

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORTS**

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

**SEPTEMBER 30, 2005**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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

**SEPTEMBER 30, 2005**

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**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

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

**SEPTEMBER 30, 2005**

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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, 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, 2005, 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, each major fund, and the aggregate remaining fund information of the City as of September 30, 2005, 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 May 19, 2006, 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.

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.

**Certified Public Accountants**

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

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

**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

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 nonmajor fund financial 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, 2005, 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 nonmajor 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.

May 19, 2006  
Sarasota, Florida

*Purvis, Gray and Company*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

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 auditors' report.

**Financial Highlights**

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$22,455,258 (net assets). Of this amount, \$7,652,997 (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 \$2,944,052. Net unspent insurance proceeds accounted for 25.4 percent of the increase; Long Leaf Business Park lot sales accounted for 20.0 percent; and 12 percent of the increase is attributed to a 63 percent increase from licenses and permitting revenues. Governmental activities accounted for 60.8 percent while business-type activities made up the remaining 39.2 percent of the increase.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,375,459, an increase of \$2,285,751 in comparison with the prior year. Approximately 53 percent of this total amount, \$2,310,286, is available for spending at the City's discretion (unreserved fund balance). Net unspent insurance proceeds in the amount of \$748,155 accounts for 32.7 percent of the fund balance increase and 32.4 percent of the unreserved fund balance.

**USING THIS ANNUAL REPORT**

The financial statement's focus is 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.

The Statement of Net Assets and Statement of Activities seek to give the user a combined overview of the City's financial position; eliminate interfund activities and fiduciary funds, such as pension funds, which can mislead users when incorporated in a combined manner.

The new reporting model requires the use of accrual accounting (which focuses on economic resources) at the topmost level, while maintaining modified accrual accounting (which focuses on current financial resources-budget resources) at the individual fund level. For the first time, the impact of long-term financial decisions can be more properly matched to the period in which the expense or revenue is more properly attributed. More fairness in presentation is achieved and the impacts of long-term decisions are promptly recorded.

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.

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The focus is on "activities," rather than "fund types." All information is presented utilizing the economic resource measurement focus and the accrual basis of accounting. This method matches revenues and expenses to the period in which the revenue is earned and the expense attributed.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. The focus of the Statement of Net Assets (the "unrestricted net assets") is designed to be similar to bottom line results for private sector companies. This statement combines and consolidates governmental fund current resources (short-term spendable resources) with capital assets and long-term obligations. (Note: Infrastructure assets (streets, sidewalks, etc) will be added in 2006). Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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.

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 and airport), 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).

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 14-15 of this report.

**Fund financial statements**

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

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**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.

The basic governmental fund financial statements can be found on pages 16-20 of this report.

**Proprietary funds.** The City maintains only one of the two proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Public Utilities System (water and sewer). Internal service funds are an accounting device used to accumulate and allocate costs internally among a 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.

The basic proprietary fund financial statements can be found on pages 21-23 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 26-56 of this report.

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**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 57-62 of this report.

**Infrastructure assets**

The City will defer implementing the infrastructure portion related to general governmental assets until 2006. Historically, a government's largest group of assets (infrastructure - roads, bridges, traffic signals, 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. Additionally, the government must elect to either (a) depreciate these assets over their estimated useful life or (b) develop a system of asset management designed to maintain the service delivery potential to near perpetuity. If the government elects the asset management system (the modified approach), which periodically (at least every third year), by category, measures and demonstrates its maintenance of locally established levels of service standards, the government may record its cost of maintenance in lieu of depreciation.

The City has elected to depreciate its infrastructure assets.

**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 \$22,455,258. The overall financial position of the City was improved by \$2,944,052 from the prior year, an increase of approximately 15.1% from \$19.5 million in 2004 to \$22.5 million in 2005. The net assets of the business-type activities increased primarily as a result of operations. The net assets of the governmental type activities increased primarily as a result of land sales and insurance recovery proceeds. The following table reflects the condensed Statement of Net Assets for the current year with comparative information for fiscal year 2004:

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$ 9,103,780	\$ 5,808,310	\$ 4,869,792	\$ 2,970,914	\$ 13,973,572	\$ 8,779,224
Capital Assets, Net of Depreciation	20,446,930	20,625,100	18,029,224	18,119,935	38,476,154	38,745,035
<b>Total Assets</b>	<b>29,550,710</b>	<b>26,433,410</b>	<b>22,899,016</b>	<b>21,090,849</b>	<b>52,449,726</b>	<b>47,524,259</b>
Current and Other Liabilities	5,004,980	2,488,799	1,547,587	1,432,242	6,552,567	3,921,041
Long-term Debt Outstanding	12,152,113	13,339,938	11,289,788	10,752,074	23,441,901	24,092,012
<b>Total Liabilities</b>	<b>17,157,093</b>	<b>15,828,737</b>	<b>12,837,375</b>	<b>12,184,316</b>	<b>29,994,468</b>	<b>28,013,053</b>
<b>Net Assets:</b>						
Investment in Assets, Net of Related Debt	7,908,681	7,626,251	6,197,002	6,895,415	14,105,683	14,521,666
Restricted	696,578	113,240	-	-	696,578	113,240
Unrestricted	3,788,358	2,865,182	3,864,639	2,011,118	7,652,997	4,876,300
<b>Total Net Assets:</b>	<b>\$ 12,393,617</b>	<b>\$ 10,604,673</b>	<b>\$ 10,061,641</b>	<b>\$ 8,906,533</b>	<b>\$ 22,455,258</b>	<b>\$ 19,511,206</b>

For more detailed information see the Statement of Net Assets on page 14.

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

Sixty-three percent (63%) 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.

Thirty-four percent (34%) of the City's net assets, \$7,652,997, may be used to meet the City's ongoing obligations to citizens and creditors. Three percent (3%) of the City's net assets represents resources that are subject to external restrictions on how they may be used.

**Statement of Activities**

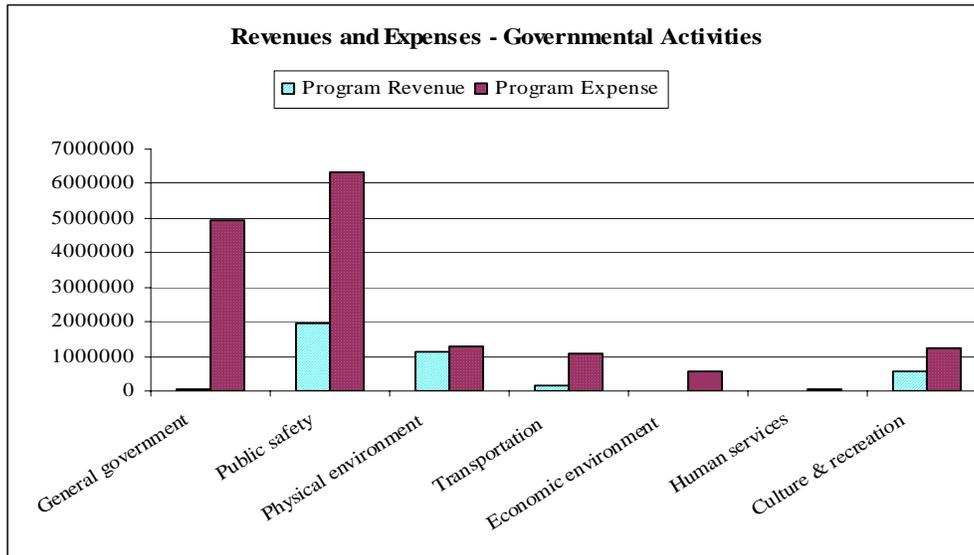
The following is a summary of the information presented in the Statement of Activities found on page 15 of this report, with comparative information for 2004:

	Changes in Net Assets (Summary)					
	As of September 30					
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
Program Revenues:						
Charges for services	\$ 2,859,329	\$ 1,923,446	\$ 4,598,397	\$ 4,644,292	\$ 7,457,726	\$ 6,567,738
Operating grants and contributions	670,774	822,220	120,778	139,118	791,552	961,338
Capital grants and contributions	360,913	356,340	490,962	269,276	851,875	625,616
General revenues:						
Property taxes	4,723,412	4,208,282			4,723,412	4,208,282
Other taxes	3,341,629	3,216,052			3,341,629	3,216,052
Other	5,646,746	2,417,770	236,727	299,445	5,883,473	2,717,215
Total revenues	<u>17,602,803</u>	<u>12,944,110</u>	<u>5,446,864</u>	<u>5,352,131</u>	<u>23,049,667</u>	<u>18,296,241</u>
<b>Expenses:</b>						
General Government	4,936,119	873,562			4,936,119	873,562
Public Safety	6,351,058	6,160,191			6,351,058	6,160,191
Physical Environment	1,295,512	1,333,730			1,295,512	1,333,730
Transportation	1,085,392	944,840			1,085,392	944,840
Economic Environment	570,699	376,064			570,699	376,064
Human Services	32,963	32,963			32,963	32,963
Culture and Recreation	1,227,319	1,215,677			1,227,319	1,215,677
Interest on long-term debt	576,083	571,573			576,083	571,573
Public Utilities			4,030,470	3,953,710	4,030,470	3,953,710
Total expenses	<u>16,075,145</u>	<u>11,508,600</u>	<u>4,030,470</u>	<u>3,953,710</u>	<u>20,105,615</u>	<u>15,462,310</u>
Increase (decrease) in net assets before transfers	1,527,658	1,435,510	1,416,394	1,398,421	2,944,052	2,833,931
Transfers	261,286	966,902	(261,286)	(966,902)	-	-
Increase (decrease) in net assets - October 1	1,788,944	2,402,412	1,155,108	431,519	2,944,052	2,833,931
Net assets - October 1	10,604,673	8,202,261	8,906,533	8,475,014	19,511,206	16,677,275
Net assets - September 30	<u>\$ 12,393,617</u>	<u>\$ 10,604,673</u>	<u>\$ 10,061,641</u>	<u>\$ 8,906,533</u>	<u>\$ 22,455,258</u>	<u>\$ 19,511,206</u>

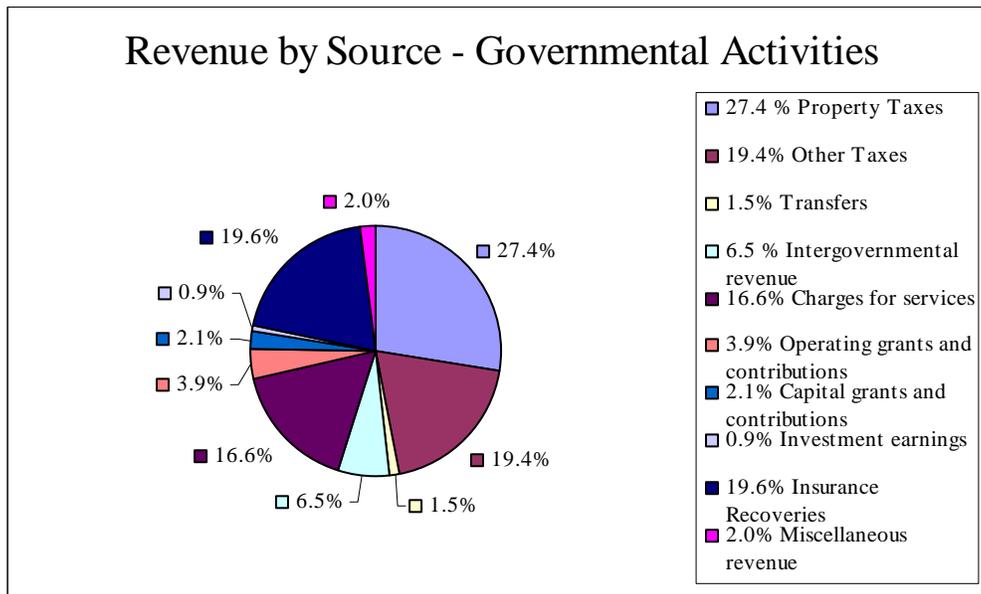
**Governmental activities**

Governmental activities increased the City's net assets by \$1,788,944. About 78 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:

