

City of Panama City Beach, Florida

Financial Statements

September 30, 2009

City of Panama City Beach, Florida
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Panama City Beach, Florida (the City), as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Panama City Beach, Florida, as of September 30, 2009, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for each major governmental fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2010, on our consideration of the City of Panama City Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 13 and the required supplementary information on pages 63 through 66 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Carri Riggs & Ingram, L.L.C.

Panama City Beach, Florida

May 6, 2010

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 \$175,993,610 (net assets). Of this amount, \$11,632,196 is unrestricted net assets for governmental activities and \$22,652,974 is unrestricted net assets for business-type activities, while \$10,515,472 is restricted net assets for governmental activities and \$30,326,674 is restricted net assets for business-type activities.
- Total net assets increased by \$16,478,017. Of this amount, \$5,720,785 is attributable to governmental activities and \$10,757,232 is attributable to business-type activities. The increase in net assets of governmental activities is primarily attributable to the tax increment revenue received for the Front Beach Road Community Redevelopment Area which was used to fund capital construction projects and to reduce the principal amount of debt outstanding. The increase in net assets of business-type activities is the result of several factors including (a) the receipt of \$5,552,557 in grants and contributions, (b) the collection of \$651,456 in impact fees, and (c) net income from operations before amortization and depreciation of \$7,016,521.
- As of September 30, 2009, the general fund's unreserved fund balance was \$7,104,771 or 49 percent of total general fund expenditures. Unreserved fund balance in the general fund increased by \$759,421 which reflects the City's attempt to increase cash reserves for future years due to concerns with the overall economic environment of the nation.
- Governmental activities revenues decreased to \$25,549,776 or approximately 2 percent, while governmental activities expenditures increased 5 percent to \$19,294,703. Business-type activities revenues decreased to \$32,267,319 or 12 percent, while business-type activities expenditures decreased 5 percent to \$22,044,375.

Overview of the Financial Statements

The City's basic financial statements provide information on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the City's accountability.

Government-wide Financial Statements

The *government-wide financial statements* include the *statement of net assets* and *statement of activities*. These statements are designed to provide readers with a broad overview of the City's financial position, in a manner similar to that of private-sector companies.

Emphasis is placed on the net assets of governmental activities and business-type activities, as well as the change in net assets. Governmental activities are primarily supported by tax increment funds, business tax receipts, utility taxes, franchise fees, and state shared revenues, while business-type activities are supported by charges to the users of those particular activities, such as water, sewer, and admission charges.

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

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

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

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

Fund Financial Statements

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

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

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

A *statement of fiduciary net assets* and a *statement of changes in fiduciary net assets* are presented for the City's fiduciary funds.

The *government-wide financial statements* and the *fund financial statements* provide different presentations of the City's financial position. Categorized by governmental activities and business-type activities, the government-wide financial statements provide an overall picture of the City's financial standing. These statements, which are comparable to private-sector companies, provide a good understanding of the City's overall financial health and present the means used to pay for various activities, or functions provided by the City. All assets of the City, including buildings, land, and infrastructure are reported in the *statement of net assets*, as well as all liabilities, including outstanding principal on bonds, capital leases, and future employee benefits obligated but not yet paid by the City. The *statement of activities* includes depreciation on all long lived assets of the City, but all transactions between different functions of the City have been eliminated to avoid "doubling up" the revenues and expenditures. The *fund financial statements* provide a presentation of the City's major funds, along with a column for all non-major funds. In the case of governmental activities, outlays for long lived assets are reported as expenditures and long-term liabilities, such as revenue bonds, are not included in the fund financial statements. To facilitate a comparison between the *fund financial statements* and the *government-wide financial statements*, a reconciliation is provided.

Notes to basic financial statements provide additional detail concerning the financial activities and financial balances of the City. Additional information about the accounting practices of the City, investments of the City, and long-term debt are just a few of the items included in the notes to basic financial statements.

Financial Analysis of the City

The following schedule provides a summary of the assets, liabilities and net assets of the City. At the end of fiscal year 2009, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its governmental and business-type activities.

City of Panama City Beach, Florida Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
<i>September 30,</i>						
Current and other assets	\$ 44,440,117	\$ 50,905,242	\$ 92,504,262	\$ 62,518,421	\$136,944,379	\$113,423,663
Capital assets	85,928,236	72,909,686	99,890,672	91,970,282	185,818,908	164,879,968
Total assets	130,368,353	123,814,928	192,394,934	154,488,703	322,763,287	278,303,631
Current liabilities	5,415,184	3,083,827	5,596,872	7,649,645	11,012,056	10,733,472
Long-term liabilities	56,357,044	57,855,761	79,400,577	50,198,805	135,757,621	108,054,566
Total liabilities	61,772,228	60,939,588	84,997,449	57,848,450	146,769,677	118,788,038
Net assets invested in capital						
assets net of related debt	46,448,457	45,174,039	54,417,837	47,911,690	100,866,294	93,085,729
Net assets - restricted	10,515,472	11,053,405	30,326,674	31,353,628	40,842,146	42,407,033
Net assets - unrestricted	11,632,196	6,647,896	22,652,974	17,374,935	34,285,170	24,022,831
Total net assets	\$ 68,596,125	\$ 62,875,340	\$107,397,485	\$ 96,640,253	\$175,993,610	\$159,515,593

Investment in capital assets (e.g., land, buildings, equipment and infrastructure), net of any related outstanding debt used to acquire those assets, represents the City's largest portion of net assets (57 percent). These capital assets are utilized to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The *restricted net assets*, representing 23 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*, \$34,285,170 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 \$7,780,565 (or 8%). Significant additions to capital assets occurred in both governmental and business-type activities in the current year. Additions in governmental activities were primarily the result of improvements to the City's roadway infrastructure within the Front Beach Road Community Redevelopment Area, in particular, right-of-way acquisitions and construction costs. These additions were partially funded from the unspent proceeds of a prior year bond issue. Capital additions in business-type activities were primarily related to system expansions and upgrades necessitated by growth. The City financed the continued expansion of its wastewater system with a combination of State Revolving Fund loans and a public assistance grant. Additionally, the City issued utility revenue bonds in the amount of \$28,725,000 late in September 2009. The proceeds from this issue will be used in the next several years primarily to finance the continued expansion of the wastewater system.

Restricted net assets decreased \$1,564,887 (or 4%). The restricted net assets in the governmental activities decreased by \$537,933 while the restricted net assets in the business-type activities decreased by \$1,026,954 resulting in a total decrease of \$1,564,887. The governmental activities decrease primarily resulted from the use of municipal services impact fees to partially fund the construction of a new library building and the construction of various beachfront improvements at the recently rebuilt City pier. The decrease in business-type activities restricted net assets resulted from a combination of factors including (a) an increase in funds set aside to meet debt service requirements as a result of a new bond issue during the year, and (b) a decrease in impact fee cash reserves which was a combination of decreased collections of impact fees and current year expenditures of impact fees for qualifying capital projects.

The increase in *net assets, unrestricted* was \$10,262,339 or 43%. The governmental activities increase was \$4,984,300 while the business-type activities increase was \$5,278,039. Due to the overall economic downturn, the City made every effort to control expenditures and increase cash reserves to provide resources for future years.

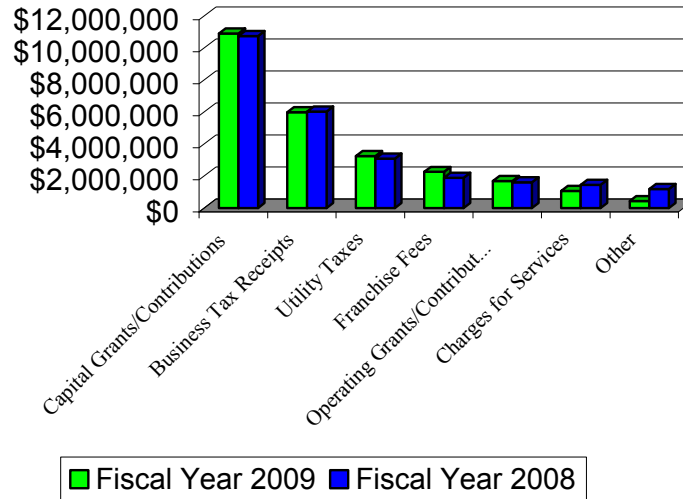
The schedule on the following page compares the revenues and expenses for the current and previous fiscal year.

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

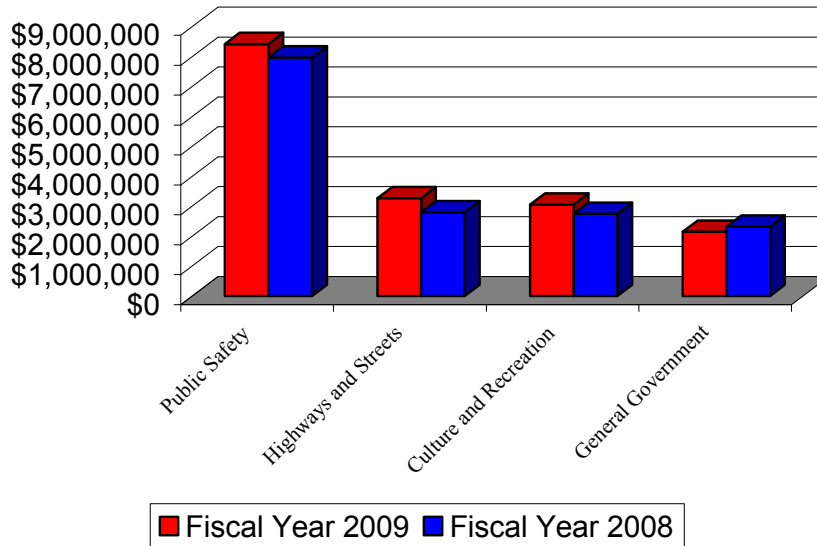
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Program revenues						
Charges for services	\$ 1,064,733	\$ 1,434,231	\$ 24,754,902	\$ 23,581,667	\$ 25,819,635	\$ 25,015,898
Operating grants/contributions	1,679,718	1,611,100	16,352	101,000	1,696,070	1,712,100
Capital grants/contributions	10,889,036	10,741,850	5,452,969	8,175,402	16,342,005	18,917,252
General revenues						
Business tax receipts	5,984,162	6,021,075	-	-	5,984,162	6,021,075
Utility taxes	3,245,727	3,075,535	-	-	3,245,727	3,075,535
Franchise fees	2,252,301	1,876,678	-	-	2,252,301	1,876,678
Impact fees	161,432	190,744	651,456	2,424,631	812,888	2,615,375
Contributions from developers	-	-	83,236	495,500	83,236	495,500
Penalties on delinquent business tax receipts	1,817	1,281	-	-	1,817	1,281
Interest earnings	270,850	986,656	1,308,404	1,673,796	1,579,254	2,660,452
Total revenues	25,549,776	25,939,150	32,267,319	36,451,996	57,817,095	62,391,146
Expenses						
General government	2,154,823	2,324,082	-	-	2,154,823	2,324,082
Public safety	8,424,021	7,976,409	-	-	8,424,021	7,976,409
Highways and streets	3,275,753	2,808,108	-	-	3,275,753	2,808,108
Culture and recreation	3,060,486	2,749,743	-	-	3,060,486	2,749,743
Interest on long- term debt	2,379,620	2,439,540	935,657	2,306,320	3,315,277	4,745,860
Utility - water	-	-	12,694,651	12,676,433	12,694,651	12,676,433
Utility - sewer	-	-	6,742,722	6,625,103	6,742,722	6,625,103
Utility - storm water	-	-	528,257	427,114	528,257	427,114
Pier	-	-	201,155	278,781	201,155	278,781
Aquatic center	-	-	941,933	859,734	941,933	859,734
Total expenses	19,294,703	18,297,882	22,044,375	23,173,485	41,339,078	41,471,367
Increase in net assets before transfers	6,255,073	7,641,268	10,222,944	13,278,511	16,478,017	20,919,779
Transfers	(534,288)	(514,724)	534,288	514,724	-	-
Increase in net assets	\$ 5,720,785	\$ 7,126,544	\$ 10,757,232	\$ 13,793,235	\$ 16,478,017	\$ 20,919,779

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

Revenues - Governmental Activities
Fiscal Years Ended
September 30, 2009 and 2008



Expenses - Governmental Activities
Fiscal Years Ended
September 30, 2009 and 2008



Governmental activities revenues exceeded expenses by \$6,255,073 while business-type activities revenues exceeded expenses by \$10,222,944. Total revenues decreased \$4,574,051 from the previous year. The change in total revenues from business-type activities was a decrease of \$4,184,677, while the change in governmental activities was a decrease of \$389,374. Capital grants and contributions decreased \$2,575,247, impact fees decreased \$1,802,487 and interest earnings decreased \$1,081,198 in the current year. The City received a large grant from the State of Florida for the expansion of the City's wastewater collection system in 2008 which did not reoccur in 2009. Impact fees decreased due to an overall decline in the construction industry resulting in little to no growth. The decline in interest earnings was the result of historically low interest rates being earned throughout the year. Total expenses decreased \$132,289 from the previous year. Moderate increases virtually across the board in all functions were offset by a decrease of \$1,430,583 in interest on long-term debt compared to the prior year. The decrease in interest on long-term debt resulted from the re-amortization and finalization of several state revolving fund loans in 2009.

