

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORTS**

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

SEPTEMBER 30, 2006

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

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

SEPTEMBER 30, 2006

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

SEPTEMBER 30, 2006

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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, 2006, 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, 2006, 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 26, 2007, 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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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable 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, 2006, 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.

April 26, 2007
Sarasota, Florida

Purvis, Gray and Company, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006**

The City of Lake Wales' (the City) 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 auditor's report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$23,455,136 (net assets). Of this amount, \$1,398,415 (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 \$999,878 (or 4.5%). Governmental net assets decreased by \$118,408 (or 1.0%), and the business-type net assets increased by \$1,118,286 (or 11.1%).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,932,046, a decrease of \$443,413 (or 10.1%). Of this total amount, \$1,451,754 (or 36.9%), 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 an increase in fund balance of \$658,500, compared to a decrease of \$602,120 in the prior year. The reversal of position is attributed to insurance proceeds in the amount of \$770,222 received in the current year for disaster repair work completed in the prior year.

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 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.

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.

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(Continued)

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] will be 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 2005-44 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, 2006.

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).

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.

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(Continued)

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 statements 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 Capital Projects 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 and for the Community Redevelopment Fund to demonstrate compliance with the budget, immediately following the Notes to the Financial Statements. (See pages 60-61).

The basic governmental fund financial statements can be found on pages 17-19 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 government's 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.

**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(Continued)**

The basic proprietary fund financial statements can be found on pages 20-23 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 24-25 of this report.

Notes to the financial statements. 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 26-59 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 60-65 of this report. The combining statements of non-major governmental funds and fiduciary funds are presented following the required supplementary information.

Infrastructure assets

The City has deferred implementing the infrastructure portion related to general governmental assets until 2007. The City has elected to depreciate its infrastructure assets over their estimated useful life. Historically, a government's largest group of assets (infrastructure - roads, bridges, traffic signals, and underground pipes not associated with a utility, etc.) have not been reported nor depreciated in governmental financial statements. The new standard requires that these assets be valued and reported within the governmental column of the government-wide statements.

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 \$23,455,136. The overall financial position of the City was improved by \$999,878 from the prior year, an increase of approximately 4.5% from \$22.4 million in 2005 to \$23.4 million in 2006. The net assets of the business-type activities increased primarily as a result of operations. The net assets of the governmental type activities decreased. Capital assets net of depreciation and cash totaling \$3,177,154 were contributed to the re-created Lake Wales Airport Authority. The following table reflects the condensed Statement of Net Assets for the current year with comparative information for fiscal year 2005. (See page 15):

**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(Continued)**

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 5,952,904	\$ 9,103,780	\$ 2,358,950	\$ 4,869,792	\$ 8,311,854	\$ 13,973,572
Capital Assets, Net of						
Depreciation	21,091,317	20,446,930	20,563,336	18,029,224	41,654,653	38,476,154
Total Assets	27,044,221	29,550,710	22,922,286	22,899,016	49,966,507	52,449,726
Current and Other						
Liabilities	3,334,440	5,004,980	1,476,791	1,547,587	4,811,231	6,552,567
Long-term Debt						
Outstanding	11,434,572	12,152,113	10,265,568	11,289,788	21,700,140	23,441,901
Total Liabilities	14,769,012	17,157,093	11,742,359	12,837,375	26,511,371	29,994,468
Net Assets:						
Investment in Assets,						
Net of Related Debt	9,349,135	7,908,681	10,143,995	6,197,002	19,493,130	14,105,683
Restricted	2,160,716	696,578	402,875	-	2,563,591	696,578
Unrestricted	765,358	3,788,358	633,057	3,864,639	1,398,415	7,652,997
Total Net Assets:	\$ 12,275,209	\$ 12,393,617	\$ 11,179,927	\$ 10,061,641	\$ 23,455,136	\$ 22,455,258

Eighty-three percent (83%) 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.

Six percent (6%) of the City's net assets, \$1,398,415, 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, 2006
(Continued)

Statement of Activities

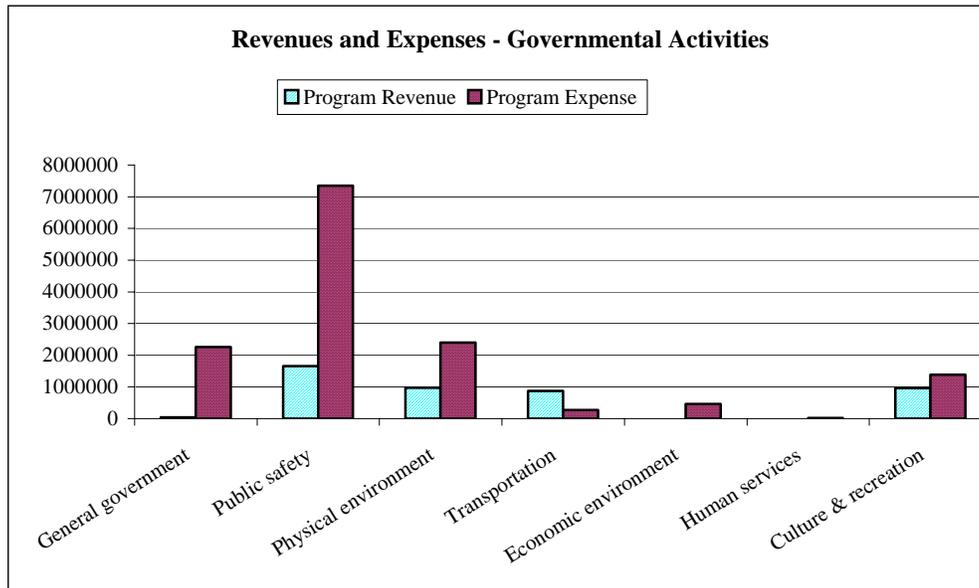
The following is a summary of the information presented in the Statement of Activities found on page 16 of this report, with comparative information for 2005:

	Changes in Net Assets (Summary)					
	As of September 30					
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for services	\$ 2,592,838	\$ 2,859,329	\$ 5,258,800	\$ 4,598,397	\$ 7,851,638	\$ 7,457,726
Operating grants and contributions	745,463	670,774	8,811	120,778	754,274	791,552
Capital grants and contributions	1,172,735	360,913	496,386	490,962	1,669,121	851,875
General revenues:						
Property taxes	5,473,219	4,723,412			5,473,219	4,723,412
Other taxes	3,583,222	3,341,629			3,583,222	3,341,629
Other	3,615,176	5,646,746	466,459	236,727	4,081,635	5,883,473
Total revenues	<u>17,182,653</u>	<u>17,602,803</u>	<u>6,230,456</u>	<u>5,446,864</u>	<u>23,413,109</u>	<u>23,049,667</u>
Expenses:						
General Government	2,254,202	4,936,119			2,254,202	4,936,119
Public Safety	7,348,265	6,351,058			7,348,265	6,351,058
Physical Environment	2,399,900	1,295,512			2,399,900	1,295,512
Transportation	270,039	1,085,392			270,039	1,085,392
Economic Environment	464,201	570,699			464,201	570,699
Human Services	24,402	32,963			24,402	32,963
Culture and Recreation	1,388,649	1,227,319			1,388,649	1,227,319
Interest on long-term debt	540,210	576,083			540,210	576,083
Public Utilities			4,546,209	4,030,470	4,546,209	4,030,470
Total expenses	<u>14,689,868</u>	<u>16,075,145</u>	<u>4,546,209</u>	<u>4,030,470</u>	<u>19,236,077</u>	<u>20,105,615</u>
Increase (decrease) in net assets before special item and transfers	2,492,785	1,527,658	1,684,247	1,416,394	4,177,032	2,944,052
<i>Special Item - Initial Contribution to Airport Authority</i>	(3,177,154)	-	-	-	(3,177,154)	-
Transfers	565,961	261,286	(565,961)	(261,286)	-	-
Increase (decrease) in net	(118,408)	1,788,944	1,118,286	1,155,108	999,878	2,944,052
Net assets - October 1	12,393,617	10,604,673	10,061,641	8,906,533	22,455,258	19,511,206
Net assets - September 30	<u>\$ 12,275,209</u>	<u>\$ 12,393,617</u>	<u>\$ 11,179,927</u>	<u>\$ 10,061,641</u>	<u>\$ 23,455,136</u>	<u>\$ 22,455,258</u>

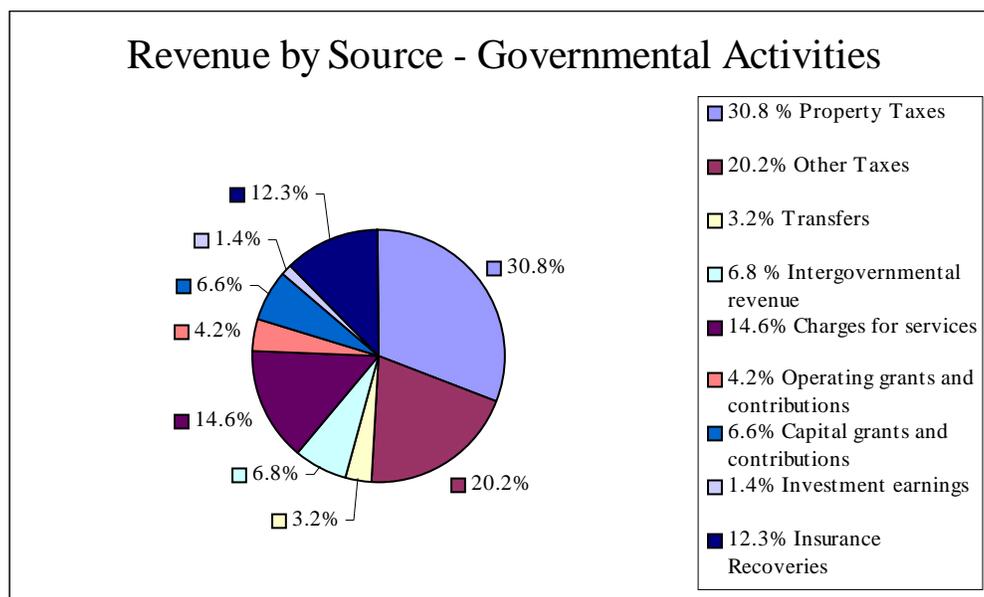
**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(Continued)**

Governmental activities

Governmental activities decreased the City's net assets by \$118,408. About 70 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:

