

City of Panama City Beach, Florida

Financial Statements

September 30, 2010

City of Panama City Beach, Florida
Table of Contents
September 30, 2010

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

Required Supplementary Information

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

Combining Financial Statements

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

Compliance Section

Independent Auditor's Management Letter	76
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79
Management's Response to Auditors Finding and Recommendation	81
Report on Compliance with Requirements Applicable to Each Major Program / State Project and Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General	82
Schedule of Expenditures of Federal Awards and State Financial Assistance	84
Schedule of Findings and Questioned Costs – Federal Awards and State Financial Assistance	85

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Panama City Beach, Florida (the City), as of and for the year ended September 30, 2010, 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, 2010, 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 16, 2011, on our consideration of the City of Panama City Beach, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for the purpose of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and Chapter 10.550, State of Florida Rules of the Auditor General*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Certified Public Accountants
Panama City Beach, Florida
May 16, 2011

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 \$185,386,798 (net assets). Of this amount, \$11,179,440 is unrestricted net assets for governmental activities and \$25,059,295 is unrestricted net assets for business-type activities, while \$9,988,998 is restricted net assets for governmental activities and \$16,682,608 is restricted net assets for business-type activities.
- Total net assets increased by \$9,393,188. Of this amount, \$3,565,508 is attributable to governmental activities and \$5,827,680 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 \$2,362,376 in grants and contributions, (b) the collection of \$382,200 in impact fees, and (c) net income from operations before amortization and depreciation of \$8,629,681.
- As of September 30, 2010, the general fund's unreserved fund balance was \$6,238,558 or 40 percent of total general fund expenditures. Unreserved fund balance in the General Fund decreased by \$866,213. General Fund expenditures exceeded General Fund revenues by \$208,154 which contributed to the decrease. However, the primary reason for the decrease in unreserved fund balance was the transfer of \$565,000 to the Aquatic Center Fund.
- Governmental activities revenues remained consistent at \$25,444,502, while governmental activities expenditures increased 9 percent to \$20,990,606. Business-type activities revenues decreased to \$30,313,317 or 6 percent, while business-type activities expenditures increased 15 percent to \$25,374,025.

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, wastewater, 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, wastewater, 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 2010, 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	
	2010	2009	2010	2009	2010	2009
<i>September 30,</i>						
Current and other assets	\$ 39,068,986	\$ 44,440,117	\$ 78,287,485	\$ 92,504,262	\$117,356,471	\$136,944,379
Capital assets	94,224,991	85,928,236	123,086,795	99,890,672	217,311,786	185,818,908
Total assets	133,293,977	130,368,353	201,374,280	192,394,934	334,668,257	322,763,287
Current liabilities	6,331,526	5,415,184	11,403,898	5,596,872	17,735,424	11,012,056
Long-term liabilities	54,800,818	56,357,044	76,745,217	79,400,577	131,546,035	135,757,621
Total liabilities	61,132,344	61,772,228	88,149,115	84,997,449	149,281,459	146,769,677
Net assets invested in capital assets net of related debt	50,993,195	46,448,457	71,483,262	54,417,837	122,476,457	100,866,294
Net assets - restricted	9,988,998	10,515,472	16,682,608	30,326,674	26,671,606	40,842,146
Net assets - unrestricted	11,179,440	11,632,196	25,059,295	22,652,974	36,238,735	34,285,170
Total net assets	\$ 72,161,633	\$ 68,596,125	\$113,225,165	\$107,397,485	\$185,386,798	\$175,993,610

Investment in capital assets (e.g., land, buildings, equipment and infrastructure), net of any related outstanding debt used to acquire those assets, represents the City's largest portion of net assets (66 percent). These capital assets are utilized to provide services to citizens; consequently, these assets are not available for future spending. It should be noted, that although the City's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The *restricted net assets*, representing 14 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*, \$36,238,735 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 \$21,610,163 (or 21%). 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. The City financed the continued expansion of its wastewater system with a combination of impact fees and the unspent proceeds of utility revenue bonds issued late in September 2009.

Restricted net assets decreased \$14,170,540 (or 35%). The restricted net assets in the governmental activities decreased by \$526,474 while the restricted net assets in the business-type activities decreased by \$13,644,066. The governmental activities decrease primarily resulted from the use of municipal services impact fees to partially fund the construction of a new City pier and the construction of various beachfront improvements at the same facility. The decrease in business-type activities restricted net assets resulted from a combination of factors including (a) 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 and (b) current year expenditures of 2009 bond proceeds for qualifying capital projects.

The increase in *Net assets, unrestricted* was \$1,953,565 or 6%. The governmental activities decrease was \$452,756 while the business-type activities increase was \$2,406,321. Due to the overall economic downturn and the fear of the long-term impact on tourism as a result of the BP Deepwater Horizon Oil Spill in the Gulf of Mexico, the City made every effort to control expenditures and maintain or increase cash reserves to provide resources for future years.

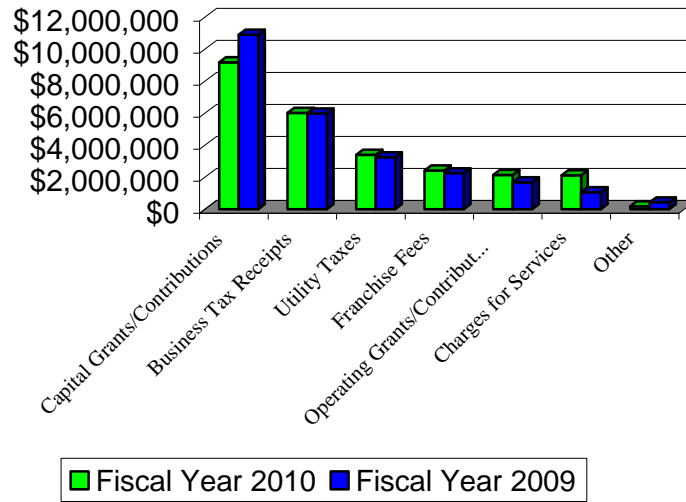
The schedule on the following page compares the revenues and expenses for the current and previous fiscal year.

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

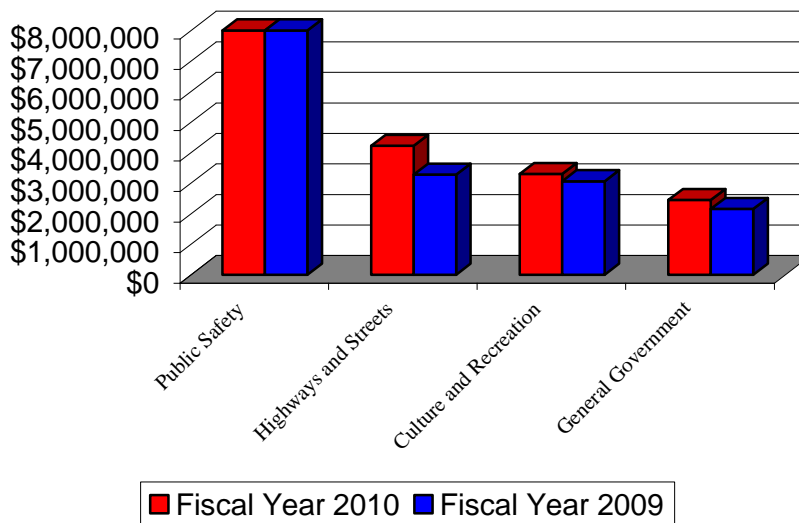
	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program revenues						
Charges for services	\$ 2,117,444	\$ 1,064,733	\$ 27,003,855	\$ 24,754,902	\$ 29,121,299	\$ 25,819,635
Operating grants/contributions	2,136,648	1,679,718	1,000	16,352	2,137,648	1,696,070
Capital grants/contributions	9,178,300	10,889,036	2,210,125	5,452,969	11,388,425	16,342,005
General revenues						
Business tax receipts	6,017,952	5,984,162	-	-	6,017,952	5,984,162
Utility taxes	3,393,746	3,245,727	-	-	3,393,746	3,245,727
Franchise fees	2,424,383	2,252,301	-	-	2,424,383	2,252,301
Impact fees	61,188	161,432	382,200	651,456	443,388	812,888
Contributions from developers	-	-	151,251	83,236	151,251	83,236
Penalties on delinquent business tax receipts	218	1,817	-	-	218	1,817
Interest earnings	114,623	270,850	564,886	1,308,404	679,509	1,579,254
Total revenues	25,444,502	25,549,776	30,313,317	32,267,319	55,757,819	57,817,095
Expenses						
General government	2,447,002	2,154,823	-	-	2,447,002	2,154,823
Public safety	8,706,028	8,424,021	-	-	8,706,028	8,424,021
Highways and streets	4,222,882	3,275,753	-	-	4,222,882	3,275,753
Culture and recreation	3,295,658	3,060,486	-	-	3,295,658	3,060,486
Interest on long- term debt	2,319,036	2,379,620	3,144,200	935,657	5,463,236	3,315,277
Utilities - water	-	-	13,069,527	12,694,651	13,069,527	12,694,651
Utilities - wastewater	-	-	7,077,373	6,742,722	7,077,373	6,742,722
Utilities - storm water	-	-	504,186	528,257	504,186	528,257
Pier	-	-	695,573	201,155	695,573	201,155
Aquatic center	-	-	883,166	941,933	883,166	941,933
Total expenses	20,990,606	19,294,703	25,374,025	22,044,375	46,364,631	41,339,078
Increase in net assets before transfers	4,453,896	6,255,073	4,939,292	10,222,944	9,393,188	16,478,017
Transfers	(888,388)	(534,288)	888,388	534,288	-	-
Increase in net assets	\$ 3,565,508	\$ 5,720,785	\$ 5,827,680	\$ 10,757,232	\$ 9,393,188	\$ 16,478,017

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, 2010 and 2009



Expenses - Governmental Activities
Fiscal Years Ended
September 30, 2010 and 2009



Governmental activities revenues exceeded expenses by \$4,453,896 while business-type activities revenues exceeded expenses by \$4,939,292. Total revenues decreased \$2,059,276 from the previous year. The change in total revenues from business-type activities was a decrease of \$1,954,002, while the change in governmental activities was a decrease of \$105,274. Charges for services increased \$3,301,664, capital grants and contributions decreased \$4,953,580, and interest earnings decreased \$899,745 in the current year. The primary cause of the increase in charges for services was from increased revenue from wastewater sales in the current year. The increase resulted from a combination of a rate increase and an increase in customers served by the wastewater system.

Over the past several years, the City has completed a number of capital projects which significantly increased the number of customers served by the wastewater system. The City received significant grant funds in fiscal year 2009 for the construction of a new City pier. The project was completed in 2009 and grant funds in the amount of \$3,643,259 were recognized in fiscal year 2009. No funding for this project was received in fiscal year 2010. The decrease in grant funds was partially offset by a contribution of \$1,459,471 from a private corporation which partially funded the construction of beachfront improvements at the new City pier.

