

City of Pearl

**Audited Financial Statements and
Special Reports
For the Year Ended September 30, 2009**

CITY OF PEARL
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CITY OF PEARL

INDEPENDENT AUDITOR'S REPORT

Windham and Lacey, PLLC

Certified Public Accountants

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American Institute of CPAs
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INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Honorable Mayor and
Members of the Board of Aldermen
City of Pearl, Mississippi

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 City of Pearl, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise the basic financial statements of the City as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 5.I. to the financial statements, the City has not recorded a liability for other postemployment benefits in the governmental activities and the business-type activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net assets and change the expenses of the governmental activities and business-type activities. The amount by which this departure would affect the liabilities, net assets and expenses of the governmental activities and business-type activities is not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities and business-type activities of the City of Pearl, Mississippi as of September 30, 2009, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information for the City of Pearl, Mississippi, as of September 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2010, on our consideration of City of Pearl, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

The Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Pearl, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

Windham and Lacey, PLLC
March 11, 2010

CITY OF PEARL

BASIC FINANCIAL STATEMENTS

The basic financial statements included integrated sets of financial statements as required by the GASB.

The sets of statements include:

Government-wide financial statements

Fund financial statements:

Governmental funds

Proprietary (enterprise) fund

Fiduciary funds

In addition, the notes to the financial statements are included to provide information that is essential to user's understanding of the basic financial statements

**City of Pearl
Statement of Net Assets
September 30, 2009**

Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 7,680,026	3,036,844	10,716,870
Property tax receivable	4,656,069		4,656,069
Fines receivable (net of allowance for uncollectibles of \$1,801,199)	222,638		222,638
Accounts receivable, net	534,030	706,125	1,240,155
Other receivables	26,600		26,600
Internal balances	(196,498)	196,498	
Other current assets		12,098	12,098
Sales tax receivable	1,261,044		1,261,044
Total current assets	<u>14,183,909</u>	<u>3,951,565</u>	<u>18,135,474</u>
Noncurrent Assets:			
Restricted cash		473,467	473,467
HOME grant receivable	474,000		474,000
Bond issue costs	371,073	186,314	557,387
Deferred loss on debt extinguishment	147,523		147,523
Capital assets, net	55,268,415	16,326,364	71,594,779
Total noncurrent assets	<u>56,261,011</u>	<u>16,986,145</u>	<u>73,247,156</u>
 Total Assets	 <u>\$ 70,444,920</u>	 <u>20,937,710</u>	 <u>91,382,630</u>
LIABILITIES			
Current Liabilities:			
Claims payable	\$ 707,125	212,706	919,831
Accrued interest payable	362,031	61,055	423,086
Deferred revenue	4,504,311		4,504,311
Unearned revenue	236,480		236,480
Other payables	30,460	11,721	42,181
Current portion of long-term debt	2,963,410	420,039	3,383,449
Total current liabilities	<u>8,803,817</u>	<u>705,521</u>	<u>9,509,338</u>
Noncurrent Liabilities:			
Long-term liabilities due in more than one year	28,068,042	6,504,995	34,573,037
Customer meter deposits payable		509,126	509,126
Escrowed seizure funds payable	278,489		278,489
Total noncurrent liabilities	<u>28,346,531</u>	<u>7,014,121</u>	<u>35,360,652</u>
 Total Liabilities	 <u>37,150,348</u>	 <u>7,719,642</u>	 <u>44,869,990</u>
NET ASSETS			
Invested in capital assets, net of related debt	24,502,784	9,395,821	33,898,605
Restricted for:			
Debt service	1,606,431		1,606,431
Public safety	2,774,158		2,774,158
Public works	651,375		651,375
Capital improvements	1,450,595	559,077	2,009,672
Unrestricted	2,309,229	3,263,171	5,572,400
Total Net Assets	<u>\$ 33,294,572</u>	<u>13,218,069</u>	<u>46,512,641</u>

The notes to the financial statements are an integral part of this statement.

City of Pearl
Statement of Activities
For the Year Ended September 30, 2009

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government:							
Governmental Activities:							
General government	\$ 2,805,293				(2,805,293)		(2,805,293)
Public safety	6,927,946	806,656	200,197	217,071	(5,704,022)		(5,704,022)
Public works	4,475,231	1,357,214		31,950	(3,086,067)		(3,086,067)
Health and welfare	396,350	203,164			(193,186)		(193,186)
Culture and recreation	1,587,068	1,110,150	186,895		(290,023)		(290,023)
Interest on long-term debt	1,139,961				(1,139,961)		(1,139,961)
Total Governmental Activities	<u>17,331,849</u>	<u>3,477,184</u>	<u>387,092</u>	<u>249,021</u>	<u>(13,218,552)</u>	<u>0</u>	<u>(13,218,552)</u>
Business-type activities:							
Water/Sewer	<u>5,544,824</u>	<u>5,585,204</u>				40,380	40,380
Total Business-type Activities	<u>5,544,824</u>	<u>5,585,204</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>40,380</u>	<u>40,380</u>
Total Primary Government	<u>\$ 22,876,673</u>	<u>9,062,388</u>	<u>387,092</u>	<u>249,021</u>	<u>(13,218,552)</u>	<u>40,380</u>	<u>(13,178,172)</u>
General Revenues							
Taxes:							
Property taxes					\$ 4,543,683	42	4,543,725
Road & bridge privilege taxes					755,512		755,512
Other taxes					27,802		27,802
Sales tax					7,148,131		7,148,131
Franchise taxes					900,084		900,084
Grants and contributions not restricted to specific programs					629,954		629,954
Unrestricted investment income					168,180	39,979	208,159
Unrestricted rental income							0
Miscellaneous					414,343	18,636	432,979
Transfers					<u>62,789</u>	<u>(62,789)</u>	<u>0</u>
Total General Revenues					<u>14,650,478</u>	<u>(4,132)</u>	<u>14,646,346</u>
Change in net assets					<u>1,431,926</u>	<u>36,248</u>	<u>1,468,174</u>
Net Assets - Beginning					31,673,948	13,181,821	44,855,769
Prior period adjustment					<u>188,698</u>		<u>188,698</u>
Net Assets-Beginning (adjusted)					<u>31,862,646</u>	<u>13,181,821</u>	<u>45,044,467</u>
Net Assets - Ending					<u>\$ 33,294,572</u>	<u>13,218,069</u>	<u>46,512,641</u>

The notes to the financial statements are an integral part of this statement.

