

City of Panama City Beach

Financial Statements

September 30, 2007

City of Panama City Beach  
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September 30, 2007

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Panama City Beach, Florida (the City), as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for each major governmental major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2008, on our consideration of the City of Panama City Beach, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

Panama City Beach, Florida  
March 21, 2008

## 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 \$138,989,909 (net assets). Of this amount, \$1,605,318 is unrestricted net assets for governmental activities and \$15,663,270 is unrestricted net assets for business-type activities, while \$11,554,074 is restricted net assets for governmental activities and \$30,925,017 is restricted net assets for business-type activities.
- Total net assets increased by \$21,693,297. Of this amount, \$11,852,198 is attributable to governmental activities and \$9,841,099 is attributable to business-type activities. A significant portion of the increase in net assets of governmental activities is attributable to the tax increment revenue received for the Front Beach Road Community Redevelopment Area. The increase in net assets of business-type activities continues to be primarily attributable to water and sewer impact fee collections.
- As of September 30, 2007, the general fund's unreserved fund balance was \$5,414,368 or 41 percent of total general fund expenditures. Unreserved fund balance in the general fund increased by \$1,500,050 which reflects the City's attempt to maintain expenditures at existing levels and increase cash reserves for future years.
- Governmental activities revenues increased to \$28,688,757 or approximately 15 percent, while governmental activities expenditures increased 7 percent to \$16,694,341. Business-type activities revenues decreased to \$29,086,415 or less than 1 percent, while business-type activities expenditures increased 9 percent to \$19,387,534.

### 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 property taxes, business tax receipts, utility taxes, franchise fees, and state shared revenues, while business-type activities are supported by charges to the users of those particular activities, such as water, sewer, and admission charges.

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

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

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

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the following legally separate component unit: The Panama City Beach Community Redevelopment Agency (CRA). Financial information for this component unit is blended within the City's financial statements and is reported as a 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 fund 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 2007, 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.

### Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<i>September 30,</i>						
Current and other assets	\$ 58,588,962	\$ 67,482,081	\$ 59,457,770	\$ 55,957,363	\$118,046,732	\$ 123,439,444
Capital assets	58,939,707	37,350,352	80,562,234	77,110,506	139,501,941	114,460,858
Total assets	117,528,669	104,832,433	140,020,004	133,067,869	257,548,673	237,900,302
Current liabilities	2,756,127	1,652,960	8,901,890	11,066,028	11,658,017	12,718,988
Noncurrent liabilities	58,629,651	58,888,780	48,271,096	48,995,922	106,900,747	107,884,702
Total liabilities	61,385,778	60,541,740	57,172,986	60,061,950	118,558,764	120,603,690
Net assets invested in capital assets, net of related debt	42,983,499	34,839,369	36,258,731	27,446,830	79,242,230	62,286,199
Net assets – restricted	11,554,074	9,376,025	30,925,017	28,874,095	42,479,091	38,250,120
Net assets – unrestricted	1,605,318	75,299	15,663,270	16,684,994	17,268,588	16,760,293
Total net assets	\$ 56,142,891	\$ 44,290,693	\$ 82,847,018	\$ 73,005,919	\$138,989,909	\$ 117,296,612

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 (57 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 31 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*, \$17,268,588 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 \$16,956,031 (or 27%). Significant additions to capital assets occurred in both governmental and business-type activities in the current year. Additions in governmental activities were primarily the result of improvements to the City's roadway infrastructure within the Front Beach Road Community Redevelopment Area, in particular, right-of-way acquisitions and construction costs. These additions were partially funded from the unspent proceeds of a prior year bond issue. Capital additions in business-type activities were primarily related to system expansion necessitated by growth. The City financed the continued expansion of its wastewater system with a combination of State Revolving Fund loans and a public assistance grant.

*Restricted net assets* increased \$4,228,971 (11%). The increase in the governmental activities restricted net assets was primarily due to the establishment of a sinking fund required as part of the prior year bond issuance noted above. This reserve may only be utilized to make debt service payments. The business-type activities increase was primarily attributable to water and sewer impact fees collected in the current year which exceeded current year expenditures as well as investment earnings on unspent impact fees. These funds are also restricted as to use.

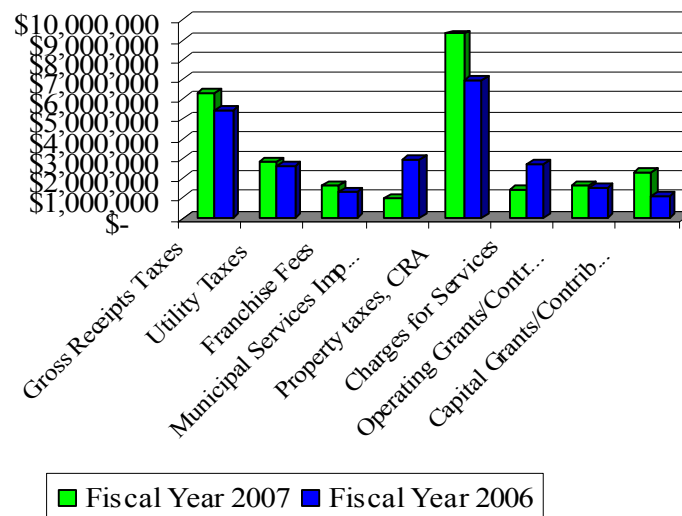
The increase in *Net assets, unrestricted* was \$508,295 or 3%. The governmental activities increase was \$1,530,019 while the business-type activities decrease was \$1,021,724. The decrease in business-type activities resulted from utilization of prior year excess revenues in the utility fund to fund non-growth related capital projects. The increase in the governmental activities resulted from controlling expenditures in order to increase cash reserves on hand.

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

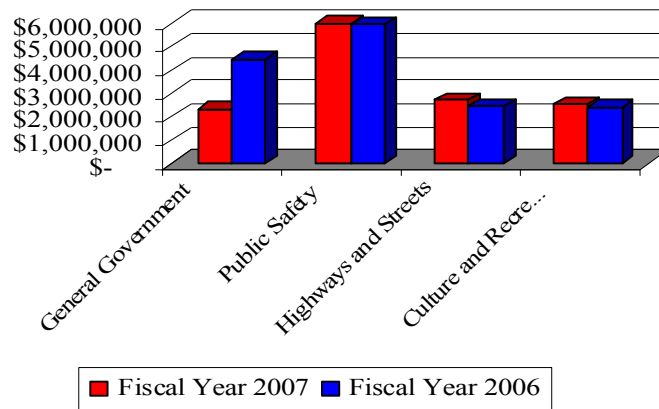
## City of Panama City Beach, Florida Changes in Net Assets

Year ended September 30,	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Program revenues</b>						
Charges for services	\$ 1,445,038	\$ 2,675,991	\$25,279,718	\$ 25,970,393	\$ 26,724,756	\$ 28,646,384
Operating grants/ Contributions	1,609,628	1,508,524	136,600	144,581	1,746,228	1,653,105
Capital grants/ Contributions	2,284,597	1,090,927	1,551,807	1,578,656	3,836,404	2,669,583
<b>General revenues</b>						
Business tax receipts	6,295,440	5,397,252	-	-	6,295,440	5,397,252
Utility taxes	2,839,281	2,583,146	-	-	2,839,281	2,583,146
Franchise fees	1,650,424	1,342,920	-	-	1,650,424	1,342,920
Impact fees	1,003,275	2,959,090	-	-	1,003,275	2,959,090
Property taxes, CRA	9,286,090	7,000,554	-	-	9,286,090	7,000,554
Interest earnings	2,274,984	436,012	2,118,290	1,431,646	4,393,274	1,867,658
<b>Total revenues</b>	<b>28,688,757</b>	24,994,416	<b>29,086,415</b>	29,125,276	<b>57,775,172</b>	54,119,692
<b>Expenses</b>						
General government	2,306,779	4,487,464	-	-	2,306,779	4,487,464
Public safety	7,058,763	5,966,526	-	-	7,058,763	5,966,526
Highways and streets	2,707,734	2,428,454	-	-	2,707,734	2,428,454
Culture and recreation	2,533,796	2,386,161	-	-	2,533,796	2,386,161
Interest on long- term debt	2,087,269	275,141	2,951,673	1,962,091	5,038,942	2,237,232
Utilities	-	-	15,380,363	15,163,420	15,380,363	15,163,420
Pier	-	-	261,941	250,853	261,941	250,853
Aquatic center	-	-	793,557	475,681	793,557	475,681
<b>Total expenses</b>	<b>16,694,341</b>	15,543,746	<b>19,387,534</b>	17,852,045	<b>36,081,875</b>	33,395,791
Increase in net assets before transfers	11,994,416	9,450,670	9,698,881	11,273,231	21,693,297	20,723,901
Transfers	(142,218)	(2,147,604)	142,218	2,147,604	-	-
<b>Increase in net assets</b>	<b>\$ 11,852,198</b>	\$ 7,303,066	<b>\$ 9,841,099</b>	\$ 13,420,835	<b>\$ 21,693,297</b>	\$ 20,723,901

### Revenues - Governmental Activities Fiscal Years Ended September 30, 2007 and 2006



**Expenses - Governmental Activities Fiscal Years Ended  
September 30, 2007 and 2006**



Governmental activities revenues exceeded expenses by \$11,994,416 while business-type activities revenues exceeded expenses by \$9,698,881. Total revenues increased \$3,655,480 from the previous year. The change in total revenues from business-type activities was insignificant. Property taxes, CRA increased \$2,285,536 and interest earnings increased \$1,838,972. Charges for services decreased \$1,230,953 and municipal services impact fees decreased \$1,955,815 in the current year. Both decreases are related to the slow down in economic growth being experienced by the City resulting in fewer building permits, fewer plan reviews and a decrease in collections of municipal services impact fees. The explosive growth experienced over the past several years resulted in large increases in property values which in turn resulted in significant increases in property taxes received by the CRA. Additionally, investment earnings increased as a result of increases in interest rates and greater cash reserves on hand. Total expenses increased \$2,686,084 from the previous year. The increase in expenses in business-type activities was primarily attributable to increased interest expense on long-term debt. Operating expenses in each business-type activity remained fairly level. The governmental activities increase was primarily in the areas of public safety and interest on long-term debt. The increase in interest results from the issuance of capital improvements revenue bonds in the prior fiscal year. The increases were partially offset by a significant decrease in general government expenditures. This decrease directly correlates to the revenue decrease in charges for services and results from a slow down in growth.

32% of the revenues for governmental activities are generated by property taxes received by the CRA and 22% by gross receipts taxes, while most of the governmental resources are expended for public safety (42%).

Charges for services provide 87% of the revenues for business-type activities.

## **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, 2007, total assets were \$11,998,088 and total liabilities were \$815,779. At the end of fiscal year 2007, unreserved fund balance of the general fund was \$5,414,368, while total fund balance equaled \$11,182,309. Total fund increased \$2,111,563 or 23%. Most of the increase, \$1,500,050 or 71% was in unreserved fund balance. The increase resulted from a rise in revenues and level expenditures.

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

#### **Community Redevelopment Fund**

The other major governmental fund of the City is the community redevelopment fund. As of September 30, 2007, total assets were \$43,617,337 and total liabilities were \$904,481. At the end of fiscal year 2007, the unreserved fund balance of the community redevelopment fund was \$244,012, while the total fund balance equaled \$42,712,856. Total fund balance decreased \$11,119,211, all of which was attributable to a decrease in reserved fund balance. As noted last year, \$54,835,000 Capital Improvement Revenue Bonds, Series 2006 were issued late in fiscal year 2006. Interest payments on these bonds as well as expenditures of the proceeds on the ongoing activities related to the Front Beach Road project account for the decrease in fund balance.

#### **Non-Major Governmental Funds**

The *Beach Access Public Parking Fund* accounts for the use of coastal development and redevelopment fees restricted for the construction of additional beach access public parking. No funds were expended in the current year.

## 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:

<b>Fund</b>	<b>2007 Unrestricted Net Assets</b>	<b>2006 Unrestricted Net Assets</b>
Utility	\$ 16,242,370	\$ 17,213,858
Pier	(33,373)	8,160
Aquatic Center	(545,727)	(537,024)
<b>Total</b>	<b>\$ 15,663,270</b>	<b>\$ 16,684,994</b>

The *Utility Fund* is used to account for the operations of the City's water, sewer and storm water systems. New construction and redevelopment being experienced by the City slowed down in the current year and water and sewer impact fee revenues reflected this trend with by decreasing \$2,203,597 or 28% compared to the prior year. For several years prior to fiscal years 2006 and 2007, the City went through a period of explosive growth with record levels of new construction and redevelopment. As a result, the City has seen a significant increase in its customer base which combined with rate increases resulted in an increase in water and sewer sales over the prior year of \$854,816 or 5%.

The *Pier Fund* accounts for the operations and maintenance of the City Pier. Although the pier sustained significant damages from several hurricanes and has yet to be repaired or replaced, revenues from operations were sufficient to fund current year operating expenses.

