

# *City of Panama City Beach*

*Panama City Beach, Florida*

## **ANNUAL FINANCIAL STATEMENTS**

*FOR FISCAL YEAR ENDED  
SEPTEMBER 30, 2014*

# City of Panama City Beach, Florida

## FINANCIAL STATEMENTS

September 30, 2014



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## **INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members  
of the City Council  
City of Panama City Beach, Florida

### **Report on the Financial Statements**

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 Panama City Beach, Florida (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



## **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 of Panama City Beach, Florida, as of September 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for each major governmental fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 and the required supplementary information on pages 79 through 88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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 and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of state financial assistance is presented for the purpose of additional analysis as required by *Chapter 10.550, State of Florida Rules of the Auditor General*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of state financial assistance are fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015, on our consideration of the City of Panama City Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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*, in considering the City's internal control over financial reporting and compliance.

*Carri Riggs & Ingram, L.L.C.*

Certified Public Accountants  
Panama City Beach, Florida  
September 23, 2015



## **Management's Discussion and Analysis**

## Management's Discussion and Analysis

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

Since 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.

## Financial Highlights

- Total assets of the City exceeded total liabilities by \$229,513,961 (net position). Of this amount, \$13,590,695 is unrestricted net position for governmental activities and \$49,753,362 is unrestricted net position for business-type activities, while \$17,735,283 is restricted net position for governmental activities and \$9,951,313 is restricted net position for business-type activities.
- Total net position increased by \$12,452,341. Of this amount, \$5,134,866 is attributable to governmental activities and \$7,317,475 is attributable to business-type activities. The increase in net position of governmental activities is attributable to both the Front Beach Road Community Redevelopment Area and the general fund. Current year tax increment revenue received was used to fund construction projects in the Front Beach Road Community Redevelopment Area (FBR CRA) and to reduce the principal amount of debt outstanding. Additionally, significant proportionate share payments were received for various roadways located within the FBR CRA in the current year and remain on hand or have been expended for capital projects. The general fund received a cash contribution of \$1,300,000 from the City's utility fund to subsidize general government operations of the City. Additionally, annual revenues exceeded annual expenditures by a significant amount which improved net position. The increase in net position of business-type activities is the result of several factors including the collection of \$1,132,852 in impact fees and net income from operations before amortization and depreciation of \$10,545,269. Additionally, the City's utility fund received a capital grant from the State of Florida in the amount of \$4,400,442 in the current year.
- As of September 30, 2014, the general fund's unassigned fund balance was \$10,052,590 or 59 percent of total general fund expenditures. Unassigned fund balance in the general fund increased by \$123,000 primarily as a result of strong business tax receipts collections which exceeded the prior year by approximately \$2,064,141.

- Governmental activities revenues decreased \$396,993 from \$28,203,134 to \$27,806,141, while governmental activities expenditures increased 6 percent to \$23,722,683. Business-type activities revenues decreased 4 percent to \$37,407,222, while business-type activities expenditures increased 4 percent to \$29,038,339.

## **Overview of the Financial Statements**

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

## **Government-wide Financial Statements**

The *government-wide financial statements* include the *statement of net position* and *statement of activities*. These statements are designed to provide readers with a broad overview of the City's financial position, in a manner similar to that of private-sector companies.

Emphasis is placed on the net position of governmental activities and business-type activities, as well as the change in net position. Governmental activities are primarily supported by tax increment funds, business tax receipts, utility taxes, franchise fees, and state shared revenues, while business-type activities are supported by charges to the users of those particular activities, such as water, waste water, and admission charges.

The *statement of net position* presents information on all assets and liabilities of the City, with the difference between the two reported as *net position*. Assets, liabilities and net position are reported separately for governmental activities and business-type activities. Increases or decreases in net position over time may serve as a useful indicator of the City's improving or declining financial position.

The *statement of activities* presents information on all revenues and expenditures of the City and the change in net position for the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in the statement of activities for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees and earned, but unused sick leave).

Expenditures are reported by major function, along with program revenues relating to those functions, resulting in the net cost of all functions provided by the City. In order to better understand the City's operations, governmental activities expenditures, include among others, general government services, public safety, highways and streets, and culture and recreation. Business-type activities expenditures, which are financed by user fees and charges, include water, waste water, storm water, pier and aquatic center services.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the following legally separate component unit: The Panama City Beach Community Redevelopment Agency (CRA). Financial information for this component unit is blended with activity in a special revenue fund, and the balances are reported within the City's financial statements as a single major fund.

### ***Fund Financial Statements***

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes or objectives. Individual funds have been established by the City to account for revenues that are restricted to certain uses or to comply with legal requirements. The three major categories of funds found in the City's *fund financial statements* include: governmental funds, proprietary funds, and fiduciary funds.

*Fund financial statements* provide financial information for the City's major funds and more detailed information about the City's activities. Governmental fund financial statements provide information on the *current* assets and liabilities of the funds, changes in *current* financial resources (revenues and expenditures), and *current* available resources. The proprietary funds financial statements provide information on all assets and liabilities of the funds, changes in the economic resources (revenues and expenses), and total economic resources. The fiduciary fund statement provides information concerning assets held in trust by the City for the benefit of parties outside the government.

*Fund financial statements* for all governmental funds include a *balance sheet* and a *statement of revenues, expenditures, and changes in fund balances*. The City's general and community redevelopment funds include a *statement of revenues, expenditures, and changes in fund balances-budget and actual*. For the proprietary funds, a *statement of net position, a statement of revenues, expenses, and changes in net position*, and a *statement of cash flows* are presented.

A *statement of fiduciary net position* and a *statement of changes in fiduciary net position* are presented for the City's fiduciary funds.

The *government-wide financial statements* and the *fund financial statements* provide different presentations of the City's financial position. Categorized by governmental activities and business-type activities, the government-wide financial statements provide an overall picture of the City's financial standing. These statements, which are comparable to private-sector companies, provide a good understanding of the City's overall financial health and present the means used to pay for various activities, or functions provided by the City.

All assets of the City, including buildings, land, and infrastructure are reported in the *statement of net position*, as well as all liabilities, including outstanding principal on bonds, capital leases, and future employee benefits obligated but not yet paid by the City. The *statement of activities* includes depreciation on all long lived assets of the City, but all transactions between different functions of the City have been eliminated to avoid "doubling up" the revenues and expenditures.

The *fund financial statements* provide a presentation of the City's major funds, along with a column for all non-major funds. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as revenue bonds, are not included in the fund financial statements. A reconciliation is provided to facilitate a comparison between the *fund financial statements* and the *government-wide financial statements*.

*Notes to basic financial statements* provide additional detail concerning the financial activities and financial balances of the City. Additional information about the accounting practices of the City, investments of the City, and long-term debt are just a few of the items included in the notes to basic financial statements.

### Financial Analysis of the City

The following schedule provides a summary of the assets, liabilities and net position of the City. At the end of fiscal year 2014, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its governmental and business-type activities. The 2013 data has been restated to reflect the prior period adjustment recorded in 2014. In addition certain reclassifications have been made to the 2013 data to conform to the 2014 presentation.

<b>City of Panama City Beach, Florida</b>						
<b>Net Position</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
<i>September 30,</i>	<b>2014</b>	2013	<b>2014</b>	2013	<b>2014</b>	2013
Current and other assets	<b>\$ 39,320,021</b>	\$ 35,086,966	<b>\$ 81,133,581</b>	\$ 76,832,172	<b>\$ 120,453,602</b>	\$ 111,919,138
Capital assets	<b>104,210,711</b>	105,179,607	<b>126,134,433</b>	127,829,848	<b>230,345,144</b>	233,009,455
<b>Total assets</b>	<b>143,530,732</b>	140,266,573	<b>207,268,014</b>	204,662,020	<b>350,798,746</b>	344,928,593
Current liabilities	<b>4,156,103</b>	4,664,357	<b>5,641,084</b>	3,898,978	<b>9,797,187</b>	8,563,335
Long-term liabilities	<b>50,051,892</b>	51,414,345	<b>61,435,706</b>	67,889,293	<b>111,487,598</b>	119,303,638
<b>Total liabilities</b>	<b>54,207,995</b>	56,078,702	<b>67,076,790</b>	71,788,271	<b>121,284,785</b>	127,866,973
Net position invested in capital						
assets net of related debt	<b>57,996,759</b>	57,301,881	<b>80,486,549</b>	75,098,845	<b>138,483,308</b>	132,400,726
Net position - restricted	<b>17,735,283</b>	18,242,980	<b>9,951,313</b>	11,775,620	<b>27,686,596</b>	30,018,600
Net position - unrestricted	<b>13,590,695</b>	8,643,010	<b>49,753,362</b>	45,999,284	<b>63,344,057</b>	54,642,294
<b>Total net position</b>	<b>\$ 89,322,737</b>	\$ 84,187,871	<b>\$ 140,191,224</b>	\$ 132,873,749	<b>\$ 229,513,961</b>	\$ 217,061,620

Investment in capital assets (e.g., land, buildings, equipment and infrastructure), net of any related outstanding debt used to acquire those assets, represents the City's largest portion of net position (60 percent). These capital assets are utilized to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the City's investment in its capital assets is reported net of related debt, 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.

Amounts comprising *restricted net position*, representing 12 percent of the City's net position, are subject to external restrictions, and thus are limited as to how they may be used. The remaining balance of *unrestricted net position*, \$63,344,057 may be used to help meet the government's ongoing obligations to citizens and creditors.

*Net investment in capital assets* increased \$6,082,582 (or 5%). Significant additions to capital assets occurred in the business-type activities in the current year. Capital additions in business-type activities were primarily related to the completion of the conservation park boardwalks, waste water treatment plant operations building, Point Royale and North Gulf Boulevard water mains, and Allison Avenue water main relocation projects. Additional projects were in progress at year end September 30, 2014, for which significant expenses were incurred in the current year, including a regional lift station at the Navy Base.

Restricted net position decreased \$2,332,004 (or 8%). Restricted net position in the governmental activities decreased by \$507,697 and restricted net position in the business-type activities decreased by \$1,824,307. The decrease in the business-type activities restricted net position is attributable to a decrease in restricted net position for construction which no longer exists as of September 30, 2014.

The increase in net position, unrestricted was \$8,701,763 (or 16%). The governmental activities increase was \$4,947,685 while the business-type activities increase was \$3,754,078. The increase in governmental activities unrestricted net position resulted from revenues in excess of expenditures and a transfer of \$1,300,000 from the utility fund. The increase in unrestricted net position in business-type activities primarily resulted from operating profits from the water and waste water system being retained for future use primarily for planned capital projects.

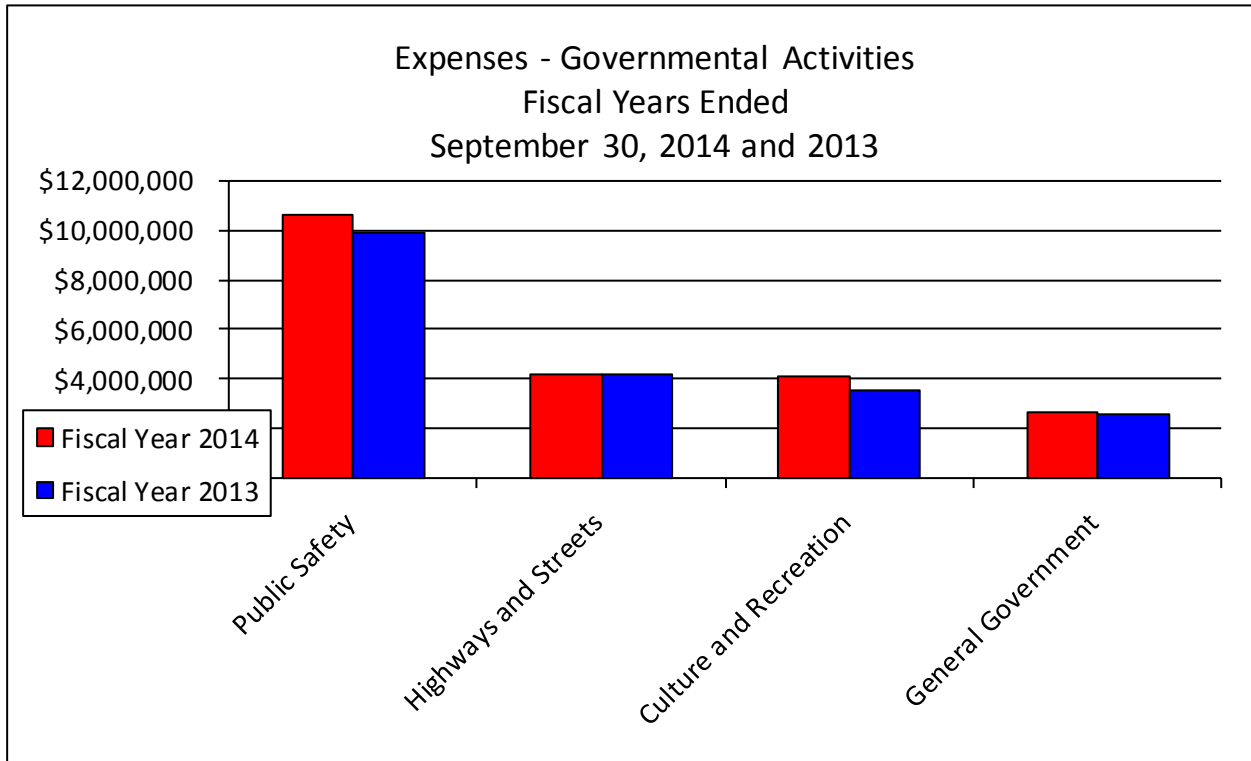
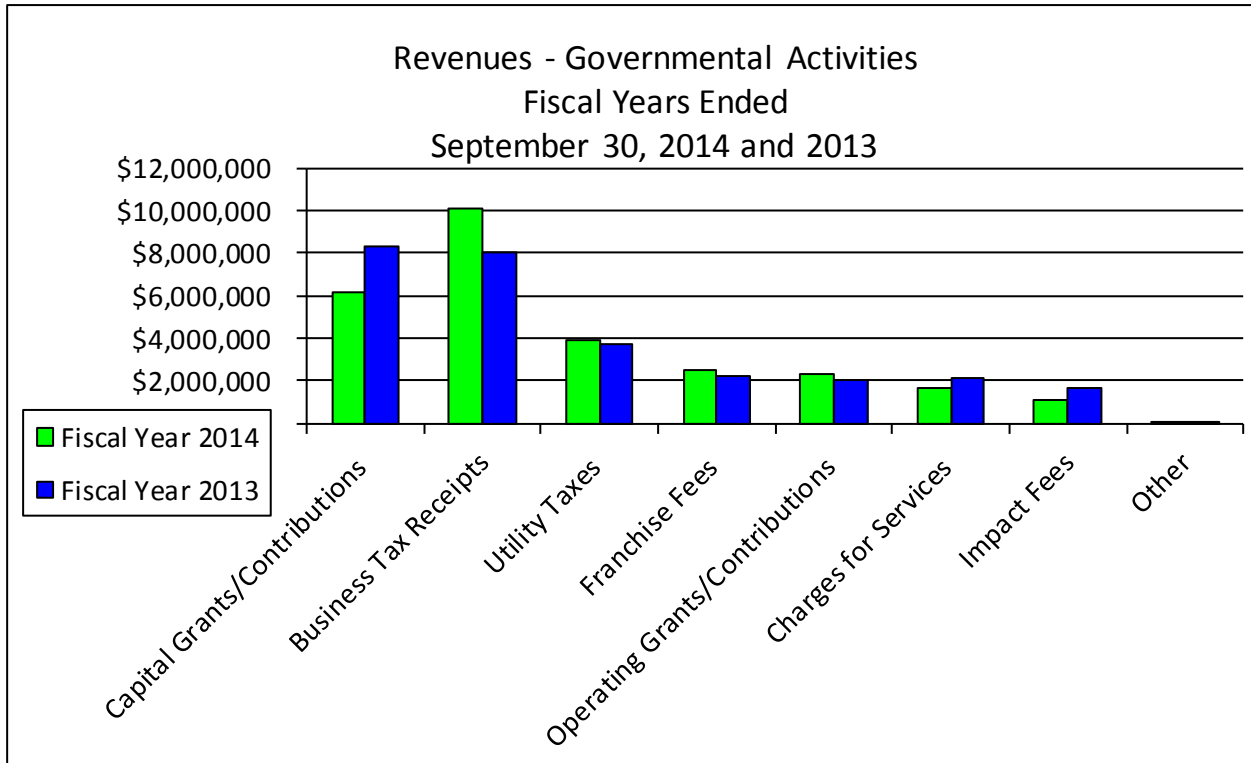
The following schedule provides a summary of revenues, expenses and changes in net position for the years ended September 30, 2014 and 2013:

**City of Panama City Beach, Florida  
Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
<i>Year Ended September 30,</i>	<b>2014</b>	2013	<b>2014</b>	2013	<b>2014</b>	2013
<b>Program revenues</b>						
Charges for services	\$ 1,636,463	\$ 2,136,739	\$ 31,417,313	\$ 36,760,216	\$ 33,053,776	\$ 38,896,955
Operating grants/contributions	2,357,588	2,052,629	30,250	29,955	2,387,838	2,082,584
Capital grants/contributions	6,152,728	8,356,165	4,400,442	830,000	10,553,170	9,186,165
<b>General revenues</b>						
Business tax receipts	10,071,620	8,007,479	-	-	10,071,620	8,007,479
Utility taxes	3,942,436	3,692,176	-	-	3,942,436	3,692,176
Franchise fees	2,530,521	2,211,043	-	-	2,530,521	2,211,043
Impact fees	1,096,479	1,709,817	1,132,852	1,296,090	2,229,331	3,005,907
Penalties on delinquent business tax receipts	31	25	-	-	31	25
Interest earnings	18,275	37,061	108,544	136,490	126,819	173,551
Miscellaneous revenues	-	-	317,821	-	317,821	-
<b>Total revenues</b>	<b>27,806,141</b>	28,203,134	<b>37,407,222</b>	39,052,751	<b>65,213,363</b>	67,255,885
<b>Expenses</b>						
General government	2,699,157	2,566,961	-	-	2,699,157	2,566,961
Public safety	10,633,257	9,865,712	-	-	10,633,257	9,865,712
Highways and streets	4,219,747	4,159,676	-	-	4,219,747	4,159,676
Culture and recreation	4,102,397	3,589,520	-	-	4,102,397	3,589,520
Interest on long- term debt	2,068,125	2,135,998	2,537,577	2,746,202	4,605,702	4,882,200
Utilities - water	-	-	13,734,789	13,434,266	13,734,789	13,434,266
Utilities - waste water	-	-	10,240,914	9,555,430	10,240,914	9,555,430
Utilities - storm water	-	-	758,105	600,675	758,105	600,675
Pier	-	-	922,380	890,398	922,380	890,398
Aquatic center	-	-	844,574	809,626	844,574	809,626
<b>Total expenses</b>	<b>23,722,683</b>	22,317,867	<b>29,038,339</b>	28,036,597	<b>52,761,022</b>	50,354,464
Increase in net position before transfers	4,083,458	5,885,267	8,368,883	11,016,154	12,452,341	16,901,421
Transfers	1,051,408	(5,073)	(1,051,408)	5,073	-	-
<b>Increase in net position</b>	<b>\$ 5,134,866</b>	\$ 5,880,194	<b>\$ 7,317,475</b>	\$ 11,021,227	<b>\$ 12,452,341</b>	\$ 16,901,421



The charts below compare the revenues and expenses for the current and previous fiscal year.



Governmental activities revenues exceeded expenses by \$4,083,458 while business-type activities revenues exceeded expenses by \$8,368,883. Total revenues decreased \$2,042,522 from the previous year. The change in total revenues from business-type activities was a decrease of \$1,645,529 while the change in governmental activities was a decrease of \$396,993. Charges for services decreased \$5,843,179, capital grants and contributions increased \$1,367,005, business receipts taxes increased \$2,064,141 and impact fees decreased \$776,576 in the current year. The decrease in charges for services was a combination of a decrease in charges for services from governmental activities and a decrease from business-type activities with the major portion of the decrease attributable to business-type activities. The decrease in both governmental activities and business-type activities charges for services resulted primarily from the city receiving approximately \$7.3 million as a final settlement from BP from the Deepwater Horizon oil spill in the prior year that was not received in the current year. The business-type activities decrease in charges for services attributable to the oil spill settlement was partially offset by increases in both water and waste water sales as well as \$317,821 from the sale of timber in the current year.