City of Pearl
Balance Sheet
Governmental Funds
September 30, 2009

Exhibit 3

	<u>Major Governmental Funds</u>				<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Police Forfeiture/ Seizure Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	
ASSETS					
Cash and investments	\$ 862,135	3,105,245	1,595,024	1,893,558	7,455,962
Property tax receivable	1,905,921		2,436,224	313,924	4,656,069
Fines receivable (net of allowance for uncollectibles of \$1,801,199)	222,638				222,638
Sales tax receivable	1,261,044				1,261,044
Other receivables	26,600				26,600
Due from other funds	323,204		33,191	652,507	1,008,902
Total Assets	<u>\$ 4,601,542</u>	<u>3,105,245</u>	<u>4,064,439</u>	<u>2,859,989</u>	<u>14,631,215</u>
LIABILITIES & FUND BALANCES					
Liabilities:					
Claims payable	\$ 498,442	3,750		119,000	621,192
Due to other taxing units	29,343				29,343
Due to other funds	347,312	55,869		802,218	1,205,399
Other liabilities	257,836		946		258,782
State and federal seized funds escrow		278,489			278,489
Deferred revenue	<u>2,066,264</u>		<u>2,356,905</u>	<u>303,780</u>	<u>4,726,949</u>
Total Liabilities	<u>3,199,197</u>	<u>338,108</u>	<u>2,357,851</u>	<u>1,224,998</u>	<u>7,120,154</u>
Fund Balances:					
Unreserved:					
General fund	1,402,345				1,402,345
Public works				651,375	651,375
Public safety		2,767,137		7,021	2,774,158
Debt service funds			1,706,588		1,706,588
Capital project funds				976,595	976,595
Total Fund Balances	<u>1,402,345</u>	<u>2,767,137</u>	<u>1,706,588</u>	<u>1,634,991</u>	<u>7,511,061</u>
Total Liabilities and Fund Balances	<u>\$ 4,601,542</u>	<u>3,105,245</u>	<u>4,064,439</u>	<u>2,859,989</u>	

**City of Pearl
Balance Sheet
Governmental Funds
September 30, 2009**

Exhibit 3 (Continued)

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Capital assets net of depreciation as of Oct. 1, 2008	56,746,092	
Plus capital outlay expenditures made during the year	295,508	
Less depreciation expense recorded during the year	(1,699,396)	
Less construction in progress transferred to utility fund	<u>(73,789)</u>	55,268,415

Receivable from developer.

261,874

Fine receivables that have accrued at year-end but are not available to liquidate liabilities of the current period are not reported in the funds.

222,638

Long-term note receivable is not available in the current period.

474,000

Bond issue costs is an asset that is not available to liquidate current period liabilities.

371,073

Deferred loss on debt extinguishment

147,523

An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.

354,760

Amounts charged to business-type activities by the internal service fund are due to governmental activities.

76,713

Accrued interest payable is not a current liability payable from current assets.

(362,031)

Liabilities not due and payable in the current period are not reported in the funds:

Long-term liabilities (Note 2)

(31,031,454)

Net Assets of Governmental Activities

\$ 33,294,572

The notes to the financial statements are an integral part of this statement.

City of Pearl
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2009

Exhibit 4

	Major Governmental Funds				Total Governmental Funds
	General Fund	Police Forfeiture/ Seizure Fund	Debt Service Fund	Other Governmental Funds	
REVENUES					
Property taxes	\$ 1,804,955		2,438,587	300,141	4,543,683
Road & bridge privilege tax	755,512				755,512
Licenses and permits	202,227				202,227
Fines and forfeitures	746,474				746,474
Intergovernmental revenues	8,420,212	16,305	368,980	164,045	8,969,542
Charges for services	1,424,683			1,357,214	2,781,897
Interest income	53,962	47,852	36,326	21,764	159,904
Miscellaneous	259,037		248,012		507,049
Total Revenues	<u>13,667,062</u>	<u>64,157</u>	<u>3,091,905</u>	<u>1,843,164</u>	<u>18,666,288</u>
EXPENDITURES					
Current:					
General government	2,642,690				2,642,690
Public safety	6,695,897	377,928			7,073,825
Public works	1,812,285			1,501,330	3,313,615
Health and welfare	388,072				388,072
Culture and recreation	1,161,958				1,161,958
Debt service:					
Principal	163,851		2,188,417	465,017	2,817,285
Interest	14,863		1,521,822	56,323	1,593,008
Total Expenditures	<u>12,879,616</u>	<u>377,928</u>	<u>3,710,239</u>	<u>2,022,670</u>	<u>18,990,453</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>787,446</u>	<u>(313,771)</u>	<u>(618,334)</u>	<u>(179,506)</u>	<u>(324,165)</u>
Other Financing Sources (Uses)					
Transfers in			672,884	270,000	942,884
Transfers out	(905,946)				(905,946)
Total Other Financing Sources and Uses	<u>(905,946)</u>	<u>0</u>	<u>672,884</u>	<u>270,000</u>	<u>36,938</u>
Net Change in Fund Balances	(118,500)	(313,771)	54,550	90,494	(287,227)
Fund Balances - Beginning	<u>1,520,845</u>	<u>3,080,908</u>	<u>1,652,038</u>	<u>1,544,497</u>	<u>7,798,288</u>
Fund Balances - Ending	<u>\$ 1,402,345</u>	<u>2,767,137</u>	<u>1,706,588</u>	<u>1,634,991</u>	<u>7,511,061</u>

The notes to the financial statements are an integral part of this statement.

