

City of Panama City Beach

Financial Statements

September 30, 2006

City of Panama City Beach
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September 30, 2006

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CARR, RIGGS & INGRAM, LLC

2232 West 24th Street
Panama City, FL 32405

P | 850 784 6733

F | 850 784 4866

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, 2006, 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, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for each major governmental major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2007, 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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Florida Institute of
Certified Public Accountants

Georgia Society of
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Mississippi Society of
Certified Public Accountants

AICPA Alliance for CPA Firms

Center for Public
Company Audit Firms

Management's discussion and analysis on pages 3 through 12 and the required supplemental information on pages 62 through 64 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance 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. These statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Panama City, Florida
June 19, 2007

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 \$116,786,624 (net assets). Of this amount, \$75,299 is unrestricted net assets for governmental activities and \$16,684,994 is unrestricted net assets for business-type activities, while \$9,376,025 is restricted net assets for governmental activities and \$28,874,095 is restricted net assets for business-type activities.
- Total net assets increased by \$20,723,901. Of this amount, \$7,303,066 is attributable to governmental activities and \$13,420,835 is attributable to business-type activities. A significant portion of the increase in net assets of business-type activities is attributable to an infusion of resources from water and sewer impact fees.
- As of September 30, 2006, the general fund's unreserved fund balance was \$3,914,318 or 28 percent of total general fund expenditures.
- Governmental activities revenues increased to \$24,994,416 or approximately 19 percent, while governmental activities expenditures increased 14 percent to \$15,543,746. Business-type activities revenues increased to \$29,125,276 or 13 percent, while business-type activities expenditures increased 9 percent to \$17,852,045.

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 individual major 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, storm water, sewer, and admission charges.

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

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

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

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

Fund Financial Statements

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

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

Fund financial statements for all governmental funds include a *balance sheet* and a *statement of revenues, expenditures, and changes in fund balances*. The City's General Fund and Community Redevelopment 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 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 2006, 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

<i>September 30, 2006</i>						
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 67,482,081	\$ 11,780,595	\$ 55,957,363	\$ 45,792,018	\$123,439,444	\$ 57,572,613
Capital assets	37,350,352	29,276,605	76,600,518	71,165,848	113,950,870	100,442,453
Total assets	104,832,433	41,057,200	132,557,881	116,957,866	237,390,314	158,015,066
Current liabilities	1,652,960	1,181,157	11,066,028	10,661,526	12,718,988	11,842,683
Noncurrent liabilities	58,888,780	2,888,416	48,995,922	47,221,244	107,884,702	50,109,660
Total liabilities	60,541,740	4,069,573	60,061,950	57,882,770	120,603,690	61,952,343
Net assets invested in capital assets, net of related debt	34,839,369	28,653,254	26,936,842	22,583,954	61,776,211	51,237,208
Net assets – restricted	9,376,025	6,711,512	28,874,095	25,293,031	38,250,120	32,004,543
Net assets – unrestricted	75,299	1,622,861	16,684,994	11,198,111	16,760,293	12,820,972
Total net assets	\$ 44,290,693	\$ 36,987,627	\$ 72,495,931	\$ 59,075,096	\$116,786,624	\$ 96,062,723

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 (53 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*, \$38,250,120, representing 33 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*, \$16,760,293 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 \$10,539,003 (or 21 percent) Significant additions to capital assets occurred in both governmental and business-type activities in the current year. Additions in governmental activities were primarily the result of improvements to the City's roadway infrastructure within the Front Beach Road Community Redevelopment Area, in particular, right-of-way acquisitions and engineering design costs. These additions were partially funded through the issuance of \$54,835,000 Capital Improvement Revenue Bonds, Series 2006 (Front Beach Road Project). Capital additions in business-type activities were primarily related to system expansion necessitated by growth. The City financed the continued expansion of its wastewater system with a combination of a State Revolving Fund loan and a public assistance grant.

Restricted net assets increased \$6,245,577 (20 percent). The increase in the governmental activities restricted net assets was primarily due to the establishment of a reserve required as part of the bond issuance noted above. This reserve may only be utilized to make debt service payments if the amounts available in the bond sinking fund are not adequate to fund required payments. The business-type activities increase was primarily attributable to water and sewer impact fees collected in the current year which exceeded current year expenditures. These funds are also restricted as to use.

The increase in *Net assets, unrestricted* was \$3,939,321 or 31 percent. The governmental activities increase was insignificant. The business-type activities accounted for most of the increase in unrestricted net assets. Revenues in excess of expenditures in the utility fund are expected to be utilized in future years to fund non-growth related capital projects.

Governmental activities non-current liabilities increased \$56,000,364 or 1,939 percent. Virtually the entire increase is due to the issuance of the \$54,835,000 Capital Improvement Revenue Bonds, Series 2006 (Front Beach Road Project).

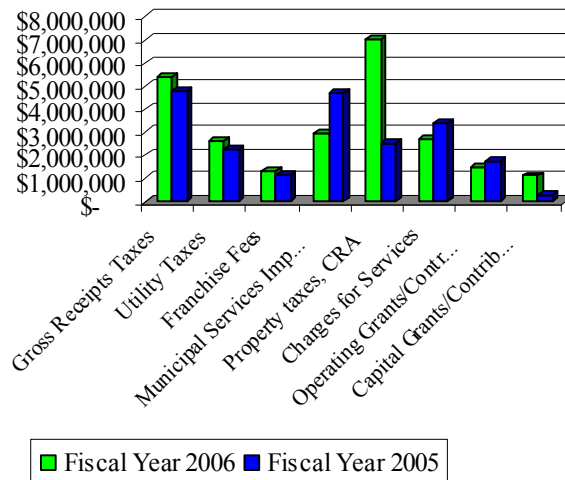
The schedule on the following page compares the revenues and expenses for the current and previous fiscal year.

City of Panama City Beach, Florida Changes in Net Assets

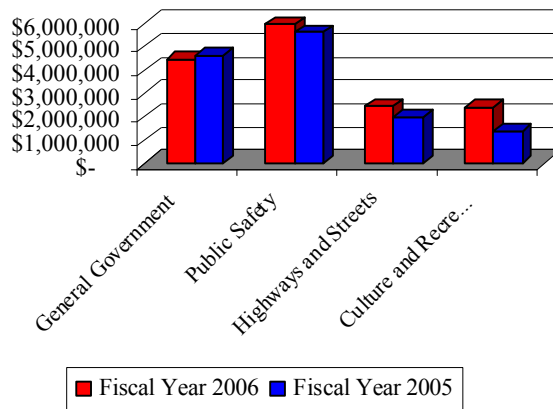
September 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program revenues						
Charges for services	\$ 2,675,991	\$ 3,413,552	\$25,970,393	\$ 23,775,682	\$ 28,646,384	\$ 27,189,234
Operating grants/ contributions	1,508,524	1,720,188	144,581	150,271	1,653,105	1,870,459
Capital grants/ contributions	1,090,927	281,166	1,578,656	994,883	2,669,583	1,276,049
General revenues						
Gross receipts taxes	5,397,252	4,788,273	-	-	5,397,252	4,788,273
Utility taxes/ franchise fees	3,926,066	3,418,897	-	-	3,926,066	3,418,897
Impact fees	2,959,090	4,694,890	-	-	2,959,090	4,694,890
Property taxes, CRA	7,000,554	2,527,877	-	-	7,000,554	2,527,877
Other	436,012	106,084	1,431,646	861,290	1,867,658	967,374
Total revenues	24,994,416	20,950,927	29,125,276	25,782,126	54,119,692	46,733,053
Expenses						
General government	4,487,464	4,606,111	-	-	4,487,464	4,606,111
Public safety	5,966,526	5,616,227	-	-	5,966,526	5,616,227
Highways and streets	2,428,454	1,980,984	-	-	2,428,454	1,980,984
Culture and recreation	2,386,161	1,383,808	-	-	2,386,161	1,383,808
Interest on long-term debt	275,141	51,944	1,962,091	2,030,010	2,237,232	2,081,954
Utility	-	-	15,163,420	13,571,406	15,163,420	13,571,406
Pier	-	-	250,853	790,501	250,853	790,501
Aquatic center	-	-	475,681	19	475,681	19
Total expenses	15,543,746	13,639,074	17,852,045	16,391,936	33,395,791	30,031,010
Increase in net assets before transfers	9,450,670	7,311,853	11,273,231	9,390,190	20,723,901	16,702,043
Transfers	(2,147,604)	(1,376,871)	2,147,604	1,376,871	-	-
Increase in net assets	\$ 7,303,066	\$ 5,934,982	\$ 13,420,835	\$ 10,767,061	\$20,723,901	\$ 16,702,043

**Revenues - Governmental Activities Fiscal Years Ended
September 30, 2006 and 2005**



**Expenses - Governmental Activities Fiscal Years Ended
September 30, 2006 and 2005**



Governmental activities revenues exceeded expenses by \$9,450,670 while business-type activities revenues exceeded expenses by \$11,273,231. Total revenues increased \$7,386,639 from the previous year. Charges for services increased \$1,457,150 and property taxes, CRA increased \$4,472,677. Municipal services impact fees decreased \$1,735,800 in the current year. The increase in charges for services is the net result of an increase in this line item in business-type activities offset by a decrease in governmental activities charges for services. The charges for services related to governmental activities reflect significant decreases in plan review fees and building permits. These revenues are directly related to the slow down in economic growth being experienced by the City. The primary reason for the increase in charges for services for business-type activities is due to increased water and sewer sales resulting from growth in the City's customer base as well as the implementation of storm water assessment fees in 2006. The explosive growth experienced over the past several years resulted in large increases in property values which in turn resulted in significant increases in property taxes received by the CRA. Total expenses increased \$3,364,781 from the previous year. The increase in expenses in business-type activities was primarily attributable to increased costs virtually across the board in the utility fund. Additionally, construction of the aquatic center located at Frank Brown Park was completed in fiscal year 2006 and the center was operational for half of the year. The governmental activities increase was primarily in the area of highways and streets, and culture and recreation, both as a result of the increased activity in the Front Beach Road Community Redevelopment Area.

