

A scenic sunset over a beach. A pelican is in flight in the foreground, flying towards the right. In the background, a long pier extends into the ocean. The sky is filled with warm, golden and orange hues from the setting sun. The water is dark blue with gentle waves. The beach is visible in the foreground, curving from the bottom left towards the right.

CITY OF PANAMA CITY BEACH

Panama City Beach, Florida

ANNUAL FINANCIAL STATEMENTS

FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2011

City of Panama City Beach, Florida

Financial Statements

September 30, 2011

City of Panama City Beach, Florida
Table of Contents
September 30, 2011

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	16
Fund Financial Statements	
Balance Sheet – Governmental Funds	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Community Redevelopment Fund	22
Statement of Net Assets – Proprietary Funds	23
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	24
Statement of Cash Flows – Proprietary Funds	25
Statement of Fiduciary Net Assets – Fiduciary Funds	27
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	28
Notes to Basic Financial Statements	29

City of Panama City Beach, Florida
Table of Contents
September 30, 2011

Required Supplementary Information

Schedule of Analysis of Funding Progress – Pension Trust Funds	64
Schedule of Contributions from Employer and Other Entity's Contributions – Pension Trust Funds	65
Schedule of Actuarial Considerations – Pension Trust Funds	66
Schedules of Other Post Employment Benefits	67

Combining Financial Statements

Combining Balance Sheet – Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	69
Combining Statement of Net Assets – Nonmajor Proprietary Funds	70
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Nonmajor Proprietary Funds	71
Combining Statement of Cash Flows – Nonmajor Proprietary Funds	72
Combining Statement of Fiduciary Net Assets – Fiduciary Funds	74
Combining Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	75

Compliance Section

Independent Auditor's Management Letter	76
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79
Management's Response to Auditor's Finding	81
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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	82
Schedule of Expenditures of Federal Awards and State Financial Assistance	84
Schedule of Findings and Questioned Costs – Federal Awards and State Financial Assistance	85

INDEPENDENT AUDITOR'S 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, 2011, 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, 2011, 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 April 25, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and the required supplementary information on pages 64 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. 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 is presented for the purpose 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, State of Florida Rules of the Auditor General*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Certified Public Accountants
Panama City Beach, Florida
April 25, 2012

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 \$193,575,759 (net assets). Of this amount, \$17,556,852 is unrestricted net assets for governmental activities and \$29,635,454 is unrestricted net assets for business-type activities, while \$8,661,911 is restricted net assets for governmental activities and \$10,498,033 is restricted net assets for business-type activities.
- Total net assets increased by \$8,188,961. Of this amount, \$3,757,375 is attributable to governmental activities and \$4,431,586 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 and to reduce the principal amount of debt outstanding and to the receipt of \$730,482 in damages from BP attributable to the Deepwater Horizon Oil Spill. The increase in net assets of business-type activities is the result of several factors including the collection of \$312,707 in impact fees and net income from operations before amortization and depreciation of \$9,199,095.
- As of September 30, 2011, the general fund's unassigned fund balance was \$7,222,715 or 48 percent of total general fund expenditures. Unassigned fund balance in the General Fund increased by \$984,157. General Fund revenues exceeded General Fund expenditures by \$2,082,000 which resulted in the increase.
- Governmental activities revenues decreased \$894,256 from \$25,444,502 to \$24,550,246, while governmental activities expenditures decreased 3 percent to \$20,414,140. Business-type activities revenues increased to \$31,450,825 or 4 percent, while business-type activities expenditures increased 8 percent to \$27,397,970.

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, waste water, 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, waste water, storm water, pier and aquatic center services.

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

Fund Financial Statements

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

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

Fund financial statements for all governmental funds include a *balance sheet* and a *statement of revenues, expenditures, and changes in fund balances*. The City's General and Community Redevelopment Funds include a *statement of revenues, expenditures, and changes in fund balances-budget and actual*. For the proprietary funds, a *statement of net 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 2011, 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 Asset

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<i>September 30,</i>						
Current and other assets	\$ 38,037,063	\$ 39,068,986	\$ 64,243,993	\$ 78,287,485	\$102,281,056	\$117,356,471
Capital assets	97,624,983	94,224,991	133,564,880	123,086,795	231,189,863	217,311,786
Total assets	135,662,046	133,293,977	197,808,873	201,374,280	333,470,919	334,668,257
Current liabilities	5,609,967	5,630,871	6,314,985	10,949,113	11,924,952	16,579,984
Long-term liabilities	54,133,071	55,501,473	73,837,137	77,200,002	127,970,208	132,701,475
Total liabilities	59,743,038	61,132,344	80,152,122	88,149,115	139,895,160	149,281,459
Net assets invested in capital						
assets net of related debt	49,700,245	50,993,195	77,523,264	71,483,262	127,223,509	122,476,457
Net assets - restricted	8,661,911	9,988,998	10,498,033	16,682,608	19,159,944	26,671,606
Net assets - unrestricted	17,556,852	11,179,440	29,635,454	25,059,295	47,192,306	36,238,735
Total net assets	\$ 75,919,008	\$ 72,161,633	\$117,656,751	\$113,225,165	\$193,575,759	\$185,386,798

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 (66 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 10 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*, \$47,192,306 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 \$4,747,052 (or 4%). Significant additions to capital assets occurred in the business-type activities in the current year. Capital additions in business-type activities were primarily related to an upgrade to the City's advanced waste water treatment facility as well as completion of the receiving wetlands project in the current fiscal year. The City funded the continued expansion of its waste water system with a combination of impact fees and the unspent proceeds of utility revenue bonds issued late in September 2009.

Restricted net assets decreased \$7,511,662 (or 28%). The restricted net assets in the governmental activities decreased by \$1,327,087 while the restricted net assets in the business-type activities decreased by \$6,184,575. The governmental activities decrease primarily resulted from the use of 2006 bond proceeds and tax increment revenue for ongoing roadway construction projects within the Front Beach Road Community Redevelopment Area. The decrease in business-type activities restricted net assets resulted from a combination of factors including (a) a decrease in impact fee cash reserves as these funds were expended for qualifying capital projects and (b) current year expenditures of 2009 bond proceeds for qualifying capital projects.

The increase in Net assets, unrestricted was \$10,953,571 or 30%. The governmental activities increase was \$6,377,412 while the business-type activities increase was \$4,576,159. Due to the overall economic downturn and the fear of its long-term impact on tourism combined with the unknown long-term effects of the BP Deepwater Horizon Oil Spill in the Gulf of Mexico, the City made every effort to control expenditures and maintain or increase cash reserves to provide resources for future years.

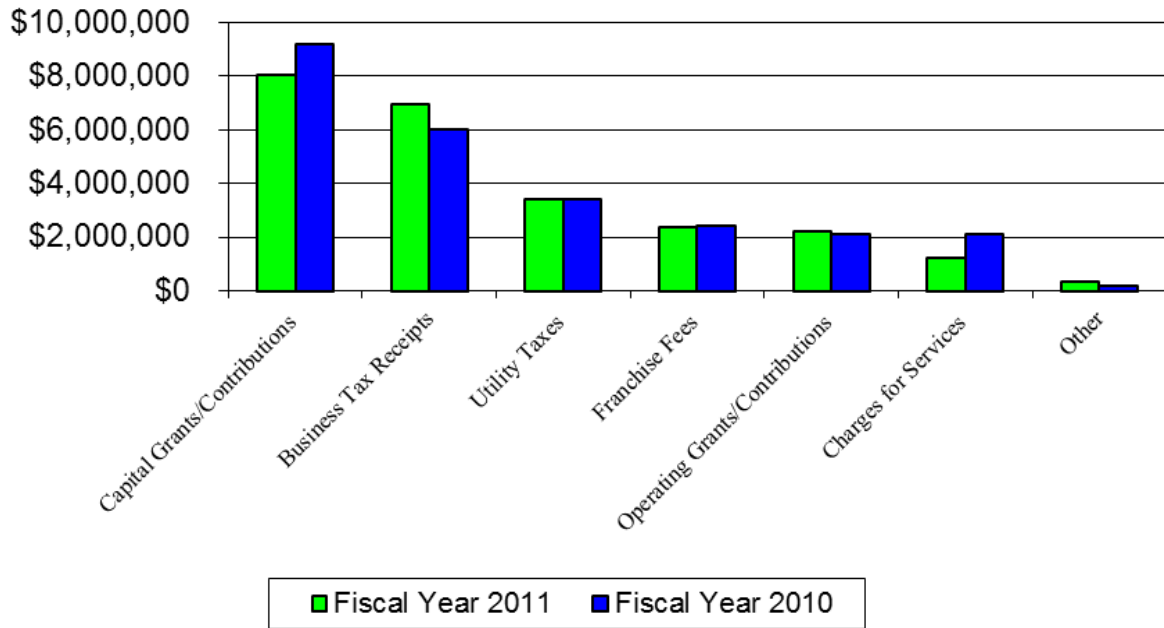
The schedule on the following page compares the revenues and expenses for the current and previous fiscal year.

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

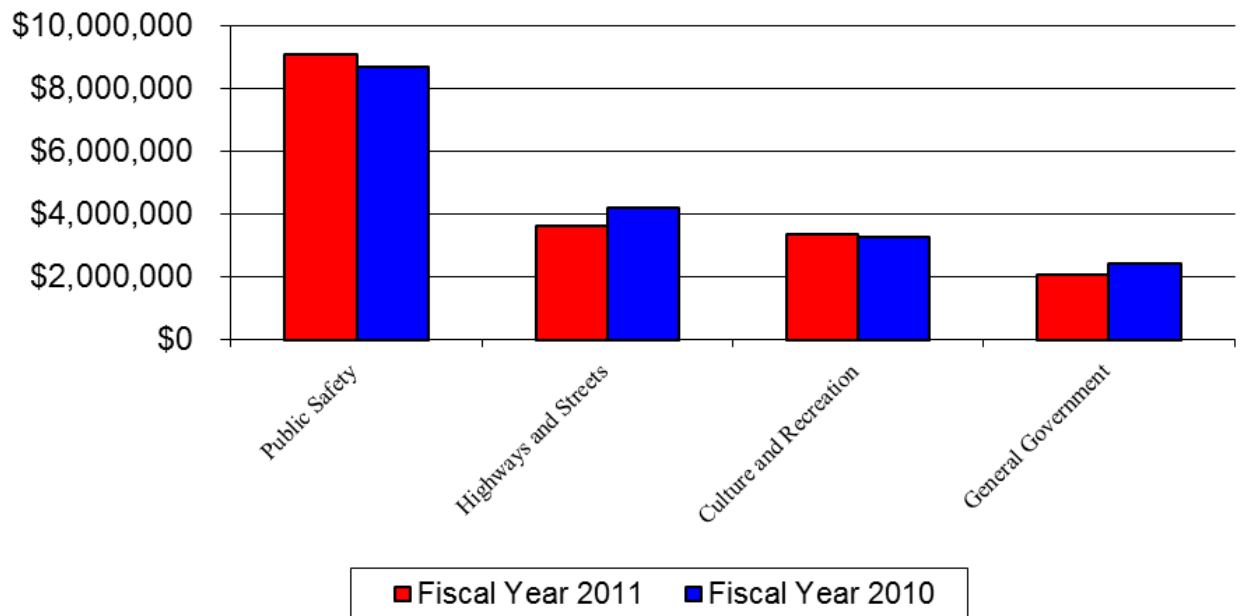
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program revenues						
Charges for services	\$ 1,214,604	\$ 2,117,444	\$ 29,147,601	\$ 27,003,855	\$ 30,362,205	\$ 29,121,299
Operating grants/contributions	2,235,045	2,136,648	6,299	1,000	2,241,344	2,137,648
Capital grants/contributions	8,032,996	9,178,300	1,247,697	2,210,125	9,280,693	11,388,425
General revenues						
Business tax receipts	6,940,560	6,017,952	-	-	6,940,560	6,017,952
Utility taxes	3,410,949	3,393,746	-	-	3,410,949	3,393,746
Franchise fees	2,390,906	2,424,383	-	-	2,390,906	2,424,383
Impact fees	162,586	61,188	299,417	382,200	462,003	443,388
Contributions from developers	-	-	216,500	151,251	216,500	151,251
Penalties on delinquent business tax receipts	337	218	-	-	337	218
Interest earnings	162,263	114,623	533,311	564,886	695,574	679,509
Total revenues	24,550,246	25,444,502	31,450,825	30,313,317	56,001,071	55,757,819
Expenses						
General government	2,065,943	2,447,002	-	-	2,065,943	2,447,002
Public safety	9,112,877	8,706,028	-	-	9,112,877	8,706,028
Highways and streets	3,613,994	4,222,882	-	-	3,613,994	4,222,882
Culture and recreation	3,360,356	3,295,658	-	-	3,360,356	3,295,658
Interest on long-term debt	2,260,970	2,319,036	2,761,136	3,144,200	5,022,106	5,463,236
Utilities - water	-	-	14,209,612	13,069,527	14,209,612	13,069,527
Utilities - wastewater	-	-	8,237,929	7,077,373	8,237,929	7,077,373
Utilities - stormwater	-	-	576,685	504,186	576,685	504,186
Pier	-	-	755,199	695,573	755,199	695,573
Aquatic center	-	-	857,409	883,166	857,409	883,166
Total expenses	20,414,140	20,990,606	27,397,970	25,374,025	47,812,110	46,364,631
Increase in net assets before transfers	4,136,106	4,453,896	4,052,855	4,939,292	8,188,961	9,393,188
Transfers	(378,731)	(888,388)	378,731	888,388	-	-
Increase in net assets	\$ 3,757,375	\$ 3,565,508	\$ 4,431,586	\$ 5,827,680	\$ 8,188,961	\$ 9,393,188

The charts on the following page compare the revenues and expenses for the current and previous fiscal year.

