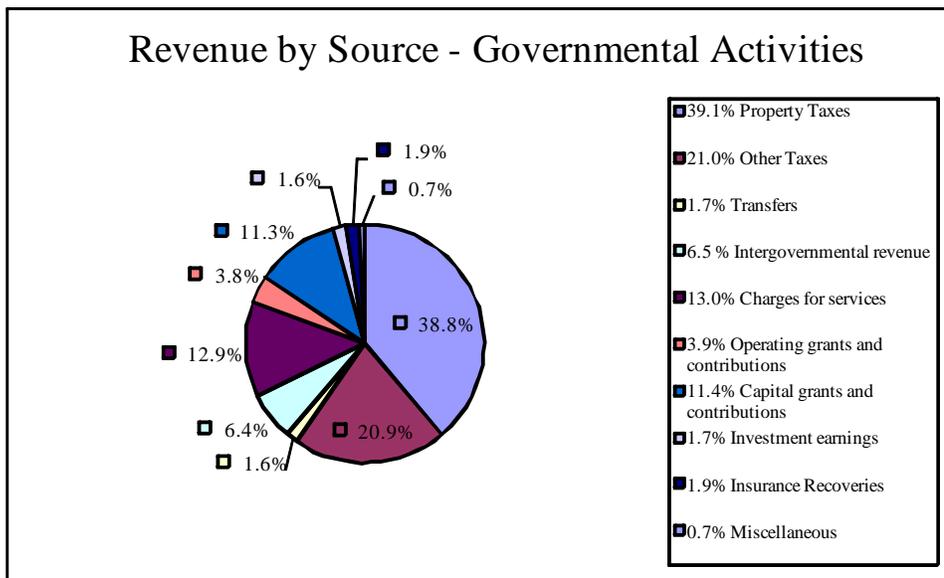
**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)**

Governmental Activities

Governmental activities increased the City's net assets by \$8,869,512. About 71 percent of the City's governmental operations are funded by General Revenue sources that are not attributable to any one particular activity. The City is dependent upon property taxes and taxes on utilities, both through franchise and through direct taxation of those utilities. As you can see from the chart below which compares expenses with program revenues for the City's governmental activities, most of the funding for governmental activities is not from program revenues:



The following graph shows the composition of revenues for the City's governmental activities:

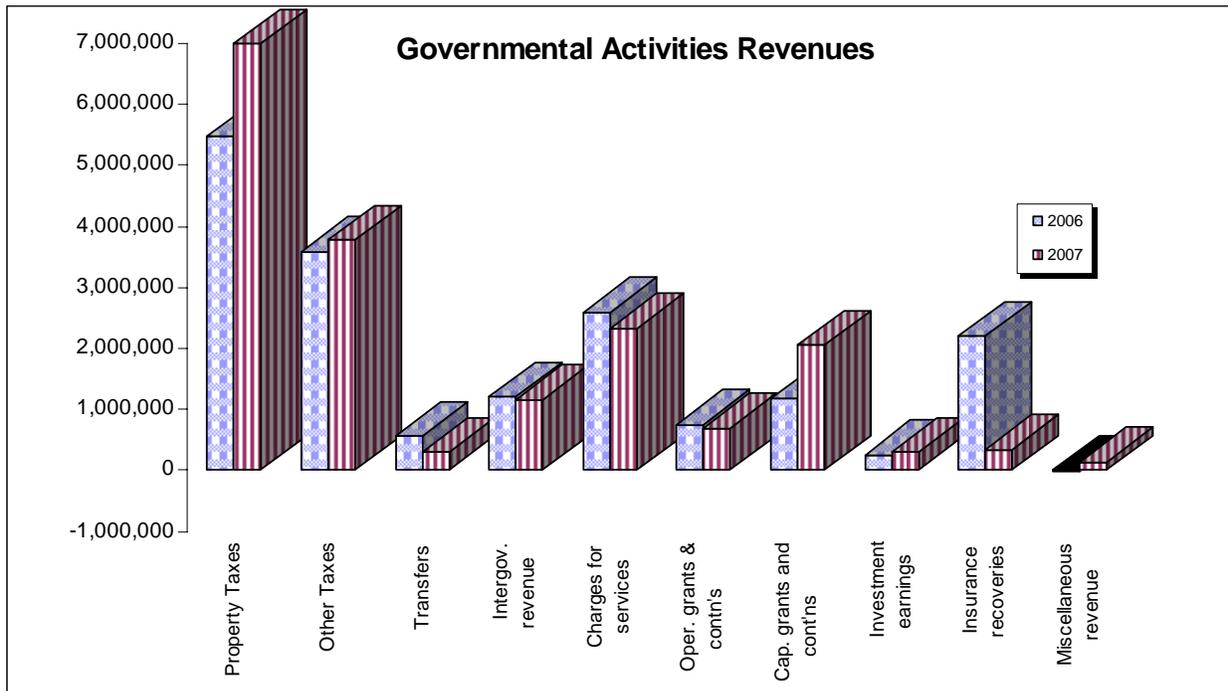


**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)**

Governmental Activities Revenues

The revenue source that grew the largest over the prior year was property taxes by \$1,525,928 (27.9%) over 2006 due to new construction and increased property values. Charges for services decreased \$262,503 (10.1%) because of a decline in building permits and impact fees. The millage rate was 8.44 mills for 2007 and 8.94 for 2006.

The chart below compares revenues by source for fiscal years 2006 and 2007:

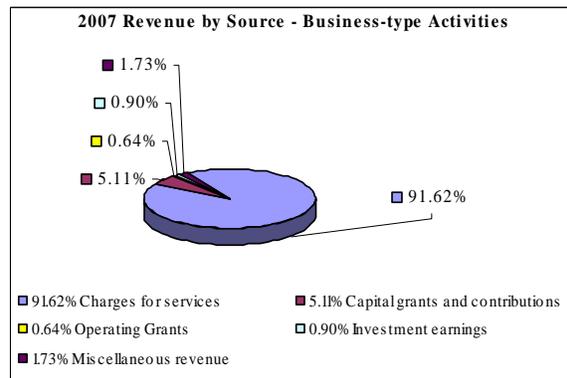
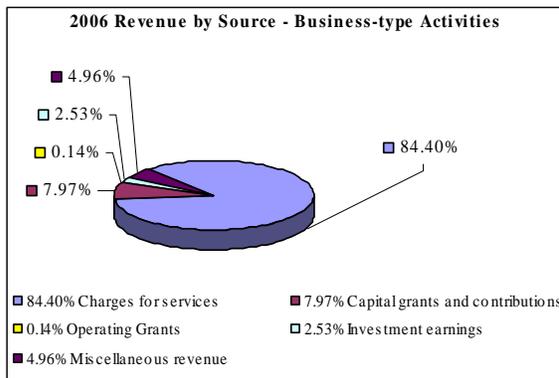
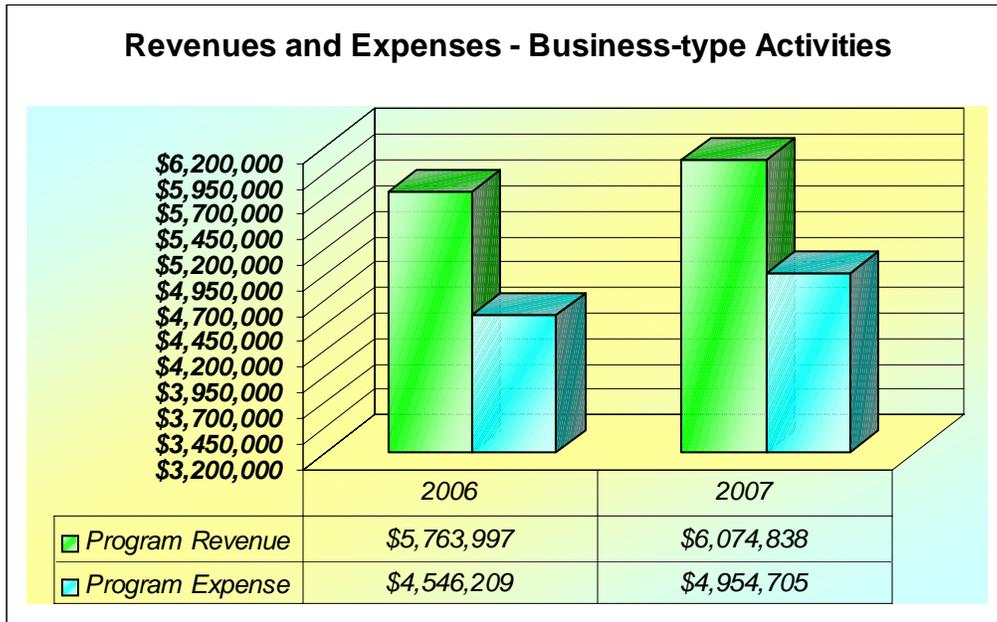


Business-type Activities

Business-type activities increased the City's net assets by \$988,133 (after transfers). The following chart compares expenses with program revenues for the City's business-type activities for fiscal years 2006 and 2007:

**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)**

Business-type Activities (Concluded)



Business-type Activities Key Factors

- Program revenues exceeded expenses by \$1,120,133 compared to \$1,217,788 in prior year.
- Program revenues increased by \$310,841. Revenue was up due to a 2.5% rate increase.
- Program expenses increased by \$408,496. Personal services costs were up \$130,114 (9.7%) mainly due to increased health care costs. Contractual services were up \$277,324 (54.8%) due to increased sludge hauling and treatment costs.

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2007, the City's governmental funds reported combined ending fund balances of \$4,448,301 an increase of \$516,255 in comparison with the prior year. Approximately 15 percent of this total amount, \$666,547, constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance, \$3,781,754, is reserved to indicate that it is not available for new spending because it has already been committed to debt service, inventory, prepaids, and redevelopment.

The General Fund is the chief operating fund of the City. At September 30, 2007, the unreserved fund balance of the General Fund was \$575,237 while the total fund balance was \$876,741. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 4.9% of total General Fund expenditures, while total fund balance represents 7.5% of that same amount.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Public Utilities Enterprise Fund at September 30, 2007, amounted to \$330,857.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was an increase in net appropriations of \$499,697. This amount is attributed to excess health insurance claims. Excess claims totaled \$867,354. Other budgets were reduced to cover the excess health claims.

Budget amendments were adopted using available fund balance or revenues in excess of the original budget projections. During the year revenues were \$105,939 above budgetary estimates, expenditures were \$35,644 less than budgetary estimates. Revenues from electric franchise fees and utility service taxes were \$121,114 above estimated budgeted revenues.

Capital Asset and Debt Administration

Capital Assets - The City's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$49,302,915 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, vehicles and equipment.

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Continued)

City of Lake Wales' Capital Assets

(net of depreciation)

as of September 30, 2007

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
	Land	\$ 4,988,440	\$ 3,766,138	\$ 586,560	\$ 589,760	\$ 5,575,000
Buildings	7,214,511	7,016,686	310,116	324,909	7,524,627	7,341,595
Improvements other than buildings	9,565,434	6,626,491	17,009,589	15,464,800	26,575,023	22,091,291
Vehicles and equipment	2,514,006	2,230,899	1,626,894	1,374,967	4,140,900	3,605,866
Construction in progress	2,745,579	1,451,103	2,741,786	2,808,900	5,487,365	4,260,003
Total	\$ 27,027,970	\$ 21,091,317	\$ 22,274,945	\$ 20,563,336	\$ 49,302,915	\$ 41,654,653

In compliance with GASB 34 requirements, the City recorded additional infrastructure assets valued at \$3,660,262, net of depreciation (see note 1 G, page 34).

Additional information on the City's capital assets is presented in note 5 to the financial statements (see pages 41-43).

Long-term Debt - At year-end, the City had total long-term debt outstanding of \$22,613,520. Total debt decreased by \$836,940 (3.6%) during the current fiscal year, due to scheduled principal payments of debt service; increased for new debt of \$825,196 for waste water treatment plant expansion design; and a net increase in employees' accrued compensated absences \$7,987. Beginning balance in long-term debt governmental activities has been restated by \$103,500 (increase), representing an obligation to the Fixed Based Operator (FBO) that had not been previously recorded (see note 6, Page 44).

City of Lake Wales' Long-term Debt
As of September 30, 2007

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue Bonds and Notes Outstanding, Net of Discounts	\$ 10,666,193	\$ 11,823,988	\$ 10,842,155	\$ 10,511,287	\$ 21,508,348	\$ 22,335,275
FBO Prepayment Credit	85,500	103,500	0	0	85,500	103,500
Compensated Absences	922,065	924,933	97,607	86,752	1,019,672	1,011,685
Long-term Debt TOTAL	\$ 11,673,758	\$ 12,852,421	\$ 10,939,762	\$ 10,598,039	\$ 22,613,520	\$ 23,450,460

Additional information on the City's long-term debt is presented in note 6 to the financial statements (pages 44-51).

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(Concluded)

Next Year's Budgets and Rates

Fiscal year 2008's adopted budget is based on a millage rate of 7.3521 per \$1000 of taxable valuation. This is 7.0% below the rolled-back rate of 7.9055 mills and a reduction of 1.0879 mills (-12.89%) from the rate of 8.44 mills assessed during fiscal year 2006-2007. This is in compliance with the state-mandated rate of rollback minus 7.0%. Overall the City's ad valorem proceeds are projected to be \$206,390 more in 2007-2008 than in the current year.

Other Factors Affecting the City

Florida has many limiting measures on residential property taxes that affect the City. The first \$25,000 of assessed value is exempt from taxation on homestead property. Additionally, homeowners over age 65 with incomes less than \$24,214 are exempt from the next \$25,000 of assessed value. Florida's Constitution was amended with the Save Our Homes amendment. Currently, homestead property is limited to a maximum 3 percent increase in assessed value per year, or less if inflation is less. The City of Lake Wales is residential in character and prospects for new subdivisions in the next few years have decreased. In January 2008, Amendment One was passed by Florida voters. In fiscal year 2008-2009 homestead property owners will receive up to an additional \$25,000 exemption on the third \$25,000 taxable value of their home. In addition, a \$25,000 exemption was approved for tangible personal property. In the past if a homeowner sold their property, the Save Our Homes tax break was terminated. The new legislation will allow the homeowner to port a portion of the Save Our Homes tax break to the new home.

The CRA has funding potential for fiscal year 2007 of over \$2.59 million a 12 percent increase over fiscal year 2007.

On September 29, 2006, the City Commission adopted Ordinance 2006-44, creating a dependent special district in accordance with Florida Statute 189.4041, known as the Lake Wales Airport Authority. The new dependent special district has obtained \$3 million in funding to begin a runway extension project. Additional information on the Lake Wales Airport Authority is presented in note 14 to the financial statements (page 59).

The City is located within Polk County, in Central Florida. The area has seen substantial growth in the last few years. The City is a desirable location (at the intersection of Highway 60 and Highway 27) for both residences and businesses. The leading indicators of growth, such as annexation requests, platting of parcels of lands, site plans, requested land use and zoning changes, have all been very strong in the past. The residential demand has followed the downward trend of the real estate market. The City is receiving interest in the western sector for industrial and warehousing development attributable to CSX's plans for a major distribution center adjacent to the area.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Lake Wales' finances and to demonstrate the City's accountability for the money it received. 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.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Airport Authority
Assets				
Cash and Cash Equivalents	\$ 2,690,651	\$ 352,615	\$ 3,043,266	\$ 636,172
Receivables (Net of Allowance for Uncollectibles)	2,094,231	682,118	2,776,349	1,515,213
Inventory and Prepays	314,094	172,632	486,726	0
Net Pension Assets	330,523	0	330,523	0
Restricted Assets:				
Cash and Cash Equivalents	953,643	623,140	1,576,783	0
Cash with Paying Agent	331,949	0	331,949	0
Capital Assets:				
Nondepreciable	7,734,019	3,328,346	11,062,365	3,271,484
Depreciable, Net	19,293,951	18,946,599	38,240,550	588,503
Unamortized Bond Issue Costs	73,625	84,124	157,749	0
Total Assets	33,816,686	24,189,574	58,006,260	6,011,372
Liabilities				
Accounts Payable	889,081	489,596	1,378,677	607,261
Other Accrued Expense	490,303	17,212	507,515	4,750
Accrued Interest	215,194	37,163	252,357	0
Customer Deposits	108,258	486,386	594,644	0
Deferred Revenue	283,504	51,395	334,899	0
Noncurrent Liabilities:				
Due Within One Year	963,366	897,869	1,861,235	0
Due in More Than One Year	10,710,392	10,041,893	20,752,285	0
Total Liabilities	13,660,098	12,021,514	25,681,612	612,011
Net Assets				
Invested in Capital Assets, Net of Related Debt	16,349,902	11,516,914	27,866,816	3,859,987
Restricted for:				
Redevelopment	1,599,678	0	1,599,678	0
Debt Service	753,608	0	753,608	0
Other Purposes	966,195	320,289	1,286,484	0
Unrestricted	487,205	330,857	818,062	1,539,374
Total Net Assets	\$ 20,156,588	\$ 12,168,060	\$ 32,324,648	\$ 5,399,361

See accompanying notes.