Property taxes received by the CRA account for 28 percent of the revenues for governmental activities and 22 percent of the revenue is generated by gross receipts taxes, while most of the governmental resources are expended for public safety (38 percent), and general government (28 percent).

Charges for services provide 89 percent 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, 2006, total assets were \$9,915,339 and total liabilities were \$844,593. At the end of fiscal year 2006, unreserved fund balance of the general fund was \$3,914,318, while total fund balance equaled \$9,070,746. Total fund balance remained fairly level increasing \$206,175 or 2 percent. An increase of \$450,536 in unreserved fund balance was offset by a decrease of \$244,361 in reserved fund balance. The decrease in reserved fund balance was attributable to significant expenditures in fiscal year 2006 of fire impact fees primarily related to the purchase of a ladder truck and related loose equipment.

The general fund's budget was amended during the year to reflect increases in available cash carryforwards and decreases in available revenue as well as corresponding decreases in expenditures. The decrease in revenue was attributable primarily to lower than anticipated collections for building permits and plan review fees from the construction slow down. Restricted cash available for carryforward to 2006 was greater than anticipated due to the timing of capital projects. Budgeted expenditures in the protective services department were amended significantly to reflect decreased costs of contracted inspections and plans review which resulted from the slow down in construction in the City.

Community Redevelopment Fund

The other major governmental fund of the City is the community redevelopment fund. As of September 30, 2006, total assets were \$54,495,026 and total liabilities were \$662,959. At the end of fiscal year 2006, the unreserved fund balance of the community redevelopment fund was \$234,523, while the total fund balance equaled \$53,832,067. Total fund balance increased \$52,630,662, all of which was attributable to an increase in reserved fund balance. As noted previously, \$54,835,000 Capital Improvement Revenue Bonds, Series 2006 were issued in fiscal year 2006. The bonds were issued late in the fiscal year and a significant portion of the bond proceeds were unspent at fiscal year end. The large increase in total assets noted above resulted from these unspent bond proceeds.

Non-Major Governmental Funds

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

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

Proprietary Funds

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

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

Fund	2006 Unrestricted Net Assets	2005 Unrestricted Net Assets
Utility	\$ 17,213,858	\$ 12,017,680
Pier	8,160	(37,197)
Aquatic Center	(537,024)	(357,776)
Total	\$ 16,684,994	\$ 11,622,707

The *Utility Fund* is used to account for the operations of the City's water, sewer and storm water systems. Although new construction and redevelopment being experienced by the City slowed down in the current year, water and sewer impact fee revenues only decreased \$155,348 or 2 percent. For several years prior to fiscal year 2006, the City went through a period of explosive growth with record levels of new construction and redevelopment. As a result, the City has seen a significant increase in its customer base resulting in an increase in water and sewer sales over the prior year of \$1,786,513 or 12 percent. Additionally, the City implemented a storm water assessment fee in fiscal year 2006 to fund the operations of the City's storm water utility.

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

The *Aquatic Center Fund* is being used to account for the construction and operation of an aquatic center located at Frank Brown Park. The aquatic center construction was completed in the spring of 2006 and the center operated for the final six months of the fiscal year. Operating expenses exceeded operating revenues by \$276,197; however, third party contributions as well as a grant from the State of Florida exceeded the operating shortfall.

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, 2006, was \$113,950,870 (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 2005, the City began construction on water and sewer system improvements located on the west end of the City. The water and reclaimed water portions of these improvements were in service and operational prior to fiscal year 2006 and the sewer portion of the construction was completed in fiscal year 2006. The total project cost was approximately \$2.8 million dollars.

- The City continues to implement its plan to provide sewer services to a number of neighborhoods. Prior to fiscal year 2006, the Open Sands, Bid-A-Wee and Gulf Highlands portions of the project were 100% complete at a total cost of approximately \$6.8 million dollars. Engineering costs have been incurred for the El Centro and Bahama Beach subdivisions but no actual construction costs were expended prior to September 30, 2006. The estimated project costs for these subdivisions is \$6.7 million dollars.
- Construction of an additional storage tank and pumping station located on Highway 79 in West Bay was completed in the current year. The total cost of the tank and pumping equipment was approximately \$2.4 million dollars.
- Construction of the aquatic center located at Frank Brown Park was completed in the spring of 2006. Total construction cost was approximately \$4.4 million dollars. A substantial portion of the cost was funded with recreation impact fees and private donations.
- At September 30, 2006, approximately \$10 million dollars is reflected in construction in progress and land for various road projects within the Front Beach Road Community Redevelopment Area. Planned improvements include expansion of road widths, additional turn lanes, burying utilities, and aesthetic improvements.
- The City's fire department purchased an aerial ladder truck with fire impact fees. The cost of the truck and related equipment was approximately \$900,000.

**Capital Assets
(net of depreciation)**

September 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$18,097,067	\$13,153,190	\$ 6,361,316	\$ 6,351,316	\$ 24,458,383	\$ 19,504,506
Construction in progress	4,456,984	1,897,908	2,697,234	4,559,497	7,154,218	6,457,405
Buildings	2,990,857	2,880,813	24,702,962	23,310,221	27,693,819	26,191,034
Improvements	8,567,556	8,929,479	39,984,072	35,032,566	48,551,628	43,962,045
Machinery and equipment	3,237,888	2,415,215	2,854,934	1,912,248	6,092,822	4,327,463
Total	\$37,350,352	\$29,276,605	\$76,600,518	\$71,165,848	\$ 113,950,870	\$ 100,442,453

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 \$80,090,686. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Bond Debt

September 30, 2006

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue bonds	\$ 56,411,072	\$ 110,000	\$ 23,679,614	\$ 23,961,366	\$ 80,090,686	\$ 24,071,366

The City's total outstanding bond debt increased by \$56,019,320 during the current fiscal year. During the year the City issued \$54,835,000 Capital Improvement Revenue Bonds, Series 2006 (Front Beach Road Project). The bonds were issued to provide funding for planned roadway improvements.

All of the City's debt maintains an "AAA" rating from Standard & Poor's, an "AAA" rating from Moody's Investors Service, and/or an "AAA" rating from Fitch. All of the City's issues are rated by one or a combination of two rating agencies.

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

Other Financial Information

In spite of a slow down in new construction and redevelopment, the City's economy remained strong during the current fiscal year. Despite national security and travel worries, and rising gas prices, tourism remained steady. The City's gross receipts tax collections typically fluctuate with the tourism industry and revenues from this source increased 13% in the current fiscal year. In the upcoming fiscal year, the City will continue to focus on major additions and enhancements to its utilities and transportation systems. These construction projects will provide additional water transmission mains, eliminate effluent discharge in to West Bay, provide sewer service to various subdivisions which are currently served by septic tanks, 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. During fiscal year 2006, the City established a storm water utility to address the collection and management of storm water and anticipates that this utility will expand as the City's population continues to grow. Additionally, the City has committed to the provision of expanded recreation facilities for public use as evidenced by the construction of an aquatic center 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, 2006

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,151,861	\$ 9,991,365	\$ 14,143,226
Accounts receivable, net	51,452	4,016,993	4,068,445
Taxes receivable	459,440	-	459,440
Grants receivable	88,431	543,656	632,087
Accrued interest receivable	-	10,620	10,620
Due from other governments	220,458	-	220,458
Inventory	8,211	608,495	616,706
Prepaid insurance	12,823	14,041	26,864
Notes receivable, current	-	616,780	616,780
Unamortized bond costs, current	105,494	32,312	137,806
Restricted assets			
Cash and cash equivalents	59,993,494	38,905,906	98,899,400
Accounts receivable	-	161,850	161,850
Accrued interest receivable	-	42,960	42,960
Notes receivable	-	126,982	126,982
Notes receivable	-	340,853	340,853
Capital assets			
Nondepreciable	22,554,051	9,058,550	31,612,601
Depreciable, net	14,796,301	67,541,968	82,338,269
Unamortized bond costs	2,390,417	544,550	2,934,967
Total assets	104,832,433	132,557,881	237,390,314

(Continued)

City of Panama City Beach, Florida
Statement of Net Assets (Continued)
September 30, 2006

Primary Government			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 974,141	\$ 1,279,224	\$ 2,253,365
Accrued expenses	151,627	99,847	251,474
Accrued interest payable	173,430	417,064	590,494
Due to other governments	6,089	67,627	73,716
Internal balances	303,697	(303,697)	-
Revenue certificates payable	-	2,025,148	2,025,148
Deferred revenue	43,976	7,480,815	7,524,791
Long-term liabilities			
Due within one year			
Accrued compensated absences	68,023	1,792	69,815
Notes payable	171,009	1,361,402	1,532,411
Capital leases	100,118	-	100,118
Revenue bonds payable, net	66,765	296,752	363,517
Due in more than one year			
Accrued compensated absences	1,648,317	625,840	2,274,157
Notes payable	439,123	23,327,274	23,766,397
Capital leases	51,118	-	51,118
Revenue bonds payable, net	56,344,307	23,382,862	79,727,169
Total liabilities	60,541,740	60,061,950	120,603,690
Net assets			
Invested in capital assets, net of related debt	34,839,369	26,936,842	61,776,211
Restricted for			
Law enforcement	126,722	-	126,722
Beach access	508,960	-	508,960
Impact fees	5,086,374	24,210,297	29,296,671
Debt service	3,653,969	3,656,002	7,309,971
Construction	-	831,787	831,787
Stormwater	-	176,009	176,009
Unrestricted	75,299	16,684,994	16,760,293
Total net assets	\$ 44,290,693	\$ 72,495,931	\$ 116,786,624