Capital grants and contributions increased a total of \$1,367,005 with governmental activities experiencing a decrease of \$2,203,437 while business-type activities experiencing an increase of \$3,570,442. The decrease in capital grants and contributions in governmental activities resulted primarily from a decrease in capital contributions for the current year. In the prior year, the Bay County Tourist Development Center contributed approximately \$2,500,000 for the construction of an amphitheater at Aaron Bessant Park. The increase in business-type activities resulted primarily from additional grant funds received from the State of Florida in the approximate amount of \$3,600,000. These funds were applied by the State directly to the City's outstanding State revolving fund debt.

Impact fees decreased \$776,576 in total with \$613,338 of the decrease attributable to governmental activities and \$163,238 attributable to business-type activities. Both types of activities benefited in the prior year from an improving economy evidenced by increases in both commercial and residential construction which tapered off slightly in the current fiscal year but remained strong. Growth continued in the current year at a slightly slower pace than in the previous year. Commercial activity remained strong which resulted in significant transportation proportionate share payments (classified as impact fees) being received by the Community Redevelopment Fund.

Total expenses in governmental activities increased \$1,404,816 from the previous year. Public safety expenditures increased \$767,545 and culture and recreation expenditures increased \$512,877. The increase in public safety expenditures was attributable to increases in personnel costs including salaries and related benefits. The culture and recreation expenditures increase was also attributable in part to increases in personnel costs including salaries and related benefits. Significant increases in maintenance costs occurred in the current year as well.

Business-type activities expenses increased \$1,001,742 in total comprised of an increase in water expenses of \$300,523 and waste water expenses of \$685,484 offset by a decrease in interest on long-term debt of \$208,625. Water expenses increased as a result of an increase in the cost of water purchased from Bay County. The increase in waste water expenses was attributable to increases in personnel costs including salaries and benefits as well as increases in the cost of utility

services and repairs and maintenance. Long-term debt interest expense decreased as a result of paying down both the outstanding revenue bonds and notes payable which reduced current year interest expense.

22% of the revenues for governmental activities are generated by capital grants and contributions, 36% by business tax receipts, and 23% from utility taxes and franchise fees. Capital grants and contributions as a percentage of total revenues for governmental activities decreased by 8% from the prior year. As previously noted, the City received capital contributions in the amount of \$2,500,000 in the prior year for a specific construction project. Business tax receipts comprised a greater percentage of total governmental activities revenues in the current year as a result of a significant increase in tax receipts as well as a decrease in overall revenues. Utility taxes and franchise fees as a percentage of total revenues were virtually unchanged. Most of the governmental resources are expended for public safety (45%), culture and recreation (17%), and highways and streets (18%).

Charges for services provide 84% of the revenues for business-type activities, while 12% of the revenues are provided from capital grants and contributions and 3% from impact fees. Most of the governmental resources are expended to operate the public utility systems (85%).

## **Financial Analysis of the City's Funds**

### **Governmental Funds**

#### **General Fund**

The main operating fund of the City is the general fund. As of September 30, 2014, total assets were \$20,696,038 and total liabilities were \$1,919,143. At the end of fiscal year 2014, unassigned fund balance of the general fund was \$10,052,590 while total fund balance equaled \$18,776,895. Total fund balance increased \$4,487,259 (31%). Restricted fund balance decreased \$104,317 (2%), assigned fund balance increased \$4,464,649 and nonspendable fund balance increased \$3,798 (9%). Unassigned fund balance increased \$123,000 (1%). Fiscal year 2014 revenues in the general fund exceeded expenditures by \$3,578,389. The increase will be utilized by the City in fiscal year 2015 which resulted in the increase in assigned fund balance at the end of the current year.

The general fund budget was amended during the year to reflect significant increases in available revenues as well as increases in current expenditures and decreases in capital outlay expenditures. The increase in total budgeted revenues was \$3,056,755 which represented a change from the original to the amended budget of 18%. Approximately 59% of the increase was attributable to an increase in business tax receipts revenues. Budgeted expenditures for current expenditures increased from the original to the final amounts by \$792,548 while the budget for capital outlay expenditures decreased by \$3,166,300. The decrease in capital outlay expenditures was attributable to delays in the construction of a new police department building. It was anticipated that construction would begin earlier in fiscal year 2014 resulting in greater expenditures in fiscal year 2014. Due to the delay in the start of construction, expenditures were deferred until fiscal year 2015.

### Community Redevelopment Fund

The other major governmental fund of the City is the community redevelopment fund. As of September 30, 2014, total assets were \$16,611,891 and total liabilities were \$1,357,921. At the end of fiscal year 2014, the assigned fund balance of the community redevelopment fund was \$259,371, while the total fund balance equaled \$15,253,970. Total fund balance increased \$282,406.

### Nonmajor Governmental Funds

The *Beach Access Public Parking Fund* accounts for the use of coastal development and redevelopment fees restricted for the construction of additional beach access public parking.

Because it is not possible to anticipate the activity in the special revenue funds, it is the City's policy not to prepare budgetary information for these funds.

### Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in greater detail. The City's Utility Fund is reported as a major fund while the City's Pier and Aquatic Center Funds are aggregated as nonmajor funds in the financial statements.

Unrestricted net position of proprietary funds at the end of the year is presented below:

Fund	2014 Unrestricted Net Position	2013 Unrestricted Net Position
Utility	\$ 48,867,181	\$ 44,220,495
Pier	1,213,700	1,052,468
Aquatic Center	(327,519)	(359,125)
Total	\$ 49,753,362	\$ 44,913,838

The *utility fund* is used to account for the operations of the City's water, waste water and storm water systems. New construction and redevelopment being experienced by the City decreased slightly in the current year and water and waste water impact fee revenues reflected this trend by decreasing \$163,238 or 13% compared to the prior year. Operating revenues decreased \$5,282,087 or 15% in 2014 compared to 2013 primarily as a result of the funds received from BP in the previous year as a result of the oil spill settlement not recurring in the current year.

The *pier fund* accounts for the operations and maintenance of the City's Russell-Fields Pier. Operating revenues exceeded operating expenses by \$30,034. Depreciation expense accounted for

a significant portion of operating expenses, 46%. Pier fund operations generated significant cash flows in 2014 allowing for a transfer of funds in the amount of \$325,000 to the City's aquatic center fund to help subsidize its operating shortfall.

The *aquatic center fund* is being used to account for the operation of an aquatic center located at Frank Brown Park. For 2014, operating expenses exceeded operating revenues by \$543,576. The shortfall in operations was partially offset by transfers from the City's general fund and pier fund.

### **Capital Assets Activity**

The following schedule provides a summary of the City's capital assets activity. The City's total investment in capital assets for both its governmental and business type activities as of September 30, 2014, was \$230,345,144 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- The City continues to expand and rehabilitate its water system which services both City residents and portions of unincorporated Bay County. Approximately \$370,300 was expended in fiscal year 2014 on water expansion, rehabilitation and relocation projects. During the year, the City completed water main projects located at Point Royale, North Gulf Boulevard and Allison Avenue. The combined cost for these projects was approximately \$1,370,000.
- During the year, the City expended approximately \$3,000,000 on various waste water capital projects. A new waste water operations building was completed and placed in service in the current year at a total cost of approximately \$2,225,000. Additionally, \$704,000 was expended in the current year on a regional lift station located at the Navy Base. This project was ongoing at year end September 30, 2014.
- At September 30, 2014, approximately \$42.7 million dollars is reflected in construction in progress and land for various road projects within the Front Beach Road Community Redevelopment Area. Planned improvements include expansion of road widths, additional turn lanes, burying utilities, and aesthetic improvements. No major construction projects were completed in fiscal year 2014; however, engineering studies and right-of-way acquisition is ongoing for other roads within the project area.
- The City entered into architectural services contracts during fiscal year 2013 for two new buildings to be constructed on the existing government complex site. One building will house the City's public works, engineering staff, building and planning departments and the water customer service department while the other building will be a new police station. The combined cost of both projects is expected to be approximately \$9.6

million. Significant architectural services were performed during fiscal year 2014 with construction commencing in fiscal year 2015.

**Capital Assets  
(net of depreciation)**

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 47,083,139	\$ 45,449,567	\$ 7,328,262	\$ 7,255,847	\$ 54,411,401	\$ 52,705,414
Construction in progress	8,133,019	7,357,962	1,430,546	1,667,303	9,563,565	9,025,265
Intangible	-	-	194,788	194,788	194,788	194,788
Buildings	5,560,474	5,799,420	25,341,717	24,336,841	30,902,191	30,136,261
Improvements	40,266,675	43,212,311	80,609,070	81,966,625	120,875,745	125,178,936
Machinery and equipment	3,167,404	3,360,347	11,230,050	12,408,444	14,397,454	15,768,791
<b>Total</b>	<b>\$ 104,210,711</b>	<b>\$ 105,179,607</b>	<b>\$ 126,134,433</b>	<b>\$ 127,829,848</b>	<b>\$ 230,345,144</b>	<b>\$ 233,009,455</b>

Additional information on the City's capital assets can be found in notes 7 and 8 of the notes to the basic financial statements.

**Debt Management**

At the end of the current fiscal year, the City had total bond debt outstanding of \$91,885,612. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**Outstanding Bond Debt**

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue bonds	\$ 46,213,952	\$ 47,877,717	\$ 45,671,660	\$ 46,973,801	\$ 91,885,612	\$ 94,851,518

Total outstanding bond debt decreased by \$2,965,906 in the current fiscal year. Principal payments totaled \$3,065,000 in the current year and were adjusted by amortization of deferred costs and premiums. The City's debt currently maintains an "AA-" rating from Standard & Poor's and Fitch. All of the City's issues are rated by one or a combination of two rating agencies.

The Florida Constitution and the City of Panama City Beach set no legal debt limits for revenue bonds. More detailed information about the City's liabilities is presented in notes 10 and 11 of the notes to the basic financial statements.

### ***Other Financial Information***

The City's economy improved during the current fiscal year as evidenced by its stable building construction and redevelopment activity as well as increased revenues from tourists and residents in the form of business tax receipts. Despite continuing national economic concerns, tourism remained strong as evidenced by a 26% increase in business tax receipts in the current fiscal year. In the upcoming fiscal year, the City will continue to focus on additions and enhancements to its utilities and transportation systems as well as modernization of the government complex to improve operational efficiency. These construction projects will replace aging water and waste water pipes, expand service into additional neighborhoods, widen existing roadways to improve traffic flow and public safety and improve the functionality of the water and police department facilities.

This report was prepared by the City's finance department. Questions concerning this report or requests for additional information should be addressed to City of Panama City Beach, 110 S. Arnold Road, Panama City Beach, Florida 32413-2199, and attention: Holly White, Finance Director.



**City of Panama City Beach, Florida**  
**Statement of Net Position**  
**September 30, 2014**

Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 14,472,024	\$ 45,191,676	\$ 59,663,700
Accounts receivable, net	136,299	6,242,984	6,379,283
Taxes and fees receivable	559,108	-	559,108
Grants receivable	102,634	-	102,634
Accrued interest receivable	677	11,923	12,600
Due from other governments	343,440	6,775	350,215
Inventory	15,935	579,415	595,350
Prepaid expenses	33,899	14,348	48,247
Prepaid bond insurance, current	64,835	12,999	77,834
Note receivable, current	-	456,000	456,000
Prepaid bond insurance, noncurrent	1,042,832	307,651	1,350,483
Restricted assets			
Cash and cash equivalents	22,306,289	28,299,953	50,606,242
Accounts receivable, net	241,646	182	241,828
Accrued interest receivable	403	1,818	2,221
Notes receivable	-	7,857	7,857
Capital assets			
Nondepreciable	55,216,158	8,953,596	64,169,754
Depreciable, net	48,994,553	117,180,837	166,175,390
Total assets	143,530,732	207,268,014	350,798,746

(Continued)

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Net Position (Continued)**  
**September 30, 2014**

Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>Liabilities</b>			
Accounts payable	\$ 1,873,645	\$ 1,267,283	\$ 3,140,928
Accrued expenses and deposits	1,347,897	1,268,502	2,616,399
Accrued interest payable	881,844	779,067	1,660,911
Due to other governments	52,852	1,556,708	1,609,560
Internal balances	(2,172)	2,172	-
Unearned revenue	2,037	767,352	769,389
Long-term liabilities			
Due within one year			
Revenue certificates payable	-	2,107,251	2,107,251
Accrued compensated absences	343,000	177,000	520,000
Notes payable	-	1,537,093	1,537,093
Revenue bonds payable, net	1,728,765	1,337,141	3,065,906
Due in more than one year			
Accrued compensated absences	2,281,353	1,057,051	3,338,404
Net OPEB obligation	1,213,587	783,024	1,996,611
Notes payable	-	10,102,627	10,102,627
Revenue bonds payable, net	44,485,187	44,334,519	88,819,706
Total liabilities	54,207,995	67,076,790	121,284,785
<b>Net position</b>			
Net investment in capital assets	57,996,759	80,486,549	138,483,308
Restricted for			
Law enforcement	23,043	-	23,043
Beach access public parking	559,033	-	559,033
Impact fees	4,093,593	7,100,530	11,194,123
Reforestation	3,500	-	3,500
Debt service	5,644,829	1,369,415	7,014,244
Community redevelopment	7,411,285	-	7,411,285
Storm water	-	1,481,368	1,481,368
Unrestricted	13,590,695	49,753,362	63,344,057
Total net position	\$ 89,322,737	\$ 140,191,224	\$ 229,513,961

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Activities**  
**Year Ended September 30, 2014**

Functions / Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
General government	\$ 2,699,157	\$ 726,496	\$ 1,711,628	\$ -	\$ (261,033)	\$ -	\$ (261,033)
Public safety	10,633,257	221,723	295,268	192,638	(9,923,628)	-	(9,923,628)
Highways and streets	4,219,747	302,359	203,455	5,815,453	2,101,520	-	2,101,520
Culture and recreation	4,102,397	385,885	147,237	144,637	(3,424,638)	-	(3,424,638)
Interest on long-term debt	2,068,125	-	-	-	(2,068,125)	-	(2,068,125)
Total governmental activities	23,722,683	1,636,463	2,357,588	6,152,728	(13,575,904)	-	(13,575,904)
<b>Business-type activities</b>							
Utility							
Water	13,734,789	17,357,445	-	-	-	3,622,656	3,622,656
Waste water	10,240,914	11,838,371	-	4,400,442	-	5,997,899	5,997,899
Storm water	758,105	968,085	-	-	-	209,980	209,980
Pier	922,380	952,414	30,250	-	-	60,284	60,284
Aquatic center	844,574	300,998	-	-	-	(543,576)	(543,576)
Interest on long-term debt	2,537,577	-	-	-	-	(2,537,577)	(2,537,577)
Total business-type activities	29,038,339	31,417,313	30,250	4,400,442	-	6,809,666	6,809,666
<b>Total primary government</b>	<b>\$ 52,761,022</b>	<b>\$ 33,053,776</b>	<b>\$ 2,387,838</b>	<b>\$ 10,553,170</b>	<b>(13,575,904)</b>	<b>6,809,666</b>	<b>(6,766,238)</b>
General revenues							
Business tax receipts					10,071,620	-	10,071,620
Utility					3,942,436	-	3,942,436
Franchise fees					2,530,521	-	2,530,521
Impact fees					1,096,479	1,132,852	2,229,331
Penalties on delinquent business tax receipts					31	-	31
Miscellaneous revenues					-	317,821	317,821
Total general revenues					17,641,087	1,450,673	19,091,760
Interest earnings					18,275	108,544	126,819
Transfers					1,051,408	(1,051,408)	-
Total general revenues, interest earnings and transfers					18,710,770	507,809	19,218,579
Change in net position					5,134,866	7,317,475	12,452,341
Net position - beginning					84,809,440	131,788,303	216,597,743
Prior period and restatement adjustments					(621,569)	1,085,446	463,877
Net position - beginning, as restated					84,187,871	132,873,749	217,061,620
Net position - ending					\$ 89,322,737	\$ 140,191,224	\$ 229,513,961

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2014**

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 14,189,652	\$ 253,691	\$ 28,681	\$ 14,472,024
Accounts receivable, net	98,957	6,061	-	105,018
Taxes and fees receivable	559,108	-	-	559,108
Grants receivable	102,634	-	-	102,634
Accrued interest receivable	677	-	-	677
Due from other governments	341,610	-	-	341,610
Due from other funds	6,733	-	-	6,733
Inventory	15,935	-	-	15,935
Prepays	29,740	4,030	-	33,770
Cash and cash equivalents - restricted	5,350,745	16,347,953	607,591	22,306,289
Accrued interest receivable - restricted	247	156	-	403
<b>Total assets</b>	<b>\$ 20,696,038</b>	<b>\$ 16,611,891</b>	<b>\$ 636,272</b>	<b>\$ 37,944,201</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 520,303	\$ 1,353,265	\$ 77	1,873,645
Accrued expenses and deposits	1,344,709	3,059	-	1,347,768
Due to other governments	52,649	203	-	52,852
Due to other funds	595	244	3,722	4,561
Unearned revenue	887	1,150	-	2,037
<b>Total liabilities</b>	<b>1,919,143</b>	<b>1,357,921</b>	<b>3,799</b>	<b>3,280,863</b>
<b>Fund balances</b>				
Nonspendable	45,675	4,030	-	49,705
Restricted	4,184,640	14,990,569	603,792	19,779,001
Assigned	4,493,990	259,371	28,681	4,782,042
Unassigned	10,052,590	-	-	10,052,590
<b>Total fund balances</b>	<b>18,776,895</b>	<b>15,253,970</b>	<b>632,473</b>	<b>34,663,338</b>
<b>Total liabilities and fund balances</b>	<b>\$ 20,696,038</b>	<b>\$ 16,611,891</b>	<b>\$ 636,272</b>	
Amounts reported for governmental activities in the statement of net position are different because:				
Receivables, on a modified accrual basis are not resources and, therefore, are not reported in the funds.				274,757
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				104,210,711
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(49,826,069)
<b>Net position of governmental activities</b>				<b>\$ 89,322,737</b>

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended September 30, 2014**

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
<b>Revenues</b>				
Taxes				
Business tax receipts	\$ 10,071,620	\$ -	\$ -	\$ 10,071,620
Utility	3,942,436	-	-	3,942,436
Tax increment funds	-	6,047,375	-	6,047,375
Franchise fees	2,530,521	-	-	2,530,521
Intergovernmental	1,873,581	-	-	1,873,581
Municipal services impact fees	210,257	886,222	-	1,096,479
Licenses and permits	419,573	-	-	419,573
Fines and forfeitures	138,865	11,501	42,591	192,957
Contributions and donations	507,773	-	17,498	525,271
Grants	250,198	127,389	-	377,587
Rents	192,447	-	-	192,447
Interest	13,990	4,157	128	18,275
Other fees and miscellaneous	393,699	72,837	-	466,536
<b>Total revenues</b>	<b>20,544,960</b>	<b>7,149,481</b>	<b>60,217</b>	<b>27,754,658</b>
<b>Expenditures</b>				
Current				
General government	2,071,618	476,541	-	2,548,159
Public safety	9,997,992	-	16,551	10,014,543
Highways and streets	1,524,256	389,005	-	1,913,261
Culture and recreation	2,778,577	-	-	2,778,577
Debt service				
Principal	-	1,605,000	-	1,605,000
Interest	-	2,155,144	-	2,155,144
Capital outlay				
General government	65,814	-	-	65,814
Public safety	482,630	-	52,953	535,583
Highways and streets	-	2,241,385	-	2,241,385
Culture and recreation	45,684	-	-	45,684
<b>Total expenditures</b>	<b>16,966,571</b>	<b>6,867,075</b>	<b>69,504</b>	<b>23,903,150</b>
Excess (deficit) of revenues over (under) expenditures	3,578,389	282,406	(9,287)	3,851,508
<b>Other financing sources (uses)</b>				
Transfers in	1,300,000	-	-	1,300,000
Transfers out	(248,592)	-	-	(248,592)
Grants and aid	(142,538)	-	(540)	(143,078)
<b>Total other financing sources (uses)</b>	<b>908,870</b>	<b>-</b>	<b>(540)</b>	<b>908,330</b>
Net change in fund balances	4,487,259	282,406	(9,827)	4,759,838
Fund balances - beginning	14,289,636	14,971,564	642,300	29,903,500
Fund balances - ending	\$ 18,776,895	\$ 15,253,970	\$ 632,473	\$ 34,663,338

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended September 30, 2014**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 21)	\$ 4,759,838
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay expenditures in the current period.	(976,573)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net position.	7,678
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 the governmental funds.	(283,001)
Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.	27,994
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,598,930
<b>Change in net position of governmental activities (page 19)</b>	<b>\$ 5,134,866</b>