Revenues - Governmental Activities
Fiscal Years Ended
September 30, 2011 and 2010



Expenses - Governmental Activities
Fiscal Years Ended
September 30, 2011 and 2010



Governmental activities revenues exceeded expenses by \$4,136,106 while business-type activities revenues exceeded expenses by \$4,052,855. Total revenues increased \$243,252 from the previous year. The change in total revenues from business-type activities was an increase of \$1,137,508 while the change in governmental activities was a decrease of \$894,256. Charges for services increased \$1,240,906, capital grants and contributions decreased \$2,107,732, and business tax receipts increased \$922,608 in the current year. The increase in charges for services was a combination of a decrease in charges for services from governmental activities and an increase from business-type activities. The decrease in the governmental activities charges for services resulted primarily from a decrease in tax increment revenue received from Bay County in the current year. The increase in charges for services in the business-type accounts resulted from an increase in water and waste water revenue. This resulted from a combination of modest rate increases combined with slight increases in demand.

Capital grants and contributions decreased a total of \$2,107,732. \$1,145,304 of the decrease was attributable to governmental activities while \$962,428 was attributable to business-type activities. The decrease in capital grants and contributions in governmental activities was not attributable to any one situation but rather a general across the board decline in grants and contributions received in the current year. In the prior fiscal year, the City received a contribution in the amount of \$1,459,471 from a private corporation which partially funded the construction of beachfront improvements at the new City pier. No such contributions were received in the current fiscal year which resulted in an overall decrease in capital grants and contributions for business-type activities.

Total expenses increased \$1,447,479 from the previous year. The City experienced moderate changes virtually across the board in all governmental activities except for a decrease of \$608,888 in highways and streets expenditures. Business-type activities expenses increased \$1,140,085 in water and \$1,160,556 in waste water. The increase was primarily attributable to an increase in operating expenses directly associated with the increase in water and waste water sales in the current year.

33% of the revenues for governmental activities are generated by capital grants and contributions, 28% by business tax receipts, and 24% from utility taxes and franchise fees. Most of the governmental resources are expended for public safety (45%), highways and streets (18%) and culture and recreation (16%).

Charges for services provide 93% of the revenues for business-type activities, while 4% of the revenues are provided from capital grants and contributions. Most of the governmental resources are expended to operate the public utility systems (84%).

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, 2011, total assets were \$15,649,741 and total liabilities were \$3,552,347. At the end of fiscal year 2011, unassigned fund balance of the general fund was \$7,222,715 while total fund balance equaled \$12,097,394. Total fund balance increased \$1,613,203 (15%). Restricted fund balance increased \$115,215 (3%), committed fund balance increased \$500,000 and non-spendable fund balance increased \$13,831 (50%). Unassigned fund balance increased \$984,157 (16%). Fiscal year 2011 revenues in the General Fund exceeded expenditures by \$2,082,000. The increase in the fund balances was attributable to the excess revenues over expenditures reduced by transfers out to other funds and assistance to other entities in the form of grants and aid.

The general fund's budget was amended during the year to reflect significant increases in available revenue as well as moderate increases in current expenditures and capital outlay. The increase in total revenue was \$2,769,718 which represented a change from the original to the amended budget of 20%. Increases were realized in virtually all categories of revenue with approximately 40% of the increase attributable to an increase in business tax receipts. The City experienced a record year in terms of business tax receipts revenue. Tourism rebounded significantly as the economy showed signs of strengthening. Budgeted expenditures for current expenditures and capital outlay increased from the original to the final amounts by \$374,717 and \$494,360, respectively. Certain expenditures, primarily those related to capital outlay, were increased throughout the year as the City experienced an increase in revenue.

Community Redevelopment Fund

The other major governmental fund of the City is the Community Redevelopment Fund. As of September 30, 2011, total assets were \$19,600,754 and total liabilities were \$1,096,735. At the end of fiscal year 2011, the assigned fund balance of the community redevelopment fund was \$249,524, while the total fund balance equaled \$18,504,019. Total fund balance decreased \$1,881,061, virtually all of which was attributable to a decrease in restricted fund balance. As noted in previous years, \$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.

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	2011 Unrestricted Net Assets	2010 Unrestricted Net Assets
Utility	\$ 29,504,395	\$ 25,424,848
Pier	559,046	153,606
Aquatic Center	(427,987)	(519,159)
Total	\$ 29,635,454	\$ 25,059,295

The *Utility Fund* is used to account for the operations of the City's water, waste water and storm water systems. New construction and redevelopment being experienced by the City remained flat in the current year and water and waste water impact fee revenues reflected this trend by decreasing \$69,493 or 18% compared to the prior year. Operating revenues increased \$1,877,708 or 7% in 2011 compared to 2010 primarily as a result of moderate rate increases combined with an increase in demand for services.

The *Pier Fund* accounts for the operations and maintenance of the City Pier. Operating expenses exceeded operating revenues by \$9,599. Depreciation expense accounted for a significant portion of operating expenses, 56%. Pier fund operations generated significant cash flow in 2011 allowing for a transfer of funds in the amount of \$291,000 to the City's Aquatic Center Fund to help subsidize its operating shortfall.

The *Aquatic Center Fund* is being used to account for the operation of an aquatic center located at Frank Brown Park. For 2011, operating expenses exceeded operating revenues by \$542,206. The shortfall in operations was offset by subsidies from the City's General Fund and Pier Fund.

Capital Assets Activity

The following schedule provides a summary of the City's capital assets activity. The City's total investment in capital assets for both its governmental and business type activities as of September 30, 2011, was \$231,189,863 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress.

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

- The City continues to expand and rehabilitate its water system which services both City residents and portions of unincorporated Bay County. Approximately \$2,274,000 was expended in fiscal year 2011 on water expansion and rehabilitation projects. During the year, the City completed water line replacements and improvements in the Thomas Drive, Beach Blvd and West Bay areas. The combined cost for these projects was approximately \$1,583,000.
- Approximately \$896,000 was expended in fiscal year 2011 on the Grand Lagoon waste water project. The addition of waste water in this portion of the City's service area is being partially funded with monies received as a result of the mitigation of fines incurred during the construction of the new airport in Bay County. The City's project was selected to receive these fines due to the positive impact the elimination of septic tanks is expected to have on Grand Lagoon. The estimated total project cost is \$1,240,000.
- Significant funds were expended in fiscal year 2011 on two (2) major projects in the City's waste water system. Significant construction activity occurred to expand the available capacity at the City's advanced waste water treatment plant. Current year expenditures related to this project were approximately \$2.7 million dollars. Construction was substantially complete by fiscal year end 2011 at a total project cost of \$16.7 million dollars. Additionally, significant construction activity occurred on the City's receiving wetlands project with approximately \$7 million dollars being expended in fiscal year 2011. This project was also substantially complete by fiscal year 2011 with a total cost of \$16 million dollars.

- During fiscal year 2011, construction of a 5.0 MG reuse ground storage tank was completed at a total cost of \$1.45 million dollars most of which was expended in the current fiscal year. Completion of this project doubled the City's storage capacity for reclaimed water.
- At September 30, 2011, approximately \$50 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. Significant construction on South Thomas Drive occurred in fiscal year 2011 with funds expended of approximately \$3.7 million dollars. Completion is expected sometime in fiscal year 2012. Engineering studies and right-of-way acquisition is ongoing for other roads within the project area.

Capital Assets (net of depreciation)

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 44,133,384	\$ 43,341,364	\$ 6,972,774	\$ 6,888,263	\$ 51,106,158	\$ 50,229,627
Construction in progress	17,974,037	13,978,117	3,813,294	25,165,180	21,787,331	39,143,297
Buildings	4,346,685	4,517,946	26,332,635	24,598,745	30,679,320	29,116,691
Improvements	29,001,686	30,026,284	81,373,353	59,304,916	110,375,039	89,331,200
Machinery and equipment	2,169,191	2,361,280	15,072,824	7,129,691	17,242,015	9,490,971
Total	\$ 97,624,983	\$ 94,224,991	\$ 133,564,880	\$ 123,086,795	\$ 231,189,863	\$ 217,311,786

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 \$100,276,132. 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	
	2011	2010	2011	2010	2011	2010
Revenue bonds	\$ 51,015,247	\$ 52,494,012	\$ 49,260,885	\$ 50,974,409	\$ 100,276,132	\$ 103,468,421

The City's total bond debt decreased by \$3,192,289 in the current fiscal year. Principal payments totaled \$2,870,566 (exclusive of the 1998 refunded bonds) in the current year and were adjusted by amortization of deferred costs and premiums. The City issued \$4,010,000 Utility System Refunding Revenue Bonds, Series 2011 dated February 1, 2011. The proceeds from this issue combined with other City funds retired the then outstanding principal on the City's \$6,970,000 Utility Revenue Bonds, Series 1998. The City's debt currently maintains an "AA-" rating from Standard & Poor's and Fitch. All of the City's issues are rated by one or a combination of two rating agencies.

The Florida Constitution and the City of Panama City Beach set no legal debt limits for revenue bonds. More detailed information about the City's liabilities is presented in Notes 9 and 10 of the notes to the basic financial statements.

Other Financial Information

In spite of very little new construction and redevelopment, the City's economy remained level during the current fiscal year. Despite national economic concerns, tourism increased as evidenced by a 15% increase in business tax receipts in the current fiscal year. In the upcoming fiscal year, the City will continue to focus on additions and enhancements to its utilities and transportation systems. These construction projects will replace aging water and waste water pipes, expand service into additional neighborhoods and widen existing roadways to improve traffic flow and public safety.

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

City of Panama City Beach, Florida
Statement of Net Assets
September 30, 2011

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 7,514,204	\$ 25,970,385	\$ 33,484,589
Accounts receivable, net	185,188	5,535,087	5,720,275
Taxes and fees receivable	449,795	-	449,795
Grants receivable	29,533	-	29,533
Accrued interest receivable	-	12,408	12,408
Due from other governments	317,760	1,046	318,806
Inventory	12,774	428,914	441,688
Prepaid items	23,239	13,697	36,936
Notes receivable, current	-	570,000	570,000
Unamortized debt issuance costs, current	99,203	58,975	158,178
Restricted assets			
Cash and cash equivalents	27,453,650	30,457,223	57,910,873
Accounts receivable, net	-	1,859	1,859
Grants receivable	51,518	-	51,518
Accrued interest receivable	6,924	60,661	67,585
Notes receivable	-	24,822	24,822
Capital assets			
Nondepreciable	62,107,421	10,786,068	72,893,489
Depreciable, net	35,517,562	122,778,812	158,296,374
Unamortized debt issuance costs	1,893,275	1,108,916	3,002,191
Total assets	135,662,046	197,808,873	333,470,919

(Continued)

City of Panama City Beach, Florida
Statement of Net Assets (Continued)
September 30, 2011

Primary Government			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 1,233,831	\$ 1,998,750	\$ 3,232,581
Accrued expenses and deposits	77,657	920,488	998,145
Accrued interest payable	962,029	1,017,162	1,979,191
Due to other governments	3,329,890	645,632	3,975,522
Internal balances	888	(888)	-
Deferred revenue	5,672	1,733,841	1,739,513
Long-term liabilities			
Due within one year			
Revenue certificates payable	-	2,284,498	2,284,498
Accrued compensated absences	478,021	165,812	643,833
Notes payable	-	2,177,974	2,177,974
Revenue bonds payable, net	1,538,765	1,440,370	2,979,135
Due in more than one year			
Accrued compensated absences	1,816,643	795,606	2,612,249
Net OPEB obligation	823,160	533,952	1,357,112
Notes payable	-	18,618,410	18,618,410
Revenue bonds payable, net	49,476,482	47,820,515	97,296,997
Total liabilities	59,743,038	80,152,122	139,895,160
Net assets			
Invested in capital assets, net of related debt	49,700,245	77,523,264	127,223,509
Restricted for			
Law enforcement	49,621	-	49,621
Beach access public parking	557,346	-	557,346
Impact fees	3,993,311	7,760,154	11,753,465
Debt service	4,061,633	1,153,322	5,214,955
Construction	-	735,511	735,511
Storm water	-	849,046	849,046
Unrestricted	17,556,852	29,635,454	47,192,306
Total net assets	\$ 75,919,008	\$ 117,656,751	\$ 193,575,759

