

City of Pearl

**Audited Financial Statements and
Special Reports
For the Year Ended September 30, 2010**

CITY OF PEARL

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT.....	1-3
BASIC FINANCIAL STATEMENTS.....	4
Government-wide Financial Statements	
Statement of Net Assets.....	5
Statement of Activities.....	6
Fund Financial Statements	
Governmental Funds:	
Balance Sheet.....	7-8
Statement of Revenues, Expenditures and Changes in Fund Balances.....	9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	10
Proprietary Funds:	
Statement of Net Assets.....	11
Statement of Revenues, Expenses and Changes in Fund Net Assets.....	12
Statement of Cash Flows.....	13-14
Fiduciary Funds:	
Statement of Fiduciary Assets and Liabilities.....	15
Notes to Financial Statements.....	16-33
REQUIRED SUPPLEMENTARY INFORMATION.....	34
Budget Comparison Schedules – Budget and Actual (Non-GAAP Basis)	
General Fund.....	35
Police Forfeiture/Seizure Fund.....	36
Notes to the Required Supplementary Information.....	37
SUPPLEMENTAL INFORMATION.....	38
Schedule of Surety Bonds for Municipal Officials.....	39
Schedule of Expenditures of Federal Awards.....	40-41
SPECIAL REPORTS.....	42
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 <i>Government Auditing Standards</i>	43-44
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	45-46
Independent Auditor’s Report on Compliance with State Laws and Regulations.....	47
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	48

CITY OF PEARL

INDEPENDENT AUDITOR'S REPORT

Windham and Lacey, PLLC

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American Institute of CPAs
Mississippi Society of CPAs

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, 2010, 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, 2010, 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, 2010, 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 May 16, 2011, 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 inquiries 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Pearl, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to 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 basic financial statements taken as a whole.



Windham and Lacey, PLLC
May 16, 2011

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, 2010**

Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 15,765,864	2,578,736	18,344,601
Property tax receivable	4,639,137		4,639,137
Fines receivable (net of allowance for uncollectibles of \$2,088,560)	207,733		207,733
Accounts receivable, net	261,636	782,214	1,043,851
Other receivables	74,253		74,253
Internal balances	(429,331)	429,331	0
Other current assets		12,764	12,764
Sales tax receivable	1,361,360		1,361,360
Total current assets	<u>21,880,654</u>	<u>3,803,046</u>	<u>25,683,700</u>
Noncurrent Assets:			
Restricted cash		175,268	175,268
Home Grant receivable	474,000		474,000
Bond issue costs	519,516	175,333	694,849
Deferred loss on debt extinguishment	139,327		139,327
Capital assets, net	57,165,388	17,329,750	74,495,138
Total noncurrent assets	<u>58,298,231</u>	<u>17,680,351</u>	<u>75,978,582</u>
Total Assets	<u>\$ 80,178,885</u>	<u>21,483,397</u>	<u>101,662,282</u>
LIABILITIES			
Current Liabilities:			
Claims payable	\$ 602,809	152,373	755,182
Accrued interest payable	548,767	59,154	607,921
Deferred revenue	4,466,447		4,466,447
Unearned revenue	298,052		298,052
Other payables	30,460	11,719	42,179
Current portion of long-term debt	3,205,635	398,147	3,603,782
Total current liabilities	<u>9,152,170</u>	<u>621,393</u>	<u>9,773,563</u>
Noncurrent Liabilities:			
Long-term liabilities due in more than one year	35,222,979	7,872,072	43,095,051
Customer meter deposits payable		486,073	486,073
Escrowed seizure funds payable	690,097		690,097
Total noncurrent liabilities	<u>35,913,076</u>	<u>8,358,145</u>	<u>44,271,221</u>
Total Liabilities	<u>45,065,245</u>	<u>8,979,538</u>	<u>54,044,783</u>
NET ASSETS			
Invested in capital assets, net of related debt	19,030,588	9,055,127	28,085,715
Restricted for:			
Debt service	1,317,601		1,317,601
Public safety	2,660,138		2,660,138
Public works	836,777		836,777
Capital improvements	8,149,415	570,202	8,719,617
Unrestricted	3,119,121	2,878,530	5,997,651
Total Net Assets	<u>\$ 35,113,640</u>	<u>12,503,859</u>	<u>47,617,499</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, 2010