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual – General Fund**  
**Year Ended September 30, 2014**

	Budgeted Amounts		Variance with Final Budget- Actual Amounts Budget Basis	Actual Amounts Budget Basis	Budget to GAAP Difference	Actual Amounts GAAP Basis
	Original	Final				
<b>Revenues</b>						
Taxes						
Business tax receipts	\$ 8,050,000	\$ 9,847,030	\$ 155,310	\$ 10,002,340	\$ 69,280	\$ 10,071,620
Utility	3,551,000	3,823,000	81,914	3,904,914	37,522	3,942,436
Franchise fees	2,141,000	2,427,000	66,639	2,493,639	36,882	2,530,521
Intergovernmental	1,650,943	1,837,259	(13,134)	1,824,125	49,456	1,873,581
Municipal services impact fees	257,265	257,265	(47,008)	210,257	-	210,257
Licenses and permits	435,550	415,050	4,523	419,573	-	419,573
Fines and forfeitures	133,550	113,060	21,451	134,511	4,354	138,865
Contributions and donations	104,150	405,265	102,508	507,773	-	507,773
Grants	46,719	302,822	(101,284)	201,538	48,660	250,198
Rents	171,958	160,450	26,444	186,894	5,553	192,447
Interest	13,000	14,400	(316)	14,084	(94)	13,990
Other fees and miscellaneous	311,950	321,239	(4,781)	316,458	77,241	393,699
<b>Total revenues</b>	<b>16,867,085</b>	<b>19,923,840</b>	<b>292,266</b>	<b>20,216,106</b>	<b>328,854</b>	<b>20,544,960</b>
<b>Expenditures</b>						
Current						
General government						
Legislative	142,037	142,037	3,917	138,120	537	138,657
Administration	799,080	807,897	53,285	754,612	31,818	786,430
Comprehensive planning	336,865	345,022	26,491	318,531	4,911	323,442
Protective services	999,542	883,452	59,776	823,676	(587)	823,089
<b>Total general government</b>	<b>2,277,524</b>	<b>2,178,408</b>	<b>143,469</b>	<b>2,034,939</b>	<b>36,679</b>	<b>2,071,618</b>
Public safety						
Police	6,463,398	6,940,584	315,862	6,624,722	113,304	6,738,026
Fire	3,090,118	3,297,646	59,374	3,238,272	21,694	3,259,966
<b>Total public safety</b>	<b>9,553,516</b>	<b>10,238,230</b>	<b>375,236</b>	<b>9,862,994</b>	<b>134,998</b>	<b>9,997,992</b>
Highways and streets	1,626,234	1,571,088	83,544	1,487,544	36,712	1,524,256
Culture and recreation						
Library	214,175	210,350	6,807	203,543	3,109	206,652
Recreation	2,371,764	2,637,685	84,419	2,553,266	18,659	2,571,925
<b>Total culture and recreation</b>	<b>2,585,939</b>	<b>2,848,035</b>	<b>91,226</b>	<b>2,756,809</b>	<b>21,768</b>	<b>2,778,577</b>
<b>Total current</b>	<b>16,043,213</b>	<b>16,835,761</b>	<b>693,475</b>	<b>16,142,286</b>	<b>230,157</b>	<b>16,372,443</b>

(Continued)

The accompanying notes are an integral part of the basic financial statements.



**City of Panama City Beach, Florida**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual – General Fund (Continued)**  
**Year Ended September 30, 2014**

	Budgeted Amounts		Variance with Final Budget- Actual Amounts Budget Basis	Actual Amounts Budget Basis	Budget to GAAP Difference	Actual Amounts GAAP Basis
	Original	Final				
<b>Expenditures (continued)</b>						
Capital outlay						
General government						
Comprehensive	\$ 170,000	\$ 15,000	\$ 6,809	\$ 8,191	\$ 1,674	\$ 9,865
Protective services	955,000	85,000	38,547	46,453	9,496	55,949
Total general government	1,125,000	100,000	45,356	54,644	11,170	65,814
Public safety						
Police	2,749,000	433,500	74,499	359,001	50,760	409,761
Fire	-	76,500	68,533	7,967	64,902	72,869
Total public safety	2,749,000	510,000	143,032	366,968	115,662	482,630
Highways and streets	33,000	-	-	-	-	-
Culture and recreation						
Recreation	86,000	216,700	21,528	195,172	(149,488)	45,684
Total capital outlay	3,993,000	826,700	209,916	616,784	(22,656)	594,128
Total expenditures	20,036,213	17,662,461	903,391	16,759,070	207,501	16,966,571
Excess (deficiency) of revenues over (under) expenditures	(3,169,128)	2,261,379	1,195,657	3,457,036	121,353	3,578,389
Other financing sources (uses)						
Transfers in	1,300,000	1,300,000	-	1,300,000	-	1,300,000
Transfers out	(250,000)	(248,592)	-	(248,592)	-	(248,592)
Grants and aids	(139,338)	(142,538)	8,819	(133,719)	8,819	(142,538)
Proceeds from sale of assets	45,000	-	-	-	-	-
Total other financing sources (uses)	955,662	908,870	8,819	917,689	8,819	908,870
Net change in fund balances	(2,213,466)	3,170,249	1,204,476	4,374,725	112,534	4,487,259
Fund balances - beginning	12,935,208	13,910,207	804,166	14,714,373	(424,737)	14,289,636
Fund balances - ending	\$ 10,721,742	\$ 17,080,456	\$ 2,008,642	\$ 19,089,098	\$ (312,203)	\$ 18,776,895

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual – Community Redevelopment Fund**  
**Year Ended September 30, 2014**

	Budgeted Amounts		Variance with Final Budget- Actual Amounts Budget Basis	Actual Amounts Budget Basis	Budget to GAAP Difference	Actual Amounts GAAP Basis
	Original	Final				
<b>Revenues</b>						
Tax increment funds	\$ 6,005,408	\$ 6,030,619	\$ 3,001	\$ 6,033,620	\$ 13,755	\$ 6,047,375
Municipal services impact fees	664,257	853,520	32,702	886,222	-	886,222
Fines and forfeitures	1,000	3,923	1,917	5,840	5,661	11,501
Grants	85,663	150,745	-	150,745	(23,356)	127,389
Interest	8,750	4,067	90	4,157	-	4,157
Other fees and miscellaneous	63,220	65,020	8,432	73,452	(615)	72,837
<b>Total revenues</b>	<b>6,828,298</b>	<b>7,107,894</b>	<b>46,142</b>	<b>7,154,036</b>	<b>(4,555)</b>	<b>7,149,481</b>
<b>Expenditures</b>						
Current						
General government	757,784	759,848	270,900	488,948	(12,407)	476,541
Highways and streets	471,215	473,360	99,465	373,895	15,110	389,005
<b>Total current</b>	<b>1,228,999</b>	<b>1,233,208</b>	<b>370,365</b>	<b>862,843</b>	<b>2,703</b>	<b>865,546</b>
Debt service						
Principal	1,605,000	1,605,000	-	1,605,000	-	1,605,000
Interest	2,155,144	2,155,144	-	2,155,144	-	2,155,144
<b>Total debt service</b>	<b>3,760,144</b>	<b>3,760,144</b>	<b>-</b>	<b>3,760,144</b>	<b>-</b>	<b>3,760,144</b>
Capital outlay						
Highways and streets	4,385,000	2,320,605	1,374,497	946,108	1,295,277	2,241,385
<b>Total capital outlay</b>	<b>4,385,000</b>	<b>2,320,605</b>	<b>1,374,497</b>	<b>946,108</b>	<b>1,295,277</b>	<b>2,241,385</b>
<b>Total expenditures</b>	<b>9,374,143</b>	<b>7,313,957</b>	<b>1,744,862</b>	<b>5,569,095</b>	<b>1,297,980</b>	<b>6,867,075</b>
Excess (deficiency) of revenues over (under) expenditures	(2,545,845)	(206,063)	1,791,004	1,584,941	(1,302,535)	282,406
Fund balances - beginning	15,419,693	15,642,450	(573,918)	15,068,532	(96,968)	14,971,564
Fund balances - ending	\$ 12,873,848	\$ 15,436,387	\$ 1,217,086	\$ 16,653,473	\$ (1,399,503)	\$ 15,253,970

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Net Position**  
**Proprietary Funds**  
**September 30, 2014**

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 43,706,351	\$ 1,485,325	\$ 45,191,676
Accounts receivable, net	6,190,060	52,924	6,242,984
Accrued interest receivable	11,923	-	11,923
Due from other funds	481	114	595
Due from other governments	-	6,775	6,775
Inventory	579,415	-	579,415
Prepaid insurance	6,827	7,521	14,348
Prepaid bond insurance	12,999	-	12,999
Note receivable	456,000	-	456,000
Total current assets	50,964,056	1,552,659	52,516,715
Noncurrent assets			
Prepaid bond insurance	307,651	-	307,651
Restricted assets			
Cash and cash equivalents	28,299,953	-	28,299,953
Accounts receivable	182	-	182
Accrued interest receivable	1,818	-	1,818
Notes receivable	7,857	-	7,857
Capital assets			
Nondepreciable	8,946,096	7,500	8,953,596
Depreciable, net	104,882,308	12,298,529	117,180,837
Total noncurrent assets	142,445,865	12,306,029	154,751,894
Total assets	193,409,921	13,858,688	207,268,609

(Continued)

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Net Position**  
**Proprietary Funds (Continued)**  
**September 30, 2014**

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 1,222,617	\$ 44,666	\$ 1,267,283
Accrued expenses and deposits	1,251,029	17,473	1,268,502
Accrued interest payable	770,231	8,836	779,067
Due to other funds	-	2,767	2,767
Due to other governments	1,552,659	4,049	1,556,708
Unearned revenue	736,646	30,706	767,352
Revenue certificates payable	2,107,251	-	2,107,251
Accrued compensated absences	168,000	9,000	177,000
Notes payable	1,081,093	456,000	1,537,093
Revenue bonds payable, net	1,337,141	-	1,337,141
Total current liabilities	10,226,667	573,497	10,800,164
<b>Noncurrent liabilities</b>			
Accrued compensated absences	1,015,649	41,402	1,057,051
Net OPEB obligation	731,445	51,579	783,024
Notes payable	10,102,627	-	10,102,627
Revenue bonds payable, net	44,334,519	-	44,334,519
Total noncurrent liabilities	56,184,240	92,981	56,277,221
Total liabilities	66,410,907	666,478	67,077,385
<b>Net position</b>			
Net investment in capital assets	68,180,520	12,306,029	80,486,549
Restricted for			
Impact fees	7,100,530	-	7,100,530
Debt service	1,369,415	-	1,369,415
Storm water	1,481,368	-	1,481,368
Unrestricted	48,867,181	886,181	49,753,362
Total net position	\$ 126,999,014	\$ 13,192,210	\$ 140,191,224

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
**Year Ended September 30, 2014**

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
<b>Operating revenues</b>			
Charges for services			
Water and waste water sales	\$ 28,180,507	\$ -	\$ 28,180,507
Storm water assessments	964,445	-	964,445
Connection and reset fees	286,393	-	286,393
Administrative and review fees	53,470	-	53,470
Admissions and other fees	-	1,014,930	1,014,930
Rent	36,000	235,816	271,816
Miscellaneous	643,086	2,666	645,752
<b>Total operating revenues</b>	<b>30,163,901</b>	<b>1,253,412</b>	<b>31,417,313</b>
<b>Operating expenses</b>			
Personal services	5,680,166	655,742	6,335,908
Professional services	612,667	15,953	628,620
Office supplies	32,500	2,973	35,473
Contractual services	170,400	42,161	212,561
Insurance	173,118	36,357	209,475
Repairs and maintenance	1,766,669	70,370	1,837,039
Operating supplies	1,469,600	126,179	1,595,779
Communication services	83,069	18,226	101,295
Public utility services	9,505,998	155,052	9,661,050
Transportation	85,354	718	86,072
Rentals	51,447	54,467	105,914
Printing and binding	14,252	3,527	17,779
Miscellaneous	38,434	6,645	45,079
Amortization	12,999	-	12,999
Depreciation	5,037,135	578,584	5,615,719
<b>Total operating expenses</b>	<b>24,733,808</b>	<b>1,766,954</b>	<b>26,500,762</b>
<b>Net operating income (loss)</b>	<b>5,430,093</b>	<b>(513,542)</b>	<b>4,916,551</b>
<b>Nonoperating revenues (expenses)</b>			
Interest income	108,269	275	108,544
Grants and contributions	4,400,442	30,250	4,430,692
Gain on disposal of assets	317,821	-	317,821
Interest expense	(2,519,736)	(17,841)	(2,537,577)
<b>Total nonoperating revenues (expenses)</b>	<b>2,306,796</b>	<b>12,684</b>	<b>2,319,480</b>
<b>Net income (loss) before impact fees and transfers</b>	<b>7,736,889</b>	<b>(500,858)</b>	<b>7,236,031</b>
Impact fees	1,132,852	-	1,132,852
Transfers in	123,592	450,000	573,592
Transfers out	(1,300,000)	(325,000)	(1,625,000)
<b>Total impact fees and transfers</b>	<b>(43,556)</b>	<b>125,000</b>	<b>81,444</b>
<b>Change in net position</b>	<b>7,693,333</b>	<b>(375,858)</b>	<b>7,317,475</b>
Total net position - beginning	118,220,235	13,568,068	131,788,303
Prior period and restatement adjustments	1,085,446	-	1,085,446
<b>Total net position - beginning, as restated</b>	<b>119,305,681</b>	<b>13,568,068</b>	<b>132,873,749</b>
<b>Total net position - ending</b>	<b>\$ 126,999,014</b>	<b>\$ 13,192,210</b>	<b>\$ 140,191,224</b>

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended September 30, 2014**

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
<b>Operating activities</b>			
Receipts from customers and users	\$ 29,690,512	\$ 1,223,547	\$ 30,914,059
Payments to suppliers	(14,243,296)	(629,374)	(14,872,670)
Payments to employees	(3,938,131)	(502,477)	(4,440,608)
<b>Net cash provided by operating activities</b>	<b>11,509,085</b>	<b>91,696</b>	<b>11,600,781</b>
<b>Noncapital financing activities</b>			
Grants and contributions	-	30,250	30,250
Transfers from (to) other funds	(1,176,408)	125,000	(1,051,408)
Receipt of payments due on notes	41,014	-	41,014
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(1,135,394)</b>	<b>155,250</b>	<b>(980,144)</b>
<b>Capital and related financing activities</b>			
Impact fees	1,117,408	-	1,117,408
Principal paid on revenue certificates	(33,839)	-	(33,839)
Principal paid on notes	(930,041)	(35,000)	(965,041)
Interest paid on notes	(475,410)	(9,005)	(484,415)
Principal paid on revenue bonds	(1,460,000)	-	(1,460,000)
Interest paid on revenue bonds	(2,008,475)	-	(2,008,475)
Proceeds from sale of assets	317,821	-	317,821
Purchase of capital assets	(3,463,557)	(9,888)	(3,473,445)
<b>Net cash (used) by capital and related financing activities</b>	<b>(6,936,093)</b>	<b>(53,893)</b>	<b>(6,989,986)</b>
<b>Investing activities</b>			
Interest received	101,450	275	101,725
<b>Net cash provided by investing activities</b>	<b>101,450</b>	<b>275</b>	<b>101,725</b>
<b>Net change in cash and cash equivalents</b>	<b>3,539,048</b>	<b>193,328</b>	<b>3,732,376</b>
<b>Cash and cash equivalents - beginning</b>	<b>68,467,256</b>	<b>1,291,997</b>	<b>69,759,253</b>
<b>Cash and cash equivalents - ending</b>	<b>\$ 72,006,304</b>	<b>\$ 1,485,325</b>	<b>\$ 73,491,629</b>
<b>Classified as</b>			
Current assets - cash and cash equivalents	\$ 43,706,351	\$ 1,485,325	\$ 45,191,676
Restricted assets - cash and cash equivalents	28,299,953	-	28,299,953
<b>Total</b>	<b>\$ 72,006,304</b>	<b>\$ 1,485,325</b>	<b>\$ 73,491,629</b>

(Continued)

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**Year Ended September 30, 2014**

	Business-type Activities / Enterprise Funds			Total
	Utility Fund	Other Proprietary Funds		
<b>Reconciliation of net operating income (loss) to net cash provided by operating activities</b>				
Net operating income (loss)	\$ 5,430,093	\$ (513,542)	\$	4,916,551
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities				
Amortization	12,999	-		12,999
Depreciation	5,037,135	578,584		5,615,719
Bad debts	25,019	-		25,019
Forfeited deposits	2,300	-		2,300
(Increase) decrease in assets				
Accounts receivable, net	(610,651)	(23,499)		(634,150)
Due from other funds	6,541	7,820		14,361
Due from other governments	-	(2,690)		(2,690)
Inventory	(6,154)	-		(6,154)
Prepaid insurance	1,113	270		1,383
Accounts receivable, restricted	365	-		365
Increase (decrease) in liabilities				
Accounts payable	395,806	26,375		422,181
Accrued expenses and deposits	118,800	2,321		121,121
Due to other funds	(6,783)	(6,361)		(13,144)
Due to other governments	890,649	(1,942)		888,707
Unearned revenue	(9,273)	(2,390)		(11,663)
Accrued compensated absences	112,373	18,032		130,405
Net OPEB obligation	108,753	8,718		117,471
<b>Total adjustments</b>	<b>6,078,992</b>	<b>605,238</b>		<b>6,684,230</b>
<b>Net cash provided by operating activities</b>	<b>\$ 11,509,085</b>	<b>\$ 91,696</b>	<b>\$</b>	<b>11,600,781</b>

**Noncash financing, capital, and investing activities**

Land purchase paid with future connection fees	\$ 41,000	\$	-	\$ 41,000
Public access reuse grant applied directly to reduce note principal	4,400,442		-	4,400,442

The accompanying notes are an integral part of the basic financial statements.



**City of Panama City Beach, Florida**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**September 30, 2014**

	<b>Pension Trust Funds</b>
<hr/>	
<b>Assets</b>	
Cash and cash equivalents	\$ 2,143,895
Accounts receivable, net	57,901
Investments, at fair value	
Money market funds	1,746,895
Real estate investment trusts	1,408,444
Mutual funds	54,699,435
<hr/>	
Total assets	60,056,570
<hr/>	
<b>Liabilities</b>	
Accounts payable	33,439
Refunds payable	7,231
<hr/>	
Total liabilities	40,670
<hr/>	
<b>Net position</b>	
Restricted for pensions	\$ 60,015,900
<hr/> <hr/>	

The accompanying notes are an integral part of the basic financial statements.

**City of Panama City Beach, Florida**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**Year Ended September 30, 2014**

	<b>Pension Trust Funds</b>
<b>Additions</b>	
Contributions	
Employer	\$ 2,242,454
Plan members	1,003,455
Insurance premiums	317,907
Total contributions	3,563,816
Investment earnings	
Interest	315
Dividends	934,531
Net increase in fair value of investments	4,743,656
Total investment earnings	5,678,502
Less investment expenses	(115,016)
Net investment earnings	5,563,486
Total additions	9,127,302
<b>Deductions</b>	
Benefits	1,890,599
Refunds of contributions	204,464
Administrative expenses	73,978
Total deductions	2,169,041
<b>Change in net position</b>	<b>6,958,261</b>
<b>Net position - beginning</b>	<b>53,057,639</b>
<hr/>	
<b>Net position - ending</b>	<b>\$ 60,015,900</b>

The accompanying notes are an integral part of the basic financial statements.

## City of Panama City Beach, Florida Notes to Basic Financial Statements

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Panama City Beach (the “City”) have been prepared in conformity with United States generally accepted accounting principles (GAAP) as applied to governmental units promulgated by the Governmental Accounting Standards Board (GASB).

This summary of the City’s significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies are considered essential and should be read in conjunction with the accompanying financial statements.

#### ***Reporting Entity***

The City of Panama City Beach, created on August 12, 1970 by Chapter 70-874 of the Constitution of the State of Florida, is a political subdivision on the Gulf Coast of Northwest Florida in Bay County. The City occupies a twelve mile elongated area on the Gulf of Mexico. It operates under a Council-Manager form of government and provides the following services as authorized by its charter: general government, public safety, highways and streets, culture and recreation, and utility services.

