

City of Panama City Beach

Financial Statements

September 30, 2005

City of Panama City Beach
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September 30, 2005

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CARR, RIGGS & INGRAM LLC.

2583 Huntcliff Lane
Panama City, FL 32405
P.O. Box 149
Panama City, FL 32402

P | 850 785 6153
F | 850 785 7188
www.cricpa.com

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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for each 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 April 28, 2006, 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.

American Institute of
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Alabama Society of
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Florida Institute of
Certified Public Accountants

Mississippi Society of
Certified Public Accountants

AICPA Alliance for CPA Firms

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Company Audit Firms

Management's discussion and analysis on pages 3 through 12 and the required supplemental information on pages 61 through 63 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements 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 combining and individual nonmajor fund financial statements 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Panama City, Florida
April 28, 2006

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 \$96,062,723 (net assets). Of this amount, \$2,668,309 is unrestricted net assets for governmental activities and \$9,751,301 is unrestricted net assets for business-type activities, while \$7,252,349 is restricted net assets for governmental activities and \$23,198,044 is restricted net assets for business-type activities.
- Total net assets increased by \$16,702,043. Of this amount, \$5,934,982 is attributable to governmental activities and \$10,767,061 is attributable to business-type activities. A significant portion of the increase in net assets is attributable to an infusion of resources from both municipal services and water and sewer impact fees.
- As of September 30, 2005, the general fund's unreserved fund balance was \$3,463,782 or 27 percent of total general fund expenditures.
- Governmental activities revenues increased to \$20,950,927 or approximately 12 percent, while governmental activities expenditures increased 17 percent to \$13,639,074. Business-type activities revenues increased to \$25,964,901 or 20 percent, while business-type activities expenditures increased 10 percent to \$16,574,711.

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, gross receipts taxes, 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 and sewer, 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. 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 Fund includes 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 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its governmental and business-type activities.

City of Panama City Beach, Florida Net Assets

September 30, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 11,780,595	\$ 7,404,362	\$ 45,792,018	\$ 38,795,006	\$ 57,572,613	\$ 46,199,368
Capital assets	29,276,605	27,845,814	71,165,848	62,341,614	100,442,453	90,187,428
Total assets	41,057,200	35,250,176	116,957,866	101,136,620	158,015,066	136,386,796
Current liabilities	1,181,157	1,093,002	10,661,526	6,454,249	11,842,683	7,547,251
Noncurrent liabilities	2,888,416	3,104,529	47,221,244	46,374,336	50,109,660	49,478,865
Total liabilities	4,069,573	4,197,531	57,882,770	52,828,585	61,952,343	57,026,116
Net assets invested in capital assets, net of related debt	27,066,969	25,747,435	26,125,751	17,187,011	53,192,720	42,934,446
Net assets – restricted	7,252,349	3,439,076	23,198,044	20,822,523	30,450,393	24,261,599
Net assets – unrestricted	2,668,309	1,866,134	9,751,301	10,298,501	12,419,610	12,164,635
Total net assets	\$ 36,987,627	\$ 31,052,645	\$ 59,075,096	\$ 48,308,035	\$ 96,062,723	\$ 79,360,680

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 (55 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 32 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*, \$12,419,610 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 \$10,258,274 (or 24%) primarily from additions to capital assets and a decrease in the related debt used to acquire capital assets. Most of the entire increase was in business-type activities and reflects the increasing infrastructure needs dictated by explosive growth in the City's service area.

Restricted net assets increased \$6,188,794 (or 26%). The increase in the governmental activities restricted net assets was primarily due to significant collections of municipal services impact fees in the current year which were largely unspent as of year end. These funds may only be expended on the growth related portion of capital projects. Likewise, the business-type activities increase was primarily attributable to water and sewer impact fees collected in the current year. These funds are also restricted as to use.

The increase in *Net assets, unrestricted* was a fairly insignificant \$254,975 (or 2%). Ongoing expenses slightly outpaced ongoing revenues on a government-wide basis.

Business-type activities' current liabilities increased \$4,207,277. The increase is almost totally due to an increase in deferred revenue reflected at year end. Deferred revenue represents water and sewer impact fees and connection charges collected at year end for projects which had not yet hooked on to the system. It is expected that the bulk of this deferred revenue will be recognized as revenue in fiscal year 2006 and an insignificant portion will actually be refunded to customers.

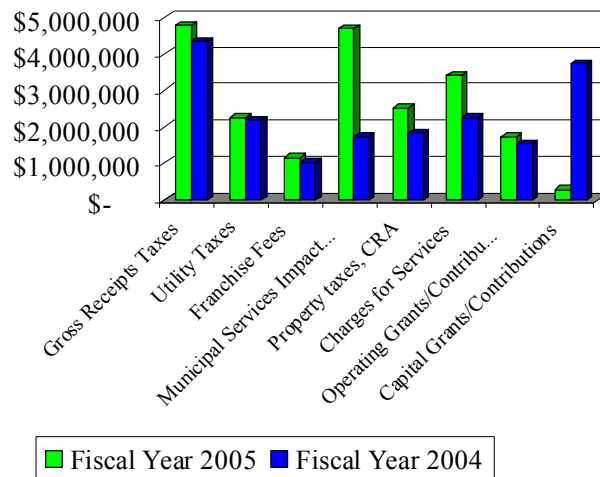
The schedule on the following page compares the revenues and expenses for the current and previous fiscal year.

City of Panama City Beach, Florida Changes in Net Assets

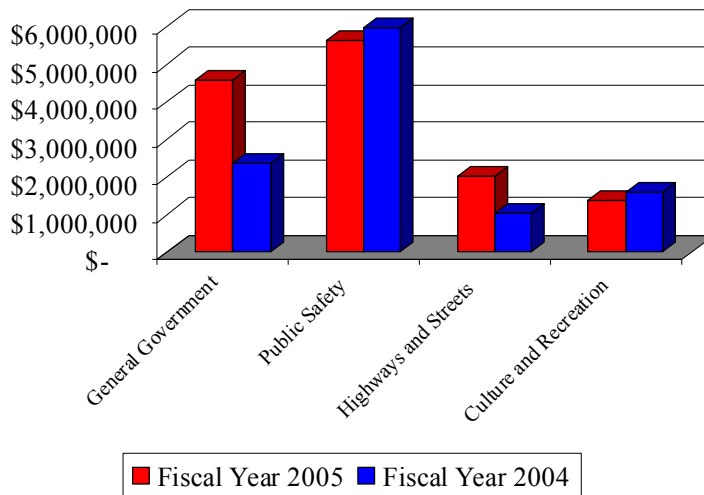
September 30, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program revenues						
Charges for services	\$ 3,413,552	\$ 2,247,252	\$ 23,958,457	\$ 20,843,456	\$ 27,372,009	\$ 23,090,708
Operating grants/ contributions	1,720,188	1,539,802	129,930	-	1,850,118	1,539,802
Capital grants/ contributions	281,166	3,732,561	1,015,224	-	1,296,390	3,732,561
General revenues						
Gross receipts taxes	4,788,273	4,347,842	-	-	4,788,273	4,347,842
Utility taxes/ franchise fees	3,418,897	3,214,592	-	-	3,418,897	3,214,592
Impact fees	4,694,890	1,736,203	-	-	4,694,890	1,736,203
Property taxes, CRA	2,527,877	1,848,987	-	-	2,527,877	1,848,987
Other	106,084	43,314	861,290	772,136	967,374	815,450
Total revenues	20,950,927	18,710,553	25,964,901	21,615,592	46,915,828	40,326,145
Expenses						
General government	4,573,208	2,377,500	-	-	4,573,208	2,377,500
Public safety	5,632,209	5,965,144	-	-	5,632,209	5,965,144
Highways and streets	2,015,566	1,588,979	-	-	2,015,566	1,588,979
Culture and recreation	1,383,808	1,579,260	-	-	1,383,808	1,579,260
Interest on long-term debt	34,283	120,025	-	-	34,283	120,025
Utility	-	-	15,784,191	14,581,710	15,784,191	14,581,710
Pier	-	-	790,501	541,884	790,501	541,884
Aquatic center	-	-	19	-	19	-
Total expenses	13,639,074	11,630,908	16,574,711	15,123,594	30,213,785	26,754,502
Increase in net assets before transfers	7,311,853	7,079,645	9,390,190	6,491,998	16,702,043	13,571,643
Transfers	(1,376,871)	(3,116,422)	1,376,871	3,116,422	-	-
Increase in net assets	\$ 5,934,982	\$ 3,963,223	\$ 10,767,061	\$ 9,608,420	\$ 16,702,043	\$ 13,571,643

Revenues - Governmental Activities Fiscal Years Ended September 30, 2005 and 2004



**Expenses - Governmental Activities Fiscal Years Ended
September 30, 2005 and 2004**



Governmental activities revenues exceeded expenses by \$7,311,853 while business-type activities revenues exceeded expenses by \$9,390,190. Total revenues increased \$6,589,683 from the previous year. Charges for services increased \$4,281,301 and impact fees increased \$2,958,687. Capital grants decreased \$2,436,171 in the current year. The increase in charges for services results from significant increases in this line item in both governmental activities and business-type activities. The charges for services related to governmental activities reflect significant increases in plan review fees and building permits. These revenues are directly related to the economic growth being experienced by the City. The primary reason for the increase in charges for services for business-type activities is due to water and sewer impact fees and connection charges collected in the current year. Again, this increase is directly correlated to the City's growth. Additionally, the governmental activities increase in municipal services impact fees is growth related. The receipt of grants is by nature unpredictable and often distorts year to year comparisons. Several large non-recurring grants were received in the prior fiscal year which accounts for the significant decrease when compared to the current year. Total expenses increased \$3,459,283 from the previous year. The increase in expenses was primarily attributable to increased costs virtually across the board in the utility fund as well as an increase in spending in the area of general government. The general government increase was primarily attributable to a significant increase in the contractual services cost for inspections and plans review. This increase was expected as it varies directly with the revenue collected for building permits and plans review.

23% of the revenues for governmental activities are generated by gross receipts taxes and 16% by charges for services, while most of the governmental resources are expended for public safety (41%), and general government (34%).