The *Aquatic Center Fund* is being used to account for the operation of an aquatic center located at Frank Brown Park. The aquatic center construction was completed in the spring of 2006; therefore, activities for fiscal year 2007 reflect the first full year of operations. Operating expenses exceeded operating revenues by \$505,163. The shortfall in operations was partially offset by a combination of third party contributions and a subsidy from the City's General Fund.

## Capital Assets Activity

The following schedule provides a summary of the City's capital assets activity. The City's total investment in capital assets for both its governmental and business type activities as of September 30, 2007, was \$139,501,941 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress.

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

- The City continues to implement its plan to provide sewer services to a number of neighborhoods. Prior to fiscal year 2007, the Open Sands, Bid-A-Wee and Gulf Highlands portions of the project were 100% complete at a total cost of approximately \$6.8 million dollars. Construction began on the El Centro and Bahama Beach subdivisions. The estimated project costs for these subdivisions is \$6.7 million dollars of which approximately \$2.6 million was expended in fiscal year 2007.

- Approximately \$1.2 million dollars was expended in fiscal year 2007 for water and sewer improvements located on the east end of the City. The total estimated project cost is \$3.4 million dollars with construction expected to be complete in fiscal year 2008.
- At September 30, 2007, approximately \$32 million dollars is reflected in construction in progress and land for various road projects within the Front Beach Road Community Redevelopment Area. Planned improvements include expansion of road widths, additional turn lanes, burying utilities, and aesthetic improvements. Actual construction began on both Churchwell and Beckrich Roads in the current fiscal year.

**Capital Assets  
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<i>September 30,</i>						
Land	\$30,721,798	\$18,097,067	\$ 6,366,716	\$ 6,362,816	\$ 37,088,514	\$ 24,459,883
Construction in progress	13,830,046	4,456,984	7,095,149	2,697,234	20,925,195	7,154,218
Buildings	3,032,648	2,990,857	23,862,730	24,702,962	26,895,378	27,693,819
Improvements	7,936,321	8,567,556	40,240,235	40,444,643	48,176,556	49,012,199
Machinery and equipment	3,418,894	3,237,888	2,997,404	2,902,851	6,416,298	6,140,739
Total	\$58,939,707	\$37,350,352	\$80,562,234	\$77,110,506	\$139,501,941	\$114,460,858

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 \$79,727,169. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**Outstanding Bond Debt**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<i>September 30,</i>						
Revenue bonds	\$56,344,307	\$56,411,072	\$23,382,862	\$23,679,614	\$79,727,169	\$80,090,686

The City's total debt decreased by \$363,517 in the current fiscal year. Principal payments totaled \$438,000 in the current year and were offset by amortization of deferred costs. All of the City's debt maintains an "AAA" rating from Standard & Poor's, an "AAA" rating from Moody's Investors Service, and/or an "AAA" rating from 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 a slow down in new construction and redevelopment, the City's economy remained strong during the current fiscal year. Despite national security and travel worries, and rising gas prices, tourism remained steady. The City's gross receipts tax collections typically fluctuate with the tourism industry and revenues from this source increased 17% in the current fiscal year. In the upcoming fiscal year, the City will continue to focus on major additions and enhancements to its utilities and transportation systems. These construction projects will provide additional water transmission mains, eliminate effluent discharge in to West Bay, provide sewer service to various subdivisions which are currently served by septic tanks, provide a discharge site for reclaimed water and widen existing roadways to improve traffic flow and public safety. Additionally, the City has committed to the provision of expanded recreation facilities for public use as evidenced by the continued expansion of the City's greenways and trails system and the replacement of the Dan Russell pier.

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



City of Panama City Beach, Florida  
Statement of Net Assets  
September 30, 2007

Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 5,347,574	\$ 10,253,165	\$ 15,600,739
Accounts receivable, net	71,651	4,725,799	4,797,450
Taxes and fees receivable	363,617	-	363,617
Grants receivable	846,432	1,162,734	2,009,166
Accrued interest receivable	-	11,658	11,658
Due from other governments	235,184	4,162	239,346
Inventory	7,492	533,777	541,269
Prepaid insurance	42,784	8,283	51,067
Notes receivable, current	-	718,753	718,753
Unamortized debt issuance costs, current	102,671	32,312	134,983
Restricted assets			
Cash and cash equivalents	49,281,475	40,709,925	89,991,400
Accounts receivable, net	-	194,868	194,868
Accrued interest receivable	-	261,029	261,029
Notes receivable	-	76,966	76,966
Notes receivable	-	252,100	252,100
Capital assets			
Nondepreciable	44,551,844	13,461,865	58,013,709
Depreciable, net	14,387,863	67,100,369	81,488,232
Unamortized debt issuance costs	2,290,082	512,239	2,802,321
Total assets	117,528,669	140,020,004	257,548,673

(Continued)

City of Panama City Beach, Florida  
Statement of Net Assets (Continued)  
September 30, 2007

Primary Government			
	Governmental Activities	Business-type Activities	Total
<b>Liabilities</b>			
Accounts payable	\$ 488,468	\$ 2,071,903	\$ 2,560,371
Accrued expenses	908,649	114,479	1,023,128
Accrued interest payable	1,049,353	1,412,123	2,461,476
Due to other governments	4,441	21,532	25,973
Internal balances	258,853	(258,853)	-
Deferred revenue	46,363	3,578,723	3,625,086
Long-term liabilities			
Due within one year			
Revenue certificates payable	-	1,961,983	1,961,983
Accrued compensated absences	20,239	1,438	21,677
Notes payable	186,996	1,461,227	1,648,223
Capital leases	51,118	-	51,118
Revenue bonds payable, net	966,765	316,752	1,283,517
Due in more than one year			
Accrued compensated absences	1,774,891	756,189	2,531,080
Notes payable	252,100	22,669,380	22,921,480
Revenue bonds payable, net	55,377,542	23,066,110	78,443,652
Total liabilities	61,385,778	57,172,986	118,558,764
<b>Net assets</b>			
Invested in capital assets, net of related debt	42,983,499	36,258,731	79,242,230
Restricted for			
Law enforcement	83,398	-	83,398
Beach access	508,960	-	508,960
Impact fees	5,681,097	29,286,526	34,967,623
Debt service	5,280,619	78,524	5,359,143
Construction	-	860,491	860,491
Storm water	-	699,476	699,476
Unrestricted	1,605,318	15,663,270	17,268,588
Total net assets	\$ 56,142,891	\$ 82,847,018	\$ 138,989,909

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, 2007

					Net (Expenses) Revenues and Changes in Net Assets		
				Program Revenues		Primary Government	
Expenses		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions / Programs</b>							
<b>Primary government</b>							
Governmental activities							
General government	\$ 2,306,779	\$ 988,925	\$ 977,135	\$ -	\$ (340,719)	\$ -	\$ (340,719)
Public safety	7,058,763	233,643	188,811	-	(6,636,309)	-	(6,636,309)
Highways and streets	2,707,734	23,374	391,035	1,842,990	(450,335)	-	(450,335)
Culture and recreation	2,533,796	199,096	52,647	441,607	(1,840,446)	-	(1,840,446)
Interest on long-term debt	2,087,269	-	-	-	(2,087,269)	-	(2,087,269)
Total governmental activities	16,694,341	1,445,038	1,609,628	2,284,597	(11,355,078)	-	(11,355,078)
Business-type activities							
Utility	15,380,363	24,728,792	-	1,372,747	-	10,721,176	10,721,176
Pier	261,941	262,532	-	179,060	-	179,651	179,651
Aquatic center	793,557	288,394	136,600	-	-	(368,563)	(368,563)
Interest on long-term debt	2,951,673	-	-	-	-	(2,951,673)	(2,951,673)
Total business-type activities	19,387,534	25,279,718	136,600	1,551,807	-	7,580,591	7,580,591
Total primary government	\$ 36,081,875	\$ 26,724,756	\$ 1,746,228	\$ 3,836,404	(11,355,078)	7,580,591	(3,774,487)
General revenues							
Taxes							
Business tax receipts					6,295,440	-	6,295,440
Utility					2,839,281	-	2,839,281
Franchise fees					1,650,424	-	1,650,424
Municipal services impact fees					1,003,275	-	1,003,275
Property taxes, CRA					9,286,090	-	9,286,090
Total general revenues					21,074,510	-	21,074,510
Interest earnings					2,274,984	2,118,290	4,393,274
Transfers					(142,218)	142,218	-
Total general revenues, interest and transfers					23,207,276	2,260,508	25,467,784
Change in net assets					11,852,198	9,841,099	21,693,297
Net assets - beginning					44,290,693	72,495,931	116,786,624
Prior period adjustment					-	509,988	509,988
Net assets - beginning restated					44,290,693	73,005,919	117,296,612
Net assets - ending					\$ 56,142,891	\$ 82,847,018	\$ 138,989,909

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

City of Panama City Beach, Florida  
Balance Sheet  
Governmental Funds  
September 30, 2007

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 5,086,581	\$ 244,012	\$ 16,981	\$ 5,347,574
Accounts receivable, net	71,651	-	-	71,651
Taxes and fees receivable	363,617	-	-	363,617
Grants receivable	426,926	419,506	-	846,432
Due from other governments	235,184	-	-	235,184
Due from other funds	13,020	-	466	13,486
Inventory	7,492	-	-	7,492
Prepaid insurance	42,784	-	-	42,784
Cash and cash equivalents - restricted	5,750,833	42,953,819	576,823	49,281,475
<b>Total assets</b>	<b>\$ 11,998,088</b>	<b>\$ 43,617,337</b>	<b>\$ 594,270</b>	<b>\$ 56,209,695</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 160,661	\$ 327,807	\$ -	\$ 488,468
Accrued expenses	331,975	576,674	-	908,649
Due to other governments	4,441	-	-	4,441
Due to other funds	272,339	-	-	272,339
Deferred revenue	46,363	-	-	46,363
<b>Total liabilities</b>	<b>815,779</b>	<b>904,481</b>	<b>-</b>	<b>1,720,260</b>
<b>Fund balances</b>				
<b>Reserved for</b>				
Law enforcement	36,569	-	47,734	84,303
Inventory	7,492	-	-	7,492
Prepaid insurance	42,783	-	-	42,783
Impact fees	5,681,097	-	-	5,681,097
Beach access	-	-	529,555	529,555
Community redevelopment	-	42,468,844	-	42,468,844
<b>Unreserved, reported in</b>				
General fund	5,414,368	-	-	5,414,368
Community redevelopment fund	-	244,012	-	244,012
Special revenue funds	-	-	16,981	16,981
<b>Total fund balances</b>	<b>11,182,309</b>	<b>42,712,856</b>	<b>594,270</b>	<b>54,489,435</b>
<b>Total liabilities and fund balances</b>	<b>\$ 11,998,088</b>	<b>\$ 43,617,337</b>	<b>\$ 594,270</b>	
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				58,939,707
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(57,286,251)
<b>Net assets of governmental activities</b>				<b>\$ 56,142,891</b>

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

City of Panama City Beach, Florida  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2007

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
<b>Revenues</b>				
Taxes				
Business tax receipts	\$ 6,295,440	\$ -	\$ -	\$ 6,295,440
Utility	2,839,281	-	-	2,839,281
Franchise fees	1,650,424	-	-	1,650,424
Property taxes, CRA	-	9,286,090	-	9,286,090
Intergovernmental	1,407,883	-	-	1,407,883
Municipal services impact fees	1,003,275	-	-	1,003,275
Licenses and permits	871,832	-	-	871,832
Fines and forfeitures	156,558	-	1,536	158,094
Contributions and donations	43,147	-	23,901	67,048
Grants	601,207	1,842,990	-	2,444,197
Rents	149,985	-	-	149,985
Interest	348,334	1,905,477	21,173	2,274,984
Other fees and miscellaneous	227,020	-	-	227,020
<b>Total revenues</b>	<b>15,594,386</b>	<b>13,034,557</b>	<b>46,610</b>	<b>28,675,553</b>
<b>Expenditures</b>				
Current				
General government	2,314,952	61,794	-	2,376,746
Public safety	6,240,368	-	23,529	6,263,897
Highways and streets	1,181,894	1,280,482	-	2,462,376
Culture and recreation	1,734,053	-	-	1,734,053
Debt service				
Principal	279,155	-	-	279,155
Interest and fiscal charges	30,172	1,239,940	-	1,270,112
Other debt service costs	-	2,443	-	2,443
Capital outlay				
General government	7,112	1,709	-	8,821
Public safety	812,766	-	45,700	858,466
Highways and streets	94,840	21,618,038	-	21,712,878
Culture and recreation	673,358	-	-	673,358
<b>Total expenditures</b>	<b>13,368,670</b>	<b>24,204,406</b>	<b>69,229</b>	<b>37,642,305</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>2,225,716</b>	<b>(11,169,849)</b>	<b>(22,619)</b>	<b>(8,966,752)</b>
<b>Other financing sources (uses)</b>				
Transfers in	100,000	50,638	-	150,638
Transfers out	(292,856)	-	-	(292,856)
Proceeds from sale of assets	78,703	-	13,062	91,765
<b>Net other financing sources (uses)</b>	<b>(114,153)</b>	<b>50,638</b>	<b>13,062</b>	<b>(50,453)</b>
<b>Net change in fund balances</b>	<b>2,111,563</b>	<b>(11,119,211)</b>	<b>(9,557)</b>	<b>(9,017,205)</b>
<b>Fund balances - beginning</b>	<b>9,070,746</b>	<b>53,832,067</b>	<b>603,827</b>	<b>63,506,640</b>
<b>Fund balances - ending</b>	<b>\$ 11,182,309</b>	<b>\$ 42,712,856</b>	<b>\$ 594,270</b>	<b>\$ 54,489,435</b>