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, 2006

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	\$ 4,487,464	\$ 2,184,775	\$ 945,022	\$ -	\$ (1,357,667)	\$ -	\$ (1,357,667)
Public safety	5,966,526	232,724	28,617	-	(5,705,185)	-	(5,705,185)
Highways and streets	2,428,454	88,498	388,243	1,002,496	(949,217)	-	(949,217)
Culture and recreation	2,386,161	169,994	146,642	88,431	(1,981,094)	-	(1,981,094)
Interest on long-term debt	275,141	-	-	-	(275,141)	-	(275,141)
Total governmental activities	15,543,746	2,675,991	1,508,524	1,090,927	(10,268,304)	-	(10,268,304)
Business-type activities							
Utility	15,163,420	25,507,470	-	1,127,267	-	11,471,317	11,471,317
Pier	250,853	263,439	-	251,389	-	263,975	263,975
Aquatic center	475,681	199,484	144,581	200,000	-	68,384	68,384
Interest on long-term debt	1,962,091	-	-	-	-	(1,962,091)	(1,962,091)
Total business-type activities	17,852,045	25,970,393	144,581	1,578,656	-	9,841,585	9,841,585
Total primary government	\$ 33,395,791	\$ 28,646,384	\$ 1,653,105	\$ 2,669,583	(10,268,304)	9,841,585	(426,719)
			General revenues				
			Taxes				
			Gross receipts		5,397,252	-	5,397,252
			Utility		2,583,146	-	2,583,146
			Franchise fees		1,342,920	-	1,342,920
			Municipal services impact fees		2,959,090	-	2,959,090
			Property taxes, CRA		7,000,554	-	7,000,554
			Total general revenues		19,282,962	-	19,282,962
			Interest earnings		436,012	1,431,646	1,867,658
			Transfers		(2,147,604)	2,147,604	-
			Total general revenues, interest and transfers		17,571,370	3,579,250	21,150,620
			Change in net assets		7,303,066	13,420,835	20,723,901
			Net assets - beginning		36,987,627	59,075,096	96,062,723
			Net assets - ending		\$ 44,290,693	\$ 72,495,931	\$ 116,786,624

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

City of Panama City Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2006

	General	Community Redevelopment	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 3,906,977	\$ 234,523	\$ 10,361	\$ 4,151,861
Accounts receivable, net	50,920	532	-	51,452
Taxes receivable	459,440	-	-	459,440
Grants receivable	88,431	-	-	88,431
Due from other governments	220,458	-	-	220,458
Due from other funds	27,817	225	38	28,080
Inventory	8,211	-	-	8,211
Prepaid insurance	12,823	-	-	12,823
Cash and cash equivalents - restricted	5,140,262	54,259,746	593,486	59,993,494
Total assets	\$ 9,915,339	\$ 54,495,026	\$ 603,885	\$ 65,014,250
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 311,419	\$ 662,664	\$ 58	\$ 974,141
Accrued expenses	151,627	-	-	151,627
Due to other governments	6,089	-	-	6,089
Due to other funds	331,482	295	-	331,777
Deferred revenue	43,976	-	-	43,976
Total liabilities	844,593	662,959	58	1,507,610
Fund balances				
Reserved for				
Law enforcement	42,216	-	84,506	126,722
Inventory	8,211	-	-	8,211
Prepaid insurance	19,627	-	-	19,627
Impact fees	5,086,374	-	-	5,086,374
Beach access	-	-	508,960	508,960
Community redevelopment	-	53,597,544	-	53,597,544
Unreserved, reported in				
General fund	3,914,318	-	-	3,914,318
Community redevelopment fund	-	234,523	-	234,523
Special revenue funds	-	-	10,361	10,361
Total fund balances	9,070,746	53,832,067	603,827	63,506,640
Total liabilities and fund balances	\$ 9,915,339	\$ 54,495,026	\$ 603,885	
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.				37,350,352
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(56,566,299)
Net assets of governmental activities				\$ 44,290,693

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, 2006

	General	Community Redevelopment	Other Governmental Funds	Total
Revenues				
Taxes				
Gross receipts	\$ 5,397,252	\$ -	\$ -	\$ 5,397,252
Utility	2,583,146	-	-	2,583,146
Franchise fees	1,342,920	-	-	1,342,920
Property taxes, CRA	-	7,000,554	-	7,000,554
Intergovernmental	1,395,874	-	-	1,395,874
Municipal services impact fees	2,959,090	-	-	2,959,090
Licenses and permits	2,084,607	-	68,531	2,153,138
Fines and forfeitures	167,124	-	3,834	170,958
Contributions and donations	127,712	-	23,217	150,929
Grants	88,431	-	-	88,431
Rents	29,400	-	-	29,400
Interest	220,680	200,837	14,495	436,012
Other fees and miscellaneous	315,790	-	-	315,790
Total revenues	16,712,026	7,201,391	110,077	24,023,494
Expenditures				
Current				
General government	2,939,117	60,552	-	2,999,669
Public safety	5,790,238	-	42,227	5,832,465
Highways and streets	1,191,223	1,201,326	-	2,392,549
Culture and recreation	1,635,902	750,000	-	2,385,902
Debt service				
Principal	411,839	3,686,500	-	4,098,339
Interest and fiscal charges	42,667	69,637	-	112,304
Other debt service costs	-	2,505,355	-	2,505,355
Capital outlay				
General government	9,235	-	-	9,235
Public safety	1,441,356	-	5,500	1,446,856
Highways and streets	197,658	6,597,519	-	6,795,177
Culture and recreation	427,882	-	-	427,882
Total expenditures	14,087,117	14,870,889	47,727	29,005,733
Excess (deficiency) of revenues over (under) expenditures				
	2,624,909	(7,669,498)	62,350	(4,982,239)
Other financing sources (uses)				
Transfers in	100,000	350,724	-	450,724
Transfers out	(2,598,328)	-	-	(2,598,328)
Debt issued	-	59,949,436	-	59,949,436
Proceeds from sale of assets	79,594	-	16,178	95,772
Net other financing sources (uses)	(2,418,734)	60,300,160	16,178	57,897,604
Net change in fund balances	206,175	52,630,662	78,528	52,915,365
Fund balances - beginning	8,864,571	1,201,405	525,299	10,591,275
Fund balances - ending	\$ 9,070,746	\$ 53,832,067	\$ 603,827	\$ 63,506,640

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, 2006

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

Net change in fund balances - total governmental funds (page 17)	\$ 52,915,365
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.	7,127,919
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to increase net assets.	952,777
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.	(347,253)
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.	(53,345,742)
<u>Change in net assets of governmental activities (page 15)</u>	<u>\$ 7,303,066</u>

City of Panama City Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended September 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Gross receipts	\$ 5,085,000	\$ 5,150,000	\$ 5,397,252	\$ 247,252
Utility	2,189,248	2,412,000	2,583,146	171,146
Franchise fees	1,002,000	1,152,000	1,342,920	190,920
Intergovernmental	1,448,770	1,330,287	1,395,874	65,587
Municipal services impact fees	3,457,000	3,001,724	2,959,090	(42,634)
Licenses and permits	2,953,000	2,007,500	2,084,607	77,107
Fines and forfeitures	154,000	158,698	167,124	8,426
Contributions and donations	85,000	148,695	127,712	(20,983)
Grants	438,260	202,665	88,431	(114,234)
Rents	29,400	29,400	29,400	-
Interest	78,000	185,000	220,680	35,680
Other fees and miscellaneous	312,460	279,725	315,790	36,065
Total revenues	17,232,138	16,057,694	16,712,026	654,332
Expenditures				
Current				
General government				
Legislative	150,764	150,960	149,402	1,558
Administration	774,580	775,691	749,750	25,941
Comprehensive planning	265,138	277,116	299,500	(22,384)
Civil service	1,100	1,650	1,390	260
Elections	4,000	5,600	6,193	(593)
Protective services	2,854,833	1,962,179	1,732,882	229,297
Total general government	4,050,415	3,173,196	2,939,117	234,079
Public safety				
Police	4,417,965	4,232,003	4,104,017	127,986
Fire	1,865,616	1,686,830	1,686,221	609
Total public safety	6,283,581	5,918,833	5,790,238	128,595
Highways and streets	1,193,553	1,212,194	1,191,223	20,971
Culture and recreation				
Library	147,410	148,510	148,231	279
Recreation	1,473,147	1,465,130	1,487,671	(22,541)
Total culture and recreation	1,620,557	1,613,640	1,635,902	(22,262)
Total current	13,148,106	11,917,863	11,556,480	361,383
Debt service				
Principal	334,306	474,058	411,839	62,219
Interest and other fiscal charges	42,548	42,674	42,667	7
Total debt service	376,854	516,732	454,506	62,226

(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, 2006

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget- Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Expenditures (continued)				
Capital outlay				
General government				
Administrative	\$ 3,000	\$ 3,000	\$ 1,684	\$ 1,316
Comprehensive planning	-	-	1,596	(1,596)
Protective services	-	3,000	5,955	(2,955)
Total general government	3,000	6,000	9,235	(3,235)
Public safety				
Police	454,300	516,800	472,309	44,491
Fire	959,000	998,000	969,047	28,953
Total public safety	1,413,300	1,514,800	1,441,356	73,444
Highways and streets	156,500	222,600	197,658	24,942
Culture and recreation				
Library	10,000	5,225	5,225	-
Recreation	597,900	570,000	422,657	147,343
Total culture and recreation	607,900	575,225	427,882	147,343
Total capital outlay	2,180,700	2,318,625	2,076,131	242,494
Total expenditures	15,705,660	14,753,220	14,087,117	666,103
Excess of revenues over expenditures	1,526,478	1,304,474	2,624,909	1,320,435
Other financing sources (uses)				
Transfers in	100,000	100,000	100,000	-
Transfer out	(1,539,880)	(2,645,617)	(2,598,328)	47,289
Proceeds from sale of assets	-	77,760	79,594	1,834
Total other financing sources (uses)	(1,439,880)	(2,467,857)	(2,418,734)	49,123
Net change in fund balances	86,598	(1,163,383)	206,175	1,369,558
Fund balances - beginning	8,864,571	8,864,571	8,864,571	-
Fund balances - ending	\$ 8,951,169	\$ 7,701,188	\$ 9,070,746	\$ 1,369,558