43% of the revenues for governmental activities are generated by capital grants and contributions, 23% by business tax receipts, and 22% from utility taxes and franchise fees. Most of the governmental resources are expended for public safety (44%) and highways and streets (17%).

Charges for services provide 77% of the revenues for business-type activities, while 17% of the revenues are provided from capital grants and contributions. Most of the governmental resources are expended for public utilities (91%).

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, 2009, total assets were \$14,475,555 and total liabilities were \$2,800,489. At the end of fiscal year 2009, unreserved fund balance of the general fund was \$7,104,771, while total fund balance equaled \$11,675,066. Total fund balance increased \$67,569 (less than 1%). This was a net effect of a decrease in reserved fund balances of \$691,852 (13%) offset with an increase of \$759,421 (12%) in unreserved fund balance. The net increase in fund balance in 2009 was significantly less than the net increase in the preceding year. The City's total revenues were relatively level from 2008 to 2009 while its expenditures increased and its proceeds from sales decreased.

The general fund's budget was amended during the year to reflect minor increases in available revenue as well as significant decreases in expenditures. The increase in total revenue was insignificant as the change from the original to the amended budget was .2%. 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. Similarly, budgeted expenditures in the area of public safety, police and fire, were amended to reflect decreases in personnel and operating costs as a result of a hiring freeze and other cost savings measures implemented during the year. Additionally, with the exception of the library department, expenditures for capital outlay were virtually eliminated resulting in a decrease of slightly more than \$2,000,000 in the amended budget. This decrease was partially offset by an increase of \$743,500 in capital outlay for the library department included in the amended budget.

Community Redevelopment Fund

The other major governmental fund of the City is the community redevelopment fund. As of September 30, 2009, total assets were \$27,175,198 and total liabilities were \$1,318,475. At the end of fiscal year 2009, the unreserved fund balance of the community redevelopment fund was \$250,719, while the total fund balance equaled \$25,856,723. Total fund balance decreased \$8,499,762, all of which was attributable to a decrease in reserved fund balance. As noted in previous years, \$54,835,000 Capital Improvement Revenue Bonds, Series 2006 were issued late in fiscal year 2006. Interest payments on these bonds as well as expenditures of the proceeds on the ongoing activities related to the Front Beach Road project account for the decrease in fund balance.

Non-Major Governmental Funds

The *Beach Access Public Parking Fund* accounts for the use of coastal development and redevelopment fees restricted for the construction of additional beach access public parking. 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	2009 Unrestricted Net Assets	2008 Unrestricted Net Assets
Utility	\$ 23,308,693	\$ 17,853,906
Pier	(30,169)	185,558
Aquatic Center	(625,550)	(664,529)
Total	\$ 22,652,974	\$ 17,374,935

The *Utility Fund* is used to account for the operations of the City's water, sewer and storm water systems. New construction and redevelopment being experienced by the City continued to slow down in the current year and water and sewer impact fee revenues reflected this trend by decreasing \$1,773,175 or 73% compared to the prior year. Operating revenues increased \$893,567 or 4% in 2009 compared to 2008 primarily as a result of rate increases.

The *Pier Fund* accounts for the operations and maintenance of the City Pier. The pier sustained significant damages in past years from several hurricanes. The entire structure was demolished in 2008 and a complete reconstruction project commenced in the spring of 2008. Construction was completed in 2009 and the pier resumed operations on July 3rd. Funding for most of the project was provided by the Federal Emergency Management Agency.

The *Aquatic Center Fund* is being used to account for the operation of an aquatic center located at Frank Brown Park. For 2009, operating expenses exceeded operating revenues by \$660,129. The shortfall in operations was partially offset by a subsidy from the City's General Fund.

Capital Assets Activity

The following schedule provides a summary of the City's capital assets activity. The City's total investment in capital assets for both its governmental and business type activities as of September 30, 2009, was \$185,818,908 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress.

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

- The City continues to expand and rehabilitate its water system which services both City residents and portions of unincorporated Bay County. Approximately \$900,000 was expended in fiscal year 2009 on water expansion and rehabilitation projects. During the year, the City completed the McElvey storage and pump station project which had a total cost of approximately \$2.4 million dollars.
- The City continued to implement its plan to provide sewer services to a number of neighborhoods. Prior to fiscal year 2009, the Open Sands, Bid-A-Wee, Gulf Highlands and Bahama Beach subdivisions portions of the project were 100% complete at a total cost of approximately \$9.4 million dollars. Construction of infrastructure improvements in the El Centro subdivision were completed in the current year at a cost of approximately \$5.2 million dollars, of which \$514,361 was expended in 2009.
- Approximately \$4.4 million dollars was expended in fiscal year 2009 on various lift station and force main projects. The Magnolia Beach lift station and force main project was completed in 2009 at a total cost of approximately \$1.7 million dollars. Additionally, the central force main project was completed and placed in service in 2009 at a total cost of approximately \$1.8 million dollars. \$1.4 million dollars was expended in 2009 to construct a new lift station on Joan Avenue. The project was complete subsequent to year end at a total cost of \$1.5 million dollars.
- The City expended \$4.1 million dollars in 2009 to rebuild the City pier which suffered considerable damage from several hurricanes in prior years. The undamaged portion of the pier was demolished by the City in 2008 and construction on the new pier began at that time. The project was completed in 2009 and re-opened for business on July 3rd. The total cost of the new pier was approximately \$8.7 million dollars. Funding for roughly 94% of the project was provided by a grant from the Federal Emergency Management Agency.
- At September 30, 2009, approximately \$50 million dollars is reflected in construction in progress and land for various road projects within the Front Beach Road Community Redevelopment Area. Planned improvements include expansion of road widths, additional turn lanes, burying utilities, and aesthetic improvements. Actual construction on Richard Jackson Boulevard was completed shortly after year end at an approximate cost of \$14.5 million dollars exclusive of land right-of-way acquisition costs. Construction on South Thomas Drive was underway as of the end of the fiscal year with completion expected sometime in fiscal year 2011. Engineering studies and right-of-way acquisition is ongoing for other roads within the project area.

**Capital Assets
(net of depreciation)**

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 40,853,149	\$ 33,532,921	\$ 6,839,844	\$ 6,817,751	\$ 47,692,993	\$ 40,350,672
Construction in progress	22,587,937	15,176,011	4,145,831	13,776,650	26,733,768	28,952,661
Buildings	2,778,134	2,905,394	23,559,534	22,986,520	26,337,668	25,891,914
Improvements	17,168,276	18,131,562	59,115,265	42,963,454	76,283,541	61,095,016
Machinery and equipment	2,540,740	3,163,798	6,230,198	5,425,907	8,770,938	8,589,705
Total net assets	\$ 85,928,236	\$ 72,909,686	\$ 99,890,672	\$ 91,970,282	\$185,818,908	\$164,879,968

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, net of premium and discounts, of \$105,994,929. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Bond Debt

<i>September 30,</i>	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue bonds	\$ 53,917,777	\$ 55,377,542	\$ 52,077,152	\$ 23,066,110	\$105,994,929	\$ 78,443,652
Total net assets	\$ 53,917,777	\$ 55,377,542	\$ 52,077,152	\$ 23,066,110	\$105,994,929	\$ 78,443,652

The City's total bond debt increased by \$27,551,277 in the current fiscal year. Principal payments totaled \$1,785,000 in the current year and were adjusted by amortization of deferred costs and premiums. The City's debt currently maintains underlying ratings of "A+" from Standard & Poor's and an "A+" 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 very little new construction and redevelopment, the City's economy remained level during the current fiscal year. Despite national economic concerns, tourism remained steady. The City's business tax receipts typically fluctuate with the tourism industry and revenues from this source decreased less than 1% 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 elimination of effluent discharge in to West Bay, provide a discharge site for reclaimed water and widen existing roadways to improve traffic flow and public safety. Additionally, the City is committed to the provision of expanded culture and recreation facilities for public use as evidenced by the continued expansion of the City's greenways and trails system as well as the construction of a new public library which is expected to be open in late spring of 2010.

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, 2009

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 9,129,926	\$ 19,103,351	\$ 28,233,277
Accounts receivable, net	50,221	5,467,847	5,518,068
Taxes and fees receivable	418,280	-	418,280
Grants receivable	262,113	298,148	560,261
Accrued interest receivable	-	10,393	10,393
Due from other governments	268,499	-	268,499
Inventory	9,166	556,601	565,767
Prepaid insurance	16,245	8,803	25,048
Notes receivable, current	-	722,834	722,834
Unamortized debt issuance costs, current	99,203	62,075	161,278
Restricted assets			
Cash and cash equivalents	31,881,684	63,921,157	95,802,841
Accounts receivable, net	-	1,168	1,168
Grants receivable	45,059	84,591	129,650
Accrued interest receivable	168,039	851,309	1,019,348
Notes receivable	-	78,533	78,533
Notes receivable	-	68,495	68,495
Capital assets			
Nondepreciable	63,441,086	10,985,675	74,426,761
Depreciable, net	22,487,150	88,904,997	111,392,147
Unamortized debt issuance costs	2,091,682	1,268,957	3,360,639
Total assets	130,368,353	192,394,934	322,763,287

(Continued)

City of Panama City Beach, Florida
Statement of Net Assets (Continued)
September 30, 2009

Primary Government			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 1,604,450	\$ 1,951,444	\$ 3,555,894
Accrued expenses and deposits	537,425	1,144,757	1,682,182
Accrued interest payable	1,008,647	672,509	1,681,156
Due to other governments	2,221,491	7,549	2,229,040
Internal balances	(70)	70	-
Deferred revenue	43,241	1,820,543	1,863,784
Long-term liabilities			
Due within one year			
Revenue certificates payable	-	2,180,618	2,180,618
Accrued compensated absences	1,138	3,846	4,984
Notes payable	92,834	1,958,128	2,050,962
Revenue bonds payable, net	1,423,765	1,102,745	2,526,510
Due in more than one year			
Accrued compensated absences	2,276,801	822,132	3,098,933
Notes payable	68,494	22,358,701	22,427,195
Revenue bonds payable, net	52,494,012	50,974,407	103,468,419
Total liabilities	61,772,228	84,997,449	146,769,677
Net assets			
Invested in capital assets, net of related debt	46,448,457	54,417,837	100,866,294
Restricted for			
Law enforcement	71,539	-	71,539
Beach access public parking	555,742	-	555,742
Impact fees	4,533,520	27,179,598	31,713,118
Debt service	5,354,671	1,580,640	6,935,311
Construction	-	624,009	624,009
Storm water	-	942,427	942,427
Unrestricted	11,632,196	22,652,974	34,285,170
Total net assets	\$ 68,596,125	\$ 107,397,485	\$ 175,993,610

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, 2009

Functions / Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
General government	\$ 2,154,823	\$ 332,169	\$ 1,212,580	\$ -	\$ (610,074)	\$ -	\$ (610,074)	
Public safety	8,424,021	201,243	214,375	20,774	(7,987,629)	-	(7,987,629)	
Highways and streets	3,275,753	223,422	213,302	10,145,164	7,306,135	-	7,306,135	
Culture and recreation	3,060,486	307,899	39,461	723,098	(1,990,028)	-	(1,990,028)	
Interest on long-term debt	2,379,620	-	-	-	(2,379,620)	-	(2,379,620)	
Total governmental activities	19,294,703	1,064,733	1,679,718	10,889,036	(5,661,216)	-	(5,661,216)	
Business-type activities								
Utility								
Water	12,694,651	15,061,711	4,452	-	-	2,371,512	2,371,512	
Sewer	6,742,722	8,262,554	10,000	1,257,703	-	2,787,535	2,787,535	
Storm water	528,257	861,022	-	63,317	-	396,082	396,082	
Pier	201,155	287,811	900	4,129,449	-	4,217,005	4,217,005	
Aquatic center	941,933	281,804	1,000	2,500	-	(656,629)	(656,629)	
Interest on long-term debt	935,657	-	-	-	-	(935,657)	(935,657)	
Total business-type activities	22,044,375	24,754,902	16,352	5,452,969	-	8,179,848	8,179,848	
Total primary government	\$ 41,339,078	\$ 25,819,635	\$ 1,696,070	\$ 16,342,005	(5,661,216)	8,179,848	2,518,632	
General revenues								
Taxes								
					5,984,162	-	5,984,162	
					3,245,727	-	3,245,727	
					2,252,301	-	2,252,301	
					161,432	651,456	812,888	
					-	83,236	83,236	
					1,817	-	1,817	
					11,645,439	734,692	12,380,131	
					270,850	1,308,404	1,579,254	
					(534,288)	534,288	-	
					11,382,001	2,577,384	13,959,385	
					Change in net assets	5,720,785	10,757,232	16,478,017
					Net assets - beginning	62,875,340	96,640,253	159,515,593
					Net assets - ending	\$ 68,596,125	\$ 107,397,485	\$ 175,993,610