Charges for services provide 92% 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, 2005, total assets were \$9,881,128 and total liabilities were \$1,016,557. At the end of fiscal year 2005, unreserved fund balance of the general fund was \$3,463,782, while total fund balance equaled \$8,864,571. Total fund balance increased \$3,603,793 of which 75% was attributable to an increase in reserved fund balances and 25% was attributable to an increase in unreserved fund balance.

The general fund's budget was amended during the year to reflect increases in revenue and the corresponding increases in expenditures which resulted from the increase in available funds. The increase in revenue was attributable primarily to greater than anticipated collections for building permits and development order fees from the continuing growth in construction. Additionally, the City received several grants during the year which were not anticipated in the original budget as well as reimbursements from both the federal and state governments for costs associated with several hurricanes which struck the Gulf Coast. The City changed its methodology with regard to the budgeting of municipal services impact fees during the year. The original budget omitted municipal services impact fees while the final budget included such fees as well as a restriction on the unexpended portion of such fees. Budgeted expenditures in the protective services department were amended significantly to reflect increased costs of contracted inspections and plans review which resulted from the continuing growth 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, 2005, total assets were \$1,833,987 and total liabilities were \$632,582. At the end of fiscal year 2005, unreserved fund balance of the community redevelopment fund was \$276,545, while total fund balance equaled \$1,201,405. Total fund balance increased \$783,340 of which 65% was attributable to an increase in reserved fund balances and 35% was attributable to an increase in unreserved 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.

The *Aquatic Center Fund* was used to account for voluntary contributions from third parties to be used to assist the City with funding the construction of an aquatic center. Midway through the fiscal year, the City discontinued the use of this fund and all assets of the aquatic center special revenue fund were transferred to a new enterprise fund established to account for the construction and operations of the aquatic center.

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

Proprietary Funds

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

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

Fund	2005 Unrestricted Net Assets	2004 Unrestricted Net Assets
Utility	\$ 9,788,498	\$ 10,399,386
Pier	(37,197)	(100,885)
Total	\$ 9,751,301	\$ 10,298,501

The *Utility Fund* is used to account for the operations of the City's water and sewer systems. As a result of the significant amount of new construction and redevelopment being experienced by the City, water and sewer impact fee revenues increased by \$2,247,808 over the prior year. These impact fees charged to and paid by new customers must be used to expand and enhance the water and sewer systems. Grant revenue increased from the prior year by \$875,961. Most of this grant revenue is received from the State of Florida and is linked with loans from the State of Florida Revolving Fund. The timing of payments by the State of Florida affects the classification of funds between grants and loans.

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

The *Aquatic Center Fund* is being used to account for the construction and operation of an aquatic center located at Frank Brown Park. As of September 30, 2005, the aquatic center construction was not yet complete.

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, 2005, was \$100,442,453 (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:

- In fiscal year 2004, the City began construction on water and sewer system improvements located on the west end of the City. The total estimated cost of the project is \$2.8 million dollars. As of September 30, 2005, the water and reclaimed water portions of these improvements were in service and operational; however, construction on the sewer improvements will continue in fiscal year 2006.
- The City completed installation of odor control equipment located at its advanced wastewater treatment plant. The total capitalized cost of the equipment was \$965,834.

- The City continues to implement its plan to provide sewer services to a number of neighborhoods. As of September 30, 2005, both the Open Sands and Bid-A-Wee portions of the project were 100% complete at a total cost of approximately \$2.5 million dollars. Construction in the Gulf Highlands subdivision was also complete at year end. The total project cost for this subdivision was approximately \$4.3 million dollars. Engineering costs have been incurred for the El Centro subdivision but no actual construction costs were expended prior to September 30, 2005.
- The City continues work on the reuse/receiving wetlands project. In the current year, the City purchased approximately 3,000 acres of land to be used as a discharge site for the City's reclaimed water at a cost of \$3,829,892. The estimated total cost of this project including the purchase of land is \$15.5 million dollars. As of September 30, 2005, \$743,702 was reflected in construction in progress for this project.
- At September 30, 2005, approximately \$1.8 million dollars is reflected in construction in progress 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.

**Capital Assets
(net of depreciation)**

September 30, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$13,153,190	\$13,153,190	\$ 6,351,316	\$ 2,488,424	\$19,504,506	\$15,641,614
Construction in progress	1,897,908	138,931	4,559,497	4,719,509	6,457,405	4,858,440
Buildings	2,880,813	2,989,597	23,310,221	24,078,968	26,191,034	27,068,565
Improvements	8,929,479	9,313,279	35,032,566	30,198,879	43,962,045	39,512,158
Machinery and equipment	2,415,215	2,250,817	1,912,248	855,834	4,327,463	3,106,651
Total	\$29,276,605	\$27,845,814	\$71,165,848	\$62,341,614	\$100,442,453	\$90,187,428

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 \$24,071,366. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Bond Debt

September 30, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue bonds	\$110,000	\$117,000	\$23,961,366	\$ 23,983,117	\$ 24,071,366	\$ 24,100,117

The City's total debt decreased by \$28,751 during the current fiscal year.

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

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 10% in the current fiscal year. The growth being experienced by the City continued, at a slower pace, in 2005 as evidenced by a slight (2.5%) increase in building permits issued on new single and multi-family residential units. 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, upgrade capacity at the advanced wastewater treatment plant, provide a discharge site for reclaimed water and widen existing roadways to improve traffic flow and public safety. The City will continue to address the issue of storm water management with the possible addition of a storm water utility to address collection and management of the same. Additionally, the City has committed to the provision of expanded recreation facilities for public use as evidenced by the construction of an aquatic center which began in the current year and the continued expansion of the City's greenways and trails system.

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, 2005

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,910,055	\$ 6,233,871	\$ 10,143,926
Accounts receivable, net	143,585	3,242,082	3,385,667
Taxes receivable	436,055	-	436,055
Grants receivable	118,850	-	118,850
Accrued interest receivable	-	8,552	8,552
Due from other governments	259,746	-	259,746
Inventory	13,129	581,653	594,782
Prepaid insurance	11,319	10,796	22,115
Restricted assets			
Cash and cash equivalents	6,869,099	34,342,713	41,211,812
Accrued interest receivable	-	27,771	27,771
Notes receivable	-	83,547	83,547
Notes receivable	-	651,860	651,860
Capital assets			
Nondepreciable	15,051,098	10,910,813	25,961,911
Depreciable, net	14,225,507	60,255,035	74,480,542
Unamortized bond costs	18,757	609,173	627,930
Total assets	41,057,200	116,957,866	158,015,066

(Continued)

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

City of Panama City Beach, Florida
Statement of Net Assets (Continued)
September 30, 2005

Primary Government			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 995,831	\$ 1,364,559	\$ 2,360,390
Accrued expenses	137,398	78,589	215,987
Accrued interest payable	10,594	422,406	433,000
Due to other governments	3,039	75,147	78,186
Internal balances	(83,928)	83,928	-
Revenue certificates payable	-	846,338	846,338
Deferred revenue	118,223	7,790,559	7,908,782
Long-term liabilities			
Due within one year			
Accrued compensated absences	8,123	40,944	49,067
Notes payable	163,222	822,150	985,372
Capital leases	99,891	-	99,891
Revenue bonds payable	8,000	281,752	289,752
Due in more than one year			
Accrued compensated absences	1,555,087	557,040	2,112,127
Notes payable	802,650	21,839,744	22,642,394
Capital leases	149,443	-	149,443
Revenue bonds payable, net	102,000	23,679,614	23,781,614
Total liabilities	4,069,573	57,882,770	61,952,343
Net assets			
Invested in capital assets, net of related debt	27,066,969	26,125,751	53,192,720
Restricted for			
Law enforcement	46,427	-	46,427
Beach access	426,450	-	426,450
Impact fees	5,329,914	20,365,382	25,695,296
Debt service	15,104	2,408,066	2,423,170
Aquatic center	-	424,596	424,596
Community redevelopment	1,434,454	-	1,434,454
Unrestricted	2,668,309	9,751,301	12,419,610
Total net assets	\$ 36,987,627	\$ 59,075,096	\$ 96,062,723

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, 2005

Functions / Programs	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
Primary government							
Governmental activities							
General government	\$ 4,573,208	\$ 2,637,667	\$ 880,867	\$ 75,000	\$ (979,674)	\$ -	\$ (979,674)
Public safety	5,632,209	467,458	324,804	72,446	(4,767,501)	-	(4,767,501)
Highways and streets	2,015,566	175,893	359,395	-	(1,480,278)	-	(1,480,278)
Culture and recreation	1,383,808	132,534	155,122	133,720	(962,432)	-	(962,432)
Interest on long-term debt	34,283	-	-	-	(34,283)	-	(34,283)
Total governmental activities	13,639,074	3,413,552	1,720,188	281,166	(8,224,168)	-	(8,224,168)
Business-type activities							
Utility	15,784,191	23,627,351	125,963	880,280	-	8,849,403	8,849,403
Pier	790,501	253,031	3,967	-	-	(533,503)	(533,503)
Aquatic center	19	-	-	134,944	-	134,925	134,925
Rental	-	78,075	-	-	-	78,075	78,075
Total business-type activities	16,574,711	23,958,457	129,930	1,015,224	-	8,528,900	8,528,900
Total primary government	\$ 30,213,785	\$ 27,372,009	\$ 1,850,118	\$ 1,296,390	(8,224,168)	8,528,900	304,732
General revenues							
Taxes							
Gross receipts					4,788,273	-	4,788,273
Utility					2,259,219	-	2,259,219
Franchise fees					1,159,678	-	1,159,678
Municipal services impact fees					4,694,890	-	4,694,890
Property taxes, CRA					2,527,877	-	2,527,877
Total general revenues					15,429,937	-	15,429,937
Interest earnings					106,084	861,290	967,374
Total general revenues and interest					15,536,021	861,290	16,397,311
Transfers					(1,376,871)	1,376,871	-
Total general revenues, interest and transfers					14,159,150	2,238,161	16,397,311
Change in net assets					5,934,982	10,767,061	16,702,043
Net assets - beginning					31,052,645	48,308,035	79,360,680
Net assets - ending					\$ 36,987,627	\$ 59,075,096	\$ 96,062,723