#### ***Component Unit – Panama City Beach Community Redevelopment Agency***

This report includes financial statements of the funds required to account for those financial activities which are related to the City and are controlled by or dependent upon the City's legislative body, the City Council. The City has one component unit, the Panama City Beach Community Redevelopment Agency, as defined by GASB Statement No. 61, *The Financial Reporting Entity* and in publications cited in the State of Florida, Office of the Auditor General Rules, Rule 10.553, which is required to be blended in these financial statements. A component unit is an entity for which the City is considered to be financially accountable and is included in the City’s reporting entity because of the significance of its operational or financial relationships with the City. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The Panama City Beach Community Redevelopment Agency (the “Agency”) is operated by the City. The Agency was created on November 30, 2000 by City Resolution 00-23 pursuant to Florida Statute 163.356. All of the City’s council members serve as board members of the Agency. The Agency in combination with the City’s CRA special revenue fund is presented as a governmental fund type with a fiscal year end of September 30.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Due to the nature and significance of the Agency's relationship with the City, exclusion of the Agency's financial operations would render the City's financial statements incomplete or misleading. The Agency's governing body is the same as the governing body of the City and the Agency does provide services specifically to the Front Beach Road and Pier Park Community Redevelopment Areas of the City. The Agency is disclosed using the blended presentation method.

***Measurement Focus and Basis of Accounting***

The basic financial statements of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

***Government-wide Financial Statements***

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the government. For the most part, the effect of interfund activity has been removed from these statements. 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.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33 – *Accounting and Financial Reporting for Nonexchange Transactions*.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements. The City chooses to eliminate the indirect costs between funds to avoid duplicating revenues and expenditures.

***Fund Financial Statements***

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. The fiduciary statement include financial information for the agency funds. The agency funds of the City primarily represent assets held by the City in a custodial capacity for other individuals or governments.

***Governmental Funds***

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 collected 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. Substantially all governmental fund revenues (including franchise fees, utility taxes, and grants) are susceptible to accrual. Some revenue items are considered to be measurable only when cash is received by the City.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources." Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on (general obligation) long-term debt and accrued compensated absences, if any, are recognized when due.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources are expended, rather than as fund assets. The proceeds of long-term debt are recorded as an "other financing source" rather than as a fund liability.

***Proprietary Funds***

The City's enterprise funds are proprietary funds. In the fund financial statements, proprietary funds are presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, taxes, and investment earnings, result from nonexchange transactions or ancillary activities.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as an "other financing" source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than as an expense.

***Fiduciary Funds***

Fiduciary funds are used to account for assets held by the City in a trustee capacity. Pension trust funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical.

***Basis of Presentation***

GASB Statement 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* 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. The City has used GASB criteria for major fund determination to determine which funds are required to be reported as major funds. The non-major governmental funds are combined in a column in the fund financial statements and detailed in the combining financial statements section.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Governmental Major Funds***

General Fund - The general fund accounts for the City's primary services (police, fire, public works, parks and recreation, etc.) and is the primary operating unit of the City.

Community Redevelopment Fund - The community redevelopment fund is used to account for the activities of the Front Beach Road and Pier Park community redevelopment areas.

***Proprietary Major Funds***

Utility Fund - The utility fund is used to account for operations and activities related to the water, waste water and storm water systems operated by the City.

***Noncurrent Governmental Assets/Liabilities***

GASB requires noncurrent governmental assets, such as land, buildings and equipment, and noncurrent governmental liabilities, such as revenue bonds and capital leases, to be reported in the governmental activities column in the government-wide statement of net position.

***Budgets***

Annual budgets are legally adopted for all governmental funds, except those indicated in note 2, and all proprietary funds. Budgets are prepared and adopted on the cash basis of accounting, except as described in note 2. All annual appropriations lapse at fiscal year-end.

Florida Statutes provide that it is unlawful to make expenditures that exceed the total amount budgeted for each fund. Chapter 129, Florida Statutes, governs the manner in which the budget may be legally amended once it has been approved. Therefore, the fund level is the legal level of control for budget considerations according to Florida Statutes.

The City budgets expenditures at the department level. Only the City Council can approve budget amendments that change the total approved budget appropriation of an individual department. Department managers can transfer appropriations within the departmental budget, but cannot change the total appropriation of an individual department without the approval of the City Council.

During the current fiscal year, various changes to the budget were approved by the Council in accordance with Florida Statutes.

Budgetary data presented in the accompanying basic financial statements in the final budgeted amounts column represents the final budgetary data. In this column, the effects of budget amendments have been applied to original budgetary data.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Encumbrances***

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is used in the governmental funds. However, all encumbrances lapse at year end and, accordingly, a reserve for encumbrances is not reported in the accompanying basic financial statements.

Encumbrances are reestablished at the beginning of the fiscal year if funds are appropriated in the annual budget. Encumbrances do not constitute expenditures or liabilities.

***Cash and Cash Equivalents***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, savings accounts, nonnegotiable certificates of deposits and short-term highly liquid investments with original maturities of three months or less from the date of acquisition.

***Deposits and Investments***

All investments are recorded at fair value based on quoted market values as described in note 4.

***Accounts Receivable, Net***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenue in the utility fund is recognized at the end of each fiscal year. The estimated amount is based on pro-rated billings during the cycles following the close of the fiscal year.

***Due from and Due to Other Funds***

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

***Inventory***

Inventory in governmental funds consists of fuel held for consumption and is valued at the lower of cost (first-in, first-out) or market. Reported inventory in these funds is equally offset by a fund balance reserve which indicates inventory amounts do not constitute "available spendable resources" even though they are a component of total assets.



**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Inventory in proprietary funds consists of utility system supplies including pipes, meters, valves, etc., as well as fuel held for consumption, and is valued at the lower of cost (first-in, first-out) or market.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, water and waste water distribution systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are expensed as incurred.

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. For the year ended September 30, 2014, interest of \$41,401 was capitalized in connection with the construction of various water and waste water projects.

Capital assets are stated at cost, except for contributed assets, which are recorded at fair market value on the date received. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are generally as follows:

Buildings	10-40 Years
Improvements	3-50 Years
Machinery and equipment	2-25 Years

***Long-term Obligations***

The City reports long-term debt of governmental funds at face value in the government-wide long-term liabilities. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide long-term liabilities.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

In the government-wide financial statements and proprietary funds in the fund financial statements, bond issuance costs, except any portion related to prepaid insurance cost, are treated as period costs in the year of issue and are shown as other financing uses.

In the fund financial statements, governmental funds recognize bond issuance costs, during the current period. Issuance costs, except any portion related to prepaid insurance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Unamortized Bond Discounts/Premiums***

Bond discounts and premiums associated with the issuance of revenue bonds are amortized over the life of the bonds using the straight-line method. Unamortized bond discounts and premiums are presented as a reduction and increase, respectively, of the face amount of the revenue bonds payable.

***Unearned Revenue***

Unearned revenues reported in government-wide financial statements represent revenues received in advance of earnings process. The unearned revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Unearned revenues reported in governmental fund financial statements represent unearned revenues or revenues which are measurable but not available, in accordance with the modified accrual basis of accounting.

***Accrued Compensated Absences***

Each full time employee shall accumulate annual leave with pay at the rates shown below. Annual leave may not be taken until six months of service is completed. A maximum of 240 hours of annual leave may be accumulated. Amounts in excess will be lost if not used by December 31st of each year.

<b>During Years of Service</b>	<b>Annual Leave Cap (Days**Each Year)</b>
1-5 years	12
6-10 years	15
11-15 years	18
16-20 years	21
21 plus	24

\*\*For all employees except certified firefighters, a day shall equal 8 hours.  
 For certified firefighters, a day shift shall equal 10.6 hours.

One day of sick leave is earned for each month of employment and is cumulative. Those employees hired on or before August 1, 2001 are fully vested in their sick leave balances. For those employees hired subsequent to August 1, 2001, one-half of the sick leave balances become vested after ten years of employment, seventy-five percent becomes vested after fifteen years and all of the sick leave balances become vested after twenty years of employment.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

There is no maximum for sick leave accumulation, but a maximum of 500 hours of sick leave accrual will be paid upon termination for all employees hired after January 1, 1998. Those hired on or prior to this date will be paid a maximum of 2,080 hours (2,756 hours for certified firefighters).

Accumulated unpaid annual and sick leave amounts are accrued in proprietary funds and reported as a fund liability.

In accordance with GAAP, for the governmental funds in the fund financial statements, all of the compensated absences are considered long-term and therefore, are not a fund liability and represent a reconciling item between the fund level and governmental-wide presentations.

***Restricted Assets***

Certain assets of the various funds are legally required to be set aside and used for specific purposes; thus, they are not available to be used for general operations. When both restricted and unrestricted resources are available for use, the City typically uses restricted resources first, but reserves the right to selectively defer the use of restricted resources to future qualifying expenditures.

***Deferred Outflows, Deferred Inflows, and Net Position***

GASB statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and this standard renamed the components of net position which were previously considered net assets.

***Net Position***

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The City reports three categories of net position, as follows:

*Net investment in capital assets* – This category consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

*Restricted net position* – Net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or creditors, grantors, contributors, or enabling legislation. Restricted net position is restricted assets reduced by liabilities and deferred inflows of resources related to the restricted assets.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Unrestricted net position* – This category consists of all other net position that does not meet the definition of the above two components and is available for general use by the City.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented in the current year. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

***Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows/inflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2014, the City does not have any deferred outflows/inflows of resources.

***Fund Balances***

In accordance with GASB 54, the City classifies governmental fund balances as follows:

*Nonspendable* – This category includes resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The nonspendable fund balance as of September 30, 2014, is \$49,705.

*Restricted* – This category includes resources restricted by creditors, grantors, contributors, laws, or regulations of other governments, constitutional provisions, or enabling legislation. The restricted fund balance as of September 30, 2014, is \$19,779,001.

*Committed* – This category includes resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority which is the City Council. Commitments may be established, modified, or rescinded by the City Council by taking the same formal action that imposed the original constraint. There is no committed fund balance as of September 30, 2014.

*Assigned* – This category includes resources that are intended to be used for specific purposes, but is neither restricted nor committed. These are resources that have been set aside for a specific purpose by an authorized government body or official. The assigned fund balance as of September 30, 2014, is \$4,782,042.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Unassigned – This category includes residual positive fund balance within the general fund which has not been classified with the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if the nonspendable amount exceeds amounts restricted, committed, or assigned for these specific purposes. The unassigned fund balance as of September 30, 2014, is \$10,052,590.

The City considers restricted amounts to typically be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this such as in grant agreements requiring dollar for dollar spending. Additionally, the City first uses committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

***Estimates***

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

***Subsequent Events***

Management has evaluated subsequent events through September 23, 2015, the date the financial statements were available to be issued.

***Reclassifications***

Certain reclassifications have been made to the 2013 financial statement presentation to conform to the 2014 presentation.

**NOTE 2 – BUDGETS**

The City adopts budgets on a cash basis of accounting, except for the special revenue funds (as follows):

- Law Enforcement Trust
- Cops and Kids
- Beach Access Public Parking
- Safe Kids

The City did not adopt budgets for these special revenue funds because it is not possible to reasonably anticipate activity in these funds.

**NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position:

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(CONTINUED)**

The governmental funds balance sheet includes a reconciliation between *fund balances – total governmental funds* and *net position of governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation states, "receivables, on a modified accrual basis are not resources and, therefore, are not reported in the funds." The details of this \$274,757 difference are as follows:

Accounts receivable, net	\$	272,927
Due from other governments		1,830
<hr/>		
Net adjustment to increase fund balances – total governmental funds to arrive at <i>net position of governmental activities</i>	\$	274,757
<hr/>		

Another element of that reconciliation explains, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$104,210,711 difference are as follows:

Cost of capital assets	\$	130,928,595
Less: accumulated depreciation		(26,717,884)
<hr/>		
Net adjustment to increase fund balances – total governmental funds to arrive at <i>net position of governmental activities</i>	\$	104,210,711
<hr/>		

Another element of that reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this \$(49,826,069) difference are as follows:

Bonds payable	\$	(45,210,000)
Unamortized premium costs		(1,003,952)
Less: prepaid bond insurance		1,107,667
OPEB liability		(1,213,587)
Compensated absences		(2,624,353)
Accrued interest payable		(881,844)
<hr/>		
Net adjustment to decrease fund balances – total governmental funds to arrive at <i>net position of governmental activities</i>	\$	(49,826,069)
<hr/>		

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances - total governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(CONTINUED)**

activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this \$(976,573) difference are as follows:

Capital outlay expenditures	\$	2,888,466
Less: depreciation expense		(3,865,039)
<hr/>		
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	\$	(976,573)
<hr/>		

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position." The details of this \$7,678 difference are as follows:

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the basis of the capital assets sold.	\$	(13,947)
In the statement of activities, donations of capital assets and seizures are recognized at the estimated fair value. However, in the governmental funds, the donations and seizures are not recognized.		21,625
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	\$	7,678
<hr/>		

Another element of that reconciliation states, "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 details of this \$(283,001) difference are as follows:

Compensated absences	\$	(117,242)
Insurance		5,204
Various expenses		1,500
Interest		28,360
Pier Park community development district		(16,755)
OPEB		(184,068)
<hr/>		
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	\$	(283,001)
<hr/>		

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(CONTINUED)**

Another element of that reconciliation states, "Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in governmental funds." The details of this \$27,994 difference are as follows:

Intergovernmental	\$	(64,160)
Rents		(750)
Fines and forfeitures		134,324
Grants		(22,381)
Other fees and miscellaneous		(19,039)
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	\$	27,994
<hr/>		

Another element of that reconciliation states, "The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$1,598,930 difference are as follows:

Principal repayments		
Bonds	\$	1,605,000
Plus, amortization of bond premium costs		58,765
Less, amortization of prepaid bond insurance		(64,835)
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net position of governmental activities</i>	\$	1,598,930
<hr/>		

**NOTE 4 – DEPOSITS AND INVESTMENTS**

***Deposits***

\$63,088,633 of the City's deposits are placed in banks that are qualified public depositories, as required by law (Florida Security for Public Deposits Act). Every qualified public depository is required by this law to deposit with the State Treasurer eligible collateral equal to, or in excess of, an amount to be determined by the State Treasurer. The State Treasurer is required by this law to ensure that the City's funds are entirely collateralized throughout the fiscal year.

In the event of failure by a qualified public depository, losses, in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository, are assessed against



**NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)**

the other qualified public depositories of the same type as the depository in default. When other qualified public depositories are assessed additional amounts, they are assessed on a pro-rata basis.

***Custodial Risks***

At September 30, 2014, the City held \$47,181,309 in deposits that were considered to be a custodial risk.

***Investments***

Florida Statutes, Section 218.415, authorizes the City to invest surplus funds in the following:

The Local Government Surplus Funds Trust Fund, hereinafter, Florida PRIME, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Florida Statutes, Section 163.01.

The Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

Interest-bearing time deposits or savings accounts in state-certified qualified public depositories as defined in Florida Statutes, Section 280.02.

Direct obligations of the United States Treasury.

Federal agencies and instrumentalities.

Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et. seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.

***Credit Risks***

The credit risk of certain investments, such as investment pools managed by other outside parties, cannot be categorized as to credit risk because the City's investments are not evidenced by specific, identifiable investment securities.

***Interest Rate Risks***

At September 30, 2014, the City did not hold any investments that were considered to be an interest rate risk.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)**

***Concentration of Credit Risk***

At September 30, 2014, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2014, the City's deposits and investments consisted of the following:

	<b>Carrying Amount</b>	<b>Market Value</b>
Demand deposits	\$ 106,474,879	\$ 106,474,879
Nonnegotiable certificate of deposits	3,795,063	3,795,063
<b>Total deposits and investments</b>	<b>\$ 110,269,942</b>	<b>\$ 110,269,942</b>

**NOTE 5 – ACCOUNTS RECEIVABLE, NET**

At September 30, 2014, accounts receivable in the governmental activities is summarized as follows:

Total accounts receivable	\$	136,299
Less: allowance for doubtful accounts		-
<b>Accounts receivable, net</b>	<b>\$</b>	<b>136,299</b>

At September 30, 2014, restricted accounts receivable in the governmental activities is summarized as follows:

Total restricted accounts receivable	\$	241,646
Less: allowance for doubtful accounts		-
<b>Restricted accounts receivable, net</b>	<b>\$</b>	<b>241,646</b>

At September 30, 2014, accounts receivable in the business type activities is summarized as follows:

Billed accounts receivable	\$	2,126,596
Unbilled accounts receivable		4,212,958
Other receivables		79,682
<b>Total accounts receivable</b>		<b>6,419,236</b>
Less: allowance for doubtful accounts		(176,252)
<b>Accounts receivable, net</b>	<b>\$</b>	<b>6,242,984</b>

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 5 – ACCOUNTS RECEIVABLE, NET (CONTINUED)**

At September 30, 2014, restricted accounts receivable in the business type activities is summarized as follows:

Total restricted accounts receivable	\$	182
Less: allowance for doubtful accounts		-
<hr/>		
Restricted accounts receivable, net	\$	182
<hr/> <hr/>		

Restricted accounts receivable arise from activities in the storm water department and from overpayments made from restricted accounts required to be deposited back to those same accounts upon receipt.

**NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of due from/to other funds balances as of September 30, 2014 is as follows:

Receivable fund	Payable Fund	Amount
General fund	CRA fund	\$ 244
General fund	Aquatic center fund	2,767
General fund	LETf fund	3,722
Utility fund	General fund	481
Pier fund	General fund	114
<hr/>		

The interfund receivables and payables are the result of advances between the various funds for operating and capital activities.

The city's routine transfers include transfers to other funds based on budgetary requirements. The composition of interfund transfers as of September 30, 2014 is as follows:

Transfers out	Transfers in	Amount
General fund	Utility fund	\$ 123,592
General fund	Aquatic center fund	125,000
Utility fund	General fund	1,300,000
Pier fund	Aquatic center fund	325,000
<hr/>		

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 7 – CAPITAL ASSETS – GOVERNMENTAL ACTIVITIES**

Changes in capital assets of the governmental activities are summarized as follows:

	September 30, 2013	Increases	Decreases	September 30, 2014
Capital assets, not being depreciated				
Land	\$ 45,449,567	\$ 1,633,572	\$ -	\$ 47,083,139
Construction in progress	7,357,962	775,157	(100)	8,133,019
<b>Total capital assets, not being depreciated</b>	<b>52,807,529</b>	<b>2,408,729</b>	<b>(100)</b>	<b>55,216,158</b>
Capital assets, being depreciated				
Buildings	8,366,259	-	(13,000)	8,353,259
Improvements	58,521,579	102,723	-	58,624,302
Machinery and equipment	8,441,299	411,740	(118,163)	8,734,876
<b>Total capital assets, being depreciated</b>	<b>75,329,137</b>	<b>514,463</b>	<b>(131,163)</b>	<b>75,712,437</b>
Less: accumulated depreciation				
Buildings	(2,566,839)	(225,946)	-	(2,792,785)
Improvements	(15,309,268)	(3,048,359)	-	(18,357,627)
Machinery and equipment	(5,080,952)	(590,734)	104,214	(5,567,472)
<b>Total accumulated depreciation</b>	<b>(22,957,059)</b>	<b>(3,865,039)</b>	<b>104,214</b>	<b>(26,717,884)</b>
<b>Total capital assets, being depreciated, net of accumulated depreciation</b>	<b>52,372,078</b>	<b>(3,350,576)</b>	<b>(26,949)</b>	<b>48,994,553</b>
<b>Total governmental activities' capital assets – net</b>	<b>\$ 105,179,607</b>	<b>\$ (941,847)</b>	<b>\$ (27,049)</b>	<b>\$ 104,210,711</b>

During the fiscal year ending September 30, 2014, the City received contributed and seized assets with an estimated fair market value of \$21,625.