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

City of Panama City Beach, Florida
Statement of Activities
Year Ended September 30, 2011

Functions / Programs	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
	Net (Expenses) Revenues and Changes in Net Assets						
Primary government							
General government	\$ 2,065,943	\$ 497,165	\$ 1,611,500	\$ -	\$ 42,722	\$ -	\$ 42,722
Public safety	9,112,877	237,297	219,232	-	(8,656,348)	-	(8,656,348)
Highways and streets	3,613,994	232,216	237,185	7,650,269	4,505,676	-	4,505,676
Culture and recreation	3,360,356	247,926	167,128	382,727	(2,562,575)	-	(2,562,575)
Interest on long-term debt	2,260,970	-	-	-	(2,260,970)	-	(2,260,970)
Total governmental activities	20,414,140	1,214,604	2,235,045	8,032,996	(8,931,495)	-	(8,931,495)
Business-type activities							
Utility							
Water	14,209,612	16,649,377	1,299	494,172	-	2,935,236	2,935,236
Waste water	8,237,929	10,488,534	-	750,000	-	3,000,605	3,000,605
Storm water	576,685	948,887	-	-	-	372,202	372,202
Pier	755,199	745,600	5,000	3,525	-	(1,074)	(1,074)
Aquatic center	857,409	315,203	-	-	-	(542,206)	(542,206)
Interest on long-term debt	2,761,136	-	-	-	-	(2,761,136)	(2,761,136)
Total business-type activities	27,397,970	29,147,601	6,299	1,247,697	-	3,003,627	3,003,627
Total primary government	\$ 47,812,110	\$ 30,362,205	\$ 2,241,344	\$ 9,280,693	(8,931,495)	3,003,627	(5,927,868)
General revenues							
Taxes							
					6,940,560	-	6,940,560
					3,410,949	-	3,410,949
					2,390,906	-	2,390,906
					162,586	299,417	462,003
					-	216,500	216,500
					337	-	337
					12,905,338	515,917	13,421,255
					162,263	533,311	695,574
					(378,731)	378,731	-
					12,688,870	1,427,959	14,116,829
						3,757,375	4,431,586
						72,161,633	113,225,165
						\$ 75,919,008	\$ 117,656,751
							\$ 193,575,759

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

City of Panama City Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2011

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 7,243,304	\$ 250,509	\$ 20,391	\$ 7,514,204
Accounts receivable, net	29,714	125	-	29,839
Taxes and fees receivable	449,795	-	-	449,795
Due from other governments	263,289	-	48,848	312,137
Due from other funds	54,335	255	-	54,590
Inventory	12,774	-	-	12,774
Prepaid items	24,787	211	-	24,998
Cash and cash equivalents - restricted	7,571,743	19,301,003	580,904	27,453,650
Accrued interest receivable - restricted	-	6,924	-	6,924
Due from other funds - restricted	-	-	477	477
Grants receivable - restricted	-	41,727	-	41,727
Total assets	\$ 15,649,741	\$ 19,600,754	\$ 650,620	\$ 35,901,115
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 138,429	\$ 1,093,495	\$ 1,932	\$ 1,233,856
Accrued expenses	77,476	1,915	-	79,391
Due to other governments	3,329,890	-	-	3,329,890
Due to other funds	2,205	-	53,750	55,955
Deferred revenue	4,347	1,325	-	5,672
Total liabilities	3,552,347	1,096,735	55,682	4,704,764
Fund balances				
Nonspendable	41,231	211	-	41,442
Restricted	4,333,448	18,254,284	580,365	23,168,097
Committed	500,000	-	-	500,000
Assigned	-	249,524	14,573	264,097
Unassigned	7,222,715	-	-	7,222,715
Total fund balances	12,097,394	18,504,019	594,938	31,196,351
Total liabilities and fund balances	\$ 15,649,741	\$ 19,600,754	\$ 650,620	
Amounts reported for governmental activities in the statement of net assets are different because:				
Receivables, on a modified accrual basis are not resources and, therefore, are not reported in the funds.				200,296
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				97,624,983
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(53,102,622)
Net assets of governmental activities				\$ 75,919,008

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, 2011

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Revenues				
Taxes				
Business tax receipts	\$ 6,940,560	\$ -	\$ -	\$ 6,940,560
Utility	3,410,949	-	-	3,410,949
Tax increment funds	-	7,608,157	-	7,608,157
Franchise fees	2,390,906	-	-	2,390,906
Intergovernmental	1,713,706	-	-	1,713,706
Municipal services impact fees	117,884	44,702	-	162,586
Licenses and permits	196,978	-	-	196,978
Fines and forfeitures	181,604	1,272	7,483	190,359
Contributions and donations	199,460	-	11,496	210,956
Grants	927,049	105,611	48,848	1,081,508
Rents	142,000	-	-	142,000
Interest	56,561	105,296	406	162,263
Other fees and miscellaneous	981,615	17,759	-	999,374
Total revenues	17,259,272	7,882,797	68,233	25,210,302
Expenditures				
Current				
General government	2,099,874	424,557	-	2,524,431
Public safety	8,369,319	-	60,021	8,429,340
Highways and streets	1,349,664	503,643	3	1,853,310
Culture and recreation	2,227,142	-	-	2,227,142
Debt service				
Principal	68,494	1,420,000	-	1,488,494
Interest and other fiscal charges	129	2,342,300	-	2,342,429
Capital outlay				
General government	31,604	-	-	31,604
Public safety	241,038	-	13,281	254,319
Highways and streets	369,327	5,073,358	-	5,442,685
Culture and recreation	420,681	-	-	420,681
Total expenditures	15,177,272	9,763,858	73,305	25,014,435
Excess (deficiency) of revenues over (under) expenditures	2,082,000	(1,881,061)	(5,072)	195,867
Other financing sources (uses)				
Transfers in	100,000	-	-	100,000
Transfers out	(478,731)	-	-	(478,731)
Grants and aids	(133,152)	-	-	(133,152)
Proceeds from sale of assets	43,086	-	1,426	44,512
Net other financing sources (uses)	(468,797)	-	1,426	(467,371)
Net change in fund balances	1,613,203	(1,881,061)	(3,646)	(271,504)
Fund balances - beginning	10,484,191	20,385,080	598,584	31,467,855
Fund balances - ending	\$ 12,097,394	\$ 18,504,019	\$ 594,938	\$ 31,196,351

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, 2011

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

Net change in fund balances - total governmental funds (page 18)	\$ (271,504)
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.	3,412,563
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to increase net assets.	(12,571)
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.	(155,113)
Some revenues reported in the statement of activities due not provide current financial sources and, therefore, are not reported as revenues in governmental funds.	(664,056)
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.	1,448,056
<u>Change in net assets of governmental activities (page 16)</u>	<u>\$ 3,757,375</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, 2011

	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	\$ 5,623,000	\$ 6,717,540	\$ 223,020	\$ 6,940,560	\$ -	\$ 6,940,560
Utility	2,940,300	3,372,000	49,784	3,421,784	(10,835)	3,410,949
Franchise fees	2,116,800	2,344,000	61,462	2,405,462	(14,556)	2,390,906
Intergovernmental	1,523,870	1,659,887	49,475	1,709,362	4,344	1,713,706
Municipal services impact fees	68,291	152,749	(34,865)	117,884	-	117,884
Licenses and permits	124,200	185,050	11,928	196,978	-	196,978
Fines and forfeitures	134,200	157,337	23,796	181,133	471	181,604
Contributions and donations	25,180	188,795	10,665	199,460	-	199,460
Grants	1,112,485	927,049	-	927,049	-	927,049
Rents	161,258	141,768	294	142,062	(62)	142,000
Interest	17,000	56,500	61	56,561	-	56,561
Other fees and miscellaneous	272,665	986,292	(4,359)	981,933	(318)	981,615
Total revenues	14,119,249	16,888,967	391,261	17,280,228	(20,956)	17,259,272
Expenditures						
Current						
General government						
Legislative	172,714	164,935	3,915	161,020	(1,268)	159,752
Administration	919,104	935,048	27,382	907,666	(18,234)	889,432
Comprehensive planning	346,059	310,385	25,210	285,175	(8,235)	276,940
Protective services	748,807	812,166	31,373	780,793	(7,043)	773,750
Total general government	2,186,684	2,222,534	87,880	2,134,654	(34,780)	2,099,874
Public safety						
Police	5,502,866	5,658,667	101,317	5,557,350	(74,174)	5,483,176
Fire	2,779,253	2,960,914	20,020	2,940,894	(54,751)	2,886,143
Total public safety	8,282,119	8,619,581	121,337	8,498,244	(128,925)	8,369,319
Highways and streets	1,461,011	1,447,332	74,374	1,372,958	(23,294)	1,349,664
Culture and recreation						
Library	214,535	211,830	1,379	210,451	(3,123)	207,328
Recreation	2,116,240	2,134,029	59,965	2,074,064	(54,250)	2,019,814
Total culture and recreation	2,330,775	2,345,859	61,344	2,284,515	(57,373)	2,227,142
Total current	14,260,589	14,635,306	344,935	14,290,371	(244,372)	14,045,999
Debt service						
Principal	68,495	68,496	2	68,494	-	68,494
Interest and other fiscal charges	523	129	-	129	-	129
Total debt service	69,018	68,625	2	68,623	-	68,623

(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, 2011

	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						
Comprehensive planning	\$ -	\$ 10,000	\$ 450	\$ 9,550	\$ -	\$ 9,550
Protective services	-	22,100	46	22,054	-	22,054
Total general government	-	32,100	496	31,604	-	31,604
Public safety						
Police	30,000	137,500	222	137,278	-	137,278
Fire	-	103,760	-	103,760	-	103,760
Total public safety	30,000	241,260	222	241,038	-	241,038
Highways and streets	310,000	375,000	3,394	371,606	(2,279)	369,327
Culture and recreation						
Library	-	30,000	-	30,000	(30,000)	-
Recreation	325,000	481,000	5,780	475,220	(54,539)	420,681
Total culture and recreation	325,000	511,000	5,780	505,220	(84,539)	420,681
Total capital outlay	665,000	1,159,360	9,892	1,149,468	(86,818)	1,062,650
Total expenditures	14,994,607	15,863,291	354,829	15,508,462	(331,190)	15,177,272
Excess (deficiency) of revenues over (under) expenditures	(875,358)	1,025,676	746,090	1,771,766	310,234	2,082,000
Other financing sources (uses)						
Transfers in	100,000	100,000	-	100,000	-	100,000
Transfers out	(455,584)	(523,497)	44,766	(478,731)	-	(478,731)
Grants and aids	(133,500)	(133,160)	8	(133,152)	-	(133,152)
Proceeds from sale of assets	-	43,086	-	43,086	-	43,086
Total other financing sources (uses)	(489,084)	(513,571)	44,774	(468,797)	-	(468,797)
Net change in fund balances	(1,364,442)	512,105	790,864	1,302,969	310,234	1,613,203
Fund balances - beginning	6,958,459	8,941,007	1,877,146	10,818,153	(333,962)	10,484,191
Fund balances - ending	\$ 5,594,017	\$ 9,453,112	\$ 2,668,010	\$ 12,121,122	\$ (23,728)	\$ 12,097,394