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

City of Panama City Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2009

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 8,867,062	\$ 250,461	\$ 12,403	\$ 9,129,926
Accounts receivable, net	46,192	4,029	-	50,221
Taxes and fees receivable	418,280	-	-	418,280
Grants receivable	262,113	-	-	262,113
Due from other governments	268,499	-	-	268,499
Due from other funds	94	-	2,250	2,344
Inventory	9,166	-	-	9,166
Prepaid insurance	16,232	-	13	16,245
Cash and cash equivalents - restricted	4,587,917	26,707,610	586,157	31,881,684
Accrued interest receivable - restricted	-	168,039	-	168,039
Grants receivable - restricted	-	45,059	-	45,059
Total assets	\$ 14,475,555	\$ 27,175,198	\$ 600,823	\$ 42,251,576
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 287,260	\$ 1,316,849	\$ 341	\$ 1,604,450
Accrued expenses	246,223	1,626	-	247,849
Due to other governments	2,221,491	-	-	2,221,491
Due to other funds	2,274	-	-	2,274
Deferred revenue	43,241	-	-	43,241
Total liabilities	2,800,489	1,318,475	341	4,119,305
Fund balances				
Reserved for				
Law enforcement	11,377	-	32,382	43,759
Inventory	9,166	-	-	9,166
Prepaid insurance	16,232	-	13	16,245
Impact fees	4,533,520	-	-	4,533,520
Debt service	-	7,728,016	-	7,728,016
Beach access public parking	-	-	555,742	555,742
Community redevelopment	-	17,877,988	-	17,877,988
Unreserved, reported in				
General fund	7,104,771	-	-	7,104,771
Community redevelopment fund	-	250,719	-	250,719
Other governmental funds	-	-	12,345	12,345
Total fund balances	11,675,066	25,856,723	600,482	38,132,271
Total liabilities and fund balances	\$ 14,475,555	\$ 27,175,198	\$ 600,823	
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.				85,928,236
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(55,464,382)
Net assets of governmental activities				\$ 68,596,125

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, 2009

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Revenues				
Taxes				
Business tax receipts	\$ 5,984,162	\$ -	\$ -	\$ 5,984,162
Utility	3,245,727	-	-	3,245,727
Tax increment funds	-	10,166,149	-	10,166,149
Franchise fees	2,252,301	-	-	2,252,301
Intergovernmental	1,508,963	-	-	1,508,963
Municipal services impact fees	161,432	-	-	161,432
Licenses and permits	255,712	-	-	255,712
Fines and forfeitures	130,756	7,073	18,309	156,138
Contributions and donations	544,553	-	15,508	560,061
Grants	452,439	114,954	-	567,393
Rents	159,386	-	-	159,386
Interest	86,925	171,209	12,716	270,850
Other fees and miscellaneous	320,608	21,385	-	341,993
Total revenues	15,102,964	10,480,770	46,533	25,630,267
Expenditures				
Current				
General government	1,886,916	237,813	-	2,124,729
Public safety	7,512,043	-	44,436	7,556,479
Highways and streets	1,120,737	1,474,635	-	2,595,372
Culture and recreation	2,020,613	-	-	2,020,613
Debt service				
Principal	176,771	1,315,000	-	1,491,771
Interest and other fiscal charges	9,178	2,451,600	-	2,460,778
Capital outlay				
Public safety	120,300	-	-	120,300
Highways and streets	18,068	13,517,184	-	13,535,252
Culture and recreation	1,510,312	-	-	1,510,312
Total expenditures	14,374,938	18,996,232	44,436	33,415,606
Excess (deficiency) of revenues over (under) expenditures	728,026	(8,515,462)	2,097	(7,785,339)
Other financing sources (uses)				
Transfers in	100,000	15,700	-	115,700
Transfers out	(649,988)	-	-	(649,988)
Grants and aids	(116,525)	-	-	(116,525)
Proceeds from sale of asset	6,056	-	-	6,056
Net other financing sources (uses)	(660,457)	15,700	-	(644,757)
Net change in fund balances	67,569	(8,499,762)	2,097	(8,430,096)
Fund balances - beginning	11,607,497	34,356,485	598,385	46,562,367
Fund balances - ending	\$ 11,675,066	\$ 25,856,723	\$ 600,482	\$ 38,132,271

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, 2009

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

Net change in fund balances - total governmental funds (page 18)	\$ (8,430,096)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	13,038,049
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to increase net assets.	(19,498)
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.	(319,003)
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,451,333
Change in net assets of governmental activities (page 16)	\$ 5,720,785

City of Panama City Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended September 30, 2009

	Budgeted Amounts		Variance with	Actual	Budget	Actual
	Original	Final	Final Budget- Actual Amounts Budget Basis	Amounts Budget Basis	to GAAP Difference	Amounts GAAP Basis
Revenues						
Taxes						
Business tax receipts	\$ 6,020,000	\$ 5,972,098	\$ 12,064	\$ 5,984,162	\$ -	\$ 5,984,162
Utility	3,192,000	3,469,000	178	3,469,178	(223,451)	3,245,727
Franchise fees	1,954,000	2,206,000	33,204	2,239,204	13,097	2,252,301
Intergovernmental	1,438,852	1,457,614	51,141	1,508,755	208	1,508,963
Municipal services impact fees	489,348	157,060	4,372	161,432	-	161,432
Licenses and permits	184,000	239,000	16,712	255,712	-	255,712
Fines and forfeitures	168,000	114,800	8,721	123,521	7,235	130,756
Contributions and donations	250,200	311,466	7,954	319,420	225,133	544,553
Grants	875,604	738,347	40,622	778,969	(326,530)	452,439
Rents	153,050	144,185	5,735	149,920	9,466	159,386
Interest	115,500	86,400	525	86,925	-	86,925
Other fees and miscellaneous	356,191	325,693	2,749	328,442	(7,834)	320,608
Total revenues	15,196,745	15,221,663	183,977	15,405,640	(302,676)	15,102,964
Expenditures						
Current						
General government						
Legislative	166,468	155,926	8,719	147,207	(167)	147,040
Administration	749,057	722,255	31,151	691,104	(16,170)	674,934
Comprehensive planning	356,533	326,404	40,682	285,722	1,267	286,989
Civil service	50,322	51,518	2,577	48,941	1,050	49,991
Protective services	921,635	759,429	42,517	716,912	11,050	727,962
Total general government	2,244,015	2,015,532	125,646	1,889,886	(2,970)	1,886,916
Public safety						
Police	5,385,628	4,974,113	224,095	4,750,018	120,140	4,870,158
Fire	2,767,411	2,672,109	94,348	2,577,761	64,124	2,641,885
Total public safety	8,153,039	7,646,222	318,443	7,327,779	184,264	7,512,043
Highways and streets	1,485,645	1,189,734	78,191	1,111,543	9,194	1,120,737
Culture and recreation						
Library	174,210	174,710	805	173,905	(473)	173,432
Recreation	1,824,617	1,954,543	136,806	1,817,737	29,444	1,847,181
Total culture and recreation	1,998,827	2,129,253	137,611	1,991,642	28,971	2,020,613
Total current	13,881,526	12,980,741	659,891	12,320,850	219,459	12,540,309
Debt service						
Principal	99,771	176,771	-	176,771	-	176,771
Interest and other fiscal charges	9,040	9,240	51	9,189	(11)	9,178
Total debt service	108,811	186,011	51	185,960	(11)	185,949

(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, 2009

	Budgeted Amounts		Variance with	Actual	Budget	Actual
	Original	Final	Final Budget- Actual Amounts Budget Basis	Amounts Budget Basis	to GAAP Difference	Amounts GAAP Basis
Expenditures (continued)						
Capital outlay						
General government						
Comprehensive planning	\$ -	\$ 150	\$ -	\$ 150	\$ (150)	\$ -
Total general government	-	150	-	150	(150)	-
Public safety						
Police	648,500	76,970	11,849	65,121	-	65,121
Fire	233,805	57,000	1,821	55,179	-	55,179
Total public safety	882,305	133,970	13,670	120,300	-	120,300
Highways and streets	52,500	20,000	1,932	18,068	-	18,068
Culture and recreation						
Library	256,500	1,000,000	3,602	996,398	126,187	1,122,585
Recreation	1,409,000	172,000	9,114	162,886	224,841	387,727
Total culture and recreation	1,665,500	1,172,000	12,716	1,159,284	351,028	1,510,312
Total capital outlay	2,600,305	1,326,120	28,318	1,297,802	350,878	1,648,680
Total expenditures	16,590,642	14,492,872	688,260	13,804,612	570,326	14,374,938
Excess (deficiency) of revenues over (under) expenditures	(1,393,897)	728,791	872,237	1,601,028	(873,002)	728,026
Other financing sources (uses)						
Transfers in	100,000	100,000	-	100,000	-	100,000
Transfers out	(1,360,364)	(901,553)	251,565	(649,988)	-	(649,988)
Grants and aids	(128,500)	(128,500)	11,975	(116,525)	-	(116,525)
Proceeds from sale of asset	-	6,056	-	6,056	-	6,056
Total other financing sources (uses)	(1,388,864)	(923,997)	263,540	(660,457)	-	(660,457)
Net change in fund balances	(2,782,761)	(195,206)	1,135,777	940,571	(873,002)	67,569
Fund balances - beginning	11,033,729	11,033,729	-	11,033,729	573,768	11,607,497
Fund balances - ending	\$ 8,250,968	\$ 10,838,523	\$ 1,135,777	\$ 11,974,300	\$ (299,234)	\$ 11,675,066

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, 2009

	Budgeted Amounts		Variance with	Actual	Budget	Actual
	Original	Final	Final Budget- Actual Amounts Budget Basis	Amounts Budget Basis	to GAAP Difference	Amounts GAAP Basis
Revenues						
Tax increment funds	\$ 10,457,833	\$ 10,166,147	\$ 2	\$ 10,166,149	\$ -	\$ 10,166,149
Fines and forfeitures	-	3,000	44	3,044	4,029	7,073
Grants	150,000	69,895	-	69,895	45,059	114,954
Interest	177,735	54,292	533	54,825	116,384	171,209
Other fees and miscellaneous	40,000	20,010	1,380	21,390	(5)	21,385
Total revenues	10,825,568	10,313,344	1,959	10,315,303	165,467	10,480,770
Expenditures						
Current						
General government	147,992	258,666	23,012	235,654	2,159	237,813
Highways and streets	1,511,859	1,388,190	55,913	1,332,277	142,358	1,474,635
Total current	1,659,851	1,646,856	78,925	1,567,931	144,517	1,712,448
Debt service						
Principal	1,315,000	1,315,000	-	1,315,000	-	1,315,000
Interest and other fiscal charges	2,451,600	2,451,600	-	2,451,600	-	2,451,600
Total debt service	3,766,600	3,766,600	-	3,766,600	-	3,766,600
Capital outlay						
Highways and streets	19,945,500	16,850,000	3,763,667	13,086,333	430,851	13,517,184
Total capital outlay	19,945,500	16,850,000	3,763,667	13,086,333	430,851	13,517,184
Total expenditures	25,371,951	22,263,456	3,842,592	18,420,864	575,368	18,996,232
Deficiency of revenues (under) expenditures	(14,546,383)	(11,950,112)	3,844,551	(8,105,561)	(409,901)	(8,515,462)
Other financing sources						
Transfers in	300,000	15,700	-	15,700	-	15,700
Total other financing sources	300,000	15,700	-	15,700	-	15,700
Net change in fund balances	(14,246,383)	(11,934,412)	3,844,551	(8,089,861)	(409,901)	(8,499,762)
Fund balances - beginning	34,474,060	34,474,060	-	34,474,060	(117,575)	34,356,485
Fund balances - ending	\$ 20,227,677	\$ 22,539,648	\$ 3,844,551	\$ 26,384,199	\$ (527,476)	\$ 25,856,723