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, 2007

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

Net change in fund balances - total governmental funds (page 17)	\$ (9,017,205)
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.	21,594,897
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to decrease net assets.	(5,545)
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.	(1,001,547)
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.	281,598
Change in net assets of governmental activities (page 15)	\$ 11,852,198

City of Panama City Beach, Florida  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual - General Fund  
Year Ended September 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes				
Business tax receipts	\$ 5,325,000	\$ 5,725,000	\$ 6,295,440	\$ 570,440
Utility	2,533,000	2,696,000	2,839,281	143,281
Franchise fees	1,209,000	1,554,000	1,650,424	96,424
Intergovernmental	1,344,852	1,406,807	1,407,883	1,076
Municipal services impact fees	2,377,000	991,228	1,003,275	12,047
Licenses and permits	1,391,000	871,300	871,832	532
Fines and forfeitures	157,500	126,000	156,558	30,558
Contributions and donations	78,000	42,148	43,147	999
Grants	112,500	298,039	601,207	303,168
Rents	116,450	110,550	149,985	39,435
Interest	185,000	335,000	348,334	13,334
Other fees and miscellaneous	173,946	222,482	227,020	4,538
<b>Total revenues</b>	<b>15,003,248</b>	<b>14,378,554</b>	<b>15,594,386</b>	<b>1,215,832</b>
<b>Expenditures</b>				
Current				
General government				
Legislative	164,929	140,846	136,956	3,890
Administration	809,393	785,818	771,684	14,134
Comprehensive planning	290,927	339,618	363,455	(23,837)
Civil service	1,150	6,062	5,996	66
Protective services	2,072,190	1,132,420	1,036,861	95,559
<b>Total general government</b>	<b>3,338,589</b>	<b>2,404,764</b>	<b>2,314,952</b>	<b>89,812</b>
Public safety				
Police	4,533,321	4,361,407	4,257,223	104,184
Fire	1,906,623	2,022,712	1,983,145	39,567
<b>Total public safety</b>	<b>6,439,944</b>	<b>6,384,119</b>	<b>6,240,368</b>	<b>143,751</b>
Highways and streets	1,278,213	1,233,150	1,181,894	51,256
Culture and recreation				
Library	167,360	169,335	165,158	4,177
Recreation	1,581,197	1,705,022	1,568,895	136,127
<b>Total culture and recreation</b>	<b>1,748,557</b>	<b>1,874,357</b>	<b>1,734,053</b>	<b>140,304</b>
<b>Total current</b>	<b>12,805,303</b>	<b>11,896,390</b>	<b>11,471,267</b>	<b>425,123</b>
Debt service				
Principal	279,132	279,158	279,155	3
Interest and other fiscal charges	30,204	30,172	30,172	-
<b>Total debt service</b>	<b>309,336</b>	<b>309,330</b>	<b>309,327</b>	<b>3</b>

(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, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures (continued)</b>				
Capital outlay				
General government				
Administrative	\$ 3,500	\$ -	\$ -	\$ -
Comprehensive planning	-	2,025	425	1,600
Protective services	6,000	11,300	6,687	4,613
Total general government	9,500	13,325	7,112	6,213
Public safety				
Police	371,500	477,500	395,266	82,234
Fire	405,000	418,600	417,500	1,100
Total public safety	776,500	896,100	812,766	83,334
Highways and streets	89,000	129,000	94,840	34,160
Culture and recreation				
Library	-	92,000	-	92,000
Recreation	595,000	791,870	673,358	118,512
Total culture and recreation	595,000	883,870	673,358	210,512
Total capital outlay	1,470,000	1,922,295	1,588,076	334,219
Total expenditures	14,584,639	14,128,015	13,368,670	759,345
<b>Excess of revenues over expenditures</b>	418,609	250,539	2,225,716	1,975,177
<b>Other financing sources (uses)</b>				
Transfers in	100,000	100,000	100,000	-
Transfer out	(113,000)	(313,313)	(292,856)	20,457
Proceeds from sale of assets	-	83,127	78,703	(4,424)
Total other financing sources (uses)	(13,000)	(130,186)	(114,153)	16,033
<b>Net change in fund balances</b>	405,609	120,353	2,111,563	1,991,210
<b>Fund balances - beginning</b>	8,951,169	7,701,188	9,070,746	1,369,558
<b>Fund balances - ending</b>	\$ 9,356,778	\$ 7,821,541	\$ 11,182,309	\$ 3,360,768

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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes				
Property taxes, CRA	\$ 10,013,346	\$ 9,204,480	\$ 9,286,090	\$ 81,610
Grants	1,285,000	1,750,000	1,842,990	92,990
Interest	730,060	1,873,414	1,905,477	32,063
<b>Total revenues</b>	<b>12,028,406</b>	<b>12,827,894</b>	<b>13,034,557</b>	<b>206,663</b>
<b>Expenditures</b>				
Current				
General government	57,546	60,826	61,794	(968)
Highways and streets	1,458,895	1,414,483	1,280,482	134,001
<b>Total current</b>	<b>1,516,441</b>	<b>1,475,309</b>	<b>1,342,276</b>	<b>133,033</b>
Debt service				
Interest and other fiscal charges	1,634,035	1,634,035	1,239,940	394,095
Other debt services costs	1,350,000	285,500	2,443	283,057
<b>Total debt service</b>	<b>2,984,035</b>	<b>1,919,535</b>	<b>1,242,383</b>	<b>677,152</b>
Capital outlay				
General government	-	13,000	1,709	11,291
Highways and streets	59,090,000	19,926,500	21,618,038	(1,691,538)
<b>Total capital outlay</b>	<b>59,090,000</b>	<b>19,939,500</b>	<b>21,619,747</b>	<b>(1,680,247)</b>
<b>Total expenditures</b>	<b>63,590,476</b>	<b>23,334,344</b>	<b>24,204,406</b>	<b>(870,062)</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(51,562,070)</b>	<b>(10,506,450)</b>	<b>(11,169,849)</b>	<b>(663,399)</b>
<b>Other financing sources</b>				
Transfers in	100,000	50,638	50,638	-
Debt issued	30,000,000	-	-	-
<b>Total other financing sources</b>	<b>30,100,000</b>	<b>50,638</b>	<b>50,638</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(21,462,070)</b>	<b>(10,455,812)</b>	<b>(11,119,211)</b>	<b>(663,399)</b>
<b>Fund balances - beginning</b>	<b>1,609,337</b>	<b>47,527,360</b>	<b>53,832,067</b>	<b>6,304,707</b>
<b>Fund balances - ending</b>	<b>\$ (19,852,733)</b>	<b>\$ 37,071,548</b>	<b>\$ 42,712,856</b>	<b>\$ 5,641,308</b>

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, 2007

	<b>Business-type Activities / Enterprise Funds</b>		
	<b>Utility Fund</b>	<b>Other Proprietary Funds</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 10,138,849	\$ 114,316	\$ 10,253,165
Accounts receivable, net	4,721,937	3,862	4,725,799
Grants receivable	732,285	430,449	1,162,734
Accrued interest receivable	11,658	-	11,658
Due from other governments	-	4,162	4,162
Due from other funds	705,183	17,218	722,401
Inventory	533,777	-	533,777
Prepaid insurance	5,865	2,418	8,283
Notes receivable	718,753	-	718,753
Unamortized debt issuance costs	32,312	-	32,312
Total current assets	17,600,619	572,425	18,173,044
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	40,709,925	-	40,709,925
Accounts receivable	194,868	-	194,868
Accrued interest receivable	261,029	-	261,029
Notes receivable	76,966	-	76,966
Notes receivable	252,100	-	252,100
Capital assets			
Nondepreciable	12,956,528	505,337	13,461,865
Depreciable, net	62,538,265	4,562,104	67,100,369
Unamortized debt issuance costs	512,239	-	512,239
Total noncurrent assets	117,501,920	5,067,441	122,569,361
Total assets	135,102,539	5,639,866	140,742,405
<b>Liabilities</b>			
Current liabilities			
Accounts payable	2,044,194	27,709	2,071,903
Accrued expenses	101,697	12,782	114,479
Accrued interest payable	1,408,154	3,969	1,412,123
Due to other funds	12,984	450,564	463,548
Due to other governments	19,099	2,433	21,532
Revenue certificates payable	1,961,983	-	1,961,983
Deferred revenue	3,558,887	19,836	3,578,723
Accrued compensated absences	1,057	381	1,438
Notes payable	831,227	630,000	1,461,227
Revenue bonds payable, net	316,752	-	316,752
Total current liabilities	10,256,034	1,147,674	11,403,708
Noncurrent liabilities			
Accrued compensated absences	752,338	3,851	756,189
Notes payable	22,669,380	-	22,669,380
Revenue bonds payable, net	23,066,110	-	23,066,110
Total noncurrent liabilities	46,487,828	3,851	46,491,679
Total liabilities	56,743,862	1,151,525	57,895,387
<b>Net assets</b>			
Invested in capital assets, net of related debt	31,191,290	5,067,441	36,258,731
Restricted for			
Impact fees	29,286,526	-	29,286,526
Debt service	78,524	-	78,524
Construction	860,491	-	860,491
Storm water	699,476	-	699,476
Unrestricted (deficit)	16,242,370	(579,100)	15,663,270
Total net assets	\$ 78,358,677	\$ 4,488,341	\$ 82,847,018

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, 2007

<b>Business-type Activities / Enterprise Funds</b>			
	<b>Utility Fund</b>	<b>Other Proprietary Funds</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services			
Water and sewer sales	\$ 17,388,245	\$ -	\$ 17,388,245
Storm water fees	761,953	-	761,953
Connection fees	326,656	-	326,656
Administrative and review fees	105,665	-	105,665
Admissions and other fees	-	484,767	484,767
Impact fees	5,739,706	-	5,739,706
Rent	36,000	66,159	102,159
Miscellaneous	371,297	-	371,297
<b>Total operating revenues</b>	<b>24,729,522</b>	<b>550,926</b>	<b>25,280,448</b>
<b>Operating expenses</b>			
Personal services	4,107,886	511,879	4,619,765
Professional services	368,640	7,979	376,619
Office supplies	18,818	1,970	20,788
Contractual services	105,695	6,191	111,886
Insurance	186,593	61,340	247,933
Repairs and maintenance	707,929	24,734	732,663
Operating supplies	1,297,798	106,632	1,404,430
Communication services	54,418	4,402	58,820
Public utility services	5,558,724	118,982	5,677,706
Transportation	86,587	226	86,813
Rentals	40,556	9,268	49,824
Printing and binding	18,381	2,422	20,803
Miscellaneous	112,729	17,391	130,120
Amortization	66,184	-	66,184
Depreciation	2,649,425	182,082	2,831,507
<b>Total operating expenses</b>	<b>15,380,363</b>	<b>1,055,498</b>	<b>16,435,861</b>
<b>Net operating income (loss)</b>	<b>9,349,159</b>	<b>(504,572)</b>	<b>8,844,587</b>
<b>Nonoperating revenues (expenses)</b>			
Interest income	2,114,730	3,560	2,118,290
Grants and contributions	1,372,747	315,660	1,688,407
Gain (loss) on disposal of assets	(730)	-	(730)
Interest expense	(2,928,438)	(23,235)	(2,951,673)
<b>Total nonoperating revenues</b>	<b>558,309</b>	<b>295,985</b>	<b>854,294</b>
<b>Net income (loss) before transfers</b>	<b>9,907,468</b>	<b>(208,587)</b>	<b>9,698,881</b>
Transfers in	-	242,218	242,218
Transfers out	(100,000)	-	(100,000)
<b>Change in net assets</b>	<b>9,807,468</b>	<b>33,631</b>	<b>9,841,099</b>
<b>Total net assets - beginning</b>	<b>68,041,221</b>	<b>4,454,710</b>	<b>72,495,931</b>
<b>Prior period adjustment</b>	<b>509,988</b>	<b>-</b>	<b>509,988</b>
<b>Total net assets - beginning restated</b>	<b>68,551,209</b>	<b>4,454,710</b>	<b>73,005,919</b>
<b>Total net assets - ending</b>	<b>\$ 78,358,677</b>	<b>\$ 4,488,341</b>	<b>\$ 82,847,018</b>

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

City of Panama City Beach, Florida  
Statement of Cash Flows  
Proprietary Funds  
Year Ended September 30, 2007