**City of Pearl
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Year Ended September 30, 2009**

Exhibit 5

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4)	\$ (287,227)
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays (\$295,508) was exceeded by depreciation (\$1,699,396) and transfer of CIP (\$73,789) in the current period.	(1,477,677)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	13,190
The change in the amounts due from developers was not recognized as revenue in the fund in the current period.	13,862
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds (0) was exceeded by debt repayment (\$2,817,284) and transfer of debt to business-type activities (\$186,359).	3,003,643
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	
Change in accrued bond interest expense	180,624
Change in compensated absences	(1,466)
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:	
Bond issue costs amortization	(29,206)
Amortization of loss on debt extinguishment	(8,196)
Amortization of premium on notes payable	2,989
Other	(46)
An internal service fund is used by management to charge the cost of insurance to individual funds. The net revenue (expense) is reported within governmental activities.	34,397
Change in due from business-type activities to governmental activities for internal service fund costs.	<u>(12,961)</u>
Change in Net Assets of Governmental Activities (Exhibit 2)	<u>\$ 1,431,926</u>

The notes to the financial statements are an integral part of this statement.

**City of Pearl
Statement of Net Assets
Proprietary Funds
September 30, 2009**

Exhibit 6

	Business-type Activity Enterprise Funds			Internal Service Fund
	Water/Sewer	Water/Sewer Improvements	Total	Self-Insurance
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 2,859,645	177,199	3,036,844	224,064
Accounts receivable, net	706,125		706,125	230,509
Due from other funds	572,983	58,800	631,783	
Other current assets	12,098		12,098	
Total current assets	<u>4,150,851</u>	<u>235,999</u>	<u>4,386,850</u>	<u>454,573</u>
Noncurrent assets:				
Bond issue cost	186,314		186,314	
Restricted cash and cash equivalents	473,467		473,467	
Capital assets, net	15,730,351	596,014	16,326,365	
Total noncurrent assets	<u>16,390,132</u>	<u>596,014</u>	<u>16,986,146</u>	<u>0</u>
Total Assets	<u>\$ 20,540,983</u>	<u>832,013</u>	<u>21,372,996</u>	<u>454,573</u>
LIABILITIES				
Current Liabilities:				
Claims payable	\$ 134,715	77,991	212,706	99,813
Accrued interest payable	61,055		61,055	
Due to other funds	251,404	183,882	435,286	
Other payables	11,721		11,721	
Current portion of long-term debt	420,039		420,039	
Total current liabilities	<u>878,934</u>	<u>261,873</u>	<u>1,140,807</u>	<u>99,813</u>
Noncurrent Liabilities:				
Long-term liabilities	5,947,278	557,716	6,504,994	
Customer meter deposits payable	509,126		509,126	
Total noncurrent liabilities	<u>6,456,404</u>	<u>557,716</u>	<u>7,014,120</u>	<u>0</u>
Total Liabilities	<u>7,335,338</u>	<u>819,589</u>	<u>8,154,927</u>	<u>99,813</u>
NET ASSETS				
Invested in capital assets net of related debt	9,395,821		9,395,821	
Restricted for capital improvements	546,653	12,424	559,077	
Unrestricted	3,263,171		3,263,171	354,760
Total Net Assets	<u>\$ 13,205,645</u>	<u>12,424</u>	<u>13,218,069</u>	<u>354,760</u>

The notes to the financial statements are an integral part of this statement.

City of Pearl
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2009

Exhibit 7

	Business-type Activity Enterprise Funds			Internal Service Fund
	Water/Sewer	Water/Sewer Improvements	Total	Self-Insurance
OPERATING REVENUES				
Charges for services	\$ 5,585,204		5,585,204	265,143
Reinsurance reimbursement				273,102
City and employee contributions				1,949,601
Total Operating Revenues	<u>5,585,204</u>	<u>0</u>	<u>5,585,204</u>	<u>2,487,846</u>
OPERATING EXPENSES				
Personal services	1,331,937		1,331,937	
Contractual services	384,239		384,239	
Materials and supplies	122,595		122,595	
Maintenance	887,318		887,318	
Utilities	399,117		399,117	
West Rankin charges	1,338,946		1,338,946	
Depreciation expense	772,545		772,545	
Other operating expenses	25,262		25,262	
Administrative fees				64,626
Specific and aggregate reinsurance				427,507
Medical claim payments				1,918,051
Total Operating Expenses	<u>5,261,959</u>	<u>0</u>	<u>5,261,959</u>	<u>2,410,184</u>
Operating Income (Loss)	<u>323,245</u>	<u>0</u>	<u>323,245</u>	<u>77,662</u>
NONOPERATING REVENUES (EXPENSES)				
Property tax	42		42	
Interest income	26,555	13,424	39,979	8,546
Interest expense	(268,175)		(268,175)	
Transfers in (out)	(62,789)		(62,789)	25,851
Other income	18,636		18,636	
Other expenses	(13,690)	(1,000)	(14,690)	
Total Nonoperating Revenue (Expenses)	<u>(299,421)</u>	<u>12,424</u>	<u>(286,997)</u>	<u>34,397</u>
Change in Net Assets	23,824	12,424	36,248	112,059
Total Net Assets - Beginning	<u>13,181,821</u>	<u>0</u>	<u>13,181,821</u>	<u>242,701</u>
Total Net Assets - Ending	\$ <u><u>13,205,645</u></u>	<u><u>12,424</u></u>	<u><u>13,218,069</u></u>	<u><u>354,760</u></u>

The notes to the financial statements are an integral part of this statement.

City of Pearl
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2009

Exhibit 8

	Business-type Activity Enterprise Funds		Internal Service Fund
	Water/Sewer	Water/Sewer Improvements	Self-Insurance
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 5,554,922		
Receipts from internal services provided			1,977,523
Receipts from (payments to) other funds		(58,800)	273,102
Payments to suppliers	(4,239,616)		(64,626)
Payments for insurance claims			(2,351,356)
Net Cash Provided (Used) by Operating Activities	<u>1,315,306</u>	<u>(58,800)</u>	<u>(165,357)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Other revenues	18,636		
Cash received from property taxes	42		
Transfers (in) out	(62,789)		25,851
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(44,111)</u>	<u>0</u>	<u>25,851</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(199,075)	(332,665)	(531,740)
Issuance of long-term debt		371,358	371,358
Principal paid on long-term debt	(451,243)		(451,243)
Interest expense paid	(365,663)		(365,663)
Net Cash Provided (Used) by Capital Financing Activities	<u>(1,015,981)</u>	<u>38,693</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	<u>26,555</u>	<u>13,424</u>	<u>39,979</u>
Net Increase (Decrease) in Cash and Cash Equivalents	281,769	(6,683)	(130,960)
Cash and Cash Equivalents - Beginning of Year	<u>3,051,343</u>	<u>183,882</u>	<u>3,235,225</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,333,112</u>	<u>177,199</u>	<u>3,569,111</u>