Depreciation expense was charged to functions/programs of the governmental activities as follows:

<b>Governmental activities</b>	
General government	\$ 49,479
Public safety	458,268
Highways and streets	2,161,837
Culture and recreation	1,195,455
<b>Total depreciation expense – governmental activities</b>	<b>\$ 3,865,039</b>

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 8 – CAPITAL ASSETS – BUSINESS-TYPE ACTIVITIES**

Changes in capital assets of the business-type activities are summarized as follows:

	September 30, 2013	Increases	Decreases	September 30, 2014
Capital assets, not being depreciated				
Land	\$ 7,255,847	\$ 72,415	\$ -	\$ 7,328,262
Intangible	194,788	-	-	194,788
Construction in progress	1,667,303	3,489,308	(3,726,065)	1,430,546
<b>Total capital assets, not being depreciated</b>	<b>9,117,938</b>	<b>3,561,723</b>	<b>(3,726,065)</b>	<b>8,953,596</b>
Capital assets, being depreciated				
Buildings	38,636,974	1,975,197	-	40,612,171
Improvements	111,760,204	1,741,410	-	113,501,614
Machinery and equipment	20,242,505	368,039	-	20,610,544
<b>Total capital assets, being depreciated</b>	<b>170,639,683</b>	<b>4,084,646</b>	<b>-</b>	<b>174,724,329</b>
Less: accumulated depreciation				
Buildings	(14,300,133)	(970,321)	-	(15,270,454)
Improvements	(29,793,579)	(3,098,965)	-	(32,892,544)
Machinery and equipment	(7,834,061)	(1,546,433)	-	(9,380,494)
<b>Total accumulated depreciation</b>	<b>(51,927,773)</b>	<b>(5,615,719)</b>	<b>-</b>	<b>(57,543,492)</b>
<b>Total capital assets, being depreciated, net of accumulated depreciation</b>	<b>118,711,910</b>	<b>(1,531,073)</b>	<b>-</b>	<b>117,180,837</b>
<b>Total business-type activities' capital assets – net</b>	<b>\$127,829,848</b>	<b>\$ 2,030,650</b>	<b>\$ (3,726,065)</b>	<b>\$126,134,433</b>

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type activities	
Utility fund	
Water	\$ 1,456,916
Waste water	3,445,509
Storm water	134,710
Pier fund	425,769
Aquatic center fund	152,815
<b>Total depreciation expense – business-type activities</b>	<b>\$ 5,615,719</b>

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 8 – CAPITAL ASSETS – BUSINESS-TYPE ACTIVITIES (CONTINUED)**

The following schedule summarizes the capital assets of the City's business-type activities at September 30, 2014:

	Utility Fund	Pier Fund	Aquatic Center Fund	Total
Land	\$ 7,328,262	\$ -	\$ -	\$ 7,328,262
Intangible	194,788	-	-	194,788
Buildings	36,455,152	1,943,959	2,213,060	40,612,171
Improvements	102,404,059	9,028,934	2,068,621	113,501,614
Machinery and equipment	20,140,165	153,717	316,662	20,610,544
Construction in progress	1,423,046	-	7,500	1,430,546
<b>Total</b>	<b>167,945,472</b>	<b>11,126,610</b>	<b>4,605,843</b>	<b>183,677,925</b>
Less: accumulated depreciation				
Buildings	(14,534,364)	(263,557)	(472,533)	(15,270,454)
Improvements	(30,484,079)	(1,805,142)	(603,323)	(32,892,544)
Machinery and equipment	(9,098,625)	(65,621)	(216,248)	(9,380,494)
<b>Total accumulated depreciation</b>	<b>(54,117,068)</b>	<b>(2,134,320)</b>	<b>(1,292,104)</b>	<b>(57,543,492)</b>
Total business-type activities' capital assets – net	\$113,828,404	\$ 8,992,290	\$ 3,313,739	\$126,134,433

**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

***Plan Description***

The Postemployment Health Care Benefits Plan is a single-employer defined benefit plan administered by the City. Pursuant to the provisions of Section 112.0801, Florida Statutes, former employees and eligible dependents who retire from the City may continue to participate in the City's partially self-insured health and fully insured dental plans. The City subsidizes the premium rates paid by retirees by allowing them to participate in the plans at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees.

***Eligibility***

A participant is eligible to receive benefits from the plan upon retirement under one of the City's single-employer defined benefit plan provisions. To be eligible for retiree benefits, the participant must be covered under the medical or dental plan as an active employee immediately prior to retirement. Participants who are not eligible for retirement at the time of their termination are not eligible for immediate or future benefits from the plan.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

***Funding Policy***

For the Postemployment Health Care Benefits Plan, contribution requirements of the City are established and may be amended through recommendations of the City staff and action from the City Council. The City has not advanced-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. As of October 1, 2014 there were 18 retirees and 3 eligible dependents receiving postemployment health care benefits. For the fiscal year ended September 30, 2014, retiree premiums exceeded estimated benefits resulting in City contributions of \$10,592. Annual OPEB costs are comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance payments, and net of retiree contributions. Required contributions are based on projected pay-as-you-go financing.

Although the contribution requirement is established by statute, the contribution amount required by plan members and the government is established and may be amended by the City Council. Currently, members receiving benefits pay the full cost (total premium) for medical and dental insurance coverage.

Coverage	Blue Options
	3559
Individual	\$ 560
Retiree & Spouse	1,265

Dental insurance can be purchased at a cost of \$21 per month per member.

***Annual OPEB Cost and Net OPEB Obligation***

The following table illustrates the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

Description	Total
Annual required contribution of employer	\$ 279,648
Plus: interest on net OPEB obligation	67,803
Less: amortization of net OPEB obligation	(56,502)
Total annual OPEB cost	\$ 290,949
Beginning of year net OPEB obligation	\$ 1,695,070
Plus: actual annual OPEB cost	290,949
Plus: employer contributions	10,592
End of year net OPEB obligation	\$ 1,996,611

**NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

A Schedule of Employer Contributions can be found in required supplementary information immediately following the notes.

***Funding Status and Funding Progress***

The funding status and funding progress information can be found in the Schedule of Funding Progress which is presented as required supplementary information immediately following the notes. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

***Actuarial Methods and Assumptions***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the fiscal year ended September 30, 2014, the City's OPEB actuarial valuation used the entry age normal cost actuarial method to estimate the unfunded actuarial liability and to determine the annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.0 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4.0 percent per year, and an annual healthcare cost trend rate of 8.0 percent initially for the 2015 fiscal year, grading to an ultimate rate of 5.0 percent for the fiscal year ending September 30, 2042. The unfunded actuarial accrued liability and gains/losses are being amortized based on a level percentage of projected payroll on a closed basis over 30 years.



**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 10 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES**

Changes in long-term debt of the governmental activities funds are summarized as follows:

	Balance September 30, 2013	Additions	Deductions	Balance September 30, 2014	Due within One Year
Revenue bonds payable	\$ 46,815,000	\$ -	\$ (1,605,000)	\$ 45,210,000	\$ 1,670,000
Adjusted for deferred amounts for issuance premium	1,062,717	-	(58,765)	1,003,952	58,765
<b>Total bonds payable</b>	<b>47,877,717</b>	<b>-</b>	<b>(1,663,765)</b>	<b>46,213,952</b>	<b>1,728,765</b>
Accrued compensated absences	2,507,111	682,542	(565,300)	2,624,353	343,000
Net OPEB obligation	1,029,517	184,070	-	1,213,587	-
<b>Total</b>	<b>\$ 51,414,345</b>	<b>\$ 866,612</b>	<b>\$ (2,229,065)</b>	<b>\$ 50,051,892</b>	<b>\$ 2,071,765</b>

Revenue Bonds Payable:

\$54,835,000 Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project), payable in annual principal installments ranging from \$900,000 to \$3,610,000 over the life of the bonds beginning November 1, 2007, and semi-annual interest installments based on stated variable rates of interest ranging from 4% to 5% over the life of the bonds. Final maturity of the bonds is on November 1, 2031.

The bonds are payable from a pledge of and first lien upon Front Beach Road CRA Tax Increment Revenue. The bonds were issued to provide funds for the purpose of financing the preparation, planning, design, land acquisition, construction and implementations necessary to carry out the Front Beach Road Community Redevelopment Area Plan. The \$54,835,000 is composed of \$38,420,000 Serial Bonds and \$16,415,000 term bonds.

	\$ 45,210,000
Total revenue bonds at September 30, 2014	45,210,000
Less: revenue bonds – current portion	(1,670,000)
<b>Revenue bonds – long-term at September 30, 2014</b>	<b>\$ 43,540,000</b>

Debt service requirements to maturity on Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project), payable at September 30, 2014 are as follows:

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 10 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)**

Year Ending September 30,	Principal	Interest	Total
2015	\$ 1,670,000	\$ 2,085,550	\$ 3,755,550
2016	1,745,000	2,006,438	3,751,438
2017	1,830,000	1,917,063	3,747,063
2018	1,920,000	1,823,313	3,743,313
2019	2,015,000	1,735,013	3,750,013
2020-2024	11,445,000	7,260,870	18,705,870
2025-2029	14,260,000	4,365,276	18,625,276
2030-2032	10,325,000	791,125	11,116,125
<b>Total</b>	<b>\$ 45,210,000</b>	<b>\$ 21,984,648</b>	<b>\$ 67,194,648</b>

**NOTE 11 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES**

Changes in long-term debt of the business-type activities funds are summarized as follows:

	Balance September 30, 2013	Additions	Deductions	Balance September 30, 2014	Due within One Year
Revenue bonds payable	\$ 46,925,000	\$ -	\$ (1,460,000)	\$ 45,465,000	\$ 1,495,000
Adjusted for deferred amounts					
on refunding	(1,241,672)	-	219,119	(1,022,553)	(219,119)
for issuance premium	1,290,473	-	(61,260)	1,229,213	61,260
<b>Total bonds payable</b>	<b>46,973,801</b>	<b>-</b>	<b>(1,302,141)</b>	<b>45,671,660</b>	<b>1,337,141</b>
Revenue certificates payable	2,141,090	-	(33,839)	2,107,251	2,107,251
Notes payable	17,005,203	-	(5,365,483)	11,639,720	1,537,093
Accrued compensated balances	1,103,646	363,682	(233,277)	1,234,051	177,000
Net OPEB obligation	665,553	117,471	-	783,024	-
<b>Total</b>	<b>\$ 67,889,293</b>	<b>\$ 481,153</b>	<b>\$ (6,934,740)</b>	<b>\$ 61,435,706</b>	<b>\$ 5,158,485</b>

**Revenue Bonds Payable:**

\$28,725,000 Utility Revenue Bonds, Series 2009, dated September 11, 2009; 3% to 5% interest, depending on maturity date of bonds. Interest is payable semiannually on June 1 and December 1. Principal is payable annually on June 1 beginning June 1, 2010, with final maturity on June 1, 2039. The \$28,725,000 is composed of \$10,355,000 serial bonds and \$18,370,000 term bonds.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 11 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)**

The bonds were issued to provide funds for the purpose of: 1) financing the cost of the acquisition and construction of certain capital improvements in connection with the City’s water and waste water utility system, 2) funding a required deposit to the reserve fund established pursuant to the Resolution, and 3) paying certain costs incurred in connection with the issuance of the bonds. \$ 26,330,000

\$20,910,000 Utility Revenue Refunding Bonds, Series 2012, dated March 14, 2012; 2% to 5% interest, depending on maturity dates of bonds. Principal and interest are payable semi-annually on June 1 and December 1, with final maturity on June 1, 2032.

The bonds were issued to provide funds for the purpose of: 1) refunding the City’s outstanding \$19,920,000 Utility Revenue Bonds, Series 2002 and its outstanding subordinate \$4,010,000 Utility System Refunding Revenue Bonds, Series 2011, and 2) paying certain costs incurred in connection with the issuance of the bonds. 19,135,000

Total revenue bonds at September 30, 2014	45,465,000
Less: revenue bonds – current portion	(1,495,000)

Revenue bonds – long-term at September 30, 2014	\$ 43,970,000
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Debt service requirements to maturity on revenue bonds payable at September 30, 2014 are as follows:

Year Ending September 30,	Principal	Interest	Total
2015	\$ 1,495,000	\$ 1,968,375	\$ 3,463,375
2016	1,540,000	1,917,825	3,457,825
2017	1,420,000	1,859,825	3,279,825
2018	1,250,000	1,796,825	3,046,825
2019	1,305,000	1,740,325	3,045,325
2020-2024	9,040,000	7,653,737	16,693,737
2025-2029	10,945,000	5,746,619	16,691,619
2030-2034	10,435,000	3,306,644	13,741,644
2035-2039	8,035,000	1,244,250	9,279,250
Total	\$ 45,465,000	\$ 27,234,425	\$ 72,699,425

The principal balance of the defeased debt outstanding for the Water and Waste water Revenue Bonds, Series 1987A, at September 30, 2014 is \$275,000.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 11 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)**

Revenue Certificates:

This liability consists of revenue certificates payable to various developers for extensions made to the City's water and waste water systems. The revenue certificates are payable solely from a percentage of the impact fees collected by the City for water or waste water connections. In the event insufficient connections are made or the City is unable to collect sufficient impact fees to satisfy the certificate on or before its due date, the certificate shall be void. The City made payments related to the facilities shown below:

	<b>Original Amount of Certificate</b>	<b>Balance at September 30, 2013</b>	<b>Net Changes During the Year</b>	<b>Balance at September 30, 2014</b>
Wild Heron	\$ 431,834	\$ 167,000	\$ (12,550)	\$ 154,450
Hills Road	71,550	6,263	-	6,263
Bayside Partners	142,993	121,934	(1,090)	120,844
Sunnyside Beach & Tennis	203,385	166,404	-	166,404
Tapestry Park North	96,430	86,893	(868)	86,025
Magnolia Beach	100,000	82,761	(1,479)	81,282
TW Olson-Magnolia	490,500	405,935	(7,258)	398,677
St. Andrews Land Company	670,414	554,826	(9,921)	544,905
Ocean Park Pavilion	68,494	68,494	-	68,494
Ocean Park Pavilion	239,795	239,570	-	239,570
Karen Arrigo - Shasta Street	18,357	13,517	-	13,517
St. Andrews Land Company	212,496	201,158	(673)	200,485
Antigua Developers	143,950	21,461	-	21,461
Clark Hinkle - McEachern Street	12,432	4,874	-	4,874
<b>Total</b>	<b>\$ 2,902,630</b>	<b>\$ 2,141,090</b>	<b>\$ (33,839)</b>	<b>\$ 2,107,251</b>

Payments on these revenue certificates are due 10 to 45 days after connections are made as specified in each revenue certificate.

Notes payable:

State Revolving Fund #1 – Note payable dated February 9, 2001, payable in 40 semi-annual installments of \$607,131 beginning December 15, 2002 through June 15, 2009. Beginning December 15, 2009, semi-annual payments are reduced to \$550,187 for the remaining term of the loan. The note matures June 15, 2022. Installments include principal and interest at 2.99%.

\$ 7,777,973

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 11 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)**

State Revolving Fund #2 – Note payable dated March 5, 2002 payable in 40 semi-annual installments of \$242,542 beginning October 15, 2009 through October 15, 2010. Beginning April 15, 2011, semi-annual payments are reduced to \$152,539 for the remaining term of the loan. The payments include principal and interest at a weighted average interest rate of 2.88%. The note matures April 15, 2028.

In addition, the City has been awarded a grant from the State of Florida which will be applied directly to the outstanding debt through April 15, 2014. The total amount of debt retired from grant funds is \$7,400,442. \$ 3,405,747

Aquatic Center Fund – Note payable dated May 1, 2006, interest payable quarterly at 3.8%, with principal due on demand. 456,000

Total notes payable at September 30, 2014	11,639,720
Less: notes payable – current portion	(1,537,093)

Notes payable – long-term at September 30, 2014	\$ 10,102,627
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Debt service requirements to maturity on notes payable at September 30, 2014 are as follows:

Year Ending September 30,	Principal	Interest	Total
2015	\$ 1,537,093	\$ 342,201	\$ 1,879,294
2016	1,113,534	291,919	1,405,453
2017	1,146,948	258,505	1,405,453
2018	1,181,364	224,089	1,405,453
2019	1,216,814	188,639	1,405,453
2020-2024	4,403,591	422,926	4,826,517
2025-2028	1,040,376	63,934	1,104,310
Total	\$ 11,639,720	\$ 1,792,213	\$ 13,431,933

**NOTE 12 – PLEDGED REVENUES - GOVERNMENTAL ACTIVITIES**

The \$54,835,000 Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project) were issued to provide funds for the purpose of financing the preparation, planning, design, land acquisition, construction and implementations necessary to carry out the Front Beach Road Community Redevelopment Area Plan. These bonds are payable from a pledge of and first lien upon Front Beach Road CRA Tax Increment Revenue. This pledge remains in effect until extinguishment or maturity of the debt in 2031, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2014 totaled \$67,194,648. Annual principal and interest payments on the bonds in fiscal year 2014 required the use of 66% of the tax increment revenue. Principal and interest payments paid

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 12 – PLEDGED REVENUES - GOVERNMENTAL ACTIVITIES (CONTINUED)**

for the current year were \$3,760,144 and Front Beach Road CRA tax increment revenue collected was \$5,710,445.

**NOTE 13 – PLEDGED REVENUE - BUSINESS-TYPE ACTIVITIES**

The \$28,725,000 Utility Revenue Bonds, Series 2009, were issued to provide funds for the purpose of financing the cost of the acquisition and construction of certain capital improvements in connection with the City's water and waste water utility system. The bonds are payable from and secured by a lien upon and pledge of (a) net revenues of the water and waste water systems, (b) water system development charges, (c) waste water system development charges, (d) until released, public services taxes, and (e) the money deposited in the various funds related to the creation of the obligation. The remaining principal and interest payments on this debt as of September 30, 2014 totaled \$46,396,837. Annual principal and interest payments on the bond required 14% of pledged revenue. Current year principal and interest payments paid from pledged revenue were \$545,000 and \$1,309,650, respectively. For the year ended September 30, 2014, pledged revenues were \$13,716,355.

The \$20,910,000 Utility Revenue Refunding Bonds, Series 2012, were issued to provide funds which were used to refund the City's outstanding \$19,920,000 Utility Revenue Bonds, Series 2002, and \$4,010,000 Utility System Refunding Revenue Bonds, Series 2011. The bonds are payable from and secured by a lien upon and pledge of (a) the net revenues derived from the operation of the City's water and waste water system, (b) certain water system development charges and waste water system development charges, (c) until released public services taxes, and (d) the moneys on deposit in the various funds and accounts related to the creation of the obligation. The Series 2012 Bonds are payable on a parity basis from the pledged revenues with the City's outstanding Utility Revenue Bonds, Series 2009. The remaining principal and interest payments on this debt as of September 30, 2014 totaled \$26,302,588. Annual principal and interest payments on the bond required 12% of pledged revenue. Current year principal and interest payments paid from pledged revenue were \$915,000 and \$698,825, respectively. For the year ended September 30, 2014, pledged revenues were \$13,716,355.

**NOTE 14 – ACCRUED COMPENSATED ABSENCES**

Accrued compensated absences consist of the following at September 30, 2014:

	<b>Accrued Vacation Leave</b>	<b>Accrued Sick Leave</b>	<b>Total Accrued Leave</b>
Governmental funds			
General	\$ 659,144	\$ 1,933,379	\$ 2,592,523
Community Redevelopment	6,377	25,453	31,830

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 14 – ACCRUED COMPENSATED ABSENCES (CONTINUED)**

	<b>Accrued Vacation Leave</b>	<b>Accrued Sick Leave</b>	<b>Total Accrued Leave</b>
Enterprise funds			
Utility	\$ 324,703	\$ 858,946	\$ 1,183,649
Pier	20,385	13,680	34,065
Aquatic Center	9,523	6,814	16,337
<b>Total</b>	<b>\$ 1,020,132</b>	<b>\$ 2,838,272</b>	<b>\$ 3,858,404</b>

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

***Litigation***

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the City of Panama City Beach.

***Contract***

On November 30, 1999, the City entered into a contract to purchase water from Bay County. The terms of the contract require that the City must purchase a minimum of five billion, three hundred ninety-five million (5,395,000,000) gallons of water each fiscal year. During 2002, the minimum purchase amount was amended to five billion, eighty-two million, one hundred thousand (5,082,100,000) gallons. In the event of a shortfall, the City is required to pay Bay County an amount equal to the number of gallons short, at an agreed upon amount (\$.335 per thousand gallons). During the year ended September 30, 2014, the City's cost of water purchased from Bay County was \$7,801,475. The City did not meet its minimum purchase obligation for 2014 and as a result there was an amount due of \$312,520 at September 30, 2014. However, this liability was offset by \$201,927 representing Bay County's impact fees collected by the City in accordance with an interlocal agreement, and \$22,129 in other credits. The net amount of \$88,464 difference has been recorded as a liability on the City's financial statements and is included in the total cost of water purchased above.

***Construction Contracts***

The City has construction contracts with various construction companies related to ongoing capital and maintenance projects in progress at fiscal year-end.