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, 2011

	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						
Tax increment funds	\$ 7,645,814	\$ 7,601,156	\$ -	\$ 7,601,156	\$ 7,001	\$ 7,608,157
Municipal services impact fees	-	0	44,702	44,702	-	44,702
Fines and forfeitures	2,000	1,100	47	1,147	125	1,272
Grants	328,113	120,650	(41,726)	78,924	26,687	105,611
Interest	47,150	103,412	1,811	105,223	73	105,296
Other fees and miscellaneous	15,000	17,055	1,404	18,459	(700)	17,759
Total revenues	8,038,077	7,843,373	6,238	7,849,611	33,186	7,882,797
Expenditures						
Current						
General government	814,843	429,500	3,784	425,716	(1,159)	424,557
Highways and streets	1,065,243	661,656	39,446	622,210	(118,567)	503,643
Total current	1,880,086	1,091,156	43,230	1,047,926	(119,726)	928,200
Debt service						
Principal	1,420,000	1,420,000	-	1,420,000	-	1,420,000
Interest and other fiscal charges	2,342,300	2,342,300	-	2,342,300	-	2,342,300
Total debt service	3,762,300	3,762,300	-	3,762,300	-	3,762,300
Capital outlay						
Highways and streets	12,735,000	5,320,000	372,109	4,947,891	125,467	5,073,358
Total capital outlay	12,735,000	5,320,000	372,109	4,947,891	125,467	5,073,358
Total expenditures	18,377,386	10,173,456	415,339	9,758,117	5,741	9,763,858
Excess (deficiency) of revenues over (under) expenditures	(10,339,309)	(2,330,083)	421,577	(1,908,506)	27,445	(1,881,061)
Other financing sources						
Proceeds from sale of asset	25,000	-	-	-	-	-
Total other financing sources	25,000	-	-	-	-	-
Net change in fund balances	(10,314,309)	(2,330,083)	421,577	(1,908,506)	27,445	(1,881,061)
Fund balances - beginning	7,884,936	20,359,191	527,205	20,886,396	(501,316)	20,385,080
Fund balances - ending	\$ (2,429,373)	\$ 18,029,108	\$ 948,782	\$ 18,977,890	\$ (473,871)	\$ 18,504,019

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, 2011

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 25,157,980	\$ 812,405	\$ 25,970,385
Accounts receivable, net	5,513,933	21,154	5,535,087
Accrued interest receivable	12,408	-	12,408
Due from other funds	1,572	97	1,669
Due from other governments	-	1,046	1,046
Inventory	428,914	-	428,914
Prepaid expenses	6,377	7,320	13,697
Notes receivable	570,000	-	570,000
Unamortized debt issuance costs	58,975	-	58,975
Total current assets	31,750,159	842,022	32,592,181
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	30,457,223	-	30,457,223
Accounts receivable	1,859	-	1,859
Accrued interest receivable	60,661	-	60,661
Notes receivable	24,822	-	24,822
Capital assets			
Nondepreciable	10,778,568	7,500	10,786,068
Depreciable, net	108,776,722	14,002,090	122,778,812
Unamortized debt issuance costs	1,108,916	-	1,108,916
Total noncurrent assets	151,208,771	14,009,590	165,218,361
Total assets	182,958,930	14,851,612	197,810,542
Liabilities			
Current liabilities			
Accounts payable	1,966,455	32,295	1,998,750
Accrued expenses and deposits	906,946	13,542	920,488
Accrued interest payable	1,017,162	-	1,017,162
Due to other funds	198	583	781
Due to other governments	641,668	3,964	645,632
Deferred revenue	1,696,931	36,910	1,733,841
Revenue certificates payable	2,284,498	-	2,284,498
Accrued compensated absences	157,812	8,000	165,812
Notes payable	1,607,974	570,000	2,177,974
Revenue bonds payable, net	1,440,370	-	1,440,370
Total current liabilities	11,720,014	665,294	12,385,308
Noncurrent liabilities			
Accrued compensated absences	781,720	13,886	795,606
Net OPEB obligation	502,169	31,783	533,952
Notes payable	18,618,410	-	18,618,410
Revenue bonds payable, net	47,820,515	-	47,820,515
Total noncurrent liabilities	67,722,814	45,669	67,768,483
Total liabilities	79,442,828	710,963	80,153,791
Net assets			
Invested in capital assets, net of related debt	63,513,674	14,009,590	77,523,264
Restricted for			
Impact fees	7,760,154	-	7,760,154
Debt service	1,153,322	-	1,153,322
Construction	735,511	-	735,511
Storm water	849,046	-	849,046
Unrestricted	29,504,395	131,059	29,635,454
Total net assets	\$ 103,516,102	\$ 14,140,649	\$ 117,656,751

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, 2011

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Operating revenues			
Charges for services			
Water and waste water sales	\$ 26,435,512	\$ -	\$ 26,435,512
Storm water assessments	945,127	-	945,127
Connection and reset fees	186,469	-	186,469
Administrative and review fees	36,190	-	36,190
Admissions and other fees	-	873,875	873,875
Rent	36,000	184,922	220,922
Miscellaneous	412,206	2,006	414,212
Total operating revenues	28,051,504	1,060,803	29,112,307
Operating expenses			
Personal services	5,057,749	611,029	5,668,778
Professional services	465,811	7,538	473,349
Office supplies	36,571	1,868	38,439
Contractual services	144,944	1,357	146,301
Insurance	161,342	35,694	197,036
Repairs and maintenance	1,719,162	61,413	1,780,575
Operating supplies	1,631,800	112,386	1,744,186
Communication services	56,387	8,317	64,704
Public utility services	9,391,352	162,197	9,553,549
Transportation	92,174	355	92,529
Rentals	57,204	24,700	81,904
Printing and binding	19,459	2,343	21,802
Miscellaneous	45,552	4,508	50,060
Amortization	71,212	-	71,212
Depreciation	4,073,507	578,903	4,652,410
Total operating expenses	23,024,226	1,612,608	24,636,834
Net operating income (loss)	5,027,278	(551,805)	4,475,473
Nonoperating revenues (expenses)			
Interest income	530,814	2,497	533,311
Grants and contributions	1,461,971	8,525	1,470,496
Gain / (loss) on disposal of assets	22,004	-	22,004
Interest expense	(2,738,802)	(22,334)	(2,761,136)
Total nonoperating revenues (expenses)	(724,013)	(11,312)	(735,325)
Net income (loss) before impact fees and transfers	4,303,265	(563,117)	3,740,148
Impact fees	312,707	-	312,707
Transfers in	-	769,731	769,731
Transfers out	(100,000)	(291,000)	(391,000)
Total impact fees and transfers	212,707	478,731	691,438
Change in net assets	4,515,972	(84,386)	4,431,586
Total net assets - beginning	99,000,130	14,225,035	113,225,165
Total net assets - ending	\$ 103,516,102	\$ 14,140,649	\$ 117,656,751

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, 2011

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Operating activities			
Receipts from customers and users	\$ 27,854,085	\$ 1,058,907	\$ 28,912,992
Payments to suppliers	(15,216,364)	(543,618)	(15,759,982)
Payments to employees	(3,596,428)	(503,364)	(4,099,792)
Net cash provided by operating activities	9,041,293	11,925	9,053,218
Noncapital financing activities			
Grants and contributions	1,299	5,000	6,299
Transfers from (to) other funds	(100,000)	235,000	135,000
Receipt of payments due on notes	121,981	-	121,981
Net cash provided by noncapital financing activities	23,280	240,000	263,280
Capital and related financing activities			
Grants and contributions	520,672	3,525	524,197
Impact fees	345,167	-	345,167
Transfers from other funds	-	243,731	243,731
Principal paid on revenue certificates	(3,886)	-	(3,886)
Principal paid on revenue bonds	(1,850,568)	-	(1,850,568)
Interest paid on revenue bonds	(2,514,080)	-	(2,514,080)
Issuance costs paid for revenue bonds	(29,465)	-	(29,465)
Principal paid on notes	(1,053,486)	(30,000)	(1,083,486)
Interest paid on notes	(630,361)	(22,334)	(652,695)
Proceeds from sale of assets	22,301	26,073	48,374
Purchase of capital assets	(18,513,830)	(475,799)	(18,989,629)
Net cash (used) by capital and related financing activities	(23,707,536)	(254,804)	(23,962,340)
Investing activities			
Interest received	619,972	2,497	622,469
Net cash provided by investing activities	619,972	2,497	622,469
Net (decrease) in cash and cash equivalents	(14,022,991)	(382)	(14,023,373)
Cash and cash equivalents - beginning	69,638,194	812,787	70,450,981
Cash and cash equivalents - ending	\$ 55,615,203	\$ 812,405	\$ 56,427,608
Classified as			
Current assets - cash and cash equivalents	\$ 25,157,980	\$ 812,405	\$ 25,970,385
Restricted assets - cash and cash equivalents	30,457,223	-	30,457,223
Total	\$ 55,615,203	\$ 812,405	\$ 56,427,608

(Continued)

City of Panama City Beach, Florida
Statement of Cash Flows
Proprietary Funds (Continued)
Year Ended September 30, 2011

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Reconciliation of net operating income (loss) to net cash provided by operating activities			
Net operating income (loss)	\$ 5,027,278	\$ (551,805)	\$ 4,475,473
Adjustments to reconcile net operating income (loss) to net cash provided by operating activities			
Amortization	71,212	-	71,212
Depreciation	4,073,507	578,903	4,652,410
Bad debts	44,299	858	45,157
Professional services	4,917	-	4,917
Forfeited deposits and miscellaneous	(2,300)	-	(2,300)
(Increase) decrease in assets			
Accounts receivable	(377,310)	(4,790)	(382,100)
Due from other funds	(1,572)	707	(865)
Due from other governments	4,326	(674)	3,652
Inventory	47,309	-	47,309
Prepaid insurance	(676)	(4,878)	(5,554)
Accounts receivable, restricted	(1,618)	-	(1,618)
Increase (decrease) in liabilities			
Accounts payable	(89,878)	(10,826)	(100,704)
Accrued expenses and deposits	73,982	(17,205)	56,777
Due to other funds	(1,595)	(554)	(2,149)
Due to other governments	41,104	(860)	40,244
Deferred revenue	7,695	7,354	15,049
Accrued compensated absences	100,652	8,211	108,863
Net OPEB obligation	19,961	7,484	27,445
Total adjustments	4,014,015	563,730	4,577,745
Net cash provided by operating activities	\$ 9,041,293	\$ 11,925	\$ 9,053,218
Noncash financing, capital, and investing activities			
Contributions from developers	\$ 190,000	\$ -	\$ 190,000
Refinance of Utility System Refunding Revenue Bonds, Series 2011	\$ 4,010,000	\$ -	\$ 4,010,000
Public access reuse grant applied directly to reduce note principal	\$ 750,000	\$ -	\$ 750,000

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, 2011

	Pension Trust Funds
<hr/>	
Assets	
Cash and cash equivalents	\$ 507,045
Accounts receivable, net	41,844
Investments, at fair value	
Money market funds	620,220
Real estate investment trusts	899,932
Mutual funds	35,117,959
<hr/>	
Total assets	37,187,000
<hr/>	
Liabilities	
Accounts payable	4,115
Refunds payable	4,865
<hr/>	
Total liabilities	8,980
<hr/>	
Net assets	
Held in trust for pension benefits	\$ 37,178,020
<hr/> <hr/>	

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

City of Panama City Beach, Florida
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2011

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 2,076,156
Plan members	981,957
Insurance premiums	274,020
Total contributions	3,332,133
Investment earnings	
Interest	3,572
Dividends	341,720
Net decrease in fair value of investments	(498,970)
Total investment earnings (loss)	(153,678)
Less investment expenses	(206,835)
Net investment earnings (loss)	(360,513)
Total additions	2,971,620
Deductions	
Benefits	1,411,584
Refunds of contributions	145,336
Administrative expenses	72,072
Total deductions	1,628,992
Change in net assets	1,342,628
Net assets - beginning	35,835,392
Net assets - ending	\$ 37,178,020

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Component Unit – Panama City Beach Community Redevelopment Agency

This report includes financial statements of the funds required to account for those financial activities which are related to the City and are controlled by or dependent upon the City's legislative body, the City Council. The City has one component unit, the Panama City Beach Community Redevelopment Agency, as defined by GASB Statement No. 14, *The Financial Reporting Entity* and in publications cited in the State of Florida, Office of the Auditor General Rules, Rule 10.553, which is required to be blended in these financial statements. A component unit is an entity for which the City is considered to be financially accountable and is included in the City's reporting entity because of the significance of its operational or financial relationships with the City. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

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

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,

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

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 and predecessor bodies, 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 as an "other financing" source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than as an expense.

Fiduciary Funds

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

Basis of Presentation

GASB Statement 34 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 accounts for the City's primary services (police, fire, public works, and parks and recreation) and is the primary operating unit of the City.

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

Proprietary Major Funds

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

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 the cash basis of accounting, 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, net

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenue 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 fuel held for consumption and is valued at the lower of cost (first-in, first-out) or market. Reported inventory in these funds is equally offset by a fund balance reserve which indicates inventory amounts do not constitute “available spendable resources” even though they are a component of net current assets.

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, water and waste water distribution systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are 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	2-25 Years

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. For the year ended September 30, 2011, \$538,990 was capitalized in connection with the construction of various water and waste water 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.

