

City of Panama City Beach, Florida

Financial Statements

September 30, 2008

City of Panama City Beach
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September 30, 2008

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Panama City Beach, Florida (the City), as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2008, 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 conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2009, on our consideration of the City of 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 and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 12 and the required supplementary information on pages 59 through 61 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Carri Riggs & Ingram, L.L.C.

Panama City Beach, Florida
March 31, 2009

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 \$159,515,593 (net assets). Of this amount, \$6,647,896 is unrestricted net assets for governmental activities and \$17,374,935 is unrestricted net assets for business-type activities, while \$11,053,405 is restricted net assets for governmental activities and \$31,353,628 is restricted net assets for business-type activities.
- Total net assets increased by \$20,919,779. Of this amount, \$7,126,544 is attributable to governmental activities and \$13,793,235 is attributable to business-type activities. The increase in net assets of governmental activities is primarily attributable to the tax increment revenue received for the Front Beach Road Community Redevelopment Area which was used to fund capital construction projects. The increase in net assets of business-type activities is the result of several factors including (a) the receipt of \$8,771,902 in grants and contributions, (b) the collection of \$2,424,631 in impact fees, and (c) net income from operations before amortization and depreciation of \$5,967,521.
- As of September 30, 2008, the general fund's unreserved fund balance was \$6,345,350 or 45 percent of total general fund expenditures. Unreserved fund balance in the general fund increased by \$930,982 which reflects the City's attempt to increase cash reserves for future years.
- Governmental activities revenues decreased to \$26,070,931 or approximately 9 percent, while governmental activities expenditures increased 10 percent to \$18,429,663. Business-type activities revenues increased to \$36,451,996 or 25 percent, while business-type activities expenditures increased 20 percent to \$23,173,485.

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 assets* 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 assets of governmental activities and business-type activities, as well as the change in net assets. 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, sewer, and admission charges.

The *statement of net assets* presents information on all assets and liabilities of the City, with the difference between the two reported as *net assets*. Assets, liabilities and net assets are reported separately for governmental activities and business-type activities. Increases or decreases in net assets 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 assets for the fiscal year. All changes in net assets 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, sewer and 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 assets*, a *statement of revenues, expenses, and changes in net assets*, and a *statement of cash flows* are presented. A *statement of fiduciary net assets* and a *statement of changes in fiduciary net assets* 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 assets*, 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. To facilitate a comparison between the *fund financial statements* and the *government-wide financial statements*, a reconciliation is provided.

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 assets of the City. At the end of fiscal year 2008, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its governmental and business-type activities.

City of Panama City Beach, Florida Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<i>September 30,</i>						
Current and other assets	\$ 50,905,242	\$ 58,588,962	\$ 62,518,421	\$ 59,457,770	\$ 113,423,663	\$ 118,046,732
Capital assets	72,909,686	58,939,707	91,970,282	80,562,234	164,879,968	139,501,941
Total assets	123,814,928	117,528,669	154,488,703	140,020,004	278,303,631	257,548,673
Current liabilities	3,083,827	2,756,127	7,649,645	6,939,907	10,733,472	9,696,034
Long-term liabilities	57,855,761	58,629,651	50,198,805	50,233,079	108,054,566	108,862,730
Total liabilities	60,939,588	61,385,778	57,848,450	57,172,986	118,788,038	118,558,764
Net assets invested in capital assets, net of related debt	45,174,039	42,983,499	47,911,690	36,258,731	93,085,729	79,242,230
Net assets – restricted	11,053,405	11,554,074	31,353,628	30,925,017	42,407,033	42,479,091
Net assets – unrestricted	6,647,896	1,605,318	17,374,935	15,663,270	24,022,831	17,268,588
Total net assets	\$ 62,875,340	\$ 56,142,891	\$ 96,640,253	\$ 82,847,018	\$ 159,515,593	\$ 138,989,909

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 assets (58 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.

The *restricted net assets*, representing 27 percent of the City's net assets, are subject to external restrictions, and thus are limited as to how they may be used. The remaining balance of *unrestricted net assets*, \$24,022,831 may be used to help meet the government's ongoing obligations to citizens and creditors.

Net assets invested in capital assets, net of related debt increased \$13,843,499 (or 17%). Significant additions to capital assets occurred in both governmental and business-type activities in the current year. Additions in governmental activities were primarily the result of improvements to the City's roadway infrastructure within the Front Beach Road Community Redevelopment Area, in particular, right-of-way acquisitions and construction costs. These additions were partially funded from the unspent proceeds of a prior year bond issue. Capital additions in business-type activities were primarily related to system expansions and upgrades necessitated by growth. The City financed the continued expansion of its wastewater system with a combination of State Revolving Fund loans and a public assistance grant.

Restricted net assets decreased \$72,058 (less than 1%). The restricted net assets in the governmental activities decreased by \$500,669 while the restricted net assets in the business-type activities increased by \$428,611 resulting in a net decrease of \$72,058. The governmental activities decrease primarily resulted from the use of municipal services impact fees to fund the purchase of qualifying capital expenditures. The increase in business-type activities restricted net assets resulted from a combination of factors including (a) an increase in impact fee cash reserves, (b) an increase in funds set aside to meet debt service requirements, and (c) a decrease in funds set aside for construction which were expended in the current fiscal year.

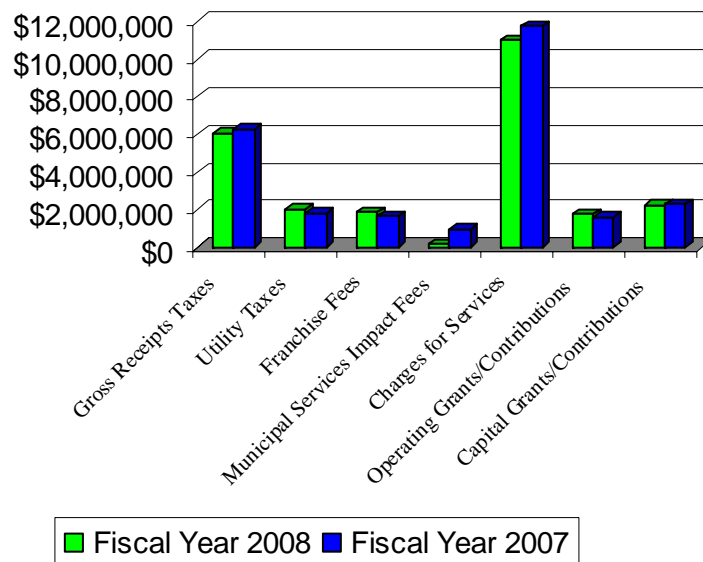
The increase in *Net assets, unrestricted* was \$6,754,243 or 39%. The governmental activities increase was \$5,042,578 while the business-type activities increase was \$1,711,665. Due to the overall economic downturn, the City made every effort to control expenditures and increase cash reserves to provide resources for future years.

The schedule on the following page compares the revenues and expenses for the current and previous fiscal year.

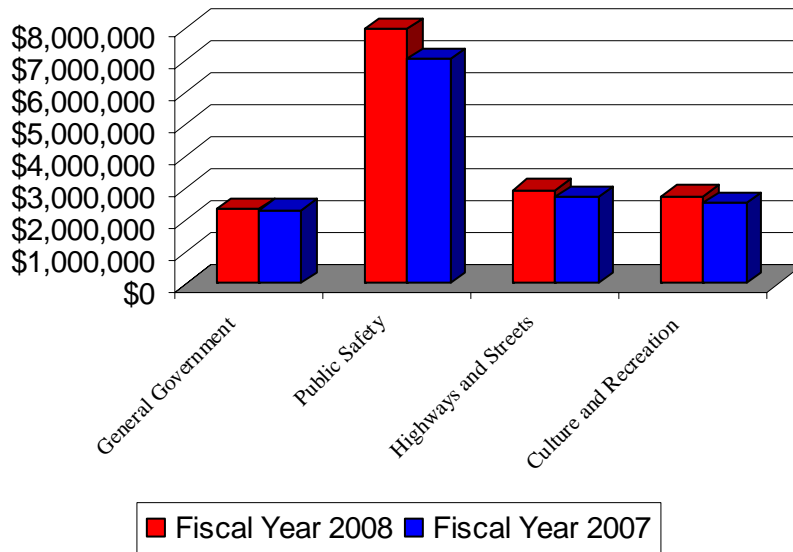
**City of Panama City Beach, Florida
Changes in Net Assets**

Year ended September 30,	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program revenues						
Charges for services	\$ 10,989,119	\$ 11,723,290	\$ 23,581,667	\$ 19,540,012	\$ 34,570,786	\$ 31,263,302
Operating grants/ contributions	1,756,554	1,609,628	101,000	136,600	1,857,554	1,746,228
Capital grants/ contributions	2,219,394	2,284,597	11,095,533	7,291,513	13,314,927	9,576,110
General revenues						
Business tax receipts	6,021,075	6,295,440	-	-	6,021,075	6,295,440
Utility taxes	2,030,711	1,847,119	-	-	2,030,711	1,847,119
Franchise fees	1,876,678	1,650,424	-	-	1,876,678	1,650,424
Impact fees	190,744	1,003,275	-	-	190,744	1,003,275
Interest earnings	986,656	2,274,984	1,673,796	2,118,290	2,660,452	4,393,274
Total revenues	26,070,931	28,688,757	36,451,996	29,086,415	62,522,927	57,775,172
Expenses						
General government	2,453,392	2,306,138	-	-	2,453,392	2,306,138
Public safety	7,978,880	7,058,763	-	-	7,978,880	7,058,763
Highways and streets	2,808,108	2,708,375	-	-	2,808,108	2,708,375
Culture and recreation	2,749,743	2,533,796	-	-	2,749,743	2,533,796
Interest on long- term debt	2,439,540	2,481,364	2,306,320	2,951,673	4,745,860	5,433,037
Utilities	-	-	19,728,650	15,380,363	19,728,650	15,380,363
Pier	-	-	278,781	261,941	278,781	261,941
Aquatic center	-	-	859,734	793,557	859,734	793,557
Total expenses	18,429,663	17,088,436	23,173,485	19,387,534	41,603,148	36,475,970
Increase in net assets before transfers	7,641,268	11,600,321	13,278,511	9,698,881	20,919,779	21,299,202
Transfers	(514,724)	(142,218)	514,724	142,218	-	-
Increase in net assets	\$ 7,126,544	\$ 11,458,103	\$ 13,793,235	\$ 9,841,099	\$ 20,919,779	\$ 21,299,202

**Revenues - Governmental Activities
Fiscal Years Ended
September 30, 2008 and 2007**



Expenses - Governmental Activities
Fiscal Years Ended
September 30, 2008 and 2007



Governmental activities revenues exceeded expenses by \$7,641,268 while business-type activities revenues exceeded expenses by \$13,278,511. Total revenues increased \$4,747,755 from the previous year. The change in total revenues from business-type activities was an increase of \$7,365,581. Interest earnings decreased \$1,732,822. Charges for services increased \$3,307,484, capital grants and contributions increased \$3,738,817, and municipal services impact fees decreased \$812,531 in the current year. Charges for services increased primarily due to increases in water and sewer utility rates charged to customers. The rate increases were enacted to cover anticipated increases in operating expenditures. The increase in capital grants and contributions was a result of a large grant from the State of Florida for the expansion of the City's wastewater collection system. Municipal services impact fees decreased due to an overall decline in the construction industry resulting in little to no growth. Total expenses increased \$5,127,178 from the previous year. The increase in expenses in business-type activities was primarily attributable to increased operating expenses in the utility fund. The major component of this increase was the cost of water purchased from Bay County. The governmental activities increase was primarily in the areas of public safety and interest on long-term debt.

42% of the revenues for governmental activities are generated by charges for services, 23% by business tax receipts, with 15% of the revenues from operating and capital grants and contributions, while most of the governmental resources are expended for public safety (43%).

Charges for services provide 65% of the revenues for business-type activities, while 30% of the revenues are provided from capital grants and contributions. Most of the governmental resources are expended for public utilities (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, 2008, total assets were \$12,916,943 and total liabilities were \$1,309,446. At the end of fiscal year 2008, unreserved fund balance of the general fund was \$6,345,350, while total fund balance equaled \$11,607,497. Total fund balance increased \$425,188 or 4%. This was a net effect of a decrease in reserved fund balances of \$505,794 (9%) offset with an increase of \$930,982 (17%) in unreserved fund balance. The net increase in fund balance in 2008 was significantly less than the net increase in the preceding year. The City's total revenues decreased from 2007 to 2008 while its expenditures and transfers out increased.

The general fund's budget was amended during the year to reflect decreases in available revenue as well as corresponding decreases in expenditures. The decrease in revenue was attributable primarily to lower than anticipated collections for building permits and plan review fees from the construction slow down as well as decreased municipal services impact fees as a result of the same. Budgeted expenditures in the protective services department were amended significantly to reflect decreased costs of contracted inspections and plans review which resulted from the slow down in construction in the City.