The decline in interest earnings was the result of historically low interest rates being earned throughout the year combined with a decrease in overall cash balances maintained by the City. Total expenses increased \$5,025,553 from the previous year. The City experienced moderate increases virtually across the board in all functions combined with an increase of \$947,129 in highways and streets expenditures and \$2,147,959 in interest on long-term debt compared to the prior year. The increase in highways and streets expenditures related to the Front Beach Road redevelopment project. The increase in interest on long-term debt resulted from the re-amortization and finalization of several state revolving fund loans late in 2009 and from the issuance of utility revenue bonds late in fiscal year 2009.

36% of the revenues for governmental activities are generated by capital grants and contributions, 24% by business tax receipts, and 23% from utility taxes and franchise fees. Most of the governmental resources are expended for public safety (41%) and highways and streets (20%).

Charges for services provide 89% of the revenues for business-type activities, while 7% of the revenues are provided from capital grants and contributions. Most of the governmental resources are expended to operate the public utility systems (81%).

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, 2010, total assets were \$13,888,837 and total liabilities were \$3,404,646. At the end of fiscal year 2010, unreserved fund balance of the general fund was \$6,238,558, while total fund balance equaled \$10,484,191. Total fund balance decreased \$1,190,875 (10%). Reserved fund balances decreased \$324,662 (7%) and unreserved fund balance decreased \$866,213 (12%). Fiscal year 2010 expenditures in the General Fund were slightly greater than revenues for the same period. The decrease in the fund balance was attributable to transfers out to other funds and assistance to other entities in the form of grants and aid.

The general fund's budget was amended during the year to reflect anticipated decreases in available revenue as well as significant decreases in expenditures and transfers out. The decrease in total revenue was fairly insignificant as the change from the original to the amended budget was less than 2%. Budgeted expenditures for current expenditures did not change significantly from the original to the final amounts and budgeted expenditures for debt service were unchanged. Final budgeted expenditures for capital outlay decreased \$991,340 (28%). The primary reason for the decrease was in the area of culture and recreation as a number of capital projects planned in the recreation department were postponed to future years. Transfers out were decreased as well as a result of deferring transfers of recreation impact fees to the Pier Fund until fiscal year 2011.

Community Redevelopment Fund

The other major governmental fund of the City is the Community Redevelopment Fund. As of September 30, 2010, total assets were \$21,482,163 and total liabilities were \$1,097,083. At the end of fiscal year 2010, the unreserved fund balance of the community redevelopment fund was \$332,593, while the total fund balance equaled \$20,385,080. Total fund balance decreased \$5,471,643, virtually 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	2010 Unrestricted Net Assets	2009 Unrestricted Net Assets
Utility	\$ 25,424,848	\$ 23,308,693
Pier	153,606	(30,169)
Aquatic Center	(519,159)	(625,550)
Total	\$ 25,059,295	\$ 22,652,974

The *Utility Fund* is used to account for the operations of the City's water, wastewater and storm water systems. New construction and redevelopment being experienced by the City continued to slow down in the current year and water and wastewater impact fee revenues reflected this trend by decreasing \$269,256 or 41% compared to the prior year. Operating revenues increased \$1,988,509 or 8% in 2010 compared to 2009 primarily as a result of rate increases and increases in the customer base for wastewater accounts.

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 3. Funding for most of the project was provided by the Federal Emergency Management Agency. Fiscal year 2010 reflects the first complete year of operations since the pier was rebuilt.

The *Aquatic Center Fund* is being used to account for the operation of an aquatic center located at Frank Brown Park. For 2010, operating expenses exceeded operating revenues by \$583,485. The shortfall in operations was 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, 2010, was \$217,311,786 (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 \$1,650,000 was expended in fiscal year 2010 on water expansion and rehabilitation projects. During the year, the City completed water line replacements and improvements in both the Woodlawn and Southfields neighborhoods. The combined cost for both projects was approximately \$650,000.
- The Joan Avenue lift station project was completed in 2010 at a total cost of approximately \$1.7 million dollars. Current year expenditures for this project were relatively minor as the project was completed and placed in service very early in fiscal year 2010.
- Significant funds were expended in fiscal year 2010 on two (2) major projects in the City's wastewater system. Significant construction activity occurred to expand the available capacity at the City's advanced wastewater treatment plant. Current year expenditures related to this project were approximately \$13.5 million dollars. Construction is anticipated to be completed in fiscal year 2011 and the total project cost is estimated to be approximately \$17.5 million dollars. Additionally, significant construction activity occurred on the City's receiving wetlands project with approximately \$8 million dollars being expended in fiscal year 2010. This project is also anticipated to be completed in fiscal year 2011 with a total estimated cost of \$16 million dollars.

- The City expended approximately \$2.2 million dollars in 2010 to construct various beachfront improvements at the recently rebuilt Russell-Fields City Pier. The project was completed in fiscal year 2010 at a total cost of approximately \$2.5 million dollars. The project was primarily funded by a contribution to the City from The St. Joe Corporation in an amount slightly less than \$2 million dollars.
- At September 30, 2010, approximately \$45 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 in the current fiscal year at an approximate cost of \$14.5 million dollars exclusive of land right-of-way acquisition costs. Significant construction on South Thomas Drive occurred in fiscal year 2010 with funds expended of approximately \$6.2 million dollars. Completion is 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)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<i>September 30,</i>						
Land	\$ 43,341,364	\$ 40,853,149	\$ 6,888,263	\$ 6,839,844	\$ 50,229,627	\$ 47,692,993
Construction in progress	13,978,117	22,587,937	25,165,180	4,145,831	39,143,297	26,733,768
Buildings	4,517,946	2,778,134	24,598,745	23,559,534	29,116,691	26,337,668
Improvements	30,026,284	17,168,276	59,304,916	59,115,265	89,331,200	76,283,541
Machinery and equipment	2,361,280	2,540,740	7,129,691	6,230,198	9,490,971	8,770,938
Total	\$ 94,224,991	\$ 85,928,236	\$123,086,795	\$ 99,890,672	\$217,311,786	\$185,818,908

Additional information on the City's capital assets can be found in Note 7—Capital Assets, of the notes to the basic financial statements.

Debt Management

At the end of the current fiscal year, the City had total bond debt outstanding of \$103,468,421. This debt amount represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Bond Debt

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<i>September 30,</i>						
Revenue bonds	\$ 52,494,012	\$ 53,917,777	\$ 50,974,409	\$ 52,077,152	\$103,468,421	\$105,994,929

The City's total bond debt decreased by \$2,526,508 in the current fiscal year. Principal payments totaled \$2,580,000 in the current year and were adjusted by amortization of deferred costs and premiums. The City's debt currently maintains an "A" rating from Standard & Poor's and an "A+" rating from Fitch. All of the City's issues are rated by one or a combination of two rating agencies.

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

Other Financial Information

In spite of 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.

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

City of Panama City Beach, Florida
Statement of Net Assets
September 30, 2010

Primary Government			
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 6,190,624	\$ 23,184,690	\$ 29,375,314
Accounts receivable, net	862,941	5,198,144	6,061,085
Taxes and fees receivable	472,567	-	472,567
Grants receivable	160,085	-	160,085
Accrued interest receivable	-	10,438	10,438
Due from other governments	266,750	4,698	271,448
Inventory	6,935	476,223	483,158
Prepays	118,743	8,143	126,886
Notes receivable, current	-	668,494	668,494
Unamortized debt issuance costs, current	99,203	62,075	161,278
Restricted assets			
Cash and cash equivalents	28,865,607	47,266,291	76,131,898
Accounts receivable, net	-	241	241
Grants receivable	26,201	-	26,201
Accrued interest receivable	6,851	151,789	158,640
Notes receivable	-	49,376	49,376
Capital assets			
Nondepreciable	57,319,481	32,053,443	89,372,924
Depreciable, net	36,905,510	91,033,352	127,938,862
Unamortized debt issuance costs	1,992,479	1,206,883	3,199,362
Total assets	133,293,977	201,374,280	334,668,257

(Continued)

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

City of Panama City Beach, Florida
Statement of Net Assets (Continued)
September 30, 2010

Primary Government			
	Governmental Activities	Business-type Activities	Total
Liabilities			
Accounts payable	\$ 1,332,293	\$ 6,657,138	\$ 7,989,431
Accrued expenses and deposits	976,534	1,372,517	2,349,051
Accrued interest payable	985,772	1,080,175	2,065,947
Due to other governments	3,035,749	605,121	3,640,870
Internal balances	(1,548)	1,548	-
Deferred revenue	2,726	1,687,399	1,690,125
Long-term liabilities			
Due within one year			
Revenue certificates payable	-	2,288,384	2,288,384
Accrued compensated absences	192,340	774	193,114
Notes payable	68,494	2,274,248	2,342,742
Revenue bonds payable, net	1,478,765	1,307,745	2,786,510
Due in more than one year			
Accrued compensated absences	2,045,972	851,780	2,897,752
Notes payable	-	20,355,622	20,355,622
Revenue bonds payable, net	51,015,247	49,666,664	100,681,911
Total liabilities	61,132,344	88,149,115	149,281,459
Net assets			
Invested in capital assets, net of related debt	50,993,195	71,483,262	122,476,457
Restricted for			
Law enforcement	51,442	-	51,442
Beach access public parking	557,346	-	557,346
Impact fees	4,210,619	14,530,980	18,741,599
Debt service	5,169,591	1,322,821	6,492,412
Storm water	-	828,807	828,807
Unrestricted	11,179,440	25,059,295	36,238,735
Total net assets	\$ 72,161,633	\$ 113,225,165	\$ 185,386,798

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, 2010

Functions / Programs	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
					Net (Expenses) Revenues and Changes in Net Assets		
Primary government							
General government	\$ 2,447,002	\$ 1,422,579	\$ 1,495,340	\$ -	\$ 470,917	\$ -	\$ 470,917
Public safety	8,706,028	181,579	344,277	18,776	(8,161,396)	-	(8,161,396)
Highways and streets	4,222,882	238,551	206,812	8,356,474	4,578,955	-	4,578,955
Culture and recreation	3,295,658	274,735	90,219	803,050	(2,127,654)	-	(2,127,654)
Interest on long-term debt	2,319,036	-	-	-	(2,319,036)	-	(2,319,036)
Total governmental activities	20,990,606	2,117,444	2,136,648	9,178,300	(7,558,214)	-	(7,558,214)
Business-type activities							
Utility							
Water	13,069,527	15,395,023	-	-	-	2,325,496	2,325,496
Waste water	7,077,373	9,818,122	-	750,000	-	3,490,749	3,490,749
Storm water	504,186	973,224	-	654	-	469,692	469,692
Pier	695,573	520,602	-	1,459,471	-	1,284,500	1,284,500
Aquatic center	883,166	296,884	1,000	-	-	(585,282)	(585,282)
Interest on long-term debt	3,144,200	-	-	-	-	(3,144,200)	(3,144,200)
Total business-type activities	25,374,025	27,003,855	1,000	2,210,125	-	3,840,955	3,840,955
Total primary government	\$ 46,364,631	\$ 29,121,299	\$ 2,137,648	\$ 11,388,425	(7,558,214)	3,840,955	(3,717,259)
General revenues							
Taxes							
Business tax receipts					6,017,952	-	6,017,952
Utility					3,393,746	-	3,393,746
Franchise fees					2,424,383	-	2,424,383
Impact fees					61,188	382,200	443,388
Contributions from developers					-	151,251	151,251
Penalties on delinquent business tax receipts					218	-	218
Total general revenues					11,897,487	533,451	12,430,938
Interest earnings					114,623	564,886	679,509
Transfers					(888,388)	888,388	-
Total general revenues, interest and transfers					11,123,722	1,986,725	13,110,447
Change in net assets					3,565,508	5,827,680	9,393,188
Net assets - beginning					68,596,125	107,397,485	175,993,610
Net assets - ending					<u>\$ 72,161,633</u>	<u>\$ 113,225,165</u>	<u>\$ 185,386,798</u>