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
<b>Operating activities</b>			
Receipts from customers and users	\$ 20,153,441	\$ 552,040	\$ 20,705,481
Payments to / advances from suppliers	(8,602,194)	(373,590)	(8,975,784)
Payments to employees	(3,983,074)	(511,041)	(4,494,115)
<b>Net cash provided (used) by operating activities</b>	<b>7,568,173</b>	<b>(332,591)</b>	<b>7,235,582</b>
<b>Noncapital financing activities</b>			
Contributions	67,149	138,030	205,179
Transfers from other funds	-	238,566	238,566
Transfers to other funds	(100,000)	-	(100,000)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(32,851)</b>	<b>376,596</b>	<b>343,745</b>
<b>Capital and related financing activities</b>			
Capital grants	511,680	20,000	531,680
Principal paid on revenue certificates	(63,165)	-	(63,165)
Principal paid on revenue bonds	(430,000)	-	(430,000)
Proceeds from note payable issuance	-	100,000	100,000
Principal paid on notes payable	(937,602)	-	(937,602)
Interest paid on revenue bonds	(1,249,288)	-	(1,249,288)
Interest paid on notes payable	(309,152)	(19,266)	(328,418)
Advances from (to) other funds	(115,000)	115,000	-
Proceeds from sale of assets	7,409	-	7,409
Purchase of capital assets	(4,888,004)	(253,892)	(5,141,896)
<b>Net cash (used) by capital and related financing activities</b>	<b>(7,473,122)</b>	<b>(38,158)</b>	<b>(7,511,280)</b>
<b>Investing activities</b>			
Payments received from notes receivable	136,796	-	136,796
Issuance of notes receivable	(100,000)	-	(100,000)
Advances from (to) other funds	61,793	-	61,793
Interest received	1,895,623	3,560	1,899,183
<b>Net cash provided by investing activities</b>	<b>1,994,212</b>	<b>3,560</b>	<b>1,997,772</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,056,412</b>	<b>9,407</b>	<b>2,065,819</b>
<b>Cash and cash equivalents - beginning</b>	<b>48,792,362</b>	<b>104,909</b>	<b>48,897,271</b>
<b>Cash and cash equivalents - ending</b>	<b>\$ 50,848,774</b>	<b>\$ 114,316</b>	<b>\$ 50,963,090</b>
<b>Classified as</b>			
Current assets - cash and cash equivalents	\$ 10,138,849	\$ 114,316	\$ 10,253,165
Restricted assets - cash and cash equivalents	40,709,925	-	40,709,925
<b>Total</b>	<b>\$ 50,848,774</b>	<b>\$ 114,316</b>	<b>\$ 50,963,090</b>

(Continued)

City of Panama City Beach, Florida  
Statement of Cash Flows  
Proprietary Funds (Continued)  
Year Ended September 30, 2007

	<b>Business-type Activities / Enterprise Funds</b>		
	<b>Utility Fund</b>	<b>Other Proprietary Funds</b>	<b>Total</b>
<b>Reconciliation of net operating income (loss) to net cash provided (used) by operating activities</b>			
Net operating income (loss)	\$ 9,349,159	\$ (504,572)	\$ 8,844,587
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Amortization	66,184	-	66,184
Depreciation	2,649,425	182,082	2,831,507
Bad debt	405,713	-	405,713
Loss on disposal of assets	730	-	730
(Increase) decrease in assets			
Accounts receivable	(1,054,771)	5,673	(1,049,098)
Due from other governments	-	(2,722)	(2,722)
Inventory	74,718	-	74,718
Prepaid insurance	(716)	6,474	5,758
Increase (decrease) in liabilities			
Accounts payable	(109,524)	(16,781)	(126,305)
Accrued expenses	11,422	3,210	14,632
Accrued compensated absences	130,379	(384)	129,995
Due to other funds	(10,489)	(1,441)	(11,930)
Due to other governments	(46,524)	429	(46,095)
Deferred revenue	(3,897,533)	(4,559)	(3,902,092)
<b>Total adjustments</b>	<b>(1,780,986)</b>	<b>171,981</b>	<b>(1,609,005)</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ 7,568,173</b>	<b>\$ (332,591)</b>	<b>\$ 7,235,582</b>
<b>Noncash investing, capital, and financing activities</b>			
Capitalized interest included in principal	\$ 279,533	\$ -	\$ 279,533
Contributed assets	\$ 333,900	\$ -	\$ 333,900

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, 2007

	<b>Pension Trust Funds</b>
<hr/>	
<b>Assets</b>	
Cash and cash equivalents	\$ 349,830
Accounts receivable, net	63
Investments, at fair value	
Money market funds	67,502
Common stocks	2,039,531
Real estate investment trusts	1,111,116
Mutual funds	27,009,406
<hr/>	
Total assets	30,577,448
<hr/>	
<b>Liabilities</b>	
Accounts payable	1,798
Refunds payable	45,383
<hr/>	
Total liabilities	47,181
<hr/>	
<b>Net assets</b>	
Held in trust for pension benefits	\$ 30,530,267
<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, 2007

	<b>Pension Trust Funds</b>
<hr/>	
<b>Additions</b>	
Contributions	
Employer	\$ 1,396,205
Plan members	738,514
Insurance premiums	324,735
<hr/>	
Total contributions	2,459,454
<hr/>	
Investment earnings	
Interest	38,576
Dividends	976,095
Net increase in fair value of investments	2,534,412
<hr/>	
Total investment earnings	3,549,083
Less investment expenses	(180,292)
<hr/>	
Net investment earnings	3,368,791
<hr/>	
Total additions	5,828,245
<hr/>	
<b>Deductions</b>	
Benefits	985,515
Refunds of contributions	193,243
Administrative expenses	82,411
<hr/>	
Total deductions	1,261,169
<hr/>	
<b>Change in net assets</b>	4,567,076
<hr/>	
<b>Net assets - beginning</b>	25,963,191
<hr/>	
<b>Net assets - ending</b>	<b>\$ 30,530,267</b>

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

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

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

### ***Reporting Entity***

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

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

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

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

Due to the nature and significance of the Agency's relationship with the City, exclusion of the Agency's financial operations would render the City's financial statements incomplete or misleading. The Agency's governing body is the same as the governing body of the City and the Agency does provide services specifically to the Front Beach Road and Pier Park Community Redevelopment Areas of the City. The Agency is disclosed using the blended presentation method. Complete financial statements for the Panama City Beach Community Redevelopment Agency may be obtained from the City of Panama City Beach main office located at 110 South Arnold Road, Panama City Beach, Florida, 32413.



**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 governmental activities to avoid duplicating revenues and expenditures.

***Fund Financial Statements***

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities,

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

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

fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

***Governmental Funds***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. Franchise fees, utility taxes, operating and capital grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the City.

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

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

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

***Proprietary Funds***

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

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

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

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

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

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

***Fiduciary Funds***

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

***Basis of Presentation***

GASB Statement 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City has used GASB Statement 34 minimum criteria for major fund determination to determine which funds are required to be reported as major funds. The non-major governmental funds are combined in a column in the fund financial statements and detailed in the combining section.

***Governmental Major Funds***

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

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

***Proprietary Major Funds***

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

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

***Noncurrent Governmental Assets/Liabilities***

GASB Statement 34 requires noncurrent governmental assets, such as land, buildings and equipment, and noncurrent governmental liabilities, such as revenue bonds and capital leases, to be reported in the governmental activities column in the government-wide statement of net assets.

***Budgets***

Annual budgets are legally adopted for all governmental funds, except those indicated in Note 3, and all proprietary funds. Budgets are prepared and adopted on a basis of accounting consistent with U.S. generally accepted accounting principles, except as described in Note 3. All annual appropriations lapse at fiscal year end.

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

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

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

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

***Encumbrances***

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

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

***Cash and Cash Equivalents***

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

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

***Deposits and Investments***

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

***Accounts Receivable***

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

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

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

***Inventory***

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

Inventory in proprietary funds is valued at the lower of cost (first-in, first-out) or market.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, water and sewer distribution systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

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

Buildings	10-40 Years
Improvements	3-50 Years
Equipment	2-20 Years

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

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

***Long-term Obligations***

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

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

***Capitalization of Interest***

Interest costs related to bond issues and state revolving funds are capitalized during the construction period. During the year ended September 30, 2007 in the statement of net assets, the City capitalized interest of \$394,095 in the Community Redevelopment Fund.

***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 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.

***Accumulated Vacation and Sick Leave***

Effective July 27, 2007 the annual leave policy was updated by City Council. Each full time employee shall accumulate annual leave with pay at the rates show below. Annual leave may not be taken until twelve months service is completed. A maximum of 240 hours of annual leave may be accumulated into emergency leave. Amounts in excess will be lost if not used by December 31 of each year.

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

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

<u>Years of Service</u>	<u>Annual Leave Cap (Days**Each Year)</u>
Up to 5 years	12
5-10 years	15
11-14 years	18
15-19 years	21
20 plus	24

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

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

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

Accumulated unpaid emergency and sick leave amounts are accrued when vested 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 required by resolutions and ordinances 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, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

***Estimates***

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

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 balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$58,939,707 difference are as follows:

Cost of capital assets	\$	68,143,212
Less: accumulated depreciation		(9,203,505)
<hr/>		
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	58,939,707

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 \$57,286,251 difference are as follows:

Bonds payable	\$	54,929,000
Notes payable		439,096
Less: unamortized bond costs		(2,392,753)
Premium costs		1,415,307
Capital leases		51,118
Compensated absences		1,795,130
Accrued interest payable		1,049,353
<hr/>		
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	57,286,251

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 \$21,594,897 difference are as follows:



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

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

Capital outlay	\$	23,231,369
Depreciation expense		(1,636,472)
<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>	\$	21,594,897
<hr/>		

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, adjustments, and donations) is to decrease net assets." The details of this \$ (5,545) difference are as follows:

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the basis of the capital assets sold.	\$	(5,545)
<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>	\$	(5,545)
<hr/>		

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$(1,001,547) difference are as follows:

Compensated absences	\$	(78,791)
Accrued interest		(817,157)
Amortization of issuance costs		(105,599)
<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>	\$	(1,001,547)
<hr/>		

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

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

Another element of that reconciliation states, "The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$281,598 difference are as follows:

Debt issued		
Debt service cost	\$	2,443
Principal repayments		
Capital leases		100,118
Notes		171,037
Bonds		8,000
<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>	\$	281,598

**NOTE 3 – BUDGETS**

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

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

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

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

**NOTE 4 – DEPOSITS AND INVESTMENTS**

***Deposits***

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

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

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

In the event of failure by a qualified public depository, losses, in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository, are assessed against the other qualified public depositories of the same type as the depository in default. When other qualified public depositories are assessed additional amounts, they are assessed on a pro-rata basis.

***Investments***

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

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

***Credit Risks***

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

***Interest Rate Risks***

At September 30, 2007, the City did not hold any investments that were considered to be an interest rate risk.

***Custodial Risks***

At September 30, 2007, the City did not hold any deposits or investments that were considered to be a custodial risk.

***Concentration of Credit Risk***

At September 30, 2007, the City did not hold any investments that were considered to be a concentration of credit risk.

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

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

At September 30, 2007, the City’s deposits and investments consisted of the following:

	<b>Carrying Amount</b>	<b>Market Value</b>
Demand deposits	\$ 81,455,059	\$ 81,455,059
Savings accounts	1,601	1,601
Nonnegotiable certificate of deposits	24,135,479	24,135,479
<hr/>		
Total deposits and investments	\$105,592,139	\$105,592,139

**NOTE 5 – ACCOUNTS RECEIVABLE**

At September 30, 2007, accounts receivable in the governmental funds is summarized as follows:

Total accounts receivable		\$ 71,651
Less: allowance for doubtful accounts		-
<hr/>		
Net accounts receivable		\$ 71,651

At September 30, 2007, accounts receivable in the proprietary funds is summarized as follows:

Billed accounts receivable		\$ 2,595,102
Unbilled accounts receivable		3,005,584
Other receivables		112,030
<hr/>		
Total accounts receivable		5,712,716
Less: allowance for doubtful accounts		(986,917)
<hr/>		
Net accounts receivable		\$ 4,725,799

At September 30, 2007, restricted accounts receivable in the proprietary funds is summarized as follows:

Total restricted accounts receivable		\$ 194,868
Less: allowance for doubtful accounts		-
<hr/>		
Net restricted accounts receivable		\$ 194,868

Restricted accounts receivable consist of storm water assessment receivables. Amounts are restricted in accordance with City ordinance.