Community Redevelopment Fund

The other major governmental fund of the City is the community redevelopment fund. As of September 30, 2008, total assets were \$35,099,588 and total liabilities were \$743,103. At the end of fiscal year 2008, the unreserved fund balance of the community redevelopment fund was \$248,768, while the total fund balance equaled \$34,356,485. Total fund balance decreased \$8,356,371, all of which was attributable to a decrease in reserved fund balance. As noted last year, \$54,835,000 Capital Improvement Revenue Bonds, Series 2006 were issued late in fiscal year 2006. Interest payments on these bonds as well as expenditures of the proceeds on the ongoing activities related to the Front Beach Road project account for the decrease in fund balance.

Non-Major 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. No funds were expended in the current year.

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 non-major funds in the financial statements.

Unrestricted net assets of proprietary funds at the end of the year are presented below:

Fund	2008 Unrestricted Net Assets	2007 Unrestricted Net Assets
Utility	\$ 17,853,906	\$ 16,242,370
Pier	185,558	(33,373)
Aquatic Center	(664,529)	(545,727)
Total	\$ 17,374,935	\$ 15,663,270

The *Utility Fund* is used to account for the operations of the City's water, sewer and storm water systems. New construction and redevelopment being experienced by the City slowed down in the current year and water and sewer impact fee revenues reflected this trend by decreasing \$3,315,075 or 58% compared to the prior year. For several years prior to fiscal year 2008, the City went through a period of explosive growth with record levels of new construction and redevelopment. As a result, the City has seen a significant increase in its customer base which combined with rate increases resulted in an increase in water and sewer sales over the prior year of \$4,268,115 or 25%.

The *Pier Fund* accounts for the operations and maintenance of the City Pier. The pier sustained significant damages in past years from several hurricanes. The entire structure was demolished in the current year and a complete reconstruction project commenced in the spring of 2008. Funding for most of the project is being provided by the Federal Emergency Management Agency. Construction is expected to be complete in the summer of 2009 at which point operations will resume.

The *Aquatic Center Fund* is being used to account for the operation of an aquatic center located at Frank Brown Park. For 2008, operating expenses exceeded operating revenues by \$583,972. The shortfall in operations was partially offset by a combination of third party contributions and a subsidy from the City's General 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, 2008, was \$164,879,968 (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 implement its plan to provide sewer services to a number of neighborhoods. Prior to fiscal year 2008, the Open Sands, Bid-A-Wee and Gulf Highlands portions of the project were 100% complete at a total cost of approximately \$6.8 million dollars. Construction of the Bahama Beach subdivision was completed in the current year at a cost of approximately \$2.6 million dollars. Construction on the El Centro subdivision was completed subsequent to year end. The estimated project cost for El Centro upon completion is approximately \$5.2 million dollars
- Approximately \$2 million dollars was expended in fiscal year 2008 for water and sewer improvements located on the east end of the City. The project was complete in fiscal year 2008 at a total cost of approximately \$3.4 million dollars.
- At September 30, 2008, approximately \$36.5 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. Actual construction on Churchwell Road was completed in the current fiscal year at an approximate cost of \$8.5 million dollars exclusive of land right-of-way acquisition costs. Construction on Beckrich Road was well underway as of the end of the fiscal year with an estimated completion date of spring 2009. Engineering studies and right-of-way acquisition is ongoing for other roads within the project area.

**Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<i>September 30,</i>						
Land	\$33,532,921	\$30,721,798	\$6,817,751	\$6,366,716	\$ 40,350,672	\$ 37,088,514
Construction in progress	15,176,011	13,830,046	13,776,650	7,095,149	28,952,661	20,925,195
Buildings	2,905,394	3,032,648	22,986,520	23,862,730	25,891,914	26,895,378
Improvements	18,131,562	7,936,321	42,963,454	40,240,235	61,095,016	48,176,556
Machinery and equipment	3,163,798	3,418,894	5,425,907	2,997,404	8,589,705	6,416,298
Total	\$72,909,686	\$58,939,707	\$91,970,282	\$80,562,234	\$164,879,968	\$139,501,941

Additional information on the City's capital assets can be found in Note 7—Capital Assets, 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 \$78,443,652. 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	
	2008	2007	2008	2007	2008	2007
Revenue bonds	\$55,377,542	\$56,344,307	\$23,066,110	\$23,382,862	\$78,443,652	\$79,727,169

The City's total debt decreased by \$1,283,517 in the current fiscal year. Principal payments totaled \$1,358,000 in the current year and were offset by amortization of deferred costs. During the current year, the City's bond ratings were downgraded by both Standard & Poor's and Moody's. The ratings downgrades were a result of downgrades to Ambac Assurance Corporation ("Ambac"), the bond insurer for the City's various revenue bonds. The City's debt currently maintains an "A" rating from Standard & Poor's and a "Baa1" rating from Moody's. 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 9 and 10 of the notes to the basic financial statements.

Other Financial Information

In spite of a slow down in new construction and redevelopment, the City's economy remained level during the current fiscal year. Despite national security and travel worries, and rising gas prices, tourism remained steady. The City's business tax receipts typically fluctuate with the tourism industry and revenues from this source decreased 4% in the current fiscal year. In the upcoming fiscal year, the City will continue to focus on major additions and enhancements to its utilities and transportation systems. These construction projects will provide additional water transmission mains, eliminate effluent discharge in to West Bay, provide sewer service to various subdivisions which are currently served by septic tanks, provide a discharge site for reclaimed water and widen existing roadways to improve traffic flow and public safety. Additionally, the City has committed to the provision of expanded culture and recreation facilities for public use as evidenced by the continued expansion of the City's greenways and trails system and the replacement of the Russell/Fields pier as well as the construction of a new public library.

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, attention: Holly White, City Clerk.

City of Panama City Beach, Florida
Statement of Net Assets
September 30, 2008

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,417,430	\$ 14,945,551	\$ 21,362,981
Accounts receivable, net	51,316	5,016,669	5,067,985
Taxes and fees receivable	616,761	-	616,761
Grants receivable	547,636	1,620,024	2,167,660
Accrued interest receivable	-	7,308	7,308
Due from other governments	271,498	-	271,498
Inventory	14,416	589,867	604,283
Prepaid insurance	56,255	8,706	64,961
Notes receivable, current	-	720,771	720,771
Unamortized debt issuance costs, current	99,210	32,312	131,522
Restricted assets			
Cash and cash equivalents	40,588,187	38,277,415	78,865,602
Accounts receivable, net	-	80,117	80,117
Grants receivable	-	12,102	12,102
Accrued interest receivable	51,655	511,812	563,467
Notes receivable	-	54,510	54,510
Notes receivable	-	161,329	161,329
Capital assets			
Nondepreciable	48,708,932	20,594,401	69,303,333
Depreciable, net	24,200,754	71,375,881	95,576,635
Unamortized debt issuance costs	2,190,878	479,928	2,670,806
Total assets	123,814,928	154,488,703	278,303,631

(Continued)

City of Panama City Beach, Florida
Statement of Net Assets (Continued)
September 30, 2008

Primary Government			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 898,500	\$ 3,773,427	\$ 4,671,927
Accrued expenses and deposits	205,251	408,060	613,311
Accrued interest payable	1,031,040	1,656,163	2,687,203
Due to other governments	927,192	5,714	932,906
Internal balances	(75)	75	-
Deferred revenue	21,919	1,806,206	1,828,125
Long-term liabilities			
Due within one year			
Revenue certificates payable	-	1,961,455	1,961,455
Accrued compensated absences	3,693	147,726	151,419
Notes payable	90,771	1,578,852	1,669,623
Revenue bonds payable, net	1,382,765	336,752	1,719,517
Due in more than one year			
Accrued compensated absences	2,222,426	833,408	3,055,834
Notes payable	161,329	22,611,254	22,772,583
Revenue bonds payable, net	53,994,777	22,729,358	76,724,135
Total liabilities	60,939,588	57,848,450	118,788,038
Net assets			
Invested in capital assets, net of related debt	45,174,039	47,911,690	93,085,729
Restricted for			
Law enforcement	71,149	-	71,149
Beach access	543,085	-	543,085
Impact fees	5,168,889	29,673,514	34,842,403
Debt service	5,270,282	966,730	6,237,012
Storm water	-	713,384	713,384
Unrestricted	6,647,896	17,374,935	24,022,831
Total net assets	\$ 62,875,340	\$ 96,640,253	\$ 159,515,593

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

City of Panama City Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2008

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 6,146,521	\$ 248,768	\$ 22,141	\$ 6,417,430
Accounts receivable, net	51,316	-	-	51,316
Taxes and fees receivable	616,761	-	-	616,761
Grants receivable	547,636	-	-	547,636
Due from other governments	271,498	-	-	271,498
Due from other funds	75	-	-	75
Inventory	14,416	-	-	14,416
Prepaid insurance	56,255	-	-	56,255
Cash and cash equivalents - restricted	5,212,465	34,799,165	576,557	40,588,187
Accrued interest receivable - restricted	-	51,655	-	51,655
Total assets	\$ 12,916,943	\$ 35,099,588	\$ 598,698	\$ 48,615,229
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 156,356	\$ 741,831	\$ 313	\$ 898,500
Accrued expenses	203,979	1,272	-	205,251
Due to other governments	927,192	-	-	927,192
Deferred revenue	21,919	-	-	21,919
Total liabilities	1,309,446	743,103	313	2,052,862
Fund balances				
Reserved for				
Law enforcement	22,587	-	33,228	55,815
Inventory	14,416	-	-	14,416
Prepaid insurance	56,255	-	-	56,255
Impact fees	5,168,889	-	-	5,168,889
Beach access	-	-	543,085	543,085
Community redevelopment	-	34,107,717	-	34,107,717
Unreserved, reported in				
General fund	6,345,350	-	-	6,345,350
Community redevelopment fund	-	248,768	-	248,768
Special revenue funds	-	-	22,072	22,072
Total fund balances	11,607,497	34,356,485	598,385	46,562,367
Total liabilities and fund balances	\$ 12,916,943	\$ 35,099,588	\$ 598,698	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				72,909,686
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(56,596,713)
Net assets of governmental activities				\$ 62,875,340

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, 2008

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Revenues				
Taxes				
Business tax receipts	\$ 6,021,075	\$ -	\$ -	\$ 6,021,075
Utility	2,030,711	-	-	2,030,711
Tax increment funds	-	8,647,774	-	8,647,774
Franchise fees	1,876,678	-	-	1,876,678
Intergovernmental	2,580,124	-	-	2,580,124
Municipal services impact fees	190,744	-	-	190,744
Licenses and permits	508,236	-	-	508,236
Fines and forfeitures	179,807	-	-	179,807
Contributions and donations	33,999	39,246	23,154	96,399
Grants	738,995	310,913	-	1,049,908
Rents	150,317	-	-	150,317
Interest	216,632	756,124	13,900	986,656
Other fees and miscellaneous	407,799	-	-	407,799
Total revenues	14,935,117	9,754,057	37,054	24,726,228
Expenditures				
Current				
General government	2,103,787	315,060	-	2,418,847
Public safety	6,942,835	-	23,625	6,966,460
Highways and streets	1,232,626	1,169,639	-	2,402,265
Culture and recreation	1,894,656	-	-	1,894,656
Debt service				
Principal	246,114	900,000	-	1,146,114
Interest and other fiscal charges	20,722	2,495,900	-	2,516,622
Other debt service costs	-	1,000	-	1,000
Capital outlay				
General government	36,186	19,539	-	55,725
Public safety	509,029	-	15,964	524,993
Highways and streets	30,653	13,221,527	-	13,252,180
Culture and recreation	1,139,371	-	-	1,139,371
Total expenditures	14,155,979	18,122,665	39,589	32,318,233
Excess (deficiency) of revenues over (under) expenditures	779,138	(8,368,608)	(2,535)	(7,592,005)
Other financing sources (uses)				
Transfers in	100,000	-	-	100,000
Transfers out	(614,724)	-	-	(614,724)
Proceeds from sale of assets	160,774	12,237	6,650	179,661
Net other financing sources (uses)	(353,950)	12,237	6,650	(335,063)
Net change in fund balances	425,188	(8,356,371)	4,115	(7,927,068)
Fund balances - beginning	11,182,309	42,712,856	594,270	54,489,435
Fund balances - ending	\$ 11,607,497	\$ 34,356,485	\$ 598,385	\$ 46,562,367

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, 2008

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

Net change in fund balances - total governmental funds (page 17)	\$ (7,927,068)
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 capital outlay exceeded depreciation in the current period.	13,120,529
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to increase net assets.	1,243,539
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.	(353,906)
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 assets. 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.	1,043,450
<u>Change in net assets of governmental activities (page 15)</u>	<u>\$ 7,126,544</u>