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA

	Program Revenues					Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Indirect Expenses	Charges For Services	Operating	Capital	Primary Governments			Component Unit
				Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Airport Authority
Primary Government									
Governmental Activities:									
General Government	\$ 1,666,102	\$ (1,637)	\$ 31,095	\$ 0	\$ 0	\$ (1,633,370)	\$ 0	\$ (1,633,370)	\$ 0
Public Safety	7,616,565	0	1,116,037	193,398	152,602	(6,154,528)	0	(6,154,528)	0
Physical Environment	1,710,287	0	996,493	0	0	(713,794)	0	(713,794)	0
Transportation	1,561,291	0	96,331	111,930	330,951	(1,022,079)	0	(1,022,079)	0
Economic Environment	1,007,452	1,637	0	0	39,702	(969,387)	0	(969,387)	0
Human Services	35,333	0	0	0	0	(35,333)	0	(35,333)	0
Culture and Recreation	1,920,919	0	90,379	386,382	1,520,947	76,789	0	76,789	0
Interest on Long-term Debt	505,482	0	0	0	0	(505,482)	0	(505,482)	0
Total Governmental Activities	16,023,431	0	2,330,335	691,710	2,044,202	(10,957,184)	0	(10,957,184)	0
Business-type Activities:									
Water and Sewer Utility	4,954,705	0	5,715,639	40,111	319,088	0	1,120,133	1,120,133	0
Total Primary Government	20,978,136	0	8,045,974	731,821	2,363,290	(10,957,184)	1,120,133	(9,837,051)	0
Component Unit									
Airport Authority	\$ 183,888	\$ 0	\$ 16,917	\$ 0	\$ 1,904,191	0	0	0	1,737,220
General Revenues									
Taxes:									
Property Taxes						6,999,147	0	6,999,147	0
Franchise Taxes						1,206,210	0	1,206,210	0
Public Service Taxes						1,347,754	0	1,347,754	0
Communication Service Taxes						502,239	0	502,239	0
Gas Taxes						714,051	0	714,051	0
Intergovernmental Revenue						1,156,315	0	1,156,315	0
Investment Earnings						296,486	56,321	352,807	97,935
Insurance Recoveries						335,412	0	335,412	0
Gain/(Loss) on Disposal of Fixed Assets						(93,173)	0	(93,173)	0
Miscellaneous Revenues						226,493	107,708	334,201	0
Transfers						296,029	(296,029)	0	0
Special Items - See Note 16						1,963,070	0	1,963,070	0
Total General Revenues, Transfers, and Special Items						14,950,033	(132,000)	14,818,033	97,935
Change in Net Assets						3,992,849	988,133	4,980,982	1,835,155
Net Assets, Beginning of Year						12,275,209	11,179,927	23,455,136	3,564,206
Adjustment						3,888,530	0	3,888,530	0
Net Assets, End of Year						\$ 20,156,588	\$ 12,168,060	\$ 32,324,648	\$ 5,399,361

See accompanying notes.

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	General	Debt Service Fund	Community Redevelopment	Historic Preservation	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and Cash Equivalents	\$ 1,063,256	\$ 636,853	\$ 493,202	\$ 0	\$ 497,340	\$ 2,690,651
Cash with Paying Agent	0	331,949	0	0	0	331,949
Other Restricted Cash	0	0	300,000	0	653,643	953,643
Receivables, Net	420,506	0	656	0	0	421,162
Interfund Receivables	60,773	0	909,497	862,112	0	1,832,382
Due from Other Governments	312,373	0	1,803	0	509,342	823,518
Inventory and Prepaids	301,504	0	0	0	12,590	314,094
Total Assets	2,158,412	968,802	1,705,158	862,112	1,672,915	7,367,399
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	466,121	0	2,462	134,927	163,397	766,907
Other Accrued Expenses	484,479	0	3,018	0	2,806	490,303
Interfund Payables	12,641	0	0	818,291	151,898	982,830
Due to Other Governments	122,175	0	0	0	0	122,175
Customer Deposits	8,258	0	100,000	0	0	108,258
Deferred Revenue and Credits	187,997	0	0	4,979	255,649	448,625
Total Liabilities	1,281,671	0	105,480	958,197	573,750	2,919,098
Fund Balances						
Reserved for Inventory and Prepaids	301,504	0	0	0	0	301,504
Reserved for Debt Service	0	968,802	0	0	0	968,802
Reserved for Redevelopment	0	0	1,599,678	0	0	1,599,678
Reserved for Other Purposes	0	0	0	0	911,770	911,770
Unreserved, Reported in:						
General Fund	575,237	0	0	0	0	575,237
Capital Projects Fund	0	0	0	0	187,395	187,395
Special Revenue Funds	0	0	0	(96,085)	0	(96,085)
Total Fund Balances	876,741	968,802	1,599,678	(96,085)	1,099,165	4,448,301
Total Liabilities and Fund Balances	\$ 2,158,412	\$ 968,802	\$ 1,705,158	\$ 862,112	\$ 1,672,915	\$ 7,367,399

See accompanying notes.

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA
(Concluded)**

Reconciliation of the Balance Sheet to the Statement of Net Assets

Fund Balances - Total Governmental Funds	\$	4,448,301
 Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		27,027,970
Interest payable on long-term debt does not require current financial resources and, therefore, interest payable is not reported as a liability in the governmental funds balance sheet.		(215,194)
Revenues that are not received by year-end, or within the "availability" period are deferred in the governmental funds balance sheets, but recognized in the statement of activities.		165,121
Long-term liabilities (including certain accounts payable and compensated absences) are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheets.		(11,673,758)
Net pension assets resulting from the overfunding of general, police, and fire pension plans is not reported in the funds.		330,523
Unamortized debt issuance costs are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		<u>73,625</u>
Net Assets of Governmental Activities	\$	<u><u>20,156,588</u></u>

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	<u>General</u>	<u>Debt Service Fund</u>	<u>Community Redevelopment</u>	<u>Historic Preservation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 6,690,556	\$ 546,042	\$ 2,318,083	\$ 0	\$ 1,195,825	\$ 10,750,506
Licenses and Permits	437,690	0	0	0	0	437,690
Intergovernmental	1,167,636	174,379	0	879,812	1,406,420	3,628,247
Charges for Services	1,641,443	0	682	0	96,331	1,738,456
Fines and Forfeitures	136,911	0	0	0	76,068	212,979
Interest and Miscellaneous	163,402	78,166	133,084	138,302	355,904	868,858
Total Revenues	<u>10,237,638</u>	<u>798,587</u>	<u>2,451,849</u>	<u>1,018,114</u>	<u>3,130,548</u>	<u>17,636,736</u>
Expenditures						
Current:						
General Government	1,959,458	0	0	0	0	1,959,458
Public Safety	7,240,438	0	152,138	0	148,131	7,540,707
Physical Environment	1,492,989	0	0	0	244,519	1,737,508
Transportation	0	0	0	0	1,562,517	1,562,517
Economic Environment	11,000	0	2,828,298	0	0	2,839,298
Human Services	20,700	0	0	0	0	20,700
Culture and Recreation	900,354	0	0	1,296,549	876,707	3,073,610
Debt Service:						
Principal	0	1,209,274	0	0	0	1,209,274
Interest and Fiscal Charges	0	479,511	0	0	0	479,511
Capital Outlay	0	0	0	0	829,339	829,339
(Total Expenditures)	<u>(11,624,939)</u>	<u>(1,688,785)</u>	<u>(2,980,436)</u>	<u>(1,296,549)</u>	<u>(3,661,213)</u>	<u>(21,251,922)</u>
(Deficiency) of Revenues						
(Under) Expenditures	<u>(1,387,301)</u>	<u>(890,198)</u>	<u>(528,587)</u>	<u>(278,435)</u>	<u>(530,665)</u>	<u>(3,615,186)</u>
Other Financing Sources (Uses)						
Insurance Recoveries	335,412	0	0	0	0	335,412
Transfers in	828,000	793,565	0	0	706,421	2,327,986
Transfers (out)	(248,456)	0	(1,569,226)	0	(214,275)	(2,031,957)
Total Other Financing Sources (Uses)	<u>914,956</u>	<u>793,565</u>	<u>(1,569,226)</u>	<u>0</u>	<u>492,146</u>	<u>631,441</u>
Special Item						
Proceeds from Sale of Land	0	0	3,500,000	0	0	3,500,000
Net Change in Fund Balance	<u>(472,345)</u>	<u>(96,633)</u>	<u>1,402,187</u>	<u>(278,435)</u>	<u>(38,519)</u>	<u>516,255</u>
Fund Balances, Beginning of Year	<u>1,349,086</u>	<u>1,065,435</u>	<u>197,491</u>	<u>182,350</u>	<u>1,137,684</u>	<u>3,932,046</u>
Fund Balances, End of Year	<u>\$ 876,741</u>	<u>\$ 968,802</u>	<u>\$ 1,599,678</u>	<u>\$ (96,085)</u>	<u>\$ 1,099,165</u>	<u>\$ 4,448,301</u>

See accompanying notes.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

Net Change in Fund Balances - Total Governmental Funds \$ 516,255

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital Expenditures	\$ 5,407,614	
Depreciation	<u>(1,497,394)</u>	3,910,220

Governmental funds report proceeds from the sale of capital assets. However, the statement of activities reports the gain (loss) on sale/disposal of capital assets as the proceeds less the basis of the assets sold. Thus the change in the net assets differs from the change in fund balance by the basis of the assets sold/disposed.

Cost	(2,314,365)	
Accumulated Depreciation	<u>680,536</u>	(1,633,829)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but are instead deferred. This item represents the change caused by the "available" revenue recognition criteria.

15,277

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes resources of the governmental funds. Neither transaction, however, has any effect on net assets.

Principal Paid		1,209,274
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Decrease in Compensated Absences Liability	2,868	
Amortization of Debt Issue Costs	(8,181)	
Amortization of Refunding Losses	(33,479)	
Increase in Net Pension Assets	(1,245)	
Decrease in Interest Accrued on Bonds	<u>15,689</u>	<u>(24,348)</u>

Change in Net Assets of Governmental Activities

\$ 3,992,849

See accompanying notes.

**STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2007
 CITY OF LAKE WALES, FLORIDA**

	Utilities Fund
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 352,615
Receivables (Net of Allowance for Uncollectibles)	682,118
Inventories	172,632
Restricted Assets:	
Cash and Cash Equivalents	623,140
Total Current Assets	1,830,505
Noncurrent Assets	
Capital Assets:	
Nondepreciable	3,328,346
Depreciable, Net	18,946,599
Unamortized Bond Issue Costs	84,124
Total Noncurrent Assets	22,359,069
Total Assets	24,189,574
Liabilities	
Current Liabilities	
Accounts Payable	489,596
Other Accrued Expense	17,212
Deferred Revenues	51,395
Accrued Interest	37,163
Customer Deposits	486,386
Accrued Compensated Absences	9,761
Current Portion of Long-term Debt	888,108
Total Current Liabilities	1,979,621
Noncurrent Liabilities	
Notes Payable - Noncurrent	9,954,047
Accrued Compensated Absences	87,846
Total Noncurrent Liabilities	10,041,893
Total Liabilities	12,021,514
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,516,914
Restricted for Capital Projects	320,289
Unrestricted	330,857
Total Net Assets	\$ 12,168,060

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	Utilities Fund
Operating Revenues	
Charges for Services	\$ 5,715,639
Other Income	107,708
Total Operating Revenues	5,823,347
Operating Expenses	
Personal Services	1,468,788
Contractual Services	698,608
Repairs and Maintenance	599,890
Materials and Supplies	177,429
General and Administrative	900,858
Depreciation	638,617
(Total Operating Expenses)	(4,484,190)
Operating Income	1,339,157
Nonoperating Revenues (Expenses)	
Operating Grants	40,111
Interest Income	56,321
Interest Expense	(462,692)
Amortization of Bond Issue Costs	(7,823)
Total Nonoperating (Expenses)	(374,083)
Income Before Contributions and Transfers	965,074
Capital Contributions - Impact Fees	319,088
Operating Transfers in	569,076
Operating Transfers (out)	(865,105)
Change in Net Assets	988,133
Total Net Assets, Beginning of Year	11,179,927
Total Net Assets, End of Year	\$ 12,168,060

See accompanying notes.

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2007
 CITY OF LAKE WALES, FLORIDA**

	<u>Public Utilities Fund</u>
Cash Flows from Operating Activities	
Receipts from Customers	\$ 6,032,435
Payments to Suppliers	(2,516,311)
Payments to Employees	(1,457,933)
Net Cash Provided by Operating Activities	<u>2,058,191</u>
Cash Flows from Noncapital Financing Activities	
Transfers to Other Funds (Net)	(296,029)
Operating Grants	180,050
Net Cash (Used in) Noncapital Financing Activities	<u>(115,979)</u>
Cash Flows from Capital and Related Financing Activities	
Debt Proceeds	815,480
Proceeds on Sale of Capital Assets	3,200
Principal Payments on Long-term Debt	(537,888)
Interest Paid	(473,969)
Acquisition and Construction of Capital Assets	(2,353,426)
Fiscal Charges	(35)
Impact Fees	319,088
Net Cash (Used in) Capital and Related Financing Activities	<u>(2,227,550)</u>
Cash Flows from Investing Activities	
Interest Income	60,854
Investment Matured	243,367
Net Cash Provided by Investing Activities	<u>304,221</u>
Net Increase in Cash and Cash Equivalents	18,883
Cash and Cash Equivalents, Beginning of Year	<u>956,872</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 975,755</u></u>
 Recorded on the Statement of Net Assets Under the Following Captions	
Current Assets	
Cash and Cash Equivalents	\$ 352,615
Restricted Assets:	
Cash and Cash Equivalents	623,140
Cash and Cash Equivalents, End of Year	<u><u>\$ 975,755</u></u>

See accompanying notes.