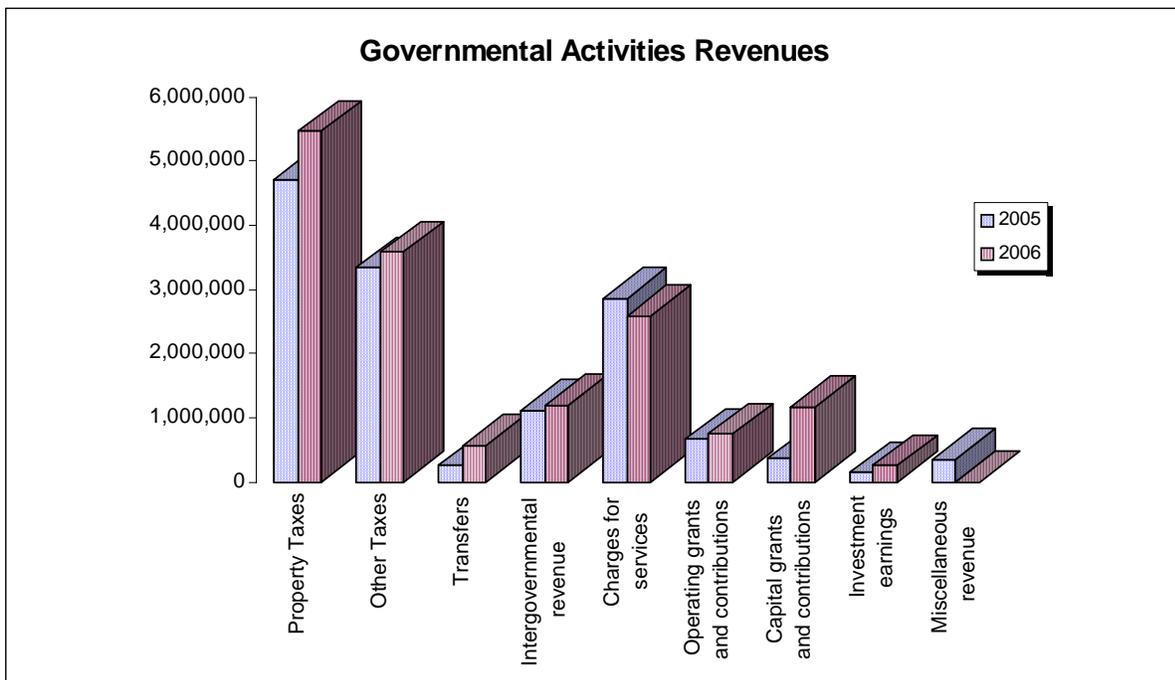


**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(Continued)**

Governmental Activities Revenues

The revenue source that grew the largest over the prior year was property taxes by \$749,807 (15.9 percent) over 2005 due to new construction and increased property values. Charges for services decreased \$266,491 (9.3 percent) because of a decline in building permits and impact fees. The millage rate was 8.94 mills for 2006 and 9.44 for 2005.

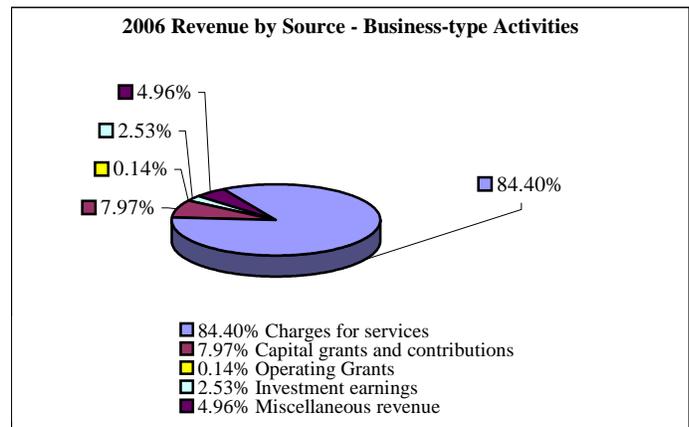
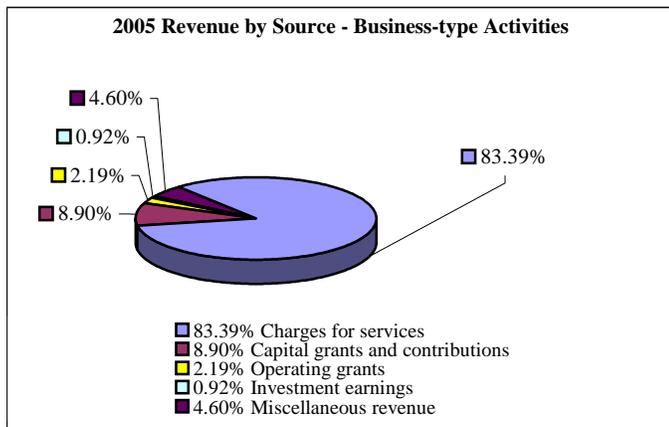
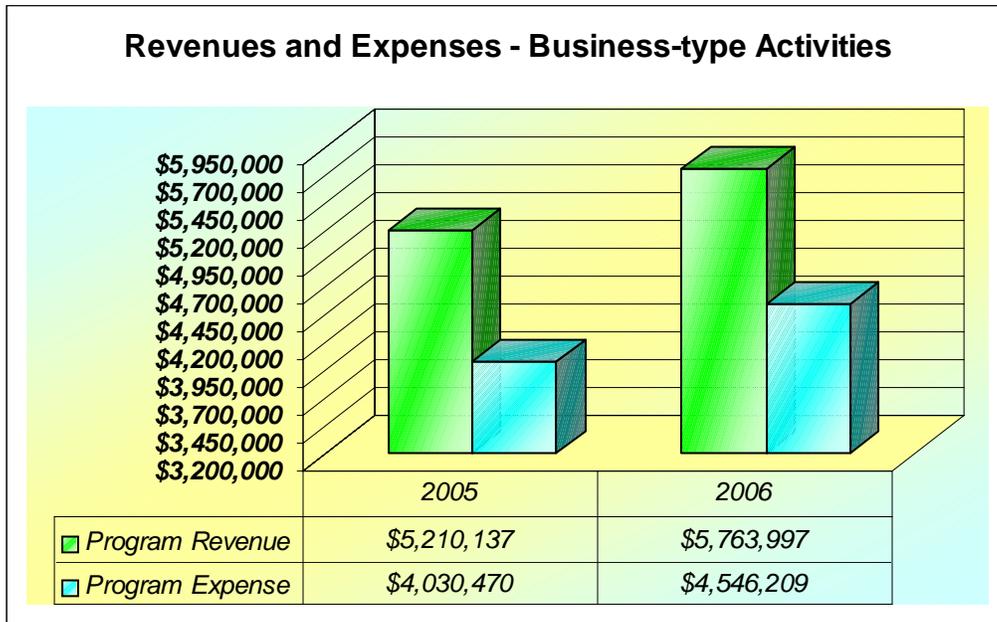
The chart below compares revenues by source for fiscal years 2005 and 2006:



**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(Continued)**

Business-type activities

Business-type activities increased the City's net assets by \$1,118,286 (after transfers) accounting for the total growth in the City's net assets. The following chart compares expenses with program revenues for the City's business-type activities for fiscal years 2005 and 2006:



Business-type Activities Key Factors

- Program revenues exceeded expenses by \$1,217,788 compared to \$1,179,667 in prior year.
- Charges for services increased by \$553,860. Revenues was up due to a 2.5% rate increase and many homes and businesses that were damaged and/or destroyed during the 2004 Hurricanes were repaired and/or reopened.
- Program expenses increased by \$515,739. Personal services costs were up \$198,921 (17.45%) mainly due to increased health care costs. Repairs and maintenance was up \$212,244 (55.5%) due to the system's age and the strain sustained from the 2004 Hurricanes.

**CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(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, 2006, the City's governmental funds reported combined ending fund balances of \$3,932,046 a decrease of \$443,413 in comparison with the prior year. Approximately 37 percent of this total amount, \$1,451,754, constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance, \$2,480,292, 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, 2006, the unreserved fund balance of the General Fund was \$1,260,393 while the total fund balance was \$1,349,086. 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 10.4 percent of total General Fund expenditures, while total fund balance represents 11.2 percent 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, 2006 amounted to \$633,057.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was an increase in net appropriations of \$838,899. Of this amount, \$591,429 is attributed to excess health insurance claims.

Budget amendments were adopted using available fund balance or revenues in excess of the original budget projections. During the year revenues were \$362,932 above budgetary estimates, expenditures were \$311,716 less than budgetary estimates. Revenues from electric franchise fees and utility service taxes were \$423,475 above estimated budgeted revenues. Disaster repairs expenditures were \$560,488 less than budgeted appropriations.

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, 2006 amounts to \$41,654,653 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment. Reporting for infrastructure will occur in 2007.

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(Continued)

City of Lake Wales' Capital Assets
(net of depreciation)
as of September 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 3,766,138	\$ 3,690,372	\$ 589,760	\$ 354,811	\$ 4,355,898	\$ 4,045,183
Buildings	7,016,686	7,200,670	324,909	339,702	7,341,595	7,540,372
Improvements other than buildings	6,626,491	6,716,350	15,464,800	15,352,367	22,091,291	22,068,717
Vehicles and equipment	2,230,899	1,564,677	1,374,967	1,405,132	3,605,866	2,969,809
Construction in progress	1,451,103	1,274,861	2,808,900	577,212	4,260,003	1,852,073
Total	<u>\$ 21,091,317</u>	<u>\$ 20,446,930</u>	<u>\$ 20,563,336</u>	<u>\$ 18,029,224</u>	<u>\$ 41,654,653</u>	<u>\$ 38,476,154</u>

The City transferred capital assets to its dependent component unit (Lake Wales Airport Authority) valued at \$651,569, net of depreciation (see Note 14, page 58).

Additional information on the City's capital assets is presented in Note 5 to the financial statements (see pages 40-42).

Long-term debt. At year-end, the City had total long-term debt outstanding of \$23,346,960. Total debt decreased by \$1,936,404 (7.6 percent) during the current fiscal year, due to principal payments of debt service; increased for new debt of \$599,900 for a new fire truck; and a net increase in employees' accrued compensated absences \$49,653. The 2006 Utility System Refunding Bond issue and the 1996 Utility System sinking fund account were used to retire the 1996 Utility Revenue Bond decreasing debt service by \$712,780; incurring a \$435,604 refunding loss to be amortized over the life of the refunding bond.

City of Lake Wales' Long-term Debt
As of September 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue Bonds & notes outstanding, net of discounts	\$11,823,988	\$12,628,236	\$10,511,287	\$11,977,938	\$22,335,275	\$24,606,174
Compensated Absences	924,933	873,664	86,752	88,368	1,011,685	962,032
Long-term debt TOTAL	<u>\$12,748,921</u>	<u>\$13,501,900</u>	<u>\$10,598,039</u>	<u>\$12,066,306</u>	<u>\$23,346,960</u>	<u>\$25,568,206</u>

CITY OF LAKE WALES, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006
(Concluded)

Additional information on the City's long-term debt is presented in Note 6 to the financial statements (pages 43-50).

Next Year's Budgets and Rates

Fiscal year 2007's adopted budget is based on a millage rate of 8.44 per \$1,000 of taxable valuation, which is 12.77 percent more than the rolled-back rate of 7.4841 mills. This rate is a reduction of .5 mills (5.6 percent less) from the rate of 8.94 mills assessed for 2006. The ad valorem tax rate of 8.44 mills generates an additional \$674,455 in excess of the revenue generated by the rolled-back rate. The additional revenue is budgeted to cover increases in insurance, fuel costs, employee benefits, addition of 3 firefighters, addition of 1 police officer, and a 3 percent cost of living increase.

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 and who have income less than \$20,000 are able to avoid taxes on 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 look promising.

The CRA has funding potential for fiscal year 2007 of over \$2.27 million, a 51 percent increase over fiscal year 2006. Currently, there is a pending contract on approximately 350 acres of undeveloped land owned by the CRA. The sale is scheduled to close in 2007.

On September 29, 2005 the City Commission adopted Ordinance 2005-44, 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 \$1.5 million in funding to help reconstruct the airport and \$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 58).

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, indicating the outlook for continued growth is favorable.