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

City of Panama City Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2005

	General	Community Redevelopment	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 3,109,764	\$ 276,545	\$ 19,153	\$ 3,405,462
Accounts receivable, net	143,585	-	-	143,585
Taxes receivable	436,055	-	-	436,055
Grants receivable	118,850	-	-	118,850
Due from other governments	259,746	-	-	259,746
Due from other funds	477,023	-	1,560	478,583
Inventory	13,129	-	-	13,129
Prepaid insurance	11,319	-	-	11,319
Cash and cash equivalents - restricted	5,311,657	1,557,442	504,593	7,373,692
Total assets	\$ 9,881,128	\$ 1,833,987	\$ 525,306	\$ 12,240,421
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 363,595	\$ 632,229	\$ 7	\$ 995,831
Accrued expenses	137,398	-	-	137,398
Due to other governments	3,039	-	-	3,039
Due to other funds	394,302	353	-	394,655
Deferred revenue	118,223	-	-	118,223
Total liabilities	1,016,557	632,582	7	1,649,146
Fund balances				
Reserved for				
Law enforcement	46,427	-	79,696	126,123
Inventory	13,129	-	-	13,129
Prepaid insurance	11,319	-	-	11,319
Impact fees	5,329,914	-	-	5,329,914
Beach access	-	-	426,450	426,450
Community redevelopment	-	924,860	-	924,860
Unreserved, reported in				
General fund	3,463,782	-	-	3,463,782
Community redevelopment fund	-	276,545	-	276,545
Special revenue funds	-	-	19,153	19,153
Total fund balances	8,864,571	1,201,405	525,299	10,591,275
Total liabilities and fund balances	\$ 9,881,128	\$ 1,833,987	\$ 525,306	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				29,276,605
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(2,880,253)
Net assets of governmental activities				\$ 36,987,627

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, 2005

	General	Community Redevelopment	Other Governmental Funds	Total
Revenues				
Taxes				
Gross receipts	\$ 4,788,273	\$ -	\$ -	\$ 4,788,273
Utility	2,259,219	-	-	2,259,219
Franchise fees	1,159,678	-	-	1,159,678
Property taxes, CRA	-	2,527,877	-	2,527,877
Intergovernmental	1,481,343	-	-	1,481,343
Municipal services impact fees	4,694,890	-	-	4,694,890
Licenses and permits	2,556,548	-	162,812	2,719,360
Fines and forfeitures	185,810	-	52,837	238,647
Contributions and donations	182,147	-	51,392	233,539
Grants	397,149	-	-	397,149
Interest	91,514	9,602	4,968	106,084
Other fees and miscellaneous	342,270	-	-	342,270
Total revenues	18,138,841	2,537,479	272,009	20,948,329
Expenditures				
Current				
General government	3,159,232	-	-	3,159,232
Public safety	5,519,502	-	25,556	5,545,058
Highways and streets	1,095,186	888,534	-	1,983,720
Culture and recreation	1,374,835	-	10,458	1,385,293
Debt service				
Principal	371,758	-	-	371,758
Interest and fiscal charges	55,485	31,691	-	87,176
Capital outlay				
General government	36,388	-	-	36,388
Public safety	707,557	-	27,441	734,998
Highways and streets	183,013	1,835,366	-	2,018,379
Culture and recreation	254,966	-	-	254,966
Total expenditures	12,757,922	2,755,591	63,455	15,576,968
Excess (deficiency) of revenues over (under) expenditures	5,380,919	(218,112)	208,554	5,371,361
Other financing sources (uses)				
Transfers in	100,000	951,452	-	1,051,452
Transfers out	(1,991,448)	-	(345,675)	(2,337,123)
Debt issued	-	50,000	-	50,000
Proceeds from sale of assets	114,322	-	14,687	129,009
Net other financing sources (uses)	(1,777,126)	1,001,452	(330,988)	(1,106,662)
Net change in fund balances	3,603,793	783,340	(122,434)	4,264,699
Fund balances - beginning	5,260,778	418,065	647,733	6,326,576
Fund balances - ending	\$ 8,864,571	\$ 1,201,405	\$ 525,299	\$ 10,591,275

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, 2005

Amounts reported for governmental activities in the statement of activities (page 15) are different because:

Net change in fund balances - total governmental funds (page 17)	\$ 4,264,699
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.	1,576,786
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to decrease net assets.	(146,593)
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.	(111,680)
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 the 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.	351,770
Change in net assets of governmental activities (page 15)	\$ 5,934,982

City of Panama City Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended September 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes				
Gross receipts	\$ 4,680,000	\$ 4,710,000	\$ 4,788,273	\$ 78,273
Utility	2,087,500	2,083,500	2,259,219	175,719
Franchise fees	900,000	980,000	1,159,678	179,678
Intergovernmental	1,307,943	1,417,489	1,481,343	63,854
Municipal services impact fees	-	3,621,286	4,694,890	1,073,604
Licenses and permits	1,208,500	2,553,822	2,556,548	2,726
Fines and forfeitures	121,500	153,000	185,810	32,810
Contributions and donations	65,000	167,615	182,147	14,532
Grants	225,000	367,423	397,149	29,726
Interest	20,000	68,000	91,514	23,514
Other fees and miscellaneous	344,012	338,852	342,270	3,418
Total revenues	10,959,455	16,460,987	18,138,841	1,677,854
Expenditures				
Current				
General government				
Legislative	137,297	146,091	144,163	1,928
Administration	699,464	765,579	756,068	9,511
Comprehensive planning	102,180	127,420	115,936	11,484
Civil service	900	1,100	982	118
Elections	3,900	-	-	-
Protective services	1,370,135	2,291,522	2,142,083	149,439
Total general government	2,313,876	3,331,712	3,159,232	172,480
Public safety				
Police	4,099,715	4,193,829	4,035,539	158,290
Fire	1,462,002	1,519,103	1,483,963	35,140
Total public safety	5,561,717	5,712,932	5,519,502	193,430
Highways and streets	1,059,335	1,105,192	1,095,186	10,006
Culture and recreation				
Library	139,228	139,228	139,902	(674)
Recreation	1,266,972	1,266,972	1,234,933	32,039
Total culture and recreation	1,406,200	1,406,200	1,374,835	31,365
Total current	10,341,128	11,556,036	11,148,755	407,281
Debt service				
Principal	406,927	427,472	371,758	55,714
Interest and other fiscal charges	58,800	59,633	55,485	4,148
Total debt service	465,727	487,105	427,243	59,862
Capital outlay				
General government				
Administrative	-	1,251	1,250	1

(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, 2005

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Expenditures				
Comprehensive planning	\$ 3,000	\$ 3,000	\$ 2,714	\$ 286
Protective services	34,000	34,000	32,424	1,576
Total general government	37,000	38,251	36,388	1,863
Public safety				
Police	488,800	613,100	610,907	2,193
Fire	29,000	70,600	96,650	(26,050)
Total public safety	517,800	683,700	707,557	(23,857)
Highways and streets	290,000	138,500	183,013	(44,513)
Culture and recreation				
Library	10,000	5,600	5,600	-
Recreation	490,000	121,500	249,366	(127,866)
Total culture and recreation	500,000	127,100	254,966	(127,866)
Total capital outlay	1,344,800	987,551	1,181,924	(194,373)
Total expenditures	12,151,655	13,030,692	12,757,922	272,770
Excess (deficiency) of revenues over (under) expenditures	(1,192,200)	3,430,295	5,380,919	1,950,624
Other financing sources (uses)				
Transfers in	100,000	100,000	100,000	-
Transfer out	-	(2,921,026)	(1,991,448)	929,578
Proceeds from sale of assets	-	117,500	114,322	(3,178)
Total other financing sources (uses)	100,000	(2,703,526)	(1,777,126)	926,400
Net change in fund balances	(1,092,200)	726,769	3,603,793	2,877,024
Fund balances - beginning	5,260,778	5,260,778	5,260,778	-
Fund balances - ending	\$ 4,168,578	\$ 5,987,547	\$ 8,864,571	\$ 2,877,024

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, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property taxes, CRA	\$ 2,432,000	\$ 5,551,452	\$ 2,527,877	\$ (3,023,575)
Interest	-	-	9,602	9,602
Total revenues	2,432,000	5,551,452	2,537,479	(3,013,973)
Expenditures				
Current				
Highways and streets	936,312	4,983,486	888,534	4,094,952
Total current	936,312	4,983,486	888,534	4,094,952
Debt service				
Interest and other fiscal charges	28,000	31,675	31,691	(16)
Total debt service	28,000	31,675	31,691	(16)
Capital outlay				
Highways and streets	2,984,350	2,588,825	1,835,366	753,459
Total capital outlay	2,984,350	2,588,825	1,835,366	753,459
Total expenditures	3,948,662	7,603,986	2,755,591	4,848,395
Excess (deficiency) of revenues over (under) expenditures	(1,516,662)	(2,052,534)	(218,112)	1,834,422
Other financing sources (uses)				
Transfers in	-	792,018	951,452	159,434
Debt issued	1,150,000	725,000	50,000	(675,000)
Total other financing sources (uses)	1,150,000	1,517,018	1,001,452	(515,566)
Net change in fund balances	(366,662)	(535,516)	783,340	1,318,856
Fund balances - beginning	418,065	418,065	418,065	-
Fund balances - ending	\$ 51,403	\$ (117,451)	\$ 1,201,405	\$ 1,318,856