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

City of Panama City Beach, Florida
Balance Sheet
Governmental Funds
September 30, 2010

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Assets				
Cash and cash equivalents	\$ 5,915,555	\$ 258,490	\$ 16,579	\$ 6,190,624
Accounts receivable, net	32,923	-	-	32,923
Taxes and fees receivable	472,567	-	-	472,567
Grants receivable	-	-	-	-
Due from other governments	261,222	-	-	261,222
Due from other funds	1,793	3	-	1,796
Inventory	6,935	-	-	6,935
Prepays	118,743	-	-	118,743
Cash and cash equivalents - restricted	7,079,099	21,201,779	584,729	28,865,607
Accrued interest receivable - restricted	-	6,851	-	6,851
Grants receivable - restricted	-	15,040	-	15,040
Total assets	\$ 13,888,837	\$ 21,482,163	\$ 601,308	\$ 35,972,308
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 244,483	\$ 1,085,086	\$ 2,724	\$ 1,332,293
Accrued expenses	271,483	4,396	-	275,879
Due to other governments	2,886,306	7,001	-	2,893,307
Due to other funds	248	-	-	248
Deferred revenue	2,126	600	-	2,726
Total liabilities	3,404,646	1,097,083	2,724	4,504,453
Fund balances				
Reserved for				
Law enforcement	7,614	-	26,540	34,154
Inventory	6,935	-	-	6,935
Prepaid insurance	20,465	-	-	20,465
Impact fees	4,210,619	-	-	4,210,619
Debt service	-	7,575,235	-	7,575,235
Beach access public parking	-	-	557,346	557,346
Community redevelopment	-	12,477,252	-	12,477,252
Unreserved, reported in				
General fund	6,238,558	-	-	6,238,558
Community redevelopment fund	-	332,593	-	332,593
Other governmental funds	-	-	14,698	14,698
Total fund balances	10,484,191	20,385,080	598,584	31,467,855
Total liabilities and fund balances	\$ 13,888,837	\$ 21,482,163	\$ 601,308	
Amounts reported for governmental activities in the statement of net assets are different because:				
Receivables, on a modified accrual basis are not resources and, therefore, are not reported in the funds.				864,350
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				94,224,991
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.				(54,395,563)
Net assets of governmental activities				\$ 72,161,633

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, 2010

	General Fund	Community Redevelopment Fund	Other Governmental Funds	Total
Revenues				
Taxes				
Business tax receipts	\$ 6,017,952	\$ -	\$ -	\$ 6,017,952
Utility	3,393,746	-	-	3,393,746
Tax increment funds	-	8,582,754	-	8,582,754
Franchise fees	2,424,383	-	-	2,424,383
Intergovernmental	1,588,168	-	-	1,588,168
Municipal services impact fees	52,327	8,861	-	61,188
Licenses and permits	143,784	-	-	143,784
Fines and forfeitures	148,524	445,510	3,174	597,208
Contributions and donations	146,888	-	21,200	168,088
Grants	928,217	71,973	-	1,000,190
Rents	163,564	-	-	163,564
Interest	18,119	94,879	1,625	114,623
Other fees and miscellaneous	283,104	17,213	-	300,317
Total revenues	15,308,776	9,221,190	25,999	24,555,965
Expenditures				
Current				
General government	1,881,856	847,527	-	2,729,383
Public safety	7,961,099	-	28,375	7,989,474
Highways and streets	1,234,778	1,234,313	-	2,469,091
Culture and recreation	2,174,415	-	-	2,174,415
Debt service				
Principal	92,835	1,365,000	-	1,457,835
Interest and other fiscal charges	2,674	2,398,000	-	2,400,674
Capital outlay				
Public safety	358,005	-	6,000	364,005
Highways and streets	56,652	8,849,883	-	8,906,535
Culture and recreation	1,754,616	-	-	1,754,616
Total expenditures	15,516,930	14,694,723	34,375	30,246,028
Excess (deficiency) of revenues over (under) expenditures	(208,154)	(5,473,533)	(8,376)	(5,690,063)
Other financing sources (uses)				
Transfers out	(888,388)	-	-	(888,388)
Grants and aids	(174,974)	-	-	(174,974)
Proceeds from sale of assets	80,641	1,890	6,478	89,009
Net other financing sources (uses)	(982,721)	1,890	6,478	(974,353)
Net change in fund balances	(1,190,875)	(5,471,643)	(1,898)	(6,664,416)
Fund balances - beginning	11,675,066	25,856,723	600,482	38,132,271
Fund balances - ending	\$ 10,484,191	\$ 20,385,080	\$ 598,584	\$ 31,467,855

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, 2010

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

Net change in fund balances - total governmental funds (page 18)	\$ (6,664,416)
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.	8,310,847
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, adjustments, and donations) is to increase net assets.	(14,092)
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.	(348,578)
Some revenues reported in the statement of activities are not recorded in the current financial sources and, therefore, are not reported as revenues in governmental funds.	864,350
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.	1,417,397
<u>Change in net assets of governmental activities (page 16)</u>	<u>\$ 3,565,508</u>

City of Panama City Beach, Florida
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended September 30, 2010

	Budgeted Amounts		Variance with	Actual	Budget	Actual
	Original	Final	Final Budget- Actual Amounts Budget Basis	Amounts Budget Basis	to GAAP Difference	Amounts GAAP Basis
Revenues						
Taxes						
Business tax receipts	\$ 5,970,000	\$ 5,822,098	\$ 195,854	\$ 6,017,952	\$ -	\$ 6,017,952
Utility	3,469,000	3,267,000	88,749	3,355,749	37,997	3,393,746
Franchise fees	2,206,000	2,352,000	50,815	2,402,815	21,568	2,424,383
Intergovernmental	1,435,171	1,575,452	10,056	1,585,508	2,660	1,588,168
Municipal services impact fees	53,578	51,234	1,093	52,327	-	52,327
Licenses and permits	154,000	138,000	5,784	143,784	-	143,784
Fines and forfeitures	111,800	135,200	21,030	156,230	(7,706)	148,524
Contributions and donations	20,140	100,593	46,295	146,888	-	146,888
Grants	1,391,450	1,149,262	(160,025)	989,237	(61,020)	928,217
Rents	143,758	149,537	21,286	170,823	(7,259)	163,564
Interest	60,000	17,650	469	18,119	-	18,119
Other fees and miscellaneous	278,257	281,736	3,555	285,291	(2,187)	283,104
Total revenues	15,293,154	15,039,762	284,961	15,324,723	(15,947)	15,308,776
Expenditures						
Current						
General government						
Legislative	166,875	166,875	10,913	155,962	643	156,605
Administration	731,352	692,091	38,997	653,094	3,447	656,541
Comprehensive planning	389,665	338,102	43,502	294,600	1,650	296,250
Civil service	52,778	50,863	2,879	47,984	136	48,120
Elections	10,000	7,600	280	7,320	-	7,320
Protective services	774,636	738,882	22,925	715,957	1,063	717,020
Total general government	2,125,306	1,994,413	119,496	1,874,917	6,939	1,881,856
Public safety						
Police	5,260,275	5,391,333	129,096	5,262,237	(673)	5,261,564
Fire	2,781,506	2,765,537	72,836	2,692,701	6,834	2,699,535
Total public safety	8,041,781	8,156,870	201,932	7,954,938	6,161	7,961,099
Highways and streets	1,304,688	1,314,829	100,764	1,214,065	20,713	1,234,778
Culture and recreation						
Library	187,400	219,660	3,984	215,676	943	216,619
Recreation	2,072,578	2,111,944	186,677	1,925,267	32,529	1,957,796
Total culture and recreation	2,259,978	2,331,604	190,661	2,140,943	33,472	2,174,415
Total current	13,731,753	13,797,716	612,853	13,184,863	67,285	13,252,148
Debt service						
Principal	92,835	92,835	-	92,835	-	92,835
Interest and other fiscal charges	2,676	2,676	13	2,663	11	2,674
Total debt service	95,511	95,511	13	95,498	11	95,509

(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, 2010

	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						
Public safety						
Police	\$ 521,530	\$ 320,000	\$ 7,327	\$ 312,673	\$ -	\$ 312,673
Fire	155,000	70,000	24,668	45,332	-	45,332
Total public safety	676,530	390,000	31,995	358,005	-	358,005
Highways and streets	45,000	66,500	12,127	54,373	2,279	56,652
Culture and recreation						
Library	1,203,550	1,183,790	26,728	1,157,062	(85,437)	1,071,625
Recreation	1,600,000	893,450	245,102	648,348	34,643	682,991
Total culture and recreation	2,803,550	2,077,240	271,830	1,805,410	(50,794)	1,754,616
Total capital outlay	3,525,080	2,533,740	315,952	2,217,788	(48,515)	2,169,273
Total expenditures	17,352,344	16,426,967	928,818	15,498,149	18,781	15,516,930
Excess (deficiency) of revenues over (under) expenditures	(2,059,190)	(1,387,205)	1,213,779	(173,426)	(34,728)	(208,154)
Other financing sources (uses)						
Transfers in	100,000	100,000	(100,000)	-	-	-
Transfers out	(1,161,577)	(888,388)	-	(888,388)	-	(888,388)
Grants and aids	(133,500)	(175,500)	526	(174,974)	-	(174,974)
Proceeds from sale of assets	-	80,141	500	80,641	-	80,641
Total other financing sources (uses)	(1,195,077)	(883,747)	(98,974)	(982,721)	-	(982,721)
Net change in fund balances	(3,254,267)	(2,270,952)	1,114,805	(1,156,147)	(34,728)	(1,190,875)
Fund balances - beginning	10,212,726	11,211,959	762,341	11,974,300	(299,234)	11,675,066
Fund balances - ending	\$ 6,958,459	\$ 8,941,007	\$ 1,877,146	\$ 10,818,153	\$ (333,962)	\$ 10,484,191