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 2,860,799				(2,860,799)		(2,860,799)
Public safety	7,503,444	1,225,321	215,472	345,576	(5,717,074)		(5,717,074)
Public works	4,941,596	1,327,183	3,816	375,351	(3,235,246)		(3,235,246)
Health and welfare	428,144	194,796			(233,348)		(233,348)
Culture and recreation	1,596,514	1,034,019	17,300		(545,195)		(545,195)
Interest on long-term debt	1,338,189				(1,338,189)		(1,338,189)
Total Governmental Activities	<u>18,668,688</u>	<u>3,781,319</u>	<u>236,589</u>	<u>720,927</u>	<u>(13,929,853)</u>	<u>0</u>	<u>(13,929,853)</u>
Business-type Activities:							
Water/Sewer	<u>5,735,974</u>	<u>5,384,976</u>		<u>46,237</u>		<u>(304,761)</u>	<u>(304,761)</u>
Total Business-type Activities	<u>5,735,974</u>	<u>5,384,976</u>	<u>0</u>	<u>46,237</u>	<u>0</u>	<u>(304,761)</u>	<u>(304,761)</u>
Total Primary Government	<u>\$ 24,404,662</u>	<u>9,166,295</u>	<u>236,589</u>	<u>767,164</u>	<u>(13,929,853)</u>	<u>(304,761)</u>	<u>(14,234,614)</u>
General Revenues							
Taxes:							
Property taxes					\$ 4,943,946		4,943,946
Road & bridge privilege taxes					589,933		589,933
Other taxes					23,007		23,007
Sales tax					7,579,995		7,579,995
Franchise taxes					882,162		882,162
Grants and contributions not restricted to specific programs					618,566		618,566
Unrestricted investment income					109,126	40,611	149,738
Miscellaneous					542,863	9,262	552,125
Transfers					<u>459,321</u>	<u>(459,321)</u>	<u>(0)</u>
Total General Revenues					<u>15,748,920</u>	<u>(409,449)</u>	<u>15,339,472</u>
Change in net assets					<u>1,819,068</u>	<u>(714,210)</u>	<u>1,104,858</u>
Net Assets-Beginning					33,294,572	13,218,069	46,512,641
Prior period adjustment							
Net Assets-Beginning (adjusted)					<u>33,294,572</u>	<u>13,218,069</u>	<u>46,512,641</u>
Net Assets - Ending					<u>\$ 35,113,640</u>	<u>12,503,859</u>	<u>47,617,499</u>

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

City of Pearl
 Balance Sheet
 Governmental Funds
 September 30, 2010

Exhibit 3

	<u>Major Governmental Funds</u>				<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Police Forfeiture/ Seizure Fund</u>	<u>Debt Service Fund</u>	<u>Capital Project Fund</u>		
ASSETS						
Cash and investments	\$ 1,601,212	3,257,201	1,514,477	7,591,170	1,629,838	15,593,898
Property tax receivable	1,899,005		2,427,349		312,783	4,639,137
Fines receivable (net of allowance for uncollectibles of \$2,088,560)	207,733					207,733
Sales tax receivable	1,361,360					1,361,360
Other receivables	74,252					74,252
Due from other funds	87,961	93,033			34,582	215,576
Total Assets	<u>\$ 5,231,523</u>	<u>3,350,234</u>	<u>3,941,826</u>	<u>7,591,170</u>	<u>1,977,203</u>	<u>22,091,956</u>
LIABILITIES & FUND BALANCES						
Liabilities:						
Claims payable	\$ 437,811				159,308	597,119
Due to other taxing units	29,351					29,351
Due to other funds	611,064				595,645	1,206,709
Other liabilities	304,243		946			305,189
State and federal seized funds escrow		690,097				690,097
Deferred revenue	2,035,861		2,337,094		301,226	4,674,180
Total Liabilities	<u>3,418,330</u>	<u>690,097</u>	<u>2,338,040</u>		<u>1,056,179</u>	<u>7,502,646</u>
Fund Balances:						
Unreserved:						
General fund	1,813,194					1,813,194
Public works					836,777	836,777
Public safety		2,660,137				2,660,137
Debt service funds			1,603,786			1,603,786
Capital project funds				7,591,170	84,247	7,675,417
Total Fund Balances	<u>1,813,194</u>	<u>2,660,137</u>	<u>1,603,786</u>	<u>7,591,170</u>	<u>921,024</u>	<u>14,589,311</u>
Total Liabilities and Fund Balances	<u>\$ 5,231,523</u>	<u>3,350,234</u>	<u>3,941,826</u>	<u>7,591,170</u>	<u>1,977,203</u>	