**City of Pearl
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2009**

Exhibit 8 (Continued)

	Business-type Activity Enterprise Funds			Internal Service Fund
	Water/Sewer	Water/Sewer Improvements	Total	Self-Insurance
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 323,245	0	323,245	77,662
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation	772,545		772,545	
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(28,236)		(28,236)	(273,102)
(Increase) decrease in other current assets	(2,046)		(2,046)	
(Increase) decrease in due from other funds	2,148	(58,800)	(56,652)	(237,221)
Increase (decrease) in claims payable	51,135		51,135	(12,510)
Increase (decrease) in due to other funds	145,377		145,377	279,814
Increase (decrease) in customer deposits	47,631		47,631	
Increase (decrease) in compensated absences	6,052		6,052	
Other, net	(2,545)		(2,545)	
Total adjustments	992,061	(58,800)	933,261	(243,019)
Net Cash Provided (Used) by Operating Activities	\$ 1,315,306	(58,800)	1,256,506	(165,357)
NONCASH ACTIVITIES				
Assets acquired through capital lease	\$ 73,446			

The notes to the financial statements are an integral part of this statement.

**City of Pearl
Statement of Fiduciary Assets and Liabilities
September 30, 2009**

Exhibit 9

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 25,884
Total Assets	<u>\$ 25,884</u>
LIABILITIES	
Due to school taxing district	\$ 25,884
Total Liabilities	<u>\$ 25,884</u>

The notes to the financial statements are an integral part of this statement.

City of Pearl

Notes to Financial Statements

1. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

The City of Pearl (City) is a code-charter municipality governed by an elected mayor and seven aldermen. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. Based upon the application of these criteria, the following is a brief review of such a potential component unit addressed in defining the City's reporting entity.

Excluded from the reporting entity is the Pearl Separate School District. This potential component unit has a separate board appointed by the City that approves their annual budget. This potential component unit was excluded from the reporting entity because the City does not have the ability to exercise influence over their daily operations.

There are no other potential component units.

B. Government-wide and Fund Financial Statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Shared revenues are recognized when the provider government recognizes the liability to the City. Agency Funds have no measurement focus, but use the accrual basis of accounting.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

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 collectible 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 accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest 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.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *police forfeiture/seizure fund* accounts for funds seized during policing activities and held in escrow until released by courts.

The *debt service fund* is used to account for resources accumulated and used for the payment of long-term debt principal, interest and related costs of borrowing.

The City reports the following major Proprietary Funds:

The *water and sewer fund* accounts for the activities of the water and sewer system.

The *water/sewer improvements fund* accounts for construction projects for the water and sewer system.

Additionally the City reports the following fund types:

PROPRIETARY FUND TYPES

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises.

Internal Service Funds account for employee health insurance provided to other departments of the City on a cost reimbursement basis.

FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the City, acting in capacity of an agent, for distribution to other governmental units.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The City's Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity.

1. Deposits.

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of 14 days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the City may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the City did not invest in any governmental securities during the fiscal year.

2. Receivables and Payables.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible accounts, where applicable.

3. Restricted Assets.

Proprietary Fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

4. Capital Assets.

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

Governmental accounting and financial reporting standards allow governments meeting certain criteria to retroactively report major general infrastructure assets by September 30, 2007. Current year general infrastructure assets are required to be reported. General infrastructure assets acquired after September 30, 1980, are reported on the government-wide financial statements. Current year general infrastructure assets are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. Interest cost incurred during the construction of Proprietary Fund capital assets is capitalized as part of the cost of construction. Donated capital assets are recorded at their fair value at the time of donation.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land	N/A
Infrastructure	20-50
Buildings	40
Improvements other than buildings	20
Machinery and equipment	5-10

5. *Compensated Absences.*

It is the City's policy to permit employees to accumulate earned but unused vacation. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. *Long-term Liabilities.*

In the government-wide financial statements, and Proprietary Fund Types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Fund Type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued net of premiums, discounts and issuance costs is reported as other financing sources or uses.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

7. *Equity Classifications.*

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvements of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved. Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

2. **Reconciliation of Government-wide and Fund Financial Statements.**

A. **Explanation of certain differences between the governmental fund balance sheet and the government-wide Statement of Net Assets.**

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets— governmental activities* as reported in the government-wide Statement of Net Assets. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period are not reported in the funds.” The details of this difference are as follows:

Bonds payable	\$ 22,413,789
Capital leases payable	918,681
Notes payable	7,379,109
Premium on notes payable	54,055
Compensated absences	<u>265,820</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 31,031,454</u>

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

B. Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and the government-wide Statement of Activities.

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

Capital outlay	\$ 295,508
Less transfer of construction in progress	(73,789)
Depreciation expense	<u>(1,699,396)</u>
 Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	 \$ <u>(1,477,677)</u>

Another element of that reconciliation states that “debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.” The details of this difference are as follows:

Principal reductions:	
General obligation debt	\$ <u>3,003,643</u>
 Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	 \$ <u>3,003,643</u>

3. Stewardship, Compliance and Accountability.

Budgets

Budgets are adopted on a basis prescribed by state law (cash basis).

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing these proposed expenditures.
2. Prior to October 1, the budget is legally enacted through passage of an order.
3. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.
4. Formal budgetary integration is employed as a management control device during the year for the various funds, except for Debt Service Funds, because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
5. Budgets for the various funds are adopted on a cash basis as required by state law.