**NOTE 16 – 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; injuries to employees; and natural disasters. The City purchases commercial insurance for various risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)**

The City's pension plans are established by various City ordinances. According to these ordinances, the City maintains three separate single-employer defined benefit pension plans which cover general employees, police officers and firefighters. The City's ordinances governing the firefighters' and police officers' plans were written in compliance with the provisions of Florida Statutes, Chapters 175 and 185, respectively. A stand-alone financial statement report for the plans is not available. An actuarial valuation report for the plans may be obtained by writing to Ms. Holly White, Finance Director, 110 South Arnold Road, Panama City Beach, Florida 32413. The Plans are administered by their respective Board of Trustees. Each Board of Trustees oversees the management of their respective plan for the City of Panama City Beach. The board has established procedures to ensure that idle funds are invested as authorized by Florida statute, to earn the maximum interest. A description of the plans follows:

***Summary of Significant Accounting Policies and Plan Asset Matters***

The City of Panama City Beach PERS financial statements are prepared on the accrual basis of accounting. Contributions from the City and the City's employees are recognized as revenue in the period in which employees provide services to the City. Investment income is recognized as earned by the pension plans. Investments held by the plans are recorded at market value in the basic financial statements. There are no investments in, loans to, or leases with parties related to the pension plans. Ninety-one percent (91%) of the total assets held in trust for pension benefits are invested in mutual funds, two percent (2%) in real estate investment trusts, and the remaining balance of seven percent (7%) is in cash, money market funds, and receivables.

***Statements of Plan Assets***

The City's statements of net position and the changes in net position are disclosed in the combining statements in accordance with GASB Statement 67.

***Plan Descriptions and Contribution Information***

Membership of each plan consisted of the following at September 30, 2014, the date of the latest actuarial valuation.

	<b>General Employees</b>	<b>Police Officers</b>	<b>Fire- fighters</b>
Retirees and beneficiaries receiving benefits	62	20	13
Terminated plan members entitled to but not yet receiving benefits	3	6	0
Active plan members	145	54	27
<b>Total</b>	<b>210</b>	<b>80</b>	<b>40</b>
Number of participating employers	1	1	1



**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

***General Employees' Pension Plan***

Plan Description – The general employees' pension plan is a single-employer defined benefit pension plan that covers the general employees of the City. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Chapter 112 of Florida Statutes provides guidance for the City to establish and amend the benefit provisions of the plan.

Benefits Provided- The Plan provides for retirement, termination, disability, and death benefits. Specific benefits provided for the Plan are as follows:

- Normal Retirement Benefit: A monthly benefit commencing at the normal retirement date equal to 2.5% of average final compensation multiplied by years of credited service prior to October 1, 2005, plus 3.0% of average final compensation multiplied by years of credited service after September 30, 2005, but the total not more than 100% of average final compensation (excluding COLA's).
- Normal Retirement Date: The first day of the month coincident with or next following the earlier of (1) the date a participant attains age 50 and has completed at least 20 years of credited service or (2) the date he attains age 55 and has completed at least 10 years of credited service.
- Early Retirement Benefit: A participant who elects to retire on or after his early retirement date may receive an early retirement benefit commencing at his normal retirement date equal to his accrued benefit. If he further elects to have such benefit commence prior to his normal retirement date, it shall be reduced 1/15 per year for each of the first 5 years and 1/30 per year for each of the next 2 years by which the benefit commencement date precedes his normal retirement date. For this purpose normal retirement date is determined based on the participant's actual years of credited service as a general employee at his termination date.
- Early Retirement: The first day of the month coincident with or next following the date a participant attains age 48 and has completed at least 10 years of credited service.
- Credited Service: Years and fractional parts of years of service as a general employee with the City while making employee contributions. (Credited service with another City plan is recognized for purposes of vesting and retirement eligibility only.)
- Accrued Benefit: The benefit using the formula for the normal retirement benefit, based upon the average final compensation and credited service as of the date of the calculation. The accrued benefit is payable at the normal retirement date in the normal form of benefit.
- Disability Benefit: A Participant who becomes totally and permanently disabled shall be eligible to receive a disability benefit in the form of an immediate monthly annuity for life with ten years certain as follows:
  - Job-Related Disability: Without regard to years of credited service, a benefit equal to the greater of his accrued benefit or 42% of average final compensation as of the date of disability.
  - Non-Job-Related Disability: With ten or more years of credited service, a benefit equal to his accrued benefit as of the date of disability.

**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

The disability benefit together with worker's compensation benefits may not exceed 100% of pay, as provided in the Plan. Optional forms of benefit may be elected.

- **Death Benefit:** The beneficiary of a participant who dies (1) during employment or after termination with a vested benefit and (2) with respect to whom benefit payments have not commenced shall be entitled to a death benefit equal to 100 times his monthly accrued benefit based on his credited service and average final compensation as of the time of death. This benefit is payable in a lump sum unless the general employee elected that it be paid in an actuarially equivalent annuity or installments. The Plan also provides minimum death benefits based upon the vested, 10-year-certain portion of the normal form of benefit or the refund of accumulated contributions.

Contributions – The City's annual contribution to the pension trust is determined through the budgetary process and with reference to actuarial determined contributions. As of September 30, 2014, the most recent actuarial study shows a deficit of approximately \$185,000 on a GASB 67 funding basis. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The contribution is designed to accumulate sufficient assets to pay benefits when due. Plan members are required to contribute 8.7% of compensation. The City is required to contribute at an actuarially determined rate. Contribution requirements of the plan members and the City are established and may be amended by the pension board of trustees. The City will meet all additional costs of the plan according to actuarial valuations performed periodically.

***Police Officers' Pension Plan***

Plan Description – The police officers' pension plan is a single-employer defined benefit pension plan that covers sworn officers of the City police department. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Chapter 185 of Florida Statutes provides guidance for the City to establish and amend the benefit provisions of the plan.

Benefits Provided- The Plan provides for retirement, termination, disability, and death benefits. Specific benefits provided for the Plan are as follows:

- **Normal Retirement Benefit:** A monthly benefit commencing at the normal retirement date equal to 3.5% of average final compensation multiplied by years of credited service, but not more than 100% of average final compensation (excluding COLA's).
- **Normal Retirement Date:** The first day of the month coincident with or next following the earlier of (1) the date a participant attains age 50 and has completed at least 20 years of credited service or (2) the date he attains age 55 and has completed at least 10 years of credited service.
- **Early Retirement Benefit:** A participant who elects to retire on or after his early retirement date may receive an early retirement benefit commencing at his normal retirement date equal to his

**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

accrued benefit. If he further elects to have such benefit commence prior to his normal retirement date, it shall be reduced 3% per year (.25% per month) for each period by which the benefit commencement date precedes his normal retirement date. For this purpose normal retirement date is determined based on the participant's actual years of credited service as a police officer at his termination date.

- **Early Retirement:** The first day of the month coincident with or next following the date a participant attains age 50 and has completed at least 10 years of credited service.
- **Credited Service:** Years and fractional parts of years of service as a police officer with the City and while making employee contributions.
- **Accrued Benefit:** The benefit using the formula for the normal retirement benefit, based upon the average final compensation and credited service as of the date of the calculation. The accrued benefit is payable at the normal retirement date in the normal form of benefit.
- **Disability Benefit:** A participant who becomes totally and permanently disabled shall be eligible to receive a disability benefit in the form of an immediate monthly annuity for life with ten years certain as follows:
  - **Job-Related Disability:** Without regard to years of credited service, a benefit equal to the greater of his accrued benefit or 42% of average final compensation as of the date of disability.
  - **Non-Job-Related Disability:** With ten or more years of credited service, a benefit equal to his accrued benefit as of the date of disability.

The disability benefit together with worker's compensation benefits may not exceed 100% of pay, as provided in the Plan. Optional forms of benefit may be elected.

- **Death Benefit:** The beneficiary of a participant who dies (1) during employment or after termination with a vested benefit and (2) with respect to whom benefit payments have not commenced shall be entitled to a death benefit equal to 100 times his monthly accrued benefit based on his credited service and average final compensation as of the time of death. This benefit is payable in a lump sum unless the police officer elected that it be paid in an actuarially equivalent annuity or installments. The Plan also provides minimum death benefits based upon the vested, 10-year-certain portion of the normal form of benefit or the refund of accumulated contributions.

Contributions – The City's annual contribution to the pension trust is determined through the budgetary process and with reference to actuarial determined contributions. As of September 30, 2014, the most recent actuarial study shows a deficit of approximately \$1,500,000 on a GASB 67 funding basis. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The contribution is designed to accumulate sufficient assets to pay benefits when due. Plan members are required to contribute 11.0% of their compensation. The City is required to contribute at an actuarially determined rate. Contribution requirements of the plan members and the City are established and may be amended by the pension board of trustees. The City will meet all additional costs of the plan according to actuarial valuations performed periodically.

**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

***Firefighters' Pension Plan***

Plan Description – The firefighters' pension plan is a single-employer defined benefit pension plan that covers the certified firefighters of the City fire department. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Chapter 175 of Florida Statutes provides guidance for the City to establish and amend the benefit provisions of the plan.

Benefits Provided- The Plan provides for retirement, termination, disability, and death benefits. Specific benefits provided for the Plan are as follows:

- Normal Retirement Benefit: A monthly benefit commencing at the normal retirement date equal to 3.3% of average final compensation multiplied by years of credited service, but not more than 100% of average final compensation (excluding COLA's).
- Normal Retirement Date: The first day of the month coincident with or next following the earlier of (1) the date a participant attains age 50 and has completed at least 20 years of credited service or (2) the date he attains age 55 and has completed at least 10 years of credited service, or (3) if he has elected the 25 & Out Tier, the date he has completed at least 25 years of credited service regardless of age.
- Early Retirement Benefit: A participant who elects to retire on or after his early retirement date may receive an early retirement benefit commencing at his normal retirement date equal to his accrued benefit. If he further elects to have such benefit commence prior to his normal retirement date, it shall be reduced 3% per year (.25% per month) for each period by which the benefit commencement date precedes his normal retirement date. For this purpose normal retirement date is determined based on the participant's actual years of credited service as a firefighter at his termination date.
- Early Retirement: The first day of the month coincident with or next following the date a participant attains age 50 and has completed at least 10 years of credited service.
- Credited Service: Years and fractional parts of years of service as a firefighter with the City and while making employee contributions.
- Accrued Benefit: The benefit using the formula for the normal retirement benefit, based upon the average final compensation and credited service as of the date of the calculation. The accrued benefit is payable at the normal retirement date in the normal form of benefit.
- Disability Benefit: A Participant who becomes totally and permanently disabled shall be eligible to receive a disability benefit in the form of an immediate monthly annuity for life with ten years certain as follows:
  - Job-Related Disability: Without regard to years of credited service, a benefit equal to the greater of his accrued benefit or 42% of average final compensation as of the date of disability.
  - Non-Job-Related Disability: With ten or more years of credited service, a benefit equal to his accrued benefit as of the date of disability.

The disability benefit together with worker's compensation benefits may not exceed 100% of pay, as provided in the Plan. Optional forms of benefit may be elected.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

- **Death Benefit:** The beneficiary of a participant who dies (1) during employment or after termination with a vested benefit and (2) with respect to whom benefit payments have not commenced shall be entitled to a Death Benefit equal to 100 times his monthly accrued benefit based on his credited service and average final compensation as of the time of death. This benefit is payable in a lump sum unless the firefighter elected that it be paid in an actuarially equivalent annuity or installments. The Plan also provides minimum death benefits based upon the vested, 10-year-certain portion of the normal form of benefit or the refund of accumulated contributions.

Contributions – The City’s annual contribution to the pension trust is determined through the budgetary process and with reference to actuarial determined contributions. As of September 30, 2014, the most recent actuarial study shows a deficit of approximately \$2,000 on a GASB 67 funding basis. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The contribution is designed to accumulate sufficient assets to pay benefits when due. Plan members are required to contribute 8.1% of compensation except for those firefighters who elect the “25 and out” tier. These members are required to contribute 11.5% of their annual covered salary. The City is required to contribute at an actuarially determined rate. Contribution requirements of the plan members and the City are established and may be amended by the pension board of trustees. The City will meet all additional costs of the plan according to actuarial valuations performed periodically.

***Investment Policy***

The Board’s targeted allocation policy for each pension plan as of September 30, 2014 is summarized below:

Asset class	General Employees	Police Officers	Firefighters
Large cap equity	40%	40%	40%
Small cap equity	15%	15%	15%
International equity	10%	10%	10%
Fixed income	25%	25%	25%
Real estate	5%	5%	5%
Cash	5%	5%	5%
<b>Total targeted allocation</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

No changes have been made to the pension plan investment during the year ended September 30, 2014.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

***Investment Rate of Return***

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on each pension plan's investments, net of pension plan investment expense for the year ended September 30, 2014 is summarized below:

	General Employees	Police Officers	Firefighters
Money-weighted rate of return	10.6%	10.4%	10.8%

**Deferred Retirement Option Program (DROP):**

All three pension plans allow eligible participants to participate in a deferred retirement option program. The description of the program is summarized below:

- a. Eligibility: Normal Retirement.
- b. Benefit Amount: The participant's Accrued Benefit calculated as of the beginning of the DROP period, accumulated quarterly with interest at a rate equal to either the Pension Plan's net investment performance during the quarter or a fixed guaranteed rate of 5% annually, plus cost-of-living adjustments, if any, during the DROP period. The participant elects which interest basis he wants upon his entry into the DROP, and may change such election only once during the DROP period.
- c. Form of Benefit: When the DROP period ends (maximum 5 years), the employee must terminate employment. At that time, the accumulated DROP benefits will be distributed in the form of a lump sum, a rollover, or a nonforfeitable fixed annuity to the participant, or if deceased, such participant's designated beneficiary. In addition, the monthly annuity, including any COLA adjustments, will continue to the participant as otherwise provided in the Plan.
- d. Other Provisions: A participant in DROP is no longer eligible for Death or Disability Benefits. Employee Contributions are no longer collected, and Credited Service and Average Final Compensation are frozen as of the date of entry into DROP.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

**Net Pension Liability**

The components of the net position liability at September 30, 2014, were as below:

	General Employees	Police Officers	Firefighters
Total pension liability	\$ 29,416,370	\$ 18,078,928	\$ 13,387,221
Plan fiduciary net position	(29,259,242)	(16,539,181)	(12,917,769)
<b>City's net pension liability</b>	<b>\$ 157,128</b>	<b>\$ 1,539,747</b>	<b>\$ 469,452</b>

Plan fiduciary net position as a percentage of the total pension liability	99.47%	91.48%	96.49%
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**Actuarial Assumptions**

The total pension liability by pension plan was determined by an actuarial valuation as of October 1, 2013 using the following actuarial assumptions applied to all measurement periods:

	General Employees	Police Officers	Firefighters
Inflation rate	2.5%	2.5%	2.5%
Salary increase	6%	6%	6%
Investment rate of return	8%	8%	8%

**Mortality:** Mortality rates were based on the RP-2000 (Retirement Plans-2000) Generational Tables from the year 2000 using Scale AA.

**Disability:** Preretirement disability is assumed to occur in accordance with a standard scale of disability rates (1955 UAW, male and female).

Twenty-five percent of disabilities are assumed to be non-job-related.

**Withdrawal:** Preretirement withdrawals are assumed to occur in accordance with a standard scale of turnover rates (T-5).

**Actuarial Value of Assets:** Assets are valued using a 5-year smoothed market value without phase-in.

**Retirement Rate:** Each active participant is assumed to retire on the later of the actuarial valuation date or his Normal Retirement Date.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

Timing of Contribution: The contribution is assumed to be made quarterly throughout the plan year.

Employees Covered: All participants as of the actuarial valuation date.

Expenses: Expenses for the current year are assumed to equal actual expenses for the prior year. If actual expenses for the current year differ from this estimate, a make-up contribution or credit is included.

Maximum Compensation: Compensation is limited to \$260,000 projected to increase at the rate of 4% per annum.

Maximum Benefits: The \$210,000 maximum for years ending in 2014 and other applicable Benefit Limitations under Section 415 are projected to increase at the rate of 4% per annum.

Completeness of Assumptions: All benefits and expenses to be provided by the Plan are recognized in the valuation. All known events are taken into account; no current trends are assumed to discontinue in the future.

The long-term expected rate of return on pension plan investments was confirmed appropriate using Aon's etool model assuming general inflation of 2.5%, which is a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of October 1, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	General Employees	Police Officers	Firefighters
<b>Equity</b>			
Large cap U.S. equity	4.5%	4.5%	4.5%
Small cap U.S. equity	5.0%	5.0%	5.0%
International (non-U.S.) equity developed	5.0%	5.0%	5.0%
Emerging markets equity	6.2%	6.2%	6.2%
<b>Fixed income</b>			
Long duration bonds - gov't/credit	1.8%	1.8%	1.8%
<b>Alternative investments</b>			
Real estate (broad market)	4.8%	4.8%	4.8%



**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 17 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

**Discount Rate**

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Board of Trustees contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Net Pension Liability***

The following table presents the net pension liability of the City for each pension plan, calculated using the discount rate of 8.00 percent, as well as what the City’s net pension liability would be if it were calculated using a discount rate 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's net pension liability -			
General Employee Pension	\$ 3,530,724	\$ 157,128	\$ (2,684,315)
City's net pension liability - Police Officers Pension	3,841,009	1,539,747	(380,783)
City's net pension liability - Firefighters Pension	2,171,232	469,453	(939,791)

**NOTE 18 – SELF INSURANCE FOR EMPLOYEE MEDICAL BENEFITS**

Effective January 1, 2013, the City became partially self-insured with respect to employee health insurance coverage. The plan covers all eligible active and retired employees and their dependents. Blue Cross Blue Shield of Florida provides claims processing and administrative services for the plan.

The plan provides coverage up to a maximum of \$100,000 per contract and approximately \$1,442,000 for the aggregate of contracts.

The City’s insurance consultant established monthly premiums based upon the City’s historical claims history. A portion of the monthly premium is paid to Blue Cross / Blue Shield of Florida for claims processing and administrative services. The balance of the premium is deposited to an account maintained in the General Fund.

Monthly invoices are submitted by Blue Cross Blue Shield of Florida representing claims paid on the City’s behalf. The invoices are paid from the claims account previously referenced. The balance in the claims liability account at year end represents claims incurred prior to year end and paid

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 18 – SELF INSURANCE FOR EMPLOYEE MEDICAL BENEFITS (CONTINUED)**

subsequent to September 30, 2014, and a provision for incurred but not yet reported claims, as well as a provision for potential future claims in excess of the re-insurance coverage limits.

Each fund and department reports the premium costs related to its employees while the actual claims, cash and liability accounts are reported in the general fund. No actuarial estimate has been utilized to establish the claims reserve at fiscal year-end.

Funding for health insurance premiums is derived from three sources:

- City contribution for active employees
- Active employee contributions for dependent coverage
- Retired employee contributions

For the fiscal year ended September 30, 2014, the change in the fund's claims liability was as follows:

Claims liability, October 1, 2013	\$ 561,663
Total transfers into the claims account	1,502,721
Claims payments made during the year	(865,298)
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Claims liability, September 30, 2014	\$ 1,199,086

**NOTE 19 – LEASES**

***Bay County Lease***

On April 13, 2001, the City leased approximately 3,100 square feet in the building at 17109 Panama City Beach Parkway, including utilities and maintenance and adjacent appropriate parking, to Bay County for initial use by the Tax Collector at a rate of \$36,000 per year for 15 years. The rental income for the year ended September 30, 2014 was \$36,000.

***Frank Brown Park and Aquatic Center Concession Lease***

The City leases two concession stands located within Frank Brown Park. One located at the Aquatic Center. The operating lease includes the use of the concession stand buildings, fixtures, and equipment for the period beginning January 1, 2014 through December 31, 2016. Rent is due on the first of each month, the amount of 35.25% of monthly gross sales made by Lessee in the previous month, or a minimum fee per month of \$2,500, whichever is greater. The lease has an option to renew at the same terms and conditions for one consecutive term of one (1) year. Rental income for the year ended September 30, 2014, was \$67,762 and \$15,285 for Frank Brown Park and the Aquatic Center, respectively.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 19 – LEASES (CONTINUED)**

Future minimum lease receipts due under this operating lease consist of the following at September 30, 2014:

<b>Year Ending September 30,</b>	<b>Total</b>
2015	\$ 30,000
2016	7,500
<b>Total</b>	<b>\$ 37,500</b>

***Pier Beachfront Lease***

The City leases a snack bar, tackle and bait shop and four (4) retail kiosks located at the Russell-Fields Pier. Additionally, the City grants to the tenant an exclusive right and license to operate a beach service on the beachfront property as defined in the lease agreement. The effective date of the lease was June 24, 2010 and extended through September 30, 2017, which includes a five year renewal. The lease has an option to renew for consecutive, additional terms of two (2), three (3), or five (5) years, each upon rent, terms, and conditions as agreed to between the lessee and the City. The total aggregate term, including the initial two (2) year term and all extension terms, shall not exceed ten (10) years (June 30, 2020). Base rent is due to the City on the first day of each month in the amount of \$8,333. In addition to the base rent, the lessee shall pay additional rent to the City on the fifteenth day of each month in an amount equal to 5% of the monthly gross sales up to and including \$700,000 aggregate gross sales per year, and thereafter, 10% of monthly gross sales in excess of \$700,000 aggregate gross sales per year for the remainder of that year. Rental income for the year ended September 30, 2014 was \$215,736.