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

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

The composition of interfund balances as of September 30, 2007 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Utility fund	\$ 12,984
General fund	Pier fund	36
Special revenue fund	General fund	466
Utility fund	General fund	254,655
Utility fund	Pier fund	450,528
Aquatic fund	General fund	17,218
<b>Total</b>		<b>\$ 735,887</b>

The composition of interfund transfers as of September 30, 2007 is as follows:

Interfund Transfers:

Transfers out	Transfers in			Total
	General fund	Special revenue fund	Aquatic center fund	
General fund	\$ -	\$ 50,638	\$ 242,218	\$ 292,856
Utility fund	100,000	-	-	100,000
<b>Total transfers out</b>	<b>\$ 100,000</b>	<b>\$ 50,638</b>	<b>\$ 242,218</b>	<b>\$ 392,856</b>

The interfund receivables, payables and transfers 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 7 – CAPITAL ASSETS**

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

	September 30, 2006	Increases	Decreases	Transfers/ Adjustments	September 30, 2007
Capital assets, not being depreciated					
Land	\$ 18,097,067	\$ 12,624,731	\$ -	\$ -	\$ 30,721,798
Construction in progress	4,456,984	9,562,184	(22,154)	(166,968)	13,830,046
<b>Total capital assets, not being depreciated</b>	<b>22,554,051</b>	<b>22,186,915</b>	<b>(22,154)</b>	<b>(166,968)</b>	<b>44,551,844</b>
Capital assets, being depreciated					
Buildings	4,547,027	-	-	166,968	4,713,995
Improvements	11,764,521	56,327	-	-	11,820,848
Machinery and equipment	6,346,401	1,010,281	(312,514)	12,357	7,056,525
<b>Total capital assets, being depreciated</b>	<b>22,657,949</b>	<b>1,066,608</b>	<b>(312,514)</b>	<b>179,325</b>	<b>23,591,368</b>
Less accumulated depreciation					
Buildings	(1,556,170)	(125,177)	-	-	(1,681,347)
Improvements	(3,196,965)	(687,562)	-	-	(3,884,527)
Machinery and equipment	(3,108,513)	(823,733)	294,615	-	(3,637,631)
<b>Total accumulated depreciation</b>	<b>(7,861,648)</b>	<b>(1,636,472)</b>	<b>294,615</b>	<b>-</b>	<b>(9,203,505)</b>
<b>Total capital assets, being depreciated, net of accumulated depreciation</b>	<b>14,796,301</b>	<b>(569,864)</b>	<b>(17,899)</b>	<b>179,325</b>	<b>14,387,863</b>
<b>Total governmental activities' capital assets – net</b>	<b>\$ 37,350,352</b>	<b>\$ 21,617,051</b>	<b>\$ (40,053)</b>	<b>\$ 12,357</b>	<b>\$ 58,939,707</b>

During the fiscal year ending September 30, 2007, the City had transfers and adjustments of machinery and equipment in the amount of \$12,357. This amount was a net amount that consisted of seized assets.

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

Governmental activities	
General government	\$ 57,158
Public safety	693,371
Highways and streets	98,915
Culture and recreation	787,028
<b>Total depreciation expense – governmental activities</b>	<b>\$ 1,636,472</b>

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

**NOTE 7 – CAPITAL ASSETS (CONTINUED)**

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

	September 30, 2006	Increases	Decreases	Transfers/ Adjustments	September 30, 2007
Capital assets, not being depreciated					
Land	\$ 6,361,316	\$ -	\$ -	\$ 5,400	\$ 6,366,716
Construction in progress	2,697,234	5,115,970	(239,352)	(478,703)	7,095,149
<b>Total capital assets, not being depreciated</b>	<b>9,058,550</b>	<b>5,115,970</b>	<b>(239,352)</b>	<b>(473,303)</b>	<b>13,461,865</b>
Capital assets, being depreciated					
Buildings	32,694,935	3,990	-	-	32,698,925
Improvements	55,073,173	610,053	-	1,127,476	56,810,702
Machinery and equipment	5,211,094	466,813	(64,248)	200,000	5,813,659
<b>Total capital assets, being depreciated</b>	<b>92,979,202</b>	<b>1,080,856</b>	<b>(64,248)</b>	<b>1,327,476</b>	<b>95,323,286</b>
Less accumulated depreciation					
Buildings	(7,991,973)	(844,222)	-	-	(8,836,195)
Improvements	(15,089,101)	(1,473,164)	-	(8,202)	(16,570,467)
Machinery and equipment	(2,356,160)	(514,121)	56,109	(2,083)	(2,816,255)
<b>Total accumulated depreciation</b>	<b>(25,437,234)</b>	<b>(2,831,507)</b>	<b>56,109</b>	<b>(10,285)</b>	<b>(28,222,917)</b>
<b>Total capital assets, being depreciated, net of accumulated depreciation</b>	<b>67,541,968</b>	<b>(1,750,651)</b>	<b>(8,139)</b>	<b>1,317,191</b>	<b>67,100,369</b>
<b>Total business-type activities' capital assets (net of accumulated depreciation)</b>	<b>\$ 76,600,518</b>	<b>\$ 3,365,319</b>	<b>\$ (247,491)</b>	<b>\$ 843,888</b>	<b>\$ 80,562,234</b>

During the fiscal year ending September 30, 2007, the City had noncash contributions of \$333,900 from developers. In addition, there was a prior period adjustment of \$509,988 for assets that were contributed in the prior fiscal year. See note 13 for further discussion.

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

Business-type activities	
Utility fund	\$ 2,649,425
Pier fund	25,745
Aquatic fund	156,337
<b>Total depreciation expense – business-type activities</b>	<b>\$ 2,831,507</b>

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

**NOTE 7 – CAPITAL ASSETS (CONTINUED)**

The following schedule summarizes the capital assets of the City's business-type activities at September 30, 2007:

	Utility Fund	Pier Fund	Aquatic Center Fund	Total
Land	\$ 6,366,716	\$ -	\$ -	\$ 6,366,716
Buildings	30,361,276	124,589	2,213,060	32,698,925
Improvements	54,021,789	757,370	2,031,543	56,810,702
Machinery and equipment	5,474,110	29,515	310,034	5,813,659
Construction in progress	6,589,812	500,337	5,000	7,095,149
<b>Total</b>	<b>102,813,703</b>	<b>1,411,811</b>	<b>4,559,637</b>	<b>108,785,151</b>
Less: accumulated depreciation				
Buildings	(8,663,458)	(89,526)	(83,211)	(8,836,195)
Improvements	(15,908,942)	(557,880)	(103,645)	(16,570,467)
Machinery and equipment	(2,746,510)	(23,969)	(45,776)	(2,816,255)
<b>Total accumulated depreciation</b>	<b>(27,318,910)</b>	<b>(671,375)</b>	<b>(232,632)</b>	<b>(28,222,917)</b>
<b>Total business-type activities' capital assets – net</b>	<b>\$ 75,494,793</b>	<b>\$ 740,436</b>	<b>\$ 4,327,005</b>	<b>\$ 80,562,234</b>

**NOTE 8 – CAPITAL LEASES**

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

	General Fund
Vehicles	\$ 258,652
Equipment	57,490
<b>Total</b>	<b>316,142</b>
Less accumulated depreciation	(217,465)
<b>Net</b>	<b>\$ 98,677</b>



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

**NOTE 9 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES**

	Balance September 30, 2006	Additions	Deductions	Balance September 30, 2007	Due Within One Year
Revenue bonds payable	\$ 54,937,000	\$ -	\$ (8,000)	\$ 54,929,000	\$ 908,000
Adjusted for deferred amounts for issuance premium	1,474,072	-	(58,765)	1,415,307	58,765
<b>Total bonds payable</b>	<b>56,411,072</b>	<b>-</b>	<b>(66,765)</b>	<b>56,344,307</b>	<b>966,765</b>
Notes payable	610,132	-	(171,036)	439,096	186,996
Capital leases payable	151,236	-	(100,118)	51,118	51,118
Accrued compensated absences	1,716,340	170,230	(91,440)	1,795,130	20,239
	<b>\$ 58,888,780</b>	<b>\$ 170,230</b>	<b>\$ (429,359)</b>	<b>\$ 58,629,651</b>	<b>\$ 1,225,118</b>

Revenue Bonds Payable:

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

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

\$ 54,835,000

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

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

94,000

Total revenue bonds at September 30, 2007  
Less: revenue bonds – current portion

54,929,000  
(908,000)

Revenue bonds – long-term at September 30, 2007

\$ 54,021,000

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

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

Debt service requirements to maturity on Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project), payable at September 30, 2007 are as follows:

Year Ending September 30,	Principal	Interest	Total
2008	\$ 900,000	\$ 2,495,900	\$ 3,395,900
2009	1,315,000	2,451,600	3,766,600
2010	1,365,000	2,398,000	3,763,000
2011	1,420,000	2,342,300	3,762,300
2012	1,480,000	2,284,300	3,764,300
2013-2017	8,390,000	10,386,169	18,776,169
2018-2022	10,505,000	8,220,656	18,725,656
2023-2027	13,045,000	5,623,063	18,668,063
2028-2032	16,415,000	2,131,875	18,546,875
	<b>\$ 54,835,000</b>	<b>\$ 38,333,863</b>	<b>\$ 93,168,863</b>

Debt service requirements to maturity on Recreation Center Capital Improvement Revenue Bonds, Series 1977, payable at September 30, 2007 are as follows:

Year Ending September 30,	Principal	Interest	Total
2008	\$ 8,000	\$ 4,700	\$ 12,700
2009	9,000	4,300	13,300
2010	9,000	3,850	12,850
2011	10,000	3,400	13,400
2012	10,000	2,900	12,900
2013-2016	48,000	6,150	54,150
	<b>\$ 94,000</b>	<b>\$ 25,300</b>	<b>\$ 119,300</b>

Notes Payable:

Water Fund – Note payable dated April 8, 2002, payable in 120 monthly installments of \$7,959 beginning March 1, 2003, which includes principal and interest at 2.25%, collateralized by equipment. \$ 340,853

Regions Bank – Note payable dated January 23, 2004, payable in four annual installments of \$92,918, beginning January 23, 2005, which includes principal and interest at 3.25%, collateralized by equipment. 98,243

Total notes payable at September 30, 2007	439,096
Less: current portion	(186,996)

Notes payable – long-term at September 30, 2007	<b>\$ 252,100</b>
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City of Panama City Beach, Florida  
Notes to Basic Financial Statements

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

Debt service requirements to maturity on notes payable at September 30, 2007 are as follows:

Year Ending September 30,	Principal	Interest	Total
2008	\$ 186,996	\$ 9,981	\$ 196,977
2009	90,771	4,740	95,511
2010	92,834	2,677	95,511
2011	68,495	624	69,119
	<b>\$ 439,096</b>	<b>\$ 18,022</b>	<b>\$ 457,118</b>

Capital Leases:

Bank of America – Capitalized lease obligation of \$389,304 dated November 15, 2002 payable in 10 semiannual installments of \$41,935 which includes principal and interest at 2.87%, collateralized by equipment. \$ 41,366

Bank of America – Capitalized lease obligation of \$137,275 dated March 18, 2003 payable in 10 semiannual installments of \$14,917 which includes principal and interest at 4.83%, collateralized by equipment. On March 18, 2006, the City made a partial principal payment which reduced the amount of the remaining 5 semiannual installments to \$9,902. The lease matures on March 18, 2008. 9,752

Total capitalized lease obligations at September 30, 2007	51,118
Less: current portion	51,118

Capitalized lease obligations – long-term at September 30, 2007	\$ -
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The capital leases expire at various dates through 2008. Debt service requirements to maturity on capitalized lease obligations at September 30, 2007 are as follows:

Year ending September 30,	
2008	\$ 51,837
Total minimum lease payments	51,837
Less amount representing interest	(719)
Present value of minimum lease payments	\$ 51,118

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

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

	Balance September 30, 2006	Additions	Deductions	Balance September 30, 2007	Due Within One Year
Revenue bonds payable	\$ 25,505,000	\$ -	\$ (430,000)	\$ 25,075,000	\$ 450,000
Adjusted for deferred amounts					
On refunding	(1,037,178)	-	99,376	(937,802)	(99,376)
For issuance discounts	(788,208)	-	33,872	(754,336)	(33,872)
<b>Total bonds payable</b>	<b>23,679,614</b>	<b>-</b>	<b>(296,752)</b>	<b>23,382,862</b>	<b>316,752</b>
Revenue certificates payable	2,025,148	-	(63,165)	1,961,983	1,961,983
Notes payable	24,688,676	379,533	(937,602)	24,130,607	1,461,227
Accrued compensated balances	627,632	132,225	(2,230)	757,627	1,438
	<b>\$ 51,021,070</b>	<b>\$ 511,758</b>	<b>\$ (1,229,749)</b>	<b>\$ 50,233,079</b>	<b>\$ 3,741,400</b>

Revenue Bonds:

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

The bonds were issued to provide funds for the purpose of: 1) refunding the City's outstanding \$3,030,000 Water and Sewer Refunding Revenue Bonds, Series 1986 and its outstanding \$3,645,000 Water and Sewer Revenue Bonds, Series 1989, and 2) paying certain costs incurred in connection with the issuance of the Series 1998 Bonds. The total deferred loss on Bond Retirement was \$560,103 to be amortized over 182 months. \$ 5,660,000

\$19,920,000 Utility Revenue Bonds, Series 2002, dated April 1, 2002; 5% interest, depending on maturity date of bonds. Interest is payable semiannually on June 1 and December 1. Principal is payable annually on June 1 beginning June 1, 2006 with final maturity on June 1, 2032. The \$19,920,000 is composed of Term Bonds.