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Taxes				
Property taxes, CRA	\$ 7,122,988	\$ 7,000,554	\$ 7,000,554	\$ -
Interest	15,002	71,992	200,837	128,845
Total revenues	7,137,990	7,072,546	7,201,391	128,845
Expenditures				
Current				
General government	60,950	60,552	60,552	-
Highways and streets	1,379,295	1,194,199	1,201,326	(7,127)
Culture and recreation	-	750,000	750,000	-
Total current	1,440,245	2,004,751	2,011,878	(7,127)
Debt service				
Principal	-	-	3,686,500	(3,686,500)
Interest and other fiscal charges	225,000	70,000	69,637	363
Other debt services costs	150,000	2,527,000	2,505,355	21,645
Total debt service	375,000	2,597,000	6,261,492	(3,664,492)
Capital outlay				
Highways and streets	28,589,813	16,445,000	6,597,519	9,847,481
Total capital outlay	28,589,813	16,445,000	6,597,519	9,847,481
Total expenditures	30,405,058	21,046,751	14,870,889	6,175,862
Excess (deficiency) of revenues over (under) expenditures	(23,267,068)	(13,974,205)	(7,669,498)	6,304,707
Other financing sources				
Transfers in	400,000	350,724	350,724	-
Debt issued	23,275,000	59,949,436	59,949,436	-
Total other financing sources	23,675,000	60,300,160	60,300,160	-
Net change in fund balances	407,932	46,325,955	52,630,662	6,304,707
Fund balances - beginning	1,201,405	1,201,405	1,201,405	-
Fund balances - ending	\$ 1,609,337	\$ 47,527,360	\$ 53,832,067	\$ 6,304,707

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, 2006

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 9,886,456	\$ 104,909	\$ 9,991,365
Accounts receivable, net	4,007,458	9,535	4,016,993
Grants receivable	272,267	271,389	543,656
Accrued interest receivable	10,620	-	10,620
Due from other funds	651,976	14,996	666,972
Inventory	608,495	-	608,495
Prepaid insurance	5,149	8,892	14,041
Notes receivable	616,780	-	616,780
Unamortized debt issuance costs	32,312	-	32,312
Total current assets	16,091,513	409,721	16,501,234
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	38,905,906	-	38,905,906
Accounts receivable	161,850	-	161,850
Accrued interest receivable	42,960	-	42,960
Notes receivable	126,982	-	126,982
Notes receivable	340,853	-	340,853
Capital assets			
Nondepreciable	8,807,161	251,389	9,058,550
Depreciable, net	62,809,783	4,732,185	67,541,968
Unamortized debt issuance costs	544,550	-	544,550
Total noncurrent assets	111,740,045	4,983,574	116,723,619
Total assets	127,831,558	5,393,295	133,224,853
Liabilities			
Current liabilities			
Accounts payable	1,248,231	30,993	1,279,224
Accrued expenses	90,275	9,572	99,847
Accrued interest payable	417,064	-	417,064
Due to other funds	26,270	337,005	363,275
Due to other governments	65,623	2,004	67,627
Revenue certificates payable	2,025,148	-	2,025,148
Deferred revenue	7,456,420	24,395	7,480,815
Accrued compensated absences	1,792	-	1,792
Notes payable	831,402	530,000	1,361,402
Revenue bonds payable, net	296,752	-	296,752
Total current liabilities	12,458,977	933,969	13,392,946
Noncurrent liabilities			
Accrued compensated absences	621,224	4,616	625,840
Notes payable	23,327,274	-	23,327,274
Revenue bonds payable, net	23,382,862	-	23,382,862
Total noncurrent liabilities	47,331,360	4,616	47,335,976
Total liabilities	59,790,337	938,585	60,728,922
Net assets			
Invested in capital assets, net of related debt	21,953,268	4,983,574	26,936,842
Restricted for			
Impact fees	24,210,297	-	24,210,297
Debt service	3,656,002	-	3,656,002
Construction	831,787	-	831,787
Stormwater	176,009	-	176,009
Unrestricted (deficit)	17,213,858	(528,864)	16,684,994
Total net assets	\$ 68,041,221	\$ 4,454,710	\$ 72,495,931

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, 2006

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Operating revenues			
Charges for services			
Water and sewer sales	\$ 16,533,429	\$ -	\$ 16,533,429
Stormwater fees	350,099	-	350,099
Connection fees	362,003	-	362,003
Administrative and review fees	111,850	-	111,850
Admissions and other fees	-	432,906	432,906
Impact fees	7,943,663	-	7,943,663
Rent	36,000	30,017	66,017
Miscellaneous	160,878	-	160,878
Total operating revenues	25,497,922	462,923	25,960,845
Operating expenses			
Personal services	3,577,834	383,464	3,961,298
Professional services	646,871	5,323	652,194
Office supplies	13,784	131	13,915
Contractual services	77,482	4,233	81,715
Insurance	277,253	15,400	292,653
Repairs and maintenance	761,054	7,924	768,978
Operating supplies	1,433,261	129,970	1,563,231
Communication services	50,343	2,879	53,222
Public utility services	5,635,728	50,844	5,686,572
Transportation	68,222	-	68,222
Rentals	24,497	3,207	27,704
Printing and binding	10,679	4,066	14,745
Miscellaneous	71,370	16,216	87,586
Amortization	66,184	-	66,184
Depreciation	2,448,858	102,877	2,551,735
Total operating expenses	15,163,420	726,534	15,889,954
Net operating income (loss)	10,334,502	(263,611)	10,070,891
Nonoperating revenues (expenses)			
Interest income	1,419,204	12,442	1,431,646
Grants and contributions	1,127,267	595,970	1,723,237
Gain (loss) on disposal of assets	9,548	-	9,548
Interest expense	(1,955,584)	(6,507)	(1,962,091)
Total nonoperating revenues	600,435	601,905	1,202,340
Net income before transfers	10,934,937	338,294	11,273,231
Transfers in	-	2,247,604	2,247,604
Transfers out	(100,000)	-	(100,000)
Change in net assets	10,834,937	2,585,898	13,420,835
Total net assets - beginning	57,206,284	1,868,812	59,075,096
Total net assets - ending	\$ 68,041,221	\$ 4,454,710	\$ 72,495,931

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, 2006

Business-type Activities / Enterprise Funds			
	Utility Fund	Other Proprietary Funds	Total
Operating activities			
Receipts from customers and users	\$ 24,296,462	\$ 465,476	\$ 24,761,938
Payments to / advances from suppliers	(8,869,642)	(987,707)	(9,857,349)
Payments to employees	(3,570,210)	(384,550)	(3,954,760)
Net cash provided (used) by operating activities	11,856,610	(906,781)	10,949,829
Noncapital financing activities			
Contributions	-	144,581	144,581
Transfers from other funds	-	2,247,604	2,247,604
Transfers to other funds	(100,000)	-	(100,000)
Net cash provided (used) by noncapital financing activities	(100,000)	2,392,185	2,292,185
Capital and related financing activities			
Capital grants	750,000	180,000	930,000
Proceeds from note payable issuance	2,285,250	530,000	2,815,250
Proceeds from revenue certificates issuance	1,000,000	-	1,000,000
Principal paid on revenue certificates	(395,598)	-	(395,598)
Principal paid on revenue bonds	(415,000)	-	(415,000)
Principal paid on notes payable	(788,468)	-	(788,468)
Interest paid on revenue bonds	(1,359,253)	-	(1,359,253)
Interest paid on notes payable	(502,297)	(6,507)	(508,804)
Proceeds from sale of assets	9,548	-	9,548
Purchase of capital assets	(4,451,517)	(2,822,666)	(7,274,183)
Net cash (used) by capital and related financing activities	(3,867,335)	(2,119,173)	(5,986,508)
Investing activities			
Payments received from notes receivable	259,292	-	259,292
Issuance of notes receivable	(608,500)	-	(608,500)
Interest received	1,401,639	12,750	1,414,389
Net cash provided by investing activities	1,052,431	12,750	1,065,181
Net increase (decrease) in cash and cash equivalents	8,941,706	(621,019)	8,320,687
Cash and cash equivalents - beginning	39,850,656	725,928	40,576,584
Cash and cash equivalents - ending	\$ 48,792,362	\$ 104,909	\$ 48,897,271
Classified as			
Current assets - cash and cash equivalents	\$ 9,886,456	\$ 104,909	\$ 9,991,365
Restricted assets - cash and cash equivalents	38,905,906	-	38,905,906
Total	\$ 48,792,362	\$ 104,909	\$ 48,897,271

(Continued)

City of Panama City Beach, Florida
Statement of Cash Flows
Proprietary Funds (Continued)
Year Ended September 30, 2006

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities			
Net operating income (loss)	\$ 10,334,502	\$ (263,611)	\$ 10,070,891
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Amortization	66,184	-	66,184
Depreciation	2,448,858	102,877	2,551,735
Bad debt	66,382	-	66,382
Expiration of revenue certificates payable	(32,815)	-	(32,815)
(Increase) decrease in assets			
Accounts receivable	(995,363)	(7,780)	(1,003,143)
Due from other funds	75,404	(14,529)	60,875
Inventory	(26,842)	-	(26,842)
Prepaid insurance	(395)	(2,850)	(3,245)
Increase (decrease) in liabilities			
Accounts payable	193,978	25,439	219,417
Accrued expenses	15,320	(298,216)	(282,896)
Accrued compensated absences	27,677	1,971	29,648
Due to other funds	26,603	(474,770)	(448,167)
Due to other governments	(8,744)	293	(8,451)
Deferred revenue	(334,139)	24,395	(309,744)
Total adjustments	1,522,108	(643,170)	878,938
Net cash provided (used) by operating activities	\$ 11,856,610	\$ (906,781)	\$ 10,949,829

Noncash investing, capital, and financing activities

Contributed assets	\$ 105,000	\$ -	\$ 105,000
Assets acquired through issuance of debt	\$ 607,223	\$ -	\$ 607,223
Expiration of revenue certificates payable	\$ 32,815	\$ -	\$ 32,815

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, 2006

	Pension Trust Funds
<hr/>	
Assets	
Cash and cash equivalents	\$ 977,246
Accounts receivable, net	52,576
Due from other funds	29
Investments, at fair value	
Money market funds	176,421
Common stocks	3,080,622
Real estate investment trusts	1,395,071
Mutual funds	20,304,748
<hr/>	
Total assets	25,986,713
<hr/>	
Liabilities	
Accounts payable	2,140
Due to other funds	29
Refunds payable	21,353
<hr/>	
Total liabilities	23,522
<hr/>	
Net assets	
Held in trust for pension benefits	\$ 25,963,191
<hr/> <hr/>	