***Pier Beachfront Lease***

Future minimum lease receipts due under this operating lease consist of the following at September 30, 2014:

<b>Year Ending September 30,</b>	<b>Total</b>
2015	\$ 100,000
2016	100,000
2017	100,000
<b>Total</b>	<b>\$ 300,000</b>

**NOTE 20 – PIER PARK**

The City entered into an agreement in late 2001, with the Panama City Beach Community Redevelopment Agency (the “CRA”), the Pier Park Community Development District (the “CDD”) and The St. Joe Company (“St. Joe”) titled the “Public Improvement Partnership Agreement” (the “PIPA”). This agreement provided for the construction of improvements in the Pier Park Redevelopment Area and the transfer of properties between the parties to facilitate the development of this area.

The CDD was authorized to issue debt to provide funds for public improvements constructed in the Pier Park Redevelopment Area. The City has pledged tax increment revenue collected within Pier Park to the CDD to be applied to the payment of interest and principal on the debt obligations. For the year ended September 30, 2014, tax increment funds remitted by Bay County to the City for the Pier Park CRA were \$336,930. These funds were subsequently paid to the CDD by the City.

In May 2014, the City passed resolution 14-65 which amended the “PIPA” including the method of computing and paying the annual reinvestment amount. In order to transition from the method of computing and paying the annual reinvestment specified in the original PIPA to the methods specified in the amended PIPA, the parties agreed that all Pier Park occupational license tax revenue for benefit determination year 2012-2013 (as defined in the Original PIPA) held by the City on the effective date of the amended PIPA was distributed equally to the CDD and the City. Each party received \$1,015,030 as a result of this distribution.

The total amount of business tax receipts collected within the Pier Park Redevelopment Area in the fiscal year ended September 30, 2014 were \$2,013,001. Under the terms of the amended PIPA, \$1,681,001 was remitted to the CDD and \$332,000 was retained by the City.

A copy of the agreement is available at City Hall, located at 110 South Arnold Road, Panama City Beach, Florida 32413. The entire PIPA should be read to obtain a complete understanding of this transaction.

**NOTE 21 – NET ASSET RESTRICTIONS**

The following is a description of reported net asset restrictions in governmental activities and business-type activities at September 30, 2014.

***Governmental Activities***

Restricted for Law Enforcement – This restriction was created to restrict the use of certain resources collected specifically for law enforcement purposes. Florida Statutes restrict the use of these funds to education, training and capital purchase purposes.

Restriction for Beach Access Public Parking – This restriction was established to restrict resources to create public parking located next to public beach access points. An ordinance restricts the use of all resources collected specifically for use in the tree reforestation and related expense fund.

**NOTE 21 – NET ASSET RESTRICTIONS (CONTINUED)**

Restriction for Impact Fees – This restriction was established to account for municipal services impact fees collected in excess of qualified expenditures. An ordinance restricts the use of impact fees to certain capital expenditures.

Restriction for Reforestation – This restriction was established to restrict resources for reforestation. An ordinance requires resources be restricted for use in the tree protection and related expense fund.

Restriction for Debt Service – This restriction was established in conjunction with the issuance of debt and funded by initial deposits from the proceeds of such debt and by transfers from the revenue accounts of the appropriate governmental funds as needed.

Restriction for Community Redevelopment – This restriction was established to restrict the use of certain resources collected for two separate tax increment districts. Pursuant to Section 163.337, Florida Statutes, a Redevelopment Trust fund was established for each of the districts.

***Summary***

Specific restrictions of net assets are summarized below as of September 30, 2014:

Governmental activities		
Law enforcement	\$	23,043
Beach access public parking		559,033
Impact fees		4,093,593
Reforestation		3,500
Debt service		5,644,829
Community redevelopment area		7,411,285
<hr/>		
Total	\$	17,735,283
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***Business-type Activities***

Restriction for Impact Fees – This restriction was established to account for water and waste water impact fees collected in excess of qualified expenditures. An ordinance restricts the use of impact fees to certain capital expenditures, emergency repairs or other improvements to the water and waste water systems.

Restriction for Debt Service – This restriction was established in conjunction with the issuance of debt and funded by initial deposits from the proceeds of such debt and by transfers from the revenue accounts of the appropriate enterprise funds as needed.

Restriction for Storm Water – This restriction was established to account for storm water assessments collected in excess of qualified expenditures. An ordinance restricts the use of storm water assessments.

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 21 – NET ASSET RESTRICTIONS (CONTINUED)**

**Summary**

Specific restrictions of net assets are summarized below as of September 30, 2014:

Business-type activities		
Impact fees	\$	7,100,530
Debt service		1,369,415
Storm water		1,481,368
<hr/>		
Total	\$	9,951,313
<hr/>		

For the fiscal year ending September 30, 2014, the reported net position in governmental activities and business-type activities assets restricted by enabling legislation was \$27,686,596.

**NOTE 22 – FUND BALANCE CONSTRAINTS**

The constraints on fund balance as listed in the aggregate in the balance sheet are detailed below according to balance classification and fund.

Fund Balances	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Nonspendable				
Prepays	\$ 29,740	\$ 4,030	\$ -	\$ 33,770
Inventory	15,935	-	-	15,935
<hr/>				
Total nonspendable	45,675	4,030	-	49,705
<hr/>				
Restricted				
Highways and streets	26,892	1,651,123	-	1,678,015
Debt service reserve	-	6,526,674	-	6,526,674
Community redevelopment	-	6,812,772	-	6,812,772
Reforestation	3,500	-	-	3,500
Impact fees	4,144,015	-	-	4,144,015
Public safety	10,233	-	44,643	54,876
Public parking	-	-	559,149	559,149
<hr/>				
Total restricted	4,184,640	14,990,569	603,792	19,779,001
<hr/>				

**City of Panama City Beach, Florida**  
**Notes to Basic Financial Statements**

**NOTE 22 – FUND BALANCE CONSTRAINTS (CONTINUED)**

<b>Fund Balances</b>	<b>General Fund</b>	<b>Community Redevelopment Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Assigned				
Subsequent years	\$ 4,493,990	\$ -	\$ -	\$ 4,493,990
Community redevelopment	-	6,022	-	6,022
Public safety	-	-	28,681	28,681
Sidewalk construction	-	253,349	-	253,349
<b>Total assigned</b>	<b>4,493,990</b>	<b>259,371</b>	<b>28,681</b>	<b>4,782,042</b>
Unassigned	10,052,590	-	-	10,052,590
<b>Total fund balances</b>	<b>\$ 18,776,895</b>	<b>\$ 15,253,970</b>	<b>\$ 632,473</b>	<b>\$ 34,663,338</b>

**NOTE 23 – CHANGE IN ACCOUNTING PRINCIPLE**

During the current year, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Per GASB 65, certain items that were previously reported as assets and liabilities are now reported as outflows of resources and inflows of resources. Paragraph 15 of GASB 65 indicates that debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred.

The required restatement resulted in a decrease in beginning net position and prior unamortized debt issuance costs of \$621,569 and \$786,438, of governmental activities and business-type activities, respectively. In the fund financial statements the restatement of \$786,438 was to the net position of the utility fund.

**NOTE 24 – PRIOR PERIOD ADJUSTMENT**

Subsequent to the issuance of the prior year audited financial statements, the City determined that revenues were improperly recorded as unearned revenues in those financial statements. The effect of this error was an understatement of utility revenues and overstatement of unearned revenue in the utility fund and business-type activities in the prior year in the amount of \$1,871,884. As a result, an increase in the beginning net position of the utility fund and business-type activities, as of September 30, 2013, has been reflected in these financial statements.

**NOTE 25 – SUBSEQUENT EVENT**

On March 12, 2015, the City approved Resolution 15-69. That resolution authorized the City to issue not to exceed \$43,500,000 principal amount of its capital Improvement Refunding Revenue Bonds, Series 2015 (Front Beach Road Project) to evidence a loan from Regions Capital Advantage, Inc. to refinance certain outstanding obligations and pay the cost of issuance of such series 2015 bonds. The interest rate on the \$42,915,000 capital improvement bond, series 2015 (Front Beach Road Project) is 2.73%. The refunding will provide the City with approximately \$4,360,000 in present value savings on future debt service.



## **Required Supplementary Information**

**City of Panama City Beach, Florida**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**General Employees' Pension Plan**

<b>Year ended September 30,</b>	<b>2014</b>
<b>Total pension liability</b>	
Service cost	\$ 1,040,681
Interest	864,624
Differences between expected and actual experiences	1,874,051
Benefit payments, including refunds of member contributions	(1,285,877)
<b>Net change in total pension liability</b>	<b>2,493,479</b>
<b>Total pension liability - beginning</b>	<b>26,922,891</b>
<b>Total pension liability - ending (a)</b>	<b>29,416,370</b>
<b>Plan fiduciary net position</b>	
Contributions - employer	1,095,319
Contributions - member	548,921
Net investment income	2,943,006
Benefit payments, including refunds of member contributions	(1,285,877)
Administrative expense	(73,809)
<b>Net change in plan fiduciary net position</b>	<b>3,227,560</b>
<b>Plan fiduciary net position - beginning</b>	<b>26,031,682</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>29,259,242</b>
<b>Net Pension Liability - ending (a) - (b)</b>	<b>\$ 157,128</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>99.47%</b>
<b>Covered-employee payroll</b>	<b>5,500,368</b>
<b>Net pension liability as a percentage of covered-employee payroll</b>	<b>2.86%</b>

**Notes to Schedule:**

Only fiscal year 2014 was available. The City will continue to present information for years available until a full 10-year trend is compiled.

Changes in assumptions: RP2000, 8.00% interest

See Independent Auditor's Report.

**City of Panama City Beach, Florida**  
**Schedule of Contributions – General Employees’ Pension Plan**

<b>Year ended September 30,</b>	<b>2014</b>
Actuarially Determined Contribution	\$ 880,755
Contributions in relation to the actuarially determined contribution	1,095,319
Contribution deficiency (excess)	\$ (214,564)
Covered-employee payroll	\$ 5,500,368
Contributions as a percentage of covered-employee payroll	19.91%

**Notes to Schedule:**

Only fiscal year 2014 data was available. The City will continue to present information for years available until a full 10-year trend is compiled.

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

Valuation date: 10/1/2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age Normal with Frozen Initial Liability.
Amortization method:	Level percentage of payroll
Remaining amortization period:	7 years (as of 10/1/2014)
Asset valuation method:	Assets are valued using a 5-year smoothed market value without phase-in.
Inflation:	2.5% per year
Projected salary increases:	6% per year
Investment rate of return:	8% per year
Retirement date:	The first day of the month coincident with or next following the earlier of (1) the date a participant attains age 50 and has completed at least 20 years of Credited Service or (2) the date he attains age 55 and has completed at least 10 years of Credited Service.
Early retirement date:	The first day of the month coincident with or next following the date a participant attains age 48 and has completed at least 10 years of Credited Service.
Mortality:	Mortality is based on the RP-2000 (Retirement Plans-2000) Generational Tables from the year 2000 using Scale.
Disability:	Preretirement disability is assumed to occur in accordance with a standard scale of disability rates (1955 UAW, male and female).
Withdrawal:	Preretirement withdrawals are assumed to occur in accordance with a standard scale of turnover rates (T-5).

See Independent Auditor’s Report.

**City of Panama City Beach, Florida**  
**Schedule of Investment Return – General Employees’ Pension Plan**

**Year Ended September 30,**

**2014**

**Annual money-weighted rate of return,  
net of investment expense**

10.60%

**Notes to Schedule:**

Only fiscal year 2014 data was available. The City will continue to present information for years available until a full 10-year trend is compiled.

See Independent Auditor’s Report.

**City of Panama City Beach, Florida**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Police Officers' Pension Plan**

<b>Year Ended September 30,</b>	<b>2014</b>
<b>Total pension liability</b>	
Service cost	\$ 479,598
Interest	304,873
Differences between expected and actual experiences	1,536,515
Benefit payments, including refunds of member contributions	(1,037,204)
<b>Net change in total pension liability</b>	1,283,782
<b>Total pension liability - beginning</b>	16,795,147
<b>Total pension liability - ending (a)</b>	18,078,929
<b>Plan fiduciary net position</b>	
Contributions - employer	646,023
Contributions - member	307,896
Net investment income	1,868,986
Benefit payments, including refunds of member contributions	(1,037,204)
Administrative expense	(52,988)
<b>Net change in plan fiduciary net position</b>	1,732,713
<b>Plan fiduciary net position - beginning</b>	14,806,469
<b>Plan fiduciary net position - ending (b)</b>	16,539,182
<b>Net Pension Liability - ending (a) - (b)</b>	\$ 1,539,747
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	91.48%
<b>Covered-employee payroll</b>	2,732,684
<b>Net pension liability as a percentage of covered-employee payroll</b>	56.35%

**Notes to Schedule:**

Only fiscal year 2014 data was available. The City will continue to present information for years available until a full 10-year trend is compiled.

Changes in assumptions: RP2000, 8.00% interest

See Independent Auditor's Report.

**City of Panama City Beach, Florida**  
**Schedule of Contributions – Police Officers’ Pension Plan**

<b>Year Ended September 30,</b>	<b>2014</b>
Actuarially Determined Contribution	\$ 691,416
Contributions in relation to the actuarially determined contribution	757,280
Contribution deficiency (excess)	\$ (65,864)
Covered-employee payroll	\$ 2,732,684
Contributions as a percentage of covered-employee payroll	27.71%

**Notes to Schedule:**

Only fiscal year 2014 data was available. The City will continue to present information for years available until a full 10-year trend is compiled.

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

Valuation date: 10/1/2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age Normal with Frozen Initial Liability.
Amortization method:	Level percentage of payroll
Remaining amortization period:	6 years (as of 10/1/2014)
Asset valuation method:	Assets are valued using a 5-year smoothed market value without phase-in.
Inflation:	2.5% per year
Projected salary increases:	6% per year
Investment rate of return:	8% per year
Retirement date:	The first day of the month coincident with or next following the earlier of (1) the date a participant attains age 50 and has completed at least 20 years of Credited Service or (2) the date he attains age 55 and has completed at least 10 years of Credited Service.
Early retirement date:	The first day of the month coincident with or next following the date a participant attains age 50 and has completed at least 10 years of Credited Service.
Mortality:	Mortality is based on the RP-2000 (Retirement Plans-2000) Generational Tables from the year 2000 using Scale.
Disability:	Preretirement disability is assumed to occur in accordance with a standard scale of disability rates (1955 UAW, male and female).
Withdrawal:	Preretirement withdrawals are assumed to occur in accordance with a standard scale of turnover rates (T-5).

See Independent Auditor’s Report.

**City of Panama City Beach, Florida**  
**Schedule of Investment Return – Police Officers’ Pension Plan**

**Year Ended September 30,**

**2014**

**Annual money-weighted rate of return,  
net of investment expense**

10.40%

**Notes to Schedule:**

Only fiscal year 2014 data was available. The City will continue to present information for years available until a full 10-year trend is compiled.

See Independent Auditor’s Report.

**City of Panama City Beach, Florida**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Firefighters' Pension Plan**

<b>Year Ended September 30,</b>	<b>2014</b>
<b>Total pension liability</b>	
Service cost	\$ 264,424
Interest	577,530
Differences between expected and actual experiences	392,824
Benefit payments, including refunds of member contributions	(428,064)
<b>Net change in total pension liability</b>	<b>806,714</b>
<b>Total pension liability - beginning</b>	<b>12,580,508</b>
<b>Total pension liability - ending (a)</b>	<b>13,387,222</b>
<b>Plan fiduciary net position</b>	
Contributions - employer	501,112
Contributions - member	146,638
Net investment income	1,480,292
Benefit payments, including refunds of member contributions	(428,064)
Administrative expense	(62,200)
<b>Net change in plan fiduciary net position</b>	<b>1,637,778</b>
<b>Plan fiduciary net position - beginning</b>	<b>11,279,992</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>12,917,770</b>
<b>Net Pension Liability - ending (a) - (b)</b>	<b>\$ 469,452</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>96.49%</b>
<b>Covered-employee payroll</b>	<b>1,285,641</b>
<b>Net pension liability as a percentage of covered-employee payroll</b>	<b>36.52%</b>

**Notes to Schedule:**

Only fiscal year 2014 data was available. The City will continue to present information for years available until a full 10-year trend is compiled.

Changes in assumptions: RP2000, 8.00% interest

See Independent Auditor's Report.



**City of Panama City Beach, Florida**  
**Schedule of Contributions –Firefighters’ Pension Plan**

<b>Year Ended September 30,</b>	<b>2014</b>
Actuarially Determined Contribution	\$ 550,138
Contributions in relation to the actuarially determined contribution	707,762
Contribution deficiency (excess)	\$ (157,624)
Covered-employee payroll	\$ 1,285,641
Contributions as a percentage of covered-employee payroll	55.05%

**Notes to Schedule:**

Only fiscal year 2014 data was available. The City will continue to present information for years available until a full 10-year trend is compiled.

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

Valuation date: 10/1/2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age Normal with Frozen Initial Liability.
Amortization method:	Level percentage of payroll
Remaining amortization period:	9 years (as of 10/1/2014)
Asset valuation method:	Assets are valued using a 5-year smoothed market value without phase-in.
Inflation:	2.5% per year
Projected salary increases:	6% per year
Investment rate of return:	8% per year
Retirement date:	The first day of the month coincident with or next following the earlier of (1) the date a participant attains age 50 and has completed at least 20 years of Credited Service or (2) the date he attains age 55 and has completed at least 10 years of Credited Service, or (3) if he has elected the 25 & Out Tier, the date he has completed at least 25 years of Credited Service regardless of age.
Early retirement date:	The first day of the month coincident with or next following the date a participant attains age 50 and has completed at least 10 years of Credited Service.
Mortality:	Mortality is based on the RP-2000 (Retirement Plans-2000) Generational Tables from the year 2000 using Scale.
Disability:	Preretirement disability is assumed to occur in accordance with a standard scale of disability rates (1955 UAW, male and female).
Withdrawal:	Preretirement withdrawals are assumed to occur in accordance with a standard scale of turnover rates (T-5).

See Independent Auditor’s Report.



**City of Panama City Beach, Florida**  
**Schedule of Investment Return – Firefighters’ Pension Plan**

**Year Ended September 30,**

**2014**

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**Annual money-weighted rate of return,  
net of investment expense**

10.80%

**Notes to Schedule:**

Only fiscal year 2014 data was available. The City will continue to present information for years available until a full 10-year trend is compiled.

See Independent Auditor’s Report.

**City of Panama City Beach, Florida**  
**Schedules of Other Postemployment Benefits (OPEB)**  
**Year Ended September 30, 2014**

Schedule of Funding Progress for Retiree Healthcare Plan (OPEB)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2012	\$ -	\$ 2,556,331	\$ 2,556,331	0.0%	\$ 10,204,216	25.1%
9/30/2013	\$ -	\$ 2,586,381	\$ 2,586,381	0.0%	\$ 10,204,216	25.3%
9/30/2014	\$ -	\$ 1,894,693	\$ 1,894,693	0.0%	\$ 9,976,829	19.0%

Schedule of Employer Contributions for Retiree Healthcare Plan (OPEB)

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
9/30/2012	\$ 300,164	\$ 54,841	18.3%	\$ 1,420,654
9/30/2013	\$ 282,485	\$ 8,068	2.9%	\$ 1,695,071
9/30/2014	\$ 290,949	\$ (10,592)	-3.6%	\$ 1,996,612

See Independent Auditor's Report.