City of Panama City Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended September 30, 2008

	Budgeted Amounts		Variance with	Actual	Budget	Actual
	Original	Final	Final Budget- Actual Amounts Budget Basis	Amounts Budget Basis	to GAAP Difference	Amounts GAAP Basis
Revenues						
Taxes						
Business tax receipts	\$ 5,900,000	\$ 6,020,000	\$ 1,075	\$ 6,021,075	\$ -	\$ 6,021,075
Utility	1,910,000	2,092,000	(283,790)	1,808,210	222,501	2,030,711
Franchise fees	1,704,000	1,854,000	(30,582)	1,823,418	53,260	1,876,678
Intergovernmental	2,447,759	2,506,787	60,218	2,567,005	13,119	2,580,124
Municipal services impact fees	1,140,590	404,812	(214,068)	190,744	-	190,744
Licenses and permits	860,000	604,000	(95,764)	508,236	-	508,236
Fines and forfeitures	126,000	168,000	18,265	186,265	(6,458)	179,807
Contributions and donations	30,500	26,117	8,672	34,789	(790)	33,999
Grants	289,284	620,900	(2,615)	618,285	120,710	738,995
Rents	121,050	138,050	13,185	151,235	(918)	150,317
Interest	285,000	208,000	8,632	216,632	-	216,632
Other fees and miscellaneous	412,897	430,454	(61,254)	369,200	38,599	407,799
Total revenues	15,227,080	15,073,120	(578,026)	14,495,094	440,023	14,935,117
Expenditures						
Current						
General government						
Legislative	152,818	168,118	8,320	159,798	104	159,902
Administration	731,806	687,805	43,472	644,333	11,974	656,307
Comprehensive planning	350,398	334,045	44,548	289,497	(4,555)	284,942
Civil service	22,990	27,962	593	27,369	149	27,518
Elections	7,000	7,750	7,021	729	6,224	6,953
Protective services	1,230,426	1,093,600	102,029	991,571	(23,406)	968,165
Total general government	2,495,438	2,319,280	205,983	2,113,297	(9,510)	2,103,787
Public safety						
Police	4,879,529	4,793,642	145,935	4,647,707	(1,249)	4,646,458
Fire	2,224,388	2,317,794	22,479	2,295,315	1,062	2,296,377
Total public safety	7,103,917	7,111,436	168,414	6,943,022	(187)	6,942,835
Highways and streets						
	1,318,639	1,287,851	76,894	1,210,957	21,669	1,232,626
Culture and recreation						
Library	169,460	172,360	2,051	170,309	816	171,125
Recreation	1,807,340	1,743,692	32,636	1,711,056	12,475	1,723,531
Total culture and recreation	1,976,800	1,916,052	34,687	1,881,365	13,291	1,894,656
Total current	12,894,794	12,634,619	485,978	12,148,641	25,263	12,173,904
Debt service						
Principal	246,096	246,114	-	246,114	-	246,114
Interest and other fiscal charges	20,808	20,723	1	20,722	-	20,722
Total debt service	266,904	266,837	1	266,836	-	266,836

(Continued)

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, 2008

	Budgeted Amounts		Variance with Final Budget- Actual Amounts Budget Basis	Actual Amounts Budget Basis	Budget to GAAP Difference	Actual Amounts GAAP Basis
	Original	Final				
Expenditures (continued)						
Capital outlay						
General government						
Administrative	\$ 18,336	\$ 29,267	\$ 1	\$ 29,266	\$ -	\$ 29,266
Comprehensive planning	5,000	5,000	664	4,336	150	4,486
Protective services	5,000	5,000	2,091	2,909	(475)	2,434
Total general government	28,336	39,267	2,756	36,511	(325)	36,186
Public safety						
Police	537,500	471,500	51,637	419,863	(1,008)	418,855
Fire	211,892	90,300	126	90,174	-	90,174
Total public safety	749,392	561,800	51,763	510,037	(1,008)	509,029
Highways and streets	22,000	31,000	347	30,653	-	30,653
Culture and recreation						
Library	214,500	50,000	23,550	26,450	2,250	28,700
Recreation	1,209,750	1,324,600	54,004	1,270,596	(159,925)	1,110,671
Total culture and recreation	1,424,250	1,374,600	77,554	1,297,046	(157,675)	1,139,371
Total capital outlay	2,223,978	2,006,667	132,420	1,874,247	(159,008)	1,715,239
Total expenditures	15,385,676	14,908,123	618,399	14,289,724	(133,745)	14,155,979
Excess (deficiency) of revenues over (under) expenditures	(158,596)	164,997	40,373	205,370	573,768	779,138
Other financing sources (uses)						
Transfers in	100,000	100,000	-	100,000	-	100,000
Transfer out	(947,750)	(685,501)	70,777	(614,724)	-	(614,724)
Proceeds from sale of assets	-	138,846	21,928	160,774	-	160,774
Total other financing sources (uses)	(847,750)	(446,655)	92,705	(353,950)	-	(353,950)
Net change in fund balances	(1,006,346)	(281,658)	133,078	(148,580)	573,768	425,188
Fund balances - beginning	11,182,309	11,182,309	-	11,182,309	-	11,182,309
Fund balances - ending	\$ 10,175,963	\$ 10,900,651	\$ 133,078	\$ 11,033,729	\$ 573,768	\$ 11,607,497

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, 2008

	Budgeted Amounts		Variance with Final Budget- Actual Amounts Budget Basis	Actual Amounts Budget Basis	Budget to GAAP Difference	Actual Amounts GAAP Basis
	Original	Final				
Revenues						
Tax increment funds	\$ 9,079,225	\$ 8,647,774	\$ -	\$ 8,647,774	\$ -	\$ 8,647,774
Contributions and donations	-	39,246	-	39,246	-	39,246
Grants	424,788	725,378	5,041	730,419	(419,506)	310,913
Interest	1,098,855	694,775	9,694	704,469	51,655	756,124
Total revenues	10,602,868	10,107,173	14,735	10,121,908	(367,851)	9,754,057
Expenditures						
Current						
General government	177,296	316,630	11,727	304,903	10,157	315,060
Highways and streets	1,510,104	1,282,277	18,305	1,263,972	(94,333)	1,169,639
Total current	1,687,400	1,598,907	30,032	1,568,875	(84,176)	1,484,699
Debt service						
Principal	900,000	900,000	-	900,000	-	900,000
Interest and other fiscal charges	2,495,900	2,495,900	-	2,495,900	-	2,495,900
Other debt services costs	1,250,000	1,000	-	1,000	-	1,000
Total debt service	4,645,900	3,396,900	-	3,396,900	-	3,396,900
Capital outlay						
General government	3,000	19,600	61	19,539	-	19,539
Highways and streets	54,188,100	15,325,975	1,938,348	13,387,627	(166,100)	13,221,527
Total capital outlay	54,191,100	15,345,575	1,938,409	13,407,166	(166,100)	13,241,066
Total expenditures	60,524,400	20,341,382	1,968,441	18,372,941	(250,276)	18,122,665
Deficiency of revenues (under) expenditures	(49,921,532)	(10,234,209)	1,983,176	(8,251,033)	(117,575)	(8,368,608)
Other financing sources						
Transfers in	200,000	-	-	-	-	-
Debt issued	30,000,000	-	-	-	-	-
Proceeds from sale of assets	-	12,048	189	12,237	-	12,237
Total other financing sources	30,200,000	12,048	189	12,237	-	12,237
Net change in fund balances	(19,721,532)	(10,222,161)	1,983,365	(8,238,796)	(117,575)	(8,356,371)
Fund balances - beginning	42,712,856	42,712,856	-	42,712,856	-	42,712,856
Fund balances - ending	\$ 22,991,324	\$ 32,490,695	\$ 1,983,365	\$ 34,474,060	\$ (117,575)	\$ 34,356,485

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

City of Panama City Beach, Florida
Statement of Net Assets
Proprietary Funds
September 30, 2008

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 14,600,468	\$ 345,083	\$ 14,945,551
Accounts receivable, net	5,011,303	5,366	5,016,669
Grants receivable	-	1,620,024	1,620,024
Accrued interest receivable	7,308	-	7,308
Due from other funds	335,528	-	335,528
Inventory	589,867	-	589,867
Prepaid insurance	6,452	2,254	8,706
Notes receivable	720,771	-	720,771
Unamortized debt issuance costs	32,312	-	32,312
Total current assets	21,304,009	1,972,727	23,276,736
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	38,277,415	-	38,277,415
Accounts receivable	80,117	-	80,117
Grants receivable	12,102	-	12,102
Accrued interest receivable	511,812	-	511,812
Notes receivable	54,510	-	54,510
Notes receivable	161,329	-	161,329
Capital assets			
Nondepreciable	15,811,331	4,783,070	20,594,401
Depreciable, net	67,190,611	4,185,270	71,375,881
Unamortized debt issuance costs	479,928	-	479,928
Total noncurrent assets	122,579,155	8,968,340	131,547,495
Total assets	143,883,164	10,941,067	154,824,231
Liabilities			
Current liabilities			
Accounts payable	2,320,495	1,452,932	3,773,427
Accrued expenses and deposits	396,250	11,810	408,060
Accrued interest payable	1,656,163	-	1,656,163
Due to other funds	75	335,528	335,603
Due to other governments	4,851	863	5,714
Revenue certificates payable	1,961,455	-	1,961,455
Deferred revenue	1,790,069	16,137	1,806,206
Accrued compensated absences	147,726	-	147,726
Notes payable	948,852	630,000	1,578,852
Revenue bonds payable, net	336,752	-	336,752
Total current liabilities	9,562,688	2,447,270	12,009,958
Noncurrent liabilities			
Accrued compensated absences	828,980	4,428	833,408
Notes payable	22,611,254	-	22,611,254
Revenue bonds payable, net	22,729,358	-	22,729,358
Total noncurrent liabilities	46,169,592	4,428	46,174,020
Total liabilities	55,732,280	2,451,698	58,183,978
Net assets			
Invested in capital assets, net of related debt	38,943,350	8,968,340	47,911,690
Restricted for			
Impact fees	29,673,514	-	29,673,514
Debt service	966,730	-	966,730
Storm water	713,384	-	713,384
Unrestricted (deficit)	17,853,906	(478,971)	17,374,935
Total net assets	\$ 88,150,884	\$ 8,489,369	\$ 96,640,253

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 Assets
Proprietary Funds
Year Ended September 30, 2008

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Operating revenues			
Charges for services			
Water and sewer sales	\$ 21,656,360	\$ -	\$ 21,656,360
Storm water assessments	719,002	-	719,002
Connection fees	312,055	-	312,055
Administrative and review fees	65,300	-	65,300
Admissions and other fees	-	265,830	265,830
Rent	36,000	24,402	60,402
Miscellaneous	503,003	711	503,714
Total operating revenues	23,291,720	290,943	23,582,663
Operating expenses			
Personal services	4,629,544	438,504	5,068,048
Professional services	493,208	8,019	501,227
Office supplies	20,511	1,138	21,649
Contractual services	129,380	1,096	130,476
Insurance	209,820	38,476	248,296
Repairs and maintenance	1,170,852	11,970	1,182,822
Operating supplies	1,772,593	110,618	1,883,211
Communication services	64,222	8,393	72,615
Public utility services	8,152,625	111,638	8,264,263
Transportation	77,657	430	78,087
Rentals	39,768	6,245	46,013
Printing and binding	13,471	1,334	14,805
Miscellaneous	96,221	7,409	103,630
Amortization	66,184	-	66,184
Depreciation	2,792,594	166,641	2,959,235
Total operating expenses	19,728,650	911,911	20,640,561
Net operating income (loss)	3,563,070	(620,968)	2,942,102
Nonoperating revenues (expenses)			
Interest income	1,671,110	2,686	1,673,796
Grants and contributions	4,510,506	4,261,396	8,771,902
(Loss) on disposal of assets	(294)	(227,306)	(227,600)
Interest expense	(2,276,816)	(29,504)	(2,306,320)
Total nonoperating revenues	3,904,506	4,007,272	7,911,778
Net income before impact fees and transfers	7,467,576	3,386,304	10,853,880
Impact fees	2,424,631	-	2,424,631
Transfers in	-	614,724	614,724
Transfers out	(100,000)	-	(100,000)
Total impact fees and transfers	2,324,631	614,724	2,939,355
Change in net assets	9,792,207	4,001,028	13,793,235
Total net assets - beginning	78,358,677	4,488,341	82,847,018
Total net assets - ending	\$ 88,150,884	\$ 8,489,369	\$ 96,640,253