**City of Pearl
Balance Sheet
Governmental Funds
September 30, 2010**

(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, 2009	55,268,415	
Plus capital outlay expenditures made during the year	3,742,789	
Less depreciation expense recorded during the year	(1,819,231)	
Less assets disposed (net)	<u>(26,585)</u>	57,165,388

Receivable from developer is an asset that is not available to liquidate current period liabilities and is not reported in the funds.		262,584
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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.		207,734
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Long-term note receivable is not available in the current period to liquidate assets and not reported in the funds.		474,000
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Bond issue costs is an asset that is not available to liquidate current period liabilities		519,516
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Deferred loss on debt extinguishment is not payable in the current period and is not reported in the funds.		139,327
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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.		697,291
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Amounts charged to business-type activities by the internal service fund are due to governmental activities.		35,870
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Accrued interest payable is not a current liability payable from current assets		(548,767)
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Liabilities not due and payable in the current period are not reported in the funds:		
Long-term liabilities (Note 2)		<u>(38,428,614)</u>

Net Assets of Governmental Activities		<u>\$ 35,113,640</u>
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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, 2010

Exhibit 4

	Major Governmental Funds					Total Governmental Funds
	General Fund	Police Forfeiture/ Seizure Fund	Debt Service Fund	Capital Project Bond Fund	Other Governmental Funds	
REVENUES						
Property taxes	\$ 2,206,772		2,439,509		297,666	4,943,946
Road & bridge privilege tax	589,933					589,933
Licenses and permits	194,021					194,021
Fines and forfeitures	657,317					657,317
Intergovernmental revenues	8,805,100	512,321	351,238		486,692	10,155,351
Charges for services	1,353,934				1,327,183	2,681,117
Interest income	19,296	53,206	19,273		15,028	106,803
Miscellaneous	435,719	36,771	261,874			734,364
Total Revenues	<u>14,262,094</u>	<u>602,298</u>	<u>3,071,894</u>	<u>0</u>	<u>2,126,568</u>	<u>20,062,853</u>
EXPENDITURES						
Current:						
General government	2,712,890					2,712,890
Public safety	7,550,511	864,658				8,415,169
Public works	2,078,986		220,194	2,171,345	2,080,301	6,550,827
Health and welfare	429,092					429,092
Culture and recreation	1,267,544					1,267,544
Debt service:						
Principal	182,100	71,978	2,345,575		421,636	3,021,289
Interest	5,347	6,225	1,396,671	(12,515)	44,830	1,440,558
Total Expenditures	<u>14,226,471</u>	<u>942,861</u>	<u>3,962,439</u>	<u>2,158,830</u>	<u>2,546,767</u>	<u>23,837,369</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>35,623</u>	<u>(340,564)</u>	<u>(890,545)</u>	<u>(2,158,830)</u>	<u>(420,199)</u>	<u>(3,774,516)</u>
OTHER FINANCING SOURCES (USES)						
Proceed of capital lease	163,881	233,564				397,445
Proceeds of bonds			246,000	9,750,000		9,996,000
Transfers in	1,160,236		541,743		466,468	2,168,447
Transfers out	(948,890)				(760,236)	(1,709,126)
Total Other Financing Sources and Uses	<u>375,226</u>	<u>233,564</u>	<u>787,743</u>	<u>9,750,000</u>	<u>(293,768)</u>	<u>10,852,765</u>
Net Change in Fund Balances	410,849	(107,000)	(102,802)	7,591,170	(713,967)	7,078,249
Fund Balances - Beginning	<u>1,402,345</u>	<u>2,767,137</u>	<u>1,706,588</u>	<u></u>	<u>1,634,990</u>	<u>7,511,060</u>
Fund Balances - Ending	\$ <u>1,813,194</u>	<u>2,660,137</u>	<u>1,603,786</u>	<u>7,591,170</u>	<u>921,023</u>	<u>14,589,311</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, 2010**