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, 2010

	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	\$ 8,679,956	\$ 8,589,755	\$ -	\$ 8,589,755	\$ (7,001)	\$ 8,582,754
Municipal services impact fees	-	8,861	-	8,861	-	8,861
Fines and forfeitures	1,500	449,500	39	449,539	(4,029)	445,510
Grants	430,105	101,992	(3)	101,989	(30,016)	71,973
Interest	246,915	256,422	(355)	256,067	(161,188)	94,879
Other fees and miscellaneous	25,025	17,300	533	17,833	(620)	17,213
Total revenues	9,383,501	9,423,830	214	9,424,044	(202,854)	9,221,190
Expenditures						
Current						
General government	939,802	869,496	23,843	845,653	1,874	847,527
Highways and streets	1,364,285	1,382,104	32,095	1,350,009	(115,696)	1,234,313
Total current	2,304,087	2,251,600	55,938	2,195,662	(113,822)	2,081,840
Debt service						
Principal	1,365,000	1,365,000	-	1,365,000	-	1,365,000
Interest and other fiscal charges	2,398,000	2,398,000	-	2,398,000	-	2,398,000
Total debt service	3,763,000	3,763,000	-	3,763,000	-	3,763,000
Capital outlay						
Highways and streets	18,545,000	10,010,000	1,044,925	8,965,075	(115,192)	8,849,883
Total capital outlay	18,545,000	10,010,000	1,044,925	8,965,075	(115,192)	8,849,883
Total expenditures	24,612,087	16,024,600	1,100,863	14,923,737	(229,014)	14,694,723
Excess (deficiency) of revenues over (under) expenditures	(15,228,586)	(6,600,770)	1,101,077	(5,499,693)	26,160	(5,473,533)
Other financing sources						
Proceeds from sale of asset	-	1,890	-	1,890	-	1,890
Total other financing sources	-	1,890	-	1,890	-	1,890
Net change in fund balances	(15,228,586)	(6,598,880)	1,101,077	(5,497,803)	26,160	(5,471,643)
Fund balances - beginning	23,113,522	26,958,071	(573,872)	26,384,199	(527,476)	25,856,723
Fund balances - ending	\$ 7,884,936	\$ 20,359,191	\$ 527,205	\$ 20,886,396	\$ (501,316)	\$ 20,385,080

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, 2010

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 22,371,903	\$ 812,787	\$ 23,184,690
Accounts receivable, net	5,180,922	17,222	5,198,144
Accrued interest receivable	10,438	-	10,438
Due from other funds	-	824	824
Due from other governments	4,326	372	4,698
Inventory	476,223	-	476,223
Prepaid insurance	5,701	2,442	8,143
Notes receivable	668,494	-	668,494
Unamortized debt issuance costs	62,075	-	62,075
Total current assets	28,780,082	833,647	29,613,729
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	47,266,291	-	47,266,291
Accounts receivable	241	-	241
Accrued interest receivable	151,789	-	151,789
Notes receivable	49,376	-	49,376
Capital assets			
Nondepreciable	32,045,943	7,500	32,053,443
Depreciable, net	76,450,264	14,583,088	91,033,352
Unamortized debt issuance costs	1,206,883	-	1,206,883
Total noncurrent assets	157,170,787	14,590,588	171,761,375
Total assets	185,950,869	15,424,235	201,375,104
Liabilities			
Current liabilities			
Accounts payable	6,161,617	495,521	6,657,138
Accrued expenses and deposits	1,317,472	55,045	1,372,517
Accrued interest payable	1,080,175	-	1,080,175
Due to other funds	1,793	579	2,372
Due to other governments	600,296	4,825	605,121
Deferred revenue	1,657,843	29,556	1,687,399
Revenue certificates payable	2,288,384	-	2,288,384
Accrued compensated absences	301	473	774
Notes payable	1,674,248	600,000	2,274,248
Revenue bonds payable, net	1,307,745	-	1,307,745
Total current liabilities	16,089,874	1,185,999	17,275,873
Noncurrent liabilities			
Accrued compensated absences	838,579	13,201	851,780
Notes payable	20,355,622	-	20,355,622
Revenue bonds payable, net	49,666,664	-	49,666,664
Total noncurrent liabilities	70,860,865	13,201	70,874,066
Total liabilities	86,950,739	1,199,200	88,149,939
Net assets			
Invested in capital assets, net of related debt	56,892,674	14,590,588	71,483,262
Restricted for			
Impact fees	14,530,980	-	14,530,980
Debt service	1,322,821	-	1,322,821
Storm water	828,807	-	828,807
Unrestricted (deficit)	25,424,848	(365,553)	25,059,295
Total net assets	\$ 99,000,130	\$ 14,225,035	\$ 113,225,165

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, 2010

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Operating revenues			
Charges for services			
Water and wastewater sales	\$ 24,530,014	\$ -	\$ 24,530,014
Storm water assessments	970,974	-	970,974
Connection and reset fees	163,232	-	163,232
Administrative and review fees	13,495	-	13,495
Admissions and other fees	-	771,227	771,227
Rent	36,000	42,110	78,110
Miscellaneous	460,081	4,149	464,230
Total operating revenues	26,173,796	817,486	26,991,282
Operating expenses			
Personal services	4,903,402	612,176	5,515,578
Professional services	448,880	31,724	480,604
Office supplies	18,717	1,993	20,710
Contractual services	144,525	11,869	156,394
Insurance	192,682	28,015	220,697
Repairs and maintenance	1,282,834	46,629	1,329,463
Operating supplies	1,572,880	137,242	1,710,122
Communication services	50,913	8,085	58,998
Public utility services	8,470,664	163,507	8,634,171
Transportation	90,717	282	90,999
Rentals	49,355	18,614	67,969
Printing and binding	19,414	1,445	20,859
Miscellaneous	48,983	6,054	55,037
Amortization	62,075	-	62,075
Depreciation	3,295,045	508,307	3,803,352
Total operating expenses	20,651,086	1,575,942	22,227,028
Net operating income (loss)	5,522,710	(758,456)	4,764,254
Nonoperating revenues (expenses)			
Interest income	564,481	405	564,886
Grants and contributions	901,905	1,460,471	2,362,376
Gain / (loss) on disposal of assets	12,573	(2,797)	9,776
Interest expense	(3,120,430)	(23,770)	(3,144,200)
Total nonoperating revenues (expenses)	(1,641,471)	1,434,309	(207,162)
Net income before impact fees and transfers	3,881,239	675,853	4,557,092
Impact fees	382,200	-	382,200
Transfers in	-	888,388	888,388
Total impact fees and transfers	382,200	888,388	1,270,588
Change in net assets	4,263,439	1,564,241	5,827,680
Total net assets - beginning	94,736,691	12,660,794	107,397,485
Total net assets - ending	\$ 99,000,130	\$ 14,225,035	\$ 113,225,165

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, 2010

	Business-type Activities / Enterprise Funds		
	Utility Fund	Other Proprietary Funds	Total
Operating activities			
Receipts from customers and users	\$ 26,588,240	\$ 830,498	\$ 27,418,738
Payments to suppliers	(13,553,345)	(567,246)	(14,120,591)
Payments to employees	(3,294,489)	(488,357)	(3,782,846)
Net cash provided (used) by operating activities	9,740,406	(225,105)	9,515,301
Noncapital financing activities			
Grants and contributions	-	1,900	1,900
Repayments from (payments to) other funds	150,000	(150,000)	-
Transfers from (to) other funds	-	565,000	565,000
Receipt of payments due on notes	149,479	-	149,479
Net cash provided by noncapital financing activities	299,479	416,900	716,379
Capital and related financing activities			
Grants and contributions	85,245	1,756,719	1,841,964
Impact fees	257,269	-	257,269
Transfers from other funds	-	323,388	323,388
Principal paid on revenue certificates	(36,184)	-	(36,184)
Principal paid on revenue bonds	(1,215,000)	-	(1,215,000)
Interest paid on revenue bonds	(2,137,229)	-	(2,137,229)
Issuance costs paid for revenue bonds	(6,439)	-	(6,439)
Principal paid on notes	(906,959)	(30,000)	(936,959)
Interest paid on notes	(685,055)	(23,770)	(708,825)
Issuance costs paid for notes	(60,805)	-	(60,805)
Proceeds from sale of assets	12,573	-	12,573
Purchase of capital assets	(19,284,710)	(2,118,611)	(21,403,321)
Net cash (used) by capital and related financing activities	(23,977,294)	(92,274)	(24,069,568)
Investing activities			
Interest received	1,263,956	405	1,264,361
Net cash provided by investing activities	1,263,956	405	1,264,361
Net increase (decrease) in cash and cash equivalents	(12,673,453)	99,926	(12,573,527)
Cash and cash equivalents - beginning	82,311,647	712,861	83,024,508
Cash and cash equivalents - ending	\$ 69,638,194	\$ 812,787	\$ 70,450,981
Classified as			
Current assets - cash and cash equivalents	\$ 22,371,903	\$ 812,787	\$ 23,184,690
Restricted assets - cash and cash equivalents	47,266,291	-	47,266,291
Total	\$ 69,638,194	\$ 812,787	\$ 70,450,981

(Continued)

City of Panama City Beach, Florida
Statement of Cash Flows
Proprietary Funds (Continued)
Year Ended September 30, 2010

	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)	\$ 5,522,710	\$ (758,456)	\$ 4,764,254
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities			
Amortization	62,075	-	62,075
Depreciation	3,295,045	508,307	3,803,352
Bad debts	55,240	-	55,240
Professional services	27,650	-	27,650
Forfeited deposits	5,200	-	5,200
(Increase) decrease in assets			
Accounts receivable	219,699	(5,236)	214,463
Due from other funds	24	(245)	(221)
Due from other governments	(4,326)	(372)	(4,698)
Inventory	80,378	-	80,378
Prepaid insurance	844	(184)	660
Accounts receivable, restricted	927	-	927
Increase (decrease) in liabilities			
Accounts payable	(548,383)	(939)	(549,322)
Accrued expenses and deposits	412,370	22,246	434,616
Accrued compensated absences	22,591	3,986	26,577
Due to other funds	1,699	579	2,278
Due to other governments	596,678	894	597,572
Deferred revenue	(10,015)	4,315	(5,700)
Total adjustments	4,217,696	533,351	4,751,047
Net cash provided (used) by operating activities	\$ 9,740,406	\$ (225,105)	\$ 9,515,301
Noncash financing, capital, and investing activities			
Write off of impact fees financed by the City	\$ 2,513	\$ -	\$ 2,513
Wastewater improvements acquired from issuance of revenue certificate	\$ 143,950	\$ -	\$ 143,950
Contributions from developers (performance bond forfeited)	\$ 151,251	\$ -	\$ 151,251
Public access reuse grant applied directly to reduce note principal	\$ 750,000	\$ -	\$ 750,000

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

City of Panama City Beach, Florida
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2010

	Pension Trust Funds
<hr/>	
Assets	
Cash and cash equivalents	\$ 733,438
Accounts receivable, net	48,163
Investments, at fair value	
Money market funds	867,025
Real estate investment trusts	863,999
Mutual funds	33,376,099
<hr/>	
Total assets	35,888,724
<hr/>	
Liabilities	
Accounts payable	47,238
Refunds payable	5,755
Retirement benefits payable	339
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Total liabilities	53,332
<hr/>	
Net assets	
Held in trust for pension benefits	\$ 35,835,392
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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, 2010

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 1,854,959
Plan members	914,193
Insurance premiums	279,941
Total contributions	3,049,093
Investment earnings	
Interest	401
Dividends	155,623
Net increase in fair value of investments	3,396,198
Total investment earnings	3,552,222
Less investment expenses	(196,932)
Net investment earnings	3,355,290
Total additions	6,404,383
Deductions	
Benefits	986,790
Refunds of contributions	85,442
Administrative expenses	69,498
Total deductions	1,141,730
Change in net assets	5,262,653
Net assets - beginning	30,572,739
Net assets - ending	\$ 35,835,392

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Component Unit – Panama City Beach Community Redevelopment Agency

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

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

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Fiduciary Funds

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

Basis of Presentation

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

Governmental Major Funds

General Fund - The general fund is the general operating fund of the City. It is used to account for all activities of the general government except those required or elected 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, wastewater and storm water systems operated by the City.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Governmental Assets/Liabilities

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

Budgets

Annual budgets are legally adopted for all governmental funds, except those indicated in Note 3, and all proprietary funds. Budgets are prepared and adopted on 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 wastewater distribution systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations

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

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

Capitalization of Interest

Interest incurred during the construction phase of capital assets of business-type activities is capitalized. For the year ended September 30, 2010, \$221,776 was capitalized in connection with the construction of various water and wastewater projects.