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2007
 CITY OF LAKE WALES, FLORIDA
 (Concluded)**

	<u>Public Utilities Fund</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities</u>	
Operating Income	\$ 1,339,157
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	638,617
Change in Current Assets - Decrease (Increase):	
Accounts Receivable	135,892
Inventory and Prepaids	(68,349)
Change in Current Liabilities - Increase (Decrease):	
Accounts Payable	(69,803)
Other Accrued Expenses	(1,374)
Deferred Revenues	51,395
Customer Deposits	21,801
Accrued Compensated Absences	10,855
Net Cash Provided by Operating Activities	<u><u>\$ 2,058,191</u></u>
 Schedule of Noncash Transactions	
Amortization of Bond Issue Costs	<u><u>\$ 7,823</u></u>
Amortization of Refunding Losses	<u><u>\$ 43,560</u></u>

See accompanying notes.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA

	<u>Pension Trust Funds</u>
Assets	
Cash	\$ 210,780
Investments:	
Money Market Funds	2,662,177
Corporate Bonds and Government Obligations	6,073,985
Equity Funds	16,641,181
Receivables:	
Interest and Dividends	59,043
Interfund	12,641
Due from Other Governments	38,421
Total Assets	<u>25,698,228</u>
 Liabilities	
Current Liabilities:	
Due to DROP Participants	732,826
Interfund Payables	81
Deferred Contributions from City	118,377
Total Liabilities	<u>851,284</u>
 Net Assets	
Held in Trust for Pension Benefits	<u><u>\$ 24,846,944</u></u>

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	Pension Trust Funds
Additions	
Contributions:	
Employer	\$ 732,839
Employee	309,528
State of Florida	217,627
Employee Buy-back	284,070
Total Contributions	1,544,064
 Net Investment Earnings:	
Realized and Unrealized Increase in Fair Value of Investment	2,575,787
Interest and Dividend Income	724,647
Total Investment Earnings	3,300,434
(Less Investment Expense)	(176,021)
Net Investment Earnings	3,124,413
Total Additions	4,668,477
 Deductions	
Benefits	1,151,889
Refunds of Contributions	207,519
Administrative Expenses	135,950
Total Deductions	1,495,358
 Change in Net Assets	3,173,119
 Net Assets, Beginning of Year	21,673,825
 Net Assets, End of Year	\$ 24,846,944

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA**

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The City of Lake Wales, Florida (the City) is a political subdivision of the State of Florida founded under the Laws of Florida 7664 in 1917, which act was superseded by Chapter 29224, Special Acts 1953, and incorporated under the authority of Chapter 165, Florida Statutes. The legislative branch of the City is composed of a five-member elected commission. The City Commission is governed by the City Charter and by state and local laws and regulations. The City Commission is responsible for the establishment and adoption of policy. The execution of such policy is the responsibility of the Commission-appointed City Manager.

The City's major operations include enterprise operations - water and wastewater, as well as police and fire protection, road and street maintenance, parks, recreation, solid waste collection and disposal, airport, cemetery, library, and other general government services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental units. 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:

As outlined in GASB Statement No. 14, *The Reporting Entity*, the financial reporting entity consists of the primary government, organizations for which the primary government are financially accountable and other organizations whose exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Each potential component unit is individually evaluated using specific criteria outlined in GASB Statement No. 14 to determine whether the entity is: a) part of the primary government; b) a component unit which should be included in the reporting entity (blended or discretely presented); or c) an organization which should be excluded from the reporting entity entirely. The principal criteria for classifying a potential component unit include: a) the legal separateness of the organization; and b) the financial accountability to the primary government resulting from either the primary government's ability to impose its will on the potential component unit or the potential component unit's fiscal dependency on the primary government.

■ **Discretely-Presented Component Unit**

Based upon the application of these criteria, the following entity was determined to be a discretely-presented component unit:

- The Lake Wales Airport Authority (the Authority) was re-created by Ordinance 2005-44 (the Ordinance) of 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 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.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

■ **Discretely-Presented Component Unit (Concluded)**

The Authority is governed by a board of seven members known as the Lake Wales Airport Authority Board (the Board). Appointments to the Board must be approved by the City, and the City retained approval rights over most of the major decisions of the Authority. In addition, the City Manager and City Finance Director serve as the Airport Manager and Airport Finance Director, respectively.

The Authority has issued separate financial statements for the year ended September 30, 2007, which can be obtained by contacting the City Finance Director, P.O. Box 1320, Lake Wales, Florida, 33853.

■ **Blended Component Units**

The following component units were determined to be “blended” component units of the primary government for financial reporting:

- **Lake Wales Community Redevelopment Agency (CRA)** - The CRA was created pursuant to Chapter 163, Florida Statutes, and is governed by Sections 2-71 through 2-74 of the Code of Ordinances. The CRA Board members are appointed by the City Commission. Section 2-73 of the Code of Ordinances states that the City Commission reserves to itself all powers delineated in Section 163.370, Florida Statutes, but the City Commission may receive the advice of the CRA before exercising such powers. In evaluating this potential component unit, it was determined that the CRA is a separate legal entity but should be treated as a blended component unit, and included as part of the primary government for reporting purposes. The CRA is presented in the financial statements of the City as a special revenue fund.
- **Lake Wales Library Board (Library Board)** - The Library Board was created pursuant to Chapter 57-1488, Laws of Florida, and is governed by Section 2-116 of the Code of Ordinances. The Board of Directors is appointed by the City Commission. Chapter 57-1488, Laws of Florida, authorizes the City Commission to levy up to one mill in property taxes to establish, maintain, and operate a public municipal library. The City Commission approves the Library Board's budget, levies the ad valorem property tax for the library operations, and appoints the Library Board of Directors. Since the Library Board cannot transact business in its own name, it is not considered to be a separate legal entity. Accordingly, the Library Board's operations are reported in a special revenue fund and its capital assets are included under governmental activities in the statement of net assets.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Concluded)

■ **Other Related Organizations**

The following discussion is a brief review of other potential component units that were determined to not be part of the City's reporting entity:

- **Lake Wales Housing Authority (the Housing Authority)** - The Housing Authority was created by Resolution No. 68-3 pursuant to Chapter 421, Florida Statutes. The Housing Authority members are appointed by the City Commission; however, the City's accountability for the Housing Authority does not extend beyond making these appointments. Accordingly, the Housing Authority is considered to be a related organization only, and is not included in the financial reporting entity.

- **Lake Wales Library Association, Inc. (the Association)** - The Association is a separate legal entity established as a direct support organization for the Lake Wales Public Library. The City Commission does not appoint a voting majority of the Association's Board of Directors, nor can it impose its will on the Association. Accordingly, the Association is not considered to be a component unit of the City.

B. Government-wide Financial Statements

The City has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The basic financial statements consist of the government-wide financial statements and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Fiduciary funds are excluded from the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment including depreciation. The City does not allocate the interest expense of governmental fund debt but the City does allocate certain indirect costs such as finance, personnel, legal, etc., from the general fund to the community redevelopment fund. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Fund Financial Statements

The financial transactions of the City are recorded in individual funds. Separate financial statements (fund financial statements) are provided for governmental funds, proprietary funds, and fiduciary funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity, revenues and expenditures/expenses. The emphasis in fund financial statements is on the major funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the separate and combined governmental and enterprise categories) for the determination of major funds. In addition, the City can choose to report certain funds as major funds for qualitative reasons.

The City reports the following major funds:

■ **Governmental Funds**

- **General Fund** - the general fund is the City's primary operating fund, and is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. The majority of current operating expenditures of the City, other than proprietary fund activities, are financed through revenues received by the general fund.
- **Debt Service Fund** - to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs for governmental fund types.
- **Community Redevelopment Fund** - a special revenue fund used to account for the revenues derived from the tax increment funds collected in the City-wide community redevelopment area.
- **Historic Preservation Fund** - a special revenue fund used to account for funds for the restoration of historic buildings owned by the City.

■ **Proprietary Funds**

- **Public Utilities Fund** - an enterprise fund used to account for the provision of water and wastewater services to the residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operations, construction, maintenance, financing and related debt service costs, billing and collection.

Governmental and enterprise funds which do not meet the criteria for reporting as major funds are grouped together for financial reporting in one column. The City has no nonmajor enterprise funds, and reports certain nonmajor governmental funds of the following fund type:

- **Special Revenue Funds** - to account for the proceeds of certain specific revenue resources (other than proprietary fund type revenues), that are restricted legally or by grantors to expenditures for specified purposes.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

C. Fund Financial Statements (Concluded)

- **Capital Projects Fund** - to account for funds received or appropriated for major repairs, equipment purchases, and facilities and improvements, other than those accounted for in the enterprise fund.

In addition, the City reports the following fiduciary fund types:

■ **Fiduciary Funds**

Pension Trust Funds - to account for resources used to finance the City's retirement programs. These funds are accounted for in the same manner as proprietary fund type. The City has three pension trust funds which accumulate resources to provide retirement benefits to City employees. The three pension trust funds are the Police Officers' Pension Trust Fund, the Firefighters' Pension Trust Fund, and the General Employees' Pension Trust Fund.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within approximately 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded as expenditures only when payment is due.

Property taxes, franchise taxes, licenses, state shared revenues, insurance recoveries and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period, if measurable and available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All other revenue items are considered to be measurable and available only when cash is received by the City.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund 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.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies *(Continued)*

D. Measurement Focus and Basis of Accounting *(Concluded)*

Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Pursuant to GASB Statement No. 20, the City has elected not to apply all FASB Statements and Interpretations issued after November 30, 1989.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the City's public utilities function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary 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 a proprietary fund's principal ongoing operations. The principal operating revenues of the public utilities enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents and Investments

The City maintains a cash and investment pool which is available for use by all funds and component units. The City considers all investments with an original maturity of three months or less (these include investments with the State Board of Administration, amounts invested in repurchase agreements, and money market mutual funds) as well as investments in the City's cash and investment pool to be cash equivalents for purposes of the statement of cash flows. The City's cash and investment pool essentially allows individual funds, at any time, to deposit additional cash or make withdrawals without prior notice or penalties. Investment earnings are distributed monthly in accordance with the participating funds' relative percentage of the pool.

The City's cash and investment pool includes cash deposits, investments with an original maturity of three months or less, and amounts on deposit with paying agents.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents and Investments (Concluded)

Certain cash and investment accounts are required to be segregated from other current assets due to various debt covenants or City Ordinances. These assets are legally restricted for specific purposes, such as debt service, and renewals and replacements.

Restricted City investments outside the pool from time to time consist of amounts invested in United States Government securities and mortgage-backed agency securities. In addition, investments in the City's pension funds include corporate bonds, equity securities and mutual funds. Investments are recorded at market.

F. Inventory

Inventories consist of expendable supplies held for consumption in the course of the City's operations. Enterprise fund water supplies inventories are stated at cost on the average cost basis.

G. Capital Assets

Capital assets, which include property, buildings, other improvements, and equipment, are reported in the applicable governmental activities, business-type activities, or component unit columns in the government-wide finance statements. 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, but is not considered for governmental projects. The amount of interest to be capitalized from tax-exempt debt is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. 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>
Water and Wastewater Treatment Disposal Plants	50-67
Other Buildings	10-50
Water Distribution System	40
Sewer Collection System	50
Tanks and Storage	40
Airport Runways and Other Airport Infrastructure	10-20
Equipment	3-25
Vehicles	6-10

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Concluded)

Class of Assets	Estimated Life - Years
Wells and Pumping Equipment	15-50
Other Improvements	5-50
Other Infrastructure	15-50

GASB Statement No. 34 required governments to record certain infrastructure assets for the first time. Examples of the infrastructure assets meeting this definition include roads, bridges, tunnels, sidewalks, parking lots, drainage systems, and lighting systems. To allow governments time to generate this information, GASB Statement No. 34 provided a deferral period of up to four additional years before the assets were required to be recorded. The deferral period for the City ended in this fiscal year ending September 30, 2007. In prior annual financial reports, the City reported that the governmental activities column in the government-wide financial statements did not include any infrastructure assets constructed prior to October 1, 2002, and that they were taking advantage of the deferral option until these values could be determined. During 2007, the City reviewed this issue and recorded additional infrastructure assets constructed (or improved) prior to September 30, 2002, with an original cost of \$5,348,945 and accumulated depreciation of \$1,688,683 as of September 30, 2006. The net adjustment to beginning net assets – governmental activities of \$3,660,262 represents a change in accounting principle.

H. Noncurrent Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as noncurrent liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums, discounts, issuance costs, and refunding gains and losses are deferred and amortized over the term of the bonds using the bonds outstanding method or the straight-line method, which both approximate the effective interest method. Bond premiums, discounts and refunding losses are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges. Amortization of bond issue costs was \$7,823 (business-type activities and enterprise fund) and \$8,181 (governmental activities) during the 2007 fiscal year. Interest expense related to amortization of refunding losses in both enterprise funds and business-type activities was \$43,560, respectively, during the year. Amortization of refunding losses in governmental activities was \$33,479.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements; rather the debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures.

I. Compensated Absences

The City's policies permit employees to accumulate vacation and sick time up to certain limits and to be compensated for these upon termination of employment. The liability for these compensated absences is recorded in the government-wide statements and in the proprietary fund financial statement under noncurrent liabilities. The governmental funds do not report the compensated absence liability because it is generally not due.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

J. Revenue Recognition

Utility revenues are recognized when customers are billed unless there has been a significant change in meter reading dates. In that event, unbilled or deferred revenues are recorded for consistency. Included in accounts receivable at September 30, 2007, are unbilled amounts totaling \$345,112 (\$330,877 enterprise funds, and \$14,235 general fund).

Certain restricted grant revenues, which are received but not expended, are recorded as deferred revenues in the liability section of the balance sheet and statement of net assets.

K. Property Taxes

Under Florida law, the assessment of all properties and the collection of all county, municipal and school board property taxes are consolidated in the offices of the Polk County Property Appraiser and the Polk County Tax Collector. The laws of the state regulating tax assessments are also designed to assure a consistent property valuation method state-wide. Florida Statutes permit municipalities to levy property taxes at a rate of up to 10.00 mills. The City's millage rate for the 2007 fiscal year was 8.44 mills (7.44 City, and 1.00 Library).

The tax levy of the City is established by the City Commission prior to October 1 of each year and the Polk County Property Appraiser incorporates the City millages into the total tax levy, which includes the Polk County and the Polk County District School Board tax requirements.

All property is reassessed according to its fair market value January 1 of each year. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all of the appropriate requirements of Florida Statutes.

All taxes are levied on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Polk County Tax Collector. All unpaid taxes become delinquent on April 1 following the year in which they are assessed. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January, and 1% in the month of February. The taxes paid in March are without discount.

On or prior to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After sale, tax certificates bear interest of 18% per year or at any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Unsold certificates are held by the County. Delinquent taxes on personal property bear interest at 18% per year until the tax is satisfied either by seizure and sale of the property or by the five-year statute of limitations.

L. Pension Plans

The City accounts for its pension plans under GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The pension plans cover substantially all of the City's full-time employees. The City records pension costs in the period due. Pension expense includes normal cost plus amortization of past service cost.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

M. Equity Classifications

Government-wide and proprietary fund statements of net assets - 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, and 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
- Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental fund balance sheet - governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserves recorded in the governmental fund types represent portions of fund balance which cannot be appropriated for expenditures, or which have been legally segregated for specific future uses.

Note 2 - Stewardship, Compliance and Accountability

A. Budgeting

Annual appropriations budgets are adopted for all funds except the pension trust funds. Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles. The budget for the public utilities enterprise fund is prepared on the modified accrual basis of accounting, which is not the same basis of accounting that is used to account for the actual results of operations (the actual results of operations are accounted for on the accrual basis). The following item indicates the primary difference between the budgetary basis and the GAAP basis used to account for the results of operations for the enterprise fund:

- Depreciation expense is not budgeted; however, expenses for capital outlays are budgeted. These outlays have been capitalized on the statements of net assets and eliminated from the results of operations for financial reporting purposes.

The annual operating budget serves as legal authorization for expenditures and the proposed means of financing them. The City Charter prescribes the following procedures for the establishment of final budget balances:

- On or before September 1 of each year, the City Manager is to submit to the City Commission a budget for the ensuing fiscal year and an accompanying budget report.
- The budget is to provide a financial plan of municipal funds and activities for the ensuing fiscal year, with the expenditures classified for the main functional divisions and departments of the City.
- The City Commission is to adopt the budget by ordinance after two public hearings.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 2 - Stewardship, Compliance and Accountability (Concluded)

A. Budgeting (Concluded)

- Supplemental appropriations are to be made by the City Commission by ordinance when the City Manager certifies that there are revenues in excess of those estimated in the budget available for appropriation. At any time during the fiscal year, the City Manager may transfer part or all of any unencumbered appropriation balance among programs within a department, office, or agency. Upon written request by the City Manager, the City Commission may, by ordinance, transfer part or all of any unencumbered appropriation balance from one department, office, or agency to another.
- Appropriations, except those for capital expenditures, lapse at year-end to the extent that they have not been expended or encumbered. Appropriations for capital expenditures continue in force until the purposes for which they were made have been accomplished or abandoned.