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**



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

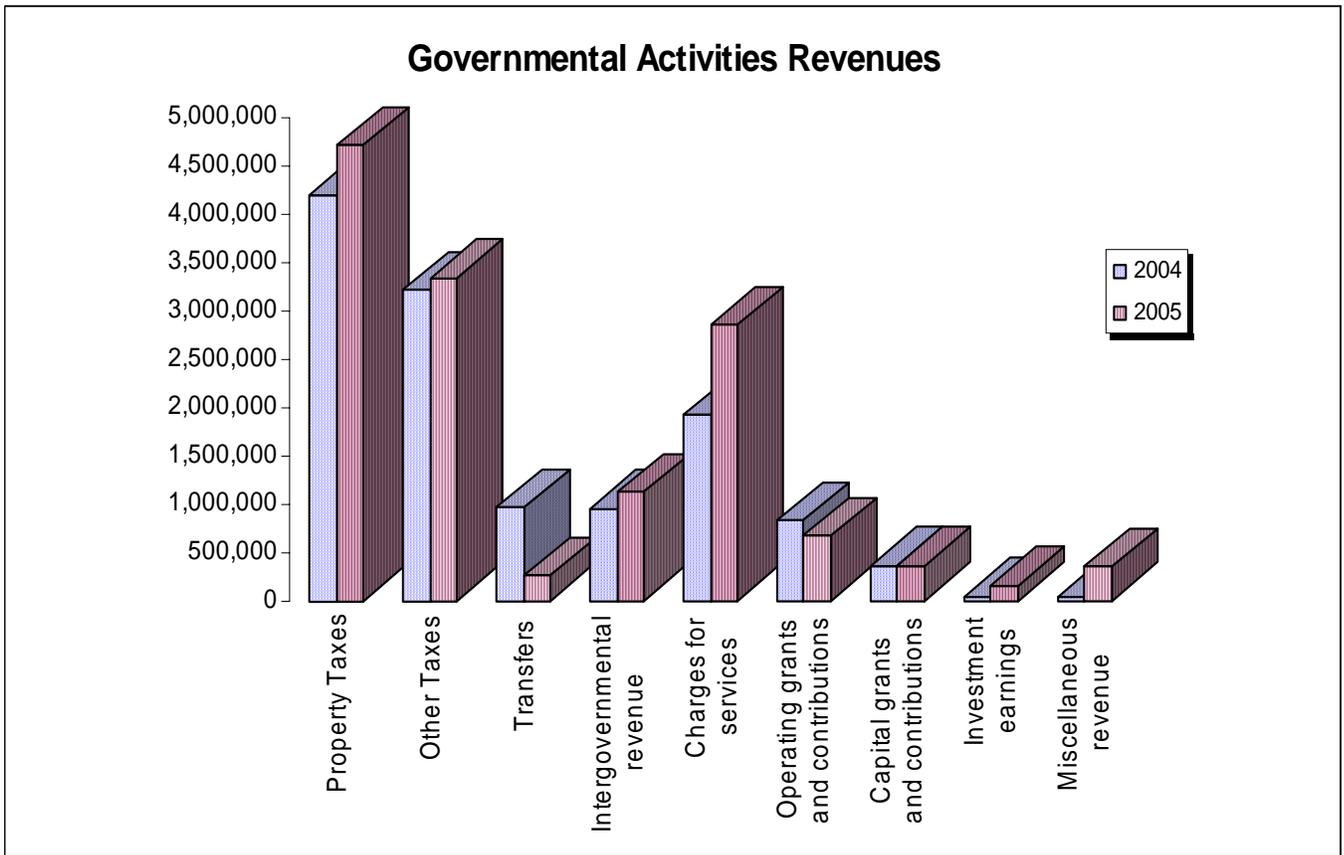


**Governmental Activities Revenues**

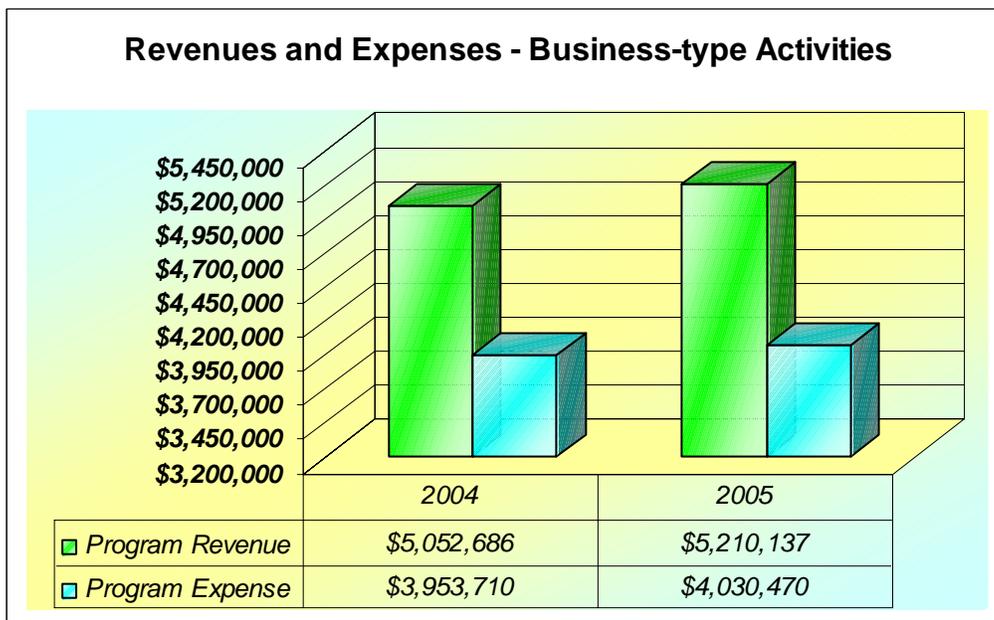
The revenue source that grew the largest over the prior year was charges for services by \$935,883 (48.6 percent) over 2004 because of new construction (building permit fees and impact fees). Property taxes grew by \$515,130 (12.2 percent increase) over 2004 due to new construction and increased property value. The millage rate was 9.44 mills for 2004 and 2005. (Gain on disposal of assets excluded from charts.)

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

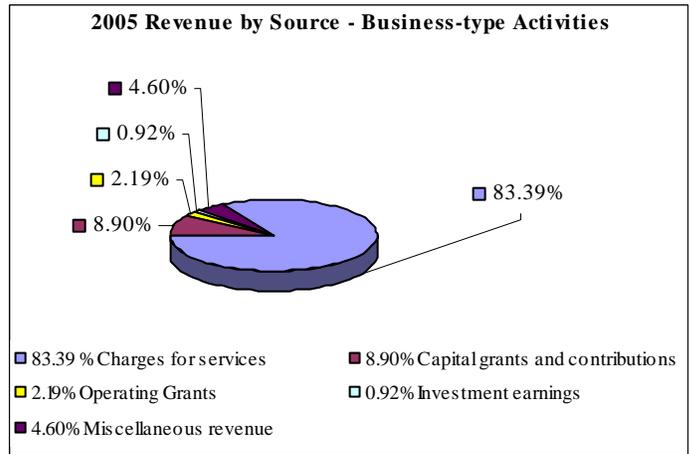
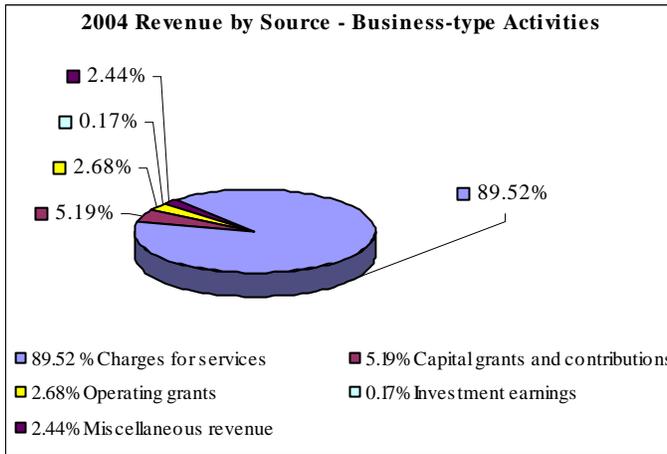
The chart below compares revenues by source for fiscal years 2004 and 2005:



Business-type activities increased the City's net assets by \$1,155,108 (after transfers) accounting for 39.2% of 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 2004 and 2005:



**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**



**Business-type Activities Key Factors**

- Program revenues exceeded expenses by \$1,179,667 compared to \$1,098,976 in prior year.
- Charges for services decreased by \$45,895. Consumption was down due to the three Hurricanes that battered Lake Wales in August and September 2004. Many homes and businesses were damaged and/or destroyed.
- Program expenses increased by \$76,760.
- Net transfers out to governmental activities of \$261,286.

**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, 2005, the City's governmental funds reported combined ending fund balances of \$4,375,459 an increase of \$2,285,751 in comparison with the prior year. Approximately 53 percent of this total amount, \$2,310,286, constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance, \$2,065,173, 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, 2005, the unreserved fund balance of the General Fund was \$555,751 while the total fund balance was \$690,586. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 4.2 percent of total General Fund expenditures, while total fund balance represents 5.3 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, 2005 amounted to \$3,864,639.

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget was an increase in net appropriations of \$3,868,481. Of this amount, \$3,117,925 is attributed to hurricane disaster repair (insurance and FEMA funded). An additional \$134,750 was appropriated to cover equipment damaged during a roof repair (covered by contractor's insurance). Other budget increases include \$301,968 in excess medical claims, \$66,500 in fuel expense and \$149,587 in carryover of prior year projects. Budgeted insurance proceeds revenues increased by \$2,765,351 and FEMA Aid by \$540,926. Some appropriations were reduced to offset increased costs.

Budget amendments were adopted using available fund balance or revenues in excess of the original budget projections. During the year revenues were \$171,104 below budgetary estimates, expenditures were \$50,958 less than budgetary estimates and insurance proceeds in the amount of \$770,222 for disaster repair work were not received within 60 days of year-end requiring a draw down of existing fund balance by \$602,121.

**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, 2005 amounts to \$38,476,154 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment. Reporting for infrastructure will occur in 2006.

**City of Lake Wales' Capital Assets**

(net of depreciation)  
as of September 30, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 3,690,372	\$ 3,640,172	\$ 354,811	\$ 515,580	\$ 4,045,183	\$ 4,155,752
Buildings	7,200,670	7,384,654	339,702	320,038	7,540,372	7,704,692
Improvements other than buildings	6,716,350	6,725,464	15,352,367	14,463,665	22,068,717	21,189,129
Vehicles and equipment	1,564,677	1,514,089	1,405,132	2,560,142	2,969,809	4,074,231
Construction in progress	1,274,861	1,360,721	577,212	260,510	1,852,073	1,621,231
<b>Total</b>	<b>\$ 20,446,930</b>	<b>\$ 20,625,100</b>	<b>\$ 18,029,224</b>	<b>\$ 18,119,935</b>	<b>\$ 38,476,154</b>	<b>\$ 38,745,035</b>

The City incurred over \$8 million dollars in damage to City buildings and park structures, including all structures at the City Airpark. Costs in the amount of \$3,831,770 related to damage to City structures have been recorded in the accompanying financial statements. In addition to completing repairs to damaged structures, the rebuilding of the Airpark structures is scheduled to begin next year. The City anticipates a major portion of the restoration costs will be recoverable from its insurance carrier.

Additional information on the City's capital assets is presented in Note 5 to the financial statements.

Additional information on the City's Hurricane experience is presented in Note 13 to the financial statements.

**Long-term debt.** At year-end, the City had total long-term debt outstanding of \$25,568,206. Total debt increased by \$213,070 (0.84 percent) during the current fiscal year, due to principal payments of debt service (\$1,209,592); new debt of \$1,110,000 for a chlorine contact chamber and reuse transmission lines and \$196,457 for the wastewater plant expansion pre-construction costs; and a net increase in employees' accrued compensated absences \$60,873.