Exhibit 5

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4) \$ 7,078,249

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 (\$3,742,789) exceeded depreciation (\$1,819,231) in the current period. 1,923,558

In the Statement of Activities, gains and losses from the disposal of capital assets are recorded. In governmental funds, these disposals are not recorded. Thus, the change in net assets differs from the change in fund balances by the amount the cost of the assets exceeds the accumulated depreciation. (26,585)

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. (14,904)

The change in the amounts due from developers was not recognized as revenue in the fund in the current period. 708

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 (\$10,393,445) exceeded debt repayment (\$3,021,289) (7,372,156)

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	(186,736)
Change in compensated absences	(27,993)
Bond issue costs recorded as expenditures	187,000

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	(38,556)
Amortization of loss on debt extinguishment	(8,196)
Amortization of premium on notes payable	2,989

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. 342,530

Change in due from business-type activities to governmental activities for internal service fund costs (40,840)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ 1,819,068

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

City of Pearl
Statement of Net Assets
Proprietary Funds
September 30, 2010

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	\$ 2,500,803	77,934	2,578,736	171,966
Accounts receivable, net	680,903		680,903	
Intergovernmental receivable		101,311	101,311	
Due from other funds	594,105		594,105	525,923
Other current assets	12,764		12,764	
Total current assets	<u>3,788,575</u>	<u>179,245</u>	<u>3,967,820</u>	<u>697,889</u>
Noncurrent assets:				
Bond issue cost	175,333		175,333	
Restricted cash and cash equivalents	175,268		175,268	
Capital assets, net	14,965,628	2,364,121	17,329,750	
Total noncurrent assets	<u>15,316,230</u>	<u>2,364,121</u>	<u>17,680,351</u>	<u>0</u>
Total Assets	<u>\$ 19,104,805</u>	<u>2,543,366</u>	<u>21,648,171</u>	<u>697,889</u>
LIABILITIES				
Current Liabilities:				
Claims payable	\$ 51,062	101,311	152,373	598
Accrued interest payable	59,154		59,154	
Due to other funds	36,212	92,682	128,894	
Other payables	47,600		47,600	
Current portion of long-term debt	398,147		398,147	
Total current liabilities	<u>592,175</u>	<u>193,993</u>	<u>786,168</u>	<u>598</u>
Noncurrent Liabilities:				
Long-term liabilities	5,546,248	2,325,825	7,872,072	
Customer meter deposits payable	486,073		486,073	
Total noncurrent liabilities	<u>6,032,321</u>	<u>2,325,825</u>	<u>8,358,145</u>	<u>0</u>
Total Liabilities	<u>\$ 6,624,495</u>	<u>2,519,817</u>	<u>9,144,313</u>	<u>598</u>
NET ASSETS				
Invested in capital assets net of related debt	9,055,127		9,055,127	
Restricted for capital improvements	546,653	23,549	570,202	
Unrestricted	2,878,530		2,878,530	697,291
Total Net Assets	<u>\$ 12,480,310</u>	<u>23,549</u>	<u>12,503,859</u>	<u>697,291</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, 2010