Unamortized Bond Costs

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

Unamortized Bond Discounts / Premiums

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

Deferred Gain / Loss from Refunding of Debt

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

Deferred Revenues

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accumulated Vacation and Sick Leave

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

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

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

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

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

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

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

Restricted Assets

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

Subsequent Events

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

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 states, "receivables, on a modified accrual basis are not resources and, therefore, are not reported in the funds." The details of this \$864,350 difference are as follows:

Accounts receivable, net	\$	687,576
Grants receivable		171,246
Due from other governments		5,528
<hr/>		
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	864,350

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

The details of this \$94,224,991 difference are as follows:

Cost of capital assets	\$	109,049,469
Less: accumulated depreciation		(14,824,478)
<hr/>		
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	94,224,991

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 (\$54,395,563) difference are as follows:

Bonds payable	\$	(51,255,000)
Unamortized premium costs		(1,239,012)
Less: unamortized bond costs		2,091,682
Note payable		(68,494)
OPEB liability		(700,655)
Compensated absences		(2,238,312)
Accrued interest payable		(985,772)
<hr/>		
Net adjustment to decrease <i>fund balance – total governmental funds</i> to arrive at <i>net assets of governmental activities</i>	\$	(54,395,563)

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 \$8,310,847 difference are as follows:

Capital outlay	\$	11,025,156
Depreciation expense		(2,714,309)
<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>	\$	8,310,847

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 (\$14,092) 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.	\$	(34,404)
In the statement of activities, donations of capital assets are recognized at estimated fair market value. However, in the governmental funds, the donations are not recognized.		20,312
<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>	\$	(14,092)

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 (\$348,578) difference are as follows:

Compensated absences	\$	39,627
Accrued interest		22,873
OPEB liability		(411,078)
<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>	\$	(348,578)

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

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

Another element of that reconciliation states, "Some revenues reported in the statement of activities are not recorded in the current financial resources and, therefore, are not reported as revenues in governmental funds." The details of this \$864,350 difference are as follows:

Intergovernmental	\$	5,528
Fines and forfeitures		111,784
Grants		171,246
Other fees and miscellaneous		575,792
<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>	\$	864,350

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 \$1,417,397 difference are as follows:

Principal repayments		
Note	\$	92,835
Bonds		1,365,000
Plus, amortization of bond premium costs		58,765
Less, amortization of bond issuance costs		(99,203)
<hr/>		
Net adjustment to increase <i>net change in fund balances – total governmental funds</i> to arrive at <i>change in net assets of governmental activities</i>	\$	1,417,397

NOTE 3 – BUDGETS

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

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

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

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

NOTE 4 – DEPOSITS AND INVESTMENTS

Deposits

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

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

Investments

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

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

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

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

Direct obligations of the United States Treasury.

Federal agencies and instrumentalities.

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

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

NOTE 4 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risks

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

Interest Rate Risks

At September 30, 2010, the City did not hold any investments that were considered to be an interest rate risk.

Custodial Risks

At September 30, 2010, the City did not hold any deposits or investments that were considered to be a custodial risk.

Concentration of Credit Risk

At September 30, 2010, the City did not hold any investments that were considered to be a concentration of credit risk.

At September 30, 2010, the City's deposits and investments consisted of the following:

	Carrying Amount	Market Value
Demand deposits	\$ 80,698,720	\$ 80,698,720
Nonnegotiable certificate of deposits	24,808,492	24,808,492
Total deposits and investments	\$105,507,212	\$105,507,212

NOTE 5 – ACCOUNTS RECEIVABLE, NET

At September 30, 2010, accounts receivable in the governmental activities is summarized as follows:

Total accounts receivable	\$ 862,941
Less: allowance for doubtful accounts	-
Accounts receivable, net	\$ 862,941

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

NOTE 5 – ACCOUNTS RECEIVABLE, NET

At September 30, 2010, accounts receivable in the business type activities is summarized as follows:

Billed accounts receivable	\$ 1,945,719
Unbilled accounts receivable	3,507,005
Other receivables	27,863
<hr/>	
Total accounts receivable	5,480,587
Less: allowance for doubtful accounts	(282,443)
<hr/>	
Accounts receivable, net	<u>\$ 5,198,144</u>

At September 30, 2010, restricted accounts receivable in the business type activities is summarized as follows:

Total restricted accounts receivable	\$ 241
Less: allowance for doubtful accounts	-
<hr/>	
Restricted accounts receivable, net	<u>\$ 241</u>

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

NOTE 6 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of due to / from other funds balances as of September 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
General fund	Utility fund	\$ 1,793
CRA fund	General fund	3
Pier fund	General fund	245
Pier fund	Aquatic center fund	579
<hr/>		
Total		<u>\$ 2,620</u>

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, 2010 is as follows:

Transfers out	Transfers in		Total
	Pier fund	Aquatic Center fund	
General fund	\$ 323,388	\$ 565,000	\$ 888,388
Total transfers out	\$ 323,388	\$ 565,000	\$ 888,388

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, 2009	Increases	Decreases	September 30, 2010
Capital assets, not being depreciated				
Land	\$ 40,853,149	\$ 2,488,215	\$ -	\$ 43,341,364
Construction in progress	22,587,937	8,561,020	(17,170,840)	13,978,117
Total capital assets, not being depreciated	63,441,086	11,049,235	(17,170,840)	57,319,481
Capital assets, being depreciated				
Buildings	4,713,995	1,882,760	-	6,596,755
Improvements	23,194,918	14,835,474	-	38,030,392
Machinery and equipment	7,181,784	448,839	(527,782)	7,102,841
Total capital assets, being depreciated	35,090,697	17,167,073	(527,782)	51,729,988
Less: accumulated depreciation				
Buildings	(1,935,861)	(142,948)	-	(2,078,809)
Improvements	(6,026,642)	(1,977,466)	-	(8,004,108)
Machinery and equipment	(4,641,044)	(593,895)	493,378	(4,741,561)
Total accumulated depreciation	(12,603,547)	(2,714,309)	493,378	(14,824,478)
Total capital assets, being depreciated, net of accumulated depreciation	22,487,150	14,452,764	(34,404)	36,905,510
Total governmental activities' capital assets – net	\$ 85,928,236	\$ 25,501,999	\$(17,205,244)	\$ 94,224,991

During the fiscal year ending September 30, 2010, the City received contributed assets with an estimated fair market value at the date of contribution of \$20,312.

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

Governmental activities	
General government	\$ 44,693
Public safety	508,200
Highways and streets	1,233,208
Culture and recreation	928,208
Total depreciation expense – governmental activities	\$ 2,714,309

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, 2009	Increases	Decreases	September 30, 2010
Capital assets, not being depreciated				
Land	\$ 6,839,844	\$ 48,419	\$ -	\$ 6,888,263
Construction in progress	4,145,831	26,044,115	(5,024,766)	25,165,180
Total capital assets, not being depreciated	10,985,675	26,092,534	(5,024,766)	32,053,443
Capital assets, being depreciated				
Buildings	34,016,539	1,939,209	-	35,955,748
Improvements	78,447,663	2,341,965	-	80,789,628
Machinery and equipment	9,822,518	1,653,908	(125,245)	11,351,181
Total capital assets, being depreciated	122,286,720	5,935,082	(125,245)	128,096,557
Less: accumulated depreciation				
Buildings	(10,457,005)	(899,998)	-	(11,357,003)
Improvements	(19,332,398)	(2,152,314)	-	(21,484,712)
Machinery and equipment	(3,592,320)	(751,040)	121,870	(4,221,490)
Total accumulated depreciation	(33,381,723)	(3,803,352)	121,870	(37,063,205)
Total capital assets, being depreciated, net of accumulated depreciation	88,904,997	2,131,730	(3,375)	91,033,352
Total business-type activities' capital assets (net of accumulated depreciation)	\$ 99,890,672	\$ 28,224,264	\$ (5,028,141)	\$ 123,086,795

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

Business-type activities	
Utility fund	
Water	\$ 1,364,541
Wastewater	1,855,745
Storm water	74,759
Pier fund	352,313
Aquatic center fund	155,994
Total depreciation expense – business-type activities	\$ 3,803,352

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, 2010:

	Utility Fund	Pier Fund	Aquatic Center Fund	Total
Land	\$ 6,888,263	\$ -	\$ -	\$ 6,888,263
Buildings	31,803,479	1,939,209	2,213,060	35,955,748
Improvements	69,710,723	9,035,778	2,043,127	80,789,628
Machinery and equipment	10,866,409	171,272	313,500	11,351,181
Construction in progress	25,157,680	-	7,500	25,165,180
Total	144,426,554	11,146,259	4,577,187	160,150,000
Less: accumulated depreciation				
Buildings	(11,091,474)	(15,466)	(250,063)	(11,357,003)
Improvements	(20,756,024)	(414,473)	(314,215)	(21,484,712)
Machinery and equipment	(4,082,849)	(7,040)	(131,601)	(4,221,490)
Total accumulated depreciation	(35,930,347)	(436,979)	(695,879)	(37,063,205)
Total business-type activities' capital assets, net	\$108,496,207	\$10,709,280	\$ 3,881,308	\$123,086,795

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

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.

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

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

Funding Policy

For the Postemployment Health Care Benefits Plan, contribution requirements of the City are established and may be amended through recommendations of the City staff and action from the City Council. The City has not advanced-funded or established a funding methodology for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. As of October, 1 2008 there were 14 retirees and 3 eligible dependents receiving postemployment health care benefits. For the fiscal year ended September 30, 2010, retiree premiums exceeded paid out claims resulting in a credit of (\$5,538) toward annual OPEB costs, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance payments, and net of retiree contributions totaling \$104,123. Required contributions are based on projected pay-as-you-go financing.