It is the City’s policy to prepare the budget on the cash basis for revenues and expenditures to the extent that they are paid within 30 days following year-end.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

Property Tax Revenues

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Alderman, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

4. Detailed Notes on All Funds.

A. Deposits.

At year-end, the City's carrying amount of deposits was \$11,216,221 and the bank balance was \$11,808,796. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

B. Receivables.

Receivables as of year-end for the City's governmental activities and business-type activities, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:				
Sales tax	\$ 1,261,044			1,261,044
Property taxes	1,905,922		2,750,147	4,656,069
Accounts		770,822	272,156	1,042,978
Fines	2,023,836			2,023,836
From developers			261,874	261,874
Other receivables	26,600			26,600
HOME grant receivable			474,000	474,000
	<u>5,217,402</u>	<u>770,822</u>	<u>3,758,177</u>	<u>9,746,401</u>
Gross receivables				
Less: allowance for uncollectibles	<u>(1,801,199)</u>	<u>(64,697)</u>		<u>(1,865,896)</u>
Net total receivables	<u>\$ 3,416,203</u>	<u>706,125</u>	<u>3,758,177</u>	<u>7,880,505</u>

Governmental activities report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Unearned cash court bonds	\$	236,480
Property taxes receivable: General fund	1,843,626	
Debt service fund	2,356,905	
Garbage and rubbish fund	<u>303,780</u>	
Total deferred/unearned revenue for governmental funds	<u>\$ 4,504,311</u>	<u>236,480</u>

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

C. Capital Assets.

Capital asset activity for the year ended September 30, 2009, is as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,381,838			3,381,838
Construction in progress	8,948,550		(73,789)	8,874,761
Total capital assets, not being depreciated	<u>12,330,388</u>	<u>0</u>	<u>(73,789)</u>	<u>12,256,599</u>
Capital assets, being depreciated:				
Buildings	11,568,198			11,568,198
Improvements other than buildings	23,110,023			23,110,023
Streets	16,358,884			16,358,884
Bridges	668,537			668,537
Machinery and equipment	12,489,283	295,508		12,784,791
Total capital assets being depreciated	<u>64,194,925</u>	<u>295,508</u>	<u>0</u>	<u>64,490,433</u>
Less: Accumulated depreciation for:				
Buildings	(1,889,882)	(231,364)		(2,121,246)
Improvements other than buildings	(4,188,366)	(231,341)		(4,419,707)
Streets	(5,347,129)	(566,056)		(5,913,185)
Bridges	(200,563)	(13,371)		(213,934)
Machinery and equipment	(8,153,281)	(657,264)		(8,810,545)
Total accumulated depreciation	<u>(19,779,221)</u>	<u>(1,699,396)</u>	<u>0</u>	<u>(21,478,617)</u>
Total capital assets, being depreciated, net	<u>44,415,704</u>	<u>(1,403,888)</u>	<u>0</u>	<u>43,011,816</u>
Governmental activities capital assets, net	<u>\$ 56,746,092</u>	<u>(1,403,888)</u>	<u>(73,789)</u>	<u>55,268,415</u>

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 401,636			401,636
Construction in progress	0	596,014		596,014
Total capital assets, not being depreciated	<u>401,636</u>	<u>596,014</u>	<u>0</u>	<u>997,650</u>
Capital assets, being depreciated:				
Buildings	92,793			92,793
Water system	11,438,634			11,438,634
Sewer system	20,986,962	173,025		21,159,987
Machinery and equipment	1,865,746	99,496		1,965,242
Total capital assets, being depreciated	<u>34,384,135</u>	<u>272,521</u>	<u>0</u>	<u>34,656,656</u>
Less: Accumulated depreciation for:				
Buildings	(88,750)	(270)		(89,020)
Water system	(5,688,923)	(238,611)		(5,927,534)
Sewer system	(10,923,221)	(478,990)		(11,402,211)
Machinery and equipment	(1,854,501)	(54,675)		(1,909,176)
Total accumulated depreciation	<u>(18,555,395)</u>	<u>(772,546)</u>	<u>0</u>	<u>(19,327,941)</u>
Total capital assets, being depreciated, net	<u>15,828,740</u>	<u>(500,025)</u>	<u>0</u>	<u>15,328,715</u>
Business-type activities capital assets, net	<u>\$ 16,230,376</u>	<u>95,989</u>	<u>0</u>	<u>16,326,365</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 131,641
Public safety	526,230
Public works	668,744
Health and welfare	6,188
Culture and recreation	<u>366,593</u>
Total depreciation expense - governmental activities	<u>\$ 1,699,396</u>
Business-type activities:	
Water and sewer	<u>\$ 772,546</u>
Total depreciation expense - business-type activities	<u>\$ 772,546</u>

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

D. Interfund Receivables, Payables and Transfers.

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water/Sewer	General	\$ 85,130
Debt Service	General	33,191
General	Police Forfeiture/Seizure	55,869
General	Water/Sewer	16,627
Other governmental funds	Water/Sewer	418,659
Other governmental funds	General	228,991
General	Other governmental funds	250,708
Water/Sewer	Other governmental funds	546,653
Other governmental funds	Other governmental funds	<u>4,857</u>
Total		<u>\$ 1,640,685</u>

Some interfund payables are due to costs of shared capital projects and loans. Other loans are temporary operating loans.

Interfund transfers:

Transfer out:		
General Fund	\$	905,946
Water/Sewer Fund		<u>62,789</u>
Total transfers out	\$	<u>968,735</u>
Transfer in:		
Debt Service Fund	\$	672,884
Other Governmental Funds		270,000
Internal service fund		<u>25,851</u>
Total transfers in	\$	<u>968,735</u>

Transfers are made primarily for debt service and internal service charges.

E. Leases.

Operating Leases

The City has no material operating leases.

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of various equipment in both the governmental activities and business-type activities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2009, are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2010	\$ 412,953	23,502
2011	281,313	25,639
2012	214,780	19,229
2013	53,698	
Total minimum lease payments	<u>962,744</u>	<u>68,370</u>
Less: amount representing interest	<u>(44,063)</u>	<u>(2,762)</u>
Present value of minimum lease payments	<u>\$ 918,681</u>	<u>65,608</u>

F. Long-term Debt.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	2.3% - 5.7%	\$ 17,586,964
Unamortized premium		54,055
Business-type activities	4.65% - 7.5%	4,069,037
Unamortized premium		<u>35,173</u>
Total		<u>\$ 21,745,229</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 1,353,575	750,609	167,426	182,488
2011	1,431,645	690,690	138,355	176,333
2012	1,433,739	625,792	146,261	170,799
2013	1,687,810	560,929	152,191	164,949
2014	1,709,904	490,094	160,097	158,861
2015-2019	5,007,093	1,652,479	932,909	689,433
2020-2024	3,152,124	814,806	1,187,877	466,215
2025-2028	<u>1,811,074</u>	<u>235,157</u>	<u>1,183,921</u>	<u>153,709</u>
Total	<u>\$ 17,586,964</u>	<u>5,820,556</u>	<u>4,069,037</u>	<u>2,162,787</u>

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

Special Assessment Bonds

The City also issued special assessment debt in 1998 and 1999 to provide funds for the construction of streets and other infrastructure in a new commercial development. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The bonds have a stated rate of interest of 5.1% and 4.9% and are payable in equal installments of principal.