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**City of Lake Wales' Long-term Debt  
As of September 30, 2005**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
	Revenue Bonds & notes outstanding, net of discounts	\$12,628,236	\$13,097,017	\$11,977,938	\$11,356,960	\$24,606,174
Compensated Absences	873,664	827,965	88,368	73,194	962,032	901,159
Long-term debt TOTAL	<u>\$13,501,900</u>	<u>\$13,924,982</u>	<u>\$12,066,306</u>	<u>\$11,430,154</u>	<u>\$25,568,206</u>	<u>\$25,355,136</u>

Debt issuance costs of \$24,690 were incurred in the current year in conjunction with the issuance of the Utility System Revenue Note, Series 2005. The proceeds are to be used to construct a chlorine contact chamber and reuse transmission line.

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

**Next Year's Budgets and Rates**

Fiscal year 2006's adopted budget is based on a millage rate of 8.94 per \$1000 of taxable valuation, which is 1.89 percent more than the rolled-back rate of 8.7745 mills. This rate is a reduction of .5 mills (5.3 percent less) from the rate of 9.44 mills assessed for 2005. The ad valorem tax rate of 8.94 mills generates an additional \$88,184 in excess of the revenue generated by the rolled-back rate. The 8.94 mills tax rate generates an additional \$310,016 for the General Fund. The additional revenue is budgeted to cover increases in insurance, fuel costs, employee benefits, 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 2006 of over \$1.5 million a 40 percent increase over fiscal year 2005. Currently, there is a pending contract on approximately 350 acres of undeveloped land owned by the CRA. The sale is scheduled to close in 2006.

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.

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.

**CITY OF LAKE WALES, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2005**

**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, 2005**  
**CITY OF LAKE WALES, FLORIDA**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 5,071,962	\$ 1,402,635	\$ 6,474,597
Receivables (Net of Allowance for Uncollectibles)	3,295,355	1,412,440	4,707,795
Inventories	134,835	104,217	239,052
Restricted Assets:			
Cash and Cash Equivalents	193,442	433,514	626,956
Cash with Paying Agent	318,199	624,644	942,843
Investments	0	738,188	738,188
Accrued Interest	0	8,438	8,438
Capital Assets:			
Nondepreciable	4,965,233	932,023	5,897,256
Depreciable, Net	15,481,697	17,097,201	32,578,898
Unamortized Bond Issue Costs	89,987	145,716	235,703
<b>Total Assets</b>	<b>29,550,710</b>	<b>22,899,016</b>	<b>52,449,726</b>
<b>Liabilities</b>			
Accounts Payable	2,437,927	315,267	2,753,194
Other Accrued Expense	198,368	17,218	215,586
Accrued Interest	244,555	234,437	478,992
Internal Balances	203,876	(203,876)	0
Customer Deposits	4,012	408,023	412,035
Deferred Revenue	566,455	0	566,455
Noncurrent Liabilities:			
Due Within One Year	1,349,787	776,518	2,126,305
Due in More Than One Year	12,152,113	11,289,788	23,441,901
<b>Total Liabilities</b>	<b>17,157,093</b>	<b>12,837,375</b>	<b>29,994,468</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	7,908,681	6,197,002	14,105,683
Restricted for:			
Redevelopment	143,611	0	143,611
Other Purposes	552,967	0	552,967
Unrestricted	3,788,358	3,864,639	7,652,997
<b>Total Net Assets</b>	<b>\$ 12,393,617</b>	<b>\$ 10,061,641</b>	<b>\$ 22,455,258</b>

See accompanying notes.

**STATEMENT OF ACTIVITIES**  
**SEPTEMBER 30, 2005**  
**CITY OF LAKE WALES, FLORIDA**

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Indirect Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governments		Total
						Governmental Activities	Business-Type Activities	
<b>Primary Government</b>								
Governmental Activities:								
General Government	\$ 5,010,709	\$ (74,590)	\$ 74,155	\$ 0	\$ 0	\$ (4,861,964)	\$ 0	\$ (4,861,964)
Public Safety	6,351,058	0	1,614,914	335,808	14,606	(4,385,730)	0	(4,385,730)
Physical Environment	1,295,512	0	799,508	122,561	204,810	(168,633)	0	(168,633)
Transportation	1,084,406	986	110,197	0	67,841	(907,354)	0	(907,354)
Economic Environment	497,095	73,604	0	0	0	(570,699)	0	(570,699)
Human Services	32,963	0	0	0	0	(32,963)	0	(32,963)
Culture and Recreation	1,227,319	0	260,555	212,405	73,656	(680,703)	0	(680,703)
Interest on Long-term Debt	576,083	0	0	0	0	(576,083)	0	(576,083)
Total Governmental Activities	16,075,145	0	2,859,329	670,774	360,913	(12,184,129)	0	(12,184,129)
Business-type Activities:								
Water and Sewer Utility	4,030,470	0	4,598,397	120,778	490,962	0	1,179,667	1,179,667
Total Primary Government	\$ 20,105,615	\$ 0	\$ 7,457,726	\$ 791,552	\$ 851,875	(12,184,129)	1,179,667	(11,004,462)

General Revenues	Governmental Activities	Business-Type Activities	Total
Taxes:			
Property Taxes	4,723,412	0	4,723,412
Franchise Taxes	950,532	0	950,532
Public Service Taxes	1,139,125	0	1,139,125
Communication Service Taxes	556,105	0	556,105
Gas Taxes	695,867	0	695,867
Intergovernmental Revenue	1,119,130	0	1,119,130
Investment Earnings	153,538	50,914	204,452
Gain (Loss) on Disposition of Capital Assets	650,600	(67,591)	583,009
Insurance Recoveries	3,374,250	0	3,374,250
Miscellaneous Revenues	349,228	253,404	602,632
Transfers	261,286	(261,286)	0
Total General Revenues and Transfers	13,973,073	(24,559)	13,948,514
Change in Net Assets	1,788,944	1,155,108	2,944,052
Net Assets, Beginning of Year	10,604,673	8,906,533	19,511,206
Net Assets, End of Year	\$ 12,393,617	\$ 10,061,641	\$ 22,455,258

See accompanying notes.

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

	<u>General</u>	<u>Debt Service Fund</u>	<u>Community Redevelopment</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 1,247,109	\$ 997,579	\$ 349,892
Cash with Paying Agent		318,199	
Other Restricted Cash			
Receivables, Net	2,382,970		
Due from Other Funds	9,672		
Due from Other Governments	520,156		
Inventory and Prepays	134,835		
<b>Total Assets</b>	<u>4,294,742</u>	<u>1,315,778</u>	<u>349,892</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	1,720,770		1,139
Other Accrued Expenses	176,372		1,266
Due to Other Funds	17		203,876
Due to Other Governments	497,420		
Customer Deposits	4,012		
Deferred Revenue and Credits	1,205,565		
<b>Total Liabilities</b>	<u>3,604,156</u>	<u>0</u>	<u>206,281</u>
<b>Fund Balances</b>			
Reserved for Inventory and Prepays	134,835		
Reserved for Debt Service		1,315,778	
Reserved for Redevelopment			143,611
Reserved for Other Purposes			
Unreserved, Reported in:			
General Fund	555,751		
Capital Projects Fund			
<b>Total Fund Balances</b>	<u>690,586</u>	<u>1,315,778</u>	<u>143,611</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 4,294,742</u>	<u>\$ 1,315,778</u>	<u>\$ 349,892</u>

**Reconciliation of the Balance Sheet to the Statement of Net Assets:**

**Fund Balances - Total Governmental Funds**

**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. Therefore, interest payable is not reported as a liability in the governmental funds balance sheet.
- Deferred revenues that are not available for current financial resources are reported as a liability in the governmental funds balance sheets.
- 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**

See accompanying notes.

Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 1,751,456	\$ 725,926	\$ 5,071,962
193,442		318,199
		193,442
		2,382,970
		9,672
68,452	323,777	912,385
		134,835
<u>2,013,350</u>	<u>1,049,703</u>	<u>9,023,465</u>

	218,581	1,940,490
	20,730	198,368
	9,672	213,565
		497,420
		4,012
258,815	329,771	1,794,151
<u>258,815</u>	<u>578,754</u>	<u>4,648,006</u>

		134,835
		1,315,778
		143,611
	470,949	470,949
		555,751
1,754,535		1,754,535
<u>1,754,535</u>	<u>470,949</u>	<u>4,375,459</u>
<u>\$ 2,013,350</u>	<u>\$ 1,049,703</u>	<u>\$ 9,023,465</u>

\$ 4,375,459

20,446,930

(244,555)

1,227,696

(13,501,900)

89,987  
\$ 12,393,617

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

	<u>General</u>	<u>Debt Service Fund</u>	<u>Community Redevelopment</u>
<b>Revenues</b>			
Taxes	\$ 5,175,916	\$ 727,530	\$ 1,079,264
Licenses and Permits	911,497	0	0
Intergovernmental	1,380,914	15,005	0
Charges for Services	1,417,139	0	0
Fines and Forfeitures	140,047	0	0
Interest and Miscellaneous	146,378	320,348	714,055
<b>Total Revenues</b>	<u>9,171,891</u>	<u>1,062,883</u>	<u>1,793,319</u>
<b>Expenditures</b>			
General Government	5,062,451	0	0
Public Safety	6,120,773	0	0
Physical Environment	1,368,225	0	0
Transportation	38,407	0	0
Economic Environment	10,008	0	471,269
Human Services	18,329	0	0
Culture and Recreation	497,291	0	0
Debt Service:			
Principal	0	502,261	0
Interest and Fiscal Charges	0	549,188	0
Capital Outlay	0	0	0
<b>(Total Expenditures)</b>	<u>(13,115,484)</u>	<u>(1,051,449)</u>	<u>(471,269)</u>
<b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>	<u>(3,943,593)</u>	<u>11,434</u>	<u>1,322,050</u>
<b>Other Financing Sources (Uses)</b>			
Insurance Recoveries	2,746,763	0	0
Transfers in	643,155	602,466	0
Transfers out	(48,445)	(19,869)	(1,007,665)
<b>Total Other Financing Sources (Uses)</b>	<u>3,341,473</u>	<u>582,597</u>	<u>(1,007,665)</u>
<b>Net Change in Fund Balance</b>	(602,120)	594,031	314,385
<b>Fund Balances, Beginning of Year</b>	<u>1,292,706</u>	<u>721,747</u>	<u>(170,774)</u>
<b>Fund Balances, End of Year</b>	<u>\$ 690,586</u>	<u>\$ 1,315,778</u>	<u>\$ 143,611</u>

See accompanying notes.

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 0	\$ 1,082,914	\$ 8,065,624
0	0	911,497
142,320	597,614	2,135,853
0	98,001	1,515,140
0	27,999	168,046
225,446	69,294	1,475,521
<u>367,766</u>	<u>1,875,822</u>	<u>14,271,681</u>
16	20	5,062,487
0	69,186	6,189,959
0	244,323	1,612,548
152,468	662,763	853,638
0	0	481,277
0	0	18,329
0	681,654	1,178,945
0	0	502,261
0	0	549,188
225,156	0	225,156
<u>(377,640)</u>	<u>(1,657,946)</u>	<u>(16,673,788)</u>
<u>(9,874)</u>	<u>217,876</u>	<u>(2,402,107)</u>
1,670,844	8,965	4,426,572
82,410	247,512	1,575,543
0	(238,278)	(1,314,257)
<u>1,753,254</u>	<u>18,199</u>	<u>4,687,858</u>
1,743,380	236,075	2,285,751
11,155	234,874	2,089,708
<u>\$ 1,754,535</u>	<u>\$ 470,949</u>	<u>\$ 4,375,459</u>

See accompanying notes.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

**Net Change in Fund Balances - Total Governmental Funds** \$ 2,285,751

**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	\$ 1,022,339	
Depreciation	<u>(1,130,612)</u>	(108,273)

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. (69,897)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The net change in these revenues are not reported in the funds. (740,123)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 502,261

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. The noncurrent portion of compensated absences does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. In addition, interest on long-term debt is not recognized until due, rather than as it accrues in the governmental funds:

Increase in Compensated Absences Liability	(45,699)	
Amortization of Debt Issue Costs and Refunding Losses	(41,661)	
Decrease in Interest Accrued on Bonds	<u>6,585</u>	<u>(80,775)</u>

**Change in Net Assets of Governmental Activities** \$ 1,788,944

See accompanying notes.

**STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2005  
 CITY OF LAKE WALES, FLORIDA**

	<b>Utilities Fund</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 1,402,635
Receivables (Net of Allowance for Uncollectibles)	897,464
Due from Other Funds	203,876
Due from Other Governments	514,976
Inventories	104,217
<b>Total Current Assets</b>	3,123,168
<b>Restricted Assets</b>	
Restricted Assets:	
Cash and Cash Equivalents	433,514
Cash with Paying Agent	624,644
Investments	738,188
Interest Income	8,438
<b>Total Restricted Assets</b>	1,804,784
<b>Noncurrent Assets</b>	
Capital Assets:	
Nondepreciable	932,023
Depreciable, Net	17,097,201
Unamortized Bond Issue Costs	145,716
<b>Total Noncurrent Assets</b>	18,174,940
<b>Total Assets</b>	23,102,892
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	315,267
Other Accrued Expense	17,218
<b>Total Current Liabilities</b>	332,485
<b>Current Liabilities Payable from Restricted Assets</b>	
Accrued Interest	234,437
Bonds Payable - Current Portion	454,526
Customer Deposits	408,023
<b>Total Current Liabilities Payable from Restricted Assets</b>	1,096,986
<b>Noncurrent Liabilities</b>	
Long-term Debt:	
Due Within One Year	321,992
Due in More Than One Year	11,289,788
<b>Total Noncurrent Liabilities</b>	11,611,780
<b>Total Liabilities</b>	13,041,251
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	6,197,002
Unrestricted	3,864,639
<b>Total Net Assets</b>	\$ 10,061,641

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS - PROPRIETARY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

	<b>Utilities Fund</b>
<b>Operating Revenues</b>	
Charges for Services	\$ 4,598,397
Other Income	253,404
<b>Total Operating Revenues</b>	4,851,801
<b>Operating Expenses</b>	
Personal Services	1,139,753
Contractual Services	477,991
Repairs and Maintenance	382,420
Materials and Supplies	58,101
General and Administrative	819,384
Depreciation	561,460
<b>(Total Operating Expenses)</b>	(3,439,109)
<b>Operating Income</b>	1,412,692
<b>Nonoperating Revenues (Expenses)</b>	
Operating Grants	120,778
Interest Income	50,914
Interest Expense	(579,947)
Amortization of Bond Issue Costs	(11,414)
(Loss) on Disposition of Capital Assets	(67,591)
<b>Total Nonoperating (Expenses)</b>	(487,260)
<b>Income Before Contributions and Transfers</b>	925,432
<b>Capital Contributions - Impact Fees</b>	490,962
<b>Operating Transfers in</b>	418,734
<b>Operating Transfers out</b>	(680,020)
<b>Change in Net Assets</b>	1,155,108
<b>Total Net Assets, Beginning of Year</b>	8,906,533
<b>Total Net Assets, End of Year</b>	\$ 10,061,641

See accompanying notes.

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2005  
 CITY OF LAKE WALES, FLORIDA**

	<u>Public Utilities Fund</u>
<b>Cash Flows from Operating Activities</b>	
Receipts from Customers	\$ 4,891,804
Payments to Suppliers	(1,793,752)
Payments to Employees	(1,124,579)
<b>Net Cash Provided by Operating Activities</b>	<u>1,973,473</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Transfers to Other Funds	(261,286)
Operating Grants	36,491
<b>Net Cash (Used in) Noncapital Financing Activities</b>	<u>(224,795)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Debt Proceeds	1,306,457
Proceeds on Sale of Capital Assets	105,014
Acquisition and Construction of Capital Assets	(643,354)
Principal Payments on Long-term Debt	(707,331)
Debt Issuance Costs	(24,690)
Interest Paid	(539,860)
Fiscal Charges	(21,618)
Impact Fees	490,962
<b>Net Cash (Used in) Capital and Related Financing Activities</b>	<u>(34,420)</u>
<b>Cash Flows from Investing Activities</b>	
Interest Income	42,476
Investment Purchased	(738,188)
<b>Net Cash (Used in) Investing Activities</b>	<u>(695,712)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,018,546
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,442,247
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,460,793</u>
<b>Recorded on the Statement of Net Assets Under the Following Captions:</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	\$ 1,402,635
<b>Noncurrent Assets</b>	
Restricted Assets:	
Cash and Cash Equivalents	433,514
Cash with Paying Agent	624,644
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,460,793</u>
<b>Reconciliation of Operating Income to Net Cash</b>	
<b>Provided by (Used in) Operating Activities:</b>	
Operating Income	\$ 1,412,692
Adjustments to Reconcile Operating Income (Loss) to	
Net Cash Provided by (Used in) Operating Activities:	
Depreciation of Plant	561,460
Change in Current Assets - Decrease (Increase):	
Accounts Receivable (Net of Bad Debt Provision)	(13,644)
Inventory and Prepaids	(22,499)
Change in Current Liabilities - Increase (Decrease):	
Accounts Payable	(35,230)
Other Accrued Expenses	1,873
Customer Deposits	53,647
Change in Compensated Absences	15,174
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 1,973,473</u>

See accompanying notes.

**STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 AS OF SEPTEMBER 30, 2005  
 CITY OF LAKE WALES, FLORIDA**

	<u>Pension Trust Funds</u>
<b>Assets</b>	
Investments, at Fair Value	\$ 21,004,048
Receivables:	
Interest and Dividends	52,205
Due from Other Funds	16
Other Receivables	<u>16,909</u>
<b>Total Assets</b>	<u>21,073,178</u>
 <b>Liabilities</b>	
Current Liabilities:	
Due to DROP Participants	665,551
Deferred Contributions from City	<u>62,986</u>
<b>Total Liabilities</b>	<u>728,537</u>
 <b>Net Assets</b>	
Held in Trust for Pension Benefits	<u>\$ 20,344,641</u>

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

	<b>Pension Trust Funds</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 556,647
Employee	268,701
State of Florida	181,171
Total Contributions	<u>1,006,519</u>
Net Investment Earnings:	
Realized and Unrealized Increase in Fair Value of Investment	1,330,868
Interest and Dividend Income	718,989
Total Investment Earnings	<u>2,049,857</u>
(Less Investment Expense)	<u>(165,683)</u>
Net Investment Earnings	<u>1,884,174</u>
<b>Total Additions</b>	<u>2,890,693</u>
<b>Deductions</b>	
Benefits	1,058,175
Refunds of Contributions	68,044
Administrative Expenses	79,407
<b>Total Deductions</b>	<u>1,205,626</u>
<b>Change in Net Assets</b>	1,685,067
<b>Net Assets, Beginning of Year</b>	<u>18,659,574</u>
<b>Net Assets, End of Year</b>	<u>\$ 20,344,641</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: a) is 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. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

- **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)***

- **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 Housing Authority (Authority)** - The Authority was created by Resolution No. 68-3 pursuant to Chapter 421, Florida Statutes. The Authority members are appointed by the City Commission; however, the City's accountability for the Authority does not extend beyond making these appointments. Accordingly, the Authority is considered to be a related organization only, and is not included in the financial reporting entity.
- **Lake Wales Library Association, Inc. (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. 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 indirect costs such as finance, personnel, legal, etc from the general fund to certain other governmental funds. *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 either fund category or the governmental and enterprise combined) 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 types:

■ **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. 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 include cash deposits, 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), 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 or business-type activities 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
Equipment	3-25
Vehicles	6-10
Wells and Pumping Equipment	15-50
Other Improvements	5-50
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 \$11,414 (business-type activities and enterprise fund) and \$8,181 (governmental activities) during the 2005 fiscal year. Interest expense related to amortization of bond discounts and refunding losses in both enterprise funds and business-type activities was \$8,367 and \$13,485, respectively, during the year. Amortization of refunding losses in governmental activities was \$33,480.

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 expected to be liquidated with available financial resources.

**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, 2005, are unbilled amounts totaling \$291,564 (\$280,158 enterprise funds and \$11,406 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 2005 fiscal year was 9.44 mills (8.44 City, and 1.00 Library).

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

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

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

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

**L. Pension Plans**

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

**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, 2005.

**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, 2005, the carrying amount of cash on hand and on deposit with banks, including interest-bearing deposits was \$6,791,103 and the related bank balance was \$7,603,407. In addition, the City has \$942,843 deposited with fiscal agents as of September 30, 2005, for the payment of bond principal and interest on October 1, 2005.

**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

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

**Note 3 - Cash and Investments (Continued)**

**B. Investments - City (Concluded)**

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, 2005, excluding investments in the City's pension funds:

<u>Investment Type</u>	<u>Credit Rating (S&amp;P)</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
			<u>Less Than 6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>
FHLMC Note	AAA	\$ 738,188	\$ 738,188	\$ 0	\$ 0	\$ 0
SBA	N/R	310,450	310,450	0	0	0
<b>Total</b>		<u>\$ 1,048,638</u>	<u>\$ 1,048,638</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

**Legend**

N/R - Not rated

**C. Investments - Pension Funds**

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

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

**Note 3 - Cash and Investments (Continued)**

**C. Investments – Pension Funds (Concluded)**

	<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, 2005, are presented below (at market value):

<u>Investment Type</u>	<u>Credit Rating (S&amp;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	\$ 12,421,032	\$ 12,421,032	\$ 0	\$ 0	\$ 0
Corporate Bonds	*	2,152,468	315,794	0	213,836	1,622,838
U.S. Treasury Bonds	AAA	331,077	0	0	0	331,077
FHLMC Note	AAA	726,327	0	0	0	726,327
FNMA Note	AAA	1,266,734	0	0	0	1,266,734
GNMA Note	AAA	123,600	0	0	0	123,600
Money Market Funds	N/R	3,975,280	3,975,280	0	0	0
<b>Total</b>		<u>\$ 20,996,518</u>	<u>\$ 16,712,106</u>	<u>\$ 0</u>	<u>\$ 213,836</u>	<u>\$ 4,070,576</u>

\* Credit ratings on the above corporate bonds varied from AA- to A-

**Legend**

N/R – Not rated

In addition to the above investments, the pension funds owned cash within investment accounts totaling \$7,530 at September 30, 2005. 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.

**D. Other Risk Disclosures**

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

*Interest Rate Risk.* Interest rate risk is the risk that change in interest rates will adversely affect the fair value of the investment. The City 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.

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

**Note 3 - Cash and Investments (Concluded)**

**D. Other Risk Disclosures(Concluded)**

*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 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, 2005, the pension fund portfolios had from 5.9% to 6.6% 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 \$18,695 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 \$ 93,374 allowance for uncollectible accounts.