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, 2006
CITY OF LAKE WALES, FLORIDA

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport Authority
Assets				
Cash and Cash Equivalents	\$ 3,979,129	\$ 176,287	\$ 4,155,416	\$ 2,401,953
Receivables (Net of Allowance for Uncollectibles)	985,009	957,949	1,942,958	1,946
Inventory and Prepays	88,693	104,283	192,976	0
Restricted Assets:				
Cash and Cash Equivalents	495,580	780,585	1,276,165	0
Cash with Paying Agent	322,687	0	322,687	0
Investments	0	243,367	243,367	0
Accrued Interest	0	4,533	4,533	0
Capital Assets:				
Nondepreciable	5,217,241	3,398,660	8,615,901	483,687
Depreciable, Net	15,874,076	17,164,676	33,038,752	679,345
Unamortized Bond Issue Costs	81,806	91,946	173,752	0
Total Assets	<u>27,044,221</u>	<u>22,922,286</u>	<u>49,966,507</u>	<u>3,566,931</u>
Liabilities				
Accounts Payable	1,118,545	559,399	1,677,944	2,725
Other Accrued Expense	193,901	18,586	212,487	0
Accrued Interest	230,883	101,750	332,633	0
Customer Deposits	107,253	464,585	571,838	0
Deferred Revenue	369,509	0	369,509	0
Noncurrent Liabilities:				
Due Within One Year	1,314,349	332,471	1,646,820	0
Due in More Than One Year	11,434,572	10,265,568	21,700,140	0
Total Liabilities	<u>14,769,012</u>	<u>11,742,359</u>	<u>26,511,371</u>	<u>2,725</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	9,349,135	10,143,995	19,493,130	1,163,032
Restricted for:				
Redevelopment	197,491	0	197,491	0
Debt Service	834,552	0	834,552	0
Other Purposes	1,128,673	402,875	1,531,548	0
Unrestricted	765,358	633,057	1,398,415	2,401,174
Total Net Assets	<u>\$ 12,275,209</u>	<u>\$ 11,179,927</u>	<u>\$ 23,455,136</u>	<u>\$ 3,564,206</u>

See accompanying notes.

STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2006
CITY OF LAKE WALES, FLORIDA

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			Component Unit Airport Authority	
	Expenses	Indirect Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governments			Total
						Governmental Activities	Business-Type Activities		
Primary Government									
Governmental Activities:									
General Government	\$ 2,318,393	\$ (64,191)	\$ 39,091	\$ 0	\$ 0	\$ (2,215,111)	\$ (2,215,111)	\$ 0	
Public Safety	7,348,265	0	1,248,470	326,032	81,684	(5,692,079)	(5,692,079)	0	
Physical Environment	2,399,900	0	970,539	7,520	0	(1,421,841)	(1,421,841)	0	
Transportation	270,039	0	87,943	156,861	627,727	602,492	602,492	0	
Economic Environment	400,010	64,191	0	0	0	(464,201)	(464,201)	0	
Human Services	24,402	0	0	0	0	(24,402)	(24,402)	0	
Culture and Recreation	1,388,649	0	246,795	255,050	463,324	(423,480)	(423,480)	0	
Interest on Long-term Debt	540,210	0	0	0	0	(540,210)	(540,210)	0	
Total Governmental Activities	14,689,868	0	2,592,838	745,463	1,172,735	(10,178,832)	(10,178,832)	0	
Business-type Activities:									
Water and Sewer Utility	4,546,209	0	5,258,800	8,811	496,386	0	1,217,788	1,217,788	
Total Primary Government	19,236,077	0	7,851,638	754,274	1,669,121	(10,178,832)	(8,961,044)	0	
Component Unit									
Airport Authority	\$ 133,636	\$ 0	\$ 7,079	\$ 0	\$ 450,048	\$ 0	\$ 0	\$ 323,491	
General Revenues									
Taxes:									
Property Taxes						5,473,219	0	5,473,219	
Franchise Taxes						1,172,989	0	1,172,989	
Public Service Taxes						1,299,073	0	1,299,073	
Communication Service Taxes						408,684	0	408,684	
Gas Taxes						702,476	0	702,476	
Intergovernmental Revenue						1,201,329	0	1,201,329	
Investment Earnings						249,705	157,738	407,443	
Insurance Recoveries						2,189,227	0	2,189,227	
Miscellaneous Revenues						(25,085)	308,721	283,636	
Special Item - Initial Contribution to Airport Authority						(3,177,154)	0	(3,177,154)	
Transfers						565,961	(565,961)	0	
Total General Revenues and Transfers						10,060,424	(99,502)	9,960,922	
Change in Net Assets						(118,408)	1,118,286	999,878	
Net Assets, Beginning of Year						12,393,617	10,061,641	22,455,258	
Net Assets, End of Year						\$ 12,275,209	\$ 11,179,927	\$ 23,455,136	

See accompanying notes.

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006
CITY OF LAKE WALES, FLORIDA**

	General	Debt Service Fund	Community Redevelopment	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and Cash Equivalents	\$ 1,717,706	\$ 742,748	\$ 337,228	\$ 387,567	\$ 793,880	\$ 3,979,129
Cash with Paying Agent	0	322,687	0	0	0	322,687
Other Restricted Cash	0	0	0	495,580	0	495,580
Receivables, Net	405,318	0	0	0	0	405,318
Interfund Receivables	48,264	0	0	0	0	48,264
Due from Other Governments	250,441	0	1,803	4,790	311,517	568,551
Inventory and Prepaids	88,693	0	0	0	0	88,693
Total Assets	2,510,422	1,065,435	339,031	887,937	1,105,397	5,908,222
Liabilities and Fund Balances						
Liabilities						
Accounts Payable	445,503	0	12,721	63,508	257,949	779,681
Other Accrued Expenses	185,843	0	3,819	0	4,239	193,901
Interfund Payables	0	0	0	0	37,124	37,124
Due to Other Governments	338,864	0	0	0	0	338,864
Customer Deposits	7,253	0	100,000	0	0	107,253
Deferred Revenue and Credits	183,873	0	25,000	137,488	172,992	519,353
Total Liabilities	1,161,336	0	141,540	200,996	472,304	1,976,176
Fund Balances						
Reserved for Inventory and Prepaids	88,693	0	0	0	0	88,693
Reserved for Debt Service	0	1,065,435	0	0	0	1,065,435
Reserved for Redevelopment	0	0	197,491	0	0	197,491
Reserved for Other Purposes	0	0	0	495,580	633,093	1,128,673
Unreserved, Reported in:						
General Fund	1,260,393	0	0	0	0	1,260,393
Capital Projects Fund	0	0	0	191,361	0	191,361
Total Fund Balances	1,349,086	1,065,435	197,491	686,941	633,093	3,932,046
Total Liabilities and Fund Balances	2,510,422	1,065,435	339,031	887,937	1,105,397	5,908,222

Reconciliation of the Balance Sheet to the Statement of Net Assets

Fund Balances - Total Governmental Funds \$ 3,932,046

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.
- 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.
- 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.
- 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.
- Unamortized debt issuance costs are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.

Net Assets of Governmental Activities \$ 12,275,209

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
CITY OF LAKE WALES, FLORIDA**

	General	Debt Service Fund	Community Redevelopment	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 5,864,030	\$ 617,776	\$ 1,503,060	\$ 0	\$ 1,092,972	\$ 9,077,838
Licenses and Permits	524,374	0	0	0	0	524,374
Intergovernmental	1,404,796	124,215	0	109,597	1,471,852	3,110,460
Charges for Services	1,535,171	0	0	0	87,943	1,623,114
Fines and Forfeitures	265,324	0	0	0	72,450	337,774
Interest and Miscellaneous	150,592	76,536	37,320	366,663	298,779	929,890
Total Revenues	9,744,287	818,527	1,540,380	476,260	3,023,996	15,603,450
Expenditures						
General Government	2,238,729	0	0	0	184,299	2,423,028
Public Safety	7,774,724	0	0	0	114,987	7,889,711
Physical Environment	1,381,873	0	0	0	1,011,435	2,393,308
Transportation	0	0	0	0	688,951	688,951
Economic Environment	10,500	0	462,234	0	0	472,734
Human Services	9,768	0	0	0	0	9,768
Culture and Recreation	680,825	0	0	0	1,067,371	1,748,196
Debt Service:						
Principal	0	1,333,193	0	0	0	1,333,193
Interest and Fiscal Charges	0	512,222	0	0	0	512,222
Capital Outlay	0	0	0	175,477	0	175,477
(Total Expenditures)	(12,096,419)	(1,845,415)	(462,234)	(175,477)	(3,067,043)	(17,646,588)
(Deficiency) Excess of Revenues (Under) Over Expenditures	(2,352,132)	(1,026,888)	1,078,146	300,783	(43,047)	(2,043,138)
Other Financing Sources (Uses)						
Installment Lease Proceeds	599,900	0	0	0	0	599,900
Insurance Recoveries	1,951,715	0	0	1,007,208	526	2,959,449
Transfers in	630,000	776,545	0	150,000	425,585	1,982,130
Transfers out	(170,983)	0	(1,024,266)	0	(220,920)	(1,416,169)
Total Other Financing Sources (Uses)	3,010,632	776,545	(1,024,266)	1,157,208	205,191	4,125,310
<i>Special Item - Initial Contribution to Airport Authority</i>	0	0	0	(2,525,585)	0	(2,525,585)
Net Change in Fund Balance	658,500	(250,343)	53,880	(1,067,594)	162,144	(443,413)
Fund Balances, Beginning of Year	690,586	1,315,778	143,611	1,754,535	470,949	4,375,459
Fund Balances, End of Year	\$ 1,349,086	\$ 1,065,435	\$ 197,491	\$ 686,941	\$ 633,093	\$ 3,932,046

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, 2006
CITY OF LAKE WALES, FLORIDA**

Net Change in Fund Balances - Total Governmental Funds **\$ (443,413)**

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	\$ 2,567,520	
Depreciation	<u>(1,139,904)</u>	1,427,616

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.

Capital Assets Transferred to Airport Authority	(651,569)	
Other Disposals	<u>(131,660)</u>	(783,229)

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.

(1,077,852)

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.

Lease Proceeds	(599,900)	
Principal Paid	1,333,193	
Reclassification of Capital Lease to Operating Lease	<u>104,434</u>	837,727

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.

Increase in Compensated Absences Liability	(51,269)	
Amortization of Debt Issue Costs	(8,181)	
Amortization of Refunding Losses	(33,479)	
Decrease in Interest Accrued on Bonds	<u>13,672</u>	<u>(79,257)</u>

Change in Net Assets of Governmental Activities **\$ (118,408)**

See accompanying notes.

**STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2006
 CITY OF LAKE WALES, FLORIDA**

	<u>Utilities Fund</u>
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 176,287
Receivables (Net of Allowance for Uncollectibles)	818,010
Due from Other Governments	139,939
Inventories	104,283
Restricted Assets:	
Cash and Cash Equivalents	780,585
Investments	243,367
Interest Receivable	4,533
Total Current Assets	<u>2,267,004</u>
Noncurrent Assets	
Capital Assets:	
Nondepreciable	3,398,660
Depreciable, Net	17,164,676
Unamortized Bond Issue Costs	91,946
Total Noncurrent Assets	<u>20,655,282</u>
Total Assets	<u>22,922,286</u>
Liabilities	
Current Liabilities	
Accounts Payable	559,399
Other Accrued Expense	18,586
Current Liabilities Payable from Restricted Assets:	
Accrued Interest	101,750
Bonds Payable - Current Portion	35,129
Customer Deposits	464,585
Total Current Liabilities	<u>1,179,449</u>
Noncurrent Liabilities	
Long-term Debt:	
Due Within One Year	297,342
Due in More Than One Year	10,265,568
Total Noncurrent Liabilities	<u>10,562,910</u>
Total Liabilities	<u>11,742,359</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	10,143,995
Restricted for Capital Projects	402,875
Unrestricted	633,057
Total Net Assets	<u>\$ 11,179,927</u>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006
CITY OF LAKE WALES, FLORIDA**

	Utilities Fund
Operating Revenues	
Charges for Services	\$ 5,258,800
Other Income	308,721
Total Operating Revenues	5,567,521
Operating Expenses	
Personal Services	1,338,674
Contractual Services	421,284
Repairs and Maintenance	594,664
Materials and Supplies	148,126
General and Administrative	841,939
Depreciation	574,437
(Total Operating Expenses)	(3,919,124)
Operating Income	1,648,397
Nonoperating Revenues (Expenses)	
Operating Grants	8,811
Interest Income	157,738
Interest Expense	(613,202)
Amortization of Bond Issue Costs	(13,883)
Total Nonoperating (Expenses)	(460,536)
Income Before Contributions and Transfers	1,187,861
Capital Contributions - Impact Fees	496,386
Operating Transfers in	100,812
Operating Transfers out	(666,773)
Change in Net Assets	1,118,286
Total Net Assets, Beginning of Year	10,061,641
Total Net Assets, End of Year	\$ 11,179,927

See accompanying notes.

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

	<u>Public Utilities Fund</u>
Cash Flows from Operating Activities	
Receipts from Customers	\$ 5,703,537
Payments to Suppliers	(1,760,579)
Payments to Employees	(1,340,290)
Net Cash Provided by Operating Activities	<u>2,602,668</u>
Cash Flows from Noncapital Financing Activities	
Transfers to Other Funds	(565,961)
Operating Grants	383,848
Decrease in Due From Other Funds	203,876
Net Cash (Used in) Noncapital Financing Activities	<u>21,763</u>
Cash Flows from Capital and Related Financing Activities	
Debt Proceeds	6,325,913
Acquisition and Construction of Capital Assets	(3,108,549)
Principal Payments on Long-term Debt	(7,588,214)
Debt Issuance Costs	(64,212)
Interest Paid	(723,189)
Premium Paid on Refunding	(122,100)
Fiscal Charges	(851)
Impact Fees	496,386
Net Cash (Used in) Capital and Related Financing Activities	<u>(4,784,816)</u>
Cash Flows from Investing Activities	
Interest Income	161,643
Investment Purchased	(733,185)
Investment Matured	1,228,006
Net Cash (Used in) Investing Activities	<u>656,464</u>
Net Increase in Cash and Cash Equivalents	(1,503,921)
Cash and Cash Equivalents, Beginning of Year	<u>2,460,793</u>
Cash and Cash Equivalents, End of Year	<u>\$ 956,872</u>
Recorded on the Statement of Net Assets Under the Following Captions	
Current Assets	
Cash and Cash Equivalents	\$ 176,287
Restricted Assets:	
Cash and Cash Equivalents	780,585
Cash and Cash Equivalents, End of Year	<u>\$ 956,872</u>

See accompanying notes.

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2006
 CITY OF LAKE WALES, FLORIDA
 (Concluded)**

	<u>Public Utilities Fund</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by (Used in) Operating Activities</u>	
Operating Income	\$ 1,648,397
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	574,437
Change in Current Assets - Decrease (Increase):	
Accounts Receivable	79,454
Inventory and Prepaids	(66)
Change in Current Liabilities - Increase (Decrease):	
Accounts Payable	244,132
Other Accrued Expenses	1,368
Customer Deposits	56,562
Change in Compensated Absences	(1,616)
Net Cash Provided by Operating Activities	<u>\$ 2,602,668</u>
 Schedule of Noncash Transactions	
Amortization of Bond Issue Costs	\$ 13,883
Amortization of Bond Discounts	8,366
Amortization of Refunding Losses	13,483
Write-off of Unamortized Bond Issue Costs at Refunding	104,099
Write-off of Unamortized Bond Discounts at Refunding	80,185
Write-off of Unamortized Refunding Losses at Refunding	129,220

See accompanying notes.

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2006
CITY OF LAKE WALES, FLORIDA**

	<u>Pension Trust Funds</u>
Assets	
Investments:	
Money Market Funds	\$ 1,696,211
Corporate Bonds and Government Obligations	6,723,503
Equity Funds	14,181,250
Receivables:	
Interest and Dividends	67,540
Other Receivables	23,683
Prepaid Member Benefits	11,140
Total Assets	<u>22,703,327</u>
Liabilities	
Current Liabilities:	
Due to DROP Participants	990,331
Interfund Payables	11,140
Deferred Contributions from City	28,031
Total Liabilities	<u>1,029,502</u>
Net Assets	
Held in Trust for Pension Benefits	<u>\$ 21,673,825</u>

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
CITY OF LAKE WALES, FLORIDA**

	<u>Pension Trust Funds</u>
Additions	
Contributions:	
Employer	\$ 599,647
Employee	293,659
State of Florida	196,438
Employee Buy-Back	27,193
Total Contributions	<u>1,116,937</u>
Net Investment Earnings:	
Realized and Unrealized Increase in Fair Value of Investment	964,005
Interest and Dividend Income	692,658
Total Investment Earnings	<u>1,656,663</u>
(Less Investment Expense)	<u>(160,798)</u>
Net Investment Earnings	<u>1,495,865</u>
Total Additions	<u>2,612,802</u>
Deductions	
Benefits	1,104,471
Refunds of Contributions	89,414
Administrative Expenses	100,932
Total Deductions	<u>1,294,817</u>
Change in Net Assets	<u>1,317,985</u>
Net Assets, Beginning of Year	
As Originally Reported	20,344,641
Adjustment	11,199
As Adjusted	<u>20,355,840</u>
Net Assets, End of Year	<u>\$ 21,673,825</u>

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 is 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, beginning in the current financial report:

- 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, 2006, 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 Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and 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 also 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.
- **Capital Projects Fund** - to account for funds received or appropriated for major repairs, equipment purchases, facilities and improvements, other than those accounted for in the enterprise fund.

■ **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)

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. Infrastructure assets (i.e., roads, bridges, sidewalks and similar items) for the governmental funds acquired prior to October 1, 2002, are not yet recorded as this provision of GASB Statement No. 34 has not yet been implemented retroactively. GASB Statement No. 34 permits an up to four-year deferral in the recording of the prior infrastructure assets related to governmental activities. The City has until 2007 to determine and record this number.

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:

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

Note 1 - Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Concluded)

<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
Wells and Pumping Equipment	15-50
Other Improvements	5-50
Other Infrastructure	15-50

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 \$13,883 (business-type activities and enterprise fund) and \$8,181 (governmental activities) during the 2006 fiscal year. Interest expense related to amortization of bond discounts and refunding losses in both enterprise funds and business-type activities was \$8,366 and \$13,483, 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.

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, 2006, are unbilled amounts totaling \$322,011 (\$309,684 enterprise funds, and \$12,327 general fund).

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

Note 1 - Summary of Significant Accounting Policies (Continued)

J. Revenue Recognition (Concluded)

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

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 2006 fiscal year was 8.94 mills (7.94 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.

M. Equity Classifications

Government-wide and proprietary fund statements of net assets - equity is classified as net assets and displayed in three components:

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

Note 1 - Summary of Significant Accounting Policies (Concluded)

M. Equity Classifications (Concluded)

- 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 City reported no deficit individual fund equity balance at September 30, 2006.

C. Excess of Expenditures Over Appropriations

The general fund departments listed below exceeded their budgeted appropriations (as amended) for the year ended September 30, 2006:

<u>Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Overage</u>
Police	\$ 4,242,434	\$ 4,402,072	\$ (159,638)
Fire	2,738,913	2,783,083	(44,170)
Building Permits & Inspections	469,081	493,987	(24,906)
Waste Disposal	688,217	713,361	(25,144)

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, 2006, the carrying amount of cash on hand and on deposit with banks, including interest-bearing deposits was \$7,546,086 (including the Authority), and the related bank balance was \$8,005,168. In addition, the City has \$322,687 deposited with fiscal agents as of September 30, 2006, for the payment of bond principal and interest on October 1, 2006.

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

Note 3 - Cash and Investments (Continued)

A. Deposits (Concluded)

The carrying amount of deposits for the Authority, a discretely presented component unit, at September 30, 2006, was \$2,401,953. As of September 30, 2006, the Authority did not have its own investment policy. 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, 2006, excluding investments in the City's pension funds:

Investment Type	Credit Rating (S&P)	Fair Value	Investment Maturities			
			Less Than 6 Months	6-12 Months	1-3 Years	Over 3 Years
FHLMC Note	AAA	\$ 243,367	\$ 243,367	\$ 0	\$ 0	\$ 0
SBA	N/R	287,448	287,448	0	0	0
Total		<u>\$ 530,815</u>	<u>\$ 530,815</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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, 2006, 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.

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

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

Note 3 - Cash and Investments (Continued)

C. Investments - Pension Funds (Concluded)

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 (No More Than)	10%	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, 2006, 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	\$ 14,181,250	\$ 14,181,250	\$ 0	\$ 0	\$ 0
Corporate Bonds	*	2,118,226	0	207,329	0	1,910,897
U.S. Treasury Bonds	AAA	1,796,912	0	0	1,084,959	711,953
FHLMC Note	AAA	1,167,707	0	0	0	1,167,707
FNMA Note	AAA	1,542,419	0	0	405,432	1,136,987
GNMA Note	AAA	98,239	0	0	0	98,239
Money Market Funds	N/R	1,696,211	1,696,211	0	0	0
Total		<u>\$ 22,600,964</u>	<u>\$ 15,877,461</u>	<u>\$ 207,329</u>	<u>\$ 1,490,391</u>	<u>\$ 5,025,783</u>

* Credit ratings on the above corporate bonds varied from AA- to A-
N/R - Not rated

The pension funds owned no cash at September 30, 2006. Pension fund guidelines specify that the quality minimum of all fixed income securities purchased for the fund shall be Standard and Poor's and Moody's rated A or its equivalent.

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

Note 3 - Cash and Investments (Concluded)

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, 2006, the pension fund portfolios had from 5.5% to 7.7% of the individual pension fund's investment in bonds and mortgage pools of the Federal National Mortgage Association.