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, 2005

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 5,932,539	\$ 301,332	\$ 6,233,871
Accounts receivable, net	3,240,327	1,755	3,242,082
Accrued interest receivable	8,244	308	8,552
Due from other funds	727,380	467	727,847
Inventory	581,653	-	581,653
Prepaid insurance	4,754	6,042	10,796
Notes receivable	81,683	-	81,683
Unamortized debt issuance costs	32,312	-	32,312
Total current assets	10,608,892	309,904	10,918,796
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	33,918,117	424,596	34,342,713
Accrued interest receivable	27,771	-	27,771
Notes receivable	83,547	-	83,547
Notes receivable	570,177	-	570,177
Capital assets			
Nondepreciable	8,938,408	1,972,405	10,910,813
Depreciable, net	59,963,655	291,380	60,255,035
Unamortized debt issuance costs	576,861	-	576,861
Total noncurrent assets	104,078,536	2,688,381	106,766,917
Total assets	114,687,428	2,998,285	117,685,713
Liabilities			
Current liabilities			
Accounts payable	1,054,253	310,306	1,364,559
Accrued expenses	74,955	3,634	78,589
Accrued interest payable	422,406	-	422,406
Due to other funds	-	811,775	811,775
Due to other governments	74,034	1,113	75,147
Revenue certificates payable	846,338	-	846,338
Deferred revenue	7,790,559	-	7,790,559
Total current liabilities	10,262,545	1,126,828	11,389,373
Noncurrent liabilities			
Due within one year			
Accrued compensated absences	40,944	-	40,944
Notes payable	822,150	-	822,150
Revenue bonds payable, net	281,752	-	281,752
Due in more than one year			
Accrued compensated absences	554,395	2,645	557,040
Notes payable	21,839,744	-	21,839,744
Revenue bonds payable, net	23,679,614	-	23,679,614
Total noncurrent liabilities	47,218,599	2,645	47,221,244
Total liabilities	57,481,144	1,129,473	58,610,617
Net assets			
Invested in capital assets, net of related debt	24,644,338	1,481,413	26,125,751
Restricted for			
Impact fees	20,365,382	-	20,365,382
Debt service	2,408,066	-	2,408,066
Aquatic center	-	424,596	424,596
Unrestricted	9,788,498	(37,197)	9,751,301
Total net assets	\$ 57,206,284	\$ 1,868,812	\$ 59,075,096

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, 2005

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Operating revenues			
Charges for services			
Water and sewer sales	\$ 14,746,916	\$ -	\$ 14,746,916
Connection fees	514,448	-	514,448
Administrative and review fees	85,490	-	85,490
Admissions	-	253,031	253,031
Impact fees	8,099,011	-	8,099,011
Rent	36,000	42,075	78,075
Total operating revenues	23,481,865	295,106	23,776,971
Operating expenses			
Personal services	3,353,477	172,009	3,525,486
Professional services	685,302	2,184	687,486
Office supplies	8,714	365	9,079
Contractual services	83,022	120	83,142
Insurance	266,858	13,942	280,800
Repairs and maintenance	773,032	20,555	793,587
Operating supplies	666,581	9,288	675,869
Communication services	55,999	507	56,506
Public utility services	4,962,786	10,083	4,972,869
Transportation	41,875	-	41,875
Rentals	16,189	1,665	17,854
Printing and binding	194	1,530	1,724
Miscellaneous	326,774	4,933	331,707
Amortization	66,184	-	66,184
Depreciation	2,277,631	58,575	2,336,206
Total operating expenses	13,584,618	295,756	13,880,374
Net operating income (loss)	9,897,247	(650)	9,896,597
Nonoperating revenues (expenses)			
Interest income	853,420	7,870	861,290
Grants and contributions	1,006,243	138,911	1,145,154
Gain (loss) on disposal of assets	11,923	(494,764)	(482,841)
Interest expense	(2,030,010)	-	(2,030,010)
Total nonoperating expenses	(158,424)	(347,983)	(506,407)
Net income (loss) before transfers	9,738,823	(348,633)	9,390,190
Transfers in	-	1,476,871	1,476,871
Transfers out	(100,000)	-	(100,000)
Change in net assets	9,638,823	1,128,238	10,767,061
Total net assets - beginning	47,567,461	740,574	48,308,035
Total net assets - ending	\$ 57,206,284	\$ 1,868,812	\$ 59,075,096

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, 2005

Business-type Activities / Enterprise Funds			
	Utility Fund	Other Proprietary Funds	Total
Operating activities			
Receipts from customers and users	\$ 27,720,298	\$ 294,676	\$ 28,014,974
Payments to / advances from suppliers	(9,176,103)	(113,138)	(9,289,241)
Payments to employees	(3,273,122)	(181,221)	(3,454,343)
Net cash provided by operating activities	15,271,073	317	15,271,390
Noncapital financing activities			
Operating grants	875,961	3,967	879,928
Contributions	-	134,944	134,944
Transfers from other funds	-	1,476,871	1,476,871
Transfers to other funds	(100,000)	-	(100,000)
Net cash provided by noncapital financing activities	775,961	1,615,782	2,391,743
Capital and related financing activities			
Proceeds from note payable issuance	1,568,947	-	1,568,947
Principal paid on revenue bonds	(155,000)	-	(155,000)
Principal paid on notes payable	(771,431)	-	(771,431)
Interest paid on revenue bonds	(647,007)	-	(647,007)
Interest paid on notes payable	(1,385,269)	-	(1,385,269)
Proceeds from sale of assets	11,923	-	11,923
Purchase of capital assets	(9,549,259)	(1,193,293)	(10,742,552)
Net cash used for capital and related financing activities	(10,927,096)	(1,193,293)	(12,120,389)
Investing activities			
Payments received from notes receivable	106,512	-	106,512
Interest received	854,310	7,862	862,172
Net cash provided by investing activities	960,822	7,862	968,684
Net increase in cash and cash equivalents	6,080,760	430,668	6,511,428
Cash and cash equivalents - beginning	33,769,896	295,260	34,065,156
Cash and cash equivalents - ending	\$ 39,850,656	\$ 725,928	\$ 40,576,584
Classified as			
Current assets - cash and cash equivalents	\$ 5,932,539	\$ 301,332	\$ 6,233,871
Restricted assets - cash and cash equivalents	33,918,117	424,596	34,342,713
Total	\$ 39,850,656	\$ 725,928	\$ 40,576,584

(Continued)

City of Panama City Beach, Florida
Statement of Cash Flows
Proprietary Funds (Continued)
Year Ended September 30, 2005

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Reconciliation of net operating income (loss) to net cash provided by operating activities			
Net operating income (loss)	\$ 9,897,247	\$ (650)	\$ 9,896,597
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Amortization	165,564	-	165,564
Depreciation	2,277,631	58,575	2,336,206
(Increase) decrease in assets			
Accounts receivable	(465,853)	-	(465,853)
Due from other funds	93,994	(467)	93,527
Inventory	(158,564)	-	(158,564)
Prepaid insurance	(223)	(651)	(874)
Increase (decrease) in liabilities			
Accounts payable	(1,014,567)	478	(1,014,089)
Accrued expenses	19,376	318	19,694
Accrued compensated absences	80,355	(9,212)	71,143
Due to other funds	51,035	(48,074)	2,961
Deferred revenue	4,427,513	-	4,427,513
Revenue certificates payable	(102,435)	-	(102,435)
Total adjustments	5,373,826	967	5,374,793
Net cash provided by operating activities	\$ 15,271,073	\$ 317	\$ 15,271,390
Noncash investing, capital, and financing activities			
Contributed capital assets	\$ 130,280	\$ -	\$ 130,280

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, 2005

	Pension Trust Funds
<hr/>	
Assets	
Cash and cash equivalents	\$ 1,001,662
Accounts receivable, net	320
Investments, at fair value	
Money market funds	167,271
Common stocks	4,579,317
Real estate investment trusts	1,076,295
Mutual funds	15,767,300
<hr/>	
Total assets	22,592,165
<hr/>	
Liabilities	
Accounts payable	54,893
Refunds payable	6,856
<hr/>	
Total liabilities	61,749
<hr/>	
Net assets	
Held in trust for pension benefits	\$ 22,530,416
<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, 2005

	Pension Trust Funds
<hr/>	
Additions	
Contributions	
Employer	\$ 1,252,621
Plan members	460,985
Insurance premiums	205,084
<hr/>	
Total contributions	1,918,690
<hr/>	
Investment earnings	
Interest	14,359
Dividends	235,590
Net increase in fair value of investments	1,966,655
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Total investment earnings	2,216,604
Less investment expenses	(142,704)
<hr/>	
Net investment earnings	2,073,900
<hr/>	
Total additions	3,992,590
<hr/>	
Deductions	
Benefits	741,845
Refunds of contributions	100,725
Administrative expenses	64,964
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Total deductions	907,534
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Change in net assets	3,085,056
<hr/>	
Net assets - beginning	19,445,360
<hr/>	
Net assets - ending	\$ 22,530,416
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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 (police and fire), 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, gas 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

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 Front Beach Road and Pier Park activities of the community redevelopment areas.

Proprietary Major Funds

Utility Fund - The utility fund is used to account for operations and activities related to the water and wastewater systems operated by the City as well as the activities associated with establishing a storm water utility system.

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.

If, during the fiscal year, additional revenue becomes available for appropriations in excess of those estimated in the budget, the Council by resolution may make supplemental appropriations for the year up to the amount of such excess. During the current fiscal year, various supplemental appropriations 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 and short-term 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 stated on a first-in/first-out basis. 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 \$750 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	7-50 Years
Equipment	2-15 Years
Infrastructure	10-50 Years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations

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

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

Capitalization of Interest

Interest costs related to bond issues and state revolving funds are capitalized during the construction period. These costs are netted against applicable interest earnings on construction fund investments in business-type activities. The City does not capitalize interest in governmental activities. During the year ended September 30, 2005, the City had \$5,568 of capitalized interest.

Unamortized Bond Costs

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

Unamortized Bond Discounts

Bond discounts associated with the issuance of Proprietary Fund 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.

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

All full-time employees earn two weeks of vacation per year (which cannot be taken until 12 months of service are completed), three weeks after 10 years, and four weeks after 15 years. Vacation not used during the vacation year will not be carried over except when declared emergency leave days. Employees are limited to a maximum of ten emergency leave days.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Accumulated unpaid emergency and sick leave amounts expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it.

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.

Reclassifications

Certain reclassifications have been made to the 2004 financial statement presentation to conform to the 2005 presentation.