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

City of Panama City Beach, Florida
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2006

	Pension Trust Funds
<hr/>	
Additions	
Contributions	
Employer	\$ 1,306,943
Plan members	678,416
Insurance premiums	233,800
<hr/>	
Total contributions	2,219,159
<hr/>	
Investment earnings	
Interest	36,713
Dividends	583,232
Net increase in fair value of investments	1,698,937
<hr/>	
Total investment earnings	2,318,882
Less investment expenses	(159,107)
<hr/>	
Net investment earnings	2,159,775
<hr/>	
Total additions	4,378,934
<hr/>	
Deductions	
Benefits	756,159
Refunds of contributions	131,560
Administrative expenses	58,440
<hr/>	
Total deductions	946,159
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Change in net assets	3,432,775
<hr/>	
Net assets - beginning	22,530,416
<hr/>	
Net assets - ending	\$ 25,963,191
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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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Fiduciary Funds

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

Basis of Presentation

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

Governmental Major Funds

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

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

Proprietary Major Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Governmental Assets/Liabilities

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

Budgets

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

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

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

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

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

Encumbrances

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

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

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits 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 is valued at the lower of cost (first-in, first-out) or market. Reported inventory in these funds is equally offset by a fund balance reserve which indicates inventory amounts do not constitute “available spendable resources” even though they are a component of net current assets.

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

Capital Assets

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

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

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

Buildings	10-40 Years
Improvements	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, 2006, the City had no capitalized interest.

Unamortized Bond Costs

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

Unamortized Bond Discounts / Premiums

Bond discounts / premiums associated with the issuance of revenue bonds are amortized over the life of the bonds using the straight-line method. For financial reporting, unamortized bond discounts are netted against the applicable long-term debt while unamortized bond premiums are added to the applicable long-term debt.

Deferred Revenues

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

Accumulated Vacation and Sick Leave

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.

Estimated accrued compensated absences for governmental funds represent a reconciling item between the fund and government-wide presentations.

Restricted Assets

Certain assets of the various funds are required by resolutions and ordinances to be set aside and used for specific purposes; thus, they are not available to be used for general operations. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Estimates

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

Reclassifications

Certain reclassifications have been made to the 2005 financial statement presentation to conform to the 2006 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 \$37,350,352 difference are as follows:

Cost of capital assets	\$ 45,212,000
Less: accumulated depreciation	(7,861,648)
<hr/>	
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$ 37,350,352

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 \$56,566,299 difference are as follows:

Bonds payable	\$	54,937,000
Notes payable		610,132
Less: unamortized bond costs		(2,495,911)
Premium costs		1,474,072
Capital leases		151,236
Compensated absences		1,716,340
Accrued interest payable		173,430
<hr/>		
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$	56,566,299

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 \$7,127,919 difference are as follows:

Capital outlay	\$	8,680,485
Depreciation expense		(1,552,566)
<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>	\$	7,127,919

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 increase net assets." The details of this \$952,777 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.	\$ (23,719)
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.	976,496
<i>Net adjustments to increase net change in fund balances – total governmental funds to arrive at change in net assets of governmental activities</i>	\$ 952,777

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 \$(347,253) difference are as follows:

Compensated absences	\$ (153,130)
Accrued interest payable	(162,837)
Amortization of issuance costs	(31,286)
<i>Net adjustment to decrease net change in fund balances – total governmental funds to arrive at change in net assets of governmental activities</i>	\$ (347,253)

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 \$(53,345,742) difference are as follows:

Debt issued		
Issuance of note payable	\$	(3,636,500)
Issuance of bonds payable		(54,835,000)
Plus: issuance premium		(1,477,936)
Less: issuance costs		2,505,355
Principal repayments		
Capital leases		98,098
Notes		3,992,241
Bonds		8,000
<hr/>		
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	(53,345,742)
<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
- 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, 2006, the City did not hold any investments that were considered to be an interest rate risk.

Custodial Risks

At September 30, 2006, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

At September 30, 2006, 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, 2006, the City's deposits and investments consisted of the following:

	Carrying Amount	Market Value
Demand deposits	\$ 87,971,158	\$ 87,971,158
Savings accounts	1,185	1,185
Nonnegotiable certificate of deposits	25,070,283	25,070,283
Total deposits and investments	\$113,042,626	\$113,042,626

NOTE 5 – ACCOUNTS RECEIVABLE

At September 30, 2006, accounts receivable in the governmental funds is summarized as follows:

Total accounts receivable	\$ 51,452
Less: allowance for doubtful accounts	-
Net accounts receivable	\$ 51,452

At September 30, 2006, accounts receivable in the proprietary funds is summarized as follows:

Billed accounts receivable	\$ 2,421,264
Unbilled accounts receivable	2,230,904
Other receivables	34,810
Total accounts receivable	4,686,978
Less: allowance for doubtful accounts	(669,985)
Net accounts receivable	\$ 4,016,993

At September 30, 2006, restricted accounts receivable in the proprietary funds is summarized as follows:

Total restricted accounts receivable	\$ 161,850
Less: allowance for doubtful accounts	-
Net restricted accounts receivable	\$ 161,850

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, 2006 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Utility fund	\$ 26,045
General fund	Special revenue fund	295
General fund	Pier fund	1,477
Special revenue fund	General fund	38
Special revenue fund	Utility fund	225
Utility fund	General fund	316,448
Aquatic fund	General fund	14,996
Utility fund	Pier fund	335,528
Total		\$ 695,052

The composition of interfund transfers as of September 30, 2006 is as follows:

Interfund Transfers:

Transfers out	Transfers in			Total
	General fund	Special revenue fund	Aquatic center fund	
General fund	\$ -	\$ 350,724	\$ 2,247,604	\$ 2,598,328
Utility fund	100,000	-	-	100,000
Total transfers out	\$ 100,000	\$ 350,724	\$ 2,247,604	\$ 2,698,328

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, 2005	Increases	Decreases	Transfers/ Adjustments	September 30, 2006
Capital assets, not being depreciated					
Land	\$ 13,153,190	\$ 4,006,304	\$ -	\$ 937,573	\$ 18,097,067
Construction in progress	1,897,908	2,690,684	-	(131,608)	4,456,984
Total capital assets, not being depreciated	15,051,098	6,696,988	-	805,965	22,554,051
Capital assets, being depreciated					
Buildings	4,325,456	229,521	(7,950)	-	4,547,027
Improvements	11,435,657	165,281	-	163,583	11,764,521
Machinery and equipment	5,060,118	1,587,360	(304,868)	3,791	6,346,401
Total capital assets, being depreciated	20,821,231	1,982,162	(312,818)	167,374	22,657,949
Less accumulated depreciation					
Buildings	(1,444,643)	(119,379)	7,852	-	(1,556,170)
Improvements	(2,506,178)	(690,787)	-	-	(3,196,965)
Machinery and equipment	(2,644,903)	(742,400)	277,215	1,575	(3,108,513)
Total accumulated depreciation	(6,595,724)	(1,552,566)	285,067	1,575	(7,861,648)
Total capital assets, being depreciated	14,225,507	429,596	(27,751)	168,949	14,796,301
Total governmental activities' capital assets – net	\$ 29,276,605	\$ 7,126,584	\$ (27,751)	\$ 974,914	\$ 37,350,352

During the fiscal year ending September 30, 2006, the City had net transfers and adjustments of \$974,914. This amount was a net amount that consisted of contributed assets with an estimated fair market value of \$983,496, assets transferred to the Utility Fund in the amount of \$1,634 and \$6,948 in project costs that were not capitalized and therefore were expensed.

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

Governmental activities	
General government	\$ 70,140
Public safety	626,388
Highways and streets	88,982
Culture and recreation	767,056
Total depreciation expense – governmental activities	\$ 1,552,566

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, 2006:

	Utility Fund	Pier Fund	Aquatic Center Fund	Total
Land	\$ 6,361,316	\$ -	\$ -	\$ 6,361,316
Buildings	30,361,276	124,589	2,209,070	32,694,935
Improvements	52,288,544	757,370	2,027,259	55,073,173
Machinery and equipment	4,875,272	28,469	307,353	5,211,094
Construction in progress	2,445,845	251,389	-	2,697,234
Total	96,332,253	1,161,817	4,543,682	102,037,752
Less: accumulated depreciation				
Buildings	(7,877,929)	(86,385)	(27,659)	(7,991,973)
Improvements	(14,518,071)	(536,683)	(34,347)	(15,089,101)
Machinery and equipment	(2,319,309)	(22,562)	(14,289)	(2,356,160)
Total accumulated depreciation	(24,715,309)	(645,630)	(76,295)	(25,437,234)
Total business-type activities' capital assets – net	\$ 71,616,944	\$ 516,187	\$ 4,467,387	\$ 76,600,518

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, 2005	Increases	Decreases	Transfers/ Adjustments	September 30, 2006
Capital assets, not being depreciated					
Land	\$ 6,351,316	\$ -	\$ -	\$ 10,000	\$ 6,361,316
Construction in progress	4,559,497	6,722,865	-	(8,585,128)	2,697,234
Total capital assets, not being depreciated	10,910,813	6,722,865	-	(8,575,128)	9,058,550
Capital assets, being depreciated					
Buildings	30,485,865	2,995	-	2,206,075	32,694,935
Improvements	48,789,516	674,097	-	5,609,560	55,073,173
Machinery and equipment	3,882,891	479,814	(17,738)	866,127	5,211,094
Total capital assets, being depreciated	83,158,272	1,156,906	(17,738)	8,681,762	92,979,202
Less accumulated depreciation					
Buildings	(7,175,644)	(816,329)	-	-	(7,991,973)
Improvements	(13,756,950)	(1,332,151)	-	-	(15,089,101)
Machinery and equipment	(1,970,643)	(403,255)	17,738	-	(2,356,160)
Total accumulated depreciation	(22,903,237)	(2,551,735)	17,738	-	(25,437,234)
Total capital assets, being depreciated, net	60,255,035	(1,394,829)	-	8,681,762	67,541,968
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 71,165,848	\$ 5,328,036	\$ -	\$ 106,634	\$ 76,600,518

During the fiscal year ending September 30, 2006, the City had net transfers and adjustments of \$106,634. This amount was a net amount that consisted of contributed assets with an estimated fair market value of \$105,000, and assets that were transferred from the General Fund in the amount of \$1,634.