The bonds were issued to provide funds for the purpose of: 1) refunding the City's outstanding Water and Sewer Refunding and Improvement Revenue Bonds, Series 1993, 2) fund the Reserve Account as stated in the Bond Document, 3) financing the cost of acquisition and construction of certain capital improvements in connection with the City's water and sewer utility system, 4) paying certain costs relating to the issuance of the bonds. 19,415,000

Total principal obligation at September 30, 2007	25,075,000
Less: principal obligation – current portion	(450,000)

Principal obligation – long-term at September 30, 2007	\$ 24,625,000
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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, 2007 are as follows:

Year Ending September 30,	Principal	Interest	Total
2008	\$ 450,000	\$ 1,231,175	\$ 1,681,175
2009	470,000	1,213,458	1,683,458
2010	885,000	1,193,517	2,078,517
2011	930,000	1,151,922	2,081,922
2012	980,000	1,108,212	2,088,212
2013-2017	3,895,000	4,910,045	8,805,045
2018-2022	4,470,000	3,941,000	8,411,000
2023-2027	5,700,000	2,706,750	8,406,750
2028-2032	7,295,000	1,129,750	8,424,750
	<b>\$ 25,075,000</b>	<b>\$ 18,585,829</b>	<b>\$ 43,660,829</b>

Defeased Debt Outstanding:

The principal balance of defeased debt outstanding at September 30, 2007 is as follows:

Water and Sewer Revenue Bonds, Series 1987A	\$ 715,000
	<b>\$ 715,000</b>

Revenue Certificates:

This liability consists of revenue certificates payable to various developers for extensions made to the City's water and sewer systems. The revenue certificates are payable solely from 25% of the impact fees collected by the City for water or sewer connections. In the event insufficient connections are made or the City is unable to collect sufficient impact fees to satisfy the certificate on or before 20 years from the date of issuance, the certificates shall be void. The City made payments related to the facilities shown below:

Location	Original Amount of Certificate	Balance at September 30, 2006	Net Changes During the Year	Balance at September 30, 2007
23 <sup>rd</sup> Street Joint Venture – Water	\$ 55,460	\$ 3,235	\$ -	\$ 3,235
Wild Heron – Water/Sewer	431,834	197,614	(8,820)	188,794
Hills Road – Water	71,550	50,790	(44,526)	6,264
Bayside Partners LLC - Sewer	142,993	124,198	-	124,198
Sunnyside Beach & Tennis	203,385	166,404	-	166,404
Tapestry Park North, LLC	96,430	93,150	(1,370)	91,780
Magnolia Beach LLC	100,000	85,816	(670)	85,146
TW Olson-Magnolia LLC	490,500	420,565	(3,287)	417,278
St. Andrews Land Company LLC	670,414	575,313	(4,492)	570,821
Ocean Park Pavilion Inc. – Water	68,494	68,494	-	68,494
Ocean Park Pavilion Inc. – Sewer	239,795	239,569	-	239,569
	<b>\$ 2,570,855</b>	<b>\$ 2,025,148</b>	<b>\$ 63,165</b>	<b>\$ 1,961,983</b>

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

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

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

Notes Payable:

State Revolving Fund – Note payable dated March 5, 2002 payable in 40 semi-annual installments which includes principal and interest at a weighted average interest rate of 2.88%. Beginning date of payment is estimated to be October 15, 2008. Debt Service requirements for this obligation are estimated using the information available at this time.	\$ 9,843,230
State Revolving Fund – Note payable dated February 9, 2001, payable in 40 semi-annual installments of \$607,131 beginning December 15, 2002 which includes principal and interest at 2.99%.	13,442,082
Regions Bank – Note payable dated April 15, 2001, payable in monthly installments of \$2,708 beginning May 15, 2001 which includes principal and interest at 6.2%.	215,295
Utility Fund – Note payable dated May 1, 2006, interest payable quarterly at 3.8%, with principal due on demand.	630,000
Total notes payable at September 30, 2007	24,130,607
Less: current portion	(1,461,227)
Notes payable – long-term at September 30, 2007	\$ 22,669,380

Debt service requirements to maturity on notes payable at September 30, 2007 are as follows:

Year Ending September 30,	Principal	Interest	Total
2008	\$ 1,461,227	\$ 439,544	\$ 1,900,771
2009	913,498	995,395	1,908,893
2010	1,109,755	799,138	1,908,893
2011	1,153,300	755,593	1,908,893
2012	1,198,624	710,269	1,908,893
2013-2017	6,691,600	2,805,890	9,497,490
2018-2022	7,979,890	1,402,110	9,382,000
2023-2027	2,974,690	336,000	3,310,690
2028	648,023	14,120	662,143
	\$ 24,130,607	\$ 8,258,059	\$ 32,388,666

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

**NOTE 11 – ACCRUED ABSENCES**

Accrued compensated absences consist of the following at September 30, 2007:

	<b>Accrued Emergency Leave</b>	<b>Accrued Sick Leave</b>	<b>Total Accrued Leave</b>
<b>Governmental funds</b>			
General	\$ 141,731	\$ 1,646,388	\$ 1,788,119
Community Redevelopment	63	6,948	7,011
<b>Enterprise funds</b>			
Utility	72,049	681,346	753,395
Pier	1,670	1,955	3,625
Aquatic	-	607	607
<b>Total</b>	<b>\$ 215,513</b>	<b>\$ 2,337,244</b>	<b>\$ 2,552,757</b>

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

***Litigation***

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

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

***Contract***

On November 30, 1999, the City entered into a contract to purchase water from Bay County. The terms of the contract require that the City must purchase a minimum of five billion, three hundred ninety-five million (5,395,000,000) gallons of water each fiscal year. During 2002, the minimum purchase amount was amended to five billion, eighty two million, one hundred thousand (5,082,100,000) gallons. In the event of a shortfall, the City is required to pay the County an amount equal to the number of gallons short, at an agreed upon amount (\$.335 per thousand gallons). This amount is to be paid in twelve equal, consecutive monthly installments during the ensuing fiscal year. During the year ended September 30, 2007, the City's cost of water purchased from Bay County was \$4,109,477. The City did not meet its minimum purchase agreement for 2007 and as a result there was an amount due of \$172,855 at September 30, 2007. However, this liability was offset by the County's impact fees collected by the City in accordance with the inter-local agreement between the City of Panama City Beach and Bay County. As such, no liability has been recorded on the City's financial statements.

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

**NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

***Construction Contracts***

The City has numerous construction contracts with various construction companies related to ongoing capital projects in progress at year end.

**NOTE 13 – PRIOR PERIOD ADJUSTMENT**

During the year ended September 30, 2007, the City became aware of certain assets that were contributed by developer in the fiscal year ended September 30, 2006, that were not recorded in the financial statements. The affect of this error was an understatement of fixed assets and an overstatement of retained earnings for the year ended September 30, 2006 of \$509,988. Fixed assets and retained earnings in the Utility Fund have been restated to reflect the contribution of these assets in the prior year.

**NOTE 14 – 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:

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

The City of Panama City Beach PERS financial statements are prepared on the accrual basis of accounting. Contributions from the City and the City's employees are recognized as revenue in the period in which employees provide services to the City. Investment income is recognized as earned by the pension plans. Investments held by the plans are recorded at market value in the basic financial statements. There are no investments in, loans to, or leases with parties related to the pension plans. Eighty-eight percent (88%) of the total assets held in trust for pension benefits are invested in mutual funds, seven percent (7%) in common stock, four percent (4%) in real estate investment trusts, and the remaining balance of one percent (1%) 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.



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

**NOTE 14 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)**

***Plan Descriptions and Contribution Information***

Membership of each plan consisted of the following at October 1, 2006, the date of the latest actuarial valuation.

	<b>General Employees</b>	<b>Police Officers</b>	<b>Fire- Fighters</b>
Retirees and beneficiaries receiving benefits	38	11	2
Terminated plan members entitled to but not yet receiving benefits	3	6	4
Active plan members	137	48	23
<b>Total</b>	<b>178</b>	<b>65</b>	<b>29</b>
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.

***Police Officers Pension Plan***

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

Contributions – Plan members are required to contribute 9.7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. Contribution requirements of the plan members and the City are established and may be amended by the pension board of trustees. The City will meet all additional costs of the plan according to actuarial valuations performed periodically.

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

**NOTE 14 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)**

***Firefighters Pension Plan***

Plan Description – The firefighters’ pension plan is a single-employer defined benefit pension plan that covers the certified fire fighters 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:

	<b>For The Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
General employees	09/30/05	680,128	106.9%	(21,761)
	09/30/06	741,787	102.2%	(38,394)
	09/30/07	818,049	99.7%	(35,743)
Police officers	09/30/05	418,073	107.4%	(47,342)
	09/30/06	380,304	123.3%	(139,616)
	09/30/07	419,466	104.0%	(156,985)
Firefighters	09/30/05	273,681	102.7%	141,253
	09/30/06	269,273	116.6%	94,921
	09/30/07	311,462	150.7%	(69,069)

**NOTE 15 – LEASES**

***Beachfront Lease Option***

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

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

**NOTE 15 – LEASES (CONTINUED)**

***Pier Lease***

The City leases portions of the building located at the pier under an operating lease. The rental income for the year ended September 30, 2007 was \$24,000, excluding sales tax. The facilities are being rented on a month to month basis. This arrangement will be replaced under the terms of the Beachfront Lease Option when it is exercised.

***Bay County Lease***

On April 13, 2001, the City leased approximately 3,100 square feet in the building at 17109 Panama City Beach Parkway, including utilities and maintenance and adjacent appropriate parking, to the County for initial use by the Tax Collector at a rate of \$36,000 per year for 15 years. The rental income for the year ended September 30, 2007 was \$36,000.

***Frank Brown Park Concession Lease***

The City leases five concession stands located within Frank Brown Park. The operating lease included the use of the concession stand buildings, fixtures and equipment beginning November 1, 2006 and continuing through September 30, 2009. The lessee has an option to renew at the same terms and conditions for two consecutive terms of one year each. Rent is due on the first of each month in an amount equal to 22% of monthly gross sales made by the lessee in the previous month. Monthly rental income is split between the General Fund and the Aquatic Center Fund. Total rental income for the year end September 30, 2007 was \$41,068 and \$11,997, respectively.

**NOTE 16 – NET ASSET RESTRICTIONS**

The following is a description of reported net asset restrictions in governmental activities and business-type activities at September 30, 2007.

***Governmental Activities***

Restricted for Law Enforcement – This restriction was created to restrict the use of all 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 was established to restrict resources to create public parking located next to public beach access. An ordinance restricts the use of all resources collected specifically for this program.

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

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

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

**NOTE 16 – NET ASSET RESTRICTIONS (CONTINUED)**

***Business-type Activities***

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

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

Restriction for Construction – This restriction was established in conjunction with the construction of certain capital improvements funded by the Series 2002 Utility Revenue Bonds.

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

***Summary***

Specific restrictions of net assets are summarized below as of September 30, 2007:

Governmental activities	
Law enforcement	\$ 83,398
Beach access	508,960
Impact fees	5,681,097
Debt service	5,280,619
<hr/>	
Total	\$ 11,554,074
<hr/>	
Business-type activities	
Impact fees	\$ 29,286,526
Debt service	78,524
Construction	860,491
Storm water	699,476
<hr/>	
Total	\$ 30,925,017
<hr/>	

**NOTE 17 – FUND BALANCE RESERVATIONS**

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance set aside by the City for contingencies.

The following is a description of reported reserves in governmental activities at September 30, 2007:

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

**NOTE 17 – FUND BALANCE RESERVATIONS (CONTINUED)**

***General Fund***

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

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

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

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

***Community Redevelopment Fund***

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

***Other Governmental Funds***

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

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

***Summary***

Specific reservations of fund balances are summarized below as of September 30, 2007:

General fund	
Reserved for law enforcement	\$ 36,569
Reserved for inventory	7,492
Reserved for prepaid items	42,783
Reserved for impact fees	5,681,097
<hr/>	
Total	\$ 5,767,941
<hr/>	
Community redevelopment fund	
Reserved for community redevelopment	\$ 42,468,844
<hr/>	
Total	\$ 42,468,844
<hr/>	

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

**NOTE 17 – FUND BALANCE RESERVATIONS (CONTINUED)**

Other governmental funds	
Reserved for law enforcement	\$ 47,734
Reserved for beach access public parking	529,555
<hr/>	
Total	\$ 577,289
<hr/>	

**NOTE 18 – 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 19 – PIER PARK**

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

The CDD is authorized to issue debt to provide funds for public improvements to be constructed in the Pier Park Redevelopment Area. The City has pledged tax increment revenue collected within Pier Park to the CDD to be applied to the payment of interest and principal on the debt obligations. For the year ended September 30, 2007, tax increment funds remitted by the County to the City for the Pier Park CRA were \$51,847. These funds were subsequently paid to the CDD by the City.

Additionally, the City has irrevocably pledged the occupational license tax revenue 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. Occupational license tax revenue collected in the fiscal year ended September 30, 2007 was \$271,282. The City has not recorded any debt related to this transaction because the amount to be repaid is currently undeterminable. Preliminary estimates indicate the expected liability associated with 2007 collections will not be significant.

The Inland Lease term is 99 years but the parcel may be purchased for \$10 after ten years. This transaction has been recorded as a disposition. If entered into, the Beachfront Lease will have a term of thirty years; base rent will be \$45,000 per year. Additional rent will be payable based on a percentage of gross sales generated by businesses operating on the leased beachfront property.

Certain terms of this agreement depend on future events that are undeterminable at the present time. A copy of the agreement is available at City Hall, located at 110 South Arnold Road, Panama City Beach, Florida 32413. The entire PIPA should be read to obtain a complete understanding of this transaction.