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

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

One day of sick leave is earned for each month of employment and is cumulative. For those employees hired on or before 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 on or 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)

Fund Balances

The City has implemented GASB Statement 54 during the fiscal year ended September 30, 2011. In accordance with GASB 54, the City classifies governmental fund balances as follows:

Non-spendable – This category includes the resources that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The non-spendable fund balance as of September 30, 2011, is \$41,442.

Restricted – This category includes resources restricted by creditors, grantors, contributors, laws, or regulations of other governments, constitutional provisions, or enabling legislation. The restricted fund balance as of September 30, 2011, is \$23,168,097.

Committed – This category includes resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision-making authority which is the City Council. Commitments may be established, modified, or rescinded by the City Council by taking the same formal action that imposed the original constraint. The committed fund balance as of September 30, 2011, is \$500,000.

Assigned – This category includes resources that are intended to be used for specific purposes, but is neither restricted nor committed. These are resources that have been set aside for a specific purpose by an authorized government body or official. The assigned fund balance as of September 30, 2011, is \$264,097.

Unassigned – This category includes residual positive fund balance within the General Fund which has not been classified with the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if the non-spendable amount exceeds amounts restricted, committed, or assigned for these specific purposes. The unassigned fund balance as of September 30, 2011, is \$7,222,715.

Estimates

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

Subsequent Events

Management has evaluated subsequent events through the issuance date of the financial statements.

Reclassifications

Certain reclassifications have been made to the 2010 financial statement presentation to conform to the 2011 presentation.

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

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 balances – total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation states, "receivables, on a modified accrual basis are not resources and, therefore, are not reported in the funds." The details of this \$200,296 difference are as follows:

Accounts receivable, net	\$	155,349
Grants receivable		39,324
Due from other governments		5,623
<hr/>		
Net adjustment to increase <i>fund balances – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	200,296

Another element of that reconciliation explains, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds."

The details of this \$97,624,983 difference are as follows:

Cost of capital assets	\$	114,728,794
Less: accumulated depreciation		(17,103,811)
<hr/>		
Net adjustment to increase <i>fund balances – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	97,624,983

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 (\$53,102,622) difference are as follows:

Bonds payable	\$	(49,835,000)
Unamortized premium costs		(1,180,247)
Less: unamortized bond costs		1,992,478
OPEB liability		(823,160)
Compensated absences		(2,294,664)
Accrued interest payable		(962,029)
<hr/>		
Net adjustment to decrease <i>fund balances – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	(53,102,622)

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 \$3,412,563 difference are as follows:

Capital outlay	\$	6,149,289
Depreciation expense		(2,736,726)
<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>	\$	3,412,563

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 decrease net assets." The details of this (\$12,571) difference are as follows:

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from sales increase financial resources. Thus, the change in net assets differs from the change in fund balances by the basis of the capital assets sold.	\$	(12,571)
<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>	\$	(12,571)

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 (\$155,113) difference are as follows:

Compensated absences	\$	(56,352)
Accrued interest		23,744
OPEB liability		(122,505)
<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>	\$	(155,113)

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, "Some revenues reported in the statement of activities are not recorded in the current financial resources and, therefore, are not reported as revenues in governmental funds." The details of this (\$664,056) difference are as follows:

Intergovernmental	\$	95
Fines and forfeitures		25,063
Grants		(131,924)
Other fees and miscellaneous		(557,290)
<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>		\$ (664,056)

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 \$1,448,056 difference are as follows:

Principal repayments		
Note	\$	68,494
Bonds		1,420,000
Plus, amortization of bond premium costs		58,765
Less, amortization of bond issuance costs		(99,203)
<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>		\$ 1,448,056

NOTE 3 – BUDGETS

The City adopts budgets on a cash basis of accounting, except as follows:

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

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

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

NOTE 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.

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, hereinafter, Florida PRIME and Fund B, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Florida Statutes, Section 163.01.

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

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

Direct obligations of the United States Treasury.

Federal agencies and instrumentalities.

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

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

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2011, the City did not hold any investments that were considered to be an interest rate risk.

Custodial Risks

At September 30, 2011, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

At September 30, 2011, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2011, the City's deposits and investments consisted of the following:

	Carrying Amount	Market Value
Demand deposits	\$ 66,941,622	\$ 66,941,622
Nonnegotiable certificate of deposits	24,453,840	24,453,840
Total deposits and investments	\$ 91,395,462	\$ 91,395,462

NOTE 5 – ACCOUNTS RECEIVABLE, NET

At September 30, 2011, accounts receivable in the governmental activities is summarized as follows:

Total accounts receivable	\$ 185,188
Less: allowance for doubtful accounts	-
Accounts receivable, net	\$ 185,188

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

NOTE 5 – ACCOUNTS RECEIVABLE, NET (CONTINUED)

At September 30, 2011, accounts receivable in the business type activities is summarized as follows:

Billed accounts receivable	\$ 2,147,372
Unbilled accounts receivable	3,689,901
Other receivables	24,556
<hr/>	
Total accounts receivable	5,861,829
Less: allowance for doubtful accounts	(326,742)
<hr/>	
Accounts receivable, net	<u>\$ 5,535,087</u>

At September 30, 2011, restricted accounts receivable in the business type activities is summarized as follows:

Total restricted accounts receivable	\$ 1,859
Less: allowance for doubtful accounts	-
<hr/>	
Restricted accounts receivable, net	<u>\$ 1,859</u>

Restricted accounts receivable arise from activities in the storm water department.

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of due to / from other funds balances as of September 30, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Safe kids fund	\$ 53,750
General fund	Utility fund	2
General fund	Pier fund	558
General fund	Aquatic center fund	25
LETf fund	General fund	477
Utility fund	General fund	1,572
Pier fund	General fund	97
CRA fund	General fund	59
CRA fund	Utility fund	196
<hr/>		
Total		<u>\$ 56,736</u>

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

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

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

The composition of interfund transfers as of September 30, 2011 is as follows:

Transfers out	Transfers in	Amount
General fund	Pier fund	\$ 243,731
General fund	Aquatic center fund	235,000
Utility fund	General fund	100,000
Pier fund	Aquatic fund	291,000
Total		\$ 869,731

NOTE 7 – CAPITAL ASSETS

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

	September 30, 2010	Increases	Decreases	September 30, 2011
Capital assets, not being depreciated				
Land	\$ 43,341,364	\$ 792,020	\$ -	\$ 44,133,384
Construction in progress	13,978,117	4,938,237	(942,317)	17,974,037
Total capital assets, not being depreciated	57,319,481	5,730,257	(942,317)	62,107,421
Capital assets, being depreciated				
Buildings	6,596,755	-	-	6,596,755
Improvements	38,030,392	1,027,071	(12,116)	39,045,347
Machinery and equipment	7,102,841	334,277	(457,847)	6,979,271
Total capital assets, being depreciated	51,729,988	1,361,348	(469,963)	52,621,373
Less: accumulated depreciation				
Buildings	(2,078,809)	(171,261)	-	(2,250,070)
Improvements	(8,004,108)	(2,047,240)	7,687	(10,043,661)
Machinery and equipment	(4,741,561)	(518,225)	449,706	(4,810,080)
Total accumulated depreciation	(14,824,478)	(2,736,726)	457,393	(17,103,811)
Total capital assets, being depreciated, net of accumulated depreciation	36,905,510	(1,375,378)	(12,570)	35,517,562
Total governmental activities' capital assets – net	\$ 94,224,991	\$ 4,354,879	\$ (954,887)	\$ 97,624,983

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

NOTE 7 – CAPITAL ASSETS (CONTINUED)

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

Governmental activities	
General government	\$ 42,462
Public safety	435,033
Highways and streets	1,254,107
Culture and recreation	1,005,124
<hr/>	
Total depreciation expense – governmental activities	\$ 2,736,726

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

	September 30, 2010	Increases	Decreases	September 30, 2011
Capital assets, not being depreciated				
Land	\$ 6,888,263	\$ 84,511	\$ -	\$ 6,972,774
Construction in progress	25,165,180	14,552,540	(35,904,426)	3,813,294
<hr/>				
Total capital assets, not being depreciated	32,053,443	14,637,051	(35,904,426)	10,786,068
Capital assets, being depreciated				
Buildings	35,955,748	2,681,226	-	38,636,974
Improvements	80,789,628	24,556,794	(234,263)	105,112,159
Machinery and equipment	11,351,181	9,192,486	(568,164)	19,975,503
<hr/>				
Total capital assets, being depreciated	128,096,557	36,430,506	(802,427)	163,724,636
Less: accumulated depreciation				
Buildings	(11,357,003)	(947,336)	-	(12,304,339)
Improvements	(21,484,712)	(2,481,513)	227,419	(23,738,806)
Machinery and equipment	(4,221,490)	(1,223,561)	542,372	(4,902,679)
<hr/>				
Total accumulated depreciation	(37,063,205)	(4,652,410)	769,791	(40,945,824)
<hr/>				
Total capital assets, being depreciated, net of accumulated depreciation	91,033,352	31,778,096	(32,636)	122,778,812
<hr/>				
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 123,086,795	\$ 46,415,147	\$(35,937,062)	\$ 133,564,880

During the fiscal year ending September 30, 2011, the City received contributed assets with an estimated fair market value at the date of contribution of \$190,000.

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

NOTE 7 – CAPITAL ASSETS (CONTINUED)

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

Business-type activities		
Utility fund		
Water	\$	1,380,484
Waste water		2,595,476
Storm water		97,547
Pier fund		424,517
Aquatic center fund		154,386
<hr/>		
Total depreciation expense – business-type activities	\$	4,652,410

The following schedule summarizes the capital assets of the City's business-type activities at September 30, 2011:

	Utility Fund	Pier Fund	Aquatic Center Fund	Total
Land	\$ 6,972,774	\$ -	\$ -	\$ 6,972,774
Buildings	34,479,955	1,943,959	2,213,060	38,636,974
Improvements	94,014,604	9,028,934	2,068,621	105,112,159
Machinery and equipment	19,516,226	145,777	313,500	19,975,503
Construction in progress	3,805,794	-	7,500	3,813,294
<hr/>				
Total	158,789,353	11,118,670	4,602,681	174,510,704
<hr/>				
Less: accumulated depreciation				
Buildings	(11,921,170)	(77,489)	(305,680)	(12,304,339)
Improvements	(22,591,210)	(762,142)	(385,454)	(23,738,806)
Machinery and equipment	(4,721,683)	(21,865)	(159,131)	(4,902,679)
<hr/>				
Total accumulated depreciation	(39,234,063)	(861,496)	(850,265)	(40,945,824)
<hr/>				
Total business-type activities' capital assets, net	\$119,555,290	\$10,257,174	\$ 3,752,416	\$133,564,880

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

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

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Eligibility

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

Funding Policy

For the Postemployment Health Care Benefits Plan, contribution requirements of the City are established and may be amended through recommendations of the City staff and action from the City Council. The City has not advanced-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. As of October 1, 2010 there were 15 retirees and 3 eligible dependents receiving postemployment health care benefits. For the fiscal year ended September 30, 2011, retiree premiums exceeded paid out claims resulting in a credit of \$245,127 toward annual OPEB costs, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance payments, and net of retiree contributions totaling \$124,870. Required contributions are based on projected pay-as-you-go financing.

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

Coverage	Blue Options 3559	Blue Options 5770	Blue Options 5771
Individual	\$ 525.52	\$ 501.17	\$ 475.97
Retiree & Spouse	\$ 1,166.65	\$ 1,112.58	\$ 1,056.65

Dental insurance can be purchased at a cost of \$23.91 per month per member and life insurance coverage can be purchased at a cost of \$6 per \$15,000 of coverage for retirees.

Annual OPEB Cost and Net OPEB Obligation

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

Description	Total
Normal cost	\$ 240,898
Amortization of unfunded actuarial liability	115,393
Interest	14,252
Annual required contribution of employer	370,543
Less: amortization of net OPEB obligation	(34,765)
Plus: interest on net OPEB obligation	41,718
Total annual OPEB cost	\$ 377,496

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

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Description (continued)	Total
Beginning of year net OPEB obligation	\$ 1,042,962
Plus: actual annual OPEB cost	377,496
Less: contributions	<u>(63,346)</u>
End of year net OPEB obligation	<u>\$ 1,357,112</u>

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

Funding Status and Funding Progress

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

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the fiscal year ended September 30, 2011, the City's OPEB actuarial valuation used the entry age normal cost actuarial method to estimate the unfunded actuarial liability and to determine the annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.0 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4.0 percent per year, and an annual healthcare cost trend rate of 10.5 percent initially for the 2011 fiscal year, grading to an ultimate rate of 5.5 percent for the fiscal year ending September 30, 2018. Dental cost trend is 7.5 percent initially, grading to an ultimate rate of 5.5 percent for the fiscal year ending September 30, 2015. These assumptions were built based on a long term general inflation rate of 2.5 percent. The unfunded actuarial accrued liability and gains/losses are being amortized as a level percentage of projected payroll on a closed basis over 30 years.