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 \$24,021 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 \$137,809 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, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transferred to Component Unit</u>	<u>Other Disposals</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital Assets Not Being Depreciated:					
Land	\$ 3,690,372	\$ 98,197	\$ (22,431)	\$ 0	\$ 3,766,138
Construction in Progress	1,274,861	308,492	(10,000)	(122,250)	1,451,103
Total Not Being Depreciated	<u>4,965,233</u>	<u>406,689</u>	<u>(32,431)</u>	<u>(122,250)</u>	<u>5,217,241</u>
Capital Assets Being Depreciated:					
Buildings	9,364,810	0	0	0	9,364,810
Improvements Other Than Buildings	15,958,324	1,015,495	(2,059,099)	0	14,914,720
Equipment	6,858,974	1,145,336	(14,530)	(9,410)	7,980,370
Total Other Capital Assets	<u>32,182,108</u>	<u>2,160,831</u>	<u>(2,073,629)</u>	<u>(9,410)</u>	<u>32,259,900</u>
Total All Capital Assets	<u>37,147,341</u>	<u>2,567,520</u>	<u>(2,106,060)</u>	<u>(131,660)</u>	<u>37,477,141</u>
Less Accumulated Depreciation for:					
Buildings	(2,164,140)	(183,984)	0	0	(2,348,124)
Improvements Other Than Buildings	(9,241,974)	(497,823)	1,451,568	0	(8,288,229)
Equipment	(5,294,297)	(458,097)	2,923	0	(5,749,471)
Total Accumulated Depreciation	<u>(16,700,411)</u>	<u>(1,139,904)</u>	<u>1,454,491</u>	<u>0</u>	<u>(16,385,824)</u>
Depreciable Capital Assets, Net	<u>15,481,697</u>	<u>1,020,927</u>	<u>(619,138)</u>	<u>(9,410)</u>	<u>15,874,076</u>
Total Governmental Capital Assets, Net	<u>\$ 20,446,930</u>	<u>\$ 1,427,616</u>	<u>\$ (651,569)</u>	<u>\$ (131,660)</u>	<u>\$ 21,091,317</u>

Depreciation expense was charged to functions as follows:

General Government	\$ 124,143
Public Safety	345,909
Physical Environment	11,807
Transportation	319,875
Economic Environment	85,923
Human Services	14,634
Culture and Recreation	237,613
Total Governmental Activities Depreciation Expense	<u>\$ 1,139,904</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, 2006, 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	\$ 354,811	\$ 234,949	\$ 0	\$ 589,760
Construction in Progress	577,212	2,231,688	0	2,808,900
Total Not Being Depreciated	<u>932,023</u>	<u>2,466,637</u>	<u>0</u>	<u>3,398,660</u>
Capital Assets Being Depreciated:				
Buildings	668,374	0	0	668,374
Improvements Other Than Buildings	22,261,055	522,701	0	22,783,756
Equipment	4,055,084	119,211	0	4,174,295
Total Other Capital Assets	<u>26,984,513</u>	<u>641,912</u>	<u>0</u>	<u>27,626,425</u>
Total All Capital Assets	<u>27,916,536</u>	<u>3,108,549</u>	<u>0</u>	<u>31,025,085</u>
Less Accumulated Depreciation for:				
Buildings	(328,672)	(14,793)	0	(343,465)
Improvements Other Than Buildings	(6,908,688)	(410,268)	0	(7,318,956)
Equipment	(2,649,952)	(149,376)	0	(2,799,328)
Total Accumulated Depreciation	<u>(9,887,312)</u>	<u>(574,437)</u>	<u>0</u>	<u>(10,461,749)</u>
Depreciable Capital Assets, Net	<u>17,097,201</u>	<u>67,475</u>	<u>0</u>	<u>17,164,676</u>
Business-type Capital Assets, Net	<u>\$ 18,029,224</u>	<u>\$ 2,534,112</u>	<u>\$ 0</u>	<u>\$ 20,563,336</u>

Depreciation expense recorded in the business-type activity totaled \$574,437 for the year ended September 30, 2006.

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, 2006, was as follows:

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

Depreciation expense recorded in the business-type activity totaled \$91,777 for the year ended September 30, 2006.

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:

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Bonds and Notes Payable:					
Notes Payable	\$ 9,029,148	\$ 0	\$ (809,777)	\$ 8,219,371	\$ 476,308
Revenue Bonds	3,672,447	0	(476,232)	3,196,215	613,435
Lease Obligation	294,913	599,900	(151,618)	743,195	132,113
Total Bonds and Notes Payable - Par	12,996,508	599,900	(1,437,627)	12,158,781	1,221,856
Less Unamortized Refunding Loss	(368,272)	0	33,479	(334,793)	0
Total Bonds and Note Payable - Net	12,628,236	599,900	(1,404,148)	11,823,988	1,221,856
Other Liabilities:					
Compensated Absences	873,664	51,269	0	924,933	92,493
Governmental Long-term Liabilities	<u>\$ 13,501,900</u>	<u>\$ 651,169</u>	<u>\$ (1,404,148)</u>	<u>\$ 12,748,921</u>	<u>\$ 1,314,349</u>
	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Amounts Due Within One Year</u>
Business-type Activities					
Bonds and Notes Payable:					
Revenue Bonds	\$ 7,047,285	\$ 0	\$ (7,007,644)	\$ 39,641	\$ 35,129
Notes Payable	5,161,907	6,325,913	(580,570)	10,907,250	288,667
Total Bonds and Notes Payable - Par	12,209,192	6,325,913	(7,588,214)	10,946,891	323,796
Less Unamortized Bond Discount	(88,551)	0	88,551	0	0
Less Unamortized Refunding Loss	(142,703)	(435,604)	142,703	(435,604)	0
Total Bonds and Notes Payable - Net	11,977,938	5,890,309	(7,356,960)	10,511,287	323,796
Other Liabilities:					
Compensated Absences	88,368	0	(1,616)	86,752	8,675
Business-type Long-term Liabilities	<u>\$ 12,066,306</u>	<u>\$ 5,890,309</u>	<u>\$ (7,358,576)</u>	<u>\$ 10,598,039</u>	<u>\$ 332,471</u>

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, 2006:

	<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	\$ 401,215	5.35%
Public Improvement Refunding						
Revenue Bonds, Series 1997	2	S	2015	4,445,000	2,795,000	4.40 %
Note Payable:						
Capital Improvement						
Refunding Revenue						
Note, Series 2003	4	S	2017	9,117,280	8,219,371	3.84%
Lease Obligation:						
Bank of America #1	3	A	2010	399,861	240,137	3.70%
Bank of America #2	5	A	2012	599,900	<u>503,058</u>	6.68%
Total Governmental Activities					\$ 12,158,781	
Business-type Activities						
Revenue Bonds:						
Non-ad Valorem Revenue						
Bonds, Series 1999	1	M	2008	511,371	\$ 39,641	5.35 %
Notes Payable:						
State Revolving Fund						
Loan I	7	S	2019	1,592,804	1,108,377	2.56%
State Revolving Fund						
Loan II	7	S	2022	1,171,882	640,735	3.05%
State Revolving Fund						
Loan III	8	S	2024	1,428,648	1,266,472	2.14%
State Revolving Fund						
Loan IV	9	S	2011	200,150	200,150	1.88%
Capital Improvement						
Refunding Revenue						
Note, Series 2003	4	S	2017	432,610	390,062	3.84%
Utility System Revenue						
Note, Series 2005	10	M	2015	1,110,000	979,234	4.20%
Utility System Refunding						
Revenue Note, Series 2006A	6	S	2017	6,272,220	6,272,220	4.09%
Utility System Revenue						
Note, Series 2006B	11	S	2027	3,100,000	<u>50,000</u>	Variable
Total Business-type Activities					\$ 10,946,891	

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 hanger 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 water tower.

The obligations listed above are secured by the equipment acquired, a covenant to budget, or a pledge of the following revenue sources:

- 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.
- 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.

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

Note 6 - Long-term Obligations (Continued)

- 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, 2006, was 3.76%.

Current Refunding

On July 3, 2006, the City issued its Utility System Refunding Revenue Note, Series 2006A in the par amount of \$6,272,220, to refund the portion of its Utility System Improvement Refunding Bonds, Series 1996 (the 1996 Bonds), due after October 1, 2006, in the outstanding principal amount of \$6,105,000. The refunding proceeds, together with other monies of the City totaling \$86,181 were used to pay the costs of issuance of \$32,715, with the remainder placed into an irrevocable escrow account that fully retired the remaining outstanding 1996 Bonds, together with interest and a 2% premium, on October 1, 2006. Since the transaction was legally a “current refunding” and not an “advance refunding” interest expense on the refunded debt and interest income on the escrow account was recorded through year end. However, because the refunded obligations were defeased “in-substance” as of year end, the related asset and liability have been removed from the financial statements.

The retirement of the refunded bonds resulted in an accounting loss of \$435,604, primarily because the unamortized bond-related accounts related to the 1996 Bonds, were removed from the books in the transaction, and premiums were required on the early retirement of the refunded debt. The loss is deferred for financial reporting, and recognized over the remaining term of the refunding note, which was the same remaining term as the refunded bonds.

Following is the calculation of the deferred loss on refunding:

Deferred Loss on Refunding:

Unamortized Bond Issue Costs	\$ 104,099
Unamortized Deferred Loss	80,185
Unamortized Refunding Loss	129,220
Prepayment Premium	<u>122,100</u>
Total	<u>\$ 435,604</u>

Although the refunding resulted in the recognition of a deferred accounting loss, the City, in effect, reduced its remaining aggregate debt service payments by \$283,370 over the ten year remaining term of the bonds and achieved an economic gain (the difference between the present values of the old and new debt) of \$357,114.

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

Note 6 - Long-term Obligations (Continued)

Annual debt service requirements as of September 30, 2006, are as follows:

Fiscal Year	Governmental Activities							
	Revenue Bonds		Notes		Lease Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 613,435	\$ 142,417	\$ 476,308	\$ 306,481	\$ 132,113	\$ 30,416	\$ 1,221,856	\$ 479,314
2008	312,780	117,932	372,358	290,187	137,438	25,091	822,576	433,210
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	442,327	8,494	0	0	442,327	8,494
Total	\$ 3,196,215	\$ 677,240	\$ 8,219,371	\$ 1,807,341	\$ 743,195	\$ 100,603	\$ 12,158,781	\$ 2,585,184

Fiscal Year	Business Activities							
	Revenue Bonds		Notes		Lease Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 35,129	\$ 1,252	\$ 288,667	\$ 386,228	\$ 0	\$ 0	\$ 323,796	\$ 387,480
2008	4,512	24	538,790	372,588	0	0	543,302	372,612
2009	0	0	948,145	338,494	0	0	948,145	338,494
2010	0	0	985,680	302,600	0	0	985,680	302,600
2011	0	0	1,012,884	265,274	0	0	1,012,884	265,274
2012	0	0	999,068	227,421	0	0	999,068	227,421
2013	0	0	1,038,448	188,217	0	0	1,038,448	188,217
2014	0	0	1,077,308	147,502	0	0	1,077,308	147,502
2015	0	0	1,047,949	105,875	0	0	1,047,949	105,875
2016	0	0	997,078	67,366	0	0	997,078	67,366
2017	0	0	1,026,916	28,702	0	0	1,026,916	28,702
2018	0	0	224,076	22,683	0	0	224,076	22,683
2019	0	0	177,699	16,920	0	0	177,699	16,920
2020	0	0	129,456	13,018	0	0	129,456	13,018
2021	0	0	132,728	9,686	0	0	132,728	9,686
2022	0	0	136,088	6,267	0	0	136,088	6,267
2023	0	0	88,238	3,143	0	0	88,238	3,143
2024	0	0	46,626	1,115	0	0	46,626	1,115
2025	0	0	3,654	445	0	0	3,654	445
2026	0	0	3,800	227	0	0	3,800	227
2027	0	0	3,952	0	0	0	3,952	0
Total	\$ 39,641	\$ 1,276	\$ 10,907,250	\$ 2,503,771	\$ 0	\$ 0	\$ 10,946,891	\$ 2,505,047

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

Note 6 - Long-term Obligations (Continued)

Bond-Related Accounts - Utility Fund

Bond issuance costs of \$223,453 incurred in conjunction with the issuance of the Utility System Bonds, Series 1996, were being amortized over the term of the obligation (20 years) using the straight-line method. Amortization of issuance costs on the Series 1996 bonds was \$10,861 for the year ended September 30, 2006. The unamortized balance of \$104,099 was written off to the deferred loss on refunding (as shown above).