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, 2009

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 18,876,680	\$ 226,671	\$ 19,103,351
Accounts receivable, net	5,455,861	11,986	5,467,847
Grants receivable	-	298,148	298,148
Accrued interest receivable	10,393	-	10,393
Due from other funds	150,024	-	150,024
Inventory	556,601	-	556,601
Prepaid insurance	6,545	2,258	8,803
Notes receivable	722,834	-	722,834
Unamortized debt issuance costs	62,075	-	62,075
Total current assets	25,841,013	539,063	26,380,076
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	63,434,967	486,190	63,921,157
Accounts receivable	1,168	-	1,168
Grants receivable	84,591	-	84,591
Accrued interest receivable	851,309	-	851,309
Notes receivable	78,533	-	78,533
Notes receivable	68,495	-	68,495
Capital assets			
Nondepreciable	10,773,887	211,788	10,985,675
Depreciable, net	76,286,462	12,618,535	88,904,997
Unamortized debt issuance costs	1,268,957	-	1,268,957
Total noncurrent assets	152,848,369	13,316,513	166,164,882
Total assets	178,689,382	13,855,576	192,544,958
Liabilities			
Current liabilities			
Accounts payable	1,608,322	343,122	1,951,444
Accrued expenses and deposits	1,111,958	32,799	1,144,757
Accrued interest payable	672,509	-	672,509
Due to other funds	94	150,000	150,094
Due to other governments	3,618	3,931	7,549
Revenue certificates payable	2,180,618	-	2,180,618
Deferred revenue	1,795,302	25,241	1,820,543
Accrued compensated absences	2,424	1,422	3,846
Notes payable	1,328,128	630,000	1,958,128
Revenue bonds payable, net	1,102,745	-	1,102,745
Total current liabilities	9,805,718	1,186,515	10,992,233
Noncurrent liabilities			
Accrued compensated absences	813,865	8,267	822,132
Notes payable	22,358,701	-	22,358,701
Revenue bonds payable, net	50,974,407	-	50,974,407
Total noncurrent liabilities	74,146,973	8,267	74,155,240
Total liabilities	83,952,691	1,194,782	85,147,473
Net assets			
Invested in capital assets, net of related debt	41,587,514	12,830,323	54,417,837
Restricted for			
Impact fees	27,179,598	-	27,179,598
Debt service	1,580,640	-	1,580,640
Construction	137,819	486,190	624,009
Storm water	942,427	-	942,427
Unrestricted (deficit)	23,308,693	(655,719)	22,652,974
Total net assets	\$ 94,736,691	\$ 12,660,794	\$ 107,397,485

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, 2009

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Operating revenues			
Charges for services			
Water and sewer sales	\$ 22,628,579	\$ -	\$ 22,628,579
Storm water assessments	861,022	-	861,022
Connection and reset fees	192,211	-	192,211
Administrative and review fees	26,060	-	26,060
Admissions and other fees	-	524,562	524,562
Rent	36,000	36,115	72,115
Miscellaneous	441,415	8,938	450,353
Total operating revenues	24,185,287	569,615	24,754,902
Operating expenses			
Personal services	4,848,064	511,612	5,359,676
Professional services	457,879	12,759	470,638
Office supplies	18,788	1,827	20,615
Contractual services	155,417	480	155,897
Insurance	194,783	33,200	227,983
Repairs and maintenance	907,567	38,959	946,526
Operating supplies	1,586,502	140,473	1,726,975
Communication services	54,923	5,469	60,392
Public utility services	8,360,501	134,763	8,495,264
Transportation	88,313	111	88,424
Rentals	42,424	13,368	55,792
Printing and binding	10,952	2,139	13,091
Miscellaneous	109,709	7,399	117,108
Amortization	32,572	-	32,572
Depreciation	3,097,236	239,001	3,336,237
Total operating expenses	19,965,630	1,141,560	21,107,190
Net operating income (loss)	4,219,657	(571,945)	3,647,712
Nonoperating revenues (expenses)			
Interest income	1,307,582	822	1,308,404
Grants and contributions	1,418,708	4,133,849	5,552,557
(Loss) on disposal of assets	-	(1,528)	(1,528)
Interest expense	(911,596)	(24,061)	(935,657)
Total nonoperating revenues	1,814,694	4,109,082	5,923,776
Net income before impact fees and transfers	6,034,351	3,537,137	9,571,488
Impact fees	651,456	-	651,456
Transfers in	-	634,288	634,288
Transfers out	(100,000)	-	(100,000)
Total impact fees and transfers	551,456	634,288	1,185,744
Change in net assets	6,585,807	4,171,425	10,757,232
Total net assets - beginning	88,150,884	8,489,369	96,640,253
Total net assets - ending	\$ 94,736,691	\$ 12,660,794	\$ 107,397,485

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, 2009

Business-type Activities / Enterprise Funds			
	Utility Fund	Other Proprietary Funds	Total
Operating activities			
Receipts from customers and users	\$ 24,190,625	\$ 572,099	\$ 24,762,724
Payments to suppliers	(11,536,218)	(383,584)	(11,919,802)
Payments to employees	(4,998,389)	(496,085)	(5,494,474)
Net cash provided (used) by operating activities	7,656,018	(307,570)	7,348,448
Noncapital financing activities			
Grants and contributions	4,132	1,900	6,032
Repayments from (payments to) other funds	185,528	(185,528)	-
Transfers from (to) other funds	(100,000)	565,000	465,000
Receipt of payments due on notes	125,318	-	125,318
Net cash provided by noncapital financing activities	214,978	381,372	596,350
Capital and related financing activities			
Grants and contributions	1,248,850	5,453,825	6,702,675
Impact fees	596,951	-	596,951
Transfers from other funds	-	69,288	69,288
Principal paid on revenue certificates	(258,454)	-	(258,454)
Proceeds from issuance of revenue bonds	28,797,600	-	28,797,600
Principal paid on revenue bonds	(470,000)	-	(470,000)
Revenue bonds issuance costs paid	(38,645)	-	(38,645)
Proceeds from issuance of notes	913,158	-	913,158
Principal paid on notes	(945,327)	-	(945,327)
Interest paid on revenue bonds	(1,213,458)	-	(1,213,458)
Interest paid on notes	(390,251)	(43,463)	(433,714)
Proceeds from sale of asset	1,740	-	1,740
Purchase of capital assets	(7,644,396)	(5,186,496)	(12,830,892)
Net cash provided by capital and related financing activities	20,597,768	293,154	20,890,922
Investing activities			
Interest received	965,000	822	965,822
Net cash provided by investing activities	965,000	822	965,822
Net increase in cash and cash equivalents	29,433,764	367,778	29,801,542
Cash and cash equivalents - beginning	52,877,883	345,083	53,222,966
Cash and cash equivalents - ending	\$ 82,311,647	\$ 712,861	\$ 83,024,508
Classified as			
Current assets - cash and cash equivalents	\$ 18,876,680	\$ 226,671	\$ 19,103,351
Restricted assets - cash and cash equivalents	63,434,967	486,190	63,921,157
Total	\$ 82,311,647	\$ 712,861	\$ 83,024,508

(Continued)

City of Panama City Beach, Florida
Statement of Cash Flows
Proprietary Funds (Continued)
Year Ended September 30, 2009

	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)	\$ 4,219,657	\$ (571,945)	\$ 3,647,712
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities			
Amortization	32,572	-	32,572
Depreciation	3,097,236	239,001	3,336,237
Bad debts	74,321	-	74,321
Repairs and maintenance contributed by developer	10,000	-	10,000
(Increase) decrease in assets			
Accounts receivable	(518,879)	(6,620)	(525,499)
Due from other funds	(24)	-	(24)
Inventory	33,266	-	33,266
Prepaid insurance	(93)	(4)	(97)
Accounts receivable, restricted	(1,130)	-	(1,130)
Increase (decrease) in liabilities			
Accounts payable	213,850	(6,424)	207,426
Accrued expenses and deposits	654,903	20,989	675,892
Accrued compensated absences	(160,417)	5,261	(155,156)
Due to other funds	19	-	19
Due to other governments	(1,233)	3,068	1,835
Deferred revenue	1,970	9,104	11,074
Total adjustments	3,436,361	264,375	3,700,736
Net cash provided (used) by operating activities	\$ 7,656,018	\$ (307,570)	\$ 7,348,448
Noncash financing, capital, and investing activities			
Impact fees financed by the City	\$ 58,570	\$ -	\$ 58,570
Water and sewer improvements financed by revenue certificates	\$ 480,854	\$ -	\$ 480,854
Expiration of revenue certificate	\$ 3,235	\$ -	\$ 3,235
Capitalized interest included in note principal	\$ 158,892	\$ -	\$ 158,892
Contributions from developers	\$ 90,000	\$ -	\$ 90,000
Revenue bonds issuance costs paid directly from proceeds	\$ 550,194	\$ -	\$ 550,194

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, 2009

	Pension Trust Funds
<hr/>	
Assets	
Cash and cash equivalents	\$ 952,018
Accounts receivable, net	42,616
Investments, at fair value	
Money market funds	166,886
Real estate investment trusts	686,197
Mutual funds	28,783,984
<hr/>	
Total assets	30,631,701
<hr/>	
Liabilities	
Accounts payable	44,581
Refunds payable	14,381
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Total liabilities	58,962
<hr/>	
Net assets	
Held in trust for pension benefits	\$ 30,572,739
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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, 2009

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 1,836,014
Plan members	898,548
Insurance premiums	251,745
Total contributions	2,986,307
Investment earnings	
Interest	1,479
Dividends	242,613
Net decrease in fair value of investments	519,541
Total investment earnings	763,633
Less investment expenses	(174,175)
Net investment earnings	589,458
Total additions	3,575,765
Deductions	
Benefits	1,163,674
Refunds of contributions	80,689
Administrative expenses	69,031
Total deductions	1,313,394
Change in net assets	2,262,371
Net assets - beginning	28,310,368
Net assets - ending	\$ 30,572,739

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Component Unit – Panama City Beach Community Redevelopment Agency

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

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

Due to the nature and significance of the Agency's relationship with the City, exclusion of the Agency's financial operations would render the City's financial statements incomplete or misleading. The Agency's governing body is the same as the governing body of the City and the Agency does provide services specifically to the Front Beach Road and Pier Park Community Redevelopment Areas of the City. The Agency is disclosed using the blended presentation method.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The basic financial statements of the City are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and agency fund financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement 33 – *Accounting and Financial Reporting for Nonexchange Transactions*.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures.

As a general rule, the effects of interfund activity have been eliminated from the government-wide financial statements. The City chooses to eliminate the indirect costs between funds to avoid duplicating revenues and expenditures.

Fund Financial Statements

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Fiduciary Funds

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

Basis of Presentation

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

Governmental Major Funds

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

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

Proprietary Major Funds

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Governmental Assets/Liabilities

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

Budgets

Annual budgets are legally adopted for all governmental funds, except those indicated in Note 3, and all proprietary funds. Budgets are prepared and adopted on the cash basis of accounting, except as described in Note 3. All annual appropriations lapse at fiscal year end.

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

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

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

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

Encumbrances

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

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

Cash and Cash Equivalents

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits and Investments

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

Accounts Receivable

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

Due to and Due from Other Funds

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

Inventory

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

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, water and 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 \$5,000 or more and an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

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

Buildings	10-40 Years
Improvements	3-50 Years
Machinery and equipment	2-25 Years

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations

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

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

Capitalization of Interest

Interest incurred during the construction phase of capital assets of business-type activities is capitalized. For the year ended September 30, 2009, \$20,001 was capitalized in connection with the construction of the new City pier.

Unamortized Bond Costs

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

Unamortized Bond Discounts / Premiums

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

Deferred Gain / Loss from Refunding of Debt

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

Deferred Revenues

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accumulated Vacation and Sick Leave

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

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

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

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

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

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

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

Restricted Assets

Certain assets of the various funds are legally required to be set aside and used for specific purposes; thus, they are not available to be used for general operations. When both restricted and unrestricted resources are available for use, the City would typically use restricted resources first as appropriate opportunities arise, but reserves the right to selectively defer the use of restricted resources to future qualifying expenditures.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

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

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

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets:

The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$85,928,236 difference are as follows:

Cost of capital assets	\$	98,531,783
Less: accumulated depreciation		(12,603,547)
<hr/>		
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	85,928,236
<hr/>		

Another element of that reconciliation states, "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this (\$55,464,382) difference are as follows:

Bonds payable	\$	(52,620,000)
Note payable		(161,328)
Less: unamortized bond costs		2,190,885
OPEB liability		(289,576)
Unamortized premium costs		(1,297,777)
Compensated absences		(2,277,939)
Accrued interest payable		(1,008,647)
<hr/>		
Net adjustment to decrease <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	(55,464,382)
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City of Panama City Beach, Florida
Notes to Basic Financial Statements

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

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances - total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of these assets are allocated over their estimated useful lives and reported as depreciation expense." The details of this \$13,038,049 difference are as follows:

Capital outlay	\$	15,165,864
Depreciation expense		(2,127,815)
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	13,038,049
<hr/>		

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, adjustments, and donations) is to decrease net assets." The details of this (\$19,498) 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.	\$	(19,498)
<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>	\$	(19,498)
<hr/>		

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this (\$319,003) difference are as follows:

Compensated absences	\$	(51,820)
Accrued interest		22,393
OPEB liability		(289,576)
<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>	\$	(319,003)
<hr/>		

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

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

Another element of that reconciliation states, "The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$1,451,333 difference are as follows:

Principal repayments		
Note	\$	90,771
Bonds		1,401,000
Plus, amortization of bond premium costs		58,765
Less, amortization of bond issuance costs		(99,203)
<i>Net adjustment to increase net change in fund balances – total governmental funds to arrive at change in net assets of governmental activities</i>		
	\$	1,451,333

NOTE 3 – BUDGETS

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

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

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

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

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

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

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

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

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

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

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

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

Direct obligations of the United States Treasury.

Federal agencies and instrumentalities.

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

Credit Risks

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

Interest Rate Risks

At September 30, 2009, the City did not hold any investments that were considered to be an interest rate risk.