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, 2008

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Operating activities			
Receipts from customers and users	\$ 21,355,605	\$ 285,722	\$ 21,641,327
Payments to / advances from suppliers	(11,705,547)	(420,597)	(12,126,144)
Payments to employees	(4,379,195)	(439,280)	(4,818,475)
Net cash provided (used) by operating activities	5,270,863	(574,155)	4,696,708
Noncapital financing activities			
Contributions	120,000	102,500	222,500
Due from other governments	-	4,162	4,162
Transfers from (to) other funds	(100,000)	225,000	125,000
Net cash provided by noncapital financing activities	20,000	331,662	351,662
Capital and related financing activities			
Capital grants	4,735,189	2,959,321	7,694,510
Impact fees	2,424,631	-	2,424,631
Transfers to other funds	-	406,942	406,942
Principal paid on revenue certificates	(528)	-	(528)
Principal paid on revenue bonds	(450,000)	-	(450,000)
Proceeds from note payable issuance	604,964	-	604,964
Principal paid on notes payable	(837,896)	-	(837,896)
Interest paid on revenue bonds	(1,232,058)	-	(1,232,058)
Interest paid on notes payable	(404,943)	(33,473)	(438,416)
Advances from (to) other funds	(470,000)	-	(470,000)
Proceeds from sale of assets	5,963	613	6,576
Purchase of capital assets	(10,012,617)	(2,862,829)	(12,875,446)
Net cash provided (used) by capital and related financing activities	(5,637,295)	470,574	(5,166,721)
Investing activities			
Payments received from notes receivable	111,209	-	111,209
Advances from (to) other funds	839,655	-	839,655
Interest received	1,424,677	2,686	1,427,363
Net cash provided by investing activities	2,375,541	2,686	2,378,227
Net increase in cash and cash equivalents	2,029,109	230,767	2,259,876
Cash and cash equivalents - beginning	50,848,774	114,316	50,963,090
Cash and cash equivalents - ending	\$ 52,877,883	\$ 345,083	\$ 53,222,966
Classified as			
Current assets - cash and cash equivalents	\$ 14,600,468	\$ 345,083	\$ 14,945,551
Restricted assets - cash and cash equivalents	38,277,415	-	38,277,415
Total	\$ 52,877,883	\$ 345,083	\$ 53,222,966

(Continued)

City of Panama City Beach, Florida
Statement of Cash Flows
Proprietary Funds (Continued)
Year Ended September 30, 2008

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities			
Net operating income (loss)	\$ 3,563,070	\$ (620,968)	\$ 2,942,102
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Amortization	66,184	-	66,184
Depreciation	2,792,594	166,641	2,959,235
Bad debt	257,800	-	257,800
(Increase) decrease in assets			
Accounts receivable	(414,055)	(1,504)	(415,559)
Inventory	(56,090)	-	(56,090)
Prepaid insurance	(587)	164	(423)
Increase (decrease) in liabilities			
Accounts payable	340,058	2,593	342,651
Accrued expenses and deposits	294,553	(972)	293,581
Accrued compensated absences	223,311	196	223,507
Due to other funds	(12,909)	(115,036)	(127,945)
Due to other governments	(14,248)	(1,570)	(15,818)
Deferred revenue	(1,768,818)	(3,699)	(1,772,517)
Total adjustments	1,707,793	46,813	1,754,606
Net cash provided (used) by operating activities	\$ 5,270,863	\$ (574,155)	\$ 4,696,708
Noncash investing, capital, and financing activities			
Capitalized interest included in principal	\$ 292,431	\$ -	\$ 292,431
Contributed assets	\$ 375,500	\$ 10,000	\$ 385,500

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

City of Panama City Beach, Florida
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2008

	Pension Trust Funds
<hr/>	
Assets	
Cash and cash equivalents	\$ 141,779
Accounts receivable, net	143,638
Investments, at fair value	
Money market funds	992,200
Common stocks	2,879,460
Real estate investment trusts	969,021
Mutual funds	23,192,203
<hr/>	
Total assets	28,318,301
<hr/>	
Liabilities	
Accounts payable	441
Refunds payable	7,492
<hr/>	
Total liabilities	7,933
<hr/>	
Net assets	
Held in trust for pension benefits	\$ 28,310,368
<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 Assets
Fiduciary Funds
Year Ended September 30, 2008

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 1,462,599
Plan members	827,656
Insurance premiums	423,169
Total contributions	2,713,424
Investment earnings (loss)	
Interest	12,498
Dividends	221,956
Net decrease in fair value of investments	(3,793,901)
Total investment earnings (loss)	(3,559,447)
Less investment expenses	(194,350)
Net investment earnings (loss)	(3,753,797)
Total additions	(1,040,373)
Deductions	
Benefits	891,833
Refunds of contributions	205,506
Administrative expenses	82,187
Total deductions	1,179,526
Change in net assets	(2,219,899)
Net assets - beginning	30,530,267
Net assets - ending	\$ 28,310,368

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, public improvements, planning and zoning, general administrative services 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. 14, *The Financial Reporting Entity* and in publications cited in the State of Florida, Office of the Auditor General Rules, Rule 10.553, 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 (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 is presented as a governmental fund type with a fiscal year end of September 30.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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,

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 includes 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. Franchise fees, utility taxes, operating and capital grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other 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.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

operating statements present increases (revenues) and decreases (expenses) in total net assets. The City applies all GASB pronouncements as well as all FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins, issued on or before November 30, 1989, which do not contradict GASB pronouncements.

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 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 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 Statement 34 minimum 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 section.

Governmental Major Funds

General Fund - The general fund is the general operating fund of the City. It is used to account for all activities of the general government except those required to be accounted for in another fund.

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, wastewater and storm water systems operated by the City.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Governmental Assets/Liabilities

GASB Statement 34 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 assets.

Budgets

Annual budgets are legally adopted for all governmental funds, except those indicated in Note 3, and all proprietary funds. Budgets are prepared and adopted on a basis of accounting consistent with U.S. generally accepted accounting principles, except as described in Note 3. 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 Statute.

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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits and Investments

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

Accounts Receivable

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 from 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 to and Due from 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 expendable supplies 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 net current assets.

Inventory in proprietary funds 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 sewer 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 \$1,000 or more and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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 as follows:

Buildings	10-40 Years
Improvements	3-50 Years
Machinery and equipment	2-30 Years

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Capitalization of Interest

Interest incurred during the construction phase of capital assets of business-type activities is capitalized. Total interest expense incurred for business-type activities during the current fiscal year was \$2,210,859. Of this amount, \$3,915 was capitalized in connection with waste water collection and reclaimed distribution line construction projects.

Unamortized Bond Costs

Bond issuance costs associated with the issuance of revenue bonds are amortized over the life of the bonds using the straight-line method.

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. For financial reporting, unamortized bond discounts are netted against the applicable long-term debt while unamortized bond premiums are added to the applicable long-term debt.

Deferred Gain / Loss from Refunding of Debt

In the proprietary funds (and for the governmental activities in the government wide statements) the difference between the re-acquisition price (new debt) and the net carrying value of the old debt or refunded debt transactions is deferred and amortized as a component of interest expense using the straight line method over the shorter of the remaining life of the old debt or the life of the new debt. The deferred amount is offset against the new liability.

Deferred Revenues

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accumulated Vacation and Sick Leave

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

<u>Years of Service</u>	<u>Annual Leave Cap (Days**Each Year)</u>
Up to 5 years	12
5-10 years	15
11-14 years	18
15-19 years	21
20 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. For those employees hired prior to August 1, 2001, one-half of the sick leave balances become vested after five years of employment and all of the sick leave balances become vested after ten years of employment. 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.

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 prior to this date will be paid a maximum of 2,080 hours.

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

Estimated accrued compensated absences for governmental funds represent a reconciling item between the fund and government-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 would typically use restricted resources first as appropriate opportunities arise, but reserves the right to selectively defer the use of restricted resources to future qualifying expenditures.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Accordingly, actual results could differ significantly from those estimates.

NOTE 2 – 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 assets:

The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One 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 \$72,909,686 difference are as follows:

Cost of capital assets	\$ 83,437,690
Less: accumulated depreciation	(10,528,004)
<hr/>	
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$ 72,909,686
<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 (\$56,596,713) difference are as follows:

Bonds payable	\$ (54,021,000)
Notes payable	(252,100)
Less: unamortized bond costs	2,290,088
Premium costs	(1,356,542)
Compensated absences	(2,226,119)
Accrued interest payable	(1,031,040)
<hr/>	
Net adjustment to decrease <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$ (56,596,713)
<hr/>	

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

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

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 assets of governmental activities* as reported in the government-wide statement of 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 \$13,120,529 difference are as follows:

Capital outlay	\$	14,972,269
Depreciation expense		(1,851,740)
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	13,120,529
<hr/>		

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, adjustments, and donations) is to increase net assets." The details of this \$1,243,539 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 the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the basis of the capital assets sold.	\$	(44,080)
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.		1,287,619
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	1,243,539
<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 \$(353,906) difference are as follows:

Compensated absences	\$	(430,988)
Accrued interest		77,082
<hr/>		
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	(353,906)
<hr/>		

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

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

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 assets. 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 \$1,043,450 difference are as follows:

Principal repayments		
Capital leases	\$	51,118
Notes		186,996
Bonds		908,000
Less, amortization of issuance costs		(102,664)
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	1,043,450
<hr/>		

NOTE 3 – BUDGETS

The City adopts budgets on a basis consistent with United States generally accepted accounting principles (GAAP) except as follows:

Special Revenue Funds – the following special revenue funds were not budgeted:

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

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

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

All cash resources of the City are placed in banks that qualify as 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.

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

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 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.

Investments

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

The Local Government Surplus Funds Trust Fund; negotiable direct obligations, the principal and interest of which are unconditionally guaranteed by the United States Government at the then prevailing market price for such securities; interest-bearing time deposits or savings accounts in banks organized under the laws of Florida, in national banks organized under the laws of the United States and doing business and situated in Florida, in savings and loan associations which are under the State of Florida supervision, or in federal savings and loan associations located in Florida and organized under federal law and federal supervision, provided that any such deposits are secured by collateral as may be prescribed by law.

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, 2008, the City did not hold any investments that were considered to be an interest rate risk.

Custodial Risks

At September 30, 2008, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

At September 30, 2008, the City did not hold any investments that were considered to be a concentration of credit risk.

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

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

At September 30, 2008, the City's deposits and investments consisted of the following:

	Carrying Amount	Market Value
Demand deposits	\$ 76,636,908	\$ 76,636,908
Savings accounts	1,140	1,140
Nonnegotiable certificate of deposits	23,590,535	23,590,535
<hr/>		
Total deposits and investments	\$100,228,583	\$100,228,583

NOTE 5 – ACCOUNTS RECEIVABLE, NET

At September 30, 2008, accounts receivable in the governmental funds is summarized as follows:

Total accounts receivable		\$ 51,316
Less: allowance for doubtful accounts		-
<hr/>		
Accounts receivable, net		\$ 51,316

At September 30, 2008, accounts receivable in the proprietary funds is summarized as follows:

Billed accounts receivable		\$ 1,343,360
Unbilled accounts receivable		4,653,451
Other receivables		18,464
<hr/>		
Total accounts receivable		6,015,275
Less: allowance for doubtful accounts		(998,606)
<hr/>		
Accounts receivable, net		\$ 5,016,669

At September 30, 2008, restricted accounts receivable in the proprietary funds is summarized as follows:

Total restricted accounts receivable		\$ 80,117
Less: allowance for doubtful accounts		-
<hr/>		
Restricted accounts receivable, net		\$ 80,117

Restricted accounts receivable consist of receivables arising from activities in the storm water department.

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

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of due to / from other funds balances as of September 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Utility fund	\$ 75
Utility fund	Pier fund	335,528
Total		\$ 335,603

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

The composition of interfund transfers as of September 30, 2008 is as follows:

Transfers out	Transfers in			Total
	General fund	Pier fund	Aquatic Center fund	
General fund	\$ -	\$ 379,501	\$ 235,223	\$ 614,724
Utility fund	(100,000)	-	-	(100,000)
Total transfers out	\$ (100,000)	\$ 379,501	\$ 235,223	\$ 514,724

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

NOTE 7 – CAPITAL ASSETS

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

	September 30, 2007	Increases	Decreases	September 30, 2008
Capital assets, not being depreciated				
Land	\$ 30,721,798	\$ 2,811,123	\$ -	\$ 33,532,921
Construction in progress	13,830,046	11,237,808	(9,891,843)	15,176,011
Total capital assets, not being depreciated	44,551,844	14,048,931	(9,891,843)	48,708,932
Capital assets, being depreciated				
Buildings	4,713,995	-	-	4,713,995
Improvements	11,820,848	11,120,893	(41,064)	22,900,677
Machinery and equipment	7,056,525	591,612	(534,051)	7,114,086
Total capital assets, being depreciated	23,591,368	11,712,505	(575,115)	34,728,758
Less accumulated depreciation				
Buildings	(1,681,347)	(127,254)	-	(1,808,601)
Improvements	(3,884,527)	(910,595)	26,007	(4,769,115)
Machinery and equipment	(3,637,631)	(813,891)	501,234	(3,950,288)
Total accumulated depreciation	(9,203,505)	(1,851,740)	527,241	(10,528,004)
Total capital assets, being depreciated, net of accumulated depreciation	14,387,863	9,860,765	(47,874)	24,200,754
Total governmental activities' capital assets – net	\$ 58,939,707	\$ 23,909,696	\$ (9,939,717)	\$ 72,909,686

During the fiscal year ending September 30, 2008, the City received contributed assets of \$1,287,619.