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

Business-type activities	
Utility fund	\$ 2,448,858
Pier fund	26,582
Aquatic fund	76,295
Total depreciation expense – business-type activities	\$ 2,551,735

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

NOTE 8 – CAPITAL LEASES

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

	General Fund
Vehicles	\$ 476,415
Equipment	57,490
Total	533,905
Less accumulated depreciation	(392,786)
Net	\$ 141,119

NOTE 9 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2005	Additions	Deductions	Balance September 30, 2006	Due Within One Year
Revenue bonds payable	\$ 110,000	\$54,835,000	\$ (8,000)	\$ 54,937,000	\$ 8,000
Adjusted for deferred amounts for issuance premium	-	1,477,936	(3,864)	1,474,072	58,765
Total bonds payable	110,000	56,312,936	(11,864)	56,411,072	66,765
Notes payable	965,872	3,636,500	(3,992,240)	610,132	171,009
Capital leases payable	249,334	-	(98,098)	151,236	100,118
Accrued compensated absences	1,563,210	161,253	(8,123)	1,716,340	68,023
	\$ 2,888,416	\$60,110,689	\$ (4,110,325)	\$ 58,888,780	\$ 405,915

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

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

Revenue Bonds Payable:

\$54,835,000 Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project), payable in annual principal installments ranging from \$900,000 to \$3,610,000 over the life of the bonds beginning November 1, 2007, and semiannual interest installments based on stated variable rates of interest ranging from 4% to 5% over the life of the bonds. Final maturity of these bonds is on November 11, 2031. These bonds are payable from a pledge of and first lien upon Front Beach Road CRA Tax Increment Revenues.

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

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

The bonds were issued to provide funds for the purpose of financing the planning, design and construction necessary to build the Community Recreation Center. 102,000

Total revenue bonds at September 30, 2006	54,937,000
Less: revenue bonds – current portion	(8,000)
<hr/>	
Revenue bonds – long-term at September 30, 2006	\$ 54,929,000

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

Year Ending September 30,	Principal	Interest	Total
2007	\$ -	\$ 1,634,035	\$ 1,634,035
2008	900,000	2,495,900	3,395,900
2009	1,315,000	2,451,600	3,766,600
2010	1,365,000	2,398,000	3,763,000
2011	1,420,000	2,342,300	3,762,300
2012-2016	8,040,000	10,753,406	18,793,406
2017-2021	10,055,000	8,678,644	18,733,644
2022-2026	12,480,000	6,197,375	18,677,375
1027-2031	15,650,000	2,926,388	18,576,388
2032	3,610,000	90,250	3,700,250
<hr/>			
	\$ 54,835,000	\$ 39,967,898	\$ 94,802,898

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 Recreation Center Capital Improvement Revenue Bonds, Series 1977, payable at September 30, 2006 are as follows:

Year Ending September 30,	Principal	Interest	Total
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	10,000	3,400	13,400
2012-2016	58,000	9,050	67,050
	<u>\$ 102,000</u>	<u>\$ 30,400</u>	<u>\$ 132,400</u>

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. \$ 427,633

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. 182,499

Total notes payable at September 30, 2006	610,132
Less: current portion	(171,009)

Notes payable – long-term at September 30, 2006	\$ 439,123
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City of Panama City Beach, Florida
Notes to Basic Financial Statements

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

Debt service requirements to maturity on notes payable at September 30, 2006 are as follows:

Year Ending September 30,	Principal	Interest	Total
2007	\$ 171,009	\$ 14,749	\$ 185,758
2008	175,761	9,997	185,758
2009	102,033	4,739	106,772
2010	92,834	2,676	95,510
2011	68,495	624	69,119
	\$ 610,132	\$ 32,785	\$ 642,917

Capital Leases:

Summarized below are the City's capitalized lease obligations outstanding at September 30, 2006:

<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.	\$ 122,422
<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. On March 18, 2006, the City made a partial principal payment which reduced the amount of the remaining 5 semiannual installments to \$9,902. The lease matures on March 18, 2008.	28,814
Total capitalized lease obligations at September 30, 2006	151,236
Less: current portion	(100,118)
Capitalized lease obligations – long-term at September 30, 2006	\$ 51,118

The capital leases expire at various dates through 2008. Debt service requirements to maturity on capitalized lease obligations at September 30, 2006 are as follows:

Year Ending September 30,	
2007	\$ 103,673
2008	51,837
Total minimum lease payments	155,510
Less amount representing interest	(4,274)
Present value of minimum lease payments	\$ 151,236

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

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

	Balance September 30, 2005	Additions	Deductions	Balance September 30, 2006	Due Within One Year
Revenue bonds payable	\$ 25,920,000	\$ -	\$ (415,000)	\$ 25,505,000	\$ 430,000
Adjusted for deferred amounts					
On refunding	(1,136,554)	-	99,376	(1,037,178)	(99,376)
For issuance discounts	(822,080)	-	33,872	(788,208)	(33,872)
Total bonds payable	23,961,366	-	(281,752)	23,679,614	296,752
Revenue certificates payable	846,338	1,607,223	(428,413)	2,025,148	2,025,148
Notes payable	22,661,894	2,815,250	(788,468)	24,688,676	1,361,402
Accrued compensated absences	597,984	68,591	(38,943)	627,632	1,792
	\$ 48,067,582	\$ 4,491,064	\$ (1,537,576)	\$ 51,021,070	\$ 3,685,094

Revenue Bonds:

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

The bonds were issued to provide funds for the purpose of: 1) refunding the City's outstanding \$3,030,000 Water and Sewer Refunding Revenue Bonds, Series 1986 and its outstanding \$3,645,000 Water and Sewer Revenue Bonds, Series 1989, and 2) paying certain costs incurred in connection with the issuance of the Series 1998 Bonds. The total deferred loss on Bond Retirement was \$560,103 to be amortized over 182 months. \$ 5,830,000

\$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. 19,675,000

Total principal obligation at September 30, 2006	25,505,000
Less: principal obligation – current portion	(430,000)

Principal obligation – long-term at September 30, 2006	\$ 25,075,000
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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, 2006 are as follows:

Year Ending September 30,	Principal	Interest	Total
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	930,000	1,151,922	2,081,922
2012-2016	4,105,000	5,107,157	9,212,157
2017-2021	4,255,000	4,153,100	8,408,100
2022-2026	5,430,000	2,978,250	8,408,250
2027-2031	6,950,000	1,477,250	8,427,250
2032	1,600,000	80,000	1,680,000
	\$ 25,505,000	\$ 19,835,117	\$ 45,340,117

Defeased Debt Outstanding:

The principal balance of defeased debt outstanding at September 30, 2006 is as follows:

Utilities Revenue Bonds, Series 1972	\$ 100,000
Water and Sewer Revenue Bonds, Series 1987A	760,000
	\$ 860,000

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. 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, 2005	Net Changes During the Year	Balance at September 30, 2006
Wildwood Road – Water	\$ 100,000	\$ 24,962	\$ (24,962)	\$ -
Georgette Apartments – Sewer	120,000	32,816	(32,816)	-
23 rd Street Joint Venture – Water	55,460	55,460	(52,225)	3,235
23 rd Street Joint Venture – Sewer	118,063	59,745	(59,745)	-
Wild Heron – Water/Sewer	431,834	237,752	(40,138)	197,614
Hills Road – Water	71,550	50,790	-	50,790
Bayside Partners LLC - Sewer	142,993	124,198	-	124,198
Sunnyside Beach & Tennis	203,385	166,404	-	166,404
Tapestry Park North, LLC	96,430	94,211	(1,061)	93,150
Magnolia Beach LLC	100,000	-	85,816	85,816
TW Olson-Magnolia LLC	490,500	-	420,565	420,565
St. Andrews Land Company LLC	670,414	-	575,313	575,313
Ocean Park Pavilion Inc. – Water	68,494	-	68,494	68,494
Ocean Park Pavilion Inc. – Sewer	239,795	-	239,569	239,569
Grand Panama Beach Resort LLC	38,020	-	-	-
	\$ 2,946,938	\$ 846,338	\$ 1,178,810	\$ 2,025,148

On March 27, 2006 the Georgette Apartments Revenue Certificate expired. The balance of \$32,816 was no longer payable and was recognized as income.

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

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

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

Notes Payable:

<u>State Revolving Fund</u> – 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.	\$ 9,563,697
<u>State Revolving Fund</u> – 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%.	14,361,353
<u>Regions Bank</u> – 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%.	233,626
<u>Utility Fund</u> – Note payable dated May 1, 2006, payable in quarterly interest installments of 3.8%, with principal due on demand.	530,000
Total notes payable at September 30, 2006	24,688,676
Less: current portion	(1,361,402)
Notes payable – long-term at September 30, 2006	\$ 23,327,274

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, 2006 are as follows:

Year Ending September 30,	Principal	Interest	Total
2007	\$ 1,361,402	\$ 435,557	\$ 1,796,959
2008	1,007,557	800,436	1,807,993
2009	1,144,435	663,503	1,807,938
2010	1,180,790	627,148	1,807,938
2011	1,218,498	589,440	1,807,938
2012-2016	6,694,494	2,330,382	9,024,876
2017-2021	7,694,407	1,182,818	8,877,225
2022-2026	3,832,161	188,016	4,020,177
2027	554,932	6,251	561,183
	\$ 24,688,676	\$ 6,823,551	\$ 31,512,227

NOTE 11 – ACCRUED ABSENCES

Accrued compensated absences consist of the following at September 30, 2006:

	Accrued Emergency Leave	Accrued Sick Leave	Total Accrued Leave
General fund	\$ 110,186	\$ 1,606,154	\$ 1,716,340
Enterprise funds			
Utility	36,454	586,563	623,017
Pier	505	3,182	3,687
Aquatic	-	928	928
Total	\$ 147,145	\$ 2,196,827	\$ 2,343,972

NOTE 12 – SUBSEQUENT EVENTS

On December 15, 2006, the City Counsel passed a motion to award the Beckrich Road construction contract to Marshall Brothers, Inc. for the bid amount of \$9,932,790. In this same motion, the City Counsel also awarded the Churchwell Drive construction contract to Marshall Brothers, Inc. for the bid amount of \$6,700,000. These projects will be funded with the \$54,835,000 Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project) and with a grant amount of \$2,569,999 from the Department of Transportation.