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 \$29,276,605 difference are as follows:

Cost of capital assets	\$ 35,872,329
Less: accumulated depreciation	(6,595,724)
<hr/>	
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$ 29,276,605

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, "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 \$2,880,253 difference are as follows:

Bonds payable	\$	110,000
Notes payable		965,872
Less: deferred charge for issuance costs (to be amortized over life of debt)		(18,757)
Capital leases		249,334
Compensated absences		1,563,210
Accrued interest payable		10,594
<hr/>		
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$	2,880,253

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 \$1,576,786 difference are as follows:

Capital outlay	\$	3,044,731
Depreciation expense		(1,467,945)
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	1,576,786

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 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 \$(146,593) 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.	\$ (56,593)
Adjustments due to the transfer of fixed assets decrease net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	(91,200)
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	1,200
<i>Net adjustments to decrease net change in fund balances – total governmental funds to arrive at change in net assets of governmental activities</i>	\$ (146,593)

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 \$(111,680) difference are as follows:

Compensated absences	\$ (105,645)
Accrued interest payable	5,220
Amortization of issuance costs	(11,255)
<i>Net adjustment to decrease net change in fund balances – total governmental funds to arrive at change in net assets of governmental activities</i>	\$ (111,680)

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 \$351,770 difference are as follows:

Debt issued		
Issuance of note payable	\$	(50,000)
Less: issuance costs		30,012
Principal repayments		
Capital lease payments		205,973
Note payments		158,785
Bond payments		7,000
<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>	\$	351,770
<hr/>		

NOTE 3 – BUDGETS

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

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

- Law Enforcement Trust Fund
- Cops and Kids
- Senior Center
- Aquatic Center
- Beach Access Public Parking

The City did not adopt budgets for these special revenue funds. Because it is not possible to 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.

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, 2005, the City did not hold any investments that were considered to be an interest rate risk.

Custodial Risks

At September 30, 2005, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

At September 30, 2005, 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, 2005, the City's deposits and investments consisted of the following:

	Carrying Amount	Market Value
Demand deposits	\$ 26,826,536	\$ 26,826,536
Savings accounts	1,172	1,172
Nonnegotiable certificate of deposits	24,528,030	24,528,030
Total deposits and investments	\$ 51,355,738	\$ 51,355,738

NOTE 5 – ACCOUNTS RECEIVABLE

At September 30, 2005, accounts receivable in the governmental funds is summarized as follows:

Total accounts receivable	\$ 143,585
Less: allowance for doubtful accounts	-
Net accounts receivable	\$ 143,585

At September 30, 2005, accounts receivable in the proprietary funds is summarized as follows:

Billed accounts receivable	\$ 891,053
Unbilled accounts receivable	3,030,772
Other receivables	57,671
Total accounts receivable	3,979,496
Less: allowance for doubtful accounts	(737,414)
Net accounts receivable	\$ 3,242,082

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, 2005 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Aquatic center fund	\$ 476,670
General fund	Community redevelopment fund	353
Special revenue fund	General fund	1,560
Utility fund	General fund	392,275
Pier fund	General fund	467
Utility fund	Pier fund	335,105
Total		\$ 1,206,430

The composition of interfund transfers as of September 30, 2005 is as follows:

Interfund Transfers:

Transfers out	Transfers in			Total
	General fund	Community redevelopment fund	Aquatic center fund	
General fund	\$ -	\$ 951,452	\$ 1,039,996	\$ 1,991,448
Special revenue fund	-	-	345,675	345,675
Utility fund	100,000	-	-	100,000
Total transfers out	\$ 100,000	\$ 951,452	1,385,671	\$ 2,437,123
Transfer of capital assets from special revenue to aquatic center			<u>91,200</u>	
Total transfers in			\$ 1,476,871	

In the governmental fund financial statements, total transfers “in” exceeded transfers “out” by \$91,200. This is due to a transfer of capital assets to the aquatic center fund that were previously maintained in a special revenue fund. As provided by GASB statement 34, capital assets of governmental activities are only reported in the government wide statement of net assets; therefore, at the governmental fund level presentation there is no transfer out.

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, 2004	Increases	Decreases	Transfers/ Adjustments	September 30, 2005
Capital assets, not being depreciated					
Land	\$ 13,153,190	\$ -	\$ -	\$ -	\$ 13,153,190
Construction in progress	138,931	2,018,976	-	(259,999)	1,897,908
Total capital assets, not being depreciated	13,292,121	2,018,976	-	(259,999)	15,051,098
Capital assets, being depreciated					
Buildings	4,315,629	9,827	-	-	4,325,456
Improvements	11,138,434	128,424	-	168,799	11,435,657
Machinery and equipment	4,700,674	895,876	(536,432)	-	5,060,118
Total capital assets, being depreciated	20,154,737	1,034,127	(536,432)	168,799	20,821,231
Less accumulated depreciation					
Buildings	(1,326,032)	(118,611)	-	-	(1,444,643)
Improvements	(1,825,155)	(681,023)	-	-	(2,506,178)
Machinery and equipment	(2,449,857)	(667,711)	472,665	-	(2,644,903)
Total accumulated depreciation	(5,601,044)	(1,467,345)	472,665	-	(6,595,724)
Total capital assets, being depreciated	14,553,693	(433,218)	(63,767)	168,799	14,225,507
Total governmental activities' capital assets – net	\$ 27,845,814	\$ 1,585,758	\$ (63,767)	\$ (91,200)	\$ 29,276,605

Fixed assets in the amount of \$91,200 were transferred from the special revenue fund to the aquatic center fund.

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, 2005:

	Utility Fund	Pier Fund	Aquatic Center Fund	Total
Land	\$ 6,351,316	\$ -	\$ -	\$ 6,351,316
Buildings	30,361,276	124,589	-	30,485,865
Improvements	48,032,146	757,370	-	48,789,516
Machinery and equipment	3,854,422	28,469	-	3,882,891
Construction in progress	2,587,092	-	1,972,405	4,559,497
Total	91,186,252	910,428	1,972,405	94,069,085
Less: accumulated depreciation				
Buildings	(7,092,400)	(83,244)	-	(7,175,644)
Improvements	(13,241,683)	(515,267)	-	(13,756,950)
Machinery and equipment	(1,950,106)	(20,537)	-	(1,970,643)
Total accumulated depreciation	(22,284,189)	(619,048)	-	(22,903,237)
Total business-type activities' capital assets – net	\$ 68,902,063	\$ 291,380	\$ 1,972,405	\$ 71,165,848

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, 2004	Increases	Decreases	Transfers/ Adjustments	September 30, 2005
Capital assets, not being depreciated					
Land	\$ 2,488,424	\$ 3,822,892	\$ -	\$ 40,000	\$ 6,351,316
Construction in progress	4,719,509	7,253,935	-	(7,413,947)	4,559,497
Total capital assets, not being depreciated	7,207,933	11,076,827	-	(7,373,947)	10,910,813
Capital assets, being depreciated					
Buildings	30,462,867	-	-	22,998	30,485,865
Improvements	43,053,450	6,415	(807,781)	6,537,432	48,789,516
Machinery and equipment	2,521,411	351,690	(25,207)	1,034,997	3,882,891
Total capital assets, being depreciated	76,037,728	358,105	(832,988)	7,595,427	83,158,272
Less accumulated depreciation					
Buildings	(6,383,899)	(791,745)	-	-	(7,175,644)
Improvements	(12,854,571)	(1,215,396)	313,017	-	(13,756,950)
Machinery and equipment	(1,665,577)	(329,065)	23,999	-	(1,970,643)
Total accumulated depreciation	(20,904,047)	(2,336,206)	337,016	-	(22,903,237)
Total capital assets, being depreciated, net	55,133,681	(1,978,101)	(495,972)	7,595,427	60,255,035
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 62,341,614	\$ 9,098,726	\$ (495,972)	\$ 221,480	\$ 71,165,848

A contribution of assets by the St. Joe Company with an estimated fair market value of \$130,280, and a transfer of assets into the aquatic center fund from the special revenue fund in the amount of \$91,200 are reflected in the transfers / adjustments above.

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

Governmental activities	
General government	\$ 82,754
Public safety	570,529
Highways and streets	71,537
Culture and recreation	743,125
Total depreciation expense – governmental activities	\$ 1,467,945

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

NOTE 7 – CAPITAL ASSETS (CONTINUED)

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

Business-type activities	
Utility fund	\$ 2,277,631
Pier fund	58,575
<hr/>	
Total depreciation expense – business-type activities	\$ 2,336,206

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
<hr/>	
Vehicles	\$ 577,095
Equipment	69,032
<hr/>	
Total	646,127
Less accumulated depreciation	(409,238)
<hr/>	
Net	\$ 236,889

NOTE 9 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2004	Additions	Deductions	Balance September 30, 2005	Due Within One Year
Revenue bonds payable	\$ 117,000	\$ -	\$ (7,000)	\$ 110,000	\$ 8,000
Notes payable	1,074,657	50,000	(158,785)	965,872	163,222
Capital leases payable	455,307	-	(205,973)	249,334	99,891
Accrued compensated absences	1,457,565	234,526	(128,881)	1,563,210	8,123
<hr/>					
	\$ 3,104,529	\$ 284,526	\$ (500,639)	\$ 2,888,416	\$ 279,236

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

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

Revenue Bonds Payable:

\$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.