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

Governmental activities	
General government	\$ 53,518
Public safety	684,681
Highways and streets	265,417
Culture and recreation	848,124
Total depreciation expense – governmental activities	\$ 1,851,740

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

NOTE 7 – CAPITAL ASSETS (CONTINUED)

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

	September 30, 2007	Increases	Decreases	September 30, 2008
Capital assets, not being depreciated				
Land	\$ 6,366,716	\$ 451,035	\$ -	\$ 6,817,751
Construction in progress	7,095,149	13,312,150	(6,630,649)	13,776,650
Total capital assets, not being depreciated	13,461,865	13,763,185	(6,630,649)	20,594,401
Capital assets, being depreciated				
Buildings	32,698,925	-	(124,589)	32,574,336
Improvements	56,810,702	4,454,366	(757,370)	60,507,698
Machinery and equipment	5,813,659	3,017,298	(489,741)	8,341,216
Total capital assets, being depreciated	95,323,286	7,471,664	(1,371,700)	101,423,250
Less accumulated depreciation				
Buildings	(8,836,195)	(842,191)	90,570	(9,587,816)
Improvements	(16,570,467)	(1,538,728)	564,951	(17,544,244)
Machinery and equipment	(2,816,255)	(578,316)	479,262	(2,915,309)
Total accumulated depreciation	(28,222,917)	(2,959,235)	1,134,783	(30,047,369)
Total capital assets, being depreciated, net of accumulated depreciation	67,100,369	4,512,429	(236,917)	71,375,881
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 80,562,234	\$ 18,275,614	\$ (6,867,566)	\$ 91,970,282

During the fiscal year ending September 30, 2008, the City received contributed assets of \$385,500.

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

Business-type activities	
Utility fund	\$ 2,792,594
Pier fund	9,425
Aquatic Center fund	157,216
Total depreciation expense – business-type activities	\$ 2,959,235

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

NOTE 7 – CAPITAL ASSETS (CONTINUED)

The following schedule summarizes the capital assets of the City's business-type activities at September 30, 2008:

	Utility Fund	Pier Fund	Aquatic Center Fund	Total
Land	\$ 6,817,751	\$ -	\$ -	\$ 6,817,751
Buildings	30,361,276	-	2,213,060	32,574,336
Improvements	58,464,571	-	2,043,127	60,507,698
Machinery and equipment	8,017,483	10,092	313,641	8,341,216
Construction in progress	8,993,580	4,778,070	5,000	13,776,650
Total	112,654,661	4,788,162	4,574,828	122,017,651
Less: accumulated depreciation				
Buildings	(9,448,988)	-	(138,828)	(9,587,816)
Improvements	(17,371,017)	-	(173,227)	(17,544,244)
Machinery and equipment	(2,832,714)	(6,022)	(76,573)	(2,915,309)
Total accumulated depreciation	(29,652,719)	(6,022)	(388,628)	(30,047,369)
Total business-type activities' capital assets, net	\$ 83,001,942	\$ 4,782,140	\$ 4,186,200	\$ 91,970,282

NOTE 8 – CAPITAL LEASES

The City has entered into lease agreements to finance vehicles and equipment. These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of their future minimum lease payments as of the inception date. The cost of assets acquired through capital leases are as follows:

	General Fund
Vehicles	\$ 258,652
Equipment	57,490
Total	316,142
Less accumulated depreciation	(243,417)
Net	\$ 72,725

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

NOTE 9 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2007	Additions	Deductions	Balance September 30, 2008	Due Within One Year
Revenue bonds payable	\$ 54,929,000	\$ -	\$ (908,000)	\$ 54,021,000	\$ 1,324,000
Adjusted for deferred amounts for issuance premium	1,415,307	-	(58,765)	1,356,542	58,765
Total bonds payable	56,344,307	-	(966,765)	55,377,542	1,382,765
Notes payable	439,096	-	(186,996)	252,100	90,771
Capital leases payable	51,118	-	(51,118)	-	-
Accrued compensated absences	1,795,130	510,044	(79,055)	2,226,119	3,693
	\$ 58,629,651	\$ 510,044	\$ (1,283,934)	\$ 57,855,761	\$ 1,477,229

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 these bonds is on November 1, 2031. These bonds are payable from a pledge of and first lien upon Front Beach Road CRA Tax Increment Revenues.

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 Redevelopment Plan. The \$54,835,000 is composed of \$38,420,000 Serial Bonds and \$16,415,000 Term Bonds.

\$ 53,935,000

\$222,000 Recreation Center Capital Improvement Revenue Bonds, Series 1977, payable in annual installments of \$5,000 to \$13,000, with a final maturity on September 1, 2016. Interest is also payable annually at a rate of 5%. These bonds are collateralized by and payable from a pledge of and first lien upon business tax receipts and a pledge of and junior lien upon franchise fees.

The bonds were issued to provide funds for the purpose of financing the planning, design and construction necessary to build the Community Recreation Center.

86,000

Total revenue bonds at September 30, 2008

54,021,000

Less: revenue bonds – current portion

(1,324,000)

Revenue bonds – long-term at September 30, 2008

\$ 52,697,000

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

NOTE 9 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)

Debt service requirements to maturity on Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project), payable at September 30, 2008 are as follows:

Year Ending September 30,	Principal	Interest	Total
2009	\$ 1,315,000	\$ 2,451,600	\$ 3,766,600
2010	1,365,000	2,398,000	3,763,000
2011	1,420,000	2,342,300	3,762,300
2012	1,480,000	2,284,300	3,764,300
2013	1,540,000	2,221,975	3,761,975
2014-2018	8,770,000	9,987,507	18,757,507
2019-2023	10,970,000	7,751,456	18,721,456
2024-2028	13,630,000	5,015,450	18,645,450
2029-2032	13,445,000	1,385,375	14,830,375
	\$ 53,935,000	\$ 35,837,963	\$ 89,772,963

Debt service requirements to maturity on Recreation Center Capital Improvement Revenue Bonds, Series 1977, payable at September 30, 2008 are as follows:

Year Ending September 30,	Principal	Interest	Total
2009	\$ 9,000	\$ 4,300	\$ 13,300
2010	9,000	3,850	12,850
2011	10,000	3,400	13,400
2012	10,000	2,900	12,900
2013	11,000	2,400	13,400
2014-2016	37,000	3,750	40,750
	\$ 86,000	\$ 20,600	\$ 106,600

Notes Payable:

Water Fund – Note payable dated April 8, 2002, payable in 120 monthly installments of \$7,959 beginning March 1, 2003, which includes principal and interest at 2.25%, collateralized by equipment.	\$ 252,100
Total notes payable at September 30, 2008	252,100
Less: current portion	(90,771)
Notes payable – long-term at September 30, 2008	\$ 161,329

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

NOTE 9 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES (CONTINUED)

Debt service requirements to maturity on notes payable at September 30, 2008 are as follows:

Year Ending September 30,	Principal	Interest	Total
2009	\$ 90,771	\$ 4,740	\$ 95,511
2010	92,834	2,677	95,511
2011	68,495	624	69,119
	\$ 252,100	\$ 8,041	\$ 260,141

NOTE 10 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES

	Balance September 30, 2007	Additions	Deductions	Balance September 30, 2008	Due Within One Year
Revenue bonds payable	\$ 25,075,000	\$ -	\$ (450,000)	\$ 24,625,000	\$ 470,000
Adjusted for deferred amounts					
On refunding	(937,802)	-	99,374	(838,428)	(99,376)
For issuance discounts	(754,336)	-	33,874	(720,462)	(33,872)
Total bonds payable	23,382,862	-	(316,752)	23,066,110	336,752
Revenue certificates payable	1,961,983	-	(528)	1,961,455	1,961,455
Notes payable	24,130,607	897,395	(837,896)	24,190,106	1,578,852
Accrued compensated balances	757,627	225,349	(1,842)	981,134	147,726
	\$ 50,233,079	\$ 1,122,744	\$ (1,157,018)	\$ 50,198,805	\$ 4,024,785

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

NOTE 10 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

Revenue Bonds:

\$6,970,000 Utility Revenue Bonds, Series 1998, dated March 1, 1998; 3.65% to 4.90% interest, depending on maturity dates of bonds. Interest is payable semi-annually on June 1 and December 1. Principal is payable annually on June 1 with final maturity on June 1, 2019. The \$6,970,000 is composed of \$5,490,000 Serial Bonds and \$1,480,000 Term Bonds.

The bonds were issued to provide funds for the purpose of: 1) refunding the City's outstanding \$3,030,000 Water and Sewer Refunding Revenue Bonds, Series 1986 and its outstanding \$3,645,000 Water and Sewer Revenue Bonds, Series 1989, and 2) paying certain costs incurred in connection with the issuance of the Series 1998 Bonds. The total deferred loss on Bond Retirement was \$560,103 to be amortized over 182 months. \$ 5,485,000

\$19,920,000 Utility Revenue Bonds, Series 2002, dated April 1, 2002; 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, 2006 with final maturity on June 1, 2032. The \$19,920,000 is composed of Term Bonds.

The bonds were issued to provide funds for the purpose of: 1) refunding the City's outstanding Water and Sewer Refunding and Improvement Revenue Bonds, Series 1993, 2) funding the Reserve Account as stated in the Bond Document, 3) financing the cost of acquisition and construction of certain capital improvements in connection with the City's water and sewer utility system, 4) paying certain costs relating to the issuance of the bonds. 19,140,000

Total principal obligation at September 30, 2008	24,625,000
Less: principal obligation – current portion	(470,000)
<hr/>	
Principal obligation – long-term at September 30, 2008	\$ 24,155,000

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

NOTE 10 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

Debt service requirements to maturity on revenue bonds payable at September 30, 2008 are as follows:

Year Ending September 30,	Principal	Interest	Total
2009	\$ 470,000	\$ 1,213,458	\$ 1,683,458
2010	885,000	1,193,517	2,078,517
2011	930,000	1,151,922	2,081,922
2012	980,000	1,108,212	2,088,212
2013	1,020,000	1,061,172	2,081,172
2014-2018	3,685,000	4,722,123	8,407,123
2019-2023	4,690,000	3,717,500	8,407,500
2024-2028	5,985,000	2,421,750	8,406,750
2029-2032	5,980,000	765,000	6,745,000
	\$ 24,625,000	\$ 17,354,654	\$ 41,979,654

Defeased Debt Outstanding:

The principal balance of defeased debt outstanding at September 30, 2008 is as follows:

Water and Sewer Revenue Bonds, Series 1987A	\$ 665,000
	\$ 665,000

Revenue Certificates:

This liability consists of revenue certificates payable to various developers for extensions made to the City's water and sewer systems. The revenue certificates are payable solely from 25% of the impact fees collected by the City for water or sewer 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 20 years from the date of issuance, the certificates shall be void. The City made payments related to the facilities shown below:

Location	Original Amount of Certificate	Balance at September 30, 2007	Net Changes During the Year	Balance at September 30, 2008
23 rd Street Joint Venture – Water	\$ 55,460	\$ 3,235	\$ -	\$ 3,235
Wild Heron – Water/Sewer	431,834	188,794	-	188,794
Hills Road – Water	71,550	6,264	-	6,264
Bayside Partners LLC - Sewer	142,993	124,198	-	124,198
Sunnyside Beach & Tennis	203,385	166,404	-	166,404
Tapestry Park North, LLC	96,430	91,780	(528)	91,252
Magnolia Beach LLC	100,000	85,146	-	85,146
TW Olson-Magnolia LLC	490,500	417,278	-	417,278
St. Andrews Land Company LLC	670,414	570,821	-	570,821
Ocean Park Pavilion Inc. – Water	68,494	68,494	-	68,494
Ocean Park Pavilion Inc. – Sewer	239,795	239,569	-	239,569
	\$ 2,570,855	\$ 1,961,983	\$ (528)	\$ 1,961,455

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

NOTE 10 – LONG-TERM DEBT – BUSINESS-TYPE ACTIVITIES (CONTINUED)

Payments on these revenue certificates are due 10 days after connections are made on all locations except for the Bayside Partners LLC certificate which are due 45 days after connections are made.