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2010	\$ 86,000	46,674
2011	91,000	42,386
2012	96,000	37,849
2013	101,000	33,063
2014	106,000	28,028
2015-2019	456,000	56,582
Total	\$ 936,000	244,582

Tax Increment Financing Bonds

The City also issues bonds where the City pledges incremental increases in ad valorem and sales tax receipts from the property benefiting from infrastructure improvements financed by the bonds to pay debt service.

Tax Increment Financing bond debt service requirements to maturity are as follows:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2010	\$ 591,126	199,286
2011	527,377	173,220
2012	558,638	149,412
2013	566,911	123,927
2014	502,194	98,178
2015-2019	1,105,644	121,661
2020-2023	38,935	4,068
Total	\$ 3,890,825	869,752

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

Loans Payable

The City has received several loans from the State of Mississippi and banks to finance various projects including infrastructure, fire stations and water/sewer improvements. These loans are made under various programs, some of which have federal participation. New loans made during the current year total \$371,358. Loans currently outstanding are as follows:

<u>Loan Type</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities:		
Capital improvement (CAP)	3.0% - 4.25%	\$ 404,109
Community Bank loan	3.95%	110,000
Mississippi Development Bank - Trustmark	3.02% - 6.15%	6,585,000
Trustmark	3.83%	<u>280,000</u>
Total Governmental Activities		<u>7,379,109</u>
Business-type activities		
Capital improvement (CAP)	3.0% - 4.25%	1,023,598
Mississippi Department of Health Drinking Water Systems Improvements Revolving Loan Fund (DWSIRLF)	3.0%	1,546,941
Mississippi Department of Environmental Quality Revolving Loan Fund	4.5%	<u>151,891</u>
Total Business-Type Activities		<u>2,722,430</u>
Total		<u>\$ 10,101,539</u>

Loan debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 519,756	397,318	230,655	79,605
2011	537,371	370,718	265,047	73,102
2012	365,092	342,935	250,770	61,538
2013	367,506	324,881	259,488	52,820
2014	368,530	300,103	209,718	44,220
2015-2019	2,037,399	1,171,784	873,426	131,916
2020-2024	2,578,454	541,823	466,028	15,313
2025-2029	605,000	16,790	139,435	
2030			<u>27,864</u>	
Total	<u>\$ 7,379,109</u>	<u>3,466,352</u>	<u>2,722,430</u>	<u>458,514</u>

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2009, are as follows:

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Due Within One Year
Governmental Activities:						
Bonds payable:						
General obligation bonds	\$ 18,847,468		(1,260,504)		17,586,964	1,353,575
Special assessment bonds	1,018,000		(82,000)		936,000	86,000
Tax increment financing bonds	4,540,000		(514,175)	(135,000)	3,890,825	591,126
Unamortized premiums	<u>57,044</u>		<u>(2,989)</u>		<u>54,055</u>	
Total bonds payable	24,462,512	0	(1,859,668)	(135,000)	22,467,844	2,030,701
Capital leases	1,360,698		(430,620)	(11,397)	918,681	412,953
Loans payable	8,095,453		(529,985)	(186,359)	7,379,109	519,756
Compensated absences	<u>264,355</u>	<u>1,465</u>			<u>265,820</u>	
Governmental activity long-term liabilities	<u>\$ 34,183,018</u>	<u>1,465</u>	<u>(2,820,273)</u>	<u>(332,756)</u>	<u>31,031,454</u>	<u>2,963,410</u>
Business-type Activities:						
Bonds payable:						
General obligation bonds	\$ 4,290,533		(221,496)		4,069,037	167,426
Unamortized premiums	<u>37,127</u>		<u>(1,954)</u>		<u>35,173</u>	
Total bonds payable	4,327,660	0	(223,450)	0	4,104,210	167,426
Capital leases		73,446	(7,839)		65,607	21,958
Loans payable	2,386,621	371,358	(221,908)	186,359	2,722,430	230,655
Compensated absences	<u>26,735</u>	<u>6,052</u>			<u>32,787</u>	
Business-type activity long-term liabilities	<u>\$ 6,741,016</u>	<u>450,856</u>	<u>(453,197)</u>	<u>186,359</u>	<u>6,925,034</u>	<u>420,039</u>

Adjustments are due to 1) a reclassification of a fund from governmental to business-type activities and the associated long-term debt, and 2) prior period errors (see Note 5. G.)

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

Legal Debt Margin – The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the then last completed assessment for taxation. As of September 30, 2009, the amount of outstanding debt was equal to 6.5% of the latest property assessments.

5. Other Information.

A. Self-funded Insurance.

The City has established an Employee Welfare Benefit Fund (an Internal Service Fund) to account for and finance its employee health and dental insurance plan. Under this plan the Employee Welfare Benefit Fund provides health, dental and group term life coverage to City employees to the limits established by the plan document. The fund provides coverage up to \$45,000 for each employee to a maximum aggregate coverage for all employees of \$1,886,112 for 2009. The City purchases commercial insurance for claims in excess of this coverage.

All funds of the City participate in the plan and make payments to the Employee Welfare Benefit Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for claims. At September 30, 2009, the reserve in the fund was \$354,760. The claims liability at September 30, 2009, is based on GASB Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in fiscal year 2009 were:

Claims Liability at October 1, 2008	\$	112,322
Current Year Claims		1,905,542
Claim Payments		<u>(1,918,051)</u>
Claims Liability at September 30, 2009	\$	<u>99,813</u>

B. Contingencies.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

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 counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

C. Jointly Governed Organization.

West Rankin Utility Authority

The City entered into an agreement on February 24, 1977, with the City of Jackson (Jackson), the implementing agency for the West Rankin Regional Wastewater System (the System), to pay an annual payment representing its proportionate share of the debt service required to pay back a revenue bond issued by Jackson for the construction of the System, to pay its proportionate share of Jackson's wastewater treatment costs and to pay its proportionate share of other costs related to the System.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

In 2002, the City, along with other cities and governing authorities in Rankin County, created the West Rankin Utility Authority (a political subdivision of the State) to acquire the System from the City of Jackson. The Authority will maintain and operate the System and charge its customers for use of the System. Jackson will charge the Authority for wastewater treatment at its treatment facility. The City's annual payment shall be the percentage of the total annual costs as determined by dividing the City's wastewater volume contributed to the System in the prior year by all the wastewater volume for all contracting parties. Adjustments for variances between actual and prior year's usage are to be determined annually and appropriate adjustments are to be made to each contracting party's account.