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

Coverage	Blue Options 1351	Blue Options 1551	Blue Options 1755
Retiree	\$ 435.79	\$ 461.35	\$ 480.38
Retiree and Spouse	\$ 902.08	\$ 955.02	\$ 994.37

Dental insurance can be purchased at a cost of \$20.44 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	\$ 669,277
Less: amortization of net OPEB obligation	(15,915)
Plus: interest on net OPEB obligation	19,098
Total annual OPEB cost	\$ 672,460
Beginning of year net OPEB obligation	\$ 477,442
Plus: actual annual OPEB cost	672,460
Less: contributions	5,538
End of year net OPEB obligation	\$ 1,155,440

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

For the fiscal year ended September 30, 2010, the City's OPEB actuarial valuation used the entry age normal cost actuarial method to estimate the unfunded actuarial liability and to determine the annual required contribution. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4.0 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 6.0 percent per year, and an annual healthcare cost trend rate of 9.5 percent initially for the 2009-10 fiscal year, grading to an ultimate rate of 5.5 percent for the fiscal year ending September 30, 2014. Dental cost trend is 7.5 percent initially, grading to an ultimate rate of 5.5 percent for the fiscal year ending September 30, 2012. The unfunded actuarial accrued liability and gains/losses are being amortized as a level percentage of projected payroll on a closed basis over 30 years.

NOTE 9 – LONG-TERM DEBT – GOVERNMENTAL ACTIVITIES

	Balance September 30, 2009	Additions	Deductions	Balance September 30, 2010	Due Within One Year
Revenue bonds payable	\$ 52,620,000	\$ -	\$ (1,365,000)	\$ 51,255,000	\$ 1,420,000
Adjusted for deferred amounts for issuance premium	1,297,777	-	(58,765)	1,239,012	58,765
Total bonds payable	53,917,777	-	(1,423,765)	52,494,012	1,478,765
Notes payable	161,328	-	(92,834)	68,494	68,494
Accrued compensated absences	2,277,939	-	(39,627)	2,238,312	192,340
Total	\$ 56,357,044	\$ -	\$ (1,556,226)	\$ 54,800,818	\$ 1,739,599

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.

	\$ 51,255,000
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Total revenue bonds at September 30, 2010	51,255,000
Less: revenue bonds – current portion	(1,420,000)
<hr/>	
Revenue bonds – long-term at September 30, 2010	\$ 49,835,000

Debt service requirements to maturity on Capital Improvement Revenue Bonds, Series 2006, (Front Beach Road Project), payable at September 30, 2010 are as follows:

Year Ending September 30,	Principal	Interest	Total
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	1,670,000	2,085,550	3,755,550
2016-2020	9,610,000	9,129,538	18,739,538
2021-2025	11,950,000	6,742,944	18,692,944
2026-2030	14,930,000	3,669,863	18,599,863
2031-2032	7,050,000	356,750	7,406,750
<hr/>			
Total	\$ 51,255,000	\$ 30,988,364	\$ 82,243,364

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.

	\$ 68,494
<hr/>	
Total note payable at September 30, 2010	68,494
Less: note payable - current portion	(68,494)
<hr/>	
Note payable – long-term at September 30, 2010	\$ -

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, 2010 are as follows:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 68,494	\$ 625	\$ 69,119
Total	\$ 68,494	\$ 625	\$ 69,119

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

	Balance September 30, 2009	Additions	Deductions	Balance September 30, 2010	Due Within One Year
Revenue bonds payable	\$ 52,880,000	\$ -	\$ (1,215,000)	\$ 51,665,000	\$ 1,420,000
Adjusted for deferred amounts					
On refunding	(739,052)	-	99,376	(639,676)	(99,376)
For issuance discounts	(686,590)	-	33,874	(652,716)	(33,872)
For issuance premium	622,794	-	(20,993)	601,801	20,993
Total bonds payable	52,077,152	-	(1,102,743)	50,974,409	1,307,745
Revenue certificates payable	2,180,618	143,950	(36,184)	2,288,384	2,288,384
Notes payable	24,316,829	-	(1,686,959)	22,629,870	2,274,248
Accrued compensated balances	825,978	26,576	-	852,554	774
Total	\$ 79,400,577	\$ 170,526	\$ (2,825,886)	\$ 76,745,217	\$ 5,871,151

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 Wastewater Refunding Revenue Bonds, Series 1986 and its outstanding \$3,645,000 Water and Wastewater 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. \$ 4,410,000

\$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 Wastewater 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 wastewater 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 wastewater 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. 28,395,000

Total revenue bonds at September 30, 2010	51,665,000
Less: revenue bonds – current portion	(1,420,000)

Revenue bonds – long-term at September 30, 2010	\$ 50,245,000
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City of Panama City Beach, Florida
Notes to Basic Financial Statements

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

Debt service requirements to maturity on revenue bonds payable at September 30, 2010 are as follows:

Year Ending September 30,	Principal	Interest	Total
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	1,270,000	2,267,818	3,537,818
2016-2020	7,320,000	10,368,963	17,688,963
2021-2025	9,295,000	8,389,237	17,684,237
2026-2030	11,795,000	5,908,000	17,703,000
2031-2035	9,740,000	2,905,500	12,645,500
2036-2039	6,580,000	842,500	7,422,500
Total	\$ 51,665,000	\$ 40,371,216	\$ 92,036,216

The principal balance of the defeased debt outstanding for the Water and Wastewater Revenue Bonds, Series 1987A, at September 30, 2010 is \$550,000.

Revenue Certificates:

This liability consists of revenue certificates payable to various developers for extensions made to the City's water and wastewater systems. The revenue certificates are payable solely from a percentage of the impact fees collected by the City for water or wastewater 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, 2009	Net Changes During the Year	Balance at September 30, 2010
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	91,049	(893)	90,156
Magnolia Beach LLC	100,000	84,657	(195)	84,462
TW Olson-Magnolia LLC	490,500	414,878	(601)	414,277
St. Andrews Land Company LLC	670,414	567,540	(1,309)	566,231
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	(2,760)	13,515
St. Andrews Land Company, LLC	212,496	212,496	(10,198)	202,298
Antigua Developers, LLC	143,950	-	123,722	123,722
Total	\$ 2,890,198	\$ 2,180,618	\$ 107,766	\$ 2,288,384

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

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

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

Notes Payable:

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

\$ 11,026,871

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

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

10,332,067

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%.

518,018

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%. Collateralized by building.

152,914

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

600,000

Total notes payable at September 30, 2010 22,629,870

Less: notes payable - current portion (2,274,248)

Notes payable – long-term at September 30, 2010 \$ 20,355,622

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, 2010 are as follows:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 2,274,248	\$ 661,157	\$ 2,935,405
2012	1,633,161	589,655	2,222,816
2013	1,682,201	540,615	2,222,816
2014	1,732,745	490,072	2,222,817
2015	1,784,840	437,976	2,222,816
2016-2020	8,741,114	1,379,684	10,120,798
2021-2025	3,522,504	377,958	3,900,462
2026-2029	1,259,057	83,306	1,342,363
Total	\$ 22,629,870	\$ 4,560,423	\$ 27,190,293

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, 2010 totaled \$82,243,364. Annual principal and interest payments on the bonds in fiscal year 2010 required the use of 45.6% of the tax increment revenue. Principal and interest payments paid for the current year were \$3,763,000 and Front Beach Road CRA tax increment revenues collected were \$8,246,840.

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 Wastewater Refunding Revenue Bonds, Series 1986, and the outstanding \$3,645,000 Water and Wastewater 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 wastewater systems, (b) water system development charges, (c) wastewater system development charges, and (d) until released, public services 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, 2010 totaled \$5,189,730. Annual principal and interest payments on the bond required 10.22% of pledged revenue. Current year principal and interest payments paid from pledged revenue were \$885,000 and \$256,325, 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 Wastewater Refunding and Improvement Revenue Bonds, Series 1993, to finance the cost of acquisition and construction of certain capital improvements in connection with the City's water and wastewater utility systems, 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 wastewater systems, (b) water system development charges, (c) wastewater system development charges, and (d) until released, public services taxes. The lien and pledge exists until extinguishment or maturity of the debt in 2032, whichever occurs first. The remaining principal and interest payments on this debt as of September 30, 2010 totaled \$33,027,949. Annual principal and interest payments on the bond required 8.39% of pledged revenue. Current year principal and interest payments paid from pledged revenue were \$0 and \$937,193, 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 wastewater utility system. The bonds are payable from and secured by a lien upon and pledge of (a) net revenues of the water and wastewater systems, (b) water system development charges, (c) wastewater system development charges, (d) until released, public services taxes, and (e) the money deposited in the various funds related to the creation of the obligation. The remaining principal and interest payments on this debt as of September 30, 2010 totaled \$53,818,537. Annual principal and interest payments on the bond required 11.41% of pledged revenue. Current year principal and interest payments paid from pledged revenue were \$330,000 and \$943,712, respectively.

NOTE 13 – ACCRUED ABSENCES

Accrued compensated absences consist of the following at September 30, 2010:

	Accrued Emergency Leave	Accrued Sick Leave	Total Accrued Leave
Governmental funds			
General	\$ 347,853	\$ 1,878,100	\$ 2,225,953
Community Redevelopment	2,395	9,964	12,359
Enterprise funds			
Utility	170,287	668,593	838,880
Pier	2,204	2,974	5,178
Aquatic Center	5,943	2,553	8,496
Total	\$ 528,682	\$ 2,562,184	\$ 3,090,866

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 Bay County an amount equal to the number of gallons short, at an agreed upon amount (\$.335 per thousand gallons). During the year ended September 30, 2010, the City's cost of water purchased from Bay County was \$6,583,990. The City did not meet its minimum purchase agreement for 2010 and as a result there was an amount due of \$438,738 at September 30, 2010. However, this liability was offset by \$42,264 representing Bay County's impact fees collected by the City in accordance with an inter-local agreement, and \$3,645 in other credits. As such, the net amount of \$396,474 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:

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-three percent (93%) 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 five percent (5%) is in cash, money market funds, and receivables.

Statements of Plan Assets

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

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at October 1, 2009, the date of the latest actuarial valuation.

	General Employees	Police Officers	Fire- Fighters
Retirees and beneficiaries receiving benefits	41	13	3
Terminated plan members entitled to but not yet receiving benefits	3	5	4
Active plan members	149	51	31
Total	193	69	38
Number of participating employers	1	1	1

General Employees’ Pension Plan

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

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

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

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

Police Officers' Pension Plan

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

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

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	09/30/08	887,879	90.2%	54,497
	09/30/09	1,031,149	102.6%	26,890
	09/30/10	968,802	108.4%	pending
Police officers	09/30/08	525,523	94.7%	(127,785)
	09/30/09	520,866	100.2%	(128,614)
	09/30/10	580,987	93.8%	pending
Firefighters	09/30/08	364,271	161.2%	(300,844)
	09/30/09	499,090	101.9%	(310,499)
	09/30/10	557,520	161.2%	pending

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

NOTE 16 – LEASES

Bay County Lease

On April 13, 2001, the City leased approximately 3,100 square feet in the building at 17109 Panama City Beach Parkway, including utilities and maintenance and adjacent appropriate parking, to Bay County for initial use by the Tax Collector at a rate of \$36,000 per year for 15 years. The rental income for the year ended September 30, 2010 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, with an option to renew at the same terms and conditions for two consecutive terms of one year each. The lease was modified on September 23, 2009, to specifically exclude the Aquatic Center concession stand from the description of the leased property and to make other changes primarily related to the section entitled "Dealings with the Public." The lessee exercised its option to renew for one additional year through September 30, 2010.