Custodial Risks

At September 30, 2009, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

At September 30, 2009, 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, 2009, the City's deposits and investments consisted of the following:

	Carrying Amount	Market Value
Demand deposits	\$100,347,583	\$100,347,583
Nonnegotiable certificate of deposits	23,688,535	23,688,535
Total deposits and investments	\$124,036,118	\$124,036,118

NOTE 5 – ACCOUNTS RECEIVABLE, NET

At September 30, 2009, accounts receivable in the governmental funds is summarized as follows:

Total accounts receivable	\$ 50,221
Less: allowance for doubtful accounts	-
Accounts receivable, net	\$ 50,221

At September 30, 2009, accounts receivable in the proprietary funds is summarized as follows:

Billed accounts receivable	\$ 886,088
Unbilled accounts receivable	5,336,501
Other receivables	12,689
Total accounts receivable	6,235,278
Less: allowance for doubtful accounts	(767,431)
Accounts receivable, net	\$ 5,467,847

At September 30, 2009, restricted accounts receivable in the proprietary funds is summarized as follows:

Total restricted accounts receivable	\$ 1,168
Less: allowance for doubtful accounts	-
Restricted accounts receivable, net	\$ 1,168

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

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

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of due to / from other funds balances as of September 30, 2009 is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Utility fund	\$ 94
LETF fund	General fund	2,250
Utility fund	General fund	24
Utility fund	Pier fund	150,000
Total		\$ 152,368

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

The composition of interfund transfers as of September 30, 2009 is as follows:

Transfers out	Transfers in				Total
	Community Redevelopment Fund	General Fund	Pier Fund	Aquatic Center Fund	
General fund	\$ 15,700	\$ -	\$ 69,288	\$ 565,000	\$ 649,988
Utility fund	-	100,000	-	-	(100,000)
Total transfers out	\$ 15,700	\$ 100,000	\$ 69,288	\$ 565,000	\$ 549,988

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, 2008	Increases	Decreases	September 30, 2009
Capital assets, not being depreciated				
Land	\$ 33,532,921	\$ 7,320,228	\$ -	\$ 40,853,149
Construction in progress	15,176,011	7,528,653	(116,727)	22,587,937
Total capital assets, not being depreciated	48,708,932	14,848,881	(116,727)	63,441,086
Capital assets, being depreciated				
Buildings	4,713,995	-	-	4,713,995
Improvements	22,900,677	294,241	-	23,194,918
Machinery and equipment	7,114,086	139,469	(71,771)	7,181,784
Total capital assets, being depreciated	34,728,758	433,710	(71,771)	35,090,697
Less accumulated depreciation				
Buildings	(1,808,601)	(127,260)	-	(1,935,861)
Improvements	(4,769,115)	(1,257,527)	-	(6,026,642)
Machinery and equipment	(3,950,288)	(743,028)	52,272	(4,641,044)
Total accumulated depreciation	(10,528,004)	(2,127,815)	52,272	(12,603,547)
Total capital assets, being depreciated, net of accumulated depreciation	24,200,754	(1,694,105)	(19,499)	22,487,150
Total governmental activities' capital assets – net	\$ 72,909,686	\$ 13,154,776	\$ (136,226)	\$ 85,928,236

During the fiscal year ending September 30, 2009, the City received contributed assets of \$225,133.

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

Governmental activities	
General government	\$ 50,407
Public safety	630,087
Highways and streets	555,790
Culture and recreation	891,531
Total depreciation expense – governmental activities	\$ 2,127,815

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, 2008	Increases	Decreases	September 30, 2009
Capital assets, not being depreciated				
Land	\$ 6,817,751	\$ 27,004	\$ (4,911)	\$ 6,839,844
Construction in progress	13,776,650	10,337,299	(19,968,118)	4,145,831
Total capital assets, not being depreciated	20,594,401	10,364,303	(19,973,029)	10,985,675
Capital assets, being depreciated				
Buildings	32,574,336	1,442,203	-	34,016,539
Improvements	60,507,698	17,939,965	-	78,447,663
Machinery and equipment	8,341,216	1,486,452	(5,150)	9,822,518
Total capital assets, being depreciated	101,423,250	20,868,620	(5,150)	122,286,720
Less accumulated depreciation				
Buildings	(9,587,816)	(869,189)	-	(10,457,005)
Improvements	(17,544,244)	(1,788,154)	-	(19,332,398)
Machinery and equipment	(2,915,309)	(678,894)	1,883	(3,592,320)
Total accumulated depreciation	(30,047,369)	(3,336,237)	1,883	(33,381,723)
Total capital assets, being depreciated, net of accumulated depreciation	71,375,881	17,532,383	(3,267)	88,904,997
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 91,970,282	\$ 27,896,686	\$ (19,976,296)	\$ 99,890,672

During the fiscal year ending September 30, 2009, the City received contributed assets of \$80,000.

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

Business-type activities	
Utility fund	
Water	\$ 1,380,667
Sewer	1,658,363
Storm water	58,206
Pier fund	81,976
Aquatic center fund	157,025
Total depreciation expense – business-type activities	\$ 3,336,237

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, 2009:

	Utility Fund	Pier Fund	Aquatic Center Fund	Total
Land	\$ 6,839,844	\$ -	\$ -	\$ 6,839,844
Buildings	31,803,479	-	2,213,060	34,016,539
Improvements	67,730,742	8,673,794	2,043,127	78,447,663
Machinery and equipment	9,502,196	6,681	313,641	9,822,518
Construction in progress	3,934,043	204,288	7,500	4,145,831
Total	119,810,304	8,884,763	4,577,328	133,272,395
Less: accumulated depreciation				
Buildings	(10,262,559)	-	(194,446)	(10,457,005)
Improvements	(19,007,490)	(81,187)	(243,721)	(19,332,398)
Machinery and equipment	(3,479,906)	(4,928)	(107,486)	(3,592,320)
Total accumulated depreciation	(32,749,955)	(86,115)	(545,653)	(33,381,723)
Total business-type activities' capital assets, net	\$87,060,349	\$ 8,798,648	\$ 4,031,675	\$99,890,672

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

Effective for the fiscal year ending September 30, 2009, the City has implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for retiree health insurance. The requirements of this statement are being implemented prospectively, with actuarial accrued liability for benefits of \$4,587,573 at transition, amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for postemployment health care benefits due at the date of implementation.

The City of Panama City Beach Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan which provides Other Postemployment Benefits (OPEB) to eligible retirees and their spouses. Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the City and eligible spouses, may continue to participate in the group insurance plan. Retirees and their eligible spouses shall be offered the same medical, dental and life insurance coverage as is offered to active employees at a premium cost of no more than the premium cost applicable to active employees. The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. The City currently has approximately 250 total active and retired employees eligible to receive these benefits. No stand alone report is issued for this plan. An actuarial study was performed August 14, 2009.

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

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

Eligibility

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

Funding Policy

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

Coverage	Blue Options 1351	Blue Options 1551	Blue Options 1755
Retiree	\$ 407.51	\$ 431.42	\$ 449.21
Retiree and Spouse	\$ 843.55	\$ 893.05	\$ 929.86

Dental insurance can be purchased at a cost of \$22.69 per month per member and life insurance coverage can be purchased at a cost of \$6 per \$15,000 of coverage.

Annual OPEB Cost and Net OPEB Obligation

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

Description	Total
Annual required contribution of employer	\$ 520,904
Less amortization of net OPEB obligation	-
Plus interest on net OPEB obligation	-
Total annual OPEB cost	\$ 520,904
Actual beginning of year net OPEB obligation	\$ -
Plus actual annual OPEB cost	520,904
Minus contributions	(84,816)
Estimated end of year net OPEB obligation	\$ 436,088

The City has not advance-funded or established a funding methodology for the annual OPEB costs or the net OPEB obligation. Rather, the funding is based on a pay-as-you-go basis. During the fiscal year, the City provided contributions of \$84,816 toward the annual OPEB cost. A Schedule of Employer Contributions can be found in required supplementary information immediately following the notes.

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

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

Funding Status and Funding Progress

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

Actuarial Methods and Assumptions

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

The initial OPEB actuarial valuation method used for the City was the entry age actuarial cost method. This method was used to estimate the actuarial liabilities and costs. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 4% rate of return on investments for the City. The actuarial assumptions also include an annual salary scale of 6%. Medical and drug cost trend rate is 10.5% for the fiscal year ended September 30, 2009, gradually decreasing to future rate of 5.5% for the fiscal year ended September 30, 2014. Dental cost trend rate is 7.5% for the fiscal year ended September 30, 2009, gradually decreasing to future rate of 4.5% for the fiscal year ended September 30, 2012. Past service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 4.0% per year.

NOTE 9 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2008	Additions	Deductions	Balance September 30, 2009	Due Within One Year
Revenue bonds payable	\$ 54,021,000	\$ -	\$ (1,401,000)	\$ 52,620,000	\$ 1,365,000
Adjusted for deferred amounts for issuance premium	1,356,542	-	(58,765)	1,297,777	58,765
Total bonds payable	55,377,542	-	(1,459,765)	53,917,777	1,423,765
Note payable	252,100	-	(90,772)	161,328	92,834
Accrued compensated absences	2,226,119	61,370	(9,550)	2,277,939	1,138
	\$ 57,855,761	\$ 61,370	\$ (1,560,087)	\$ 56,357,044	\$ 1,517,737

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 semi-annual interest installments based on stated variable rates of interest ranging from 4% to 5% over the life of the bonds. Final maturity of the bonds is on November 1, 2031. The bonds are payable from a pledge of and first lien upon Front Beach Road CRA Tax Increment 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 Plan. The \$54,835,000 is composed of \$38,420,000 Serial Bonds and \$16,415,000 Term Bonds.

	\$ 52,620,000
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Total revenue bonds at September 30, 2009	52,620,000
Less: revenue bonds – current portion	(1,365,000)
<hr/>	
Revenue bonds – long-term at September 30, 2009	\$ 51,255,000

Debt service requirements to maturity on Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project), payable at September 30, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 1,365,000	\$ 2,398,000	\$ 3,763,000
2011	1,420,000	2,342,300	3,762,300
2012	1,480,000	2,284,300	3,764,300
2013	1,540,000	2,221,975	3,761,975
2014	1,605,000	2,155,144	3,760,144
2015-2019	9,180,000	9,567,375	18,747,375
2020-2024	11,445,000	7,260,869	18,705,869
2025-2029	14,260,000	4,365,275	18,625,275
2030-2032	10,325,000	791,125	11,116,125
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	\$ 52,620,000	\$ 33,386,363	\$ 86,006,363

Note Payable:

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

	\$ 161,328
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Total note payable at September 30, 2009	161,328
Less: note payable - current portion	(92,834)
<hr/>	
Note payable – long-term at September 30, 2009	\$ 68,494

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 note payable at September 30, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 92,834	\$ 2,677	\$ 95,511
2011	68,494	625	69,119
	\$ 161,328	\$ 3,302	\$ 164,630

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

	Balance September 30, 2008	Additions	Deductions	Balance September 30, 2009	Due Within One Year
Revenue bonds payable	\$ 24,625,000	\$28,725,000	\$ (470,000)	\$ 52,880,000	\$ 1,215,000
Adjusted for deferred amounts					
On refunding	(838,428)	-	99,376	(739,052)	(99,376)
For issuance discounts	(720,462)	-	33,872	(686,590)	(33,872)
For issuance premium	-	622,794	-	622,794	20,993
Total bonds payable	23,066,110	29,347,794	(336,752)	52,077,152	1,102,745
Revenue certificates payable	1,961,455	480,854	(261,691)	2,180,618	2,180,618
Notes payable	24,190,106	1,072,050	(945,327)	24,316,829	1,958,128
Accrued compensated balances	981,134	41,593	(196,749)	825,978	3,846
	\$ 50,198,805	\$ 30,942,291	\$ (1,740,519)	\$ 79,400,577	\$ 5,245,337

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

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

Revenue Bonds:

\$6,970,000 Utility Revenue Bonds, Series 1998, dated March 13, 1998; 3.65% to 4.90% interest, depending on maturity dates of bonds. Interest is payable semi-annually on June 1 and December 1. Principal is payable annually on June 1 with final maturity on June 1, 2019. The \$6,970,000 is composed of \$5,490,000 Serial Bonds and \$1,480,000 Term Bonds.

The bonds were issued to provide funds for the purpose of: 1) refunding the City's outstanding \$3,030,000 Water and Sewer Refunding Revenue Bonds, Series 1986 and its outstanding \$3,645,000 Water and Sewer Revenue Bonds, Series 1989, and 2) paying certain costs incurred in connection with the issuance of the Series 1998 Bonds. The total deferred loss on Bond Retirement was \$560,103 to be amortized over 182 months. \$ 5,295,000

\$19,920,000 Utility Revenue Bonds, Series 2002, dated April 11, 2002; 5.00% interest, depending on maturity date of bonds. Interest is payable semiannually on June 1 and December 1. Principal is payable annually on June 1 beginning June 1, 2006 with final maturity on June 1, 2032. The \$19,920,000 is composed of Term Bonds.