	\$ 110,000
<hr/>	
Total revenue bonds at September 30, 2005	110,000
Less: revenue bonds – current portion	(8,000)
<hr/>	
Revenue bonds – long-term at September 30, 2005	\$ 102,000

Debt service requirements to maturity on revenue bonds payable at September 30, 2005 are as follows:

Year Ending September 30,	Principal	Interest	Total
2006	\$ 8,000	\$ 5,500	\$ 13,500
2007	8,000	5,100	13,100
2008	8,000	4,700	12,700
2009	9,000	4,300	13,300
2010	9,000	3,850	12,850
2011-2015	55,000	11,800	66,800
2016	13,000	650	13,650
<hr/>			
	\$ 110,000	\$ 35,900	\$ 145,900

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. \$ 651,860

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. 264,012

Regions Bank – Line of credit in the amount of \$5,000,000 matures December 21, 2006. Quarterly installments of interest only payments. Interest at September 30, 2005 is 4.87%, collateralized by equipment. 50,000

	965,872
<hr/>	
Total notes payable at September 30, 2005	965,872
Less: current portion	(163,222)
<hr/>	
Notes payable – long-term at September 30, 2005	\$ 802,650

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, 2005 are as follows:

Year Ending September 30,	Principal	Interest	Total
2006	\$ 163,222	\$ 22,536	\$ 185,758
2007	217,769	17,989	235,758
2008	172,447	13,311	185,758
2009	98,617	8,129	106,746
2010	89,368	6,142	95,510
2011-2013	224,449	6,367	230,816
	\$ 965,872	\$ 74,474	\$ 1,040,346

Capital Leases:

Summarized below are the City's capitalized lease obligations outstanding at September 30, 2005:

<u>Bank of America</u> – 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.	\$ 199,501
<u>Bank of America</u> – 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.	47,302
<u>Municipal Services Group</u> – Capitalized lease obligation of \$294,573 dated February 1, 2001 payable in four annual installments of \$82,157 and one annual installment of \$2,653 which includes principal and interest at 4.837%, collateralized by equipment.	2,531
Total capitalized lease obligations at September 30, 2005	249,334
Less: current portion	(99,891)
Capitalized lease obligations – long-term at September 30, 2005	\$ 149,443

The capital leases expire at various dates through 2008. Debt service requirements to maturity on capitalized lease obligations at September 30, 2005 are as follows:

Year Ending September 30,	
2006	\$ 106,326
2007	103,673
2008	51,837
Total minimum lease payments	261,836
Less amount representing interest	(12,502)
Present value of minimum lease payments	\$ 249,334

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

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

	Balance September 30, 2004	Additions	Deductions	Balance September 30, 2005	Due Within One Year
Revenue bonds payable	\$ 26,075,000	\$ -	\$ (155,000)	\$ 25,920,000	\$ 415,000
Adjusted for deferred amounts					
On refunding	(1,235,930)	-	99,376	(1,136,554)	(99,376)
For issuance discounts	(855,953)	-	33,873	(822,080)	(33,872)
Total bonds payable	23,983,117	-	(21,751)	23,961,366	281,752
Revenue certificates payable	948,773	-	(102,435)	846,338	846,338
Notes payable	21,864,378	1,568,947	(771,431)	22,661,894	822,150
Accrued compensated absences	526,841	80,890	(9,747)	597,984	40,944
	\$ 47,323,109	\$ 1,649,837	\$ (905,364)	\$ 48,067,582	\$ 1,991,184

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. \$ 6,000,000

\$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. 19,920,000

Total principal obligation at September 30, 2005	25,920,000
Less: principal obligation – current portion	(415,000)

Principal obligation – long-term at September 30, 2005	\$ 25,505,000
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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, 2005 are as follows:

Year Ending September 30,	Principal	Interest	Total
2006	\$ 415,000	\$ 1,265,173	\$ 1,680,173
2007	430,000	1,249,288	1,679,288
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
2011-2015	4,300,000	5,312,466	9,612,466
2016-2020	4,055,000	4,353,963	8,408,963
2021-2025	5,170,000	3,236,750	8,406,750
2026-2030	6,615,000	1,808,000	8,423,000
2031-2032	3,130,000	236,500	3,366,500
	\$ 25,920,000	\$ 21,100,290	\$ 47,020,290

Defeased Debt Outstanding:

The principal balance of defeased debt outstanding at September 30, 2005 is as follows:

Utilities Revenue Bonds, Series 1968	\$ 130,000
Utilities Revenue Bonds, Series 1972	185,000
Water and Sewer Revenue Bonds, Series 1987A	800,000
	\$ 1,115,000

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

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

Revenue Certificates:

This liability consists of revenue certificates payable to various developers for extensions made to the City's water and sewer systems which were paid for by the developers. 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, 2004	Additions (Payments) During the Year	Balance at September 30, 2005
Wildwood Road – Water	\$ 100,000	\$ 26,264	\$ (1,302)	\$ 24,962
Georgette Apartments – Sewer	120,000	32,816	-	32,816
North Lagoon Drive – Sewer	359,900	19,807	(19,807)	-
23 rd Street Joint Venture – Water	55,460	55,460	-	55,460
23 rd Street Joint Venture – Sewer	118,063	63,722	(3,977)	59,745
Wild Heron – Water/Sewer	431,834	302,098	(64,346)	237,752
Hills Road – Water	71,550	50,790	-	50,790
Thomas / Daniel Street - Sewer	142,993	124,198	-	124,198
Sunnyside Beach & Tennis	203,385	177,188	(10,784)	166,404
Tapestry Park North, LLC	96,430	96,430	(2,219)	94,211
	<u>\$ 1,699,615</u>	<u>\$ 948,773</u>	<u>\$ (102,435)</u>	<u>\$ 846,338</u>

Payments on these revenue certificates are due 10 days after connections are made on all locations except for the Thomas Drive and Daniel Street intersection 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 1.535%. Beginning date of payment is dependent upon the completion of the project which is currently unknown. Debt Service requirements from this obligation are estimated using the information available at this time. \$ 7,271,687

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%. 15,139,363

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%. 250,844

Total notes payable at September 30, 2005	22,661,894
Less: current portion	(822,150)

Notes payable – long-term at September 30, 2005 \$ 21,839,744

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

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

Debt service requirements to maturity on notes payable at September 30, 2005 are as follows:

Year Ending September 30,	Principal	Interest	Total
2006	\$ 822,150	\$ 424,605	\$ 1,246,755
2007	677,706	569,049	1,246,755
2008	838,693	841,403	1,680,096
2009	1,060,486	619,610	1,680,096
2010	1,094,942	585,154	1,680,096
2011-2015	6,037,969	2,362,511	8,400,480
2016-2020	6,946,949	1,308,361	8,255,310
2021-2025	4,332,375	262,854	4,595,229
2026-2027	850,624	16,058	866,682
	\$ 22,661,894	\$ 6,989,605	\$ 29,651,499

Interest expense for the State Revolving Funds during the year ended September 30, 2005 was capitalized in the amount of \$5,568 for the note payable dated March 5, 2002.

NOTE 11 – ACCRUED ABSENCES

Accrued compensated absences consist of the following at September 30, 2005:

	Accrued Emergency Leave	Accrued Sick Leave	Total Accrued Leave
General fund	\$ 103,854	\$ 1,459,356	\$ 1,563,210
Enterprise funds			
Utility	36,745	558,594	595,339
Pier	294	2,351	2,645
Total	\$ 140,893	\$ 2,020,301	\$ 2,161,194

NOTE 12 – SUBSEQUENT EVENTS

On February 10, 2005, the City Council passed a motion to make a financial commitment in the amount of \$3,991,000 for construction of the Frank Brown Park Aquatic Center. The Aquatic Center was completed and opened to the public on April 1, 2006. Total cost of construction is approximately \$4,100,000.

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

NOTE 12 – SUBSEQUENT EVENTS (CONTINUED)

On March 9, 2006 the City Council approved a one time contribution to Bay County for proposed improvements to the County Pier. The contribution was in accordance with the interlocal agreement between Bay County, the City of Panama City Beach, and the City of Panama City Beach Community Redevelopment Agency. The amount of the contribution was \$750,000.

On April 18, 2006, the City of Panama City Beach purchased a parcel of land located on Hutchinson Boulevard. The land was purchased for \$1,847,495. On June 1, 2006, the City of Panama City Beach purchased another parcel of land located on Churchwell Road at a cost of \$1,361,490. Both land purchases were made as part of the City's effort to acquire land to effect improvements which will support and enhance the Alf Coleman and Churchwell Road corridors, in furtherance of the Front Beach Road Community Redevelopment Project.

NOTE 13 – 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 operation of the City's utility system will continue to be 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, times 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, 2005, the City's cost of water purchased from Bay County was \$3,899,207. The City did not meet its minimum purchase agreement for 2005 and as a result there was an amount due of \$251,132 at September 30, 2005. However, this liability was offset by the County's impact fees collected by the City in accordance with the interlocal agreement between the City of Panama City Beach and Bay County.

Construction Contracts

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

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

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. Seventy percent (70%) of the total assets held in trust for pension benefits are invested in mutual funds, twenty percent (20%) in common stock, five percent (5%) in real estate investment trusts, and the remaining balance of five percent (5%) is in cash, money market funds, and receivables.

Statements of Plan Assets

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

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at October 1, 2004, the date of the latest actuarial valuation.

	General Employees	Police Officers	Fire- Fighters
Retirees and beneficiaries receiving benefits	36	9	3
Terminated plan members entitled to but not yet receiving benefits	4	5	4
Active plan members	128	47	22
Total	168	61	29
Number of participating employers	1	1	1

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

General Employees Pension Plan

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

Contributions – Plan members are required to contribute 5.1% 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 directors. 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 the police department employees of the City whom are sworn officers. 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 directors. The City will meet all additional costs of the plan according to actuarial valuations performed periodically.

Firefighters Pension Plan

Plan Description – The firefighters’ pension plan is a single-employer defined benefit pension plan that covers the fire department employees of the City. 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. 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 directors. 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) (CONTINUED)

Three Year Trend Information

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

	For The Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
General employees	09/30/03	\$ 617,279	103.1%	\$ 69,758
	09/30/04	689,428	105.9%	27,219
	09/30/05	680,128	106.9%	(21,761)
Police officers	09/30/03	344,560	104.9%	49,388
	09/30/04	327,158	118.9%	(14,997)
	09/30/05	418,073	107.4%	(47,342)
Firefighters	09/30/03	218,437	55.7%	149,121
	09/30/04	231,549	100.0%	149,056
	09/30/05	273,681	102.7%	141,253

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 FDEP. 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.

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, 2005 was \$42,075, 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, 2005 was \$36,000.

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, 2005.

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 restriction was established 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 impact fees collected. An ordinance restricts the use of impact fees to various services provided by the City.

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.

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

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 Aquatic Center – This restriction was established in conjunction with the construction of the public pool and funded by initial deposits from the community.