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. Rental income for the year end September 30, 2010, was \$42,821.

Aquatic Center Concession Lease

The City leases one concession stand located at the Aquatic Center at Frank Brown Park. The operating lease includes the use of the concession stand building, fixtures and equipment beginning April 23, 2010 and continuing through September 30, 2012. The lease has an option to renew at the same terms and conditions for two (2) consecutive terms of one year each. Rent is due on the first of each month in an amount equal to 23% of monthly gross sales made by the lessee in the previous month, plus \$250. Rental income for the year ended September 30, 2010, was \$11,467.

Future minimum lease receipts due under these operating leases consist of the following at September 30, 2010:

Year Ending September 30,	Total
2011	\$ 3,000
2012	3,000
2013	3,000
2014	3,000
Total	\$ 12,000

NOTE 16 – LEASES (CONTINUED)

Pier Beachfront Lease

The City leases a snack bar, tackle, and bait shop and four (4) retail kiosks located at the Russell-Fields Pier. Additionally, the City grants to the tenant an exclusive right and license to operate a beach service on the beachfront property as defined in the lease agreement. The effective date of the lease is June 24, 2010 and extends through September 30, 2012. The lease has an option to renew for consecutive, additional terms of two (2), three (3), or five (5) years, each upon rent, terms, and conditions as agreed to between the lessee and the City. The total aggregate term, including the initial two (2) year term and all extension terms, shall not exceed ten (10) years. Base rent is due to the City on the first day of each month in the amount of \$8,333. In addition to the base rent, the lessee shall pay additional rent to the City on the fifteenth day of each month in an amount equal to 7% of the monthly gross sales up to and including \$700,000 aggregate gross sales per year, and thereafter, 10% of monthly gross sales in excess of \$700,000 aggregate gross sales per year for the remainder of that year. Rental income for the year ended September 30, 2010 was \$25,390.

Future minimum lease receipts due under this operating lease consists of the following at September 30, 2010:

Year Ending September 30,	Total
2011	\$ 100,000
2012	100,000
2013	100,000
2014	100,000
2015	100,000
Thereafter	475,000
Total	\$ 975,000

NOTE 17 – NET ASSET RESTRICTIONS

The following is a description of reported net asset restrictions in governmental activities and business-type activities at September 30, 2010.

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.

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

NOTE 17 – NET ASSET RESTRICTIONS (CONTINUED)

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

Business-type Activities

Restriction for Impact Fees – This restriction was established to account for water and wastewater 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 wastewater 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 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, 2010:

Governmental activities	
Law enforcement	\$ 51,442
Beach access public parking	557,346
Impact fees	4,210,619
Debt service	5,169,591
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Total	\$ 9,988,998
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Business-type activities	
Impact fees	\$ 14,530,980
Debt service	1,322,821
Storm water	828,807
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Total	\$ 16,682,608
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For the fiscal year ending September 30, 2010, the amount of net assets restricted by enabling legislation was \$20,179,194.

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.

NOTE 18 – FUND BALANCE RESERVATIONS (CONTINUED)

The following is a description of reported reserves in governmental funds at September 30, 2010:

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 Debt Service – This reserve 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 funds as needed.

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, 2010:

General fund	
Reserved for law enforcement	\$ 7,614
Reserved for inventory	6,935
Reserved for prepaid insurance	20,465
Reserved for impact fees	4,210,619
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Total	\$ 4,245,633
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City of Panama City Beach, Florida
Notes to Basic Financial Statements

NOTE 18 – FUND BALANCE RESERVATIONS (CONTINUED)

Community redevelopment fund	
Debt service	\$ 7,575,235
Reserved for community redevelopment	12,477,252
Total	\$ 20,052,487

Other governmental funds	
Reserved for law enforcement	\$ 26,540
Reserved for beach access public parking	557,346
Total	\$ 583,886

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 provides for the construction of improvements in the Pier Park Redevelopment Area and the transfer of properties between the parties to facilitate the development of this area.

The CDD 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, 2010, tax increment funds remitted by Bay County to the City for the Pier Park CRA were \$337,788. 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, 2010 were \$1,578,210.

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, 2010 in the amount of \$3,003,913. This represents 2009 collections due to the CDD in the amount of \$1,283,260 and 2010 collections in the amount of \$1,578,210. The portion of the 2010 collections to be retained by the City, are not determinable until July 2011.

Additionally, subsequent to the year ending September 30, 2010, the City received settlement proceeds from BP Oil as a result of damages sustained from the BP Deepwater Horizon Oil Spill as more fully described in Note 21 – Subsequent Events. A portion of the settlement proceeds represent business tax receipts applicable to the Pier Park Community Redevelopment Area in the amount of \$142,443. This amount is included in the liability recorded at September 30, 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.

NOTE 21 – SUBSEQUENT EVENTS

In response to the BP Deepwater Horizon Oil Spill disaster, the City filed a claim for lost revenue and related economic losses suffered as a result. On December 23, 2011, the City agreed to accept a partial settlement of lost revenue claim. The gross amount of the settlement was \$1,220,000 and represents lost revenues for the period June 1, 2010 through November 30, 2010. Due to the possible prolonged effects of the BP Deepwater Horizon Oil Spill, the City has retained the right to file future claims should subsequent damages be realized.

On February 1, 2011, the City issued \$4,010,000 Panama City Beach, Florida Utility System Refunding Revenue Bonds, Series 2011 dated as of February 1, 2011 and maturing on June 1, 2017 and bearing an interest rate of 3.1377%. The bonds were issued for the purpose of refunding the outstanding principal amount of the City's Utility Revenue Bonds, Series 1998. The purpose of the refunding was to realize a present value interest cost savings and to retire the debt more quickly.

Required Supplementary Information

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedule of Analysis of Funding Progress
 Pension Trust Funds
 September 30, 2010

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>						
10/1/2000	\$ 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%
10/1/2009	\$ 17,062	\$ 17,999	\$ 937	94.8%	\$ 5,280	17.7%
<u>Police Officers</u>						
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%
10/1/2009	\$ 10,495	\$ 11,234	\$ 739	93.4%	\$ 2,352	31.4%
<u>Firefighters</u>						
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%
10/1/2009	\$ 6,858	\$ 8,419	\$ 1,561	81.5%	\$ 1,364	114.4%

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedule of Contributions From Employer and Other
 Entity's Contributions - Pension Trust Funds
 September 30, 2010

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
9/30/2001	\$ 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%
9/30/2010	\$ 971,066	108.1%	\$ 572,627	95.2%	\$ 533,688	101.2%

Schedule of Insurance Contributions

For the Fiscal Year	General Employees #		Police Officers *		Firefighters *	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
9/30/2001	\$ -	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%
9/30/2010	\$ -	0.0%	\$ 95,224	100.0%	\$ 184,717	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, 2010

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	10/1/09	10/1/09	10/1/09
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	14 years	12 years	14 years
Asset valuation method	5-Year Smoothed Market Value without Phase-in	5-Year Smoothed Market Value without Phase-in	5-Year Smoothed Market Value without Phase-in
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases	6%	6%	6%

City of Panama City Beach, Florida
 Required Supplementary Information
 Schedules of Other Post Employment Benefits (OPEB)
 September 30, 2010

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)
9/30/2008	N/A	N/A	N/A	N/A	N/A	N/A
9/30/2009	\$ -	\$ 4,587,573	\$ 4,587,573	0.0%	\$ 8,898,169	51.6%
9/30/2010	\$ -	\$ 5,050,183	\$ 5,050,183	0.0%	\$ 10,587,717	47.7%

Schedule of Employer Contributions for Retiree Healthcare Plan (OPEB)

Fiscal Year Ending	Actual Contribution	Annual Required Contribution	Percentage Contributed
9/30/2008	N/A	N/A	N/A
9/30/2009	\$ 43,462	\$ 520,904	8.3%
9/30/2010	\$ (5,538)	\$ 672,460	(-0.8%)

Combining Financial Statements

City of Panama City Beach, Florida
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2010

	Special Revenue Funds					Total
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund	Safe Kids Fund		
Assets						
Cash and cash equivalents	\$ -	\$ 16,441	\$ -	\$ 138		\$ 16,579
Cash and cash equivalents - restricted	27,383	-	557,346	-		584,729
Total assets	\$ 27,383	\$ 16,441	\$ 557,346	\$ 138		\$ 601,308
Liabilities and fund balances						
Accounts payable	\$ 843	\$ 1,881	\$ -	\$ -		\$ 2,724
Total liabilities	843	1,881	-	-		2,724
Fund balances						
Reserved for						
Law enforcement	26,540	-	-	-		26,540
Beach access public parking	-	-	557,346	-		557,346
Unreserved	-	14,560	-	138		14,698
Total fund balances	26,540	14,560	557,346	138		598,584
Total liabilities and fund balances	\$ 27,383	\$ 16,441	\$ 557,346	\$ 138		\$ 601,308

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, 2010

	Special Revenue Funds					Total
	Law Enforcement Trust Fund	Cops and Kids Fund	Beach Access Public Parking Fund	Safe Kids Fund		
Revenues						
Fines and forfeitures	\$ 3,174	\$ -	\$ -	\$ -	\$ -	\$ 3,174
Contributions and donations	-	19,295	-	-	1,905	21,200
Interest	13	8	1,604	-	-	1,625
Total revenues	3,187	19,303	1,604	1,905	1,905	25,999
Expenditures						
Current						
Public safety	9,507	17,101	-	-	1,767	28,375
Capital outlay						
Public safety	6,000	-	-	-	-	6,000
Total expenditures	15,507	17,101	-	1,767	1,767	34,375
Excess (deficiency) of revenues over (under) expenditures	(12,320)	2,202	1,604	138	138	(8,376)
Other financing sources						
Proceeds from sale of assets	6,478	-	-	-	-	6,478
Net other financing sources	6,478	-	-	-	-	6,478
Net change in fund balances	(5,842)	2,202	1,604	138	138	(1,898)
Fund balances - beginning	32,382	12,358	555,742	-	-	600,482
Fund balances - ending	\$ 26,540	\$ 14,560	\$ 557,346	\$ 138	\$ 138	\$ 598,584

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, 2010

Business-type Activities / Enterprise Funds			
	Pier Fund	Aquatic Center Fund	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 667,764	\$ 145,023	\$ 812,787
Accounts receivable, net	4,734	12,488	17,222
Due from other funds	824	-	824
Due from other governments	372	-	372
Prepaid insurance	-	2,442	2,442
Total current assets	673,694	159,953	833,647
Noncurrent assets			
Capital assets			
Nondepreciable	-	7,500	7,500
Depreciable, net	10,709,280	3,873,808	14,583,088
Total noncurrent assets	10,709,280	3,881,308	14,590,588
Total assets	11,382,974	4,041,261	15,424,235
Liabilities			
Current liabilities			
Accounts payable	477,438	18,083	495,521
Accrued expenses and deposits	30,626	24,419	55,045
Due to other funds	-	579	579
Due to other governments	3,863	962	4,825
Deferred revenue	2,983	26,573	29,556
Accrued compensated absences	473	-	473
Notes payable	-	600,000	600,000
Total current liabilities	515,383	670,616	1,185,999
Noncurrent liabilities			
Accrued compensated absences	4,705	8,496	13,201
Total noncurrent liabilities	4,705	8,496	13,201
Total liabilities	520,088	679,112	1,199,200
Net assets			
Invested in capital assets, net of related debt	10,709,280	3,881,308	14,590,588
Unrestricted (deficit)	153,606	(519,159)	(365,553)
Total net assets	\$ 10,862,886	\$ 3,362,149	\$ 14,225,035