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

**Note 5 - Capital Assets**

Capital assets activity for the year ended September 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 3,640,172	\$ 120,097	\$ (69,897)	\$ 3,690,372
Construction in Progress	1,360,721	423,118	(508,978)	1,274,861
<b>Total Not Being Depreciated</b>	<u>5,000,893</u>	<u>543,215</u>	<u>(578,875)</u>	<u>4,965,233</u>
Capital Assets Being Depreciated:				
Buildings	9,364,810	0	0	9,364,810
Improvements Other Than Buildings	15,429,477	528,847	0	15,958,324
Equipment	6,399,719	459,255	0	6,858,974
<b>Total Other Capital Assets</b>	<u>31,194,006</u>	<u>988,102</u>	<u>0</u>	<u>32,182,108</u>
<b>Total All Capital Assets</b>	<u>36,194,899</u>	<u>1,531,317</u>	<u>(578,875)</u>	<u>37,147,341</u>
Less Accumulated Depreciation for:				
Buildings	(1,980,156)	(183,984)	0	(2,164,140)
Improvements Other Than Buildings	(8,704,013)	(537,961)	0	(9,241,974)
Equipment	(4,885,630)	(408,667)	0	(5,294,297)
<b>Total Accumulated Depreciation</b>	<u>(15,569,799)</u>	<u>(1,130,612)</u>	<u>0</u>	<u>(16,700,411)</u>
<b>Depreciable Capital Assets, Net</b>	<u>15,624,207</u>	<u>(142,510)</u>	<u>0</u>	<u>15,481,697</u>
<b>Total Governmental Capital Assets, Net</b>	<u>\$ 20,625,100</u>	<u>\$ 400,705</u>	<u>\$ (578,875)</u>	<u>\$ 20,446,930</u>

Depreciation expense was charged to functions as follows:

General Government	\$ 146,964
Public Safety	277,128
Transportation	359,522
Physical Environment	20,459
Economic Environment	85,923
Human Services	14,634
Culture and Recreation	225,982
<b>Total Governmental Activities</b>	
<b>Depreciation Expense</b>	<u>\$ 1,130,612</u>

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

**Note 5 - Capital Assets (Concluded)**

Capital assets activity for the year ended September 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Resolution 2006-19 Adjustment</u>	<u>Ending Balance</u>
<b>Business-type Activities:</b>					
Capital Assets Not Being Depreciated:					
Land	\$ 515,580	\$ 0	\$ (100,000)	\$ (60,769)	\$ 354,811
Construction in Progress	260,510	316,702	0	0	577,212
Total Not Being Depreciated	<u>776,090</u>	<u>316,702</u>	<u>(100,000)</u>	<u>(60,769)</u>	<u>932,023</u>
Capital Assets Being Depreciated:					
Buildings	659,536	0	0	8,838	668,374
Improvements Other Than Buildings	20,298,091	131,071	0	1,831,893	22,261,055
Equipment	6,695,993	195,581	(100,068)	(2,736,422)	4,055,084
Total Other Capital Assets	<u>27,653,620</u>	<u>326,652</u>	<u>(100,068)</u>	<u>(895,691)</u>	<u>26,984,513</u>
Total All Capital Assets	<u>28,429,710</u>	<u>643,354</u>	<u>(200,068)</u>	<u>(956,460)</u>	<u>27,916,536</u>
Less Accumulated Depreciation for:					
Buildings	(339,498)	(15,118)	0	25,944	(328,672)
Improvements Other Than Buildings	(5,834,426)	(400,642)	0	(673,620)	(6,908,688)
Equipment	(4,135,851)	(145,700)	100,068	1,531,531	(2,649,952)
Total Accumulated Depreciation	<u>(10,309,775)</u>	<u>(561,460)</u>	<u>100,068</u>	<u>883,855</u>	<u>(9,887,312)</u>
<b>Depreciable Capital Assets, Net</b>	<u>17,343,845</u>	<u>(234,808)</u>	<u>0</u>	<u>(11,836)</u>	<u>17,097,201</u>
<b>Business-type Capital Assets, Net</b>	<u>\$18,119,935</u>	<u>\$ 81,894</u>	<u>\$ (100,000)</u>	<u>\$ (72,605)</u>	<u>\$ 18,029,224</u>

Depreciation expense recorded in the business-type activity totaled \$561,460 for the year ended September 30, 2005.

Resolution 2006-19 approved the adjustment of the City's control accounts to the subsidiary records.

**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, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2005</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities</b>					
Bonds and Notes Payable:					
Notes Payable	\$ 9,228,529	\$ 0	\$ (199,381)	\$ 9,029,148	\$ 712,390
Less Unamortized Refunding Loss	(401,752)	0	33,480	(368,272)	0
Notes Payable, Net	8,826,777	0	(165,901)	8,660,876	712,390
Revenue Bonds	3,922,505	0	(250,058)	3,672,447	495,255
Lease Obligation	347,735	0	(52,822)	294,913	54,776
Total Bonds and Notes Payable	<u>13,097,017</u>	<u>0</u>	<u>(468,781)</u>	<u>12,628,236</u>	<u>1,262,421</u>
Other Liabilities:					
Compensated Absences	827,965	45,699	0	873,664	87,366
<b>Governmental Long-term Liabilities</b>	<u>\$ 13,924,982</u>	<u>\$ 45,699</u>	<u>\$ (468,781)</u>	<u>\$ 13,501,900</u>	<u>\$ 1,349,787</u>
	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2005</u>	<u>Amounts Due Within One Year</u>
<b>Business-type Activities</b>					
Bonds and Notes Payable:					
Revenue Bonds	\$ 7,457,285	\$ 0	\$ (410,000)	\$ 7,047,285	\$ 454,526
Notes Payable and Lease Obligations	4,152,781	1,306,457	(297,331)	5,161,907	313,155
Total Bonds and Notes Payable	11,610,066	1,306,457	(707,331)	12,209,192	767,681
Less Unamortized Bond Discount	(96,918)	0	8,367	(88,551)	0
Less Unamortized Refunding Loss	(156,188)	0	13,485	(142,703)	0
Total Bonds and Notes Payable	<u>11,356,960</u>	<u>1,306,457</u>	<u>(685,479)</u>	<u>11,977,938</u>	<u>767,681</u>
Other Liabilities:					
Compensated Absences	73,194	15,174	0	88,368	8,837
<b>Business-type Long-term Liabilities</b>	<u>\$ 11,430,154</u>	<u>\$ 1,321,631</u>	<u>\$ (685,479)</u>	<u>\$ 12,066,306</u>	<u>\$ 776,518</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, 2005:

	<u>Purpose</u>	<u>Freq</u>	<u>Maturity</u>	<u>Originally Issued</u>	<u>Outstanding Amount</u>	<u>Interest Rate</u>
<b>Governmental Activities</b>						
Revenue Bonds:						
Non-ad Valorem Revenue						
Bonds, Series 1999	1	M	2007	\$ 5,217,629	\$ 632,447	5.35%
Public Improvement Refunding						
Revenue Bonds, Series 1997	2	S	2015	4,445,000	3,040,000	4.40 %
Fire Truck Bonds, Series 2000	3	A	2005	67,570	0	5.40%
Note Payable:						
Capital Improvement Refunding Revenue						
Note, Series 2003	4	S	2016	9,117,280	8,924,714	3.84%
Florida Power Corporation	5	M	2018	151,250	104,434	2.37%
Lease Obligation:						
Bank of America	6	A	2010	399,861	<u>294,913</u>	3.70%
<b>Total Governmental Activities</b>					<u>\$ 12,996,508</u>	
<b>Business-type Activities</b>						
Revenue Bonds:						
Non-ad Valorem Revenue						
Bonds, Series 1999	1	M	2007	\$ 511,371	\$ 62,285	5.35%
Utility System Improvement Refunding Bonds,						
Series 1996	7	S	2017	9,785,000	6,985,000	3.90% - 5.75 %
Notes Payable:						
State Revolving Fund						
Loan I	8	S	2019	1,592,804	1,182,745	2.56%
State Revolving Fund						
Loan II	8	S	2016	1,171,882	952,707	3.05%
State Revolving Fund						
Loan III	9	S	2021	1,428,648	1,325,566	2.14%
State Revolving Fund						
Loan IV	11	S	2011	196,457	196,457	1.88%
Capital Improvement Refunding Revenue						
Note, Series 2003	4	S	2016	432,610	423,531	3.84%
Utility System Revenue						
Note, Series 2005	12	M	2015	1,110,000	1,072,121	4.20%
Lease Obligation:						
Data Flow Systems, Inc.	10	M	2005	154,974	<u>8,780</u>	5.40%
<b>Total Business-type Activities</b>					<u>\$ 12,209,192</u>	

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

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

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

**Purpose**

1. Reconfigure Special Obligation Revenue Bonds, Series 1999 (originally for various capital acquisitions and projects) plus infrastructure improvements at Longleaf Business Park and Kiwanis Park.
2. Refund Public Improvement Revenue Bonds, Series 1991 (which refunded Series 1989 bonds originally for various water/sewer, street, drainage and parking infrastructure improvements, plus the airport FBO 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. Bicycle path lighting along Lake Wales Trail.
6. Fire truck acquisition.
7. Refund outstanding revenue bonds from 1964, 1987, and 1988 Series (original for utility system improvements), plus other water and wastewater system improvements.
8. Construction of reclaimed water reuse facilities.
9. Construction of sludge dewatering facilities.
10. Lease-purchase of utility telemetry equipment.
11. Planning and design of wastewater treatment plant expansion.
12. Construction of chlorine contact chamber and reuse system improvements.

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;
- Fire Truck Bonds, Series 2000 - various specified non-ad valorem revenues;
- Capital Improvement Revenue Note, Series 2003 - public service (utility) taxes;
- Utility System Revenue Note, Series 2005 - public service (utility) rates, fees, rentals and other charges, and collected for services of system;
- Note Payable, Florida Power Corporation - unsecured;
- Lease Obligation, Bank of America - purchased equipment;
- Utility System Improvement Refunding Revenue Bonds, Series 1996 - senior lien on utility system net revenues;
- State Revolving Fund Loans - junior lien on utility system net revenues; and
- Lease Obligation, Data Flow Systems, Inc. - purchased equipment.

All of the above obligations may be prepaid in whole or in part without penalty. The bonds 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.

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

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

Annual debt service requirements as of September 30, 2005, are as follows:

Fiscal Year	Governmental Activities							
	Revenue Bonds		Notes		Lease Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 495,257	\$ 170,858	\$ 712,351	\$ 327,278	\$ 54,776	\$ 10,912	\$ 1,262,384	\$ 509,048
2007	637,190	140,567	483,525	304,716	56,803	8,885	1,177,518	454,168
2008	270,000	117,688	379,747	288,461	58,905	6,783	708,652	412,932
2009	280,000	105,003	807,012	266,079	61,084	4,604	1,148,096	375,686
2010	295,000	91,448	837,263	235,028	63,345	2,344	1,195,608	328,820
2011	305,000	76,934	872,379	202,743	0	0	1,177,379	279,677
2012	320,000	61,500	902,708	169,220	0	0	1,222,708	230,720
2013	340,000	45,000	937,685	134,461	0	0	1,277,685	179,461
2014	355,000	27,625	972,903	98,375	0	0	1,327,903	126,000
2015	375,000	9,375	1,013,146	60,863	0	0	1,388,146	70,238
2016	0	0	651,124	29,451	0	0	651,124	29,451
2017	0	0	451,519	8,684	0	0	451,519	8,684
2018	0	0	7,786	83	0	0	7,786	83
<b>Total</b>	<b>\$ 3,672,447</b>	<b>\$ 845,998</b>	<b>\$ 9,029,148</b>	<b>\$ 2,125,442</b>	<b>\$ 294,913</b>	<b>\$ 33,528</b>	<b>\$ 12,996,508</b>	<b>\$ 3,004,968</b>

Fiscal Year	Business Activities							
	Revenue Bonds		Notes		Lease Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 454,525	\$ 381,475	\$ 304,430	\$ 145,227	\$ 8,780	\$ 79	\$ 767,735	\$ 526,781
2007	487,760	357,327	301,909	135,622	0	0	789,669	492,949
2008	475,000	332,256	335,360	127,877	0	0	810,360	460,133
2009	495,000	306,175	395,150	118,702	0	0	890,150	424,877
2010	525,000	278,125	407,149	106,665	0	0	932,149	384,790
2011	555,000	248,425	403,363	94,222	0	0	958,363	342,647
2012	585,000	216,343	369,021	81,972	0	0	954,021	298,315
2013	620,000	181,699	381,115	69,887	0	0	1,001,115	251,586
2014	655,000	145,043	393,581	57,380	0	0	1,048,581	202,423
2015	690,000	106,375	337,707	45,036	0	0	1,027,707	151,411
2016	730,000	65,550	258,384	37,020	0	0	988,384	102,570
2017	775,000	22,281	254,756	30,191	0	0	1,029,756	52,472
2018	0	0	239,773	23,785	0	0	239,773	23,785
2019	0	0	193,852	17,621	0	0	193,852	17,621
2020	0	0	146,079	13,305	0	0	146,079	13,305
2021	0	0	149,835	9,549	0	0	149,835	9,549
2022	0	0	153,691	5,693	0	0	153,691	5,693
2023	0	0	84,860	2,287	0	0	84,860	2,287
2024	0	0	43,112	0	0	0	43,112	0
<b>Total</b>	<b>\$ 7,047,285</b>	<b>\$ 2,641,074</b>	<b>\$ 5,153,127</b>	<b>\$ 1,122,041</b>	<b>\$ 8,780</b>	<b>\$ 79</b>	<b>\$ 12,209,192</b>	<b>\$ 3,763,194</b>

**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, are being amortized over the life of the obligation (20 years) using the straight-line method. Amortization of issuance costs on the Series 1996 bonds was \$10,863 for the year ended September 30, 2005. The unamortized balance at September 30, 2005, is \$114,962.