From October, 2008 through September, 2009, the City paid \$1,358,760. For the twelve-month period beginning October 1, 2009, the City's annual financial responsibility will be \$1,681,553.

Pearl-Richland Intermodal Connector Commission

The Pearl-Richland Intermodal Connector Commission was established by interlocal agreement between the Cities of Pearl and Richland dated November 1, 2005 to cooperate together to more efficiently and effectively utilize their governmental power and authority in connection with and in order to accomplish the planning, design, funding, acquisition of right-of-way for, construction, operation, maintenance and implementation of transportation connections and road systems connecting the two cities including without limitation the Pearl-Richland Intermodal Connector and other projects linking U.S. Highway 80, U.S. Interstate 20 and U.S. Highway 49 in Rankin County. The commission will consist of two members, one from each city, who shall be either the mayor of the city or his designee.

For the year ended September 30, 2009, the City did not expend any funds related to this Commission.

D. Note Receivable.

In 1998, the City received a grant from the United States Department of Housing and Urban Development for the construction of a senior citizens apartment complex. The grant provides funds for a long-term loan to the developer of this project. The apartment complex is collateral on the loan. Repayment begins the first month after the final payment on the first mortgage loan with payments of \$1,786 per month. The current balance of the note receivable is \$474,000.

E. Pension Plan.

Plan Description. The City of Pearl contributes to the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Pearl is required to contribute at an actuarially determined rate. The current rate of 11.85% of annual covered payroll increased to 12% on July 1, 2009. The contribution requirements of PERS' members are established and may be amended only by the State of Mississippi Legislature. The City of Pearl's contributions to PERS for the years ending September 30, 2009, 2008 and 2007 were \$841,032, \$853,521, and \$812,150, respectively, equal to the required contributions for each year.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2009

F. No Commitment Debt.

In August 1999, the City issued mortgage revenue bonds to provide for the cost of acquisition and renovation of a 120-unit apartment project - Rankin Square. The bonds are secured by project receipts, project mortgage, deed of trust and other security as described in the bond indenture. The bonds are payable solely from receipts of the project. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2009, the principal amount payable was \$3,685,000, which is the original issue amount.

Taxable Urban Renewal Revenue Bonds

In 2004 and 2005, bonds were issued by the City to finance construction of the baseball stadium, the Bass Pro Shop site, and other related projects. They are to be repaid solely from the various revenues generated by the projects including incremental increases in property taxes and sales taxes that may result from construction and operations of the projects. The bonds do not constitute a debt of the City and, accordingly, have not been reported in the accompanying financial statements.

These bond issues are:

<u>Title</u>	<u>Issue Date</u>	<u>Maturity</u>	<u>Issue Amount</u>	<u>Current Balance</u>
Taxable Urban Renewal Bond Childre Road Urban Renewal Project, Series 2004 C	12/30/2004	11/1/2024	\$ 10,000,000	\$ 10,000,000
Variable Rate Demand Revenue Bond, Series 2004A (Childre Road Urban Renewal Project)	12/30/2004	11/1/2019	\$ 43,000,000	\$ 27,000,000
Taxable Urban Renewal Revenue Bond, Series 2004 B-1, B-2 and B-3	12/30/2004	11/1/2024	\$ 22,000,000	\$ 20,175,000

G. Prior Period Adjustment.

The beginning balance in Net Assets is increased \$188,698 due to long-term debt payments that were made in advance but recorded as an expense and construction in progress recorded as an expense.

H. Subsequent Events.

A capital lease was approved with Trustmark Bank for \$233,564 on October 6, 2009. The lease is for eleven vehicles for the police department and will be paid from the Police Seizure Fund.

I. Other Postemployment Benefits

As described in Note 5.A., the City has established an Employee Welfare Benefit Fund to account for and finance its employee health and dental insurance plan. Under this plan the Employee Welfare Benefit Fund provides health, dental and group term life coverage to City employees to the limits established by the plan document. Since retirees may obtain health insurance under this plan by participating in a group with active employees and consequently receive a insurance premium rate differential, the City has a postemployment healthcare benefit reportable under GASB 45 as a single employer defined benefit healthcare plan. Effective October 1, 2008 the City implemented GASB Statement 45 prospectively, which requires reporting on an accrual basis the liability associated with other postemployment benefits. The City does not issue a publicly available financial report for the plan. However, the City has not recorded a liability for other postemployment benefits nor has the City reported the note disclosures which are required by accounting principles generally accepted in the United States of America.

CITY OF PEARL

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Budgetary Comparison Schedules

City of Pearl
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,853,887	1,853,887	2,747,362	893,475
Licenses and permits	308,200	308,200	202,227	(105,973)
Fines and forfeitures	790,100	790,100	746,474	(43,626)
Intergovernmental revenues	9,239,685	9,239,685	8,266,826	(972,859)
Charges for services	1,161,100	1,161,100	1,424,683	263,583
Miscellaneous revenues	499,200	499,200	312,999	(186,201)
Total Revenues	<u>13,852,172</u>	<u>13,852,172</u>	<u>13,700,571</u>	<u>(151,601)</u>
EXPENDITURES				
General government	3,626,217	3,626,217	2,642,690	983,527
Public safety	7,621,428	7,621,428	6,753,694	867,734
Public works	2,236,623	2,236,623	1,860,551	376,072
Health and welfare	512,788	512,788	392,226	120,562
Culture and recreation	1,329,382	1,329,382	1,230,455	98,927
Total Expenditures	<u>15,326,438</u>	<u>15,326,438</u>	<u>12,879,616</u>	<u>2,446,822</u>
Excess of Revenues over (under) Expenditures	<u>(1,474,266)</u>	<u>(1,474,266)</u>	<u>820,955</u>	<u>2,295,221</u>
OTHER FINANCING SOURCES (USES)				
Transfers out		(850,095)	(905,946)	(55,851)
Total Other Financing Sources and Uses	<u>0</u>	<u>(850,095)</u>	<u>(905,946)</u>	<u>(55,851)</u>
Net Change in Fund Balance	(1,474,266)	(2,324,361)	(84,991)	2,239,370
Fund Balances - Beginning	<u>1,520,845</u>	<u>1,520,845</u>	<u>1,520,845</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 46,579</u>	<u>(803,516)</u>	<u>1,435,854</u>	<u>2,239,370</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