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

NOTE 16 – NET ASSET RESTRICTIONS (CONTINUED)

Summary

Specific restrictions of net assets are summarized below as of September 30, 2005:

Governmental activities	
Law enforcement	\$ 46,427
Beach access	426,450
Impact fees	5,329,914
Debt service	15,104
Community redevelopment	1,434,454
<hr/>	
Total	\$ 7,252,349
<hr/>	
Business-type activities	
Impact fees	\$ 20,365,382
Debt service	2,408,066
Aquatic center	424,596
<hr/>	
Total	\$ 23,198,044
<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 fund balance set aside by the City for contingencies.

The following is a description of reported reserves in governmental activities at September 30, 2005:

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 Insurance – This reserve was created to segregate assets listed 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.

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

NOTE 17 – FUND BALANCE RESERVATIONS (CONTINUED)

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 for 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, 2005:

General fund		
Reserved for law enforcement	\$	46,427
Reserved for inventory		13,129
Reserved for prepaid items		11,319
Reserved for impact fees		5,329,914
<hr/>		
Total	\$	5,400,789
<hr/>		
Community redevelopment fund		
Reserved for community redevelopment	\$	924,860
<hr/>		
Total	\$	924,860
<hr/>		
Other governmental funds		
Reserved for law enforcement	\$	79,696
Reserved for beach access public parking		426,450
<hr/>		
Total	\$	506,146
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City of Panama City Beach, Florida
Notes to Basic Financial Statements

NOTE 18 – DEFICIT NET ASSET

The Pier Fund had an unrestricted deficit net asset balance of \$37,197 at September 30, 2005. The Pier Fund had a decrease in net assets of \$486,391 for the year ended September 30, 2005.

NOTE 19 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 20 – PIER PARK

The City entered into an agreement in late 2001, with the Panama City Beach Community Redevelopment Agency (the "CRA"), the Pier Park Community Development District (the "CDD") and The St. Joe Company ("St. Joe") titled the "Public Improvement Partnership Agreement" (the "PIPA"). This agreement 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 improvements to be constructed in the Pier Park Redevelopment Area. The City has pledged occupational license tax revenue collected within the Pier Park to repay the costs incurred by the CDD for construction and maintenance, as outlined in the PIPA. For the year ended September 30, 2005, \$32,903 was collected and remitted to pay these costs. This is a limited obligation of the City, payable solely from the pledge of and lien upon the occupational license tax revenues collected within the Pier Park.

The amount of this obligation will be determined by the transaction and future construction costs and any required reserves. The City has not recorded any debt related to this transaction because the amount to be repaid is currently undeterminable and the obligation is secured by revenues which are not currently available.

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, 2005

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>						
10/1/1995	\$ 2,970	\$ 3,930	\$ 960	75.6%	\$ 1,951	49.2%
10/1/1996	\$ 3,610	\$ 5,582	\$ 1,972	64.7%	\$ 2,081	94.8%
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%
<u>Police Officers</u>						
10/1/1995	\$ 2,325	\$ 3,265	\$ 940	71.2%	\$ 981	95.8%
10/1/1996	\$ 2,850	\$ 3,742	\$ 892	76.2%	\$ 1,271	70.2%
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%
<u>Firefighters</u>						
10/1/1995	\$ 1,082	\$ 1,082	\$ -	100.0%	\$ 601	0.0%
10/1/1996	\$ 1,346	\$ 1,346	\$ -	100.0%	\$ 591	0.0%
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%

City of Panama City Beach, Florida
 Required Supplemental Information
 Schedule of Contributions From Employer and Other
 Contributions' Entities - Pension Trust Funds
 September 30, 2005

Schedules of Employer Contributions ^

For the Fiscal Year	General Employees		Police Officers		Firefighters	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
9/30/1996	\$ 340,753	103.1%	\$ 195,056	108.3%	\$ 80,706	144.0%
9/30/1997	\$ 389,474	98.0%	\$ 241,365	84.8%	\$ 57,475	195.1%
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	105.4%	\$ 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%

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
9/30/1996	\$ -	0.0%	\$ 45,710	100.0%	\$ 44,020	100.0%
9/30/1997	\$ -	0.0%	\$ 49,670	100.0%	\$ 86,951	100.0%
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%	\$ 70,882	100.0%
9/30/2001	\$ -	0.0%	\$ 48,325	100.0%	\$ 68,717	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%

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

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

^ These amounts include insurance premiums contributed by the State.

City of Panama City Beach, Florida
 Required Supplemental Information
 Schedule of Actuarial Considerations
 Pension Trust Funds
 September 30, 2005

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

	General Employees	Police Officers	Firefighters
Valuation date	10/1/2004	10/1/2004	10/1/2004
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	17 years	17 years	21 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, 2005

	Special Revenue					Total
	Law Enforcement Trust	Cops and Kids	Senior Center	Beach Access Public Parking	Aquatic Center	
Assets						
Cash and cash equivalents	\$ -	\$ 19,153	\$ -	\$ -	\$ -	\$ 19,153
Cash and cash equivalents - restricted	78,143	-	-	426,450	-	504,593
Due from other funds	1,560	-	-	-	-	1,560
Total assets	\$ 79,703	\$ 19,153	\$ -	\$ 426,450	\$ -	\$ 525,306
Liabilities and fund balances						
Liabilities						
Accounts payable	\$ 7	\$ -	\$ -	\$ -	\$ -	\$ 7
Total liabilities	7	-	-	-	-	7
Fund balances						
Reserved for law enforcement	79,696	-	-	-	-	79,696
Reserved for beach access	-	-	-	426,450	-	426,450
Unreserved	-	19,153	-	-	-	19,153
Total fund balances	79,696	19,153	-	426,450	-	525,299
Total liabilities and fund balances	\$ 79,703	\$ 19,153	\$ -	\$ 426,450	\$ -	\$ 525,306

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, 2005

	Special Revenue					Total
	Law Enforcement Trust	Cops and Kids	Senior Center	Beach Access Public Parking	Aquatic Center	
Revenues						
License and permits	\$ -	\$ -	\$ -	\$ 162,812	\$ -	\$ 162,812
Fines and forfeitures	52,837	-	-	-	-	52,837
Contributions and donations	-	18,467	-	-	32,925	51,392
Interest	148	147	34	3,874	765	4,968
Total revenues	52,985	18,614	34	166,686	33,690	272,009
Expenditures						
Current						
Public safety	12,390	13,166	-	-	-	25,556
Culture and recreation	-	-	10,458	-	-	10,458
Capital outlay						
Public safety	27,441	-	-	-	-	27,441
Total expenditures	39,831	13,166	10,458	-	-	63,455
Excess (deficiency) of revenues over (under) expenditures	13,154	5,448	(10,424)	166,686	33,690	208,554
Other financing sources (uses)						
Transfers out	-	-	-	-	(345,675)	(345,675)
Proceeds from sale of assets	14,687	-	-	-	-	14,687
Total other financing sources (uses)	14,687	-	-	-	(345,675)	(330,988)
Net change in fund balances	27,841	5,448	(10,424)	166,686	(311,985)	(122,434)
Fund balances - beginning	51,855	13,705	10,424	259,764	311,985	647,733
Fund balances - ending	\$ 79,696	\$ 19,153	\$ -	\$ 426,450	\$ -	\$ 525,299

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, 2005

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 301,332	\$ -	\$ 301,332
Accounts receivable, net	1,755	-	1,755
Accrued interest receivable	308	-	308
Due from other funds	467	-	467
Prepaid insurance	6,042	-	6,042
Total current assets	309,904	-	309,904
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	-	424,596	424,596
Capital assets			
Nondepreciable	-	1,972,405	1,972,405
Depreciable, net	291,380	-	291,380
Total noncurrent assets	291,380	2,397,001	2,688,381
Total assets	601,284	2,397,001	2,998,285
Liabilities			
Current liabilities			
Accounts payable	4,604	305,702	310,306
Accrued expenses	3,634	-	3,634
Due to other funds	335,105	476,670	811,775
Due to other governments	1,113	-	1,113
Total current liabilities	344,456	782,372	1,126,828
Noncurrent liabilities			
Due in more than one year			
Accrued compensated absences	2,645	-	2,645
Total noncurrent liabilities	2,645	-	2,645
Total liabilities	347,101	782,372	1,129,473
Net assets			
Invested in capital assets, net of related debt	291,380	1,190,033	1,481,413
Restricted for			
Aquatic center	-	424,596	424,596
Unrestricted	(37,197)	-	(37,197)
Total net assets	\$ 254,183	\$ 1,614,629	\$ 1,868,812

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, 2005

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating revenues			
Charges for services			
Admissions	\$ 253,031	\$ -	\$ 253,031
Rent	42,075	-	42,075
Total operating revenues	295,106	-	295,106
Operating expenses			
Personal services	172,009	-	172,009
Professional services	2,184	-	2,184
Office supplies	365	-	365
Contractual services	120	-	120
Insurance	13,942	-	13,942
Repairs and maintenance	20,555	-	20,555
Operating supplies	9,269	19	9,288
Communication services	507	-	507
Public utility services	10,083	-	10,083
Rentals	1,665	-	1,665
Printing and binding	1,530	-	1,530
Miscellaneous	4,933	-	4,933
Depreciation	58,575	-	58,575
Total operating expenses	295,737	19	295,756
Net operating loss	(631)	(19)	(650)
Nonoperating revenues (expenses)			
Interest income	5,037	2,833	7,870
Grants and contributions	3,967	134,944	138,911
Gain (loss) on disposal of assets	(494,764)	-	(494,764)
Total nonoperating revenues (expenses)	(485,760)	137,777	(347,983)
Net income (loss) before transfers	(486,391)	137,758	(348,633)
Transfers in	-	1,476,871	1,476,871
Change in net assets	(486,391)	1,614,629	1,128,238
Total net assets - beginning	740,574	-	740,574
Total net assets - ending	\$ 254,183	\$ 1,614,629	\$ 1,868,812