Debt issuance costs of \$7,030 incurred 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 \$551 for the year ended September 30, 2005. The unamortized balance at September 30, 2005, is \$6,064.

Debt issuance costs of \$24,690 incurred in conjunction with the issuance of the Utility System Revenue Note, Series 2005, are being amortized over the life of the obligation (10 years) using the straight-line method. Amortization of issuance costs on the Series 2005 note will begin in 2006. The unamortized balance at September 30, 2005, is \$24,690.

A refunding loss of \$269,677 incurred in conjunction with the issuance of the Utility System Bonds, Series 1996, is being amortized over the life of the bonds using the straight-line method. Amortization of refunding loss on the Series 1996 bonds was \$13,485 for the year ended September 30, 2005, and is included as a component of interest expense. Unamortized refunding loss of \$142,703 is netted against bonds payable on the statement of net assets.

A bond issue discount of \$167,341 incurred in conjunction with the issuance of the Utility System Bonds, Series 1996, is being amortized over the life of the bonds using the straight-line method. Amortization of the discount on the Series 1996 bonds was \$8,367 for the year ended September 30, 2005. The unamortized discount of \$88,551 is netted against bonds payable on the statement of net assets.

**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, 2005. The unamortized balance at September 30, 2005, is \$89,987.

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 \$33,480 for the year ended September 30, 2005, and is included as a component of interest expense in the statement of activities. Unamortized refunding loss of \$368,272 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 are for governmental obligations issued prior to fiscal 2003 are not recorded, as permitted by GASB Statement No. 34.

**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 September 30, 2005.

**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 take advantage of the currently low interest rates and to best maximize the lowest fixed interest rates at the time. The City negotiated the lowest penalty for early repayment of the debt refinanced. The net effect of these transactions is that the City will effectively pay a lower fixed interest rate on the new debt than it would have paid on a traditional fixed rate term loan, in exchange for assuming additional risks as disclosed below.

The interest rate swap was entered into on December 3, 2003, and matures on October 1, 2016. On each debt service payment date for the 2003 note, the City will pay the counterparty a fixed interest rate and receive a variable interest rate payment in return, approximately equivalent to the variable rate on the 2003 note. 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 9/30/05</u>
Capital Improvement Refunding Revenue Note, Series 2003	\$ 9,549,890	12/08/03	3.84%	\$ (95,437)

Because long-term interest swap rates are lower than the fixed rate, the interest rate swap had a negative fair value, or cost to the City to terminate the contract, of \$95,437 at September 30, 2005.

Using rates as of September 30, 2005, 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, 2005. As rates vary, variable rate bond interest payments and net swap payments will vary):

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

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

**Interest Rate Swap (Concluded)**

Fiscal Year Ending Sept. 30	Variable-Rate Bond		Interest Rate Swap, Net	Total
	Principal	Interest		
2006	\$ 738,811	\$ 280,535	\$ 64,253	\$ 1,083,599
2007	498,909	261,199	59,824	819,932
2008	390,026	247,312	56,643	693,981
2009	837,380	228,138	52,252	1,117,770
2010	868,876	201,483	46,147	1,116,506
2011	905,465	173,764	39,798	1,119,027
2012	937,035	144,980	33,206	1,115,221
2013	973,467	115,134	26,370	1,114,971
2014	1,010,149	84,146	19,273	1,113,568
2015	1,052,088	51,930	11,894	1,115,912
2016	672,669	24,986	5,722	703,377
2017	463,369	7,239	1,658	472,266
<b>Total</b>	<b>\$ 9,348,244</b>	<b>\$ 1,820,846</b>	<b>\$ 417,040</b>	<b>\$ 11,586,130</b>

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, its future merger partner, or a City-approved assignee, 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.

**Note 7 - Interfund Receivables, Payables and Transfers**

The following schedule as of September 30, 2005, represents interfund receivables and payables in the fund financial statements:

Fund Financial Statements:	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<b>Major Funds</b>		
General	\$ 9,672	\$ 16
Enterprise - Public Utilities	203,876	0
<b>Other Governmental Funds</b>		
Community Redevelopment (CRA)	0	203,876
Local Law Enforcement Block Grant	0	8,230
Police Forfeiture	0	1,442
<b>Fiduciary Funds</b>		
Police Officers' Pension Plan	10	0
General Employees' Pension Plan	6	0
<b>Total</b>	<b>\$ 213,564</b>	<b>\$ 213,564</b>

**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 enterprise fund to the CRA is for temporary working capital. The loan from the general fund to the LLEBG and police forfeiture fund are for grant or other expenditures and will be reimbursed upon receipt of the related proceeds. The interfund receivables in the pension funds are employer contributions receivable.

Following are the internal balances on the entity-wide statement of net assets:

	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
<b>Between Governmental and Business-type Activities</b>		
Public Utilities Fund	\$ 203,876	\$ 0
Community Redevelopment	0	203,876
<b>Total</b>	<b>\$ 203,876</b>	<b>\$ 203,876</b>

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:

<b>Source</b>	<b>Transfer to</b>	<b>Amount</b>	<b>Purpose</b>
General Fund	Debt Service Fund	\$ 32,694	Debt Subsidy
General Fund	Capital Projects Fund	15,751	Specific Project Funding
Transportation	Debt Service Fund	238,273	Debt Subsidy
Community Redevelopment	Transportation	8,000	Road Projects in CRA
Community Redevelopment	CDBG	39,512	Grant Project in CRA
Community Redevelopment	Debt Service Fund	294,629	Debt Subsidy
Community Redevelopment	Capital Projects Fund	370	Specific Project Funding
Community Redevelopment	Historic Preservation	200,000	Matching for Historic Grant
Community Redevelopment	Capital Project Fund	46,420	Specific Project Funding
Community Redevelopment	Utility Fund	418,734	Building Water Tower
Debt Service	Capital Project Fund	19,869	Building for Fire Substation
LEBG	General Fund	5	BJA LEBG
Enterprise Fund	General Fund	643,150	Annual Budgeted Operating Transfer
Enterprise Fund	Debt Service Fund	36,870	Debt Subsidy
	<b>TOTAL</b>	<b>\$ 1,994,277</b>	

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

**Note 8 - Fund Equity - Reserves**

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

	<u>Governmental</u>			<u>Fiduciary</u>	<u>Total</u>
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Pension Trusts</u>	
<b>Reserved</b>					
Inventory and Prepays	\$ 134,835	\$ 0	\$ 0	\$ 0	\$ 134,835
Transportation Expenditures	0	143,142	0	0	143,142
Community Redevelopment	0	143,611	0	0	143,611
Law Enforcement Related					
Activities	0	30,565	0	0	30,565
Library Operations	0	117,821	0	0	117,821
Debt Service	0	0	1,315,778	0	1,315,778
Grant Expenditures	0	20,941	0	0	20,941
Historic Preservation Grant	0	158,480	0	0	158,480
Pension Benefit Payments	0	0	0	20,344,641	20,344,641
<b>Total Reserved Fund</b>					
<b>Balances</b>	<u>\$ 134,835</u>	<u>\$ 614,560</u>	<u>\$ 1,315,778</u>	<u>\$ 20,344,641</u>	<u>\$ 22,409,814</u>

**Note 9 - Restricted Assets**

The following table indicates the balances at September 30, 2005, 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 Enterprise</u>
Debt Service - Bond Sinking	\$ 318,199	\$ 0	\$ 632,856	\$ 951,055
Debt Service - SRF Sinking	0	0	165,059	165,059
Debt Service - SRF Reserve	0	0	136,508	136,508
Impact Fees	0	193,442	123,735	317,177
Construction Account	0	0	746,626	746,626
<b>Total Restricted Assets</b>	<u>\$ 318,199</u>	<u>\$ 193,442</u>	<u>\$ 1,804,784</u>	<u>\$ 2,316,425</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.

General employees who have satisfied the requirements for normal retirement are eligible to participate in the Deferred Retirement Option Program (DROP) for up to two 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. Police and firefighters may participate up to five years. General employees may participate up to two years. 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.

■ **Cash and 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 (Continued)**

All investments are held by A.G. Edwards in street name on behalf of the pension trust fund.

■ **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.

■ **Investments**

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.

■ **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, 2005, were 3.3% (General), 13.2% (Police), and 28.8% (Fire). Required contributions from active plan members to the plan are 6% 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, 2004		
	General Employees' Fund	Police Officers' Fund	Fire Fighters' Fund
Retirees and Beneficiaries Currently			
Receiving Benefits	14	19	13
Vested Terminated Employees	3	0	0
Active plan Participants:			
Vested	17	11	8
Nonvested	64	31	8
<b>Total</b>	<b>98</b>	<b>61</b>	<b>29</b>

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

**Note 10 - Defined Benefit Pension Plans (Continued)**

**Summary of Significant Accounting Policies - All Plans (Continued)**

■ **Annual Pension Cost**

The City's annual pension cost for the year ended September 30, 2005, was \$573,373 (\$82,760 General, \$254,199 Police, and \$236,414 Fire - City share). The annual required contribution for the 2005 fiscal year was determined as part of the October 1, 2003, actuarial valuations using the frozen entry age actuarial cost method. The actuarial assumptions in the October 1, 2003, 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 an level dollar, closed basis.

The remaining amortization period at October 1, 2003, was 25 years for Police Officers and 28 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, 2005, and the prior two years was as follows (information taken from the actuarial reports dated October 1, 2005):

**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, 2005	\$ 81,363	100%	\$ (125,875)
September 30, 2004	69,328	100%	(127,272)
September 30, 2003	68,482	100%	(128,685)

**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, 2005	\$ 252,658	100%	\$ (138,868)
September 30, 2004	174,138	100%	(140,409)
September 30, 2003	133,762	100%	(141,968)

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

**Note 10 - Defined Benefit Pension Plans (Concluded)**

**Summary of Significant Accounting Policies - All Plans (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, 2005	\$ 235,629	100%	\$ (70,708)
September 30, 2004	207,675	100%	(71,493)
September 30, 2003	176,722	100%	(72,287)

■ **Funding Status and Progress**

Information as to funding progress and contributions is presented for each plan in the required supplementary information section accompanying the 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, 2005, and the change in NPO for the year:

	<u>General</u>	<u>Police</u>	<u>Fire</u>
Actuarially Determined Contribution (A)	\$ 81,363	\$ 252,658	\$ 235,629
Interest on NPO	(10,182)	(11,233)	(5,719)
Adjustments to (A)	11,579	12,774	6,504
<b>Annual Pension Cost</b>	<u>82,760</u>	<u>254,199</u>	<u>236,414</u>
Contributions Made	81,363	252,658	235,629
<b>Increase in NPO</b>	<u>1,397</u>	<u>1,541</u>	<u>785</u>
NPO, Beginning of Year	(127,272)	(140,409)	(71,493)
NPO, End of Year	<u>\$ (125,875)</u>	<u>\$ (138,868)</u>	<u>\$ (70,708)</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 - Commitments and Contingencies**

**Construction Commitments**

The City has several ongoing construction projects at various stages of completion. Following is a schedule of the remaining commitments on these contracts as of September 30, 2005:

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

**Note 11 - Commitments and Contingencies (Concluded)**

**Construction Commitments (Concluded)**

	<u>Contract Amount</u>	<u>Expended Through 9/30/05</u>	<u>Project Remaining</u>
<b>CDBG Grant – Minnesota Area Improvements</b>			
Gibbs and Register, Inc.	\$ 1,005,240	\$ 0	\$ 1,005,240
<b>Water and Wastewater Improvements</b>			
Water Facilities Master Plan	149,449	91,017	58,432
Reuse Transmission Lines – Boyle Engineering	195,775	3,288	192,487
Wastewater Expansion - Preconstruction - Boyle Engineering	143,885	27,295	116,590
Wastewater Facilities Master Plan	165,074	85,651	79,423
Chlorine Contact Chamber - Contractor	529,717	49,900	479,817
Chlorine Contact Chamber - Engineer	100,000	80,592	19,408

**Other Commitments**

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

**Contingencies**

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

**Note 12 - 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, 2005, no additional assessments could be required from the City to fund prior year costs of the risk pool.