The bonds were issued to provide funds for the purpose of: 1) refunding the City's outstanding Water and Sewer Refunding and Improvement Revenue Bonds, Series 1993, 2) funding the Reserve Account as stated in the Bond Document, 3) financing the cost of acquisition and construction of certain capital improvements in connection with the City's water and sewer utility system, 4) paying certain costs relating to the issuance of the bonds. 18,860,000

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

The bonds were issued to provide funds for the purpose of: 1) financing the cost of the acquisition and construction of certain capital improvements in connection with the City's water and sewer utility system, 2) funding a required deposit to the Reserve Fund established pursuant to the Resolution, and 3) paying certain costs incurred in connection with the issuance of the bonds. 28,725,000

Total revenue bonds at September 30, 2009	52,880,000
Less: revenue bonds – current portion	(1,215,000)
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Revenue bonds – long-term at September 30, 2009	\$ 51,665,000

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

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

Debt service requirements to maturity on revenue bonds payable at September 30, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 1,215,000	\$ 2,137,229	\$ 3,352,229
2011	1,420,000	2,517,472	3,937,472
2012	1,485,000	2,459,062	3,944,062
2013	1,545,000	2,391,822	3,936,822
2014	1,215,000	2,320,842	3,535,842
2015-2019	6,980,000	10,708,731	17,688,731
2020-2024	8,875,000	8,814,512	17,689,512
2025-2029	11,225,000	6,464,775	17,689,775
2030-2034	10,885,000	3,449,750	14,334,750
2035-2039	8,035,000	1,244,250	9,279,250
	\$ 52,880,000	\$ 42,508,445	\$ 95,388,445

The principal balance of the defeased debt outstanding for the Water and Sewer Revenue Bonds, Series 1987A, at September 30, 2009 is \$610,000.

Revenue Certificates:

This liability consists of revenue certificates payable to various developers for extensions made to the City's water and sewer systems. The revenue certificates are payable solely from a percentage 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 its due date, the certificate shall be void. The City made payments related to the facilities shown below:

Location	Original Amount of Certificate	Balance at September 30, 2008	Net Changes During the Year	Balance at September 30, 2009
23 rd Street Joint Venture	\$ 55,460	\$ 3,235	\$ (3,235)	\$ -
Wild Heron	431,834	188,794	-	188,794
Hills Road	71,550	6,264	-	6,264
Bayside Partners LLC	142,993	124,198	-	124,198
Sunnyside Beach & Tennis	203,385	166,404	-	166,404
Tapestry Park North, LLC	96,430	91,252	(203)	91,049
Magnolia Beach LLC	100,000	85,146	(489)	84,657
TW Olson-Magnolia LLC	490,500	417,278	(2,400)	414,878
St. Andrews Land Company LLC	670,414	570,821	(3,281)	567,540
Ocean Park Pavilion Inc.	68,494	68,494	-	68,494
Ocean Park Pavilion Inc.	239,795	239,569	-	239,569
Karen Arrigo - Shasta Street	18,357	-	16,275	16,275
Shores of Panama, Inc.	250,000	-	-	-
St. Andrews Land Company, LLC	212,496	-	212,496	212,496
	\$ 3,051,708	\$ 1,961,455	\$ 219,163	\$ 2,180,618

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

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

Payments on these revenue certificates are due 10 to 45 days after connections are made as specified in each revenue certificate.

Notes Payable:

<p>State Revolving Fund #1 – Note payable dated February 9, 2001, payable in 40 semi-annual installments of \$607,131 beginning December 15, 2002 through June 15, 2009. Beginning December 15, 2009, semi-annual payments are reduced to \$550,187 for the remaining term of the loan. The note matures June 15, 2022. Installments include principal and interest at 2.99%.</p>	\$ 11,780,597
<p>State Revolving Fund #2 – Note payable dated March 5, 2002 payable in 40 semi-annual installments of \$242,542 beginning October 15, 2009 which includes principal and interest at a weighted average interest rate of 2.88%. The note matures April 15, 2029.</p>	
<p>In addition, the City has been awarded a grant from the State of Florida which will be applied directly to the outstanding debt through April 15, 2019. The total amount of debt expected to be retired from grant funds is \$7,400,442.</p>	11,203,197
<p>State Revolving Fund #3 – Note payable dated December 21, 2007, payable in 40 semi-annual installments of \$88,822 on April 15, 2009 and \$17,436 thereafter. The note matures October 15, 2028. Installments include principal and interest at 2.41%.</p>	528,000
<p>Regions Bank – Note payable dated April 15, 2001, payable in monthly installments of \$2,708 beginning May 15, 2001 which includes principal and interest at 6.2%. The note is collateralized by a building.</p>	175,035
<p>Utility Fund – Note payable dated May 1, 2006, interest payable quarterly at 3.8%, with principal due on demand.</p>	630,000
<p>Total notes payable at September 30, 2009</p>	24,316,829
<p>Less: notes payable - current portion</p>	(1,958,128)
<p>Notes payable – long-term at September 30, 2009</p>	\$ 22,358,701

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, 2009 are as follows:

Year Ending September 30,	Principal	Interest	Total
2010	\$ 1,958,128	\$ 1,037,600	\$ 2,995,728
2011	1,446,975	955,847	2,402,822
2012	1,508,974	893,848	2,402,822
2013	1,573,929	828,893	2,402,822
2014	1,641,996	760,826	2,402,822
2015-2019	9,128,446	2,674,720	11,803,166
2020-2024	4,835,192	1,065,705	5,900,897
2025-2029	2,223,189	359,151	2,582,340
	\$ 24,316,829	\$ 8,576,590	\$ 32,893,419

NOTE 11 – PLEDGED REVENUES - GOVERNMENTAL ACTIVITIES

The \$54,835,000 Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project) were issued to provide funds for the purpose of financing the preparation, planning, design, land acquisition, construction and implementations necessary to carry out the Front Beach Road Community Redevelopment Area Plan. These bonds are payable from a pledge of and first lien upon Front Beach Road CRA Tax Increment Revenues. This pledge remains in effect until extinguishment or maturity of the debt in 2031, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2009 totaled \$86,006,363. Annual principal and interest payments on the bonds in fiscal year 2009 required the use of 37.6% of the tax increment revenue. Principal and interest payments paid for the current year and Front Beach Road CRA tax increment revenues collected, were \$3,766,600 and \$10,019,940, respectively

NOTE 12 – PLEDGED REVENUE - BUSINESS-TYPE ACTIVITIES

The \$6,970,000 Utility Revenue Bonds, Series 1998, were issued to provide funds which were used to refund the outstanding \$3,030,000 Water and Sewer Refunding Revenue Bonds, Series 1986, and the outstanding \$3,645,000 Water and Sewer Revenue Bonds, Series 1989, and to pay the cost of issuing the bonds. The bonds are secured by a junior lien upon and pledge of (a) net revenues of the water and sewer systems, (b) water system development charges, (c) sewer system development charges, and (d) until released, public service taxes. The lien and pledge exists until extinguishment or maturity of the debt in 2019, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2009 totaled \$6,331,055. Annual principal and interest payments on the bond required 4.08% of pledged revenue. Current year principal and interest payments paid from pledged revenue were \$190,000 and \$265,065, respectively.

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

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

The \$19,920,000 Utility Revenue Bonds, Series 2002, were issued to provide funds which were used to refund the outstanding \$12,675,000 Water and Sewer Refunding and Improvement Revenue Bonds, Series 1993, to finance the cost of the acquisition and construction of certain capital improvements in connection with the City's water and sewer utility system, and to pay the cost of issuing the bonds. The bonds are secured by a junior lien upon and pledge of (a) net revenues of the water and sewer systems, (b) water system development charges, (c) sewer system development charges, and (d) until released, public service taxes. The lien and pledge exists until extinguishment or maturity of the debt in 2032, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2009 totaled \$33,965,143. Annual principal and interest payments on the bond required 11.02% of pledged revenue. Current year principal and interest payments paid from pledged revenue were \$280,000 and \$948,393, respectively.

The \$28,725,000 Utility Revenue Bonds, Series 2009, were issued to provide funds for the purpose of financing the cost of the acquisition and construction of certain capital improvements in connection with the City's water and sewer utility system. The bonds are payable from and secured by a lien upon and pledge of (a) net revenues of the water and sewer systems, (b) water system development charges, (c) sewer system development charges, (d) until released, public service taxes, and (e) the money deposited in the various funds related to the creation of the obligation. The remaining principal and interest payments on this debt as of September 30, 2009 totaled \$55,092,247. Current year principal and interest payments paid from pledged revenue were \$0 and \$0 respectively.

NOTE 13 – ACCRUED ABSENCES

Accrued compensated absences consist of the following at September 30, 2009:

	Accrued Emergency Leave	Accrued Sick Leave	Total Accrued Leave
Governmental funds			
General	\$ 333,320	\$ 1,933,517	\$ 2,266,837
Community Redevelopment	2,688	8,414	11,102
Enterprise funds			
Utility	164,144	652,145	816,289
Pier	383	1,959	2,342
Aquatic Center	5,653	1,694	7,347
Total	\$ 506,188	\$ 2,597,729	\$ 3,103,917

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

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation

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

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

Contract

On November 30, 1999, the City entered into a contract to purchase water from Bay County. The terms of the contract require that the City must purchase a minimum of five billion, three hundred ninety-five million (5,395,000,000) gallons of water each fiscal year. During 2002, the minimum purchase amount was amended to five billion, eighty-two million, one hundred thousand (5,082,100,000) gallons. In the event of a shortfall, the City is required to pay the County an amount equal to the number of gallons short, at an agreed upon amount (\$.335 per thousand gallons). During the year ended September 30, 2009, the City's cost of water purchased from Bay County was \$6,473,614. The City did not meet its minimum purchase agreement for 2009 and as a result there was an amount due of \$294,241 at September 30, 2009. However, this liability was offset by \$81,217 representing the County's impact fees collected by the City in accordance with an inter-local agreement, and \$2,313 in other credits. As such, the net amount of \$210,711 has been recorded as a liability on the City's financial statements and is included in the total cost of water purchased above.

Construction Contracts

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

NOTE 15 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

The City's pension plans are established by various City ordinances. According to these ordinances, the City maintains three separate single-employer defined benefit pension plans which cover general employees, police officers and firefighters. The City's ordinances governing the firefighters' and police officers' plans were written in compliance with the provisions of Florida Statutes, Chapters 175 and 185, respectively. A stand-alone financial statement report for the plans is not available. An actuarial valuation report for the plans may be obtained by writing to Mr. Richard Jackson, City Manager, 110 South Arnold Road, Panama City Beach, Florida 32413. A description of the plans follows:

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

NOTE 15 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)

Summary of Significant Accounting Policies and Plan Asset Matters

The City of Panama City Beach PERS financial statements are prepared on the accrual basis of accounting. Contributions from the City and the City’s employees are recognized as revenue in the period in which employees provide services to the City. Investment income is recognized as earned by the pension plans. Investments held by the plans are recorded at market value in the basic financial statements. There are no investments in, loans to, or leases with parties related to the pension plans. Ninety-four percent (94%) of the total assets held in trust for pension benefits are invested in mutual funds, two percent (2%) in real estate investment trusts, and the remaining balance of four percent (4%) 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, 2008, the date of the latest actuarial valuation.

	General Employees	Police Officers	Fire- Fighters
Retirees and beneficiaries receiving benefits	41	12	3
Terminated plan members entitled to but not yet receiving benefits	3	6	4
Active plan members	149	50	28
Total	193	68	35
Number of participating employers	1	1	1

General Employees’ Pension Plan

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

Contributions – Plan members are required to contribute 8.7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. Contribution requirements of the plan members and the City are established and may be amended by the pension board of trustees. The City will meet all additional costs of the plan according to actuarial valuations performed periodically.

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

NOTE 15 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)

Police Officers’ Pension Plan

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

Contributions – Plan members are required to contribute 11.0% of their annual covered salary. The City is required to contribute at an actuarially determined rate. Contribution requirements of the plan members and the City are established and may be amended by the pension board of trustees. The City will meet all additional costs of the plan according to actuarial valuations performed periodically.

Firefighters’ Pension Plan

Plan Description – The firefighters’ pension plan is a single-employer defined benefit pension plan that covers the certified firefighters of the City fire department. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Chapter 175 of Florida Statutes provides guidance for the City to establish and amend the benefit provisions of the plan.

Contributions – Plan members are required to contribute 8.1% of their annual covered salary except for those firefighters who elect the “25 and out” tier. These members are required to contribute 11.5% of their annual covered salary. The City is required to contribute at an actuarially determined rate. Contribution requirements of the plan members and the City are established and may be amended by the pension board of trustees. The City will meet all additional costs of the plan according to actuarial valuations performed periodically.