## Required Supplemental Information

City of Panama City Beach, Florida  
 Required Supplemental Information  
 Schedule of Analysis of Funding Progress  
 Pension Trust Funds  
 September 30, 2007

Analysis of Funding Progress (In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>General Employees</u>						
10/1/1997	\$ 4,794	\$ 6,535	\$ 1,741	73.4%	\$ 2,434	71.5%
10/1/1998	\$ 5,554	\$ 7,215	\$ 1,661	77.0%	\$ 2,540	65.4%
10/1/1999	\$ 6,405	\$ 8,092	\$ 1,687	79.2%	\$ 2,932	57.5%
10/1/2000	\$ 7,278	\$ 9,036	\$ 1,758	80.5%	\$ 2,865	61.4%
10/1/2001	\$ 7,723	\$ 9,493	\$ 1,770	81.4%	\$ 3,160	56.0%
10/1/2002	\$ 8,400	\$ 10,050	\$ 1,650	83.6%	\$ 3,314	49.8%
10/1/2003	\$ 9,234	\$ 10,801	\$ 1,567	85.5%	\$ 3,634	43.1%
10/1/2004	\$ 10,141	\$ 11,594	\$ 1,453	87.5%	\$ 3,694	39.3%
10/1/2005	\$ 10,986	\$ 12,306	\$ 1,320	89.3%	\$ 3,708	35.6%
10/1/2006	\$ 12,409	\$ 13,615	\$ 1,206	91.1%	\$ 4,510	26.7%
<u>Police Officers</u>						
10/1/1997	\$ 3,722	\$ 4,613	\$ 891	80.7%	\$ 1,112	80.1%
10/1/1998	\$ 4,052	\$ 4,869	\$ 817	83.2%	\$ 1,123	72.8%
10/1/1999	\$ 4,608	\$ 5,421	\$ 813	85.0%	\$ 1,429	56.9%
10/1/2000	\$ 5,210	\$ 6,036	\$ 826	86.3%	\$ 1,512	54.6%
10/1/2001	\$ 5,043	\$ 5,862	\$ 819	86.0%	\$ 1,743	47.0%
10/1/2002	\$ 5,860	\$ 6,723	\$ 863	87.2%	\$ 1,798	48.0%
10/1/2003	\$ 6,275	\$ 7,106	\$ 831	88.3%	\$ 1,677	49.6%
10/1/2004	\$ 6,771	\$ 7,542	\$ 771	89.8%	\$ 1,746	44.2%
10/1/2005	\$ 7,262	\$ 8,004	\$ 742	90.7%	\$ 1,772	41.9%
10/1/2006	\$ 8,044	\$ 8,698	\$ 654	92.5%	\$ 1,907	34.3%
<u>Firefighters</u>						
10/1/1997	\$ 1,793	\$ 1,793	\$ -	100.0%	\$ 647	0.0%
10/1/1998	\$ 1,991	\$ 1,991	\$ -	100.0%	\$ 750	0.0%
10/1/1999	\$ 2,298	\$ 2,298	\$ -	100.0%	\$ 878	0.0%
10/1/2000	\$ 2,670	\$ 2,670	\$ -	100.0%	\$ 829	0.0%
10/1/2001	\$ 2,456	\$ 2,742	\$ 286	89.6%	\$ 853	33.5%
10/1/2002	\$ 2,826	\$ 3,230	\$ 404	87.5%	\$ 838	48.2%
10/1/2003	\$ 3,014	\$ 3,505	\$ 491	86.0%	\$ 901	54.5%
10/1/2004	\$ 3,324	\$ 3,816	\$ 492	87.1%	\$ 950	51.8%
10/1/2005	\$ 3,743	\$ 4,233	\$ 490	88.4%	\$ 987	49.6%
10/1/2006	\$ 4,359	\$ 4,832	\$ 473	90.2%	\$ 955	49.5%



City of Panama City Beach, Florida  
 Required Supplemental Information  
 Schedule of Contributions From Employer and Other  
 Contributions' Entities - Pension Trust Funds  
 September 30, 2007

Schedules of Employer Contributions <sup>^</sup>

For the Fiscal Year	General Employees		Police Officers		Firefighters	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
9/30/1998	\$ 397,167	100.4%	\$ 156,073	124.0%	\$ 74,245	95.3%
9/30/1999	\$ 403,806	73.8%	\$ 204,139	81.9%	\$ 116,826	58.5%
9/30/2000	\$ 446,713	69.9%	\$ 220,955	77.9%	\$ 134,348	84.8%
9/30/2001	\$ 413,996	82.4%	\$ 216,657	87.3%	\$ 130,935	75.6%
9/30/2002	\$ 527,146	111.1%	\$ 389,119	84.4%	\$ 246,823	43.6%
9/30/2003	\$ 622,651	102.2%	\$ 347,010	104.2%	\$ 221,505	54.9%
9/30/2004	\$ 693,660	105.3%	\$ 329,148	118.2%	\$ 241,386	96.0%
9/30/2005	\$ 681,875	106.7%	\$ 417,364	107.6%	\$ 284,229	98.9%
9/30/2006	\$ 740,332	102.4%	\$ 378,138	124.1%	\$ 279,765	112.2%
9/30/2007	\$ 815,505	105.7%	\$ 412,836	105.7%	\$ 319,200	147.0%

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
9/30/1998	\$ -	0.0%	\$ 47,793	100.0%	\$ 70,780	100.0%
9/30/1999	\$ -	0.0%	\$ 46,261	100.0%	\$ 68,351	100.0%
9/30/2000	\$ -	0.0%	\$ 44,579	100.0%	\$ 111,326	100.0%
9/30/2001	\$ -	0.0%	\$ 48,325	100.0%	\$ 73,959	100.0%
9/30/2002	\$ -	0.0%	\$ 61,887	100.0%	\$ 83,579	100.0%
9/30/2003	\$ -	0.0%	\$ 62,369	100.0%	\$ 95,893	100.0%
9/30/2004	\$ -	0.0%	\$ 81,950	100.0%	\$ 106,719	100.0%
9/30/2005	\$ -	0.0%	\$ 89,106	100.0%	\$ 115,978	100.0%
9/30/2006	\$ -	0.0%	\$ 93,883	100.0%	\$ 139,917	100.0%
9/30/2007	\$ -	0.0%	\$ 89,106	100.0%	\$ 235,629	100.0%

# 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.

<sup>^</sup> These amounts include insurance premiums contributed by the State.

City of Panama City Beach, Florida  
 Required Supplemental Information  
 Schedule of Actuarial Considerations  
 Pension Trust Funds  
 September 30, 2007

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:

	<b>General Employees</b>	<b>Police Officers</b>	<b>Firefighters</b>
Valuation date	10/1/06	10/1/06	10/1/06
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	15 years	11 years	20 years
Asset valuation method	5-Year Smoothed Market Value without Phase-in	5-Year Smoothed Market Value without Phase-in	5-Year Smoothed Market Value without Phase-in
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	6%	6%	6%

## Combining Financial Statements

City of Panama City Beach, Florida  
Combining Balance Sheet  
Nonmajor Governmental Funds  
September 30, 2007

	<b>Special Revenue Funds</b>				<b>Total</b>
	<b>Law Enforcement Trust Fund</b>	<b>Cops and Kids Fund</b>	<b>Beach Access Public Parking Fund</b>		
<b>Assets</b>					
Cash and cash equivalents	\$ -	\$ 16,981	\$ -		\$ 16,981
Cash and cash equivalents - restricted	47,268	-	529,555		576,823
Due from other funds	466	-	-		466
<b>Total assets</b>	<b>\$ 47,734</b>	<b>\$ 16,981</b>	<b>\$ 529,555</b>		<b>\$ 594,270</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>-</b>
<b>Fund balances</b>					
Reserved for law enforcement	47,734	-	-		47,734
Reserved for beach access	-	-	529,555		529,555
Unreserved	-	16,981	-		16,981
<b>Total fund balances</b>	<b>47,734</b>	<b>16,981</b>	<b>529,555</b>		<b>594,270</b>
<b>Total liabilities and fund balances</b>	<b>\$ 47,734</b>	<b>\$ 16,981</b>	<b>\$ 529,555</b>		<b>\$ 594,270</b>

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, 2007

	<b>Special Revenue Funds</b>			<b>Total</b>
	<b>Law Enforcement Trust Fund</b>	<b>Cops and Kids Fund</b>	<b>Beach Access Public Parking Fund</b>	
<b>Revenues</b>				
Fines and forfeitures	\$ 1,536	\$ -	\$ -	\$ 1,536
Contributions and donations	-	23,901	-	23,901
Interest	130	448	20,595	21,173
<b>Total revenues</b>	<b>1,666</b>	<b>24,349</b>	<b>20,595</b>	<b>46,610</b>
<b>Expenditures</b>				
Current				
Public safety	5,800	17,729	-	23,529
Capital outlay				
Public safety	45,700	-	-	45,700
<b>Total expenditures</b>	<b>51,500</b>	<b>17,729</b>	<b>-</b>	<b>69,229</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(49,834)</b>	<b>6,620</b>	<b>20,595</b>	<b>(22,619)</b>
<b>Other financing sources</b>				
Proceeds from sale of assets	13,062	-	-	13,062
<b>Total other financing sources</b>	<b>13,062</b>	<b>-</b>	<b>-</b>	<b>13,062</b>
<b>Net change in fund balances</b>	<b>(36,772)</b>	<b>6,620</b>	<b>20,595</b>	<b>(9,557)</b>
<b>Fund balances - beginning</b>	<b>84,506</b>	<b>10,361</b>	<b>508,960</b>	<b>603,827</b>
<b>Fund balances - ending</b>	<b>\$ 47,734</b>	<b>\$ 16,981</b>	<b>\$ 529,555</b>	<b>\$ 594,270</b>

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, 2007

<b>Business-type Activities / Enterprise Funds</b>			
	<b>Pier Fund</b>	<b>Aquatic Center Fund</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 4,514	\$ 109,802	\$ 114,316
Accounts receivable, net	1,000	2,862	3,862
Grants receivable	430,449	-	430,449
Due from other governments	4,162	-	4,162
Due from other funds	-	17,218	17,218
Prepaid insurance	328	2,090	2,418
Total current assets	440,453	131,972	572,425
Noncurrent assets			
Capital assets			
Nondepreciable	500,337	5,000	505,337
Depreciable, net	240,099	4,322,005	4,562,104
Total noncurrent assets	740,436	4,327,005	5,067,441
Total assets	1,180,889	4,458,977	5,639,866
<b>Liabilities</b>			
Current liabilities			
Accounts payable	13,771	13,938	27,709
Accrued expenses	4,314	8,468	12,782
Accrued interest payable	-	3,969	3,969
Due to other funds	450,564	-	450,564
Due to other governments	1,552	881	2,433
Deferred revenue	-	19,836	19,836
Accrued compensated absences	381	-	381
Notes payable	-	630,000	630,000
Total current liabilities	470,582	677,092	1,147,674
Noncurrent liabilities			
Accrued compensated absences	3,244	607	3,851
Total noncurrent liabilities	3,244	607	3,851
Total liabilities	473,826	677,699	1,151,525
<b>Net assets</b>			
Invested in capital assets, net of related debt	740,436	4,327,005	5,067,441
Unrestricted (deficit)	(33,373)	(545,727)	(579,100)
Total net assets	\$ 707,063	\$ 3,781,278	\$ 4,488,341

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, 2007

<b>Business-type Activities / Enterprise Funds</b>			
	<b>Pier Fund</b>	<b>Aquatic Center Fund</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services			
Admissions and other fees	\$ 238,532	\$ 246,235	\$ 484,767
Rent	24,000	42,159	66,159
<b>Total operating revenues</b>	<b>262,532</b>	<b>288,394</b>	<b>550,926</b>
<b>Operating expenses</b>			
Personal services	179,814	332,065	511,879
Professional services	2,303	5,676	7,979
Office supplies	62	1,908	1,970
Contractual services	156	6,035	6,191
Insurance	15,580	45,760	61,340
Repairs and maintenance	11,565	13,169	24,734
Operating supplies	7,900	98,732	106,632
Communication services	475	3,927	4,402
Public utility services	10,951	108,031	118,982
Transportation	-	226	226
Rentals	1,711	7,557	9,268
Printing and binding	7	2,415	2,422
Miscellaneous	5,672	11,719	17,391
Depreciation	25,745	156,337	182,082
<b>Total operating expenses</b>	<b>261,941</b>	<b>793,557</b>	<b>1,055,498</b>
<b>Net operating income (loss)</b>	<b>591</b>	<b>(505,163)</b>	<b>(504,572)</b>
<b>Nonoperating revenues (expenses)</b>			
Interest income	3,065	495	3,560
Grants and contributions	179,060	136,600	315,660
Interest expense	-	(23,235)	(23,235)
<b>Total nonoperating revenues</b>	<b>182,125</b>	<b>113,860</b>	<b>295,985</b>
<b>Net income (loss) before transfers</b>	<b>182,716</b>	<b>(391,303)</b>	<b>(208,587)</b>
Transfers in	-	242,218	242,218
<b>Change in net assets</b>	<b>182,716</b>	<b>(149,085)</b>	<b>33,631</b>
<b>Total net assets - beginning</b>	<b>524,347</b>	<b>3,930,363</b>	<b>4,454,710</b>
<b>Total net assets - ending</b>	<b>\$ 707,063</b>	<b>\$ 3,781,278</b>	<b>\$ 4,488,341</b>