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, at an agreed upon amount (\$.335 per thousand gallons). This amount is to be paid in twelve equal, consecutive monthly installments during the ensuing fiscal year. During the year ended September 30, 2006, the City's cost of water purchased from Bay County was \$1,603,560. The City did not meet its minimum purchase agreement for 2006 and as a result there was an amount due of \$86,141 at September 30, 2006. However, this liability was offset by the County's impact fees collected by the City in accordance with the inter-local agreement between the City of Panama City Beach and Bay County.

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-eight percent (78%) of the total assets held in trust for pension benefits are invested in mutual funds, twelve percent (12%) 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, 2005, 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 8.7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. Contribution requirements of the plan members and the City are established and may be amended by the pension board of 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. The City’s obligation is partially offset by insurance premiums received annually from the state.

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. The City’s obligation is partially offset by insurance premiums received annually from the state.

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	09/30/04	689,428	105.9%	27,219
	09/30/05	680,128	106.9%	(21,761)
	09/30/06	741,787	102.2%	(38,394)
Police officers	09/30/04	327,158	118.9%	(14,997)
	09/30/05	418,073	107.4%	(47,342)
	09/30/06	380,304	123.3%	(139,616)
Firefighters	09/30/04	231,549	100.0%	149,056
	09/30/05	273,681	102.7%	141,253
	09/30/06	269,273	116.6%	94,921

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, 2006 was \$27,773, 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, 2006 was \$36,000.

NOTE 15 – LEASES (CONTINUED)

Frank Brown Park Concession Lease

The City leased five concession stands located within Frank Brown Park. The operating lease included the use of the concession stand buildings, fixtures and equipment. Monthly rental income was \$2,450 per month for the General Fund. Monthly rental income for the Aquatic Center Fund was \$561 per month for four months. Total rental income for the year ended September 30, 2006 was \$31,664.

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, 2006.

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 municipal services impact fees collected in excess of qualified expenditures. An ordinance restricts the use of impact fees to certain capital expenditures.

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

Business-type Activities

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

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

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

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, 2006:

Governmental activities	
Law enforcement	\$ 126,722
Beach access	508,960
Impact fees	5,086,374
Debt service	3,653,969
<hr/>	
Total	\$ 9,376,025
<hr/>	
Business-type activities	
Impact fees	\$ 24,210,297
Debt service	3,656,002
Construction	831,787
Storm water	176,009
<hr/>	
Total	\$ 28,874,095
<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, 2006:

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, 2006:

General fund	
Reserved for law enforcement	\$ 42,216
Reserved for inventory	8,211
Reserved for prepaid items	19,627
Reserved for impact fees	5,086,374
<hr/>	
Total	\$ 5,156,428
<hr/>	
Community redevelopment fund	
Reserved for community redevelopment	\$ 53,597,544
<hr/>	
Total	\$ 53,597,544
<hr/>	
Other governmental funds	
Reserved for law enforcement	\$ 84,506
Reserved for beach access public parking	508,960
<hr/>	
Total	\$ 593,466
<hr/>	

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

NOTE 18 – RISK MANAGEMENT

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

NOTE 19 – PIER PARK

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

The CDD is authorized to issue debt to provide funds for public improvements to be constructed in the Pier Park Redevelopment Area. The City has pledged tax increment revenue collected within Pier Park to the CDD to be applied to the payment of interest and principal on the debt obligations. For the year ended September 30, 2006, tax increment funds remitted by the County to the City for the Pier Park CRA were \$60,552. These funds were subsequently paid to the CDD by the City.

Additionally, the City has irrevocably pledged the occupational license tax revenue collected within Pier Park to the CDD to be applied (after deduction of certain amounts for public safety services) to certain CDD costs and obligations, including the payment of interest and principal on the debt obligations, in a priority specifically detailed in the PIPA. There was no occupational license tax revenue collected in the fiscal year ended September 30, 2006.

The amount of City’s 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, 2006

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>						
10/1/1996	\$ 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%
10/1/2005	\$ 10,986	\$ 12,306	\$ 1,320	89.3%	\$ 3,708	35.6%
<u>Police Officers</u>						
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%
10/1/2005	\$ 7,262	\$ 8,004	\$ 742	90.7%	\$ 1,772	41.9%
<u>Firefighters</u>						
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%
10/1/2005	\$ 3,743	\$ 4,233	\$ 490	88.4%	\$ 987	49.6%

City of Panama City Beach, Florida
 Required Supplemental Information
 Schedule of Contributions From Employer and Other
 Contributions' Entities - Pension Trust Funds
 September 30, 2006

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
9/30/1997	\$ 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%
9/30/2006	\$ 740,332	102.4%	\$ 378,138	124.1%	\$ 279,765	112.2%

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
9/30/1997	\$ -	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%
9/30/2006	\$ -	0.0%	\$ 93,883	100.0%	\$ 139,917	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, 2006

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	10/1/2005	10/1/2005	10/1/2005
Actuarial cost method	Entry age Normal with Frozen Initial Liability	Entry age Normal with Frozen Initial Liability	Entry age Normal with Frozen Initial Liability
Amortization method	Level Percentage of Payroll	Level Percentage of Payroll	Level Percentage of Payroll
Remaining amortization period	12 years	15 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, 2006

	Special Revenue			Total
	Law Enforcement Trust	Cops and Kids	Beach Access Public Parking	
Assets				
Cash and cash equivalents	\$ -	\$ 10,361	\$ -	\$ 10,361
Cash and cash equivalents - restricted	84,526	-	508,960	593,486
Due from other funds	38	-	-	38
Total assets	\$ 84,564	\$ 10,361	\$ 508,960	\$ 603,885
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 58	\$ -	\$ -	\$ 58
Total liabilities	58	-	-	58
Fund balances				
Reserved for law enforcement	84,506	-	-	84,506
Reserved for beach access	-	-	508,960	508,960
Unreserved	-	10,361	-	10,361
Total fund balances	84,506	10,361	508,960	603,827
Total liabilities and fund balances	\$ 84,564	\$ 10,361	\$ 508,960	\$ 603,885

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, 2006

	Special Revenue			Total
	Law Enforcement Trust	Cops and Kids	Beach Access Public Parking	
Revenues				
Licenses and permits	\$ -	\$ -	\$ 68,531	\$ 68,531
Fines and forfeitures	3,834	-	-	3,834
Contributions and donations	-	23,217	-	23,217
Interest	198	318	13,979	14,495
Total revenues	4,032	23,535	82,510	110,077
Expenditures				
Current				
Public safety	9,900	32,327	-	42,227
Capital outlay				
Public safety	5,500	-	-	5,500
Total expenditures	15,400	32,327	-	47,727
Excess (deficiency) of revenues over (under) expenditures	(11,368)	(8,792)	82,510	62,350
Other financing sources				
Proceeds from sale of assets	16,178	-	-	16,178
Total other financing sources	16,178	-	-	16,178
Net change in fund balances	4,810	(8,792)	82,510	78,528
Fund balances - beginning	79,696	19,153	426,450	525,299
Fund balances - ending	\$ 84,506	\$ 10,361	\$ 508,960	\$ 603,827

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, 2006

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 99,486	\$ 5,423	\$ 104,909
Accounts receivable, net	565	8,970	9,535
Grants receivable	251,389	20,000	271,389
Due from other funds	-	14,996	14,996
Prepaid insurance	6,779	2,113	8,892
Total current assets	358,219	51,502	409,721
Noncurrent assets			
Capital assets			
Nondepreciable	251,389	-	251,389
Depreciable, net	264,798	4,467,387	4,732,185
Total noncurrent assets	516,187	4,467,387	4,983,574
Total assets	874,406	4,518,889	5,393,295
Liabilities			
Current liabilities			
Accounts payable	3,869	27,124	30,993
Accrued expenses	3,092	6,480	9,572
Due to other funds	337,005	-	337,005
Due to other governments	1,406	598	2,004
Deferred revenue	1,000	23,395	24,395
Notes payable	-	530,000	530,000
Total current liabilities	346,372	587,597	933,969
Noncurrent liabilities			
Accrued compensated absences	3,687	929	4,616
Total noncurrent liabilities	3,687	929	4,616
Total liabilities	350,059	588,526	938,585
Net assets			
Invested in capital assets, net of related debt	516,187	4,467,387	4,983,574
Unrestricted (deficit)	8,160	(537,024)	(528,864)
Total net assets	\$ 524,347	\$ 3,930,363	\$ 4,454,710

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, 2006

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating revenues			
Charges for services			
Admissions and other fees	\$ 235,666	\$ 197,240	\$ 432,906
Rent	27,773	2,244	30,017
Total operating revenues	263,439	199,484	462,923
Operating expenses			
Personal services	172,248	211,216	383,464
Professional services	1,915	3,408	5,323
Office supplies	101	30	131
Contractual services	132	4,101	4,233
Insurance	14,844	556	15,400
Repairs and maintenance	7,044	880	7,924
Operating supplies	9,346	120,624	129,970
Communication services	516	2,363	2,879
Public utility services	10,784	40,060	50,844
Rentals	1,304	1,903	3,207
Printing and binding	-	4,066	4,066
Miscellaneous	6,037	10,179	16,216
Depreciation	26,582	76,295	102,877
Total operating expenses	250,853	475,681	726,534
Net operating income (loss)	12,586	(276,197)	(263,611)
Nonoperating revenues (expenses)			
Interest income	6,189	6,253	12,442
Grants and contributions	251,389	344,581	595,970
Interest expense	-	(6,507)	(6,507)
Total nonoperating revenues	257,578	344,327	601,905
Net income before transfers	270,164	68,130	338,294
Transfers in	-	2,247,604	2,247,604
Change in net assets	270,164	2,315,734	2,585,898
Total net assets - beginning	254,183	1,614,629	1,868,812
Total net assets - ending	\$ 524,347	\$ 3,930,363	\$ 4,454,710