Three Year Trend Information

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

	For The Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
General employees	09/30/07	818,049	99.7%	(35,743)
	09/30/08	887,879	90.2%	54,497
	09/30/09	1,031,149	pending	pending
Police officers	09/30/07	419,466	104.0%	(156,985)
	09/30/08	525,523	94.7%	(127,785)
	09/30/09	520,866	pending	pending
Firefighters	09/30/07	311,462	150.7%	(69,069)
	09/30/08	364,271	161.2%	(300,844)
	09/30/09	499,090	pending	pending

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

NOTE 16 – LEASES

Bay County Lease

On April 13, 2001, the City leased approximately 3,100 square feet in the building at 17109 Panama City Beach Parkway, including utilities and maintenance and adjacent appropriate parking, to 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, 2009 was \$36,000.

Frank Brown Park Concession Lease

The City leases five concession stands located within Frank Brown Park. The operating lease includes the use of the concession stand buildings, fixtures and equipment beginning November 1, 2006 and continuing through September 30, 2009. The lessee has an option to renew at the same terms and conditions for two consecutive terms of one year each. Rent is due on the first of each month in an amount equal to 22% of monthly gross sales made by the lessee in the previous month. Monthly rental income is allocated between the General Fund and the Aquatic Center Fund based upon the location of the concession stands. Total rental income for the year end September 30, 2009, by fund, was \$43,995 and \$10,707, respectively.

NOTE 17 – NET ASSET RESTRICTIONS

The following is a description of reported net asset restrictions in governmental activities and business-type activities at September 30, 2009.

Governmental Activities

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

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

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

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

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

NOTE 17 – NET ASSET RESTRICTIONS (CONTINUED)

Business-type Activities

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

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

Restriction for Construction – This restriction was established to account for unexpended bond proceeds and private contributions. These funds must be used for acquisition and construction of certain capital improvements.

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

Summary

Specific restrictions of net assets are summarized below as of September 30, 2009:

Governmental activities	
Law enforcement	\$ 71,539
Beach access public parking	555,742
Impact fees	4,533,520
Debt service	5,354,671
<hr/>	
Total	\$ 10,515,472
<hr/>	
Business-type activities	
Impact fees	\$ 27,179,598
Debt service	1,580,640
Construction	624,009
Storm water	942,427
<hr/>	
Total	\$ 30,326,674
<hr/>	

For the fiscal year ending September 30, 2009, the amount of net assets restricted by enabling legislation was \$33,282,826.

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

NOTE 18 – FUND BALANCE RESERVATIONS

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

The following is a description of reported reserves in governmental funds at September 30, 2009:

General Fund

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

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

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

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

Community Redevelopment Fund

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

Other Governmental Funds

Reserved for Law Enforcement – This reserve was created to restrict the use of certain resources contributed specifically for law enforcement purposes. Florida statutes restrict the use of these funds to 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, 2009:

General fund	
Reserved for law enforcement	\$ 11,377
Reserved for inventory	9,166
Reserved for prepaid insurance	16,232
Reserved for impact fees	4,533,520
<hr/>	
Total	\$ 4,570,295
<hr/>	

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

NOTE 18 – FUND BALANCE RESERVATIONS (CONTINUED)

Community redevelopment fund	
Debt service	\$ 7,728,016
Reserved for community redevelopment	17,877,988
<hr/>	
Total	\$ 25,606,004
<hr/>	

Other governmental funds	
Reserved for law enforcement	\$ 32,382
Reserved for prepaid insurance	13
Reserved for beach access public parking	555,742
<hr/>	
Total	\$ 588,137
<hr/>	

NOTE 19 – RISK MANAGEMENT

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

NOTE 20 – PIER PARK

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

The CDD was authorized to issue debt to provide funds for public improvements constructed in the Pier Park Redevelopment Area. The City has pledged tax increment revenue collected within Pier Park to the CDD to be applied to the payment of interest and principal on the debt obligations. For the year ended September 30, 2009, tax increment funds remitted by the County to the City for the Pier Park CRA were \$146,209. These funds were subsequently paid to the CDD by the City.

Additionally, the City has irrevocably pledged the business tax receipts collected within Pier Park to the CDD to be applied (after deduction of certain amounts for public safety services) to certain CDD costs and obligations, including the payment of interest and principal on the debt obligations, in a priority specifically detailed in the PIPA. Business tax receipts and related penalties for late payments collected in the fiscal year ended September 30, 2009 were \$1,518,435.

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

NOTE 20 – PIER PARK (CONTINUED)

A portion of the business tax receipts collected within the Pier Park Community Redevelopment Area is retained by the City for the provision of public safety services within the Pier Park Community Redevelopment Area. The amount retained by the City is determined under the terms of the PIPA and is calculated in the fiscal year following collection. The City has recorded a liability as of September 30, 2009 in the amount of \$2,220,660. This represents 2008 collections due to the CDD in the amount of \$702,225 and 2009 collections in the amount of \$1,518,435. The portion of the 2009 collections to be retained by the City, is not determinable until July 2010.

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

Required Supplementary Information

City of Panama City Beach, Florida
Required Supplementary Information
Schedule of Analysis of Funding Progress
Pension Trust Funds
September 30, 2009

Analysis of Funding Progress (In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>General Employees</u>						
10/1/1999	\$ 6,405	\$ 8,092	\$ 1,687	79.2%	\$ 2,932	57.5%
10/1/2000	\$ 7,278	\$ 9,036	\$ 1,758	80.5%	\$ 2,865	61.4%
10/1/2001	\$ 7,723	\$ 9,493	\$ 1,770	81.4%	\$ 3,160	56.0%
10/1/2002	\$ 8,400	\$ 10,050	\$ 1,650	83.6%	\$ 3,314	49.8%
10/1/2003	\$ 9,234	\$ 10,801	\$ 1,567	85.5%	\$ 3,634	43.1%
10/1/2004	\$ 10,141	\$ 11,594	\$ 1,453	87.5%	\$ 3,694	39.3%
10/1/2005	\$ 10,986	\$ 12,306	\$ 1,320	89.3%	\$ 3,708	35.6%
10/1/2006	\$ 12,409	\$ 13,615	\$ 1,206	91.1%	\$ 4,510	26.7%
10/1/2007	\$ 14,273	\$ 15,374	\$ 1,101	92.8%	\$ 4,931	22.3%
10/1/2008	\$ 15,608	\$ 16,684	\$ 1,076	93.6%	\$ 5,152	20.9%
<u>Police Officers</u>						
10/1/1999	\$ 4,608	\$ 5,421	\$ 813	85.0%	\$ 1,429	56.9%
10/1/2000	\$ 5,210	\$ 6,036	\$ 826	86.3%	\$ 1,512	54.6%
10/1/2001	\$ 5,043	\$ 5,862	\$ 819	86.0%	\$ 1,743	47.0%
10/1/2002	\$ 5,860	\$ 6,723	\$ 863	87.2%	\$ 1,798	48.0%
10/1/2003	\$ 6,275	\$ 7,106	\$ 831	88.3%	\$ 1,677	49.6%
10/1/2004	\$ 6,771	\$ 7,542	\$ 771	89.8%	\$ 1,746	44.2%
10/1/2005	\$ 7,262	\$ 8,004	\$ 742	90.7%	\$ 1,772	41.9%
10/1/2006	\$ 8,044	\$ 8,698	\$ 654	92.5%	\$ 1,907	34.3%
10/1/2007	\$ 9,021	\$ 9,905	\$ 884	91.1%	\$ 2,031	43.5%
10/1/2008	\$ 9,778	\$ 10,607	\$ 829	92.2%	\$ 2,277	36.4%
<u>Firefighters</u>						
10/1/1999	\$ 2,298	\$ 2,298	\$ -	100.0%	\$ 878	0.0%
10/1/2000	\$ 2,670	\$ 2,670	\$ -	100.0%	\$ 829	0.0%
10/1/2001	\$ 2,456	\$ 2,742	\$ 286	89.6%	\$ 853	33.5%
10/1/2002	\$ 2,826	\$ 3,230	\$ 404	87.5%	\$ 838	48.2%
10/1/2003	\$ 3,014	\$ 3,505	\$ 491	86.0%	\$ 901	54.5%
10/1/2004	\$ 3,324	\$ 3,816	\$ 492	87.1%	\$ 950	51.8%
10/1/2005	\$ 3,743	\$ 4,233	\$ 490	88.4%	\$ 987	49.6%
10/1/2006	\$ 4,359	\$ 4,832	\$ 473	90.2%	\$ 955	49.5%
10/1/2007	\$ 5,251	\$ 5,685	\$ 434	92.4%	\$ 1,030	42.1%
10/1/2008	\$ 6,116	\$ 7,797	\$ 1,681	78.4%	\$ 1,128	149.0%

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedule of Contributions From Employer and Other
 Entity's Contributions - Pension Trust Funds
 September 30, 2009

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
9/30/2000	\$ 446,713	69.9%	\$ 220,955	77.9%	\$ 134,348	84.8%
9/30/2001	\$ 413,996	82.4%	\$ 216,657	87.3%	\$ 130,935	75.6%
9/30/2002	\$ 527,146	111.1%	\$ 389,119	84.4%	\$ 246,823	43.6%
9/30/2003	\$ 622,651	102.2%	\$ 347,010	104.2%	\$ 221,505	54.9%
9/30/2004	\$ 693,660	105.3%	\$ 329,148	118.2%	\$ 241,386	96.0%
9/30/2005	\$ 681,875	106.7%	\$ 417,364	107.6%	\$ 284,229	98.9%
9/30/2006	\$ 740,332	102.4%	\$ 378,138	124.1%	\$ 279,765	112.2%
9/30/2007	\$ 815,505	100.0%	\$ 412,836	105.7%	\$ 319,200	147.0%
9/30/2008	\$ 885,465	90.5%	\$ 517,687	96.1%	\$ 360,188	163.1%
9/30/2009	\$ 1,034,824	102.2%	\$ 514,614	101.4%	\$ 479,613	106.0%

Schedule of Insurance Contributions

For the Fiscal Year	General Employees #		Police Officers *		Firefighters *	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
9/30/2000	\$ -	0.0%	\$ 44,579	100.0%	\$ 111,326	100.0%
9/30/2001	\$ -	0.0%	\$ 48,325	100.0%	\$ 73,959	100.0%
9/30/2002	\$ -	0.0%	\$ 61,887	100.0%	\$ 83,579	100.0%
9/30/2003	\$ -	0.0%	\$ 62,369	100.0%	\$ 95,893	100.0%
9/30/2004	\$ -	0.0%	\$ 81,950	100.0%	\$ 106,719	100.0%
9/30/2005	\$ -	0.0%	\$ 89,106	100.0%	\$ 115,978	100.0%
9/30/2006	\$ -	0.0%	\$ 93,883	100.0%	\$ 139,917	100.0%
9/30/2007	\$ -	0.0%	\$ 89,106	100.0%	\$ 235,629	100.0%
9/30/2008	\$ -	0.0%	\$ 96,755	100.0%	\$ 326,414	100.0%
9/30/2009	\$ -	0.0%	\$ 92,822	100.0%	\$ 158,923	100.0%

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

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

[^] These amounts include insurance premiums contributed by the State.

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedule of Actuarial Considerations
 Pension Trust Funds
 September 30, 2009

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	10/1/08	10/1/08	10/1/08
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	13 years	11 years	16 years
Asset valuation method	5-Year Smoothed Market Value without Phase-in	5-Year Smoothed Market Value without Phase-in	5-Year Smoothed Market Value without Phase-in
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	6%	6%	6%

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedules of Other Post Employment Benefits (OPEB)
 September 30, 2009

Schedule of Funding Progress for Retiree Healthcare Plan (OPEB)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
9/30/2007	N/A	N/A	N/A	N/A	N/A	N/A
9/30/2008	N/A	N/A	N/A	N/A	N/A	N/A
9/30/2009	\$ -	\$ 4,587,573	\$ 4,587,573	0.0%	\$ 10,500,000	43.7%

Schedule of Employer Contributions for Retiree Healthcare Plan (OPEB)

Fiscal Year Ending	Actual Contribution	Annual Required Contribution	Percentage Contributed
9/30/2007	N/A	N/A	N/A
9/30/2008	N/A	N/A	N/A
9/30/2009	\$ 84,816	\$ 520,904	16.28%

Combining Financial Statements

City of Panama City Beach, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2009

	Special Revenue Funds					Total
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund	Safe Kids Fund		
Assets						
Cash and cash equivalents	\$ -	\$ 12,403	\$ -	\$ -	\$ -	\$ 12,403
Cash and cash equivalents - restricted	30,415	-	555,742	-	-	586,157
Due from other funds	2,250	-	-	-	-	2,250
Prepaid insurance	-	13	-	-	-	13
Total assets	\$ 32,665	\$ 12,416	\$ 555,742	\$ -	\$ -	\$ 600,823
Liabilities and fund balances						
Accounts payable	\$ 283	\$ 58	\$ -	\$ -	\$ -	\$ 341
Total liabilities	283	58	-	-	-	341
Fund balances						
Reserved for						
Law enforcement	32,382	-	-	-	-	32,382
Prepaid insurance	-	13	-	-	-	13
Beach access public parking	-	-	555,742	-	-	555,742
Unreserved	-	12,345	-	-	-	12,345
Total fund balances	32,382	12,358	555,742	-	-	600,482
Total liabilities and fund balances	\$ 32,665	\$ 12,416	\$ 555,742	\$ -	\$ -	\$ 600,823