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

NOTE 9 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2010	Additions	Deductions	Balance September 30, 2011	Due Within One Year
Revenue bonds payable	\$ 51,255,000	\$ -	\$ (1,420,000)	\$ 49,835,000	\$ 1,480,000
Adjusted for deferred amounts for issuance premium	1,239,012	-	(58,765)	1,180,247	58,765
Total bonds payable	52,494,012	-	(1,478,765)	51,015,247	1,538,765
Notes payable	68,494	-	(68,494)	-	-
Accrued compensated absences	2,238,312	248,692	(192,340)	2,294,664	478,021
Net OPEB obligation	700,655	122,505	-	823,160	-
Total	\$ 55,501,473	\$ 371,197	\$ (1,739,599)	\$ 54,133,071	\$ 2,016,786

Revenue Bonds Payable:

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

The bonds were issued to provide funds for the purpose of financing the preparation, planning, design, land acquisition, construction and implementations necessary to carry out the Front Beach Road Community Redevelopment Area Plan. The \$54,835,000 is composed of \$38,420,000 Serial Bonds and \$16,415,000 term bonds.

	\$ 49,835,000
Total revenue bonds at September 30, 2011	49,835,000
Less: revenue bonds – current portion	(1,480,000)
Revenue bonds – long-term at September 30, 2011	\$ 48,355,000

Note 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. Note payable matured in February 2011.

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, 2011 are as follows:

Year Ending September 30,	Principal	Interest	Total
2012	\$ 1,480,000	\$ 2,284,300	\$ 3,764,300
2013	1,540,000	2,221,975	3,761,975
2014	1,605,000	2,155,144	3,760,144
2015	1,670,000	2,085,550	3,755,550
2016	1,745,000	2,006,438	3,751,438
2017-2021	10,055,000	8,678,644	18,733,644
2022-2026	12,480,000	6,197,375	18,677,375
2027-2031	15,650,000	2,926,388	18,576,388
2032-2036	3,610,000	90,250	3,700,250
Total	\$ 49,835,000	\$ 28,646,064	\$ 78,481,064

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

	Balance September 30, 2010	Additions	Deductions	Balance September 30, 2011	Due Within One Year
Revenue bonds payable	\$ 51,665,000	\$ 4,010,000	\$ (5,860,566)	\$ 49,814,434	\$ 1,560,235
Adjusted for deferred amounts					
On refunding	(639,676)	(32,329)	108,612	(563,393)	(113,231)
For issuance discounts	(652,716)	-	81,752	(570,964)	(27,627)
For issuance premium	601,801	-	(20,993)	580,808	20,993
Total bonds payable	50,974,409	3,977,671	(5,691,195)	49,260,885	1,440,370
Revenue certificates payable	2,288,384	-	(3,886)	2,284,498	2,284,498
Notes payable	22,629,870	-	(1,833,486)	20,796,384	2,177,974
Accrued compensated balances	852,554	109,638	(774)	961,418	165,812
Net OPEB obligation	454,785	79,167	-	533,952	-
Total	\$ 77,200,002	\$ 4,166,476	\$ (7,529,341)	\$ 73,837,137	\$ 6,068,654

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

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

Revenue Bonds:

\$19,920,000 Utility Revenue Bonds, Series 2002, dated April 11, 2002; 5.00% 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, 2014 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 Waste water 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 waste water utility system, 4) paying certain costs relating to the issuance of the bonds. \$ 18,860,000

\$28,725,000 Utility Revenue Bonds, Series 2009, dated September 11, 2009; 3.00% to 5.00% interest, depending on maturity date of bonds. Interest is payable semiannually on June 1 and December 1. Principal is payable annually on June 1 beginning June 1, 2010 with final maturity on June 1, 2039. The \$28,725,000 is composed of \$10,355,000 serial bonds and \$18,370,000 term bonds.

The bonds were issued to provide funds for the purpose of: 1) financing the cost of the acquisition and construction of certain capital improvements in connection with the City's water and waste water utility system, 2) funding a required deposit to the Reserve Fund established pursuant to the Resolution, and 3) paying certain costs incurred in connection with the issuance of the bonds. 27,905,000

\$4,010,000 Utility System Refunding Revenue Bonds, Series 2011, dated February 1, 2011; 1.50% to 4.16% interest, depending on maturity dates of bonds. Principal and interest are payable semi-annually on June 1 and December 1, with final maturity on June 1, 2017.

The bonds were issued to provide funds for the purpose of: refunding the City's outstanding \$4,410,000 Utility Revenue Bonds, Series 1998 Bonds. 3,049,434

Total revenue bonds at September 30, 2011	49,814,434
Less: revenue bonds – current portion	(1,560,235)

Revenue bonds – long-term at September 30, 2011	\$ 48,254,199
---	---------------

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, 2011 are as follows:

Year Ending September 30,	Principal	Interest	Total
2012	\$ 1,560,235	\$ 2,384,295	\$ 3,944,530
2013	1,606,020	2,330,801	3,936,821
2014	1,260,307	2,275,535	3,535,842
2015	1,312,819	2,225,000	3,537,819
2016	1,365,085	2,171,720	3,536,805
2017-2021	6,989,968	9,926,740	16,916,708
2022-2026	9,735,000	7,947,437	17,682,437
2027-2031	12,390,000	5,318,250	17,708,250
2032-2036	8,540,000	2,418,500	10,958,500
2037-2039	5,055,000	513,500	5,568,500
Total	\$ 49,814,434	\$ 37,511,778	\$ 87,326,212

The principal balance of the defeased debt outstanding for the Water and Waste water Revenue Bonds, Series 1987A, at September 30, 2011 is \$490,000.

Revenue Certificates:

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

Location	Original Amount of Certificate	Balance at September 30, 2010	Net Changes During the Year	Balance at September 30, 2011
Wild Heron	\$ 431,834	\$ 188,794	\$ (1,000)	\$ 187,794
Hills Road	71,550	6,264	-	6,264
Bayside Partners LLC	142,993	124,198	(538)	123,660
Sunnyside Beach & Tennis	203,385	166,404	-	166,404
Tapestry Park North, LLC	96,430	90,156	(395)	89,761
Magnolia Beach LLC	100,000	84,462	(155)	84,307
TW Olson-Magnolia LLC	490,500	414,277	(760)	413,517
St. Andrews Land Company LLC	670,414	566,231	(1,038)	565,193
Ocean Park Pavilion Inc.	68,494	68,494	-	68,494
Ocean Park Pavilion Inc.	239,795	239,569	-	239,569
Karen Arrigo - Shasta Street	18,357	13,515	-	13,515
St. Andrews Land Company, LLC	212,496	202,298	-	202,298
Antigua Developers, LLC	143,950	123,722	-	123,722
Total	\$ 2,890,198	\$ 2,288,384	\$ (3,886)	\$ 2,284,498

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 to 45 days after connections are made as specified in each revenue certificate.

Notes Payable:

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

\$ 10,250,439

State Revolving Fund #2 – Note payable dated March 5, 2002 payable in 40 semi-annual installments of \$242,542 beginning October 15, 2009 through October 15, 2010. Beginning April 15, 2011, semi-annual payments are reduced to \$152,539 for the remaining term of the loan. The payments include principal and interest at a weighted average interest rate of 2.88%. The note matures April 15, 2029.

In addition, the City has been awarded a grant from the State of Florida which will be applied directly to the outstanding debt through April 15, 2019. The total amount of debt expected to be retired from grant funds is \$7,400,442.

9,480,449

State Revolving Fund #3 – Note payable dated December 21, 2007, payable in 40 semi-annual installments of \$88,822 on April 15, 2009 and \$17,436 thereafter. The note matures October 15, 2028. Installments include principal and interest at 2.41%.

495,496

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

570,000

Total notes payable at September 30, 2011	20,796,384
Less: notes payable - current portion	(2,177,974)

Notes payable – long-term at September 30, 2011	\$ 18,618,410
---	---------------

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 notes payable at September 30, 2011 are as follows:

Year Ending September 30,	Principal	Interest	Total
2012	\$ 2,177,974	\$ 603,412	\$ 2,781,386
2013	1,655,406	534,917	2,190,323
2014	1,704,241	486,082	2,190,323
2015	1,754,518	435,805	2,190,323
2016	1,806,281	384,042	2,190,323
2017-2021	8,225,491	1,126,570	9,352,061
2022-2026	2,518,849	281,275	2,800,124
2027-2029	953,624	48,789	1,002,413
Total	\$ 20,796,384	\$ 3,900,892	\$ 24,697,276

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 Revenue. This pledge remains in effect until extinguishment or maturity of the debt in 2031, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2011 totaled \$78,481,064. Annual principal and interest payments on the bonds in fiscal year 2011 required the use of 51.80% of the tax increment revenue. Principal and interest payments paid for the current year were \$3,762,300 and Front Beach Road CRA tax increment revenue collected was \$7,263,322.

NOTE 12 – PLEDGED REVENUE - BUSINESS-TYPE ACTIVITIES

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 and Waste water Refunding and Improvement Revenue Bonds, Series 1993, to finance the cost of acquisition and construction of certain capital improvements in connection with the City's water and waste water utility systems, and to pay the cost of issuing the bonds. The bonds are secured by a lien upon and pledge of (a) net revenues of the water and waste water systems, (b) water system development charges, (c) waste water system development charges, 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, 2011 totaled \$32,090,758. Annual principal and interest payments on the bond required 8.04% of pledged revenue. Current year principal and interest payments paid from pledged revenue was \$0 and \$937,193, respectively. For the year ended September 30, 2011, pledge revenues were \$11,653,334.

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

NOTE 12 – PLEDGED REVENUE - BUSINESS-TYPE ACTIVITIES (CONTINUED)

The \$28,725,000 Utility Revenue Bonds, Series 2009, were issued to provide funds for the purpose of financing the cost of the acquisition and construction of certain capital improvements in connection with the City's water and waste water utility system. The bonds are payable from and secured by a lien upon and pledge of (a) net revenues of the water and waste water systems, (b) water system development charges, (c) waste water system development charges, (d) until released, public services taxes, and (e) the money deposited in the various funds related to the creation of the obligation. The remaining principal and interest payments on this debt as of September 30, 2011 totaled \$51,962,988. Annual principal and interest payments on the bond required 15.92% of pledged revenue. Current year principal and interest payments paid from pledged revenue was \$490,000 and \$1,365,550, respectively. For the year ended September 30, 2011, pledge revenues were \$11,653,334.

The \$4,010,000 Utility System Refunding Revenue Bonds, Series 2011, were issued to provide funds which were used to refund the City's outstanding \$6,970,000 Utility Revenue Bonds, Series 1998. The bonds are secured by a junior lien upon and pledge of (a) net revenues of the water and waste water systems, and (b) until released, public services taxes. The lien and pledge exists until extinguishment or maturity of the debt in 2017, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2011 totaled \$3,272,468. Annual principal and interest payments on the bond required 8.60% of pledged revenue. Current year principal and interest payments paid from pledged revenue was \$960,566 and \$41,941, respectively. For the year ended September 30, 2011, pledge revenues were \$11,653,334.

NOTE 13 – ACCRUED ABSENCES

Accrued compensated absences consist of the following at September 30, 2011:

	Accrued Emergency Leave	Accrued Sick Leave	Total Accrued Leave
Governmental funds			
General	\$ 353,842	\$ 1,922,248	\$ 2,276,090
Community Redevelopment	3,571	15,003	18,574
Enterprise funds			
Utility	193,542	745,990	939,532
Pier	6,549	4,898	11,447
Aquatic Center	7,350	3,089	10,439
Total	\$ 564,854	\$ 2,691,228	\$ 3,256,082

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation

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

Contract

On November 30, 1999, the City entered into a contract to purchase water from Bay County. The terms of the contract require that the City must purchase a minimum of five billion, three hundred ninety-five million (5,395,000,000) gallons of water each fiscal year. During 2002, the minimum purchase amount was amended to five billion, eighty-two million, one hundred thousand (5,082,100,000) gallons. In the event of a shortfall, the City is required to pay Bay County an amount equal to the number of gallons short, at an agreed upon amount (\$.335 per thousand gallons). During the year ended September 30, 2011, the City's cost of water purchased from Bay County was \$7,502,346. The City did not meet its minimum purchase agreement for 2011 and as a result there was an amount due of \$270,568 at September 30, 2011. However, this liability was offset by \$77,181 representing Bay County's impact fees collected by the City in accordance with an inter-local agreement, and \$11,448 in other credits. As such, the net amount of \$181,939 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 15 – 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 15 – 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. Ninety-five percent (95%) of the total assets held in trust for pension benefits are invested in mutual funds, two percent (2%) in real estate investment trusts, and the remaining balance of three percent (3%) 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, 2010, the date of the latest actuarial valuation.