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

**Note 13 - The Hurricanes**

The City experienced three Hurricanes in 2004: Hurricane Charley on August 13, Hurricane Frances on September 5, and Hurricane Jeanne on September 26. The City incurred costs for storm preparation, emergency services, debris removal and clean up, and facility repair from these events. Damage from the hurricanes consisted of substantial amounts of debris, building and structure damage, including roofs blown off, windows, vehicles, and park structures. Streets flooded and the utility system was damaged.

**Total Estimated Costs**

The City's estimated repair costs to City buildings and park structures, including all structures at the City's Airpark, came in at \$8 million. Most of the repair costs to City structures, excluding the Airpark, have been recorded in the accompanying financial statements.

<u>Facility</u>	<u>Estimated Damages</u>	<u>Revised Estimated</u>	<u>2005 Expenditures</u>
Airpark	\$ 2.7 Million	\$ 2.7 Million	\$ 152,467
Enterprise Fund	0.4 Million	0.5 Million	100,992
Other Public Buildings, Facilities and Park Structures	4.9 Million	4.9 Million	3,578,311

The City anticipates recovering the additional costs from its insurance carrier.

**Status of Insurance Recovery Proceeds for Fiscal Year Ended September 30, 2005**

<u>Fund</u>	<u>Insurance Proceeds Realized</u>	<u>Insurance Proceeds Deferred</u>	<u>Insurance Proceeds Receivable</u>
General Fund	\$ 2,746,763	\$ 770,222	\$ 1,924,972
Capital Projects Fund	1,670,844	0	0
Proprietary Fund	0	0	165,000

The deferred insurance proceeds were not received within the available period under modified accrual accounting. The \$770,222 is included in the insurance receivable total. The \$1,924,972 receivable in the general fund is for damage repair completed and eligible for insurance recovery. The \$165,000 receivable in the proprietary fund is due from September 30, 2004, for a destroyed building. This claim is still pending until final costs for rebuilding are accumulated.

**Note 14 - Subsequent Event - Lake Wales Airport Authority**

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.

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

**Note 14 - Subsequent Event - Lake Wales Airport Authority *(Concluded)***

The Lake Wales Airport Authority is governed by a board of five members known as the Lake Wales Airport Authority Board. The members are appointed by the City Commission. As a dependent special district, the Lake Wales Airport Authority will comply with the applicable financial reporting requirements of Chapter 189, Florida Statutes. Beginning with fiscal year 2005-2006 the Lake Wales Airport Authority's financial activities will be maintained as a proprietary fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
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>		
<b>Revenues</b>				
Taxes	\$ 4,952,764	\$ 5,174,524	\$ 5,175,916	\$ 1,392
Licenses and Permits	467,000	546,539	911,497	364,958
Intergovernmental	1,146,536	1,825,613	1,380,914	(444,699)
Charges for Services	1,305,570	1,351,817	1,417,139	65,322
Fines and Forfeitures	171,150	171,150	140,047	(31,103)
Interest and Miscellaneous	51,550	273,351	146,377	(126,974)
<b>Total Revenues</b>	<u>8,094,570</u>	<u>9,342,994</u>	<u>9,171,890</u>	<u>(171,104)</u>
<b>Expenditures</b>				
Current:				
General Government	1,398,952	5,033,714	5,062,451	(28,737)
Public Safety	5,720,063	6,200,887	6,120,773	80,114
Physical Environment	1,170,046	1,366,904	1,368,225	(1,321)
Transportation	50,384	38,984	38,407	577
Economic Environment	10,000	10,009	10,008	1
Human Services	18,329	18,329	18,329	0
Culture and Recreation	930,187	497,615	497,291	324
<b>(Total Expenditures)</b>	<u>(9,297,961)</u>	<u>(13,166,442)</u>	<u>(13,115,484)</u>	<u>50,958</u>
<b>(Deficiency) of Revenues (Under)</b>				
<b>Expenditures</b>	<u>(1,203,391)</u>	<u>(3,823,448)</u>	<u>(3,943,594)</u>	<u>(120,146)</u>
<b>Other Financing Sources (Uses)</b>				
Insurance Recoveries	357,567	2,988,168	2,746,763	(241,405)
Transfers in	930,000	643,150	643,155	5
Transfers out	(202,114)	(69,596)	(48,445)	21,151
<b>Total Other Financing Sources</b>	<u>1,085,453</u>	<u>3,561,722</u>	<u>3,341,473</u>	<u>(220,249)</u>
<b>(Deficiency) of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses</b>	<u>(117,938)</u>	<u>(261,726)</u>	<u>(602,121)</u>	<u>(340,395)</u>
<b>Fund Balances, Beginning of Year</b>	<u>483,854</u>	<u>1,292,707</u>	<u>1,292,707</u>	<u>0</u>
<b>Fund Balances, End of Year</b>	<u>\$ 365,916</u>	<u>\$ 1,030,981</u>	<u>\$ 690,586</u>	<u>\$ (340,395)</u>

**BUDGETARY COMPARISON SCHEDULE  
COMMUNITY REDEVELOPMENT FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance With Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Taxes	\$ 1,049,785	\$ 1,079,264	\$ 1,079,264	\$ 0
Interest and Miscellaneous	1,263,500	1,700,000	714,056	(985,944)
<b>Total Revenues</b>	<u>2,313,285</u>	<u>2,779,264</u>	<u>1,793,320</u>	<u>(985,944)</u>
<b>Expenditures</b>				
Current:				
Economic Environment	1,505,715	1,567,461	471,270	1,096,191
<b>(Total Expenditures)</b>	<u>(1,505,715)</u>	<u>(1,567,461)</u>	<u>(471,270)</u>	<u>1,096,191</u>
<b>Excess of Revenues Over Expenditures</b>	<u>807,570</u>	<u>1,211,803</u>	<u>1,322,050</u>	<u>110,247</u>
<b>Other Financing Sources (Uses)</b>				
Transfers out	(807,605)	(1,310,122)	(1,007,664)	302,458
<b>Total Financing (Uses) Sources</b>	<u>(807,605)</u>	<u>(1,310,122)</u>	<u>(1,007,664)</u>	<u>302,458</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	(35)	(98,319)	314,386	412,705
<b>Fund Balances, Beginning of Year</b>	<u>(155,506)</u>	<u>(170,775)</u>	<u>(170,775)</u>	<u>0</u>
<b>Fund Balances, End of Year</b>	<u>\$ (155,541)</u>	<u>\$ (269,094)</u>	<u>\$ 143,611</u>	<u>\$ 412,705</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 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)
10/01/05	\$ 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%
10/01/00	4,333,023	4,916,760	583,737	88.13%	811,439	71.94%

**Schedule of Employer Contributions - Firefighters' Pension Plan**

Period Ended	Required Contribution	City Contribution	State Contribution	Percentage Contributed	Net Pension Obligation (Asset)
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)
9/30/00	178,295	122,291	60,608	102.58%	(48,147)

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

**Schedule of Funding Progress - Police Officers' Pension Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/01/05	\$ 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%
10/01/00	7,334,393	8,014,285	679,892	91.52%	1,478,384	45.99%

**Schedule of Employer Contributions - Police Officers' Pension Plan**

Period Ended	Required Contribution	City Contribution	State Contribution	Percentage Contributed	Net Pension Obligation (Asset)
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)
9/30/00	169,345	108,729	83,414	113.46%	(104,496)

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

**Schedule of Funding Progress - General Employees' Pension Plan**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
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%
10/01/00	4,701,092	5,030,070	328,978	93.46%	2,020,891	16.28%

**Schedule of Employer Contributions - General Employees' Pension Plan**

<b>Period Ended</b>	<b>Required Contribution</b>	<b>City Contribution</b>	<b>State Contribution</b>	<b>Percentage Contributed</b>	<b>Net Pension Obligation (Asset)</b>
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)
9/30/00	49,429	98,112	0	198.49%	(125,676)

**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>
<b>Actuarial Valuation</b>			
Frequency	Annual	Annual	Annual
Latest Date	10/1/05	10/1/05	10/1/05
Basis for Contribution	10/1/03	10/1/03	10/1/03
Cost Method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
<b>Amortization</b>			
Method	Level % of Pay	Level % of Pay	Level % of Pay
Open/Closed	Closed	Closed	Closed
Remaining Amortization Period	28 Years	25 Years	30 Years
<b><u>Asset Valuation Method</u></b>			
	4-Year Smoothing	4-Year Smoothing	4-Year Smoothing
<b>Assumptions</b>			
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, 2005  
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		
<b>Assets</b>								
Cash and Cash Equivalents	\$ 81,011	\$ 8,379	\$ 126,907	\$ 8,230	\$ 19,774	\$ 481,625	\$ 725,926	
Due from Other Governments	117,139	23,628	0	0	183,010	0	323,777	
<b>Total Assets</b>	<u>198,150</u>	<u>32,007</u>	<u>126,907</u>	<u>8,230</u>	<u>202,784</u>	<u>481,625</u>	<u>1,049,703</u>	
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts Payable	3,984	0	9,086	0	164,011	41,500	218,581	
Other Accrued Expenses	2,898	0	0	0	17,832	0	20,730	
Due to Other Funds	0	1,442	0	8,230	0	0	9,672	
Deferred Revenue	48,126	0	0	0	0	281,645	329,771	
<b>Total Liabilities</b>	<u>55,008</u>	<u>1,442</u>	<u>9,086</u>	<u>8,230</u>	<u>181,843</u>	<u>323,145</u>	<u>578,754</u>	
<b>Fund Balances</b>								
Reserved for:								
Other Purposes	143,142	30,565	117,821	0	20,941	158,480	470,949	
Total Reserved	<u>143,142</u>	<u>30,565</u>	<u>117,821</u>	<u>0</u>	<u>20,941</u>	<u>158,480</u>	<u>470,949</u>	
Unreserved	0	0	0	0	0	0	0	
<b>Total Fund Balances</b>	<u>143,142</u>	<u>30,565</u>	<u>117,821</u>	<u>0</u>	<u>20,941</u>	<u>158,480</u>	<u>470,949</u>	
<b>Total Liabilities and Fund Balances</b>	<u>\$ 198,150</u>	<u>\$ 32,007</u>	<u>\$ 126,907</u>	<u>\$ 8,230</u>	<u>\$ 202,784</u>	<u>\$ 481,625</u>	<u>\$ 1,049,703</u>	

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

	Special Revenue Funds						Historic Preservation Grant 151	Total Nonmajor Governmental Funds
	Transportation 102	Forfeitures 106	Library 110	Law Enforcement Block Grant 116	CDBG 131			
<b>Revenues</b>								
Taxes	\$ 696,881	\$ 0	\$ 386,033	\$ 0	\$ 0	\$ 0	\$ 1,082,914	
Intergovernmental	132,281	33,512	212,405	14,606	204,810	0	597,614	
Charges for Services	98,001	0	0	0	0	0	98,001	
Fines and Forfeitures	0	27,999	0	0	0	0	27,999	
Interest and Miscellaneous	111,291	256	55,376	1,964	407	0	69,294	
<b>Total Revenues</b>	<u>938,454</u>	<u>61,767</u>	<u>653,814</u>	<u>16,570</u>	<u>205,217</u>	<u>0</u>	<u>1,875,822</u>	
<b>Expenditures</b>								
General Government	0	0	0	0	0	20	20	
Public Safety	0	52,621	0	16,565	0	0	69,186	
Physical Environment	0	0	0	0	244,323	0	244,323	
Transportation	662,763	0	0	0	0	0	662,763	
Culture and Recreation	0	0	640,154	0	0	41,500	681,654	
<b>(Total Expenditures)</b>	<u>(662,763)</u>	<u>(52,621)</u>	<u>(640,154)</u>	<u>(16,565)</u>	<u>(244,323)</u>	<u>(41,520)</u>	<u>(1,657,946)</u>	
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>275,691</u>	<u>9,146</u>	<u>13,660</u>	<u>5</u>	<u>(39,106)</u>	<u>(41,520)</u>	<u>217,876</u>	
<b>Other Financing Sources (Uses)</b>								
Insurance Recoveries	8,965	0	0	0	0	0	8,965	
Transfers in	8,000	0	0	0	39,512	200,000	247,512	
Transfers out	(238,273)	0	0	(5)	0	0	(238,278)	
<b>Total Other Financing (Uses) Sources</b>	<u>(221,308)</u>	<u>0</u>	<u>0</u>	<u>(5)</u>	<u>39,512</u>	<u>200,000</u>	<u>18,199</u>	
<b>Net Change in Fund Balances</b>	<u>54,383</u>	<u>9,146</u>	<u>13,660</u>	<u>0</u>	<u>406</u>	<u>158,480</u>	<u>236,075</u>	
<b>Fund Balances Excess, Beginning of Year</b>	<u>88,759</u>	<u>21,419</u>	<u>104,161</u>	<u>0</u>	<u>20,535</u>	<u>0</u>	<u>234,874</u>	
<b>Fund Balances Excess, End of Year</b>	<u>\$ 143,142</u>	<u>\$ 30,565</u>	<u>\$ 117,821</u>	<u>\$ 0</u>	<u>\$ 20,941</u>	<u>\$ 158,480</u>	<u>\$ 470,949</u>	