Appropriations are controlled at the object level within each department or function. Budgetary information is integrated into the accounting system and, to facilitate budget control, budget balances are encumbered when purchase orders are issued. Budgets are prepared for governmental funds using the same modified accrual basis of accounting as is used to account for actual transactions.

B. Deficit Equity Balances

The Historic Preservation fund had a deficit fund balance of \$96,085 as of September 30, 2007. The fund incurred expenditures for the required match of a historic preservation grant. The required match is budgeted to be transferred the following fiscal year (2008) from the Community Redevelopment Agency fund in the amount of \$100,000.

C. Excess of Expenditures Over Appropriations

The general fund departments listed below exceeded their budgeted appropriations (as amended) for the year ended September 30, 2007:

<u>Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Overage</u>
Finance	\$ 312,090	\$ 313,189	\$ (1,099)
Police	4,530,912	4,548,895	(17,983)
Waste Disposal	765,644	766,523	(879)

Note 3 - Cash and Investments

A. Deposits

All of the City's public deposits 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, 2007, the carrying amount of cash on hand and on deposit with banks, including interest-bearing deposits was \$3,642,429 (including the Authority), and the related bank balance was \$5,560,486. In addition, the City has \$331,949 deposited with fiscal agent as

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 3 - Cash and Investments (Continued)

A. Deposits (Concluded)

of September 30, 2007, for the payment of bond principal and interest on October 1, 2007, and \$300,000 in an escrow account for the payment of environmental remediation in connection with the sale of property. The carrying amount of deposits for the Authority, a discretely presented component unit, at September 30, 2007, was \$636,172. During 2007, the Authority operated under the City's investment policy, and all its cash balances were invested in the City's pooled cash and investment pool.

B. Investments - City

By Ordinance No. 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 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. Following is a summary of the City's investments at September 30, 2007, excluding investments in the City's pension funds:

<u>Investment Type</u>	<u>Credit Rating (S&P)</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
			<u>Less Than 6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>
SBA	N/R	\$ 1,313,792	\$ 1,313,792	\$ 0	\$ 0	\$ 0

N/R = Not Rated

The SBA is 2a7-like state pool, carried at amortized cost, which approximates market. A 2a7-like pool is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, the pool operates essentially as a money market fund. Throughout the year and as of September 30, 2007, the pool contained certain floating and adjustable rate securities which were indexed based on the prime rate and/or one and three-month LIBOR rates.

Subsequent Event

During the fiscal year, the City regularly invested money with the SBA. As shown at above, the City had \$1,313,792 on deposit in the SBA at year-end. On November 29, 2007, assets in the SBA were temporarily frozen due to an unprecedented amount of withdrawals coupled with the absence of market liquidity. The City was one of the participants who had withdrawn substantially their entire balance. The City's funds were moved to interest bearing accounts at SunTrust bank. As of the date of this report, the City had no remaining funds in the SBA.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 3 - Cash and Investments (Continued)

C. Investments - Pension Funds

Section 16-47(e)(2) of the Code of Ordinances provides that general employees' pension plan funds may be invested and reinvested in such securities or property, real or personal, wherever situated and of whatever kind, as shall be approved by the Board of Trustees including, but not limited to, stocks (common or preferred), bonds, and other evidences of indebtedness or ownership. Sections 16-161 and 16-231 of the Code of Ordinances provide that the Boards of Trustees of the firefighters' and police officers' pension plan funds shall not invest more than 5% (at cost) of their assets in the common stock or capital stock of any one issuing company, nor shall the aggregate investment in any one issuing company exceed 5% (at cost) of the outstanding capital stock of that company, or the aggregate of the fund's investments in all common stock or capital stock (at cost) exceed 50% of the fund's total assets.

In addition to investments authorized for the City as a whole, the pension trust funds are also authorized to invest in other fixed-income and equity securities, within the individual plan guidelines.

The City's pension trust fund investment portfolios are measured against the returns of the benchmarks, the S&P 500 Stock Index and the Lehman Brothers Government/Credit Bond Index. The volatility of returns is expected to be similar to the benchmarks, and the total return is expected to be in the top half of similarly managed portfolios.

The Pension Boards have established the following target asset allocations for the separate pension funds:

	<u>General Employees</u>	<u>Fire Fighters</u>	<u>Police Officers</u>
Domestic and International Equity Securities	65%	50%	50%
Fixed Income Securities	35%	40%	40%
International Equity Securities	0%	10%	10%

This allocation target is intended as a maximum exposure to each security class based on the cost value of the assets. The use of cash equivalent securities is not restricted and may be used within both equity of fixed income portfolios.

Cash and investments in pension trust funds at September 30, 2007, are presented below (at market value):

<u>Investment Type</u>	<u>Credit Rating (S&P's)</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
			<u>Less Than 6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>
Equities	N/R	\$ 16,641,181	\$ 16,641,181	\$ 0	\$ 0	\$ 0
Corporate Bonds	*	1,871,933	0	0	474,048	1,397,885
U.S. Treasury Bonds	AAA	1,716,338	0	0	1,524,703	191,635
FHLMC Note	AAA	1,054,553	0	0	0	1,054,553
FNMA Note	AAA	1,378,634	0	0	439,337	939,297
GNMA Note	AAA	52,527	0	0	0	52,527
Money Market Funds	N/R	<u>2,662,177</u>	<u>2,662,177</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total		<u>\$ 25,377,343</u>	<u>\$ 19,303,358</u>	<u>\$ 0</u>	<u>\$ 2,438,088</u>	<u>\$ 3,635,897</u>

* Credit ratings on the above corporate bonds varied from AA- to BBB+

N/R = Not rated

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 3 - Cash and Investments (Concluded)

C. Investments - Pension Funds (Concluded)

The pension funds owned cash at September 30, 2007, totaling \$210,780. Pension fund guidelines specify that the quality minimum of all fixed income securities purchased for the fund shall be Standard & Poor's and Moody's rated A or its equivalent.

D. Other Risk Disclosures

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

- **Interest Rate Risk** - Interest rate risk is the risk that a change in interest rates will adversely affect the fair value of the investment. The City and Pension Board limit their exposure to fair value losses arising from rising interest rates by varying investment maturities. The Pension Boards' investment policies expect the average duration of the fixed income portfolio to not exceed 150% of the duration of the Lehman Brothers Government/Credit Bond Index.
- **Custodial Credit Risk** - For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the City or Pension Board 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/Board 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 a single issuer. The City and Pension Board investment policies require that assets be diversified to control the risk of loss resulting from overconcentration 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. At September 30, 2007, the separate pension fund portfolios had investment in bonds and mortgage pools of the Federal National Mortgage Association that might have slightly exceeded 5% of total plan investments.

Note 4 - Accounts Receivable

Accounts receivable reported in the general fund represent uncollected franchise and utility taxes, installment sales of cemetery lots and mausoleum drawers, fees for sanitation services provided by an independent contractor employed by the City, and other miscellaneous receivables, which are recorded at their net realizable value, reduced by a \$35,125 allowance for uncollectible amounts.

Accounts receivable reported in the enterprise funds represent fees for utility services provided by the City (billed and unbilled), impact fees, and other miscellaneous receivables. The accounts receivable are net of a \$187,934 allowance for uncollectible accounts.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 5 - Capital Assets

Capital assets activity for governmental activities for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Infrastructure Adjustment</u>	<u>Other Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities					
Capital Assets Not Being Depreciated:					
Land	\$ 3,766,138	\$ 648,627	\$ 2,157,180	\$(1,583,505)	\$ 4,988,440
Construction in Progress	1,451,103	0	1,294,476	0	2,745,579
Total Not Being Depreciated	<u>5,217,241</u>	<u>648,627</u>	<u>3,451,656</u>	<u>(1,583,505)</u>	<u>7,734,019</u>
Capital Assets Being Depreciated:					
Buildings	9,364,810	0	439,728	(362,593)	9,441,945
Improvements Other Than Buildings	14,914,720	4,700,318	693,485	(2,175)	20,306,348
Equipment	7,980,370	0	822,745	(366,092)	8,437,023
Total Other Capital Assets	<u>32,259,900</u>	<u>4,700,318</u>	<u>1,955,958</u>	<u>(730,860)</u>	<u>38,185,316</u>
Total All Capital Assets	<u>37,477,141</u>	<u>5,348,945</u>	<u>5,407,614</u>	<u>(2,314,365)</u>	<u>45,919,335</u>
Less Accumulated Depreciation for:					
Buildings	(2,348,124)	0	(191,579)	312,269	(2,227,434)
Improvements Other Than Buildings	(8,288,229)	(1,688,683)	(766,177)	2,175	(10,740,914)
Equipment	(5,749,471)	0	(539,638)	366,092	(5,923,017)
Total Accumulated Depreciation	<u>(16,385,824)</u>	<u>(1,688,683)</u>	<u>(1,497,394)</u>	<u>680,536</u>	<u>(18,891,365)</u>
Depreciable Capital Assets, Net	<u>15,874,076</u>	<u>3,011,635</u>	<u>458,564</u>	<u>(50,324)</u>	<u>19,293,951</u>
Total Governmental Capital Assets, Net	<u>\$ 21,091,317</u>	<u>\$ 3,660,262</u>	<u>\$ 3,910,220</u>	<u>\$(1,633,829)</u>	<u>\$ 27,027,970</u>

Depreciation expense was charged to functions as follows:

General Government	\$ 121,469
Public Safety	399,864
Physical Environment	14,240
Transportation	595,349
Economic Environment	85,923
Human Services	14,633
Culture and Recreation	265,916
Total Governmental Activities Depreciation Expense	<u>\$ 1,497,394</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 5 - Capital Assets (Continued)

Capital assets activity for business-type activities for the year ended September 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 589,760	\$ 0	\$ (3,200)	\$ 586,560
Construction in Progress	2,808,900	(67,114)	0	2,741,786
Total Not Being Depreciated	<u>3,398,660</u>	<u>(67,114)</u>	<u>(3,200)</u>	<u>3,328,346</u>
Capital Assets Being Depreciated:				
Buildings	668,374	0	0	668,374
Improvements Other Than Buildings	22,783,756	1,992,823	0	24,776,579
Equipment	4,174,295	427,717	0	4,602,012
Total Other Capital Assets	<u>27,626,425</u>	<u>2,420,540</u>	<u>0</u>	<u>30,046,965</u>
Total All Capital Assets	<u>31,025,085</u>	<u>2,353,426</u>	<u>(3,200)</u>	<u>33,375,311</u>
Less Accumulated Depreciation for:				
Buildings	(343,465)	(14,793)	0	(358,258)
Improvements Other Than Buildings	(7,318,956)	(448,034)	0	(7,766,990)
Equipment	(2,799,328)	(175,790)	0	(2,975,118)
Total Accumulated Depreciation	<u>(10,461,749)</u>	<u>(638,617)</u>	<u>0</u>	<u>(11,100,366)</u>
Depreciable Capital Assets, Net	<u>17,164,676</u>	<u>1,781,923</u>	<u>0</u>	<u>18,946,599</u>
Business-type Capital Assets, Net	<u>\$ 20,563,336</u>	<u>\$ 1,714,809</u>	<u>\$ (3,200)</u>	<u>\$ 22,274,945</u>

Depreciation expense recorded in the business-type activity totaled \$638,617 for the year ended September 30, 2007.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 5 - Capital Assets (Concluded)

Capital assets activity for the Lake Wales Airport Authority discretely presented component unit for the year ended September 30, 2007, was as follows:

Component Unit	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 22,431	\$ 0	\$ 0	\$ 22,431
Construction in Progress	461,256	2,787,797	0	3,249,053
Total Not Being Depreciated	<u>483,687</u>	<u>2,787,797</u>	<u>0</u>	<u>3,271,484</u>
Capital Assets Being Depreciated:				
Buildings	151,984	0	0	151,984
Improvements Other Than Buildings	2,059,099	0	0	2,059,099
Equipment	14,530	3,385	0	17,915
Total Other Capital Assets	<u>2,225,613</u>	<u>3,385</u>	<u>0</u>	<u>2,228,998</u>
Total All Capital Assets	<u>2,709,300</u>	<u>2,791,182</u>	<u>0</u>	<u>5,500,482</u>
Less Accumulated Depreciation for:				
Buildings	(1,013)	(3,040)	0	(4,053)
Improvements Other Than Buildings	(1,540,879)	(89,311)	0	(1,630,190)
Equipment	(4,376)	(1,876)	0	(6,252)
Total Accumulated Depreciation	<u>(1,546,268)</u>	<u>(94,227)</u>	<u>0</u>	<u>(1,640,495)</u>
Depreciable Capital Assets, Net	<u>679,345</u>	<u>(90,842)</u>	<u>0</u>	<u>588,503</u>
Total Component Unit Capital Assets, Net	<u>\$ 1,163,032</u>	<u>\$ 2,696,955</u>	<u>\$ 0</u>	<u>\$ 3,859,987</u>

Depreciation expense recorded in the discretely presented component unit totaled \$94,227 for the year ended September 30, 2007.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 6 - Long-term Obligations

Following is a summary of the changes in long-term debt for the year:

	Restated Balance September 30, 2006	Additions	Reductions	Balance September 30, 2007	Amounts Due Within One Year
Governmental Activities					
Bonds and Notes Payable:					
Notes Payable	\$ 8,219,371	\$ 0	\$ (476,309)	\$ 7,743,062	\$ 372,358
Revenue Bonds	3,196,215	0	(582,852)	2,613,363	343,363
Lease Obligation	743,195	0	(132,113)	611,082	137,438
Total Bonds and Notes Payable - Par	12,158,781	0	(1,191,274)	10,967,507	853,159
Less Unamortized Refunding					
Loss	(334,793)	0	33,479	(301,314)	0
Total Bonds and Note Payable - Net	11,823,988	0	(1,157,795)	10,666,193	853,159
Other Liabilities:					
FBO Prepayment Credit	103,500	0	(18,000)	85,500	18,000
Compensated Absences	924,933	0	(2,868)	922,065	92,207
Total Other Liabilities	1,028,433	0	(20,868)	1,007,565	110,207
Governmental Long-term Liabilities	\$ 12,852,421	\$ 0	\$ (1,178,663)	\$ 11,673,758	\$ 963,366

Beginning balance in long-term debt - governmental activities has been restated by \$103,500 (increase), representing on obligation to the Fixed Base Operator (FBO) that had not been previously recorded (see note 15).