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, 2010

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating revenues			
Charges for services			
Admissions and other fees	\$ 494,167	\$ 277,060	\$ 771,227
Rent	25,390	16,720	42,110
Miscellaneous	1,045	3,104	4,149
Total operating revenues	520,602	296,884	817,486
Operating expenses			
Personal services	201,326	410,850	612,176
Professional services	20,446	11,278	31,724
Office supplies	91	1,902	1,993
Contractual services	11,025	844	11,869
Insurance	3,771	24,244	28,015
Repairs and maintenance	22,577	24,052	46,629
Operating supplies	55,001	82,241	137,242
Communication services	1,600	6,485	8,085
Public utility services	14,830	148,677	163,507
Transportation	-	282	282
Rentals	9,824	8,790	18,614
Printing and binding	1,170	275	1,445
Miscellaneous	1,599	4,455	6,054
Depreciation	352,313	155,994	508,307
Total operating expenses	695,573	880,369	1,575,942
Net operating (loss)	(174,971)	(583,485)	(758,456)
Nonoperating revenues (expenses)			
Interest income	329	76	405
Grants and contributions	1,459,471	1,000	1,460,471
(Loss) on disposal of assets	-	(2,797)	(2,797)
Interest expense	-	(23,770)	(23,770)
Total nonoperating revenues (expenses)	1,459,800	(25,491)	1,434,309
Net income (loss) before transfers	1,284,829	(608,976)	675,853
Transfers in	323,388	565,000	888,388
Change in net assets	1,608,217	(43,976)	1,564,241
Total net assets - beginning	9,254,669	3,406,125	12,660,794
Total net assets - ending	\$ 10,862,886	\$ 3,362,149	\$ 14,225,035

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, 2010

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Operating activities			
Receipts from customers and users	\$ 532,806	\$ 297,692	\$ 830,498
Payments to suppliers	(199,239)	(368,007)	(567,246)
Payments to employees	(139,340)	(349,017)	(488,357)
Net cash provided (used) by operating activities	194,227	(419,332)	(225,105)
Noncapital financing activities			
Grants and contributions	900	1,000	1,900
Repayments from (payments to) other funds	(150,000)	-	(150,000)
Transfers from other funds	-	565,000	565,000
Net cash provided (used) by noncapital financing activities	(149,100)	566,000	416,900
Capital and related financing activities			
Grants and contributions	1,756,719	-	1,756,719
Transfers from other funds	323,388	-	323,388
Principal paid on notes	-	(30,000)	(30,000)
Interest paid on notes	-	(23,770)	(23,770)
Purchase of capital assets	(2,110,186)	(8,425)	(2,118,611)
Net cash (used) by capital and related financing activities	(30,079)	(62,195)	(92,274)
Investing activities			
Interest received	329	76	405
Net cash provided by investing activities	329	76	405
Net increase in cash and cash equivalents	15,377	84,549	99,926
Cash and cash equivalents - beginning	652,387	60,474	712,861
Cash and cash equivalents - ending	\$ 667,764	\$ 145,023	\$ 812,787
Classified as			
Current assets - cash and cash equivalents	\$ 667,764	\$ 145,023	\$ 812,787
Total	\$ 667,764	\$ 145,023	\$ 812,787

(Continued)

City of Panama City Beach, Florida
Combining Statement of Cash Flows
Nonmajor Proprietary Funds (Continued)
Year Ended September 30, 2010

	Business-type Activities / Enterprise Funds		
	Pier Fund	Aquatic Center Fund	Total
Reconciliation of net operating (loss) to net cash provided (used) by operating activities			
Net operating (loss)	\$ (174,971)	\$ (583,485)	\$ (758,456)
Adjustments to reconcile net operating (loss) to net cash provided (used) by operating activities			
Depreciation	352,313	155,994	508,307
(Increase) decrease in assets			
Accounts receivable	(4,734)	(502)	(5,236)
Due from other funds	(245)	-	(245)
Due from other governments	(372)	-	(372)
Prepaid insurance	-	(184)	(184)
Increase (decrease) in liabilities			
Accounts payable	(2,486)	1,547	(939)
Accrued expenses and deposits	18,354	3,892	22,246
Due to other funds	-	579	579
Due to other governments	549	345	894
Deferred revenue	2,983	1,332	4,315
Accrued compensated absences	2,836	1,150	3,986
Total adjustments	369,198	164,153	533,351
Net cash provided (used) by operating activities	\$ 194,227	\$ (419,332)	\$ (225,105)

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, 2010

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	Total
Assets				
Cash and cash equivalents	\$ 247,965	\$ 254,734	\$ 230,739	\$ 733,438
Accounts receivable, net	-	-	48,163	48,163
Investments, at fair value				
Money market funds	432,779	255,598	178,648	867,025
Real estate investment trusts	431,269	254,706	178,024	863,999
Mutual funds	16,659,828	9,839,238	6,877,033	33,376,099
Total assets	17,771,841	10,604,276	7,512,607	35,888,724
Liabilities				
Accounts payable	18,316	12,676	16,246	47,238
Refunds payable	5,205	550	-	5,755
Retirement benefits payable	-	-	339	339
Total liabilities	23,521	13,226	16,585	53,332
Net assets				
Held in trust for pension benefits	\$ 17,748,320	\$ 10,591,050	\$ 7,496,022	\$ 35,835,392

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, 2010

	General Employees' Pension Trust Fund	Police Officers' Pension Trust Fund	Firefighters' Pension Trust Fund	Total
Additions				
Contributions				
Employer	\$ 1,049,856	\$ 449,659	\$ 355,444	\$ 1,854,959
Plan members	500,237	268,090	145,866	914,193
Insurance premiums	-	95,224	184,717	279,941
Total contributions	1,550,093	812,973	686,027	3,049,093
Investment earnings				
Interest	226	90	85	401
Dividends	77,114	46,741	31,768	155,623
Net decrease in fair value of investments	1,689,178	1,012,418	694,602	3,396,198
Total investment earnings	1,766,518	1,059,249	726,455	3,552,222
Less investment expenses	(92,072)	(59,958)	(44,902)	(196,932)
Net investment earnings	1,674,446	999,291	681,553	3,355,290
Total additions	3,224,539	1,812,264	1,367,580	6,404,383
Deductions				
Benefits	566,379	365,107	55,304	986,790
Refunds of contributions	64,086	21,356	-	85,442
Administrative expenses	27,323	18,958	23,217	69,498
Total deductions	657,788	405,421	78,521	1,141,730
Change in net assets	2,566,751	1,406,843	1,289,059	5,262,653
Net assets - beginning	15,181,569	9,184,207	6,206,963	30,572,739
Net assets - ending	\$ 17,748,320	\$ 10,591,050	\$ 7,496,022	\$ 35,835,392

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, 2010, and have issued our report thereon dated May 16, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Independent Auditor’s Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Program/State Project and on Internal Control over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated May 16, 2011, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1.), Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Prior year findings 09-01 and recommendation 09-02 were not corrected. See schedule of findings and questioned costs for prior year finding 09-01.

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

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

10-02 Accounting Policies (prior year 09-02)

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

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

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

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

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

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2010, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2010. In connection with our audit, we determined that these two reports were in agreement.

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

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

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

Panama City Beach, Florida
Certified Public Accountants
May 16, 2011

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Panama City Beach, Florida (the City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 16, 2011. 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 City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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

Compliance and Other Matters

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

We have included managements responses to the finding identified in our audit in the Management Response to Auditors Finding and Recommendation. 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 and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Carri Riggs & Ingram, L.L.C.

Panama City, Florida
Certified Public Accountants
May 16, 2011

City of Panama City Beach, Florida
Management's Response to Auditors Finding and Recommendation
Year Ended September 30, 2010

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

Finding

10-01 Segregation of Duties

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

Recommendation

10-02 Accounting Policies

The City agrees that the accounting policy and procedures manual needs to be updated. This matter will be addressed to the extent possible using existing staff.

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

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

Compliance

We have audited City of Panama City Beach, Florida’s (the City) compliance with the types of compliance requirements described in *the OMB Circular A-133 Compliance Supplement* and the requirements described in the *Department of Financial Services’ State Projects Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs and state projects for the year ended September 30, 2010. The City’s major federal programs and state projects are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of the City’s management. Our responsibility is to express an opinion on City of Panama City Beach, Florida’s compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal awards and state projects for the year ended September 30, 2010.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

Panama City Beach, Florida
Certified Public Accountants
May 16, 2011

City of Panama City Beach, Florida
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended September 30, 2010

Federal / State Agency Pass through entity Federal Program / State Project	CFDA CSFA No.	Contract / Grant No.	Expenditures
U.S. Department of Justice			
2009 Recovery Act - Justice Assistance Grant	16.804	2009-SB-B9-0196	\$ 41,006
U.S. Department of Justice			
Passed through Florida Department of Law Enforcement 2009 Recovery Act - Justice Assistance Grant	16.804	2010-ARRC-BAY-3-W7-053	62,950
U.S. Department of Justice			
Passed through Florida Department of Law Enforcement Justice Assistance Grant	16.804	2010-JAGD-BAY-4Y-011	8,556
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	91,948
Staffing for Adequate Fire & Emergency Response (SAFER)	97.044	EMW-2008-FF-00786	113,527
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	430,069
State Road 79 Multi-use Path - Phase 4	20.205	FPID 417966-4-38-01 / A8-01	163,745
Total Expenditures of Federal Awards			\$ 911,801
Florida Department of Transportation			
Transportation Regional Incentive Program Agreement	55.026	21791123801 / AP 864	\$ 83,134
Florida Department of Environmental Protection			
Collection and Reclaimed Water Reuse Facility	37.039	WWG120694050	750,000
Florida Department of State, Division of Library and Information Services			
Public Library Construction Grant Program	45.020	8-PLC-04	150,000
Total Expenditures of State Financial Assistance			\$ 983,134

Note:

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

City of Panama City Beach, Florida
 Schedule of Findings and Questioned Costs
 Federal Awards and State Financial Assistance
 Year Ended September 30, 2010

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards and State Financial Assistance

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

Identification of major federal programs and state projects:

<u>CFDA</u>	<u>Name of Federal Program</u>
20.205	State Road 79 Multi-use Path - Phase 3
 <u>CSFA</u>	 <u>Name of State Project</u>
37.039	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

10-01 Segregation of Duties (Prior Year 09-01)

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.

Section III - Federal Awards and State Financial Assistance Findings

There were no findings.