## **Combining Financial Statements**

**City of Panama City Beach, Florida**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**September 30, 2014**

	Special Revenue Funds					Total
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund	Safe Kids Fund		
<b>Assets</b>						
Cash and cash equivalents	\$ -	\$ 27,511	\$ -	\$ 1,170		\$ 28,681
Cash and cash equivalents - restricted	48,442	-	559,149	-		607,591
<b>Total assets</b>	<b>\$ 48,442</b>	<b>\$ 27,511</b>	<b>\$ 559,149</b>	<b>\$ 1,170</b>		<b>\$ 636,272</b>
<b>Liabilities and fund balances</b>						
Accounts payable	\$ 77	\$ -	\$ -	\$ -		\$ 77
Due to other funds	3,722	-	-	-		3,722
<b>Total liabilities</b>	<b>3,799</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>3,799</b>
<b>Fund balances</b>						
Restricted	44,643	-	559,149	-		603,792
Assigned	-	27,511	-	1,170		28,681
<b>Total fund balances</b>	<b>44,643</b>	<b>27,511</b>	<b>559,149</b>	<b>1,170</b>		<b>632,473</b>
<b>Total liabilities and fund balances</b>	<b>\$ 48,442</b>	<b>\$ 27,511</b>	<b>\$ 559,149</b>	<b>\$ 1,170</b>		<b>\$ 636,272</b>

See Independent Auditor's Report.

**City of Panama City Beach, Florida**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended September 30, 2014**

	Special Revenue Funds					Total
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund	Safe Kids Fund		
<b>Revenues</b>						
Fines and forfeitures	\$ 42,591	\$ -	\$ -	\$ -	\$ -	42,591
Contributions and donations	-	17,283	-	215	-	17,498
Interest	7	5	116	-	-	128
<b>Total revenues</b>	<b>42,598</b>	<b>17,288</b>	<b>116</b>	<b>215</b>	<b>-</b>	<b>60,217</b>
<b>Expenditures</b>						
Current						
Public safety	5,219	11,298	-	34	-	16,551
Capital outlay						
Public safety	52,953	-	-	-	-	52,953
<b>Total expenditures</b>	<b>58,172</b>	<b>11,298</b>	<b>-</b>	<b>34</b>	<b>-</b>	<b>69,504</b>
<b>Excess (deficit) of revenues over (under) expenditures</b>	<b>(15,574)</b>	<b>5,990</b>	<b>116</b>	<b>181</b>	<b>-</b>	<b>(9,287)</b>
<b>Other financing sources (uses)</b>						
Grants and Aids	-	(540)	-	-	-	(540)
<b>Net other financing sources (uses)</b>	<b>-</b>	<b>(540)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(540)</b>
<b>Net change in fund balances</b>	<b>(15,574)</b>	<b>5,450</b>	<b>116</b>	<b>181</b>	<b>-</b>	<b>(9,827)</b>
<b>Fund balances - beginning</b>	<b>60,217</b>	<b>22,061</b>	<b>559,033</b>	<b>989</b>	<b>-</b>	<b>642,300</b>
<b>Fund balances - ending</b>	<b>\$ 44,643</b>	<b>\$ 27,511</b>	<b>\$ 559,149</b>	<b>\$ 1,170</b>	<b>\$ -</b>	<b>\$ 632,473</b>

See Independent Auditor's Report.

**City of Panama City Beach, Florida**  
**Combining Statement of Net Position**  
**Nonmajor Proprietary Funds**  
**September 30, 2014**

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 1,245,275	\$ 240,050	\$ 1,485,325
Accounts receivable, net	49,185	3,739	52,924
Due from other funds	114	-	114
Due from other governments	6,775	-	6,775
Prepaid insurance	5,352	2,169	7,521
<b>Total current assets</b>	<b>1,306,701</b>	<b>245,958</b>	<b>1,552,659</b>
Noncurrent assets			
Capital assets			
Nondepreciable	-	7,500	7,500
Depreciable, net	8,992,290	3,306,239	12,298,529
<b>Total noncurrent assets</b>	<b>8,992,290</b>	<b>3,313,739</b>	<b>12,306,029</b>
<b>Total assets</b>	<b>10,298,991</b>	<b>3,559,697</b>	<b>13,858,688</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	8,013	36,653	44,666
Accrued expenses and deposits	13,485	3,988	17,473
Accrued interest payable	-	8,836	8,836
Due to other funds	-	2,767	2,767
Due to other governments	3,571	478	4,049
Unearned revenue	4,971	25,735	30,706
Accrued compensated absences	5,000	4,000	9,000
Note payable	-	456,000	456,000
<b>Total current liabilities</b>	<b>35,040</b>	<b>538,457</b>	<b>573,497</b>
Noncurrent liabilities			
Accrued compensated absences	29,065	12,337	41,402
Net OPEB obligation	28,896	22,683	51,579
<b>Total noncurrent liabilities</b>	<b>57,961</b>	<b>35,020</b>	<b>92,981</b>
<b>Total liabilities</b>	<b>93,001</b>	<b>573,477</b>	<b>666,478</b>
<b>Net position</b>			
Net investment in capital assets	8,992,290	3,313,739	12,306,029
Unrestricted (deficit)	1,213,700	(327,519)	886,181
<b>Total net position</b>	<b>\$ 10,205,990</b>	<b>\$ 2,986,220</b>	<b>\$ 13,192,210</b>

See Independent Auditor's Report.

**City of Panama City Beach, Florida**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**Nonmajor Proprietary Funds**  
**Year Ended September 30, 2014**

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
<b>Operating revenues</b>			
Charges for services			
Admissions and other fees	\$ 736,354	\$ 278,576	\$ 1,014,930
Rent	215,836	19,980	235,816
Miscellaneous	224	2,442	2,666
<b>Total operating revenues</b>	<b>952,414</b>	<b>300,998</b>	<b>1,253,412</b>
<b>Operating expenses</b>			
Personal services	286,420	369,322	655,742
Professional services	7,147	8,806	15,953
Office supplies	1,219	1,754	2,973
Contractual services	38,483	3,678	42,161
Insurance	15,686	20,671	36,357
Repairs and maintenance	20,738	49,632	70,370
Operating supplies	40,104	86,075	126,179
Communication services	9,392	8,834	18,226
Public utility services	30,202	124,850	155,052
Transportation	48	670	718
Rentals	44,695	9,772	54,467
Printing and binding	788	2,739	3,527
Miscellaneous	1,689	4,956	6,645
Depreciation	425,769	152,815	578,584
<b>Total operating expenses</b>	<b>922,380</b>	<b>844,574</b>	<b>1,766,954</b>
<b>Net operating income (loss)</b>	<b>30,034</b>	<b>(543,576)</b>	<b>(513,542)</b>
<b>Nonoperating revenues (expenses)</b>			
Interest income	179	96	275
Grants and contributions	30,250	-	30,250
Interest expense	-	(17,841)	(17,841)
<b>Total nonoperating revenues (expenses)</b>	<b>30,429</b>	<b>(17,745)</b>	<b>12,684</b>
<b>Net income (loss) before transfers</b>	<b>60,463</b>	<b>(561,321)</b>	<b>(500,858)</b>
Transfers in	-	450,000	450,000
Transfers out	(325,000)	-	(325,000)
<b>Total transfers</b>	<b>(325,000)</b>	<b>450,000</b>	<b>125,000</b>
<b>Change in net position</b>	<b>(264,537)</b>	<b>(111,321)</b>	<b>(375,858)</b>
<b>Total net position - beginning</b>	<b>10,470,527</b>	<b>3,097,541</b>	<b>13,568,068</b>
<b>Total net position - ending</b>	<b>\$ 10,205,990</b>	<b>\$ 2,986,220</b>	<b>\$ 13,192,210</b>

See Independent Auditor's Report.



**City of Panama City Beach, Florida**  
**Combining Statement of Cash Flows**  
**Nonmajor Proprietary Funds**  
**Year Ended September 30, 2014**

	<b>Business-type Activities / Enterprise Funds</b>		
	<b>Pier Fund</b>	<b>Aquatic Center Fund</b>	<b>Total</b>
<b>Operating activities</b>			
Receipts from customers and users	\$ 923,176	\$ 300,371	\$ 1,223,547
Payments to suppliers	(272,968)	(356,406)	(629,374)
Payments to employees	(205,035)	(297,442)	(502,477)
Net cash provided (used) by operating activities	445,173	(353,477)	91,696
<b>Noncapital financing activities</b>			
Grants and contributions	30,250	-	30,250
Transfers (to) from other funds	(325,000)	450,000	125,000
Net cash provided (used) by noncapital financing activities	(294,750)	450,000	155,250
<b>Capital and related financing activities</b>			
Principal paid on note	-	(35,000)	(35,000)
Interest paid on note	-	(9,005)	(9,005)
Purchase of capital assets	-	(9,888)	(9,888)
Net cash (used) by capital and related financing activities	-	(53,893)	(53,893)
<b>Investing activities</b>			
Interest received	179	96	275
Net cash provided by investing activities	179	96	275
<b>Net change in cash and cash equivalents</b>	<b>150,602</b>	<b>42,726</b>	<b>193,328</b>
<b>Cash and cash equivalents - beginning</b>	<b>1,094,673</b>	<b>197,324</b>	<b>1,291,997</b>
<b>Cash and cash equivalents - ending</b>	<b>\$ 1,245,275</b>	<b>\$ 240,050</b>	<b>\$ 1,485,325</b>

(Continued)

See Independent Auditor's Report.

**City of Panama City Beach, Florida**  
**Combining Statement of Cash Flows**  
**Nonmajor Proprietary Funds (Continued)**  
**Year Ended September 30, 2014**

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
<b>Reconciliation of net operating income (loss) to net cash provided (used) by operating activities</b>			
Net operating income (loss)	\$ 30,034	\$ (543,576)	\$ (513,542)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities			
Depreciation	425,769	152,815	578,584
(Increase) decrease in assets			
Accounts receivable, net	(25,569)	2,070	(23,499)
Due from other funds	1,515	6,305	7,820
Due from other governments	(2,690)	-	(2,690)
Prepaid insurance	(276)	546	270
Increase (decrease) in liabilities			
Accounts payable	4,732	21,643	26,375
Accrued expenses and deposits	1,013	1,308	2,321
Due to other funds	(7,157)	796	(6,361)
Due to other governments	(1,229)	(713)	(1,942)
Unearned revenue	25	(2,415)	(2,390)
Accrued compensated absences	14,348	3,684	18,032
Net OPEB obligation	4,658	4,060	8,718
Total adjustments	415,139	190,099	605,238
Net cash provided (used) by operating activities	\$ 445,173	\$ (353,477)	\$ 91,696

See Independent Auditor's Report.

**City of Panama City Beach, Florida**  
**Combining Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**September 30, 2014**

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 1,782,515	\$ 157,590	\$ 203,790	\$ 2,143,895
Accounts receivable, net	-	-	57,901	57,901
Investments, at fair value				
Money market funds	122,802	893,201	730,892	1,746,895
Real estate investment trusts	700,542	389,059	318,843	1,408,444
Mutual funds	27,206,739	15,109,823	12,382,873	54,699,435
<b>Total assets</b>	<b>29,812,598</b>	<b>16,549,673</b>	<b>13,694,299</b>	<b>60,056,570</b>
<b>Liabilities</b>				
Accounts payable	12,537	9,942	10,960	33,439
Refunds payable	6,681	550	-	7,231
<b>Total liabilities</b>	<b>19,218</b>	<b>10,492</b>	<b>10,960</b>	<b>40,670</b>
<b>Net position</b>				
Restricted for pensions	\$ 29,793,380	\$ 16,539,181	\$ 13,683,339	\$ 60,015,900

See Independent Auditor's Report.

**City of Panama City Beach, Florida**  
**Combining Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**Year Ended September 30, 2014**

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	Total
<b>Additions</b>				
Contributions				
Employer	\$ 1,095,319	\$ 646,023	\$ 501,112	\$ 2,242,454
Plan members	548,921	307,896	146,638	1,003,455
Insurance premiums	-	111,257	206,650	317,907
<b>Total contributions</b>	<b>1,644,240</b>	<b>1,065,176</b>	<b>854,400</b>	<b>3,563,816</b>
Investment earnings				
Interest	154	103	58	315
Dividends	465,770	260,273	208,488	934,531
Net increase in fair value of investments	2,356,376	1,291,131	1,096,149	4,743,656
<b>Total investment earnings</b>	<b>2,822,300</b>	<b>1,551,507</b>	<b>1,304,695</b>	<b>5,678,502</b>
Less investment expenses	(50,244)	(34,356)	(30,416)	(115,016)
<b>Net investment earnings</b>	<b>2,772,056</b>	<b>1,517,151</b>	<b>1,274,279</b>	<b>5,563,486</b>
<b>Total additions</b>	<b>4,416,296</b>	<b>2,582,327</b>	<b>2,128,679</b>	<b>9,127,302</b>
<b>Deductions</b>				
Benefits	844,184	881,612	164,803	1,890,599
Refunds of contributions	96,843	107,621	-	204,464
Administrative expenses	23,563	18,632	31,783	73,978
<b>Total deductions</b>	<b>964,590</b>	<b>1,007,865</b>	<b>196,586</b>	<b>2,169,041</b>
<b>Change in net position</b>	<b>3,451,706</b>	<b>1,574,462</b>	<b>1,932,093</b>	<b>6,958,261</b>
<b>Net position - beginning</b>	<b>26,341,674</b>	<b>14,964,719</b>	<b>11,751,246</b>	<b>53,057,639</b>
<b>Net position - ending</b>	<b>\$ 29,793,380</b>	<b>\$ 16,539,181</b>	<b>\$ 13,683,339</b>	<b>\$ 60,015,900</b>

See Independent Auditor's Report.

## **Compliance Section**



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## **INDEPENDENT AUDITOR’S MANAGEMENT LETTER**

Honorable Mayor and Members  
of the City Council  
City of Panama City Beach, Florida

### **Report on the Financial Statements**

We have audited the financial statements of the City of Panama City Beach, Florida, (the “City”), as of and for the fiscal year ended September 30, 2014, and have issued our report thereon dated September 23, 2015.

### **Auditor’s Responsibility**

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 and Chapter 10.550, Rules of the Auditor General.

### **Other Reports and Schedule**

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor’s Report on Compliance for Each Major State Project and on Internal Control over Compliance; Schedule of Findings and Questioned Costs; Independent Accountant’s Report on an examination conducted in accordance with *AICPA Professional Standards*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated September 23, 2015, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Findings 13-01 and 12-01, reported in the two preceding audit reports, were not corrected as noted in the schedule of findings and questioned costs. Recommendation 13-02 was not corrected, see Section 10.554(1)(i)2.

## **Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City of Panama City Beach was created on August 12, 1970 by Chapter 70-874 of the Constitution of the State of Florida. The City has one component unit which is the Panama City Beach Community Redevelopment Agency (Agency). The Agency was created on November 30, 2000 by City Resolution 00-23 pursuant to Florida Statute 163.356. The Agency is operated by the City of Panama City Beach.

## **Financial Condition**

Section 10.554(1)(i)5.a., Rules of the Auditor General, requires that we report the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City'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.

## **Annual Financial Report**

Section 10.554(1)(i)5.b., Rules of the Auditor General, requires that we report the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2014, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2014. In connection with our audit, we determined that these two reports were in agreement.

## **Other Matters**

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we communicated the following.

### 14-02 Accounting Policies (prior years 13-02 and 12-02)

During our review of the policy handbook, we noted that some of the policies had not been updated in several years. Management should consider updating these manuals on a regular basis as necessary due to changing laws and circumstances.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants

the attention of those charged with governance. In connection with our audit, we did not have any such findings.

**Purpose of This Letter**

Our management letter is intended solely for the information and use of the Joint Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*Caru, Riggs & Ingram, L.L.C.*

Certified Public Accountants  
Panama City Beach, Florida  
September 23, 2015



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

Honorable Mayor and Members  
of the City Council  
City of Panama City Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Panama City Beach, Florida (the “City”), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 23, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency identified in the accompanying schedule of findings and questioned costs to be a material weakness.

### **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*.

### **City of Panama City Beach, Florida's Response to Findings**

We have included management's response to the finding identified in our audit in the Schedule of Findings and Questioned Cost. We did not audit the response and accordingly, express no opinion on it.

### **Purpose of this Report**

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

Certified Public Accountants  
Panama City Beach, Florida  
September 23, 2015



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## INDEPENDENT ACCOUNTANT’S REPORT

Honorable Mayor and Members  
of the City Council  
City of Panama City Beach, Florida

We have examined the City of Panama City Beach, Florida’s (the “City”) compliance with the requirements of Section 218.415, Florida Statutes, *Local Government Investment Policies*, during the year ended September 30, 2014. Management is responsible for the City’s compliance with those requirements. Our responsibility is to express an opinion on the City’s compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City’s compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2014.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

*Carr, Riggs & Ingram, L.L.C.*

Certified Public Accountants  
Panama City Beach, FL  
September 23, 2015

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

Honorable Mayor and Members  
of the City Council  
City of Panama City Beach, Florida

**Report on Compliance for Each Major State Project**

We have audited the City of Panama City Beach, Florida’s (the “City”) compliance with the types of compliance requirements in the *Department of Financial Services’ State Projects Compliance Supplement* that could have a direct and material effect on each of the City’s major state projects for the year ended September 30, 2014. The City’s state projects are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**Management’s Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state projects.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on compliance for each of City of Panama City Beach, Florida’s major state projects based on our audit of the types of compliance requirements referred to above. 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 Chapter 10.550, State of Florida Rules of the Auditor General. Those standards, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the City’s compliance.

## Opinion on Each Major State Project

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2014.

## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.550, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a major state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.550, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

*Caru, Riggs & Ingram, L.L.C.*

Certified Public Accountants  
Panama City Beach, Florida  
September 23, 2015

**City of Panama City Beach, Florida**  
**Schedule of Expenditures of State Financial Assistance**  
**Year Ended September 30, 2014**

<u>State Agency/State Project</u>	<u>CSFA No.</u>	<u>Contract/ Grant No.</u>	<u>Expenditures</u>
<b>Florida Department of Transportation</b>			
Transportation Regional Incentive Program Agreement	55.026	21791123801/AP 864	\$ 105,008
<b>Florida Department of Environmental Protection</b>			
Small Community Waste Water Facility Grant	37.075	SG694050	4,400,442
<b>Total Expenditures of State Financial Assistance</b>			<b>\$ 4,505,450</b>

Note:

The City follows the accrual basis of accounting in preparing this schedule.  
This method is consistent with the City's financial statements.

**City of Panama City Beach, Florida**  
**Schedule of Findings and Questioned Costs**  
**State Financial Assistance**  
**Year Ended September 30, 2014**

**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued	Unmodified	
Internal control over financial reporting		
Material weaknesses identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
Significant deficiency identified not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

State Financial Assistance

Internal control over major programs		
Material weaknesses identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Significant deficiency identified not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Type of auditors' report issued on compliance for major state projects:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 10.557, Rules of the Auditor General?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Identification of major state projects:

<u>CSFA</u>	<u>Name of State Program</u>
37.075	Small Community Waste Water Facility Grant

Dollar threshold used to distinguish between Type A and Type B programs:	<u>State</u> \$300,000
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(Continued)

**City of Panama City Beach, Florida**  
**Schedule of Findings and Questioned Costs (Continued)**  
**State Financial Assistance**  
**Year Ended September 30, 2014**

**Section II - Financial Statement Findings**

14-01 Segregation of Duties (Prior Years 13-01 and 12-01)(initially reported in 2010)

This condition is the result of limited accounting staff at the City. Due to the lack of segregation of duties and limited internal controls, the finance director currently has the ability to issue and approve cash disbursements; reconcile the cash accounts; input, edit, and/or approve accounting journal entries; and prepare the financial information.

Recommendation

We recommend that the City segregate incompatible duties as much as possible.

Management's Response

The City is aware of the importance of proper segregation of duties and continues to assess them on an ongoing basis. In this regard, certain steps have been taken utilizing existing staff to help mitigate potential issues which may occur as a result of the lack of segregation of duties currently existing due to a shortage of staff in the City's finance department.

Because of the City's limited resources and allocation of the same, it is more likely than not that this situation will never be fully resolved.

Although the City's finance director currently has the ability to both approve and issue cash disbursements as well as reconcile cash accounts, every attempt is made to have another responsible staff member, City Manager, Department Head, etc., approve invoices for payment. Additionally, very few checks are processed manually and although the finance director can access the cash disbursement portion of the City's accounting system, the finance director has not been trained on that portion of the system and currently is unable to issue checks due to this lack of training. The City has added an additional accounting position in the fiscal year 2016 budget. The addition of another person will not totally eliminate the issue of the lack of segregation of duties; however, the City believes a much greater segregation of duties will be achieved with one additional employee and greater compensating controls will be put into place to overcome the lack of segregation of duties.

One of the first tasks assigned to this employee will be to update the City's existing accounting policies handbook to reflect current laws and circumstances.

**Section III - State Financial Assistance Findings**

There were no findings.