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 which includes principal and interest at 2.99%.	\$ 12,623,667
State Revolving Fund #2 – Note payable dated March 5, 2002 payable in 40 semi-annual installments which includes principal and interest at a weighted average interest rate of 2.88%. Beginning date of payment is estimated to be October 15, 2010. Debt Service requirements for this obligation are estimated using the information available at this time.	10,131,746
State Revolving Fund #3 – Note payable dated December 21, 2007, payable in 40 semi-annual installments of \$88,822 beginning April 15, 2009 which includes principal and interest at 2.41%.	608,879
Regions Bank – Note payable dated April 15, 2001, payable in monthly installments of \$2,708 beginning May 15, 2001 which includes principal and interest at 6.2%.	195,814
Utility Fund – Note payable dated May 1, 2006, interest payable quarterly at 3.8%, with principal due on demand.	630,000
Total notes payable at September 30, 2008	24,190,106
Less: current portion	(1,578,852)
Notes payable – long-term at September 30, 2008	\$ 22,611,254

Debt service requirements to maturity on notes payable at September 30, 2008 are as follows:

Year Ending September 30,	Principal	Interest	Total
2009	\$ 1,578,852	\$ 410,741	\$ 1,989,593
2010	1,011,907	1,252,423	2,264,330
2011	1,421,827	842,503	2,264,330
2012	1,471,530	795,074	2,266,604
2013	1,340,329	746,357	2,086,686
2014-2018	7,390,315	2,963,647	10,353,962
2019-2023	5,674,261	1,614,834	7,289,095
2024-2028	3,491,942	707,713	4,199,655
2029	809,143	30,788	839,931
	\$ 24,190,106	\$ 9,364,080	\$ 33,554,186

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

NOTE 11 – 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 Revenues. 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, 2008 totaled \$89,772,963. Annual principal and interest payments on the bonds in fiscal year 2008 required the use of 39.8% of the tax increment revenue. Principal and interest payments paid for the current year and Front Beach Road CRA tax increment revenues collected, were \$3,395,900 and \$8,522,456, respectively

The \$222,000 Recreation Center Capital Improvement Revenue Bonds, Series 1977, were issued to provide funds for the purpose of financing the planning, design and construction necessary to build the Community Recreation Center. These bonds are payable from a pledge of and first lien upon business tax receipts and a pledge of and junior lien upon franchise fees. This pledge remains in effect until extinguishment or maturity of the debt in 2016, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2008 totaled \$106,600. Annual principal and interest payments on the bonds required .16% of the pledged revenue. Principal and interest payments paid for the current year, and business tax receipts and franchise fee revenues, for the same period, were \$12,700 and \$7,897,753, respectively.

NOTE 12 – PLEDGED REVENUE - BUSINESS-TYPE ACTIVITIES

The \$6,970,000 Utility Revenue Bonds, Series 1998, were issued to provide funds which were used to refund the outstanding \$3,030,000 Water and Sewer Refunding Revenue Bonds, Series 1986, and the outstanding \$3,645,000 Water and Sewer Revenue Bonds, Series 1989, and to pay the cost of issuing the bonds. The bonds are secured by a junior lien upon and pledge of (a) net revenues of the system, (b) water system development charges, (c) sewer system development charges, and (d) until released, public services taxes. The lien and pledge exists until extinguishment or maturity of the debt in 2019, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2008 totaled \$6,786,120. Annual principal and interest payments on the bonds required the use of 14.81% of pledge revenue. Principal and interest payments paid for the current year and pledged revenue, were \$447,940 and \$3,024,783, respectively.

The \$19,920,000 Utility Revenue Bonds, Series 2002, were issued to provide funds which were used to refund the outstanding \$12,675,000 Water Sewer Refunding and Improvement Revenue Bonds, Series 1993, and to pay the cost of issuing the bonds. The bonds are secured by a junior lien upon and pledge of (a) net revenues of the system, (b) water system development charges, (c) sewer system development charges, and (d) until released, public services taxes. The lien and pledge exists until extinguishment or maturity of the debt in 2032, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2008 totaled \$35,193,534. Annual principal and interest payments on the bonds required the use of 40.8% of pledged revenue. Principal and interest payments paid for the current year and pledged revenue, were \$1,234,117 and \$3,024,783, respectively.

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

NOTE 13 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The City provides health insurance to its active and retired employees (the OPEB Plan). Pursuant to Section 112.0801, Florida Statutes, the City is required to permit participation in the health insurance program by its retirees and their eligible dependents at a cost to the retiree that is no greater than the cost at which coverage is available for active employees.

Currently, the City funds the OPEB Plan on a pay-as-you-go basis as a current operating expense, and reflects the expense in its financial statements in the fiscal year in which the payments are made. Pursuant to the provisions of GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, governments who provide post employment benefits other than pensions will be required to begin showing all or a portion of the liabilities associated with their OPEB Plans in their financial statements and whether, and to what extent, progress is being made in funding those liabilities.

The City intends to implement the requirements of GASB 45 in the fiscal year ending September 30, 2009 and is in the process of obtaining an actuarial valuation of the OPEB liability as of October 1, 2008.

NOTE 14 – ACCRUED ABSENCES

Accrued compensated absences consist of the following at September 30, 2008:

	Accrued Emergency Leave	Accrued Sick Leave	Total Accrued Leave
Governmental funds			
General	\$ 329,716	\$ 1,886,748	\$ 2,216,464
Community Redevelopment	2,331	7,324	9,655
Enterprise funds			
Utility	186,256	790,450	976,706
Pier	-	-	-
Aquatic Center	2,914	1,514	4,428
Total	\$ 521,217	\$ 2,686,036	\$ 3,207,253

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 attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the City of Panama City Beach.

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

NOTE 15 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

The City is operating under a consent order from the Florida Department of Environmental Protection that arose from an administrative dispute. It is reasonable to anticipate the City's utility system will continue to operate uninterrupted.

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 the County an amount equal to the number of gallons short, at an agreed upon amount (\$.335 per thousand gallons). This amount is to be paid in twelve equal, consecutive monthly installments during the ensuing fiscal year. During the year ended September 30, 2008, the City's cost of water purchased from Bay County was \$6,409,138. The City did not meet its minimum purchase agreement for 2008 and as a result there was an amount due of \$247,423 at September 30, 2008. However, this liability was offset by \$136,393 representing the County's impact fees collected by the City in accordance with the inter-local agreement. As such, the net amount of \$111,030 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 numerous construction contracts with various construction companies related to ongoing capital projects in progress at fiscal year end.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2008, the City became aware of an error in the government-wide financial statements in the fiscal year ending September 30, 2007. Interest costs in the amount of \$394,095 were improperly capitalized in the governmental activities resulting in an overstatement of construction in progress and understatement of interest on long-term debt. A prior period adjustment has been recorded to correct this error resulting in a restatement of beginning net assets in the statement of activities.

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 Mr. Richard Jackson, City Manager, 110 South Arnold Road, Panama City Beach, Florida 32413. A description of the plans follows:

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

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

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. Eighty-two percent (82%) of the total assets held in trust for pension benefits are invested in mutual funds, ten percent (10%) in common stock, three percent (3%) in real estate investment trusts, and the remaining balance of five percent (5%) is in cash, money market funds, and receivables.

Statements of Plan Assets

The City’s statements of plan assets and the changes in assets are disclosed in the combining statements in accordance with GASB Statement No. 25.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at October 1, 2007, the date of the latest actuarial valuation.

	General Employees	Police Officers	Fire- Fighters
Retirees and beneficiaries receiving benefits	39	12	3
Terminated plan members entitled to but not yet receiving benefits	2	6	4
Active plan members	147	46	28
Total	188	64	35
Number of participating employers	1	1	1

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.

Contributions – Plan members are required to contribute 8.7% 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.

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

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

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.

Contributions – Plan members are required to contribute 9.7% 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.

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.

Contributions – Plan members are required to contribute 8.1% of their annual covered salary 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.

Three Year Trend Information

The City’s annual pension cost, percentage of annual pension cost contributed, and net pension obligation for the pension plans for the three preceding years were as follows:

	For The Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
General employees	09/30/06	741,787	102.2%	(38,394)
	09/30/07	818,049	99.7%	(35,743)
	09/30/08	887,879	90.2%	pending
Police officers	09/30/06	380,304	123.3%	(139,616)
	09/30/07	419,466	104.0%	(156,985)
	09/30/08	525,523	94.7%	pending
Firefighters	09/30/06	269,273	116.6%	94,921
	09/30/07	311,462	150.7%	(69,069)
	09/30/08	364,271	161.2%	pending

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

NOTE 18 – LEASES

Beachfront Lease Option

The City has granted an option to lease beachfront property in the Pier Park Redevelopment Area to the St. Joe Company. This lease will become effective after issuance of construction permits by the Florida Department of Environmental Protection. This lease will have a 30 year term and base rent of \$45,000 per year. Additional rent will be payable based on a percent of gross sales generated by businesses operating on the leased property. The beachfront lease option was cancelled subsequent to year end on January 9, 2009.

Pier Lease

The City leased portions of the building located at the pier under an operating lease. During the fiscal year ended September 30, 2008, pier reconstruction began and the lease was terminated because the building was demolished. The rental income for the year ended September 30, 2008 was \$3,000, excluding sales tax.

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 the 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, 2008 was \$36,000.

Frank Brown Park Concession Lease

The City leases five concession stands located within Frank Brown Park. The operating lease includes the use of the concession stand buildings, fixtures and equipment beginning November 1, 2006 and continuing through September 30, 2009. The lessee has an option to renew at the same terms and conditions for two consecutive terms of one year each. Rent is due on the first of each month in an amount equal to 22% of monthly gross sales made by the lessee in the previous month. Monthly rental income is allocated between the General Fund and the Aquatic Center Fund based upon the location of the concession stands. Total rental income for the year end September 30, 2008, by fund, was \$52,257 and \$11,440, respectively.

NOTE 19 – NET ASSET RESTRICTIONS

The following is a description of reported net asset restrictions in governmental activities and business-type activities at September 30, 2008.

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.

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

NOTE 19 – NET ASSET RESTRICTIONS (CONTINUED)

Restriction for Beach Access Public Parking – This was established to restrict resources to create public parking located next to public beach access. An ordinance restricts the use of all resources collected specifically for this program.

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

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.

Business-type Activities

Restriction for Impact Fees – This restriction was established to record water and sewer 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 sewer 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.

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

Summary

Specific restrictions of net assets are summarized below as of September 30, 2008:

Governmental activities	
Law enforcement	\$ 71,149
Beach access public parking	543,085
Impact fees	5,168,889
Debt service	5,270,282
<hr/>	
Total	\$ 11,053,405
<hr/>	
Business-type activities	
Impact fees	\$ 29,673,514
Debt service	966,730
Storm water	713,384
<hr/>	
Total	\$ 31,353,628
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City of Panama City Beach, Florida
Notes to Basic Financial Statements

NOTE 20 – FUND BALANCE RESERVATIONS

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance set aside by the City that does not represent available expendable resources.

The following is a description of reported reserves in governmental funds at September 30, 2008:

General Fund

Reserved for Law Enforcement – This reserve was created to restrict the use of certain resources contributed specifically for law enforcement purposes. Florida statutes restrict the use of these funds for education and training purposes.

Reserved for Inventory – This reserve was created to represent the portion of the fund balance that is not available for expenditures because the City expects to use these resources within the next budgetary period.

Reserved for Prepaid Insurance – This reserve was created to segregate assets that do not represent available expendable financial resources.

Reserved for Impact Fees – This reserve was created to represent the portion of the fund balance that is reserved for capital outlay related to growth.

Community Redevelopment Fund

Reserved for Community Redevelopment – This reserve was created to record activity of the Front Beach Road CRA and the Pier Park CRA. An ordinance restricts the use of these funds to the various costs of the two CRA's activities provided by the City.

Other Governmental Funds

Reserved for Law Enforcement – This reserve was created to restrict the use of certain resources contributed specifically for law enforcement purposes. Florida statutes restrict the use of these funds for capital purchases.

Reserved for Beach Access Public Parking – This reserve was created to restrict the use of all resources contributed specifically for this program.

Summary

Specific reservations of fund balances are summarized below as of September 30, 2008:

General fund		
Reserved for law enforcement	\$	22,587
Reserved for inventory		14,416
Reserved for prepaid insurance		56,255
Reserved for impact fees		5,168,889
<hr/>		
Total	\$	5,262,147
<hr/>		

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

NOTE 20 – FUND BALANCE RESERVATIONS (CONTINUED)

Community Redevelopment fund	
Reserved for community redevelopment	\$ 34,107,717
<hr/>	
Total	\$ 34,107,717
<hr/>	
Other governmental funds	
Reserved for law enforcement	\$ 33,228
Reserved for beach access public parking	543,085
<hr/>	
Total	\$ 576,313
<hr/>	

NOTE 21 – 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.

NOTE 22 – 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 provides 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 is authorized to issue debt to provide funds for public improvements to be 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, 2008, tax increment funds remitted by the County to the City for the Pier Park CRA were \$125,318. These funds were subsequently paid to the CDD by the City.