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, 2005

Business-type Activities / Enterprise Funds			
	Pier Fund	Aquatic Center Fund	Total
Operating activities			
Receipts from customers and users	\$ 294,676	\$ -	\$ 294,676
Payments to / advances from suppliers	(113,119)	(19)	(113,138)
Payments to employees	(181,221)	-	(181,221)
Net cash provided (used) by operating activities	336	(19)	317
Noncapital financing activities			
Operating grants	3,967	-	3,967
Contributions	-	134,944	134,944
Transfers from other funds	-	1,476,871	1,476,871
Net cash provided by noncapital financing activities	3,967	1,611,815	1,615,782
Capital and related financing activities			
Purchase of capital assets	(3,260)	(1,190,033)	(1,193,293)
Net cash used by capital and related financing activities	(3,260)	(1,190,033)	(1,193,293)
Investing activities			
Interest received	5,029	2,833	7,862
Net cash provided by investing activities	5,029	2,833	7,862
Net increase in cash and cash equivalents	6,072	424,596	430,668
Cash and cash equivalents - beginning	295,260	-	295,260
Cash and cash equivalents - ending	\$ 301,332	\$ 424,596	\$ 725,928
Classified as			
Current assets - cash and cash equivalents	\$ 301,332	\$ -	\$ 301,332
Restricted assets - cash and cash equivalents	-	424,596	424,596
Total	\$ 301,332	\$ 424,596	\$ 725,928

(Continued)

City of Panama City Beach, Florida
Combining Statement of Cash Flows
Nonmajor Proprietary Funds (Continued)
Year Ended September 30, 2005

Business-type Activities / Enterprise Funds			
	Pier Fund	Aquatic Center Fund	Total
Reconciliation of net operating loss to net cash provided (used) by operating activities			
Net operating loss	\$ (631)	\$ (19)	\$ (650)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	58,575	-	58,575
(Increase) decrease in assets			
Due from other funds	(467)	-	(467)
Prepaid insurance	(651)	-	(651)
Increase (decrease) in liabilities			
Accounts payable	478	-	478
Accrued expenses	318	-	318
Accrued compensated absences	(9,212)	-	(9,212)
Due to other funds	(48,074)	-	(48,074)
Total adjustments	967	-	967
Net cash provided (used) by operating activities	\$ 336	\$ (19)	\$ 317

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, 2005

	General Employees Pension Trust Fund	Police Officers Pension Trust Fund	Firefighters Pension Trust Fund	Total
Assets				
Cash and cash equivalents	\$ 405,666	\$ 351,041	\$ 244,955	\$ 1,001,662
Accounts receivable, net	163	104	53	320
Investments, at fair value				
Money market funds	85,138	54,454	27,679	167,271
Common stocks	2,330,795	1,490,769	757,753	4,579,317
Real estate investment trusts	547,816	350,381	178,098	1,076,295
Mutual funds	8,025,287	5,132,950	2,609,063	15,767,300
Total assets	11,394,865	7,379,699	3,817,601	22,592,165
Liabilities				
Accounts payable	19,331	12,816	22,746	54,893
Refunds payable	6,615	241	-	6,856
Total liabilities	25,946	13,057	22,746	61,749
Net assets				
Held in trust for pension benefits	\$ 11,368,919	\$ 7,366,642	\$ 3,794,855	\$ 22,530,416

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, 2005

	General Employees Pension Trust Fund	Police Officers Pension Trust Fund	Firefighters Pension Trust Fund	Total
Additions				
Contributions				
Employer	\$ 727,319	\$ 360,091	\$ 165,211	\$ 1,252,621
Plan members	207,089	178,482	75,414	460,985
Insurance premiums	-	89,106	115,978	205,084
Total contributions	934,408	627,679	356,603	1,918,690
Investment earnings				
Interest	7,214	4,613	2,532	14,359
Dividends	119,356	78,190	38,044	235,590
Net increase in fair value of investments	1,001,383	636,502	328,770	1,966,655
Total investment earnings	1,127,953	719,305	369,346	2,216,604
Less investment expenses	(68,499)	(47,245)	(26,960)	(142,704)
Net investment earnings	1,059,454	672,060	342,386	2,073,900
Total additions	1,993,862	1,299,739	698,989	3,992,590
Deductions				
Benefits	328,718	361,849	51,278	741,845
Refunds of contributions	55,764	44,961	-	100,725
Administrative expenses	22,827	16,048	26,089	64,964
Total deductions	407,309	422,858	77,367	907,534
Change in net assets	1,586,553	876,881	621,622	3,085,056
Net assets - beginning	9,782,366	6,489,761	3,173,233	19,445,360
Net assets - ending	\$ 11,368,919	\$ 7,366,642	\$ 3,794,855	\$ 22,530,416

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

Compliance Section



CARR, RIGGS & INGRAM LLC.

2583 Huntcliff Lane
Panama City, FL 32405
P.O. Box 149
Panama City, FL 32402

P | 850 785 6153
F | 850 785 7188
www.cricpa.com

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, 2005, and have issued our report thereon dated April 28, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our report on internal control over financial reporting and on compliance and other matters dated April 28, 2006. Disclosures in those reports, if any, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*, which governs the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* (Section 10.554(1)(h)1) require that we comment as to whether or not corrective action has been taken to address significant findings and recommendations made in the preceding annual financial audit report. 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.

The *Rules of the Auditor General* (Section 10.554(1)(h)2), require that we determine whether the City complied with Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit disclosed no matters requiring comment as required by Section 218.415, Florida Statutes.

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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. 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, 2005 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, 2005, 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, 2005.

As required by the *Rules of the Auditor General* (Section 10.554(1)(h)6(c)1), we applied financial condition assessment procedures for detecting deteriorating financial conditions, pursuant to Section 218.39(5), Florida Statutes. 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

05-01 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. This condition is reported as a current year reportable condition 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*.

05-02 Cash Collection Policies

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.

05-03 Pier Admission Policies

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.

05-04 Accounting and Personnel Policies

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.

Status of Prior Year Audit Recommendations

04-01 Segregation of Duties

The segregation of duties finding and recommendation was repeated during the fiscal year 2005 as recommendation 05-01.

04-02 Cash Collection Policies

The cash collection policies finding and recommendation was repeated during the fiscal year 2005 as recommendation 05-02.

04-03 Pier Admission Policies

The pier admission policies finding and recommendation was repeated during the fiscal year 2005 as recommendation 05-03.

04-04 Accounting and Personnel Policies

The accounting and personnel policies finding and recommendation was repeated during the fiscal year 2005 as recommendation 05-04.

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, Florida
April 28, 2006

CARR, RIGGS & INGRAM LLC.

2583 Huntcliff Lane
Panama City, FL 32405
P.O. Box 149
Panama City, FL 32402

P | 850 785 6153
F | 850 785 7188
www.cricpa.com



**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, 2005, which collectively comprise the City's basic financial statements and have issued our report dated April 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 05-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we considered item 05-01 to be a material weakness.

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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 grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of the City, in the management letter dated April 28, 2006.

This report is intended solely for the information and use of the City of Panama City Beach's management, and appropriate federal and state award 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, Florida
April 28, 2006

City of Panama City Beach, Florida
Corrective Action Plan
Year Ended September 30, 2005

The following is the corrective action plan provided by City of Panama City Beach management.

05-01 Segregation of Duties

The City recognizes the need to strengthen internal controls. Management is currently in the process of assessing internal controls, particularly segregation of duties, in the area of cash disbursements. 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.

05-02 Cash Collection Policies

Water and sewer fund collections - The City recognizes the issue of deteriorating receivables with regard to water and sewer collections. The City Manager, City Clerk and Utilities Director will review the various issues and concerns with the billing supervisor and develop procedures to address these concerns. Some initial thoughts which the City will explore include adding personnel to monitor collections more closely and changing the City's billing cycles to monthly rather than bimonthly billings. Additionally, the City's utility cutoff procedures will be reviewed and modified if necessary.

05-03 Pier Admission Policies

Pier admissions – At the present time, the City is investigating 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 impending demolition of the existing pier which is likely to occur in the next fifteen months. 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.

05-04 Accounting and Personnel Policies

Accounting policy and procedures and personnel policy handbook - With the possible addition of another position in the finance department as well as the recently completed accounting system conversion, the City believes it would be appropriate to consider updating the accounting policies and procedures manual. 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.



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2583 Huntcliff Lane
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P.O. Box 149
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F | 850 785 7188
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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, (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Carri Riggs & Ingram, L.L.C.

Panama City, Florida

April 28, 2006

City of Panama City Beach, Florida
 Schedule of Expenditures of Federal Awards
 Year Ended September 30, 2005

Federal / State Agency Pass through entity Federal Program / State Project	CFDA CSFA No.	Contract / Grant No.	Expenditures
U.S. Department of Environmental Protection Agency Passed through Florida Department of Environmental Protection State Revolving Loan Fund #2 Protection Grant	66.458 66.458	WWG12064060 SG694050	\$ 1,377,640 750,000
U.S. Department of Homeland Security Passed through Florida Department of Community Affairs Disaster Relief - Hurricane Ivan Disaster Relief - Hurricane Charley	97.036 97.036	FEMA-FSDR-1551 FEMA-FSDR-1539	373,645 59,380
U.S. Department of Homeland Security Direct Domestic Preparedness for Assistance to Firefighters	97.044	EMW-2004-FG-17804	55,152
U.S. Department of Justice Passed through Florida Department of Law Enforcement Local Law Enforcement Block Grant	16.592	2005-LEBG-BAY-1-L4-070	8,744
U.S. Department of Justice Passed through Florida Department of Law Enforcement Local Law Enforcement Block Grant	16.579	05-CJ-J3-01-13-02-266	4,762
Total expenditures of federal awards			\$ 2,629,323

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
 Year Ended September 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified	
Internal control over financial reporting		
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
Reportable condition(s) identified not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Federal Awards

Internal control over major programs		
Material weakness(es) identified?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
Reportable condition(s) identified not considered to be material weaknesses?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> none reported
Type of auditor's report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Identification of major federal programs and state projects:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
66.458	State Revolving Loan Fund
97.036	Disaster Relief

Dollar threshold used to distinguish between Type A and Type B \$300,000

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

05-01 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 Findings

There were no findings.