	Balance September 30, 2006	Additions	Reductions	Balance September 30, 2007	Amounts Due Within One Year
Business-type Activities					
Bonds and Notes Payable:					
Revenue Bonds	\$ 39,641	\$ 0	\$ (32,108)	\$ 7,533	\$ 7,533
Notes Payable	10,907,250	825,196	(505,780)	11,226,666	880,575
Total Bonds and Notes Payable - Par	10,946,891	825,196	(537,888)	11,234,199	888,108
Less Unamortized Refunding Loss	(435,604)	0	43,560	(392,044)	0
Total Bonds and Notes Payable - Net	10,511,287	825,196	(494,328)	10,842,155	888,108
Other Liabilities:					
Compensated Absences	86,752	10,855	0	97,607	9,761
Business-type Long-term Liabilities	\$ 10,598,039	\$ 836,051	\$ (494,328)	\$ 10,939,762	\$ 897,869

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 6 - Long-term Obligations (Continued)

Listed below are the individual debt issues and the outstanding principal balance at September 30, 2007:

	<u>Purpose</u>	<u>Freq</u>	<u>Maturity</u>	<u>Originally Issued</u>	<u>Outstanding Amount</u>	<u>Interest Rate</u>
Governmental Activities						
Revenue Bonds:						
Non-ad Valorem Revenue						
Bonds, Series 1999	1	M	2008	\$ 5,217,629	\$ 73,363	5.35%
Public Improvement Refunding						
Revenue Bonds, Series 1997	2	S	2015	4,445,000	2,540,000	4.40 %
Note Payable:						
Capital Improvement Refunding Revenue						
Note, Series 2003	4	S	2017	9,117,280	7,743,062	3.84%
Lease Obligation:						
Bank of America #1	3	A	2010	399,861	183,333	3.70%
Bank of America #2	5	A	2012	599,900	427,749	6.68%
Fixed Base Operator's						
Prepayment Credit	12	A	2012	300,000	85,500	0.00%
Total Governmental Activities					<u>\$ 11,053,007</u>	
Business-type Activities						
Revenue Bonds:						
Non-ad Valorem Revenue						
Bonds, Series 1999	1	M	2008	\$ 511,371	\$ 7,533	5.35 %
Notes Payable:						
State Revolving Fund						
Loan I	7	S	2019	1,592,804	1,032,092	2.56%
State Revolving Fund						
Loan II	7	S	2022	1,171,882	609,130	3.05%
State Revolving Fund						
Loan III	8	S	2024	1,428,648	1,206,108	2.14%
State Revolving Fund						
Loan IV	9	S	2011	200,150	1,025,345	1.88%
Capital Improvement Refunding Revenue						
Note, Series 2003	4	S	2017	432,610	367,461	3.84%
Utility System Revenue						
Note, Series 2005	10	M	2015	1,110,000	881,423	4.20%
Utility System Refunding						
Revenue Note, Series 2006A	6	S	2017	6,272,220	6,055,107	4.09%
Utility System Revenue						
Note, Series 2006B	11	S	2027	3,100,000	50,000	Variable
Total Business-type Activities					<u>\$ 11,234,199</u>	

Freq = Frequency of Payments (A) = Annual, (S) = Semiannual, (M) = Monthly

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 6 - Long-term Obligations (Continued)

Purpose

1. Reconfigure Special Obligation Revenue Bonds, Series 1999 (originally for various capital acquisitions and projects) plus infrastructure improvements at Longleaf Business Park and Kiwanis Park.
2. Refund Public Improvement Revenue Bonds, Series 1991 (which refunded Series 1989 bonds originally for various water/sewer, street, drainage and parking infrastructure improvements, plus the airport FBO hangar and Police Department building).
3. Fire truck acquisition.
4. Advance refund of Capital Improvement Revenue Bonds, Series 1996 (originally for municipal complex, streets, and other improvements) and refund 1999 Non-Ad Valorem Revenue Bonds (see 1).
5. Fire truck acquisition.
6. Refund the outstanding 1996 Utility System Improvement Refunding Revenue Bonds, which had provided funding for water and wastewater system improvements, and refunded the outstanding revenue bonds from 1964, 1987, and 1988 Series (also originally for utility system improvements).
7. Construction of reclaimed water reuse facilities.
8. Construction of sludge dewatering facilities.
9. Planning and design of wastewater treatment plant expansion.
10. Construction of chlorine contact chamber and reuse system improvements.
11. Construction of water and wastewater system improvements, including rehabilitation of lift station #2, southside force main and water main extension, and southside reuse transmission lines.
12. Agreement between the City and Lake Wales Aviation, Inc., (the Airport Fixed Base Operator) related to leasehold improvements done by the FBO on City (now Airport Authority) property. The City agreed to credit the FBO for \$300,000 in improvements by reducing their rent \$1,500 per month until fully paid (at 0% interest).

The obligations listed above are secured by the equipment acquired, a covenant to budget, or a pledge of the following revenue sources, except number 12 which is unsecured:

- Non-Ad Valorem Revenue Bonds, Series 1999 - covenant to budget from non-ad valorem revenues;
- Public Improvement Refunding Revenue Bonds, Series 1997 - franchise fees;
- Capital Improvement Revenue Note, Series 2003 - public service (utility) taxes;
- Lease Obligations, Bank of America - purchased equipment;
- Utility System Revenue and Refunding Revenue Notes, Series 2005, 2006A and 2006B - senior lien on utility system net revenues; and
- State Revolving Fund Loans - junior lien on utility system net revenues.

Most of the above obligations may be prepaid in whole or in part without penalty, except as follows:

- There is an interest rate differential required on prepayment of the Utility System Revenue Note, Series 2005, during the entire term of the Note, if interest rates have generally decreased.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 6 - Long-term Obligations *(Continued)*

- There is a “breakage fee” on the Utility System Revenue Note, Series 2006B, if prepaid after October 1, 2009 and through the remaining term of the Note, if interest rates have generally decreased.
- There is a similar “breakage fee” on the Utility System Refunding Revenue Note, Series 2006A.
- The Capital Improvement Revenue Note, Series 2003, has a related swap agreement (see the discussion later in this note).

The revenue bonds listed above are generally serial bonds, or a combination of serial and term bonds with mandatory redemption provisions on the term bonds that provide for approximately level debt service. There are no large “balloon payments” due in future years. Certain of the bonds and notes require the establishment of construction or reserve accounts and sinking funds.

The Utility System Revenue Note, Series 2006B, is a nonrevolving line of credit for up to \$3.1 million that can be drawn on for eligible project costs. On October 1, 2009, the outstanding balance will be converted to a seventeen-year fixed rate obligation. The variable interest rate at September 30, 2007, was 3.9368%.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 6 - Long-term Obligations (Continued)

Annual debt service requirements as of September 30, 2007, are as follows:

Fiscal Year	Governmental Activities							
	Revenue Bonds		Notes		Lease Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 343,363	\$ 118,904	\$ 372,358	\$ 290,187	\$ 137,438	\$ 25,091	\$ 853,159	\$ 434,182
2009	280,000	105,007	799,447	267,687	142,979	19,550	1,222,426	392,244
2010	295,000	91,443	829,515	236,411	148,745	13,785	1,273,260	341,639
2011	305,000	76,935	864,447	203,888	89,055	7,786	1,258,502	288,609
2012	320,000	61,506	894,587	170,114	92,865	3,975	1,307,452	235,595
2013	340,000	44,997	929,369	135,094	0	0	1,269,369	180,091
2014	355,000	27,628	964,388	98,734	0	0	1,319,388	126,362
2015	375,000	9,375	1,004,428	60,933	0	0	1,379,428	70,308
2016	0	0	642,197	29,318	0	0	642,197	29,318
2017	0	0	442,326	8,494	0	0	442,326	8,494
Total	\$ 2,613,363	\$ 535,795	\$ 7,743,062	\$ 1,500,860	\$ 611,082	\$ 70,187	\$ 10,967,507	\$ 2,106,842

Fiscal Year	Business Activities					
	Revenue Bonds		Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 7,533	\$ 1,219	\$ 880,575	\$ 388,129	\$ 888,108	\$ 389,348
2009	0	0	957,307	354,349	957,307	354,349
2010	0	0	996,048	318,777	996,048	318,777
2011	0	0	1,032,712	273,458	1,032,712	273,458
2012	0	0	1,072,384	243,559	1,072,384	243,559
2013	0	0	1,111,748	203,494	1,111,748	203,494
2014	0	0	1,150,572	161,903	1,150,572	161,903
2015	0	0	1,126,159	119,407	1,126,159	119,407
2016	0	0	1,080,123	80,014	1,080,123	80,014
2017	0	0	289,634	40,423	289,634	40,423
2018	0	0	275,157	33,459	275,157	33,459
2019	0	0	229,747	26,733	229,747	26,733
2020	0	0	182,490	21,850	182,490	21,850
2021	0	0	186,766	17,519	186,766	17,519
2022	0	0	191,150	13,079	191,150	13,079
2023	0	0	144,342	8,920	144,342	8,920
2024	0	0	103,794	5,835	103,794	5,835
2025	0	0	61,903	4,088	61,903	4,088
2026	0	0	63,153	2,772	63,153	2,772
2027	0	0	60,319	1,427	60,319	1,427
2028	0	0	30,583	287	30,583	287
Total	\$ 7,533	\$ 1,219	\$ 11,226,666	\$ 2,319,482	\$ 11,234,199	\$ 2,320,701

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 6 - Long-term Obligations (Continued)

Bond-Related Accounts - Utility Fund

Debt issuance costs totaling \$95,931 related to other utility fund debt issues are being amortized over the term of the related obligation using the straight-line method. Amortization of issuance costs was \$7,823 for the year ended September 30, 2007. The unamortized balance at September 30, 2007, is \$84,124.

A refunding loss of \$435,604 incurred in conjunction with the issuance of the Utility System Refunding Revenue Note, Series 2006A, is being amortized over the term of the bonds using the straight-line method. Amortization of refunding loss was \$43,560 for the year ended September 30, 2007, and is included as a component of interest expense. The unamortized balance at September 30, 2007, is \$392,044.

Bond-Related Accounts - Governmental Activities

Debt issuance costs of \$104,303 incurred in the current year in conjunction with the issuance of the Capital Improvement Revenue Note, Series 2003, are being amortized over the life of the obligation (13 years) using the straight-line method. Amortization of issuance costs on the Series 2003 Note was \$8,181 for the year ended September 30, 2007. The unamortized balance at September 30, 2007, is \$73,625.

A refunding loss of \$426,861 incurred in the current year in conjunction with the issuance of the Capital Improvement Revenue Note, Series 2003, is being amortized over the life of the bonds using the straight-line method. Amortization of the refunding loss was \$33,479 for the year ended September 30, 2007, and is included as a component of interest expense in the statement of activities. Unamortized refunding loss of \$301,314 is netted against bonds payable on the government-wide statement of net assets.

Other bond-related accounts for governmental obligations issued prior to fiscal year 2003 are not recorded, as permitted by GASB Statement No. 34.

Interest Cost

Interest paid during the year ended September 30, 2007, on the above long-term debt was \$478,981 in governmental funds and \$473,969 in enterprise funds. None of the interest cost was capitalized.

Defeased Debt

The City has defeased certain revenue bonds by using the proceeds of new bonds to purchase U.S. government securities, which were placed in irrevocable trusts. All defeased debt issues have been fully retired as of October 1, 2006.

Interest Rate Swap

In conjunction with the issuance of the Capital Improvement Revenue Note, Series 2003 (the 2003 Note), the City entered into a pay-fixed, receive variable interest rate swap in order to reduce the effective fixed interest rate on the Note. The City negotiated the lowest penalty for early repayment of the debt refinanced. The net effect of these transactions is that the City will have paid a fixed interest rate for the refinanced debt, and because of the nature of the transaction, pays a lower fixed

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 6 - Long-term Obligations (Continued)

Interest Rate Swap (Concluded)

interest rate than it would have received on a traditional fixed-term loan.

The interest rate swap was entered into on December 3, 2003, and matures on October 1, 2016. The City currently pays the counterparty a semi-annual payment based on a fixed interest rate and receives a variable interest rate payment in return. The City received no premium at the time the swap was entered into. Following are some specifics related to the transaction:

<u>Associated Bond Issue</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate</u>	<u>Fair Value 9/30/07</u>
Capital Improvement Revenue Note, Series 2003	\$ 8,110,522	12/08/03	3.84%	\$ 26,959

Because the current long-term interest swap rates are higher than the fixed rate, the interest rate swap has a positive fair value, which would result in net proceeds to the City if the counterparty were to terminate the contract.

Using rates as of September 30, 2007, debt service requirements of the variable rate debt and net swap payments are as follows (note interest calculations were based on rates as of September 30, 2007). As rates vary, variable rate bond interest payments and net swap payments will vary, but the total should remain relatively constant):

<u>Fiscal Year</u> <u>Ending September 30</u>	<u>Variable-Rate Bond</u>		<u>Interest Rate</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Swap, Net</u>	
2008	\$ 390,026	\$ 351,884	\$ (47,928)	\$ 693,982
2009	837,380	324,602	(44,212)	1,117,770
2010	868,875	286,676	(39,047)	1,116,504
2011	905,465	247,237	(33,675)	1,119,027
2012	937,035	206,283	(28,097)	1,115,221
2013	973,467	163,817	(22,313)	1,114,971
2014	1,010,148	119,726	(16,307)	1,113,567
2015	1,052,088	73,888	(10,064)	1,115,912
2016	672,669	35,551	(4,842)	703,378
2017	463,369	10,300	(1,403)	472,266
Total	<u>\$ 8,110,522</u>	<u>\$ 1,819,964</u>	<u>\$ (247,888)</u>	<u>\$ 9,682,598</u>

Following are the primary risks related to the swap instrument, to which the City will be exposed over the term of the agreement:

- Liquidity and Remarketing Risk - There is no public market for swaps and there is no exchange-type market that can be used to sell, cancel or reverse an outstanding swap.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 6 - Long-term Obligations (Concluded)

Interest Rate Swap (Concluded)

- **Termination Risk** - The swap may be subject to either optional or mandatory termination without the City’s consent in accordance with the terms of the swap agreement. In addition, the swap agreement automatically terminates if the bonds are prepaid, in whole or in part, before their scheduled maturity dates. If the swap is “in-the-money” to the counterparty upon early termination, there is an obligation to make a termination payment representing the market value of the swap.
- **Credit Risk** - The City entered into the transaction with SunTrust Bank. There is a risk that SunTrust Bank could run into financial difficulty and be unable to meet its obligations during the swap term, thereby eliminating the potential cash-flow benefit to the City.
- **Basis Risk** - This risk is present when a floating to fixed interest rate swap is executed and the floating rate in the swap agreement does not perfectly match the floating rate paid by the Borrower to the bondholders. The City is paying SunTrust VRDB rate to the bondholders, which is a tax-exempt rate, while the floating rate on the swap is 67% of 1-Month LIBOR, which is a taxable rate.