City of Pearl
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Police Forfeiture/Seizure Fund
For the Year Ended September 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Intergovernmental revenues	\$ 100,000	100,000	16,305	(83,695)
Interest income			47,852	47,852
Miscellaneous revenues				0
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>64,157</u>	<u>(35,843)</u>
EXPENDITURES				
Public safety	<u>911,886</u>	<u>911,886</u>	<u>377,928</u>	<u>533,958</u>
Total Expenditures	<u>911,886</u>	<u>911,886</u>	<u>377,928</u>	<u>533,958</u>
Excess of Revenues over (under) Expenditures	<u>(811,886)</u>	<u>(811,886)</u>	<u>(313,771)</u>	<u>498,115</u>
OTHER FINANCING SOURCES (USES)				
Other financing uses				
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	(811,886)	(811,886)	(313,771)	498,115
Fund Balances - Beginning	<u>3,080,908</u>	<u>3,080,908</u>	<u>3,080,908</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 2,269,022</u>	<u>2,269,022</u>	<u>2,767,137</u>	<u>498,115</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

CITY OF PEARL

Notes to the Required Supplementary Information
For the Year Ended September 30, 2009

A. Budgetary Information.

Statutory requirements dictate how and when the City's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Aldermen of the City, using historical and anticipated fiscal data and proposed budgets submitted by the various department managers for their respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Aldermen that budgetary estimates will not be met, it may make revisions to the budget.

The City's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year-end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major fund.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major fund:

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>Police Forfeiture/ Seizure Fund</u>
Net Changes in Fund Balance - Budget (Cash Basis)	\$ (84,991)	(313,771)
Increase (decrease):		
Net adjustments for revenue and expense accruals	<u>(33,509)</u>	<u> </u>
Net Change in Fund Balance GAAP Basis	<u>\$ (118,500)</u>	<u>(313,771)</u>

CITY OF PEARL

SUPPLEMENTAL INFORMATION

City of Pearl
Schedule of Surety Bonds For Municipal Officials
For the Year Ended September 30, 2009

<u>Position</u>	<u>Surety Agency</u>	<u>Bond Amount</u>
Aldermen	Travelers Casualty & Surety	\$ 100,000
City Clerk	Travelers Casualty & Surety	100,000
Chief of Police	Travelers Casualty & Surety	50,000
Mayor	Travelers Casualty & Surety	100,000
Deputy City Clerks	Travelers Casualty & Surety	50,000
Court Clerk/Water	Travelers Casualty & Surety	50,000
Deputy Court Clerks	Travelers Casualty & Surety	50,000
Executive Office Manager	Travelers Casualty & Surety	50,000
Accounting Supervisor	Travelers Casualty & Surety	50,000
Assistant Office Manager	Travelers Casualty & Surety	50,000
Water Billing Clerks	Travelers Casualty & Surety	50,000
Superintendent - Garage	Travelers Casualty & Surety	50,000
Director of Community Development	Travelers Casualty & Surety	50,000
Director of Golf	Travelers Casualty & Surety	50,000
Senior Programs Director	Travelers Casualty & Surety	50,000

CITY OF PEARL

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
(601)939-8676

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

Honorable Mayor and
Members of the Board of Aldermen
City of Pearl, Mississippi

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 Pearl, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise City of Pearl, Mississippi's basic financial statements and have issued our report thereon dated March 11, 2010. The report is qualified on the governmental activities and business-type activities because the City has not recorded a liability for other postemployment benefits and has not recorded an expense for the current period change in that liability. 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 of Pearl, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on 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 the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 09-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above, 09-1, we consider to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Windham and Lacey, PLLC
March 11, 2010

Windham and Lacey, PLLC

Certified Public Accountants

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Members:
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor and
Members of the Board of Aldermen
City of Pearl, Mississippi

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Pearl, Mississippi, as of and for the year ended September 30, 2009, and have issued our report thereon dated March 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures and our audit of the primary government financial statements disclosed no instances of noncompliance with state laws and regulations.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Windham and Lacey, PLLC
March 11, 2010

CITY OF PEARL

SCHEDULE OF FINDINGS AND RESPONSES

CITY OF PEARL

Schedule of Findings and Responses
For the Year Ended September 30, 2009

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements:

Governmental activities	Qualified
Business-type activities	Qualified
General fund	Unqualified
Police forfeiture/seizure fund	Unqualified
Debt service fund	Unqualified
Aggregate remaining fund information	Unqualified

2. Internal control over financial reporting:
 - a. Material weaknesses identified? Yes

 - b. Significant deficiencies identified that are not considered to be material weaknesses? No

3. Noncompliance material to the financial statements? No

Section 2: Financial Statement Findings

Significant Deficiency – Material Weakness

09 – 1. Finding

Effective October 1, 2008, the City implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively, which requires reporting on an accrual basis the liability associated with other postemployment benefits. However, the City has not recorded a liability for other postemployment benefits nor has the City reported the note disclosures which are required by accounting principles generally accepted in the United States of America. The City did not have internal controls in place to determine the liability associated with other postemployment benefits.

Recommendation

The City should develop procedures to determine the liability associated with other postemployment benefits and report that liability in its financial statements.

City's Response

City management believes that the costs associated with determining the liability associated with postemployment benefits, particularly the cost of hiring actuaries to determine the liability, would be prohibitive given the budget constraints faced by the City. City management believes that the expenditures associated with compliance would be better spent providing needed services to citizens. Additionally, City management believes the postemployment benefit liability would not be significant to the financial statements.