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, 2006

Business-type Activities / Enterprise Funds			
	Pier Fund	Aquatic Center Fund	Total
Operating activities			
Receipts from customers and users	\$ 266,212	\$ 199,264	\$ 465,476
Payments to / advances from suppliers	(51,960)	(935,747)	(987,707)
Payments to employees	(171,206)	(213,344)	(384,550)
Net cash provided (used) by operating activities	43,046	(949,827)	(906,781)
Noncapital financing activities			
Contributions	-	144,581	144,581
Transfers from other funds	-	2,247,604	2,247,604
Net cash provided by noncapital financing activities	-	2,392,185	2,392,185
Capital and related financing activities			
Capital grants	-	180,000	180,000
Proceeds from note payable issuance	-	530,000	530,000
Interest paid on notes payable	-	(6,507)	(6,507)
Purchase of capital assets	(251,389)	(2,571,277)	(2,822,666)
Net cash (used) by capital and related financing activities	(251,389)	(1,867,784)	(2,119,173)
Investing activities			
Interest received	6,497	6,253	12,750
Net cash provided by investing activities	6,497	6,253	12,750
Net decrease in cash and cash equivalents	(201,846)	(419,173)	(621,019)
Cash and cash equivalents - beginning	301,332	424,596	725,928
Cash and cash equivalents - ending	\$ 99,486	\$ 5,423	\$ 104,909
Classified as			
Current assets - cash and cash equivalents	\$ 99,486	\$ 5,423	\$ 104,909
Total	\$ 99,486	\$ 5,423	\$ 104,909

(Continued)

City of Panama City Beach, Florida
Combining Statement of Cash Flows
Nonmajor Proprietary Funds (Continued)
Year Ended September 30, 2006

Business-type Activities / Enterprise Funds			
	Pier Fund	Aquatic Center Fund	Total
Reconciliation of net operating income (loss) to net cash provided (used) by operating activities			
Net operating income (loss)	\$ 12,586	\$ (276,197)	\$ (263,611)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	26,582	76,295	102,877
(Increase) decrease in assets			
Accounts receivable	1,190	(8,970)	(7,780)
Due from other funds	467	(14,996)	(14,529)
Prepaid insurance	(737)	(2,113)	(2,850)
Increase (decrease) in liabilities			
Accounts payable	(735)	26,174	25,439
Accrued expenses	(542)	(297,674)	(298,216)
Accrued compensated absences	1,042	929	1,971
Due to other funds	1,900	(476,670)	(474,770)
Due to other governments	293	-	293
Deferred revenue	1,000	23,395	24,395
Total adjustments	30,460	(673,630)	(643,170)
Net cash provided (used) by operating activities	\$ 43,046	\$ (949,827)	\$ (906,781)

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, 2006

	General Employees Pension Trust Fund	Police Officers Pension Trust Fund	Firefighters Pension Trust Fund	Total
Assets				
Cash and cash equivalents	\$ 470,073	\$ 311,094	\$ 196,079	\$ 977,246
Accounts receivable, net	52	33	52,491	52,576
Due from other funds	29	-	-	29
Investments, at fair value				
Money market funds	89,628	56,671	30,122	176,421
Common stocks	1,565,067	989,576	525,979	3,080,622
Real estate investment trusts	708,746	448,133	238,192	1,395,071
Mutual funds	10,315,543	6,522,413	3,466,792	20,304,748
Total assets	13,149,138	8,327,920	4,509,655	25,986,713
Liabilities				
Accounts payable	487	1,086	567	2,140
Due to other funds	-	-	29	29
Refunds payable	7,304	14,049	-	21,353
Total liabilities	7,791	15,135	596	23,522
Net assets				
Held in trust for pension benefits	\$ 13,141,347	\$ 8,312,785	\$ 4,509,059	\$ 25,963,191

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, 2006

	General Employees Pension Trust Fund	Police Officers Pension Trust Fund	Firefighters Pension Trust Fund	Total
Additions				
Contributions				
Employer	\$ 757,792	\$ 375,212	\$ 173,939	\$ 1,306,943
Plan members	389,173	192,051	97,192	678,416
Insurance premiums	-	93,883	139,917	233,800
Total contributions	1,146,965	661,146	411,048	2,219,159
Investment earnings				
Interest	17,427	12,180	7,106	36,713
Dividends	296,831	189,023	97,378	583,232
Net increase in fair value of investments	861,394	537,469	300,074	1,698,937
Total investment earnings	1,175,652	738,672	404,558	2,318,882
Less investment expenses	(75,923)	(51,710)	(31,474)	(159,107)
Net investment earnings	1,099,729	686,962	373,084	2,159,775
Total additions	2,246,694	1,348,108	784,132	4,378,934
Deductions				
Benefits	386,217	318,230	51,712	756,159
Refunds of contributions	65,477	66,083	-	131,560
Administrative expenses	22,572	17,652	18,216	58,440
Total deductions	474,266	401,965	69,928	946,159
Change in net assets	1,772,428	946,143	714,204	3,432,775
Net assets - beginning	11,368,919	7,366,642	3,794,855	22,530,416
Net assets - ending	\$ 13,141,347	\$ 8,312,785	\$ 4,509,059	\$ 25,963,191

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

Compliance Section



CARR, RIGGS & INGRAM, LLC

2232 West 24th Street
Panama City, FL 32405

P | 850 784 6733

F | 850 784 4866

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INDEPENDENT AUDITORS' MANAGEMENT LETTER

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

We have audited the financial statements of the City of Panama City Beach, Florida, (the "City"), as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated June 19, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report on Internal Control and Compliance and Other Matters Based on an Audit of Financial Statements performed in Accordance with *Governmental Auditing Standards*, Report on Compliance with requirements Applicable to Each Major Program/State Project and Internal Control over Compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in that report, which are dated June 19, 2007, should be considered in conjunction with this management letter.

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

As required by Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Panama City Beach complied with Section 218.415, Florida Statutes.

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

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

As required by the Rules of the Auditor General (Section 10.554(1)(h)5, the name or official title and legal authority for the primary government and each component unit of the reporting entity is to be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City of Panama City Beach was created on August 12, 1970 by Chapter 70-874 of the Constitution of the State of Florida. The City has one component unit which is the Panama City Beach Community Redevelopment Agency (Agency). The Agency was created on November 30, 2000 by City Resolution 00-23 pursuant to Florida Statute 163.356. The Agency is operated by the City of Panama City Beach.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6(a)), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the City is not in a state of financial emergency at September 30, 2006 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, 2006, 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, 2006.

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

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

Current Year Audit Recommendations

06-01 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*.

06-02 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.

06-03 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.

06-04 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

05-01 Segregation of Duties

The segregation of duties finding and recommendation was repeated during the fiscal year 2006 as recommendation 06-01.

05-02 Cash Collection Policies

The cash collection policies finding and recommendation was repeated during the fiscal year 2006 as recommendation 06-02.

05-03 Pier Admission Policies

The pier admission policies finding and recommendation was repeated during the fiscal year 2006 as recommendation 06-03.

05-04 Accounting and Personnel Policies

The accounting and personnel policies finding and recommendation was repeated during the fiscal year 2006 as recommendation 06-04.

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
June 19, 2007



CARR, RIGGS & INGRAM, LLC

2232 West 24th Street
Panama City, FL 32405

P | 850 784 6733

F | 850 784 4866

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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, 2006, which collectively comprise the City's basic financial statements and have issued our report dated June 19, 2007. 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 06-01.

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 06-01 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 June 19, 2007.

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
June 19, 2007

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

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

06-01 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.

06-02 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.

06-03 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.

06-04 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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2232 West 24th Street
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P | 850 784 6733
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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM/STATE PROJECT AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL

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

Compliance

We have audited the compliance of City of Panama City Beach, Florida, (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state projects for the year ended September 30, 2006. The City's major federal programs and state projects 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 and state projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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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 and state projects for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General.

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 or state project 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
June 19, 2007

City of Panama City Beach, Florida
 Schedule of Expenditures of Federal Awards and State Financial Assistance
 Year Ended September 30, 2006

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 Collection and Reclaimed Water Reuse Facility	CFDA 66.458	WWG120694060	\$ 2,147,159
U.S. Department of Homeland Security			
Passed through Florida Department of Community Affairs	CFDA		
Disaster Relief - Storm water Outfalls Project	97.036	FEMA-FSDR-1595	272,267
Disaster Relief - Pier Reconstruction Project	97.036	FEMA-FSDR-1595	251,389
U.S. Federal Highway Administration			
Passed through Florida Department of Transportation State Road 79 Multi-use Path	CFDA 20.205	FPID 417966-1-38-01 / AO782	16,514
Total Expenditures of Federal Awards			\$ 2,687,329
Florida Department of Environmental Protection			
Collection and Reclaimed Water Reuse Facility	CSFA 37.***	694050	\$ 750,000
Frank Brown Park Aquatic Center	37.017	FRDAP F06082	200,000
Florida Recreation Developmental Assistance Program	37.017	FRDAP F50332	71,917
Total Expenditures of State Financial Assistance			\$ 1,021,917

Note:

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

City of Panama City Beach, Florida
 Schedule of Findings and Questioned Costs
 Federal Awards and State Financial Assistance
 Year Ended September 30, 2006

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards and State Financial Assistance

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

Identification of major federal programs and state projects:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
66.458	Collection and Reclaimed Water Reuse Facility

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

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

Section II - Financial Statement Findings

06-01 Segregation of Duties

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

Section III - Federal Awards and State Financial Assistance Findings

There were no findings.