Debt issuance costs totaling \$95,931 related to other utility fund debt issues (including \$64,212 incurred in 2006), are being amortized over the term of the related obligation using the straight-line method. Additional amortization of issuance costs was \$3,022 for the year ended September 30, 2006. The unamortized balance at September 30, 2006, is \$91,946.

A refunding loss of \$269,677 incurred in conjunction with the issuance of the Utility System Bonds, Series 1996, was being amortized over the term of the bonds using the straight-line method. Amortization of refunding loss on the Series 1996 bonds was \$13,483 for the year ended September 30, 2006, and is included as a component of interest expense. The unamortized balance of \$129,220 was written off to the deferred loss on refunding (as shown above).

A bond issue discount of \$167,341 incurred in conjunction with the issuance of the Utility System Bonds, Series 1996, was being amortized over the term of the bonds using the straight-line method. Amortization of the discount on the Series 1996 bonds was \$8,366 for the year ended September 30, 2006. The unamortized balance of \$80,185 was written off to the deferred loss on refunding (as shown above).

A refunding loss of \$435,604 incurred in conjunction with the issuance of the Utility System Refunding Revenue Note, Series 2006A, was incurred in 2006 (as shown above) and will be amortized over the remaining term of the bonds using the straight-line method. There was no amortization for the year ended September 30, 2006. The unamortized balance of \$435,604 is netted against long-term debt – due in more than one year on the accompanying statement of net assets – utility fund.

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, 2006. The unamortized balance at September 30, 2006, is \$81,806.

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, 2006, and is included as a component of interest expense in the statement of activities. Unamortized refunding loss of \$334,793 is netted against bonds payable on the government-wide statement of net assets.

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

Note 6 - Long-term Obligations (Continued)

Bond-Related Accounts - Governmental Activities (Concluded)

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 \$511,193 in governmental funds and \$723,189 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 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 9/30/06</u>
Capital Improvement Revenue Note, Series 2003	\$ 8,609,433	12/08/03	3.84%	\$ 70,306

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, 2006, 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, 2006. As rates vary, variable rate bond interest payments and net swap payments will vary, but the total should remain relatively constant):

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

Note 6 - Long-term Obligations (Concluded)

Interest Rate Swap (Concluded)

Fiscal Year Ending September 30	Variable-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest		
2007	\$ 498,909	\$ 352,883	\$ (31,860)	\$ 819,932
2008	390,026	334,122	(30,166)	693,982
2009	837,380	308,217	(27,827)	1,117,770
2010	868,876	272,205	(24,576)	1,116,505
2011	905,465	234,757	(21,195)	1,119,027
2012	937,035	195,870	(17,684)	1,115,221
2013	973,467	155,548	(14,044)	1,114,971
2014	1,010,149	113,683	(10,264)	1,113,568
2015	1,052,088	70,158	(6,334)	1,115,912
2016	672,669	33,756	(3,048)	703,377
2017	463,369	9,780	(883)	472,266
Total	\$ 8,609,433	\$ 2,080,979	\$ (187,881)	\$ 10,502,531

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.
- **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, 2006, represents interfund receivables and payables in the fund financial statements:

Fund Financial Statements:	Interfund Receivables	Interfund Payables
Major Funds		
General	\$ 48,264	\$ 0
Other Governmental Funds		
Local Law Enforcement Block Grant	0	37,124
Fiduciary Funds		
General Employees' Pension Plan	0	11,140
Total	\$ 48,264	\$ 48,264

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

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

Purpose of Interfund Accounts

The loan from the general fund to the LLEBG fund is for grant expenditures and will be reimbursed upon receipt of the related proceeds. The interfund receivable from the pension offsets prepaid member benefits. The receivable and payable were reclassified to accounts receivable and payable in the entity wide financial statements.

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:

Source	Transfer to	Amount	Purpose
General Fund	Debt Service Fund	\$ 170,983	Debt Subsidy
Transportation Community Redevelopment	Debt Service Fund	211,670	Debt Subsidy
Community Redevelopment	Transportation	35,000	Road Projects in CRA
Community Redevelopment	CDBG	381,335	Grant Project in CRA
Community Redevelopment	Debt Service Fund	357,119	Debt Subsidy
Community Redevelopment	Capital Projects Fund	150,000	Specific Project Funding
Community Redevelopment	Utility Fund	100,812	Building Water Tower
Forfeitures	Law Enforcement Block Grant	9,250	Grant Match
Enterprise Fund	General Fund	630,000	Annual Budgeted Operating Transfer
Enterprise Fund	Debt Service Fund	36,773	Debt Subsidy
	TOTAL	\$ 2,082,942	

Note 8 - Fund Equity Reserves and Net Asset Restrictions

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

	Governmental				Total
	General Fund	Special Revenue	Debt Service	Capital Projects	
Reserved					
Inventory and Prepays	\$ 88,693	\$ 0	\$ 0	\$ 0	\$ 88,693
Transportation Expenditures	0	204,396	0	0	204,396
Community Redevelopment	0	197,491	0	0	197,491
Law Enforcement Related					
Activities	0	68,846	0	0	68,846
Library Operations	0	155,457	0	0	155,457
Debt Service	0	0	1,065,435	0	1,065,435
Block Grant Expenditures	0	22,044	0	0	22,044
Historic Preservation Grant	0	182,350	0	0	182,350
Capital Projects	0	0	0	495,580	495,580
Total Reserved Fund					
Balances	\$ 88,693	\$ 830,584	\$ 1,065,435	\$ 495,580	\$ 2,480,292

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	\$ 204,396	\$ 0	\$ 204,396
Community Redevelopment	197,491	0	197,491
Law Enforcement Related Activities	68,846	0	68,846
Library Operations	155,457	0	155,457
Debt Service	834,552	0	834,552
Block Grant Expenditures	22,044	0	22,044
Historic Preservation Grant	182,350	0	182,350
Capital Projects	<u>495,580</u>	<u>402,875</u>	<u>898,455</u>
Total Reserved Fund Balances	<u>\$ 2,160,716</u>	<u>\$ 402,875</u>	<u>\$ 2,563,591</u>

Note 9 - Restricted Assets

The following table indicates the balances at September 30, 2006, for all restricted assets in the City's various funds:

	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Utility Fund</u>	<u>Total</u>
Debt Service – Bond Sinking	\$ 322,687	\$ 0	\$ 101,119	\$ 423,806
Debt Service – SRF Sinking	0	0	140,083	140,083
Debt Service – SRF Reserve	0	0	136,508	136,508
Impact Fees:				
Fire	0	104,061	0	104,061
Law Enforcement	0	119,364	0	119,364
Parks and Recreation	0	272,155	0	272,155
Wastewater	0	0	193,353	193,353
Water	0	0	209,522	209,522
Construction Account	<u>0</u>	<u>0</u>	<u>247,900</u>	<u>247,900</u>
Total Restricted Assets	<u>\$ 322,687</u>	<u>\$ 495,580</u>	<u>\$ 1,028,485</u>	<u>\$ 1,846,752</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, or the later of age 60 or ten 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, 2006, were 4.9% (General), 15.5% (Police), and 29% (Fire). Required contributions from active plan members to the plan are 5.5% for firefighters and 5% for 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, 2005		
	General Employees' Fund	Police Officers' Fund	Fire Fighters' Fund
Retirees and Beneficiaries Currently			
Receiving Benefits	16	19	13
Vested Terminated Employees	3	0	0
Active Plan Participants:			
Vested	18	13	9
Nonvested	71	26	9
Total	108	58	31

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

Note 10 - Defined Benefit Pension Plans (Continued)

Annual Pension Cost

The City's annual pension cost for the year ended September 30, 2006, was \$603,330 (\$113,882 General, \$272,162 Police, and \$217,286 Fire - City share). The annual required contribution for the 2006 fiscal year was determined as part of the October 1, 2004, actuarial valuations using the frozen entry age actuarial cost method. The actuarial assumptions in the October 1, 2004, 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, 2004, 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, 2006, and the prior two years was as follows (information taken from the actuarial reports dated October 1, 2006):

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, 2006	\$ 112,500	100%	\$ (124,493)
September 30, 2005	81,363	100%	(125,875)
September 30, 2004	69,328	100%	(127,272)

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, 2006	\$ 270,637	100%	\$ (137,343)
September 30, 2005	252,658	100%	(138,868)
September 30, 2004	174,138	100%	(140,409)

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, 2006	\$ 216,510	100%	\$ (69,932)
September 30, 2005	235,629	100%	(70,708)
September 30, 2004	207,675	100%	(71,493)

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, 2006, and the change in NPO for the year:

	<u>General</u>	<u>Police</u>	<u>Fire</u>
Actuarially Determined Contribution (A)	\$ 112,500	\$ 270,637	\$ 216,510
Interest on NPO	(10,070)	(11,109)	(5,657)
Adjustments to (A)	11,452	12,634	6,433
Annual Pension Cost	<u>113,882</u>	<u>272,162</u>	<u>217,286</u>
Contributions Made	(112,500)	(270,637)	(216,510)
Increase in NPO	<u>1,382</u>	<u>1,525</u>	<u>776</u>
NPO, Beginning of Year	(125,875)	(138,868)	(70,708)
NPO, End of Year	<u>\$ (124,493)</u>	<u>\$ (137,343)</u>	<u>\$ (69,932)</u>

The City has not recorded the negative NPO in the accompanying financial statements because the amount attributable to each fund has not been determined, and the effect on the City's financial statements is not material.

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 15 retirees participating in the plan totaled \$93,275 for the year ended September 30, 2006.

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

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, 2006:

	Contract Amount	Expended Through 09/30/06	Project Remaining
Water and Wastewater Improvements			
Reuse Transmission Lines - Boyle Engineering	\$ 195,775	\$ 160,770	\$ 35,005
Longleaf Business Park Reuse Connection - Censtate Contractor	79,762	0	79,762
Chlorine Contact Chamber Contractor - Censtate Contractor	529,717	522,466	7,251
Chlorine Contact Chamber Engineer - Boyle Engineering	100,000	96,417	3,583
Wastewater Expansion Preconstruction - Boyle Engineering	1,061,454	584,490	476,964
Lift Station # 2 Upgrade and Force Main Extension - Boyle Engineering	69,148	41,786	27,362
Southside Elevated Water Storage Tank - Boyle Engineering	139,236	13,180	126,056
Engineering Services for Southside Force Main - Boyle Engineering	223,347	96,756	126,591
Southside Water Main Upgrade - Censtate Contractor	185,965	0	185,965
Design and Build of the Lake Wales Airport Fire Flow System - Boyle Engineering	99,907	15,009	84,898
Candlelight Park Water Main Extension - Censtate Contractor	393,825	0	393,825
Market Street Instrumentation Upgrades - Universal Controls Instrument Service Company	99,916	45,074	54,842
Airport Improvements			
Design and Build of the Automated Weather Observing System - All Weather, Inc.	103,587	10,000	93,587
Corporate Hanger 2 - SEMCO Construction, Inc.	223,760	111,779	111,981
T- Hanger 1 - SEMCO Construction, Inc.	361,385	165,405	195,980
T- Hanger 2 - SEMCO Construction, Inc.	405,309	174,072	231,237

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.