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, 2009

	Special Revenue Funds					Total
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund	Safe Kids Fund		
Revenues						
Fines and forfeitures	\$ 18,309	\$ -	\$ -	\$ -	\$ -	\$ 18,309
Contributions and donations	-	13,508	-	2,000	-	15,508
Interest	19	40	12,657	-	-	12,716
Total revenues	18,328	13,548	12,657	2,000	-	46,533
Expenditures						
Current						
Public safety	19,174	23,262	-	2,000	-	44,436
Total expenditures	19,174	23,262	-	2,000	-	44,436
Excess (deficiency) of revenues over (under) expenditures	(846)	(9,714)	12,657	-	-	2,097
Net change in fund balances	(846)	(9,714)	12,657	-	-	2,097
Fund balances - beginning	33,228	22,072	543,085	-	-	598,385
Fund balances - ending	\$ 32,382	\$ 12,358	\$ 555,742	\$ -	\$ -	\$ 600,482

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, 2009

Business-type Activities / Enterprise Funds			
	Pier Fund	Aquatic Center Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 166,197	\$ 60,474	\$ 226,671
Accounts receivable, net	-	11,986	11,986
Grants receivable	298,148	-	298,148
Prepaid insurance	-	2,258	2,258
Total current assets	464,345	74,718	539,063
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	486,190	-	486,190
Capital assets			
Nondepreciable	204,288	7,500	211,788
Depreciable, net	8,594,360	4,024,175	12,618,535
Total noncurrent assets	9,284,838	4,031,675	13,316,513
Total assets	9,749,183	4,106,393	13,855,576
Liabilities			
Current liabilities			
Accounts payable	326,586	16,536	343,122
Accrued expenses and deposits	12,272	20,527	32,799
Due to other funds	150,000	-	150,000
Due to other governments	3,314	617	3,931
Deferred revenue	-	25,241	25,241
Accrued compensated absences	-	1,422	1,422
Notes payable	-	630,000	630,000
Total current liabilities	492,172	694,343	1,186,515
Noncurrent liabilities			
Accrued compensated absences	2,342	5,925	8,267
Total noncurrent liabilities	2,342	5,925	8,267
Total liabilities	494,514	700,268	1,194,782
Net assets			
Invested in capital assets, net of related debt	8,798,648	4,031,675	12,830,323
Restricted for			
Construction	486,190	-	486,190
Unrestricted (deficit)	(30,169)	(625,550)	(655,719)
Total net assets	\$ 9,254,669	\$ 3,406,125	\$ 12,660,794

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, 2009

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating revenues			
Charges for services			
Admissions and other fees	\$ 287,770	\$ 236,792	\$ 524,562
Rent	-	36,115	36,115
Miscellaneous	41	8,897	8,938
Total operating revenues	287,811	281,804	569,615
Operating expenses			
Personal services	61,679	449,933	511,612
Professional services	2,673	10,086	12,759
Office supplies	291	1,536	1,827
Contractual services	-	480	480
Insurance	1,318	31,882	33,200
Repairs and maintenance	13,594	25,365	38,959
Operating supplies	27,040	113,433	140,473
Communication services	285	5,184	5,469
Public utility services	3,173	131,590	134,763
Transportation	-	111	111
Rentals	5,523	7,845	13,368
Printing and binding	595	1,544	2,139
Miscellaneous	1,480	5,919	7,399
Depreciation	81,976	157,025	239,001
Total operating expenses	199,627	941,933	1,141,560
Net operating income (loss)	88,184	(660,129)	(571,945)
Nonoperating revenues (expenses)			
Interest income	678	144	822
Grants and contributions	4,130,349	3,500	4,133,849
(Loss) on disposal of assets	(1,528)	-	(1,528)
Interest expense	-	(24,061)	(24,061)
Total nonoperating revenues (expenses)	4,129,499	(20,417)	4,109,082
Net income (loss) before transfers	4,217,683	(680,546)	3,537,137
Transfers in	69,288	565,000	634,288
Change in net assets	4,286,971	(115,546)	4,171,425
Total net assets - beginning	4,967,698	3,521,671	8,489,369
Total net assets - ending	\$ 9,254,669	\$ 3,406,125	\$ 12,660,794

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, 2009

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating activities			
Receipts from customers and users	\$ 287,811	\$ 284,288	\$ 572,099
Payments to suppliers	(52,743)	(330,841)	(383,584)
Payments to employees	(53,499)	(442,586)	(496,085)
Net cash provided (used) by operating activities	181,569	(489,139)	(307,570)
Noncapital financing activities			
Grants and contributions	900	1,000	1,900
Repayments from (payments to) other funds	(185,528)	-	(185,528)
Transfers from other funds	-	565,000	565,000
Net cash provided (used) by noncapital financing activities	(184,628)	566,000	381,372
Capital and related financing activities			
Grants and contributions	5,451,325	2,500	5,453,825
Transfers from other funds	69,288	-	69,288
Interest paid on notes	(19,402)	(24,061)	(43,463)
Purchase of capital assets	(5,183,996)	(2,500)	(5,186,496)
Net cash provided (used) by capital and related financing activities	317,215	(24,061)	293,154
Investing activities			
Interest received	678	144	822
Net cash provided by investing activities	678	144	822
Net increase in cash and cash equivalents	314,834	52,944	367,778
Cash and cash equivalents - beginning	337,553	7,530	345,083
Cash and cash equivalents - ending	\$ 652,387	\$ 60,474	\$ 712,861
Classified as			
Current assets - cash and cash equivalents	\$ 166,197	\$ 60,474	\$ 226,671
Restricted assets - cash and cash equivalents	486,190	-	486,190
Total	\$ 652,387	\$ 60,474	\$ 712,861

(Continued)

City of Panama City Beach, Florida
Combining Statement of Cash Flows
Nonmajor Proprietary Funds (Continued)
Year Ended September 30, 2009

	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)	\$ 88,184	\$ (660,129)	\$ (571,945)
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities			
Depreciation	81,976	157,025	239,001
(Increase) decrease in assets			
Accounts receivable	-	(6,620)	(6,620)
Prepaid insurance	-	(4)	(4)
Increase (decrease) in liabilities			
Accounts payable	(6,519)	95	(6,424)
Accrued expenses and deposits	12,272	8,717	20,989
Due to other governments	3,314	(246)	3,068
Deferred revenue	-	9,104	9,104
Accrued compensated absences	2,342	2,919	5,261
Total adjustments	93,385	170,990	264,375
Net cash provided (used) by operating activities	\$ 181,569	\$ (489,139)	\$ (307,570)

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, 2009

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	Total
Assets				
Cash and cash equivalents	\$ 538,917	\$ 223,906	\$ 189,195	\$ 952,018
Accounts receivable, net	-	-	42,616	42,616
Investments, at fair value				
Money market funds	82,628	50,534	33,724	166,886
Real estate investment trusts	339,748	207,784	138,665	686,197
Mutual funds	14,251,457	8,715,949	5,816,578	28,783,984
Total assets	15,212,750	9,198,173	6,220,778	30,631,701
Liabilities				
Accounts payable	18,531	12,235	13,815	44,581
Refunds payable	12,650	1,731	-	14,381
Total liabilities	31,181	13,966	13,815	58,962
Net assets				
Held in trust for pension benefits	\$ 15,181,569	\$ 9,184,207	\$ 6,206,963	\$ 30,572,739

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, 2009

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	Total
Additions				
Contributions				
Employer	\$ 1,057,714	\$ 428,842	\$ 349,458	\$ 1,836,014
Plan members	492,355	265,340	140,853	898,548
Insurance premiums	-	92,822	158,923	251,745
Total contributions	1,550,069	787,004	649,234	2,986,307
Investment earnings				
Interest	605	477	397	1,479
Dividends	121,068	74,185	47,360	242,613
Net decrease in fair value of investments	257,436	157,041	105,064	519,541
Total investment earnings	379,109	231,703	152,821	763,633
Less investment expenses	(81,584)	(53,997)	(38,594)	(174,175)
Net investment earnings	297,525	177,706	114,227	589,458
Total additions	1,847,594	964,710	763,461	3,575,765
Deductions				
Benefits	755,037	355,599	53,038	1,163,674
Refunds of contributions	39,079	23,540	18,070	80,689
Administrative expenses	28,007	20,022	21,002	69,031
Total deductions	822,123	399,161	92,110	1,313,394
Change in net assets	1,025,471	565,549	671,351	2,262,371
Net assets - beginning	14,156,098	8,618,658	5,535,612	28,310,368
Net assets - ending	\$ 15,181,569	\$ 9,184,207	\$ 6,206,963	\$ 30,572,739

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

Compliance Section

INDEPENDENT AUDITOR'S MANAGEMENT LETTER

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

We have audited the financial statements of the City of Panama City Beach, Florida, (the "City"), as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated May 6, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*, our Report on Compliance With Requirements Applicable to Each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated May 6, 2010, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. Prior year findings 08-02 and 08-03 were corrected. Prior year findings 08-01 and 08-04 were not corrected. See schedule of findings and questioned costs.

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

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we have communicated the following item:

09-02 Accounting and Personnel Policies (prior year 08-04)

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

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

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audits we did have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity is to be disclosed in the management letter, unless disclosed in the notes to the financial statements. The City of Panama City Beach was created on August 12, 1970 by Chapter 70-874 of the Constitution of the State of Florida. The City has one component unit which is the Panama City Beach Community Redevelopment Agency (Agency). The Agency was created on November 30, 2000 by City Resolution 00-23 pursuant to Florida Statute 163.356. The Agency is operated by the City of Panama City Beach.

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

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for City for the fiscal year ended September 30, 2009, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the City's annual financial audit report for the fiscal year ended September 30, 2009. In connection with our audit, we determined that these reports were in agreement.

Pursuant to Sections 10.554(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

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

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

Panama City Beach, Florida
May 6, 2010

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 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, 2009, which collectively comprise the City's basic financial statements and have issued our report dated May 6, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above, item 09-01 to be a material weakness.

Compliance and Other Matters

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

We have included management's responses to the findings identified in our audit. We did not audit the responses and accordingly, we express no opinion on them.

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

Carri Riggs & Ingram, L.L.C.

Panama City, Florida
May 6, 2010

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

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

Compliance

We have audited the compliance of City of Panama City Beach, Florida, Florida (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the Executive Office of the Governor's State Projects *Compliance Supplement* that are applicable to each of its major federal programs and state projects for the year ended September 30, 2009. The City's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal awards and state projects for the year ended September 30, 2009.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

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

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

Panama City Beach, Florida
May 6, 2010

City of Panama City Beach, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended September 30, 2009

Federal / State Agency Pass through entity Federal Program / State Project	CFDA CSFA No.	Contract / Grant No.	Expenditures
U.S. Department of Homeland Security			
Passed through Florida Department of Community Affairs			
Staffing for Adequate Fire & Emergency Response (SAFER)	97.044	EMW-2006-FF-03932	\$ 142,684
Staffing for Adequate Fire & Emergency Response (SAFER)	97.044	EMW-2008-FF-00786	46,767
Fire Station #1 Wind Retrofit Project	97.039	09HM-4G-01-13-02-002	22,329
Disaster Relief / Mitigation Pier Reconstruction Project	97.036	FEMA-FSDR-1551	3,643,259
Disaster Relief / Mitigation Storm Water Outfalls Project	97.036	FEMA-FSDR-1595	23,936
U.S. Federal Highway Administration			
Passed through Florida Department of Transportation			
State Road 79 Multi-use Path - Phase 3	20.205	FPID 417966-3-38-01 / A8-01	18,885
State Road 79 Multi-use Path - Phase 4	20.205	FPID 417966-4-38-01 / A8-01	52,490
State and Community Highway Safety Program	20.600	RS-09-15-06 / APE06	20,912
Total Expenditures of Federal Awards			\$ 3,971,262
Florida Department of Transportation			
Transportation Regional Incentive Program - Arnold Road	55.026	21791123801 / AP864	\$ 114,954
Florida Department of Environmental Protection			
Collection and Reclaimed Water Reuse Facility	37.***	694050	513,762
Florida Department of State, Division of Library and Information Services			
Public Library Grant Program	45.020	08-PLC-04	150,000
Total Expenditures of State Financial Assistance			\$ 778,716

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, 2009

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards and State Financial Assistance

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

Identification of major federal programs and state projects:

<u>CFDA</u>	<u>Name of Federal Program</u>
97.036	Disaster Relief / Mitigation Pier Reconstruction Project
97.044	Staffing for Adequate Fire & Emergency Response (SAFER)
<u>CSFA</u>	<u>Name of State Project</u>
37.***	Collection and Reclaimed Water Reuse Facility

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

Section II - Financial Statement Findings

09-01 Segregation of Duties (Prior Year 08-01)

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

Management's Response

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

Section III - Federal Awards and State Financial Assistance Findings

There were no findings.