Note 7 - Interfund Receivables, Payables and Transfers

The following schedule as of September 30, 2007, represents interfund receivables and payables in the fund financial statements:

Fund Financial Statements:	Interfund Receivables	Interfund Payables
Major Funds		
General	\$ 60,773	\$ 12,641
Community Redevelopment Agency	909,497	0
Historic Preservation Grant	0	818,291
Other Governmental Funds		
Transportation	0	60,693
CDBG	0	91,205
Fiduciary Funds		
General Employees’ Pension Plan	12,641	81
Total	<u>\$ 982,911</u>	<u>\$ 982,911</u>

Purpose of Interfund Accounts

The loans from the Community Redevelopment Agency to the Historic Preservation Grant and CDBG funds are for grant expenditures within the Community Redevelopment Agency area and will be reimbursed upon receipt of the related proceeds. The loan from the general fund to the transportation fund is for equipment purchased and will be repaid with tax receipts. The interfund payable to the pension represent next month’s retirement payments transferred before year-end. The interfund receivable from the pension is for postage cost paid by the general fund. The receivable from and payable to the fiduciary fund were reclassified to accounts receivable and payable in the entity wide financial statements.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 7 - Interfund Receivables, Payables and Transfers (Concluded)

Interfund Transfers

Transfers are indicative of funding for capital projects or debt service and subsidies of various City operations. The following schedule briefly summarizes the City's transfer activity:

<u>Source</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 171,971	Debt Subsidy
General Fund	Transportation	76,485	Budgeted Operating Transfer
Transportation	Debt Service Fund	199,878	Debt Subsidy
Community Redevelopment	Transportation	555,539	Road Projects in CRA District
Community Redevelopment	Debt Service Fund	384,611	Debt Subsidy
Community Redevelopment	Capital Projects Fund	60,000	Specific Project Funding
Community Redevelopment	Utility Fund	569,076	Utility Improvements in CRA District
Capital Projects Fund	Forfeitures	14,397	Impact Fee Eligible Funding
Enterprise Fund	General Fund	828,000	Annual Budgeted Operating Transfer
Enterprise Fund	Debt Service Fund	37,105	Debt Subsidy
	TOTAL	<u>\$ 2,897,062</u>	

Note 8 - Fund Equity Reserves and Net Asset Restrictions

Fund balances are reserved within the governmental and fund types as follows:

	<u>Governmental</u>				<u>Total</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Reserved					
Inventory and Prepays	\$ 301,504	\$ 0	\$ 0	\$ 0	\$ 301,504
Transportation Expenditures	0	4,671	0	0	4,671
Community Redevelopment	0	1,599,678	0	0	1,599,678
Law Enforcement Related Activities	0	33,275	0	0	33,275
Library Operations	0	202,353	0	0	202,353
Debt Service	0	0	968,802	0	968,802
Community Development Block Grant	0	17,828	0	0	17,828
Capital Projects	<u>0</u>	<u>0</u>	<u>0</u>	<u>653,643</u>	<u>653,643</u>
Total Reserved Fund					
Balances	<u>\$ 301,504</u>	<u>\$ 1,857,805</u>	<u>\$ 968,802</u>	<u>\$ 653,643</u>	<u>\$ 3,781,754</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 8 - Fund Equity Reserves and Net Asset Restrictions (Concluded)

Net assets are restricted within the entity wide statement of net assets as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Restricted			
Transportation Expenditures	\$ 59,096	\$ 0	\$ 59,096
Community Redevelopment	1,599,678	0	1,599,678
Law Enforcement Related Activities	33,275	0	33,275
Library Operations	202,353	0	202,353
Debt Service	753,608	0	753,608
Community Development Block Grant Expenditures	17,828	0	17,828
Capital Projects	<u>653,643</u>	<u>320,289</u>	<u>973,932</u>
Total Restricted Net Assets	<u>\$ 3,319,481</u>	<u>\$ 320,289</u>	<u>\$ 3,639,770</u>

Note 9 - Restricted Assets

The following table indicates the balances at September 30, 2007, for all restricted assets in the City's various funds:

	<u>Community Redevelopment</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Utility</u>	<u>Total</u>
Debt Service – Bond Sinking	\$ 0	331,949	\$ 0	\$ 10,878	\$ 342,827
Debt Service – SRF Sinking	0	0	0	155,465	155,465
Debt Service – SRF Reserve	0	0	0	136,508	136,508
Environmental Escrow Account	300,000	0	0	0	300,000
Impact Fees:					
Fire	0	0	209,761	0	209,761
Law Enforcement	0	0	112,167	0	112,167
Parks and Recreation	0	0	331,715	0	331,715
Wastewater	0	0	0	265,172	265,172
Water	0	0	0	55,117	55,117
Total Restricted Assets	<u>\$ 300,000</u>	<u>\$ 331,949</u>	<u>\$ 653,643</u>	<u>\$ 623,140</u>	<u>\$ 1,908,732</u>

Note 10 - Defined Benefit Pension Plans

The City maintains three separate single-employer pension plans, one for firefighters, one for police officers, and one for general employees. These plans are maintained as pension trust funds and are included as part of the City's reporting entity. Additionally, each plan produces separate audited annual financial statements, which may be obtained by writing to the City Clerk, City of Lake Wales, 201 Central Avenue West, Lake Wales, Florida 33859. Formally, these plans are the Lake Wales Police Officers' Pension Trust Fund, the Lake Wales Firefighters' Pension Trust Fund, and the Lake Wales General Employees' Pension Trust Fund. Each plan is administered by a Board appointed by the City Commission. These Boards may propose amendments to each plan, but any such amendments must be approved by City Commission as City Ordinances. These plans operate under similar instruments and, therefore, have several common aspects.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 10 - Defined Benefit Pension Plans (Continued)

The Florida Constitution requires local governments to make the actuarially determined contribution to their defined benefit pension plans. Additionally, the State of Florida collects two locally authorized insurance premium surcharges (one for the Police Pension Plan on casualty insurance policies and one for the Firefighter Pension Plan on certain real and personal property insurance policies within the corporate limits) which can only be distributed after the State of Florida has ascertained that the local government has met their actuarial funding requirement for the then most recently completed fiscal year.

Benefits for police officers and firefighters are payable at normal retirement, the earlier of age 55 with 10 years of creditable service or age 50 with 25 years of creditable service, equal to 3% of average final compensation multiplied by the number of service years. The average final compensation is based on annual compensation of the 3 highest paid years of the last 10 years of creditable service. Both plans provide for early retirement with reduced benefits at age 50 and provide disability, death, and survivor benefit provisions.

Benefits for general employees are payable at normal retirement, upon the attainment of age 60 with 10 years of creditable service. The normal retirement benefit is equal to 2.5% of average final compensation multiplied by the number of creditable service years. The average final compensation is based on annual compensation of the highest 5 consecutive years of service. The plan provides for early retirement with reduced benefits at age 55 and provides death and survivor benefit provisions.

Police, fire and general employees who have satisfied the requirements for normal retirement are eligible to participate in the Deferred Retirement Option Program (DROP) for up to five years. During the DROP period the member accrues a benefit amount equal to what would have been the members retirement benefit had the member retired as of the date of entry into the DROP program plus earnings. This accumulated amount is paid in a lump-sum when the member leaves active service at the end of the DROP period.

Summary of Significant Accounting Policies - All Plans

■ **Basis of Accounting**

The accounts of the plans 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 plans are recognized when due and when the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and are payable in accordance with the terms of the plans.

■ **Investments**

If available, quoted market prices are used to value investments. Purchases and sales of investment securities are recorded on a trade-date basis. Many factors are considered in arriving at fair value. In general, however, corporate bonds and government obligations are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in equity funds are valued at the quoted market price.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 10 - Defined Benefit Pension Plans (Continued)

Summary of Significant Accounting Policies - All Plans (Concluded)

■ **Investments (Concluded)**

Investments are held with a registered security dealer. Investment decisions are made by the investment advisor who provides quarterly reports of the investment portfolio and its performance to the Board of Trustees for each plan. Performance is assessed quarterly by A.G. Edwards.

■ **Cash and Cash Equivalents**

From time-to-time, small amounts of cash are maintained in the plans 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.

■ **Contributions Required and Contribution Made**

City ordinances and Florida Statutes require contributions to be determined by actuarially determined rates that, expressed as percentages of annual covered payroll, when combined with employee contributions are designed to accumulate sufficient assets to pay benefits when due. Each plan's Board has the authority to propose amendments to employee and employer contribution rates, but these amendments must be approved by the City Commission. The Florida Legislature determines state contributions to the firefighters' and police officers' plans. Actuarially determined contribution rates consider administrative costs. These costs are financed through a combination of contributions and investment earnings. City contribution rates for the year ended September 30, 2007, were 5.9% (General), 17.0% (Police), and 28.5% (Fire). Required contributions from active plan members to the plan are 5.0% for firefighters, police officers and general employees. Currently, there are no long-term contracts for contributions and, therefore, no outstanding amounts.

■ **Tax Status**

All plans are exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code.

Participant Data

	As of October 1, 2006		
	General Employees' Fund	Police Officers' Fund	Fire Fighters' Fund
Retirees and Beneficiaries Currently			
Receiving Benefits	17	18	9
Vested Terminated Employees	6	5	1
DROP Participant	2	1	3
Active Plan Participants:			
Vested	19	13	8
Nonvested	76	23	12
Total	120	60	33

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 10 - Defined Benefit Pension Plans (Continued)

Annual Pension Cost

The City's annual required contribution for the year ended September 30, 2007, was \$732,839 (\$160,446 General, \$320,649 Police, and \$251,744 Fire - City share). The annual required contribution for the 2007 fiscal year was determined as part of the October 1, 2005, actuarial valuations using the frozen entry age actuarial cost method. The actuarial assumptions in the October 1, 2005, valuations included (a) 8.0% investment rate of return (net of administrative expenses); (b) projected salary increases range from 6.0% to 7.0% per year; and (c) 3.0% rate of inflation. The assumptions did not include postretirement cost of living adjustment. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a level dollar, closed basis.

The remaining amortization period at October 1, 2005, was 30 years for Police Officers, 30 years for Fire Fighters, and 30 years for general employees.

Annual Required Contribution

The annual required contribution and the dollar amount actually contributed by the employer and the State of Florida, where applicable, for each plan for the year ended September 30, 2007, and the prior two years was as follows (information taken from the actuarial reports dated October 1, 2007):

General Employees' Pension Plan

<u>Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2007	\$ 160,446	100%	\$ (118,853)
September 30, 2006	112,500	100%	(124,493)
September 30, 2005	81,363	100%	(125,875)

Police Officers' Pension Plan

<u>Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2007	\$ 320,649	100%	\$ (140,418)
September 30, 2006	270,637	100%	(137,343)
September 30, 2005	252,658	100%	(138,868)

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 10 - Defined Benefit Pension Plans (Concluded)

Annual Required Contribution (Concluded)

Firefighters' Pension Plan

<u>Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2007	\$ 251,744	100%	\$ (71,252)
September 30, 2006	216,510	100%	(69,932)
September 30, 2005	235,629	100%	(70,708)

Funding Status and Progress

Information as to funding progress and contributions is presented for each plan in the required supplementary information section following the notes to financial statements.

Net Pension Obligation

The pension plans have been subjected to 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 (the Net Pension Obligation (NPO) for each plan at October 1, 1997, was \$0). Following are the components of pension cost for the year ended September 30, 2007, and the change in the Net Pension Asset (NPA) for the year:

	<u>General</u>	<u>Police</u>	<u>Fire</u>
Actuarially Determined Contribution (A)	\$ 160,446	\$ 320,649	\$ 251,744
Interest on NPA	(9,959)	(10,987)	(5,595)
Adjustments to (A)	15,599	7,912	4,275
Annual Pension Cost	166,086	317,574	250,424
Contributions Made	(160,446)	(320,649)	(251,744)
Increase in NPA	5,640	(3,075)	(1,320)
NPA, Beginning of Year	(124,493)	(137,343)	(69,932)
NPA, End of Year	\$ (118,853)	\$ (140,418)	\$ (71,252)

The City recorded the Net Pension Asset (negative NPO) of \$330,523 in the governmental activities column of the statement of net assets. The beginning of the year NPA of \$331,768 has been recorded through an adjustment to beginning net assets (see note 15).

Employee Buy-in - General Employees' Pension Plan

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

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 11 - Other Post-Employment Benefits

Pursuant to City Ordinance, the City provides health insurance and certain other benefits to former full-time employees after their retirement date, and requires the retiree to reimburse the City the full cost of the monthly premium. However, the City may be providing an “implicit subsidy” to these retirees, since the cost of health care for retirees is generally higher than the cost for other employees. The cost of that subsidy has not been calculated, and the accrued liability for post-employment benefits has not been determined. Premium payments for the 18 retirees participating in the plan totaled \$73,096 for the year ended September 30, 2007.

Note 12 - Commitments and Contingencies

Construction Commitments

The City has numerous ongoing construction projects at various stages of completion. Following is a schedule of the remaining commitments on these contracts as of September 30, 2007:

	<u>Contract Amount</u>	<u>Expended Through 09/30/07</u>	<u>Project Remaining</u>
Governmental Projects			
1919 Bldg (Cultural Facilities Grant) - SEMCO	\$ 75,000	\$ 60,000	\$ 15,000
1919 Bldg (Restoration Work) - SEMCO	1,007,500	934,830	72,670
Boys and Girls Club - SEMCO	498,356	478,200	20,156
Water and Wastewater Improvements			
Water and Reuse Plan - Boyle Engineering	165,071	152,774	12,297
Wastewater Treatment Plan - Boyle Engineering	845,876	806,765	39,111
Reuse Transmission Lines (East) - Boyle Engineering	195,776	139,159	56,617
Lift Station #2 Upgrade and Force Main Extension - Boyle Engineering	69,148	49,440	19,708
Southside Elevated Water Storage Tank - Boyle Engineering	139,236	68,281	70,955
Elevated Water Storage Tank - Boyle Engineering	20,184	17,463	2,721
Engineering Service for Southside Force Main - Boyle Engineering	223,347	168,752	54,595
Reuse-Soccer Field and Grove Transmission Line - Boyle Engineering	37,800	30,537	7,263
Airport Improvements			
Design and Build of the Automated Weather Observing System - All Weather, Inc.	132,215	122,715	9,500
Water - Fire Flow - Encore Construction, Company	2,266,495	2,058,524	207,971
Medium Intensity Runway Lights - Hoyle, Tanner & Associates, Inc.	428,773	44,500	384,273
Runway Extension - Hoyle, Tanner & Associates, Inc.	170,170	15,213	154,957
T-Hangar 1 - SEMCO Construction, Inc.	383,735	352,209	31,526
T-Hangar 2 - SEMCO Construction, Inc.	427,659	372,633	55,026

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Continued)

Note 12 - Commitments and Contingencies (Concluded)

Other Commitments

The City has signed several Inducement and Development Agreements with private businesses as an inducement for those businesses to relocate to the new planned industrial park. In these agreements, the City commits to the sale of land and the construction of certain water, fire protection, sanitary sewer, and roadway infrastructure improvements, to be partially financed with grants from the U.S. Economic Development Administration, and the State of Florida Department of Transportation. In the event the City is unable to secure the contemplated grants, the City is under no obligation to construct the improvements.

Contingencies

The City is a defendant in several lawsuits which arose in the ordinary course of the City's business. It is the City's position that the probability is unlikely that material amounts will ever be payable as a result of these proceedings.

Note 13 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City is a member of Public Risk Management of Florida (PRM), a local government risk management pool. The PRM program is structured under a self-insured retention insurance program, whereby PRM pays claims up to a specified amount annually for property and general liability, public officials' liability, automobile liability and workers' compensation. PRM purchases excess insurance or stop-loss insurance from commercial carriers to cover losses above the self-insured retention amounts.

PRM assesses each member its pro rata share of the estimated amount required to meet current year losses and operating expenses. If total member assessments (premiums) do not produce sufficient funds to meet its obligations, PRM can make additional limited assessments. Losses, if any, in excess of PRM's ability to assess its members would revert back to the member that incurred the loss. As of September 30, 2007, no additional assessments could be required from the City to fund prior year costs of the risk pool.

Note 14 - Other Transactions Between the Primary Government and Component Unit

During 2007, the City provided the use of certain City personnel to the Authority (the discretely presented component unit) 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 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.

NOTES TO FINANCIAL STATEMENTS
CITY OF LAKE WALES, FLORIDA
(Concluded)

Note 14 - Other Transactions Between the Primary Government and Component Unit (Concluded)

As of September 30, 2007, the two parties (the City and Airport Authority) had not agreed to a charge-out methodology for these services. An interlocal agreement that may address this issue for future years was adopted shortly after year-end (see paragraph below). For fiscal year 2007, the City defaulted to the charge-out methodology for its various departments in its 2007 budget. Public Service department costs totaling \$10,958 were charged to the Authority for the year ended September 30, 2007.

An interlocal agreement was approved and executed by the Airport Board and the City Commission in October 2007. Both Parties agreed that the Authority did not, and does not, have sufficient funds available to pay all of the costs of operating the Authority, and as a result thereof, the City will pay certain costs incurred by the Authority. Payments by the City shall not exceed a period of five years. In all events, the Authority agreed to comply with the policies and procedures of the City, including but not limited to the policies governing investments and the purchase and acquisition of goods and services.

Note 15 - Prior Period Adjustments

Beginning net assets in governmental activities have been restated as of October 1, 2006, by a net increase of \$3,888,530. The correction reflects the following changes:

Record Infrastructure at Transition (note 1.G)	\$ 3,660,262
Record Net Pension Asset (note 10)	331,768
Record FBO Prepayment Credit (note 6)	<u>(103,500)</u>
Total Adjustment	<u><u>\$ 3,888,530</u></u>

The effect on specific prior years has not been determined.

Note 16 - Special Item

During fiscal year ended September 30, 2007, land owned by the City and held within the Community Redevelopment fund was sold to a developer. The transaction is presented as a special item on the accompanying statement of activities in the amount of \$1,963,070 representing the gain on the sale of the land and on the accompanying governmental funds statement of revenues, expenditures and changes in fund balance in the amount of \$3,500,000 representing the proceeds from the sale of the land.