	General Employees	Police Officers	Fire- Fighters
Retirees and beneficiaries receiving benefits	45	13	4
Terminated plan members entitled to but not yet receiving benefits	3	6	4
Active plan members	155	51	30
Total	203	70	38
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 15 – 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 11.0% 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	09/30/09	1,031,149	102.6%	26,890
	09/30/10	968,802	108.4%	(57,344)
	09/30/11	1,131,654	96.6%	pending
Police officers	09/30/09	520,866	100.2%	(128,614)
	09/30/10	580,987	93.8%	(91,094)
	09/30/11	619,497	106.8%	pending
Firefighters	09/30/09	499,090	101.9%	(310,499)
	09/30/10	557,520	161.2%	(292,458)
	09/30/11	584,097	102.0%	pending

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

NOTE 16 – LEASES

Bay County Lease

On April 13, 2001, the City leased approximately 3,100 square feet in the building at 17109 Panama City Beach Parkway, including utilities and maintenance and adjacent appropriate parking, to Bay County for initial use by the Tax Collector at a rate of \$36,000 per year for 15 years. The rental income for the year ended September 30, 2011 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, 2010 and continuing through September 30, 2013. Rent is due on the first of each month in an amount equal to 23% of monthly gross sales made by the lessee in the previous month, plus \$500. Rental income for the year end September 30, 2011, was \$49,920.

Future minimum lease receipts due under this operating lease consist of the following at September 30, 2011:

Year Ending September 30,	Total
2012	\$ 6,000
2013	6,000
Total	\$ 12,000

Aquatic Center Concession Lease

The City leases one concession stand located at the Aquatic Center at Frank Brown Park. The operating lease includes the use of the concession stand building, fixtures and equipment beginning April 23, 2010 and continuing through September 30, 2012. The lease has an option to renew at the same terms and conditions for two (2) consecutive terms of one year each. Rent is due on the first of each month in an amount equal to 23% of monthly gross sales made by the lessee in the previous month, plus \$250. Rental income for the year ended September 30, 2011, was \$15,210.

Future minimum lease receipts due under this operating lease consist of the following at September 30, 2011:

Year Ending September 30,	Total
2012	\$ 3,000
2013	3,000
2014	3,000
Total	\$ 9,000

NOTE 16 – LEASES (CONTINUED)

Pier Beachfront Lease

The City leases a snack bar, tackle, and bait shop and four (4) retail kiosks located at the Russell-Fields Pier. Additionally, the City grants to the tenant an exclusive right and license to operate a beach service on the beachfront property as defined in the lease agreement. The effective date of the lease is June 24, 2010 and extends through September 30, 2012. The lease has an option to renew for consecutive, additional terms of two (2), three (3), or five (5) years, each upon rent, terms, and conditions as agreed to between the lessee and the City. The total aggregate term, including the initial two (2) year term and all extension terms, shall not exceed ten (10) years (June 30, 2020). Base rent is due to the City on the first day of each month in the amount of \$8,333. In addition to the base rent, the lessee shall pay additional rent to the City on the fifteenth day of each month in an amount equal to 7% of the monthly gross sales up to and including \$700,000 aggregate gross sales per year, and thereafter, 10% of monthly gross sales in excess of \$700,000 aggregate gross sales per year for the remainder of that year. Rental income for the year ended September 30, 2011 was \$164,001.

Pier Beachfront Lease

Future minimum lease receipts due under this operating lease consists of the following at September 30, 2011:

Year Ending September 30,	Total
2012	\$ 100,000
2013	100,000
2014	100,000
2015	100,000
2016	100,000
Thereafter	375,000
Total	\$ 875,000

NOTE 17 – NET ASSET RESTRICTIONS

The following is a description of reported net asset restrictions in governmental activities and business-type activities at September 30, 2011.

Governmental Activities

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

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

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

NOTE 17 – NET ASSET RESTRICTIONS (CONTINUED)

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

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

Business-type Activities

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

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

Restriction for Construction – This restriction was established in conjunction with the construction of certain capital improvements funded by the Series 2009 Utility Revenue Bonds.

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

Summary

Specific restrictions of net assets are summarized below as of September 30, 2011:

Governmental activities	
Law enforcement	\$ 49,621
Beach access public parking	557,346
Impact fees	3,993,311
Debt service	4,061,633
<hr/>	
Total	\$ 8,661,911
<hr/>	
Business-type activities	
Impact fees	\$ 7,760,154
Debt service	1,153,322
Construction	735,511
Storm water	849,046
<hr/>	
Total	\$ 10,498,033
<hr/>	

For the fiscal year ending September 30, 2011, the amount of net assets restricted by enabling legislation was \$19,159,944.

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

NOTE 18 – FUND BALANCE CONSTRAINTS

The constraints on fund balance as listed in the aggregate in the Statement of Revenues, Expenditures, and Changes in Fund Balances are detailed below according to balance classification and fund.

Fund Balances	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Nonspendable				
Prepays	\$ 28,457	\$ 211	\$ -	\$ 28,668
Inventory	12,774	-	-	12,774
Total nonspendable	41,231	211	-	41,442
Restricted				
Other governments	330,494	41,923	-	372,417
Debt service reserve	-	6,647,339	-	6,647,339
Community redevelopment	-	8,760,845	-	8,760,845
Capital projects	3,992,548	2,804,177	-	6,796,725
Public safety	10,406	-	22,768	33,174
Public parking	-	-	557,597	557,597
Total restricted	4,333,448	18,254,284	580,365	23,168,097
Committed				
Fire engine	500,000	-	-	500,000
Total committed	500,000	-	-	500,000
Assigned				
Public safety	-	-	14,573	14,573
Sidewalk construction	-	249,524	-	249,524
Total assigned	-	249,524	14,573	264,097
Unassigned				
	7,222,715	-	-	7,222,715
Total fund balances	\$ 12,097,394	\$ 18,504,019	\$ 594,938	\$ 31,196,351

NOTE 19 – 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 20 – PIER PARK

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

The CDD was authorized to issue debt to provide funds for public improvements constructed in the Pier Park Redevelopment Area. The City has pledged tax increment revenue collected within Pier Park to the CDD to be applied to the payment of interest and principal on the debt obligations. For the year ended September 30, 2011, tax increment funds remitted by Bay County to the City for the Pier Park CRA were \$344,835. 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 and related penalties for late payments collected in the fiscal year ended September 30, 2011 were \$1,797,036.

A portion of the business tax receipts collected within the Pier Park Community Redevelopment Area is retained by the City for the provision of public safety services within the Pier Park Community Redevelopment Area. The amount retained by the City is determined under the terms of the PIPA and is calculated in the fiscal year following collection. The City has recorded a liability as of September 30, 2011 in the amount of \$3,293,074. This represents fiscal year 2010 collections due to the CDD in the amount of \$1,496,038 and fiscal year 2011 collections in the amount of \$1,797,036. The portion of the fiscal year 2011 collections to be retained by the City is not determinable until July 2012.

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

NOTE 21 – SUBSEQUENT EVENTS

On March 14, 2012, the City issued \$20,910,000 Utility Revenue Refunding Bonds, Series 2012 dated as of March 14, 2012 and maturing on June 1, 2032 and bearing an interest rate of 2.00% to 5.00% depending on the maturity date of the bonds. The bonds were issued for the purpose of refunding the outstanding principal amount of the City’s Utility Revenue Bonds, Series 2002 and the City’s Utility System Refunding Revenue Bonds, Series 2011. The purpose of the refunding was to realize a present value interest cost savings and to retire the debt more quickly.

Required Supplementary Information

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedule of Analysis of Funding Progress
 Pension Trust Funds
 September 30, 2011

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>						
10/1/2001	\$ 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%
10/1/2008	\$ 15,608	\$ 16,684	\$ 1,076	93.6%	\$ 5,152	20.9%
10/1/2009	\$ 17,062	\$ 17,999	\$ 937	94.8%	\$ 5,280	17.7%
10/1/2010	\$ 18,563	\$ 19,292	\$ 729	96.2%	\$ 5,426	13.4%
<u>Police Officers</u>						
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%
10/1/2008	\$ 9,778	\$ 10,607	\$ 829	92.2%	\$ 2,277	36.4%
10/1/2009	\$ 10,495	\$ 11,234	\$ 739	93.4%	\$ 2,352	31.4%
10/1/2010	\$ 11,295	\$ 11,974	\$ 679	94.3%	\$ 2,266	30.0%
<u>Firefighters</u>						
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%
10/1/2008	\$ 6,116	\$ 7,797	\$ 1,681	78.4%	\$ 1,128	149.0%
10/1/2009	\$ 6,858	\$ 8,419	\$ 1,561	81.5%	\$ 1,364	114.4%
10/1/2010	\$ 7,721	\$ 9,204	\$ 1,483	83.9%	\$ 1,240	119.6%

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedule of Contributions From Employer and Other
 Entity's Contributions - Pension Trust Funds
 September 30, 2011

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
9/30/2002	\$ 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%
9/30/2009	\$ 1,034,824	102.2%	\$ 514,614	101.4%	\$ 479,613	106.0%
9/30/2010	\$ 971,066	108.1%	\$ 572,627	95.2%	\$ 533,688	101.2%
9/30/2011	\$ 1,126,519	97.0%	\$ 612,410	108.0%	\$ 554,937	107.3%

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
9/30/2002	\$ -	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%
9/30/2009	\$ -	0.0%	\$ 92,822	100.0%	\$ 158,923	100.0%
9/30/2010	\$ -	0.0%	\$ 95,224	100.0%	\$ 184,717	100.0%
9/30/2011	\$ -	0.0%	\$ 94,731	100.0%	\$ 179,289	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, 2011

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	10/1/10	10/1/10	10/1/10
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	11 years	14 years	14 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%

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedules of Other Post Employment Benefits (OPEB)
 September 30, 2011

Schedule of Funding Progress for Retiree Healthcare Plan (OPEB)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2009	\$ -	\$ 4,587,573	\$ 4,587,573	0.0%	\$ 8,898,169	51.6%
9/30/2010	\$ -	\$ 5,050,183	\$ 5,050,183	0.0%	\$ 10,587,717	47.7%
9/30/2011	\$ -	\$ 3,447,858	\$ 3,447,858	0.0%	\$ 10,445,183	33.0%

Schedule of Employer Contributions for Retiree Healthcare Plan (OPEB)

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
9/30/2009	\$ 520,904	\$ 43,462	8.3%	\$ 477,442
9/30/2010	\$ 559,983	\$ (5,538)	-1.0%	\$ 1,042,962
9/30/2011	\$ 377,496	\$ 63,346	16.8%	\$ 1,357,112

Combining Financial Statements

City of Panama City Beach, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2011

	Special Revenue Funds				Total
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund	Safe Kids Fund	
Assets					
Cash and cash equivalents	\$ -	\$ 16,489	\$ -	\$ 3,902	\$ 20,391
Due from other governments	-	-	-	48,848	48,848
Cash and cash equivalents - restricted	23,307	-	557,597	-	580,904
Due from other funds - restricted	477	-	-	-	477
Total assets	\$ 23,784	\$ 16,489	\$ 557,597	\$ 52,750	\$ 650,620
Liabilities and fund balances					
Accounts payable	\$ 1,016	\$ -	\$ -	\$ 916	\$ 1,932
Due to other funds	-	-	-	53,750	53,750
Total liabilities	1,016	-	-	54,666	55,682
Fund balances					
Restricted	22,768	-	557,597	-	580,365
Assigned	-	16,489	-	(1,916)	14,573
Total fund balances	22,768	16,489	557,597	(1,916)	594,938
Total liabilities and fund balances	\$ 23,784	\$ 16,489	\$ 557,597	\$ 52,750	\$ 650,620

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, 2011

	Special Revenue Funds				Total
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund	Safe Kids Fund	
Revenues					
Fines and forfeitures	\$ 7,483	\$ -	\$ -	\$ -	\$ 7,483
Contributions and donations	-	9,421	-	2,075	11,496
Grants	-	-	-	48,848	48,848
Interest	13	74	254	65	406
Total revenues	7,496	9,495	254	50,988	68,233
Expenditures					
Current					
Public safety	12,694	7,566	-	39,761	60,021
Highways and streets	-	-	3	-	3
Capital outlay					
Public safety	-	-	-	13,281	13,281
Total expenditures	12,694	7,566	3	53,042	73,305
Excess (deficiency) of revenues over (under) expenditures	(5,198)	1,929	251	(2,054)	(5,072)
Other financing sources					
Proceeds from sale of assets	1,426	-	-	-	1,426
Net other financing sources	1,426	-	-	-	1,426
Net change in fund balances	(3,772)	1,929	251	(2,054)	(3,646)
Fund balances - beginning	26,540	14,560	557,346	138	598,584
Fund balances - ending	\$ 22,768	\$ 16,489	\$ 557,597	\$ (1,916)	\$ 594,938