Additionally, the City has irrevocably pledged the business tax receipts collected within Pier Park to the CDD to be applied (after deduction of certain amounts for public safety services) to certain CDD costs and obligations, including the payment of interest and principal on the debt obligations, in a priority specifically detailed in the PIPA. Business tax receipts collected in the fiscal year ended September 30, 2008 were \$924,323. The City has not recorded any debt related to this transaction because the amount to be repaid is currently undeterminable. Preliminary estimates indicate the expected liability associated with 2008 collections will not be significant.

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

NOTE 22 – PIER PARK (CONTINUED)

The Inland Lease term is 99 years but the parcel may be purchased for \$10 after ten years. This transaction has been recorded as a disposition.

Certain terms of this agreement depend on future events that are undeterminable at the present time. 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.

Required Supplementary Information

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedule of Analysis of Funding Progress
 Pension Trust Funds
 September 30, 2008

Analysis of Funding Progress (In Thousands)

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)
<u>General Employees</u>						
10/1/1998	\$ 5,554	\$ 7,215	\$ 1,661	77.0%	\$ 2,540	65.4%
10/1/1999	\$ 6,405	\$ 8,092	\$ 1,687	79.2%	\$ 2,932	57.5%
10/1/2000	\$ 7,278	\$ 9,036	\$ 1,758	80.5%	\$ 2,865	61.4%
10/1/2001	\$ 7,723	\$ 9,493	\$ 1,770	81.4%	\$ 3,160	56.0%
10/1/2002	\$ 8,400	\$ 10,050	\$ 1,650	83.6%	\$ 3,314	49.8%
10/1/2003	\$ 9,234	\$ 10,801	\$ 1,567	85.5%	\$ 3,634	43.1%
10/1/2004	\$ 10,141	\$ 11,594	\$ 1,453	87.5%	\$ 3,694	39.3%
10/1/2005	\$ 10,986	\$ 12,306	\$ 1,320	89.3%	\$ 3,708	35.6%
10/1/2006	\$ 12,409	\$ 13,615	\$ 1,206	91.1%	\$ 4,510	26.7%
10/1/2007	\$ 14,273	\$ 15,374	\$ 1,101	92.8%	\$ 4,931	22.3%
<u>Police Officers</u>						
10/1/1998	\$ 4,052	\$ 4,869	\$ 817	83.2%	\$ 1,123	72.8%
10/1/1999	\$ 4,608	\$ 5,421	\$ 813	85.0%	\$ 1,429	56.9%
10/1/2000	\$ 5,210	\$ 6,036	\$ 826	86.3%	\$ 1,512	54.6%
10/1/2001	\$ 5,043	\$ 5,862	\$ 819	86.0%	\$ 1,743	47.0%
10/1/2002	\$ 5,860	\$ 6,723	\$ 863	87.2%	\$ 1,798	48.0%
10/1/2003	\$ 6,275	\$ 7,106	\$ 831	88.3%	\$ 1,677	49.6%
10/1/2004	\$ 6,771	\$ 7,542	\$ 771	89.8%	\$ 1,746	44.2%
10/1/2005	\$ 7,262	\$ 8,004	\$ 742	90.7%	\$ 1,772	41.9%
10/1/2006	\$ 8,044	\$ 8,698	\$ 654	92.5%	\$ 1,907	34.3%
10/1/2007	\$ 9,021	\$ 9,905	\$ 884	91.1%	\$ 2,031	43.5%
<u>Firefighters</u>						
10/1/1998	\$ 1,991	\$ 1,991	\$ -	100.0%	\$ 750	0.0%
10/1/1999	\$ 2,298	\$ 2,298	\$ -	100.0%	\$ 878	0.0%
10/1/2000	\$ 2,670	\$ 2,670	\$ -	100.0%	\$ 829	0.0%
10/1/2001	\$ 2,456	\$ 2,742	\$ 286	89.6%	\$ 853	33.5%
10/1/2002	\$ 2,826	\$ 3,230	\$ 404	87.5%	\$ 838	48.2%
10/1/2003	\$ 3,014	\$ 3,505	\$ 491	86.0%	\$ 901	54.5%
10/1/2004	\$ 3,324	\$ 3,816	\$ 492	87.1%	\$ 950	51.8%
10/1/2005	\$ 3,743	\$ 4,233	\$ 490	88.4%	\$ 987	49.6%
10/1/2006	\$ 4,359	\$ 4,832	\$ 473	90.2%	\$ 955	49.5%
10/1/2007	\$ 5,251	\$ 5,685	\$ 434	92.4%	\$ 1,030	42.1%

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedule of Contributions From Employer and Other
 Entity's Contributions - Pension Trust Funds
 September 30, 2008

Schedules of Employer Contributions ^

For the Fiscal Year	General Employees		Police Officers		Firefighters	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
9/30/1999	\$ 403,806	73.8%	\$ 204,139	81.9%	\$ 116,826	58.5%
9/30/2000	\$ 446,713	69.9%	\$ 220,955	77.9%	\$ 134,348	84.8%
9/30/2001	\$ 413,996	82.4%	\$ 216,657	87.3%	\$ 130,935	75.6%
9/30/2002	\$ 527,146	111.1%	\$ 389,119	84.4%	\$ 246,823	43.6%
9/30/2003	\$ 622,651	102.2%	\$ 347,010	104.2%	\$ 221,505	54.9%
9/30/2004	\$ 693,660	105.3%	\$ 329,148	118.2%	\$ 241,386	96.0%
9/30/2005	\$ 681,875	106.7%	\$ 417,364	107.6%	\$ 284,229	98.9%
9/30/2006	\$ 740,332	102.4%	\$ 378,138	124.1%	\$ 279,765	112.2%
9/30/2007	\$ 815,505	100.0%	\$ 412,836	105.7%	\$ 319,200	147.0%
9/30/2008	\$ 885,465	90.5%	\$ 517,687	96.1%	\$ 360,188	163.1%

Schedule of Insurance Contributions

For the Fiscal Year	General Employees #		Police Officers *		Firefighters *	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
9/30/1999	\$ -	0.0%	\$ 46,261	100.0%	\$ 68,351	100.0%
9/30/2000	\$ -	0.0%	\$ 44,579	100.0%	\$ 111,326	100.0%
9/30/2001	\$ -	0.0%	\$ 48,325	100.0%	\$ 73,959	100.0%
9/30/2002	\$ -	0.0%	\$ 61,887	100.0%	\$ 83,579	100.0%
9/30/2003	\$ -	0.0%	\$ 62,369	100.0%	\$ 95,893	100.0%
9/30/2004	\$ -	0.0%	\$ 81,950	100.0%	\$ 106,719	100.0%
9/30/2005	\$ -	0.0%	\$ 89,106	100.0%	\$ 115,978	100.0%
9/30/2006	\$ -	0.0%	\$ 93,883	100.0%	\$ 139,917	100.0%
9/30/2007	\$ -	0.0%	\$ 89,106	100.0%	\$ 235,629	100.0%
9/30/2008	\$ -	0.0%	\$ 96,755	100.0%	\$ 326,414	100.0%

Insurance premium contributions are not required by Florida Statutes for general employees.

* Contributions from insurance premiums are remitted to the Firefighters and Police Officers Pension Plans by the State of Florida Division of Retirement in accordance with F.S. 175.131 and 185.111, respectively.

^ These amounts include insurance premiums contributed by the State.

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedule of Actuarial Considerations
 Pension Trust Funds
 September 30, 2008

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:

	General Employees	Police Officers	Firefighters
Valuation date	10/1/07	10/1/07	10/1/07
Actuarial cost method	Entry age Normal with Frozen Initial Liability	Entry age Normal with Frozen Initial Liability	Entry age Normal with Frozen Initial Liability
Amortization method	Level Percentage of Payroll	Level Percentage of Payroll	Level Percentage of Payroll
Remaining amortization period	12 years	11 years	16 years
Asset valuation method	5-Year Smoothed Market Value without Phase-in	5-Year Smoothed Market Value without Phase-in	5-Year Smoothed Market Value without Phase-in
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	6%	6%	6%

Combining Financial Statements

City of Panama City Beach, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2008

	Special Revenue Funds				
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund		Total
Assets					
Cash and cash equivalents	\$ -	\$ 22,141	\$ -		\$ 22,141
Cash and cash equivalents - restricted	33,472	-	543,085		576,557
Total assets	\$ 33,472	\$ 22,141	\$ 543,085		\$ 598,698
Liabilities and fund balances					
Accounts payable	\$ 244	\$ 69	\$ -		\$ 313
Total liabilities	244	69	-		313
Fund balances					
Reserved for law enforcement	33,228	-	-		33,228
Reserved for beach access public parking	-	-	543,085		543,085
Unreserved	-	22,072	-		22,072
Total fund balances	33,228	22,072	543,085		598,385
Total liabilities and fund balances	\$ 33,472	\$ 22,141	\$ 543,085		\$ 598,698

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

City of Panama City Beach, Florida
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended September 30, 2008

	Special Revenue Funds			Total
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund	
Revenues				
Contributions and donations	\$ -	\$ 23,154	\$ -	\$ 23,154
Interest	73	297	13,530	13,900
Total revenues	73	23,451	13,530	37,054
Expenditures				
Current				
Public safety	5,265	18,360	-	23,625
Capital outlay				
Public safety	15,964	-	-	15,964
Total expenditures	21,229	18,360	-	39,589
Excess (deficiency) of revenues over (under) expenditures	(21,156)	5,091	13,530	(2,535)
Other financing sources				
Proceeds from sale of assets	6,650	-	-	6,650
Total other financing sources	6,650	-	-	6,650
Net change in fund balances	(14,506)	5,091	13,530	4,115
Fund balances - beginning	47,734	16,981	529,555	594,270
Fund balances - ending	\$ 33,228	\$ 22,072	\$ 543,085	\$ 598,385

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

City of Panama City Beach, Florida
Combining Statement of Net Assets
Nonmajor Proprietary Funds
September 30, 2008

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 337,553	\$ 7,530	\$ 345,083
Accounts receivable, net	-	5,366	5,366
Grants receivable	1,620,024	-	1,620,024
Prepaid insurance	-	2,254	2,254
Total current assets	1,957,577	15,150	1,972,727
Noncurrent assets			
Capital assets			
Nondepreciable	4,778,070	5,000	4,783,070
Depreciable, net	4,070	4,181,200	4,185,270
Total noncurrent assets	4,782,140	4,186,200	8,968,340
Total assets	6,739,717	4,201,350	10,941,067
Liabilities			
Current liabilities			
Accounts payable	1,436,491	16,441	1,452,932
Accrued expenses and deposits	-	11,810	11,810
Due to other funds	335,528	-	335,528
Due to other governments	-	863	863
Deferred revenue	-	16,137	16,137
Notes payable	-	630,000	630,000
Total current liabilities	1,772,019	675,251	2,447,270
Noncurrent liabilities			
Accrued compensated absences	-	4,428	4,428
Total noncurrent liabilities	-	4,428	4,428
Total liabilities	1,772,019	679,679	2,451,698
Net assets			
Invested in capital assets, net of related debt	4,782,140	4,186,200	8,968,340
Unrestricted (deficit)	185,558	(664,529)	(478,971)
Total net assets	\$ 4,967,698	\$ 3,521,671	\$ 8,489,369

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

City of Panama City Beach, Florida
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Proprietary Funds
Year Ended September 30, 2008

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating revenues			
Charges for services			
Admissions and other fees	\$ 12,171	\$ 253,659	\$ 265,830
Rent	3,000	21,402	24,402
Miscellaneous	10	701	711
Total operating revenues	15,181	275,762	290,943
Operating expenses			
Personal services	32,435	406,069	438,504
Professional services	2,291	5,728	8,019
Office supplies	-	1,138	1,138
Contractual services	-	1,096	1,096
Insurance	1,819	36,657	38,476
Repairs and maintenance	100	11,870	11,970
Operating supplies	1,130	109,488	110,618
Communication services	192	8,201	8,393
Public utility services	4,655	106,983	111,638
Transportation	21	409	430
Rentals	109	6,136	6,245
Printing and binding	-	1,334	1,334
Miscellaneous	-	7,409	7,409
Depreciation	9,425	157,216	166,641
Total operating expenses	52,177	859,734	911,911
Net operating (loss)	(36,996)	(583,972)	(620,968)
Nonoperating revenues (expenses)			
Interest income	1,384	1,302	2,686
Grants and contributions	4,148,896	112,500	4,261,396
(Loss) on disposal of assets	(226,604)	(702)	(227,306)
Interest expense	(5,546)	(23,958)	(29,504)
Total nonoperating revenues	3,918,130	89,142	4,007,272
Net income (loss) before transfers	3,881,134	(494,830)	3,386,304
Transfers in	379,501	235,223	614,724
Change in net assets	4,260,635	(259,607)	4,001,028
Total net assets - beginning	707,063	3,781,278	4,488,341
Total net assets - ending	\$ 4,967,698	\$ 3,521,671	\$ 8,489,369