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

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, 2006, no additional assessments could be required from the City to fund prior year costs of the risk pool.

Note 14 - Special Item – Initial City Contribution to the Lake Wales Airport Authority

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

To provide initial capital funding for the reconstruction efforts, the City turned over the insurance proceeds it had received from the extensive damage done to airport property by the 2004 hurricanes, to the newly re-created Lake Wales Airport Authority. Total insurance proceeds related to the damage of airport property were \$2,678,053, of which \$152,468 was expended by the City for demolition efforts prior to the re-creation of the Authority. The net insurance proceeds of \$2,525,585, plus the capital asset contribution of \$651,569 is recorded as a *special item* in the accompanying financial statements.

Assets Transferred	
Cash – Insurance Proceeds from Current Year	\$ 1,007,208
Cash – Insurance Proceeds from Prior Year	<u>1,518,377</u>
Special Item – Governmental Funds	2,525,585
Capital Assets	<u>651,569</u>
Special Item – Statement of Activities	<u>\$ 3,177,154</u>

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

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

Note 15 - Other Transactions Between the Primary Government and Component Unit

During 2006, 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.

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

Note 16 - Prior Period Adjustment

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

REQUIRED SUPPLEMENTARY INFORMATION

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006
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	\$ 5,402,872	\$ 5,402,872	\$ 5,864,030	\$ 461,158
Licenses and Permits	603,500	631,500	524,374	(107,126)
Intergovernmental	1,444,982	1,444,982	1,404,796	(40,186)
Charges for Services	1,420,800	1,539,864	1,535,171	(4,693)
Fines and Forfeitures	168,800	254,491	265,324	10,833
Interest and Miscellaneous	101,750	107,646	150,592	42,946
Total Revenues	<u>9,142,704</u>	<u>9,381,355</u>	<u>9,744,287</u>	<u>362,932</u>
Expenditures				
Current:				
General Government	2,734,537	2,805,332	2,238,729	566,603
Public Safety	6,847,244	7,546,254	7,774,724	(228,470)
Physical Environment	1,289,202	1,357,575	1,381,873	(24,298)
Transportation	36,555	0	0	0
Economic Environment	10,500	10,500	10,500	0
Human Services	9,767	9,767	9,768	(1)
Culture and Recreation	641,431	678,707	680,825	(2,118)
(Total Expenditures)	<u>(11,569,236)</u>	<u>(12,408,135)</u>	<u>(12,096,419)</u>	<u>311,716</u>
(Deficiency) of Revenues (Under) Expenditures	<u>(2,426,532)</u>	<u>(3,026,780)</u>	<u>(2,352,132)</u>	<u>674,648</u>
Other Financing Sources (Uses)				
Installment Lease Proceeds	500,000	599,900	599,900	0
Insurance Recoveries	1,181,280	2,152,364	1,951,715	(200,649)
Transfers in	930,000	630,000	630,000	0
Transfers out	(202,604)	(171,973)	(170,983)	990
Total Other Financing Sources (Uses)	<u>2,408,676</u>	<u>3,210,291</u>	<u>3,010,632</u>	<u>(199,659)</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(17,856)	183,511	658,500	474,989
Fund Balances, Beginning of Year	<u>1,292,706</u>	<u>690,586</u>	<u>690,586</u>	<u>0</u>
Fund Balances, End of Year	<u>\$ 1,274,850</u>	<u>\$ 874,097</u>	<u>\$ 1,349,086</u>	<u>\$ 474,989</u>

**BUDGETARY COMPARISON SCHEDULE
COMMUNITY REDEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006
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	\$ 1,472,150	\$ 1,505,097	\$ 1,503,060	\$ (2,037)
Interest and Miscellaneous	1,730,876	1,730,876	37,320	(1,693,556)
Total Revenues	<u>3,203,026</u>	<u>3,235,973</u>	<u>1,540,380</u>	<u>(1,695,593)</u>
Expenditures				
Current:				
Economic Environment	1,868,786	1,997,279	462,234	1,535,045
(Total Expenditures)	<u>(1,868,786)</u>	<u>(1,997,279)</u>	<u>(462,234)</u>	<u>1,535,045</u>
Excess of Revenues Over Expenditures	<u>1,334,240</u>	<u>1,238,694</u>	<u>1,078,146</u>	<u>(160,548)</u>
Other Financing Sources (Uses)				
Transfers out	(642,931)	(1,024,266)	(1,024,266)	0
Total Financing Sources (Uses)	<u>(642,931)</u>	<u>(1,024,266)</u>	<u>(1,024,266)</u>	<u>0</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	691,309	214,428	53,880	(160,548)
Fund Balances, Beginning of Year	<u>(269,058)</u>	<u>143,611</u>	<u>143,611</u>	<u>0</u>
Fund Balances, End of Year	<u>\$ 422,251</u>	<u>\$ 358,039</u>	<u>\$ 197,491</u>	<u>\$ (160,548)</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)
10/01/06	\$ 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%
10/01/01	4,630,849	5,193,213	562,364	89.17%	865,942	64.94%

Schedule of Employer Contributions - Firefighters' Pension Plan

Period Ended	Required Contribution	City Contribution	State Contribution	Percentage Contributed	Net Pension Obligation (Asset)
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	207,625	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)
9/30/01	170,591	133,409	63,465	115.41%	(73,902)

**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 Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/01/06	\$ 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%
10/01/01	7,657,853	8,306,429	648,576	92.19%	1,618,255	40.08%

Schedule of Employer Contributions - Police Officers' Pension Plan

Period Ended	Required Contribution	City Contribution	State Contribution	Percentage Contributed	Net Pension Obligation (Asset)
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)
9/30/01	147,552	100,355	82,958	124.24%	(139,110)

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)
10/01/06	\$ 6,762,740	\$ 7,090,693	\$ 327,953	95.37%	\$ 2,866,721	11.44%
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%
10/01/01	5,068,628	5,383,666	315,038	94.15%	2,299,425	13.70%

Schedule of Employer Contributions - General Employees' Pension Plan

Period Ended	Required Contribution	City Contribution	State Contribution	Percentage Contributed	Net Pension Obligation (Asset)
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)
9/30/01	33,739	41,001	0	121.52%	(131,558)

**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	10/1/06	10/1/06	10/1/06
Basis for Contribution	10/1/04	10/1/04	10/1/04
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	29 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, 2006
CITY OF LAKE WALES, FLORIDA**

		Special Revenue Funds							
		Law			Historic		Total		
		Enforcement	Block Grant	CDBG	Preservation	Grant	Nonmajor	Governmental	
		Library	Block Grant	CDBG	Grant	151	Funds	Funds	
Transportation	Forfeitures	110	116	131	151	151	Total	Total	
102	106	110	116	131	151	151	Funds	Funds	
Cash and Cash Equivalents	\$ 162,873	\$ 156,196	\$ 10,185	\$ 10,575	\$ 381,009	\$ 381,009	\$ 793,880	\$ 793,880	
Due from Other Governments	122,862	0	27,876	40,279	120,500	120,500	311,517	311,517	
Total Assets	285,735	156,196	38,061	50,854	501,509	501,509	1,105,397	1,105,397	
Liabilities and Fund Balances									
Liabilities									
Accounts Payable	21,888	4,196	937	28,810	202,118	202,118	257,949	257,949	
Other Accrued Expenses	3,500	0	0	0	0	0	4,239	4,239	
Interfund Payables	0	0	37,124	0	0	0	37,124	37,124	
Deferred Revenue	55,951	0	0	0	117,041	117,041	172,992	172,992	
Total Liabilities	81,339	4,196	38,061	28,810	319,159	319,159	472,304	472,304	
Fund Balances									
Reserved for:									
Other Purposes	204,396	68,846	0	22,044	182,350	182,350	633,093	633,093	
Total Liabilities and Fund Balances	\$ 285,735	\$ 156,196	\$ 38,061	\$ 50,854	\$ 501,509	\$ 501,509	\$ 1,105,397	\$ 1,105,397	

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
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	Historic Preservation Grant 151	
Revenues							
Taxes	\$ 702,476	\$ 0	\$ 390,496	\$ 0	\$ 0	\$ 0	\$ 1,092,972
Intergovernmental	130,603	0	255,050	76,760	627,727	381,712	1,471,852
Charges for Services	87,943	0	0	0	0	0	87,943
Fines and Forfeitures	0	72,450	0	0	0	0	72,450
Interest and Miscellaneous	5,327	4,019	90,186	39	3,476	195,732	298,779
Total Revenues	<u>926,349</u>	<u>76,469</u>	<u>735,732</u>	<u>76,799</u>	<u>631,203</u>	<u>577,444</u>	<u>3,023,996</u>
Expenditures							
General Government	0	0	0	0	0	184,299	184,299
Public Safety	0	28,938	0	86,049	0	0	114,987
Physical Environment	0	0	0	0	1,011,435	0	1,011,435
Transportation	688,951	0	0	0	0	0	688,951
Culture and Recreation	0	0	698,096	0	0	369,275	1,067,371
(Total Expenditures)	<u>(688,951)</u>	<u>(28,938)</u>	<u>(698,096)</u>	<u>(86,049)</u>	<u>(1,011,435)</u>	<u>(553,574)</u>	<u>(3,067,043)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>237,398</u>	<u>47,531</u>	<u>37,636</u>	<u>(9,250)</u>	<u>(380,232)</u>	<u>23,870</u>	<u>(43,047)</u>
Other Financing Sources (Uses)							
Insurance Recoveries	526	0	0	0	0	0	526
Transfers in	35,000	0	0	9,250	381,335	0	425,585
Transfers out	(211,670)	(9,250)	0	0	0	0	(220,920)
Total Other Financing Sources (Uses)	<u>(176,144)</u>	<u>(9,250)</u>	<u>0</u>	<u>9,250</u>	<u>381,335</u>	<u>0</u>	<u>205,191</u>
Net Change in Fund Balances	61,254	38,281	37,636	0	1,103	23,870	162,144
Fund Balances Excess, Beginning of Year	143,142	30,565	117,821	0	20,941	158,480	470,949
Fund Balances Excess, End of Year	<u>\$ 204,396</u>	<u>\$ 68,846</u>	<u>\$ 155,457</u>	<u>\$ 0</u>	<u>\$ 22,044</u>	<u>\$ 182,350</u>	<u>\$ 633,093</u>

**COMBINING STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2006
CITY OF LAKE WALES, FLORIDA**

	Pension Trust Funds			Total
	Firefighters	Police Officers	General Employees	
Assets				
Investments:				
Money Market Funds	\$ 511,947	\$ 820,406	\$ 363,858	\$ 1,696,211
Corporate Bonds and Government Obligations	1,975,604	2,830,380	1,917,519	6,723,503
Equity Funds	3,881,255	5,601,016	4,698,979	14,181,250
Total Investments	<u>6,368,806</u>	<u>9,251,802</u>	<u>6,980,356</u>	<u>22,600,964</u>
Receivables:				
Interest and Dividends	19,809	29,042	18,689	67,540
Due from Retirees	1,162	3,764	0	4,926
Due from Other Governments	18,757	0	0	18,757
Prepaid Member Benefits	0	0	11,140	11,140
Total Receivables	<u>39,728</u>	<u>32,806</u>	<u>29,829</u>	<u>102,363</u>
Total Assets	<u>6,408,534</u>	<u>9,284,608</u>	<u>7,010,185</u>	<u>22,703,327</u>
Liabilities				
Due to DROP Participants	859,919	54,552	75,860	990,331
Interfund Payables	0	0	11,140	11,140
Prepaid Contributions from City	12,637	12,517	2,877	28,031
Total Liabilities	<u>872,556</u>	<u>67,069</u>	<u>89,877</u>	<u>1,029,502</u>
Net Assets				
Net Assets Held in Trust for Pension Benefits	<u>\$ 5,535,978</u>	<u>\$ 9,217,539</u>	<u>\$ 6,920,308</u>	<u>\$ 21,673,825</u>