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, 2011

Business-type Activities / Enterprise Funds			
	Pier Fund	Aquatic Center Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 624,811	\$ 187,594	\$ 812,405
Accounts receivable, net	4,895	16,259	21,154
Due from other funds	97	-	97
Due from other governments	1,046	-	1,046
Prepaid insurance	4,722	2,598	7,320
Total current assets	635,571	206,451	842,022
Noncurrent assets			
Capital assets			
Nondepreciable	-	7,500	7,500
Depreciable, net	10,257,174	3,744,916	14,002,090
Total noncurrent assets	10,257,174	3,752,416	14,009,590
Total assets	10,892,745	3,958,867	14,851,612
Liabilities			
Current liabilities			
Accounts payable	26,945	5,350	32,295
Accrued expenses and deposits	11,300	2,242	13,542
Due to other funds	558	25	583
Due to other governments	3,446	518	3,964
Deferred revenue	4,605	32,305	36,910
Accrued compensated absences	5,000	3,000	8,000
Notes payable	-	570,000	570,000
Total current liabilities	51,854	613,440	665,294
Noncurrent liabilities			
Accrued compensated absences	6,447	7,439	13,886
Net OPEB obligation	18,224	13,559	31,783
Total noncurrent liabilities	24,671	20,998	45,669
Total liabilities	76,525	634,438	710,963
Net assets			
Invested in capital assets, net of related debt	10,257,174	3,752,416	14,009,590
Unrestricted (deficit)	559,046	(427,987)	131,059
Total net assets	\$ 10,816,220	\$ 3,324,429	\$ 14,140,649

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, 2011

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating revenues			
Charges for services			
Admissions and other fees	\$ 581,476	\$ 292,399	\$ 873,875
Rent	164,001	20,921	184,922
Miscellaneous	123	1,883	2,006
Total operating revenues	745,600	315,203	1,060,803
Operating expenses			
Personal services	216,142	394,887	611,029
Professional services	6,745	793	7,538
Office supplies	634	1,234	1,868
Contractual services	174	1,183	1,357
Insurance	13,980	21,714	35,694
Repairs and maintenance	17,939	43,474	61,413
Operating supplies	27,802	84,584	112,386
Communication services	2,272	6,045	8,317
Public utility services	28,084	134,113	162,197
Transportation	59	296	355
Rentals	14,633	10,067	24,700
Printing and binding	1,293	1,050	2,343
Miscellaneous	925	3,583	4,508
Depreciation	424,517	154,386	578,903
Total operating expenses	755,199	857,409	1,612,608
Net operating (loss)	(9,599)	(542,206)	(551,805)
Nonoperating revenues (expenses)			
Interest income	1,677	820	2,497
Grants and contributions	8,525	-	8,525
Interest expense	-	(22,334)	(22,334)
Total nonoperating revenues (expenses)	10,202	(21,514)	(11,312)
Net income (loss) before transfers	603	(563,720)	(563,117)
Transfers in	243,731	526,000	769,731
Transfers out	(291,000)	-	(291,000)
Total transfers	(47,269)	526,000	478,731
Change in net assets	(46,666)	(37,720)	(84,386)
Total net assets - beginning	10,862,886	3,362,149	14,225,035
Total net assets - ending	\$ 10,816,220	\$ 3,324,429	\$ 14,140,649

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, 2011

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating activities			
Receipts from customers and users	\$ 742,165	\$ 316,742	\$ 1,058,907
Payments to suppliers	(163,731)	(379,887)	(543,618)
Payments to employees	(160,088)	(343,276)	(503,364)
Net cash provided (used) by operating activities	418,346	(406,421)	11,925
Noncapital financing activities			
Grants and contributions	5,000	-	5,000
Transfers (to) from other funds	(291,000)	526,000	235,000
Net cash provided (used) by noncapital financing activities	(286,000)	526,000	240,000
Capital and related financing activities			
Grants and contributions	3,525	-	3,525
Transfers from other funds	243,731	-	243,731
Principal paid on notes	-	(30,000)	(30,000)
Interest paid on notes	-	(22,334)	(22,334)
Proceeds from sale of assets	26,073	-	26,073
Purchase of capital assets	(450,305)	(25,494)	(475,799)
Net cash (used) by capital and related financing activities	(176,976)	(77,828)	(254,804)
Investing activities			
Interest received	1,677	820	2,497
Net cash provided by investing activities	1,677	820	2,497
Net (decrease) increase in cash and cash equivalents	(42,953)	42,571	(382)
Cash and cash equivalents - beginning	667,764	145,023	812,787
Cash and cash equivalents - ending	\$ 624,811	\$ 187,594	\$ 812,405
Classified as			
Current assets - cash and cash equivalents	\$ 624,811	\$ 187,594	\$ 812,405
Total	\$ 624,811	\$ 187,594	\$ 812,405

(Continued)

City of Panama City Beach, Florida
Combining Statement of Cash Flows
Nonmajor Proprietary Funds (Continued)
Year Ended September 30, 2011

	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)	\$ (9,599)	\$ (542,206)	\$ (551,805)
Adjustments to reconcile net operating (loss) to net cash provided (used) by operating activities			
Depreciation	424,517	154,386	578,903
Bad debts	-	858	858
(Increase) decrease in assets			
Accounts receivable	(161)	(4,629)	(4,790)
Due from other funds	707	-	707
Due from other governments	(674)	-	(674)
Prepaid insurance	(4,722)	(156)	(4,878)
Increase (decrease) in liabilities			
Accounts payable	1,908	(12,734)	(10,826)
Accrued expenses and deposits	(4,449)	(12,756)	(17,205)
Due to other funds	-	(554)	(554)
Due to other governments	(416)	(444)	(860)
Deferred revenue	1,622	5,732	7,354
Accrued compensated absences	6,269	1,942	8,211
Net OPEB obligation	3,344	4,140	7,484
Total adjustments	427,945	135,785	563,730
Net cash provided (used) by operating activities	\$ 418,346	\$ (406,421)	\$ 11,925

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, 2011

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	Total
Assets				
Cash and cash equivalents	\$ 220,184	\$ 164,974	\$ 121,887	\$ 507,045
Accounts receivable, net	-	-	41,844	41,844
Investments, at fair value				
Money market funds	304,434	181,679	134,107	620,220
Real estate investment trusts	441,730	263,614	194,588	899,932
Mutual funds	17,237,567	10,286,999	7,593,393	35,117,959
Total assets	18,203,915	10,897,266	8,085,819	37,187,000
Liabilities				
Accounts payable	511	511	3,093	4,115
Refunds payable	4,315	550	-	4,865
Total liabilities	4,826	1,061	3,093	8,980
Net assets				
Held in trust for pension benefits	\$ 18,199,089	\$ 10,896,205	\$ 8,082,726	\$ 37,178,020

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, 2011

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	Total
Additions				
Contributions				
Employer	\$ 1,093,132	\$ 566,712	\$ 416,312	\$ 2,076,156
Plan members	554,534	277,355	150,068	981,957
Insurance premiums	-	94,731	179,289	274,020
Total contributions	1,647,666	938,798	745,669	3,332,133
Investment earnings				
Interest	1,713	1,048	811	3,572
Dividends	169,591	100,466	71,663	341,720
Net decrease in fair value of investments	(253,935)	(148,883)	(96,152)	(498,970)
Total investment earnings (loss)	(82,631)	(47,369)	(23,678)	(153,678)
Less investment expenses	(96,288)	(62,221)	(48,326)	(206,835)
Net investment earnings (loss)	(178,919)	(109,590)	(72,004)	(360,513)
Total additions	1,468,747	829,208	673,665	2,971,620
Deductions				
Benefits	941,205	409,175	61,204	1,411,584
Refunds of contributions	50,158	95,178	-	145,336
Administrative expenses	26,615	19,700	25,757	72,072
Total deductions	1,017,978	524,053	86,961	1,628,992
Change in net assets	450,769	305,155	586,704	1,342,628
Net assets - beginning	17,748,320	10,591,050	7,496,022	35,835,392
Net assets - ending	\$ 18,199,089	\$ 10,896,205	\$ 8,082,726	\$ 37,178,020

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

Compliance Section

INDEPENDENT AUDITOR’S 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, 2011, and have issued our report thereon dated April 25, 2012.

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 Independent Auditor’s 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*, Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated April 25, 2012, 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 governs 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 findings and recommendations made in the preceding annual financial audit report. Prior year findings 10-01 and recommendation 10-02 was not corrected. See schedule of findings and questioned costs for prior year finding 10-01.

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 recommendations to improve financial management. In connection with our audit, we have communicated the following item:

11-02 Accounting Policies (prior year 10-02)

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

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but 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 have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity 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, and identification of the specific conditions met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two 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.

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 of the City of Panama City Beach, 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.

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

Panama City Beach, Florida
Certified Public Accountants
April 25, 2012

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Panama City Beach, Florida (the City), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 25, 2012. 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 opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have included management's response to the finding identified in our audit in the Management Response to Auditor's Finding. We did not audit the response and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the City of Panama City Beach, 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, Florida
Certified Public Accountants
April 25, 2012

City of Panama City Beach, Florida
Management's Response to Auditor's Finding
Year Ended September 30, 2011

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

Auditor's Finding

11-01 Segregation of Duties (Prior Year 10-01)

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.

Management's Response

11-01 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.

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM 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 City of Panama City Beach, Florida’s (the City) compliance with the types of compliance requirements described in *the OMB Circular A-133 Compliance Supplement* and the requirements described in the *Department of Financial Services’ State Projects Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs and state projects for the year ended September 30, 2011. 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 City of Panama City Beach, Florida’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, *State of Florida Rules of the Auditor General*. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major 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, 2011.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program or state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the management of the City of Panama City Beach, 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.

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

Panama City Beach, Florida
Certified Public Accountants
April 25, 2012

City of Panama City Beach, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended September 30, 2011

Federal / State Agency Pass through entity Federal Program / State Project	CFDA CSFA No.	Contract / Grant No.	Expenditures
U.S. Department of Justice			
Passed through Florida Department of Law Enforcement Justice Assistance Grant	16.804	2011-JAGD-BAY-3-B3-045	\$ 10,000
U.S. Department of Homeland Security			
Passed through Florida Department of Community Affairs Staffing for Adequate Fire & Emergency Response (SAFER)	97.044	EMW-2006-FF-03932	20,032
Staffing for Adequate Fire & Emergency Response (SAFER)	97.044	EMW-2008-FF-00786	89,571
Assistance to Firefighters Grant	97.044	EMW-2010-FO-10162	29,336
Total U.S Department of Homeland Security			138,939
U.S. Department of Transportation			
Passed through Florida Department of Transportation State and Community Highway Safety	20.600	OP-11-02-20	30,652
State and Community Highway Safety	20.600	PS-11-08-06	18,196
Total U.S. Department of Transportation			48,848
U.S. Federal Highway Administration			
Passed through Florida Department of Transportation State Road 79 Multi-use Path - Phase 4	20.205	FPID 417966-4-38-01 / A8-01	354,225
Total Expenditures of Federal Awards			\$ 552,012
Florida Department of Transportation			
Transportation Regional Incentive Program Agreement	55.026	21791123801 / AP 864	\$ 104,239
Roadside Beautification Assistance Joint Participation Agreement	55.023	416533-7-58-03	292,708
Total Florida Department of Transportation			396,947
Florida Department of Environmental Protection			
Collection and Reclaimed Water Reuse Facility	37.039	WWG120694050	750,000
Total Expenditures of State Financial Assistance			\$ 1,146,947

Note:

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

City of Panama City Beach, Florida
 Schedule of Findings and Questioned Costs
 Federal Awards and State Financial Assistance
 Year Ended September 30, 2011

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
Significant 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
Significant 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>
97.044	Staffing for Adequate Fire & Emergency Response (SAFER)
97.044	Staffing for Adequate Fire & Emergency Response (SAFER)
97.044	Assistance to Firefighters Grant
20.205	State Road 79 Multi-use Path - Phase 4
<u>CSFA</u>	<u>Name of State Program</u>
55.023	Roadside Beautification Assistance Joint Participation Agreement
37.039	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?	___ yes	<u> X </u> no

Section II - Financial Statement Findings

11-01 Segregation of Duties (Prior Year 10-01)

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.

Management's Response

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.

Section III - Federal Awards and State Financial Assistance Findings

There were no findings.