Note 17 - Subsequent Event

On December 24, 2007, the City issued \$9,500,000 of revenue notes to finance capital improvements within the Community Redevelopment area. The interest rate on the note is 3.773 percent and the final maturity date is October 1, 2027.

REQUIRED SUPPLEMENTARY INFORMATION

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 6,304,096	\$ 6,550,043	\$ 6,690,556	\$ 140,513
Licenses and Permits	790,576	445,419	437,690	(7,729)
Intergovernmental	1,164,807	1,171,698	1,167,636	(4,062)
Charges for Services	1,706,156	1,651,583	1,641,443	(10,140)
Fines and Forfeitures	170,800	137,700	136,911	(789)
Interest and Miscellaneous	113,626	175,256	163,402	(11,854)
Total Revenues	<u>10,250,061</u>	<u>10,131,699</u>	<u>10,237,638</u>	<u>105,939</u>
Expenditures				
General Government:				
City Commission	97,093	73,588	72,726	862
City Manager	277,862	276,578	274,720	1,858
City Clerk	79,480	78,481	77,768	713
Finance	286,249	312,090	313,189	(1,099)
Human Resources	120,600	134,696	134,080	616
City Attorney	44,795	59,930	59,929	1
Planning	151,064	156,026	155,460	566
Fleet Maintenance	108,923	95,418	93,815	1,603
Facilities Maintenance	70,355	88,974	88,019	955
Information Services	101,327	119,422	118,611	811
Municipal Building Administration	69,938	75,538	75,341	197
Disaster Repairs	0	268,980	268,980	0
Nondepartmental	40,000	43,200	42,878	322
Support Services	152,764	185,557	183,942	1,615
Public Safety:				
Police	4,358,856	4,530,912	4,548,895	(17,983)
Fire	2,098,206	2,235,164	2,199,804	35,360
Building Permits and Inspections	656,576	495,146	491,739	3,407
Physical Environment:				
Waste Disposal	802,944	765,644	766,523	(879)
Cemetery	208,445	199,558	198,082	1,476
Parks	522,520	531,014	528,384	2,630
Economic Environment	11,000	11,000	11,000	0
Human Services	20,700	20,700	20,700	0
Culture and Recreation:				
Recreation Facilities	397,913	406,671	406,093	578
Recreation Services	262,538	252,708	251,122	1,586
Depot Museum	148,275	172,124	171,797	327
Other Culture and Recreation	72,463	71,464	71,342	122
(Total Expenditures)	<u>(11,160,886)</u>	<u>(11,660,583)</u>	<u>(11,624,939)</u>	<u>35,644</u>

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA
(Concluded)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
(Deficiency) of Revenues (Under)				
Expenditures	\$ (910,825)	\$ (1,528,884)	\$ (1,387,301)	\$ 141,583
Other Financing Sources (Uses)				
Insurance Recoveries	0	335,412	335,412	0
Transfers in	930,000	828,000	828,000	0
Transfers (out)	(171,971)	(248,456)	(248,456)	0
Total Other Financing Sources (Uses)	<u>758,029</u>	<u>914,956</u>	<u>914,956</u>	<u>0</u>
(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses	(152,796)	(613,928)	(472,345)	141,583
Fund Balances, Beginning of Year	<u>1,500,808</u>	<u>1,349,086</u>	<u>1,349,086</u>	<u>0</u>
Fund Balances, End of Year	<u>\$ 1,348,012</u>	<u>\$ 735,158</u>	<u>\$ 876,741</u>	<u>\$ 141,583</u>

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY REDEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 2,268,946	\$ 2,318,083	\$ 2,318,083	\$ 0
Charges for Services	0	0	682	682
Interest and Miscellaneous	3,345,000	3,620,000	3,633,084	13,084
Total Revenues	<u>5,613,946</u>	<u>5,938,083</u>	<u>5,951,849</u>	<u>13,766</u>
Expenditures				
Current:				
Public Safety	158,684	164,928	152,138	12,790
Economic Environment	4,260,046	4,306,432	2,828,298	1,478,134
(Total Expenditures)	<u>(4,418,730)</u>	<u>(4,471,360)</u>	<u>(2,980,436)</u>	<u>1,490,924</u>
Excess of Revenues Over Expenditures	<u>1,195,216</u>	<u>1,466,723</u>	<u>2,971,413</u>	<u>1,504,690</u>
Other Financing Sources (Uses)				
Bond Proceeds	4,015,305	4,015,305	0	(4,015,305)
Transfers (out)	(5,483,553)	(4,289,859)	(1,569,226)	2,720,633
Total Financing Sources (Uses)	<u>(1,468,248)</u>	<u>(274,554)</u>	<u>(1,569,226)</u>	<u>(1,294,672)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(273,032)</u>	<u>1,192,169</u>	<u>1,402,187</u>	<u>210,018</u>
Fund Balances, Beginning of Year	<u>353,611</u>	<u>197,491</u>	<u>197,491</u>	<u>0</u>
Fund Balances, End of Year	<u>\$ 80,579</u>	<u>\$ 1,389,660</u>	<u>\$ 1,599,678</u>	<u>\$ 210,018</u>

**BUDGETARY COMPARISON SCHEDULE
HISTORIC PRESERVATION FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 970,000	\$ 1,081,886	\$ 879,812	\$ (202,074)
Interest and Miscellaneous	139,500	138,302	138,302	0
Total Revenues	<u>1,109,500</u>	<u>1,220,188</u>	<u>1,018,114</u>	<u>(202,074)</u>
Expenditures				
Current:				
Culture and Recreation	1,267,979	1,296,549	1,296,549	0
(Total Expenditures)	<u>(1,267,979)</u>	<u>(1,296,549)</u>	<u>(1,296,549)</u>	<u>0</u>
(Deficiency) of Revenues (Under)				
Expenditures	<u>(158,479)</u>	<u>(76,361)</u>	<u>(278,435)</u>	<u>(202,074)</u>
Fund Balances, Beginning of Year	<u>158,479</u>	<u>182,350</u>	<u>182,350</u>	<u>0</u>
Fund Balances, End of Year	<u>\$ 0</u>	<u>\$ 105,989</u>	<u>\$ (96,085)</u>	<u>\$ (202,074)</u>

**REQUIRED SUPPLEMENTARY INFORMATION
FIREFIGHTERS' PENSION PLAN
CITY OF LAKE WALES, FLORIDA**

Schedule of Funding Progress - Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
10/01/07	\$ 5,679,086	\$ 8,033,286	\$ 2,354,200	70.69%	\$ 947,177	248.55%
10/01/06	5,276,297	7,623,452	2,347,155	69.21%	906,142	259.03%
10/01/05	4,953,540	7,409,118	2,455,578	66.86%	843,618	291.08%
10/01/04	4,794,974	6,996,003	2,201,029	68.54%	714,282	308.15%
10/01/03	4,753,916	5,705,326	951,410	83.32%	686,076	138.67%
10/01/02	4,715,670	5,657,742	942,072	83.35%	792,882	118.82%

Schedule of Employer Contributions - Firefighters' Pension Plan

Period Ended	Required Contribution	City Contribution	State Contribution	Percentage Contributed	Net Pension Obligation (Asset)
9/30/07	\$ 340,107	\$ 251,744	\$ 88,363	100.00%	\$ (71,252)
9/30/06	294,486	216,510	77,976	100.00%	(69,932)
9/30/05	314,374	235,629	78,745	100.00%	(70,708)
9/30/04	275,583	207,675	67,908	100.00%	(71,493)
9/30/03	238,835	176,722	62,113	100.00%	(72,287)
9/30/02	193,271	132,608	60,663	100.00%	(73,090)

**REQUIRED SUPPLEMENTARY INFORMATION
POLICE OFFICERS' PENSION PLAN
CITY OF LAKE WALES, FLORIDA
(Continued)**

Schedule of Funding Progress - Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
10/01/07	\$ 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	2,136,262	79.59%	1,765,347	121.01%
10/01/04	7,915,414	9,578,774	1,663,360	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%
10/01/02	7,758,257	8,405,334	647,077	92.30%	1,545,797	41.86%

Schedule of Employer Contributions - Police Officers' Pension Plan

Period Ended	Required Contribution	City Contribution	State Contribution	Percentage Contributed	Net Pension Obligation (Asset)
9/30/07	\$ 430,249	\$ 320,649	\$ 109,600	100.00%	\$ (140,418)
9/30/06	381,939	270,637	111,302	100.00%	(137,343)
9/30/05	358,590	252,658	105,932	100.00%	(138,868)
9/30/04	277,944	174,138	103,806	100.00%	(140,409)
9/30/03	226,158	133,762	92,396	100.00%	(141,968)
9/30/02	213,356	131,308	88,009	102.79%	(143,544)

**REQUIRED SUPPLEMENTARY INFORMATION
GENERAL EMPLOYEES' PENSION PLAN
CITY OF LAKE WALES, FLORIDA
(Concluded)**

Schedule of Funding Progress - General Employees' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
10/01/07	\$ 8,048,493	\$ 9,253,494	\$ 1,205,001	86.98%	\$ 3,133,820	38.45%
10/01/06	6,762,740	7,891,683	1,128,943	85.69%	3,091,143	36.52%
10/01/05	6,092,211	6,391,916	299,705	95.31%	2,532,944	11.83%
10/01/04	5,760,618	6,196,382	435,764	92.97%	2,201,601	19.79%
10/01/03	5,534,573	5,968,716	434,143	92.73%	2,000,555	21.70%
10/01/02	5,271,538	5,715,262	443,724	92.24%	2,043,274	21.72%

Schedule of Employer Contributions - General Employees' Pension Plan

Period Ended	Required Contribution	City Contribution	State Contribution	Percentage Contributed	Net Pension Obligation (Asset)
9/30/07	\$ 160,446	\$ 160,446	\$ 0	100.00%	\$ (118,853)
9/30/06	112,500	112,500	0	100.00%	(124,493)
9/30/05	81,363	81,363	0	100.00%	(125,875)
9/30/04	69,328	69,328	0	100.00%	(127,272)
9/30/03	68,482	68,482	0	100.00%	(128,685)
9/30/02	63,348	63,348	0	100.00%	(130,114)

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
PENSION SCHEDULES
CITY OF LAKE WALES, FLORIDA**

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

	<u>Firefighters</u>	<u>Police Officers</u>	<u>General Employees</u>
Actuarial Valuation			
Frequency	Annual	Annual	Annual
Latest Date	10/1/07	10/1/07	10/1/07
Basis for Contribution	10/1/05	10/1/05	10/1/05
Pre 10/1/06 Cost Method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Post 10/1/06 Cost Method	Entry Age Normal	Entry Age Normal	Frozen Entry Age
Amortization			
Method	Level % of Pay	Level % of Pay	Level % of Pay
Open/Closed	Closed	Closed	Closed
Remaining Amortization Period	30 Years	30 Years	30 Years
Asset Valuation Method			
	4-Year Smoothing	4-Year Smoothing	4-Year Smoothing
Assumptions			
Investment Earnings	8.00%	8.00%	8.00%
Salary Increases	6.00%	6.00%	7.00%
Includes Inflation at	3.00%	3.00%	3.00%

COMBINING FUND STATEMENTS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Transportation 102	Forfeitures 106	Library 110	Law Enforcement Block Grant 116	CDBG 131	Capital Projects 330	
Assets							
Cash and Cash Equivalents	\$ 11,438	\$ 33,006	\$ 191,752	\$ 439	\$ 18,317	\$ 242,388	\$ 497,340
Restricted Cash	0	0	0	0	0	653,643	653,643
Due from Other Governments	178,027	0	0	0	99,402	231,913	509,342
Prepays	0	0	12,590	0	0	0	12,590
Total Assets	<u>189,465</u>	<u>33,006</u>	<u>204,342</u>	<u>439</u>	<u>117,719</u>	<u>1,127,944</u>	<u>1,672,915</u>
Liabilities and Fund Balances							
Liabilities							
Accounts Payable	48,635	170	1,399	0	8,686	104,507	163,397
Other Accrued Expenses	2,216	0	590	0	0	0	2,806
Interfund Payables	60,693	0	0	0	91,205	0	151,898
Deferred Revenue	73,250	0	0	0	0	182,399	255,649
Total Liabilities	<u>184,794</u>	<u>170</u>	<u>1,989</u>	<u>0</u>	<u>99,891</u>	<u>286,906</u>	<u>573,750</u>
Fund Balances							
Reserved for:							
Other Purposes	4,671	32,836	202,353	439	17,828	653,643	911,770
Unreserved	0	0	0	0	0	187,395	187,395
Total Fund Balance	<u>4,671</u>	<u>32,836</u>	<u>202,353</u>	<u>439</u>	<u>17,828</u>	<u>841,038</u>	<u>1,099,165</u>
Total Liabilities and Fund Balances	<u>\$ 189,465</u>	<u>\$ 33,006</u>	<u>\$ 204,342</u>	<u>\$ 439</u>	<u>\$ 117,719</u>	<u>\$ 1,127,944</u>	<u>\$ 1,672,915</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	<u>Special Revenue Funds</u>						
	<u>Transportation 102</u>	<u>Forfeitures 106</u>	<u>Library 110</u>	<u>Law Enforcement Block Grant 116</u>	<u>CDBG 131</u>	<u>Capital Projects 330</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues							
Taxes	\$ 707,752	\$ 0	\$ 488,073	\$ 0	\$ 0	\$ 0	\$ 1,195,825
Intergovernmental	123,985	0	386,382	19,171	240,170	636,712	1,406,420
Charges for Services	96,331	0	0	0	0	0	96,331
Fines and Forfeitures	0	76,068	0	0	0	0	76,068
Interest and Miscellaneous	2,578	2,448	49,148	476	133	301,121	355,904
Total Revenues	<u>930,646</u>	<u>78,516</u>	<u>923,603</u>	<u>19,647</u>	<u>240,303</u>	<u>937,833</u>	<u>3,130,548</u>
Expenditures							
Current:							
Public Safety	0	128,923	0	19,208	0	0	148,131
Physical Environment	0	0	0	0	244,519	0	244,519
Transportation	1,562,517	0	0	0	0	0	1,562,517
Culture and Recreation	0	0	876,707	0	0	0	876,707
Capital Outlay	0	0	0	0	0	829,339	829,339
(Total Expenditures)	<u>(1,562,517)</u>	<u>(128,923)</u>	<u>(876,707)</u>	<u>(19,208)</u>	<u>(244,519)</u>	<u>(829,339)</u>	<u>(3,661,213)</u>
(Deficiency) Excess of Revenues (Under) Over Expenditures	<u>(631,871)</u>	<u>(50,407)</u>	<u>46,896</u>	<u>439</u>	<u>(4,216)</u>	<u>108,494</u>	<u>(530,665)</u>
Other Financing Sources (Uses)							
Transfers in	632,024	14,397	0	0	0	60,000	706,421
Transfers (out)	(199,878)	0	0	0	0	(14,397)	(214,275)
Total Other Financing Sources (Uses)	<u>432,146</u>	<u>14,397</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>45,603</u>	<u>492,146</u>
Net Change in Fund Balances	<u>(199,725)</u>	<u>(36,010)</u>	<u>46,896</u>	<u>439</u>	<u>(4,216)</u>	<u>154,097</u>	<u>(38,519)</u>
Fund Balances Excess, Beginning of Year	<u>204,396</u>	<u>68,846</u>	<u>155,457</u>	<u>0</u>	<u>22,044</u>	<u>686,941</u>	<u>1,137,684</u>
Fund Balances Excess, End of Year	<u>\$ 4,671</u>	<u>\$ 32,836</u>	<u>\$ 202,353</u>	<u>\$ 439</u>	<u>\$ 17,828</u>	<u>\$ 841,038</u>	<u>\$ 1,099,165</u>

**COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	Pension Trust Funds			Total
	Firefighters	Police Officers	General Employees	
Assets				
Cash	\$ 69,650	\$ 141,130	\$ 0	\$ 210,780
Investments:				
Money Market Funds	632,290	1,074,868	955,019	2,662,177
Corporate Bonds and Government Obligations	1,628,829	2,648,428	1,796,728	6,073,985
Equity Funds	4,463,098	6,588,288	5,589,795	16,641,181
Total Investments	<u>6,724,217</u>	<u>10,311,584</u>	<u>8,341,542</u>	<u>25,377,343</u>
Receivables:				
Interest and Dividends	15,482	26,590	16,971	59,043
Interfund	0	0	12,641	12,641
Due from Other Governments	38,421	0	0	38,421
Total Receivables	<u>53,903</u>	<u>26,590</u>	<u>29,612</u>	<u>110,105</u>
Total Assets	<u>6,847,770</u>	<u>10,479,304</u>	<u>8,371,154</u>	<u>25,698,228</u>
Liabilities				
Due to DROP Participants	507,768	95,168	129,890	732,826
Interfund Payables	0	0	81	81
Prepaid Contributions from City	48,084	37,861	32,432	118,377
Total Liabilities	<u>555,852</u>	<u>133,029</u>	<u>162,403</u>	<u>851,284</u>
Net Assets				
Net Assets Held in Trust for Pension Benefits	<u>\$ 6,291,918</u>	<u>\$ 10,346,275</u>	<u>\$ 8,208,751</u>	<u>\$ 24,846,944</u>

**COMBINING STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

	Pension Trust Funds			Total
	Municipal Firefighters' Retirement Trust	Municipal Police Retirement Trust	General Employees' Retirement Trust	
Additions				
Contributions:				
Employer	\$ 251,744	\$ 320,649	\$ 160,446	\$ 732,839
Employee	48,512	99,998	161,018	309,528
State of Florida	108,027	109,600	0	217,627
Employee Buy-back	0	0	284,070	284,070
Total Contributions	408,283	530,247	605,534	1,544,064
Net Investment Earnings:				
Realized and Unrealized Increase in Fair Value of Investment	657,795	1,058,539	859,453	2,575,787
Interest and Dividend Income	194,754	304,758	225,135	724,647
Total Investment Earnings	852,549	1,363,297	1,084,588	3,300,434
(Investment Expense)	(47,348)	(72,170)	(56,503)	(176,021)
Net Investment Earnings	805,201	1,291,127	1,028,085	3,124,413
Total Additions	1,213,484	1,821,374	1,633,619	4,668,477
Deductions				
Benefits	415,531	551,159	185,199	1,151,889
Refunds of Contributions	0	92,041	115,478	207,519
Administrative Expenses	42,013	49,438	44,499	135,950
(Total Deductions)	(457,544)	(692,638)	(345,176)	(1,495,358)
Change in Net Assets	755,940	1,128,736	1,288,443	3,173,119
Net Assets, Beginning of Year	5,535,978	9,217,539	6,920,308	21,673,825
Net Assets, End of Year	\$ 6,291,918	\$ 10,346,275	\$ 8,208,751	\$ 24,846,944

SINGLE AUDIT SECTION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

Federal Awards	CFSA/CSFA Number	Pass-Through Grantors/ State Contract Number	Award Amount	(Expenditures Recognized)
U.S. Department of Housing and Urban Development				
Passed Through Florida Department of Community Affairs				
Community Development Block Grant:*				
Neighborhood Grant - Flood and Drainage Project	14.228	07DB-3R-07-63-02-NO5	\$ 750,000	\$ 15,000
Disaster Recovery Grant	14.228	06DB-03-07-63-02-W16	500,000	314,852
U.S. Department of Justice				
Bulletproof Vest Grant	16.607	2003-BU-BX-03-01-39-73	992	992
Bulletproof Vest Grant	16.607	2003-BU-BX-06-03-11-40	1,733	1,733
Edward Byrne Memorial Justice Assistance Grant	16.738	2007-JAGC-POLK-11-P3-002	12,000	12,000
Edward Byrne Memorial Justice Assistance Grant	16.738	2007-JAGD-POLK-4-P4-037	7,171	7,171
U.S. Department of Transportation Federal Aviation Administration				
Airport Improvement Program:				
Medium Intensity Runway Lighting (Design)	20.106	3-12-0040-008-2006	47,025	42,275
Medium Intensity Runway Lighting (Construction)	20.106	3-12-0040-009-2007	365,059	0
Federal Transit Administration				
Hurricane Recovery Grant	Not available	12-0040-E1-2005	33,132	33,132
U.S. Department of Homeland Security				
Hazard Mitigation Grant	97.039	06HM-4@-07-63-02-041	122,231	122,231
Environmental Protection Agency, Passed Through Florida Department of Environmental Protection				
Capitalization Grants for State Revolving Fund:*				
Treatment and Reclaimed Water Reuse Facilities				
(Upgrade Sewage Treatment Plant) (1)	66.458	CS12075907P	1,592,804	0
Reclaimed Water Reuse Facilities (2)	66.458	CS12075911O	1,120,193	0
Treatment Facilities (Sludge Dewatering) (3)	66.458	WWG12075912S	1,390,983	0
Wastewater Management (System-wide Planning/Design) (4)	66.458	WW75913P	1,025,346	825,196
Total Federal Awards			6,968,669	1,374,582

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA
(Concluded)**

<u>State Financial Assistance</u>	<u>CFSA/CSFA Number</u>	<u>Pass-Through Grantors/ State Contract Number</u>	<u>Award Amount</u>	<u>(Expenditures Recognized)</u>
Florida Department of State				
Cultural Facilities Grants:*				
Hardman Complex	45.014	06-9040	\$ 110,000	\$ 110,000
Hardman Complex	45.014	07-9022	260,000	230,000
Historic Preservation Grants:				
Hardman Hall	45.032	SC447	300,000	188,200
School Complex, Phase V	45.032	SC621	300,000	209,612
City Barn	45.032	SC709	350,000	0
Florida Department of Environmental Protection				
Florida Recreation Development Assistance Program:				
Skate Park	37.017	A08071	50,000	0
Boat Ramp	37.017	A08069	50,000	0
Soccer/Multi-Purpose Field	37.017	F50192	200,000	195,210
Executive Office of the Governor				
Economic Development Transportation Fund:				
Office of Tourism, Trade, and Economic Development	31.002	OT07-017	3,000,000	15,213
Florida Department of Transportation				
Aviation Development Grant:*				
Public Transportation Joint Participation Agreement	55.004	420794-1-94-01	1,500,000	1,500,000
Medium Intensity Runway Lighting	55.004	AOE33	7,580	1,113
Airport Reconstruction	55.004	ANV17	762,560	312,458
Total State Financial Assistance			<u>6,890,140</u>	<u>2,761,806</u>
Total Federal Awards and State Financial Assistance			<u>\$ 13,858,809</u>	<u>\$ 4,136,388</u>

* Denotes Major Program

- (1) Loan Balance at September 30, 2007 - \$1,032,092
- (2) Loan Balance at September 30, 2007 - \$609,130
- (3) Loan Balance at September 30, 2007 - \$1,206,106
- (4) Loan Balance at September 30, 2007 - \$1,025,346

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2007
CITY OF LAKE WALES, FLORIDA**

Note 1 - General

The accompanying schedule of expenditures of federal awards and state financial assistance presents the activity of all federal and state financial assistance programs of the City of Lake Wales, Florida (the City) as well as the Lake Wales Airport Authority (the discretely-presented component unit) for the year ended September 30, 2007. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (federal awards) and Chapter 69I-5, *Rules of the Florida Department of Financial Services* (state financial assistance).

All federal awards and state financial assistance received directly from federal or state agencies, as well as federal awards and state financial assistance passed through other governmental agencies, are included in the schedule.

Note 2 - Basis of Accounting

The accompanying schedule of expenditures of federal awards and state financial assistance is presented using the same basis of accounting as the fund in which the grant is recorded, generally the accrual or modified accrual basis, as described in note 1 to the City's financial statements.

Note 3 - Contingencies

Grant monies received and disbursed by the City or the Lake Wales Airport Authority are for specific purposes and are subject to review by the grantor agencies. Such reviews potentially may result in disallowed expenditures.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR FEDERAL AWARDS PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND THE FLORIDA DEPARTMENT OF FINANCIAL
SERVICES, *STATE PROJECTS COMPLIANCE SUPPLEMENT***

Honorable Mayor and City Commission
City of Lake Wales
Lake Wales, Florida

Compliance

We have audited the compliance of the City of Lake Wales, Florida (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, and the requirements described in the Florida Department of Financial Services *State Projects Compliance Supplement*, that are applicable to each of its major federal programs and state projects for the year ended September 30, 2007. The City's major federal programs and state projects are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Chapter 69I-5, *Rules of the Florida Department of Financial Services*, and Chapter 10.550, *Rules of the Auditor General*. Those standards, rules, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs or state projects for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal program and state project. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on the major federal program or

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Honorable Mayor and City Commission
City of Lake Wales
Lake Wales, Florida

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR FEDERAL AWARDS PROGRAM AND STATE FINANCIAL ASSISTANCE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND THE FLORIDA DEPARTMENT OF FINANCIAL
SERVICES, STATE PROJECTS COMPLIANCE SUPPLEMENT
(Concluded)**

Internal Control Over Compliance (Concluded)

state project to determine our auditing procedures for the purpose of expressing our opinion on effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the Mayor and City Commissioners of the City, management, the Florida Auditor General, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

April 30, 2008
Sarasota, Florida

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS PROGRAM AND
STATE FINANCIAL ASSISTANCE PROJECT
CITY OF LAKE WALES, FLORIDA**

PART A - SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report expresses unqualified opinions on the financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Lake Wales, Florida (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements.
2. No material weaknesses in the internal control over financial reporting, or significant deficiencies were disclosed during the audit of the basic financial statements (see 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*).
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit (see 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*).
4. No material weaknesses or significant deficiencies were disclosed during the audit of compliance and internal control applicable to the City's major federal programs or major state projects (see report on compliance with requirements applicable to each major federal awards program or major state financial assistance project and internal control over compliance in accordance with OMB Circular A-133 and the Florida Department of Financial Services, *State Projects Compliance Supplement*).
5. No instances of noncompliance material to a major federal program or major state project were disclosed during the audit (see the same report referenced in 4).
6. Audit findings relative to major federal programs and major state projects for the City are reported in Part C of this schedule.
7. The programs tested as major programs/projects were the following:
 - **Major Federal Programs**
 - U.S. Department of Housing and Urban Development, Community Development Block Grant, CFDA Number 14.228;
 - Environmental Protection Agency, Passed Through Florida Department of Environmental Protection, Capitalization Grants for State Revolving Fund, CFDA Number 66.458;

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS PROGRAM AND
STATE FINANCIAL ASSISTANCE PROJECT
CITY OF LAKE WALES, FLORIDA
(Concluded)**

PART A - SUMMARY OF AUDITORS' RESULTS (Concluded)

■ **Major State Projects**

- Florida Department of State, Cultural Facilities Grants, CSFA Number 45.014; and
 - Florida Department of Transportation, Aviation Development Grants, CSFA Number 55.004
8. The threshold for distinguishing Type A and Type B programs/projects was \$300,000 for both major federal programs and state projects.
9. The City did qualify as a low-risk auditee pursuant to OMB Circular A-133.

PART B - FINDINGS - FINANCIAL STATEMENT AUDIT

None

PART C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AND MAJOR STATE FINANCIAL ASSISTANCE PROJECTS

None

PART D - OTHER ISSUES

No summary schedule of prior audit findings is required because there were no findings in the prior year federal or state single audits. No corrective action plan is required because there were no findings in the current year requiring correction under the Federal or Florida Single Audits.

GOVERNMENT AUDITING SECTION

**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 Mayor and City Commission
City of Lake Wales
Lake Wales, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lake Wales, Florida (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City'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 City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

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

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

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Honorable Mayor and City Commission
City of Lake Wales
Lake Wales, Florida

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*
(*Concluded*)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

We noted certain other matters that we reported to management of the City in a separate Management Letter dated April 30, 2008.

This report is intended solely for the information and use of the Mayor, City Commission, the Florida Auditor General, management, and federal and state agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

April 30, 2008
Sarasota, Florida

MANAGEMENT LETTER

Honorable Mayor and City Commission
City of Lake Wales
Lake Wales, Florida

We have audited the basic financial statements of the City of Lake Wales, Florida (the City) as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated April 30, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and Chapter 69I-5, *Rules of the Florida Department of Financial Services*. We have issued our report on internal control over financial reporting and on compliance and other matters, report on compliance with requirements applicable to each major federal program and state project and on internal control over compliance, and schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated April 30, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the state of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information:

- Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective action has been taken to address significant findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report, except as noted below:
 - **06-1 Excess of Expenditures Over Appropriations** – The prior year comment is still applicable. Certain general fund department exceeded their budgeted appropriations (as amended) for the year ended September 30, 2007, as disclosed in note 2-C to the financial statements. We recommend the City review their procedures for preventing and detecting budget overage on a timely basis.
- Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit to include a review of provision 218.415, Florida Statutes, regarding investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.

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MANAGEMENT LETTER
(Continued)

- 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, accounting procedures, and internal controls. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., *Rules of the Auditor General*, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations and contractual provisions or abuse that have occurred, or are likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) 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 financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, and defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed no matters required to be disclosed by *Rules of the Auditor General* [Section 10.554(1)(i)5.].
- 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 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.
- 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 City 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 City for the fiscal year ended September 30, 2007, 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, 2007. In connection with our audit, we determined that these two reports were in agreement.
- Sections 10.554(1)(i)7.c. and 10.556(7), *Rules of the Auditor General*, require that we apply financial assessment procedures. In connection with our audit, we applied financial condition 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 Mayor and City Commission
City of Lake Wales
Lake Wales, Florida

MANAGEMENT LETTER
(Concluded)

We would like to take this opportunity to express our appreciation for the courtesies which have been extended to our staff. If you have any questions or comments about the contents of this letter, or the information accompanying this letter, please do not hesitate to contact us.

This management letter is intended solely for the information and use of the Mayor, City Commission, management, and certain federal and state agencies including the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

April 30, 2008
Sarasota, Florida

May 1, 2008

Honorable Mayor and City Commissioners
City of Lake Wales, Florida

Re: Response to Auditor's Management Letter Comments
Year Ended September 30, 2007



**City of
Lake Wales**

201 Central Avenue W.
P. O. Box 1320
Lake Wales, FL 33859-1320
Phone (863) 678-4182
Fax (863) 678-4180

Dear Commissioners:

In accordance with Florida Statutes and the rules of the Auditor General, the following is provided in response to comments made by the City's Independent Auditors, Purvis, Gray and Company, in connection with their audit of the City's Financial Statements for the year ended September 30, 2007.

Management Letter

Prior Year Recommendations:

06-1. Excess of Expenditures Over Appropriations at Department Level – Certain general fund departments exceeded their budgeted appropriations (as amended) for year ended September 30, 2007. Three departments were over; two due to increased health care cost allocations realized from claims runout of the City's self-insured health care program and one due to budget amendment error.

Department	Overage	Primary Cause
Police Department	\$17,983	Additional health insurance cost allocation.
Finance Department	\$ 1,099	Additional health insurance cost allocation.
Waste Disposal	\$ 879	Waste Disposal budget was prematurely reduced by \$37,300 in final budget amendment before final accounting adjustments were made.

As a whole the General Fund's actual expenditures were \$35,644 under budgeted appropriations. Due to escalating costs, the City's self-insured health care program has been discontinued. The City has implemented a fully insured health care program.

As Finance Director of the City of Lake Wales, I would like to note the extensive work and expertise on the part of our auditors and thank them for their efforts. As in past years, they have been innovative in their approach, constantly identifying opportunities for improvement.

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

Sincerely,

Sylvia A. Edwards, CPA, CGFO
Finance Director