**COMBINING STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
CITY OF LAKE WALES, FLORIDA**

	Pension Trust Funds			Total
	Municipal Firefighters' Retirement Trust	Municipal Police Retirement Trust	General Employees' Retirement Trust	
Additions				
Contributions:				
Employer	\$ 216,510	\$ 270,637	\$ 112,500	\$ 599,647
Employee	50,098	98,822	144,739	293,659
State of Florida	85,136	111,302	0	196,438
Employee Buy-Back	0	0	27,193	27,193
Total Contributions	351,744	480,761	284,432	1,116,937
Net Investment Income:				
Realized and Unrealized Increase in Fair Value of Investment	214,819	412,887	336,299	964,005
Interest and Dividend Income	198,227	287,091	207,340	692,658
Total Investment Income	413,046	699,978	543,639	1,656,663
(Investment Expense)	(45,101)	(65,861)	(49,836)	(160,798)
Net Investment Income	367,945	634,117	493,803	1,495,865
Total Additions	719,689	1,114,878	778,235	2,612,802
Deductions				
Benefit Payments	411,090	519,118	174,263	1,104,471
Refunds	0	17,032	72,382	89,414
Administrative Expenses	34,859	46,331	19,742	100,932
(Total Deductions)	(445,949)	(582,481)	(266,387)	(1,294,817)
Change in Net Assets	273,740	532,397	511,848	1,317,985
Net Assets, Beginning of Year				
As Originally Reported	5,262,238	8,685,142	6,397,261	20,344,641
Adjustment	0	0	11,199	11,199
Net Assets, As Adjusted	5,262,238	8,685,142	6,408,460	20,355,840
Net Assets, End of Year	\$ 5,535,978	\$ 9,217,539	\$ 6,920,308	\$ 21,673,825

SINGLE AUDIT SECTION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2006
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				
Community Development Block Grant:*				
Neighborhood Grant - Flood and Drainage Project	14.228	04DB-1Q-07-63-02-N06	\$ 750,000	\$ 543,322
Disaster Recovery Grant	14.228	06DB-03-07-63-02-W16	500,000	102,237
U.S. Department of Justice				
Bulletproof Vest Grant	16.607	2003-BU-BX-03-01-39-73	8,975	3,860
Edward Byrne Memorial Justice Assistance Grant	16.738	2006-JAGC-POLK-7-M8-162	27,145	27,145
Edward Byrne Memorial Justice Assistance Grant	16.738	2005-DJ-BX-0805	10,378	10,378
U.S. Department of Transportation				
State and Community Highway Safety Program:				
Lake Wales RADICAL Program	20.605	AO800	43,000	39,237
U.S. Department of Homeland Security				
Assistance to Firefighters Grant	97.044	EMW-2005-FG-11706	119,439	110,222
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	CS120759110	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	990,960	3,693
Total Federal Awards			<u>6,553,877</u>	<u>840,094</u>
State Financial Assistance				
Florida Department of State				
Historic Preservation Grants:*				
Boys and Girls Club	45.032	SC331	250,000	211,912
Hardman Hall	45.032	SC447	300,000	111,800
School Complex, Phase V	45.032	SC621	300,000	0
Florida Department of Environmental Protection				
Florida Recreation Development Assistance Program:				
Kiwanis Club Restoration	37.017	F03542	50,000	3,850
Soccer/Multi-Purpose Field	37.017	F50192	200,000	4,238
Florida Department of Transportation				
Aviation Development Grant:*				
Airport Reconstruction	55.004	ANV17	762,560	450,048
Total State Financial Assistance			<u>1,862,560</u>	<u>781,848</u>
Total Federal Awards and State Financial Assistance			<u>\$ 8,416,437</u>	<u>\$ 1,621,942</u>

* Denotes Major Program

- (1) Loan Balance at September 30, 2006 - \$1,108,377
- (2) Loan Balance at September 30, 2006 - \$640,735
- (3) Loan Balance at September 30, 2006 - \$1,266,472
- (4) Loan Balance at September 30, 2006 - \$200,150

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2006
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). 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).

The City reporting entity is defined in Note 1 to the City's basic financial statements for the year ended September 30, 2006. 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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL AWARDS PROGRAM AND STATE FINANCIAL
ASSISTANCE PROJECTS 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 the major federal program and each of the major state projects for the year ended September 30, 2006. The City's major federal program 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 the major federal program and each of the major 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; and 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 the major federal program or on a major 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 the major federal awards program or each of the major state projects for the year ended September 30, 2006.

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 programs or state projects. 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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL AWARDS PROGRAM AND STATE FINANCIAL
ASSISTANCE PROJECTS 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)

the major state projects to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, Chapter 69I-5, *Rules of the Florida Department of Financial Services*, and Chapter 10.550, *Rules of the Auditor General*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program or state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

April 26, 2007
Sarasota, Florida

Purvis, Gray and Company, LLP

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS PROGRAM AND
STATE FINANCIAL ASSISTANCE PROJECTS
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, 2006, which collectively comprise the City's basic financial statements.
2. No material weaknesses in the internal control over financial reporting, or reportable conditions were disclosed during the audit of the basic financial statements (see independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*).
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit (see independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*).
4. No material weaknesses or reportable conditions were disclosed during the audit of compliance and internal control applicable to the City's major federal program or major state projects (see independent auditors' report on compliance with requirements applicable to the major federal awards program or major state financial assistance projects 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 awards program or major state project were disclosed during the audit (see the same report referenced in 4).
6. Audit findings relative to the major federal program 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 Program**
 - U.S. Department of Housing and Urban Development, Community Development Block Grant, CFDA Number 14.228
 - **Major State Projects**
 - Florida Department of State, Historical Preservation Grant, CSFA Number 45.032
 - Florida Department of Transportation, Aviation Development Grant – Airport Reconstruction, CSFA Number 55.004

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

PART A - SUMMARY OF AUDITORS' RESULTS (Concluded)

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 AWARD PROGRAM 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 single audit. No corrective action plan is required because there were no findings in the current year requiring correction under the Federal or Florida Single Audits. There was no Florida Single Audit required in the prior year.

GOVERNMENT AUDITING SECTION

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

Honorable 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, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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

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

Internal Control Over Financial Reporting

We noted certain other matters that we reported to management of the City in a separate Management Letter dated April 26, 2007.

This report is intended solely for the information and use of the Mayor, City Commission, the Auditor General of the State of Florida, 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.

April 26, 2007
Sarasota, Florida

Purvis, Gray and Company, LLP

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, 2006, and have issued our report thereon dated April 26, 2007.

We conducted our audit in accordance with United States generally accepted auditing standards, *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 691-5, *Rules of the Florida Department of Financial Services*. We have issued our independent auditors' report to you on internal control over financial reporting and on compliance and other matters dated April 26, 2007. We have also issued applicable reports and schedules for federal and Florida Single Audits. Disclosures in those reports, if any, should be considered in conjunction with this management letter.

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

The *Rules of the Auditor General* [Section 10.554(1)(h)1.] require that we comment as to whether or not corrective action has been taken to address significant findings and recommendations made in the preceding annual financial audit report. All recommendations made in the preceding annual financial audit report have been corrected to our satisfaction, except as noted below:

- **03-1 Governmental Accounting Standards Board (GASB) Statement No. 34** - The prior year comment is still applicable. The City planned to address the reporting of infrastructure in 2006, but it has been deferred to 2007.

The *Rules of the Auditor General* [Section 10.554(1)(h)2.] require that we determine whether the City complied with Section 218.415, Florida Statutes, regarding investment of public funds. Our audit disclosed no matters requiring comment as outlined in Section 218.415, Florida Statutes.

The *Rules of the Auditor General* [Section 10.554(1)(h)3.] requires us to provide any recommendations to improve financial management, accounting procedures, and internal controls. We have no current year recommendations.

The *Rules of the Auditor General* [Section 10.554(1)(h)4.] require disclosure in the management letter of the following matters if not already addressed in the auditors' report on internal control over financial reporting and on compliance and other matters, or the Single Audit reports and schedules, and if not clearly

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

MANAGEMENT LETTER
(Concluded)

inconsequential: (1) violations of laws, rules, regulations and contractual provisions or abuse that have occurred, or are likely to have occurred, and were discovered within the scope of the audit; (2) improper or illegal expenditures discovered within the scope of the audit (even if immaterial); (3) deficiencies in internal control, including but not limited to: improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, and defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed one matter required to be disclosed by *Rules of the Auditor General* [Section 10.554(1)(h)4.], as follows:

- Certain general fund departments exceeded their budgeted appropriations (as amended) for the year ended September 30, 2006, as disclosed in Note 2-C to the financial statements. We recommend the City review their procedures for preventing and detecting budget overages in a timely basis.

The *Rules of the Auditor General* [Section 10.554(1)(h)5.] also requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The applicable disclosure can be found in Note 1 to the financial statements.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)6.a], the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, Determination of Financial Emergency. 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.

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

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

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 State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

April 26, 2007
Sarasota, Florida

Purvis, Gray and Company, LLP



**City of
Lake Wales**

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

May 18, 2007

Honorable Mayor and City Commissioners
City of Lake Wales, Florida

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

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, 2006.

Management Letter

Status of Prior Year recommendations and Compliance Violations:

03-1. Government Accounting Standards Board (GASB) Statement No. 34 – The City has elected to defer the retro active reporting of certain infrastructure assets (e.g., roads and bridges) until accurate cost and depreciation amounts can be determined. This task is scheduled for completion in fiscal year 2006-07.

Current Year Recommendations:

06-1. Excess of Expenditures Over Appropriations at Department Level – Minor unfavorable variances occurred in several General Fund departments as a result of accounting adjustments that were made after adoption of the final budget amendment on November 21, 2006. Four departments were substantially over; two due to increased payroll costs and two due to budget amendment errors.

Department	Overage	Primary Cause
Police Department	\$159,638	Increased payroll costs resulting from reorganization of the department and unbudgeted facility and equipment repairs.
Fire Department	\$44,170	Staffing of new substation created staffing shortages at main station. Three new firefighters were hired to relieve staffing shortages and reduce overtime costs.
Waste Disposal	\$25,144	Waste Disposal budget was prematurely reduced in final budget amendment before final accounting adjustments were made.
Building Permits & Inspections	\$24,906	Budget amendment error. Budget reduced by \$57,100 in lieu of \$27,100.

Honorable Mayor and City Commissioners
City of Lake Wales, Florida

Response to Auditor's Management Letter Comments (concluded)

As a whole the General Fund's actual expenditures were \$311,716 under budgeted appropriations. Staff has increased payroll-monitoring requirements. Full fiscal impacts are prepared before reorganization and staffing changes are approved.

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