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

City of Panama City Beach, Florida
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
Year Ended September 30, 2008

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating activities			
Receipts from customers and users	\$ 16,181	\$ 269,541	\$ 285,722
Payments to / advances from suppliers	(126,487)	(294,110)	(420,597)
Payments to employees	(40,374)	(398,906)	(439,280)
Net cash (used) by operating activities	(150,680)	(423,475)	(574,155)
Noncapital financing activities			
Contributions	-	102,500	102,500
Due from other governments	4,162	-	4,162
Transfers from other funds	-	225,000	225,000
Net cash provided by noncapital financing activities	4,162	327,500	331,662
Capital and related financing activities			
Transfers from other funds	379,501	27,441	406,942
Capital grants	2,959,321	-	2,959,321
Interest paid on notes payable	(5,546)	(27,927)	(33,473)
Purchase of capital assets	(2,855,103)	(7,726)	(2,862,829)
Proceeds from sale of assets	-	613	613
Net cash provided (used) by capital and related financing activities	478,173	(7,599)	63,632
Investing activities			
Interest received	1,384	1,302	2,686
Net cash provided by investing activities	1,384	1,302	2,686
Net increase / (decrease) in cash and cash equivalents	333,039	(102,272)	230,767
Cash and cash equivalents - beginning	4,514	109,802	114,316
Cash and cash equivalents - ending	\$ 337,553	\$ 7,530	\$ 345,083

(Continued)

City of Panama City Beach, Florida
Combining Statement of Cash Flows
Nonmajor Proprietary Funds (Continued)
Year Ended September 30, 2008

Business-type Activities / Enterprise Funds			
	Pier Fund	Aquatic Center Fund	Total
Reconciliation of net operating (loss) to net cash provided (used) by operating activities			
Net operating (loss)	\$ (36,996)	\$ (583,972)	\$ (620,968)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	9,425	157,216	166,641
(Increase) decrease in assets			
Accounts receivable	1,000	(2,504)	(1,504)
Prepaid insurance	328	(164)	164
Increase (decrease) in liabilities			
Accounts payable	90	2,503	2,593
Accrued expenses and deposits	(4,314)	3,342	(972)
Due to other funds	(115,036)	-	(115,036)
Due to other governments	(1,552)	(18)	(1,570)
Deferred revenue	-	(3,699)	(3,699)
Accrued compensated absences	(3,625)	3,821	196
Total adjustments	(113,684)	160,497	46,813
Net cash provided (used) by operating activities	\$ (150,680)	\$ (423,475)	\$ (574,155)
Noncash investing, capital, and financing activities			
Contributed assets	\$ -	\$ 10,000	\$ 10,000

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

City of Panama City Beach, Florida
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2008

	General Employees Pension Trust Fund	Police Officers Pension Trust Fund	Firefighters Pension Trust Fund	Total
Assets				
Cash and cash equivalents	\$ 56,791	\$ 67,926	\$ 17,062	\$ 141,779
Accounts receivable, net	49	30	143,559	143,638
Investments, at fair value				
Money market funds	499,292	302,665	190,243	992,200
Common stocks	1,448,993	878,362	552,105	2,879,460
Real estate investment trusts	487,628	295,594	185,799	969,021
Mutual funds	11,670,728	7,074,631	4,446,844	23,192,203
Total assets	14,163,481	8,619,208	5,535,612	28,318,301
Liabilities				
Accounts payable	441	-	-	441
Refunds payable	6,942	550	-	7,492
Total liabilities	7,383	550	-	7,933
Net assets				
Held in trust for pension benefits	\$ 14,156,098	\$ 8,618,658	\$ 5,535,612	\$ 28,310,368

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

City of Panama City Beach, Florida
Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2008

	General Employees Pension Trust Fund	Police Officers Pension Trust Fund	Firefighters Pension Trust Fund	Total
Additions				
Contributions				
Employer	\$ 801,046	\$ 400,670	\$ 260,883	\$ 1,462,599
Plan members	465,555	240,314	121,787	827,656
Insurance premiums	-	96,755	326,414	423,169
Total contributions	1,266,601	737,739	709,084	2,713,424
Investment earnings (loss)				
Interest	5,568	3,448	3,482	12,498
Dividends	112,116	69,135	40,705	221,956
Net decrease in fair value of investments	(1,917,144)	(1,195,045)	(681,712)	(3,793,901)
Total investment earnings (loss)	(1,799,460)	(1,122,462)	(637,525)	(3,559,447)
Less investment expenses	(92,704)	(60,932)	(40,714)	(194,350)
Net investment earnings (loss)	(1,892,164)	(1,183,394)	(678,239)	(3,753,797)
Total additions	(625,563)	(445,655)	30,845	(1,040,373)
Deductions				
Benefits	488,396	350,846	52,591	891,833
Refunds of contributions	82,232	105,964	17,310	205,506
Administrative expenses	29,057	19,586	33,544	82,187
Total deductions	599,685	476,396	103,445	1,179,526
Change in net assets	(1,225,248)	(922,051)	(72,600)	(2,219,899)
Net assets - beginning	15,381,346	9,540,709	5,608,212	30,530,267
Net assets - ending	\$ 14,156,098	\$ 8,618,658	\$ 5,535,612	\$ 28,310,368

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

Compliance Section

INDEPENDENT AUDITORS' MANAGEMENT LETTER

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

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, 2008, and have issued our report thereon dated March 31, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*, our Report on Compliance With Requirements Applicable to Each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 31, 2009, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The recommendations made in the preceding annual financial report have not been satisfactorily addressed by the City. See current year audit recommendations.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any findings and recommendations to improve financial management. In connection with our audit, we have communicated these items below under the heading current year audit recommendations; items 08-02, 08-03, 08-04.

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

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

Section 10.554(1)(i)6., Rules of the Auditor General, the name or official title and legal authority for the primary government and each component unit of the reporting entity is to 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.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for City for the fiscal year ended September 30, 2008, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the City's annual financial audit report for the fiscal year ended September 30, 2008. In connection with our audit, we determined that these reports were in agreement.

Pursuant to Sections 10.554(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial 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 the same.

Current Year Audit Recommendations

08-01 Segregation of Duties (prior year 07-01)

This condition is the result of limited accounting staff and the responsibility of the finance director. 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. This condition is reported as a current year significant deficiency in the 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*.

08-02 Cash Collection Policies (prior year 07-02)

The cash collection process for utility billings should be reviewed for possible changes in the cash collection policies. The allowance for doubtful accounts and bad debt write off amounts have increased from prior years and represent a potential loss of the City's financial resources.

08-03 Pier Admission Policies (prior year 07-03)

We noted that there were no control procedures over issuing tickets to use the pier for fishing and/or sightseeing. The City should consider implementing some type of control procedure such as pre-numbered tickets or "no receipt-free entrance" control.

08-04 Accounting and Personnel Policies (prior year 07-04)

During our review of the policy handbooks, 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.

Pursuant to Chapter 119, Florida Statutes, this management letter is public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the management, City Council, the State of Florida Office of the Auditor General, and appropriate federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Panama City Beach, Florida
March 31, 2009

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 the 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, 2008, which collectively comprise the City's basic financial statements and have issued our report dated March 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was limited for the purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal over financial reporting that we consider to be significant deficiencies.

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However of the significant deficiencies described above, we consider item 08-01 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.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated March 31, 2009.

This report is intended solely for the information and use of the management, City Council, others within the entity, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Panama City, Florida
March 31, 2009

City of Panama City Beach, Florida
Management's Response to Auditors Recommendations
Year Ended September 30, 2008

The following is the response provided by City of Panama City Beach management to the auditors' recommendations.

08-01 Segregation of Duties

The City is aware of the importance of internal controls and will continue to assess them on an ongoing basis. The City is committed to modifying its procedures as necessary to provide for the greatest segregation of duties possible utilizing the existing levels of staffing.

08-02 Cash Collection Policies

The City has been monitoring the issue of deteriorating receivables with regards to water and sewer collections. The utility billing department has recently completed a review of delinquent accounts. Collection of these accounts will be pursued by both the City and its collection agency. Additionally, the City is currently considering an ordinance which requires a security deposit for all new accounts and reactivations. Management believes this will significantly reduce future write offs. The City continues to weigh the costs of changing to monthly billings against the potential benefits to both the City and its citizens.

08-03 Pier Admission Policies

Pier admissions – the City continues to investigate the possibility of issuing “rec cards” which at different levels would allow use of various recreational facilities throughout the City including the City pier. These cards would likely be produced and read using some form of magnetic scanning similar to a credit card. These cards would address the concerns regarding pier admissions to a certain degree. With regard to “walk on” traffic at the City pier, the City will review its control procedures and consider any changes which may be warranted from a cost benefit position.

The City is reluctant to expend significant resources to rectify this situation because of the demolition of the existing pier which is currently in process. A new pier is scheduled for construction and controlling access to the new structure will be addressed in the engineering / design phase of the project.

08-04 Accounting and Personnel Policies

Accounting policy and procedures and personnel policy handbook. The City agrees that the accounting policy and procedures manual needs to be updated. This matter will be addressed to the extent possible using existing staff. The City's personnel policy handbook has been modified in several areas and the City will continue to amend its personnel policies to ensure compliance with federal and state laws as well as to address the needs of its personnel.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM / STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

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

Compliance

We have audited the compliance of City of Panama City Beach, Florida, Florida (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the Executive Office of the Governor's State Projects *Compliance Supplement* that are applicable to each of its major federal programs and state projects for the year ended September 30, 2008. The City's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General*. Those standards, OMB Circular A-133 and Chapter 10.550, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal awards and state projects for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program or state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program or state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carri Riggs & Ingram, L.L.C.

Panama City Beach, Florida
March 31, 2009

City of Panama City Beach, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended September 30, 2008

Federal / State Agency Pass through entity Federal Program / State Project	CFDA CSFA No.	Contract / Grant No.	Expenditures
U.S. Department of Homeland Security			
Passed through Florida Department of Community Affairs	CFDA		
Staffing for Adequate Fire & Emergency Response (SAFER)	97.044	EMW-2006-FF-03932	\$ 207,379
Disaster Relief - Pier Reconstruction Project	97.036	FEMA-FSDR-1551	4,148,896
Disaster Relief - Hazard Mitigation	97.036	FEMA-FSDR-1595	6,861
Disaster Relief - Hazard Mitigation	97.036	FEMA-FSDR-1551	19,471
U.S. Federal Highway Administration			
Passed through Florida Department of Transportation	CFDA		
Churchwell Drive Replacement Bridge Project	20.205	OOB3-036-B	310,913
State Road 79 Multi-use Path - Phase 1	20.205	FPID 417966-1-38-01 / AO782	20,345
State Road 79 Multi-use Path - Phase 2	20.205	FPID 417966-2-38-01 / AOM17	438,307
State Road 79 Multi-use Path - Phase 3	20.205	FPID 417966-3-38-01 / A8-01	46,632
Total Expenditures of Federal Awards			\$ 5,198,804
Florida Department of Environmental Protection	CSFA		
Collection and Reclaimed Water Reuse Facility	37.***	694050	\$ 4,015,006
Total Expenditures of State Financial Assistance			\$ 4,015,006

Note:

The City follows the modified 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
 Federal Awards and State Financial Assistance
 Year Ended September 30, 2008

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unqualified	
Internal control over financial reporting		
Material weaknesses identified?	<u> X </u> yes	___ no
Control deficiency identified not considered to be material weaknesses?	___ yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	___ yes	<u> X </u> no

Federal Awards and State Financial Assistance

Internal control over major programs		
Material weaknesses identified?	___ yes	<u> X </u> no
Control deficiency identified not considered to be material weaknesses?	___ yes	<u> X </u> none reported
Type of auditors' report issued on compliance for major federal programs and major state projects:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133 or Section 10.557, Rules of the Auditor General?	___ yes	<u> X </u> no

Identification of major federal programs and state projects:

<u>CFDA</u>	<u>Name of Federal Program</u>
20.205	Churchwell Drive Replacement Bridge Project
20.205	State Road 79 Multi-use Path - Phase 2
97.036	Disaster Relief - Pier Reconstruction Project
97.044	Staffing for Adequate Fire & Emergency Response (SAFER)

<u>CSFA</u>	<u>Name of State Project</u>
37.***	Collection and Reclaimed Water Reuse Facility

Dollar threshold used to distinguish between Type A and Type B	<u>Federal</u> \$300,000	<u>State</u> \$300,000
Auditee qualified as low-risk auditee audit for federal single audit?	<u> X </u> yes	___ no

Section II - Financial Statement Findings

08-01 Segregation of Duties (Prior Year 07-01)

This condition is the result of limited accounting staff and the responsibility of the finance director. 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.

Section III - Federal Awards and State Financial Assistance Findings

There were no findings.