**COMBINING STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

	<b>Pension Trust Funds</b>			<b>Total</b>
	<b>Firefighters</b>	<b>Police Officers</b>	<b>General Employees</b>	
<b>Assets</b>				
Investments:				
Money Market Funds	\$ 1,176,474	\$ 1,748,435	\$ 1,057,901	\$ 3,982,810
Corporate Bonds and Government Obligations	1,357,923	1,940,994	1,301,289	4,600,206
Equity Funds	3,332,950	5,024,873	4,063,209	12,421,032
<b>Total Investments</b>	<u>5,867,347</u>	<u>8,714,302</u>	<u>6,422,399</u>	<u>21,004,048</u>
Receivables:				
Interest and Dividends	15,226	23,461	13,518	52,205
Due from Retirees	1,548	3,764	0	5,312
Due from Other Funds	0	10	6	16
Due from Other Governments	11,597	0	0	11,597
<b>Total Receivables</b>	<u>28,371</u>	<u>27,235</u>	<u>13,524</u>	<u>69,130</u>
<b>Total Assets</b>	<u>5,895,718</u>	<u>8,741,537</u>	<u>6,435,923</u>	<u>21,073,178</u>
<b>Liabilities</b>				
Due to DROP Participants	613,633	15,629	36,289	665,551
Deferred Contributions from City	19,847	40,766	2,373	62,986
<b>Total Liabilities</b>	<u>633,480</u>	<u>56,395</u>	<u>38,662</u>	<u>728,537</u>
<b>Net Assets</b>				
Net Assets Held in Trust for Pension Benefits	<u>\$ 5,262,238</u>	<u>\$ 8,685,142</u>	<u>\$ 6,397,261</u>	<u>\$ 20,344,641</u>

**COMBINING STATEMENT OF CHANGES IN NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

	<b>Pension Trust Funds</b>			<b>Total</b>
	<b>Municipal Firefighters' Retirement Trust</b>	<b>Municipal Police Retirement Trust</b>	<b>General Employees' Retirement Trust</b>	
<b>Additions</b>				
Contributions:				
Employer	\$ 234,035	\$ 241,249	\$ 81,363	\$ 556,647
Employee	49,087	95,969	123,645	268,701
State of Florida	75,239	105,932	0	181,171
Total Contributions	<u>358,361</u>	<u>443,150</u>	<u>205,008</u>	<u>1,006,519</u>
Net Investment Income:				
Realized and Unrealized Increase in Fair Value of Investment	344,407	537,787	448,674	1,330,868
Interest and Dividend Income	166,989	326,478	225,522	718,989
Total Investment Income	<u>511,396</u>	<u>864,265</u>	<u>674,196</u>	<u>2,049,857</u>
(Investment Expense)	<u>(47,762)</u>	<u>(72,338)</u>	<u>(45,583)</u>	<u>(165,683)</u>
Net Investment Income	<u>463,634</u>	<u>791,927</u>	<u>628,613</u>	<u>1,884,174</u>
<b>Total Additions</b>	<u>821,995</u>	<u>1,235,077</u>	<u>833,621</u>	<u>2,890,693</u>
<b>Deductions</b>				
Benefit Payments	414,064	499,717	144,394	1,058,175
Refunds	0	2,669	65,375	68,044
Administrative Expenses	30,296	32,528	16,583	79,407
<b>(Total Deductions)</b>	<u>(444,360)</u>	<u>(534,914)</u>	<u>(226,352)</u>	<u>(1,205,626)</u>
<b>Change in Net Assets</b>	377,635	700,163	607,269	1,685,067
<b>Net Assets, Beginning of Year</b>	<u>4,884,603</u>	<u>7,984,979</u>	<u>5,789,992</u>	<u>18,659,574</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,262,238</u>	<u>\$ 8,685,142</u>	<u>\$ 6,397,261</u>	<u>\$ 20,344,641</u>

**SINGLE AUDIT SECTION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND  
STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
CITY OF LAKE WALES, FLORIDA**

<u>Federal Awards</u>	<u>CFSA/CSFA Number</u>	<u>Pass-Through Grantors/ State Contract Number</u>	<u>Award Amount</u>	<u>(Expenditures Recognized)</u>
<b>U.S. Department of Housing and Urban Development</b>				
Community Development Block Grant:				
Neighborhood Grant - Flood and Drainage Project	14.228	04DB-1Q-07-63-02-N06	\$ 750,000	\$ 186,978
<b>U.S. Department of Justice</b>				
Local Law Enforcement Block Grant	16.592	2003-LB-BX-0030	21,638	6,275
Local Law Enforcement Block Grant	16.592	2005-LEGB-POLK-5-L4-124	8,331	8,331
Byrne Grant	16.579	2005-CJ-K3-07-63-02-241	13,712	13,712
Byrne Grant	16.579	2005-CJ-K3-07-63-02-242	19,800	19,800
<b>U.S. Department of Transportation Federal Aviation Administration</b>				
State and Community Highway Safety Program:				
Master Plan	20.106	3-12-0040-007-2003	65,000	823
Taxiway B	20.106	3-12-0040-007-2003	165,000	8,253
<b>Environmental Protection Agency Passed Through Florida Department of Environmental Protection</b>				
Capitalization Grant for State Revolving Fund:				
Wastewater Management (System-wide Planning/Design)	66.548	WW75913P	990,960	175,480
<b>U.S. Department of Homeland Security Federal Emergency Management Agency Passed Through Florida Department of Community Affairs</b>				
Public Assistance Grants	97.036	Various	N/A	350,991 *
<b>Total Federal Awards</b>			<u>2,034,441</u>	<u>770,643</u>
<b>State Financial Assistance</b>				
<b>Florida Department of State</b>				
Historic Grant - Primary School	45.032	SC331	250,000	0
<b>Florida Department of Environmental Protection</b>				
Florida Recreation Development Assistance Program:				
Tourist Club Restoration	37.017	F03690	29,606	27,506
Kiwanis Club Restoration	37.017	F03542	50,000	46,150
<b>Florida Department of Transportation</b>				
Aviation Development Grant:				
PAPI	55.004	AH568	160,000	59,130
Apron Improvements	55.004	ANB25	9,528	459
<b>Total State Financial Assistance</b>			<u>499,134</u>	<u>133,245</u>
<b>Total Federal Awards and State Financial Assistance</b>			<u>\$ 2,533,575</u>	<u>\$ 903,888</u>

\* Denotes Major Program

- (1) Loan Balance at September 30, 2005 - \$1,182,745
- (2) Loan Balance at September 30, 2005 - \$952,707
- (3) Loan Balance at September 30, 2005 - \$1,325,566
- (4) Loan Balance at September 30, 2005 - \$196,457

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
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). 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, 2005. 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 INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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*, that are applicable to the major federal program for the year ended September 30, 2005. The City's major federal program is 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 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*. Those standards 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 awards program 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 for the year ended September 30, 2005.

**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 awards programs. 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 a major federal awards program 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.

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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 INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Concluded)**

**Internal Control Over Compliance (Concluded)**

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 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.

May 19, 2006  
Sarasota, Florida

*Lewis, Gray and Company*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARDS PROGRAMS  
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, each major fund, and the aggregate remaining fund information for the City of Lake Wales, Florida as of and for the year ended September 30, 2005, which collectively comprise the City of Lake Wales, Florida'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 of Lake Wales, Florida 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 of Lake Wales, Florida's major federal awards program (see independent auditors' report on compliance with requirements applicable to the major federal awards program and internal control over compliance in accordance with OMB Circular A-133).
5. No instances of noncompliance material to a major federal awards program were disclosed during the audit (see the same report referenced in 4).
6. Audit findings relative to the major federal awards program for the City of Lake Wales, Florida are reported in Part C of this schedule.
7. The program tested as a major program were the following:
  - **Federal Programs**
    - U.S. Department of Homeland Security, Federal Emergency Management Agency, Public Assistance Grants, CFDA Number 97.036
8. The threshold for distinguishing Type A and Type B programs/projects was \$300,000 for major federal awards programs.
9. The City of Lake Wales, Florida did qualify as a low-risk auditee pursuant to OMB Circular A-133.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FEDERAL AWARDS PROGRAMS  
CITY OF LAKE WALES, FLORIDA  
(Concluded)**

**PART B - FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**PART C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS**

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 Single Audit Act. There was no Florida Single Audit required in either the current year or 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, 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, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 19, 2006.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 matters that we reported to management of the City in separated letter dated May 19, 2006.

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.

May 19, 2006  
Sarasota, Florida

*Purvis, Dray and Company*

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, 2005, and have issued our report thereon dated May 19, 2006.

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, and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. We have issued our report to you on internal control over financial reporting and on compliance and other matters dated May 19, 2006. We have also issued applicable reports and schedules for the federal Single Audit. 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 address in the management letter, if not already addressed in the auditors' reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been corrected. Unless identified below, the recommendations made in the preceding annual financial audit report have been corrected to our satisfaction. 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.
- **04-2 Information Technology** - A detailed review of the status of this recommendation was beyond the scope of our current audit.

As required by the *Rules of the Auditor General* [Section 10.554(1)(h)2.], the scope of our audit included a review of provision of Section 218.415 Florida Statutes, regarding investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415 Florida Statutes.

The *Rules of the Auditor General* [Section 10.554(1)(h)3.] require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. We have no current year findings or recommendations.

**Certified Public Accountants**

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

**MANAGEMENT LETTER**  
*(Concluded)*

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 are not clearly inconsequential: (1) violations of laws, rules, regulations and contractual provisions or abuse that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, and defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed no matters required to be disclosed by *Rules of the Auditor General* [Section 10.554(1)(h)4.].

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], a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the 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, 2005, 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, 2005.

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.

May 19, 2006  
Sarasota, Florida

*Russell, Gray and Company*



**City of  
Lake Wales**

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

August 23, 2006

Honorable Mayor and City Commissioners  
City of Lake Wales, Florida

Re: Response to Auditor's Management Letter Comments  
Year Ended September 30, 2005

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, 2005.

**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 2005-06.

**04-1. Information Technology** - The City has worked progressively toward improving its information technology security and monitoring levels. Below is a list of the new systems and procedures implemented during fiscal year 2004-05:

- Installation of additional firewalls
- Folder level security audits
- Re-keyed server room and limited access to key personnel
- Established an offsite storage location for daily data backups
- Third party review of the City's information technology system and procedures

During fiscal year 2005-06 proxy server software was installed that controls and monitors internet access and activity.

As mentioned in the management letter a detailed review of the status of this recommendation was beyond the scope of their current audit.

**Current Year Recommendations:**

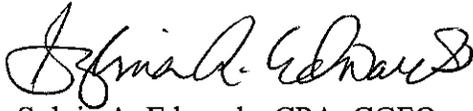
There were no current year recommendations.

Honorable Mayor and City Commission  
City of Lake Wales, Florida

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,

A handwritten signature in black ink, appearing to read "Sylvia A. Edwards". The signature is written in a cursive style with a large initial "S".

Sylvia A. Edwards, CPA, CGFO  
Finance Director