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, 2007

	<b>Business-type Activities / Enterprise Funds</b>		
	<b>Pier Fund</b>	<b>Aquatic Center Fund</b>	<b>Total</b>
<b>Operating activities</b>			
Receipts from customers and users	\$ 261,097	\$ 290,943	\$ 552,040
Payments to / advances from suppliers	(57,543)	(316,047)	(373,590)
Payments to employees	(178,654)	(332,387)	(511,041)
<b>Net cash provided (used) by operating activities</b>	<b>24,900</b>	<b>(357,491)</b>	<b>(332,591)</b>
<b>Noncapital financing activities</b>			
Contributions	-	138,030	138,030
Transfers from other funds	-	238,566	238,566
<b>Net cash provided by noncapital financing activities</b>	<b>-</b>	<b>376,596</b>	<b>376,596</b>
<b>Capital and related financing activities</b>			
Capital grants	-	20,000	20,000
Proceeds from note payable issuance	-	100,000	100,000
Interest paid on notes payable	-	(19,266)	(19,266)
Advance from (to) other funds	115,000	-	115,000
Purchase of capital assets	(237,937)	(15,955)	(253,892)
<b>Net cash (used) by capital and related financing activities</b>	<b>(122,937)</b>	<b>84,779</b>	<b>(38,158)</b>
<b>Investing activities</b>			
Interest received	3,065	495	3,560
<b>Net cash provided by investing activities</b>	<b>3,065</b>	<b>495</b>	<b>3,560</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(94,972)</b>	<b>104,379</b>	<b>9,407</b>
<b>Cash and cash equivalents - beginning</b>	<b>99,486</b>	<b>5,423</b>	<b>104,909</b>
<b>Cash and cash equivalents - ending</b>	<b>\$ 4,514</b>	<b>\$ 109,802</b>	<b>\$ 114,316</b>

(Continued)



City of Panama City Beach, Florida  
Combining Statement of Cash Flows  
Nonmajor Proprietary Funds (Continued)  
Year Ended September 30, 2007

Business-type Activities / Enterprise Funds			
	Pier Fund	Aquatic Center Fund	Total
<b>Reconciliation of net operating income (loss) to net cash provided (used) by operating activities</b>			
Net operating income (loss)	\$ 591	\$ (505,163)	\$ (504,572)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	25,745	156,337	182,082
(Increase) decrease in assets			
Accounts receivable	(435)	6,108	5,673
Due from other governments	(2,722)	-	(2,722)
Prepaid insurance	6,451	23	6,474
Increase (decrease) in liabilities			
Accounts payable	(3,595)	(13,186)	(16,781)
Accrued expenses	1,222	1,988	3,210
Due to other funds	(1,441)	-	(1,441)
Due to other governments	146	283	429
Deferred revenue	(1,000)	(3,559)	(4,559)
Accrued compensated absences	(62)	(322)	(384)
Total adjustments	24,309	147,672	171,981
Net cash provided (used) by operating activities	\$ 24,900	\$ (357,491)	\$ (332,591)

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, 2007

	<b>General Employees Pension Trust Fund</b>	<b>Police Officers Pension Trust Fund</b>	<b>Firefighters Pension Trust Fund</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 114,405	\$ 52,598	\$ 182,827	\$ 349,830
Accounts receivable, net	32	20	11	63
Investments, at fair value				
Money market funds	34,103	21,282	12,117	67,502
Common stocks	1,030,414	643,013	366,104	2,039,531
Real estate investment trusts	561,358	350,308	199,450	1,111,116
Mutual funds	13,645,707	8,515,416	4,848,283	27,009,406
<b>Total assets</b>	<b>15,386,019</b>	<b>9,582,637</b>	<b>5,608,792</b>	<b>30,577,448</b>
<b>Liabilities</b>				
Accounts payable	580	638	580	1,798
Refunds payable	4,093	41,290	-	45,383
<b>Total liabilities</b>	<b>4,673</b>	<b>41,928</b>	<b>580</b>	<b>47,181</b>
<b>Net assets</b>				
Held in trust for pension benefits	\$ 15,381,346	\$ 9,540,709	\$ 5,608,212	\$ 30,530,267

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, 2007

	<b>General Employees Pension Trust Fund</b>	<b>Police Officers Pension Trust Fund</b>	<b>Firefighters Pension Trust Fund</b>	<b>Total</b>
<b>Additions</b>				
Contributions				
Employer	\$ 815,498	\$ 347,074	\$ 233,633	\$ 1,396,205
Plan members	423,170	206,047	109,297	738,514
Insurance premiums	-	89,106	235,629	324,735
<b>Total contributions</b>	<b>1,238,668</b>	<b>642,227</b>	<b>578,559</b>	<b>2,459,454</b>
Investment earnings				
Interest	19,742	11,193	7,641	38,576
Dividends	496,482	311,252	168,361	976,095
Net increase in fair value of investments	1,274,252	781,732	478,428	2,534,412
<b>Total investment earnings</b>	<b>1,790,476</b>	<b>1,104,177</b>	<b>654,430</b>	<b>3,549,083</b>
Less investment expenses	(86,331)	(57,704)	(36,257)	(180,292)
<b>Net investment earnings</b>	<b>1,704,145</b>	<b>1,046,473</b>	<b>618,173</b>	<b>3,368,791</b>
<b>Total additions</b>	<b>2,942,813</b>	<b>1,688,700</b>	<b>1,196,732</b>	<b>5,828,245</b>
<b>Deductions</b>				
Benefits	593,392	339,974	52,149	985,515
Refunds of contributions	80,167	89,396	23,680	193,243
Administrative expenses	29,255	31,406	21,750	82,411
<b>Total deductions</b>	<b>702,814</b>	<b>460,776</b>	<b>97,579</b>	<b>1,261,169</b>
<b>Change in net assets</b>	<b>2,239,999</b>	<b>1,227,924</b>	<b>1,099,153</b>	<b>4,567,076</b>
<b>Net assets - beginning</b>	<b>13,141,347</b>	<b>8,312,785</b>	<b>4,509,059</b>	<b>25,963,191</b>
<b>Net assets - ending</b>	<b>\$ 15,381,346</b>	<b>\$ 9,540,709</b>	<b>\$ 5,608,212</b>	<b>\$ 30,530,267</b>

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

## Compliance Section



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## INDEPENDENT AUDITORS' MANAGEMENT LETTER

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

We have audited the financial statements of the City of Panama City Beach, Florida, (the "City"), as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated March 21, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report on Internal Control and Compliance and Other Matters Based on an Audit of Financial Statements performed in Accordance with *Governmental Auditing Standards*, Report on Compliance with requirements Applicable to Each Major Program/State Project and 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 that report, which are dated March 21, 2008, should be considered in conjunction with this management letter.

The Rules of the Auditor General (Section 10.554(1)(h)1.) require that we address in the management letter, if not already addressed in the auditors' reports on compliance and internal control or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding annual financial audit report have not been satisfactorily addressed by the City. See status of prior year recommendation section.

As required by Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included 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 of Panama City Beach complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such findings.

The Rules of the Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditors' reports on compliance and internal control or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

As required by the Rules of the Auditor General (Section 10.554(1)(h)5), 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.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6(a)), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the City is not in a state of financial emergency at September 30, 2007 as a consequence of the conditions described by Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6(b)), we determined that the annual financial report for the City for the fiscal year ended September 30, 2007, was filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, and is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007.

As required by the Rules of the Auditor General (Sections 10.554(1)(h)6.c. and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. No deteriorating financial conditions were noted.

The Rules of the Auditor General (Sections 10.554(1)(h)3 and 4(a), (b), and (c)) require disclosures in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal control: recommendations to improve financial management, accounting procedures, and internal controls; violations of laws, rules, regulations and contractual provisions which may or may not materially affect the financial statements; illegal or improper expenditures that may or may not materially affect the financial statements; improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); failures to properly record financial transactions; and other inaccuracies, shortages, defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. We noted the following items:

## **Current Year Audit Recommendations**

### 07-01 Segregation of Duties (prior year 06-01)

This condition is the result of limited accounting staff and the responsibility of the finance director. Due to the lack of segregation of duties and limited internal controls, the finance director currently has the ability to issue and approve cash disbursements; reconcile the cash accounts; input, edit, and/or approve accounting journal entries; and prepare the financial information. This condition is reported as a current year significant deficiency in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

### 07-02 Cash Collection Policies (prior year 06-02)

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

### 07-03 Pier Admission Policies (prior year 06-03)

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

### 07-04 Accounting and Personnel Policies (prior year 06-04)

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

This management letter is intended solely for the information of the City of Panama City Beach's management and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

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

Panama City Beach, Florida

March 21, 2008

**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, the general fund, the community redevelopment 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, 2007, which collectively comprise the City's basic financial statements and have issued our report dated March 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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



The material weakness is described in the accompanying Schedule of Findings and Questioned Costs as item 07-01.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that neither of the significant deficiencies described above is a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated March 21, 2008.

#### 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*.

This report is intended solely for the information and use of the City Council, management, and specific legislative or regulatory bodies, and is not intended to be and should not be used by anyone other than these specified parties.

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

Panama City, Florida

March 21, 2008

City of Panama City Beach, Florida  
Management's Response to Auditors Recommendations  
Year Ended September 30, 2006

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

07-01 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.

07-02 Cash Collection Policies

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

07-03 Pier Admission Policies

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

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

07-04 Accounting and Personnel Policies

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

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

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

Compliance

We have audited the compliance of City of Panama City Beach, Florida with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Executive Office of the Governor's State Projects Compliance Supplement that are applicable to each of its major federal programs and state projects for the year ended September 30, 2007. City of Panama City Beach, Florida'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 City of Panama City Beach's management. Our responsibility is to express an opinion on City of Panama City Beach'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, 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 City of Panama City Beach, Florida'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 City of Panama City Beach, Florida's compliance with those requirements.

In our opinion, City of Panama City Beach, Florida, 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, 2007.

## Internal Control Over Compliance

The management of City of Panama City Beach, Florida, 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 City of Panama City Beach, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on 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 City of Panama City Beach, Florida's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

This report is intended solely for the information and use of the Board of County Commissioners, management, and appropriate federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

This report is intended solely for the information and use of the City of Panama City Beach, Florida's management, and certain federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

Panama City Beach, Florida  
March 21, 2008

City of Panama City Beach, Florida  
Schedule of Expenditures of Federal Awards and State Financial Assistance  
Year Ended September 30, 2007

Federal / State Agency Pass through entity Federal Program / State Project	CFDA CSFA No.	Contract / Grant No.	Expenditures
<b>U.S. Department of Homeland Security</b>			
Passed through Florida Department of Community Affairs	CFDA		
Staffing for Adequate Fire & Emergency Response (SAFER)	97.044	EMW-2006-FF-03932	\$ 137,155
Disaster Relief - Storm Water Outfalls Project	97.036	FEMA-FSDR-1595	732,285
Disaster Relief - Pier Reconstruction Project	97.036	FEMA-FSDR-1551	430,449
Disaster Relief - Hurricane Dennis	97.036	FEMA-FSDR-1595	6,237
Disaster Relief - Hurricane Ivan	97.036	FEMA-FSDR-1551	16,208
<b>U.S. Federal Highway Administration</b>			
Passed through Florida Department of Transportation	CFDA		
Churchwell Drive Replacement Bridge Project	20.205	OOB3-036-B	1,842,990
State Road 79 Multi-use Path - Phase 1	20.205	FPID 417966-1-38-01 / AO782	352,265
State Road 79 Multi-use Path - Phase 2	20.205	FPID 417966-2-38-01 / AOM17	48,759
<b>Total Expenditures of Federal Awards</b>			<b>\$ 3,566,348</b>
<b>Florida Department of Environmental Protection</b>			
Collection and Reclaimed Water Reuse Facility	CSFA 37.***	694050	\$ 750,000
Florida Recreation Developmental Assistance Program	37.017	FRDAP F50332	40,583
<b>Total Expenditures of State Financial Assistance</b>			<b>\$ 790,583</b>

Note:

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

City of Panama City Beach, Florida  
 Schedule of Findings and Questioned Costs  
 Federal Awards and State Financial Assistance  
 Year Ended September 30, 2007

**Section I - Summary of Auditors' Results**

Financial Statements

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

Federal Awards and State Financial Assistance

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

Identification of major federal programs and state projects:

<u>CFDA</u>	<u>Name of Federal Program</u>
20.205	Churchwell Drive Replacement Bridge Project
<u>CSFA</u>	<u>Name of State Project</u>
37.***	Collection and Reclaimed Water Reuse Facility

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

**Section II - Financial Statement Findings**

07-01 Segregation of Duties

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

**Section III - Federal Awards and State Financial Assistance Findings**

There were no findings.