Exhibit 7

	Business-type Activity Enterprise Funds			Internal Service Fund
	Water/Sewer	Water/Sewer Improvements	Total	Self-Insurance
OPERATING REVENUES				
Charges for services	\$ 5,384,976		5,384,976	269,198
Reinsurance reimbursement				
City and employee contributions				1,908,477
Total Operating Revenues	<u>5,384,976</u>	<u>0</u>	<u>5,384,976</u>	<u>2,177,675</u>
OPERATING EXPENSES				
Personal services	1,239,785		1,239,785	
Contractual services	408,734		408,734	
Materials and supplies	160,388		160,388	
Maintenance	896,954		896,954	
Utilities	268,812		268,812	
West Rankin charges	1,681,541		1,681,541	
Depreciation expense	780,809		780,809	
Other operating expenses	27,339		27,339	
Administrative fees				42,466
Specific and aggregate reinsurance				181,484
Medical claim payments				1,614,005
Total Operating Expenses	<u>5,464,363</u>	<u>0</u>	<u>5,464,363</u>	<u>1,837,955</u>
Operating Income (Loss)	<u>(79,386)</u>	<u>0</u>	<u>(79,386)</u>	<u>339,720</u>
NONOPERATING REVENUES (EXPENSES)				
Capital grants	46,237		46,237	
Interest income	29,483	11,128	40,611	2,810
Interest expense	(259,881)		(259,881)	
Transfers in (out)	(459,320)		(459,320)	
Other income	9,261		9,261	
Other expenses	(11,730)		(11,730)	
Total Nonoperating Revenue (Expenses)	<u>(645,951)</u>	<u>11,128</u>	<u>(634,823)</u>	<u>2,810</u>
Change in Net Assets	(725,337)	11,128	(714,209)	342,530
Total Net Assets - Beginning	<u>13,205,645</u>	<u>12,421</u>	<u>13,218,066</u>	<u>354,761</u>
Total Net Assets - Ending	\$ <u>12,480,308</u>	<u>23,549</u>	<u>12,503,857</u>	<u>697,291</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, 2010

Exhibit 8

	Business-type Activity Enterprise Funds			Internal Service Funds
	Water/Sewer	Water/Sewer Improvements	Total	Self-Insurance
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 5,386,479		5,386,479	
Receipts from internal services provided				2,450,777
Receipts from (payments to) other funds	(200,435)		(200,435)	(568,516)
Payments to suppliers and employees	(4,720,610)		(4,720,610)	(42,466)
Payments for insurance claims				(1,894,703)
Net Cash Provided (Used) by Operating Activities	<u>465,434</u>	<u>0</u>	<u>465,434</u>	<u>(54,908)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Other revenues	9,261		9,261	
Transfers (in) out	(459,320)		(459,320)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(450,059)</u>	<u>0</u>	<u>(450,059)</u>	<u>0</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(16,087)	(1,777,190)	(1,793,277)	
Issuance of long-term debt		1,666,797	1,666,797	
Principal paid on long-term debt	(424,030)		(424,030)	
Interest expense paid	(261,782)		(261,782)	
Net Cash Provided (Used) by Capital Financing Activities	<u>(701,899)</u>	<u>(110,393)</u>	<u>(812,292)</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>29,483</u>	<u>11,128</u>	<u>40,611</u>	<u>2,810</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(657,041)	(99,265)	(756,306)	(52,098)
Cash and Cash Equivalents - Beginning of Year	<u>3,333,112</u>	<u>177,199</u>	<u>3,510,311</u>	<u>224,064</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,676,071</u>	<u>77,934</u>	<u>2,754,005</u>	<u>171,966</u>

**City of Pearl
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2010**

(Exhibit 8 Continued)

**Reconciliation of operating income (loss) to
net cash provided (used) by operating activities:**

Operating income (loss)	\$ <u>(79,386)</u>	<u>0</u>	<u>(79,386)</u>	<u>339,720</u>
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation	780,809		780,809	
Amortization	11,730		11,730	
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	25,222		25,222	273,102
(Increase) decrease in other current assets	(666)		(666)	
(Increase) decrease in due from other funds	(21,122)		(21,122)	(568,516)
Increase (decrease) in claims payable	(83,653)		(83,653)	(99,214)
Increase (decrease) in due to other funds	(179,313)		(179,313)	
Increase (decrease) in customer deposits	(23,053)		(23,053)	
Increase (decrease) in compensated absences	1,106		1,106	
Other, net	33,760		33,760	
Total adjustments	<u>544,820</u>	<u>0</u>	<u>544,820</u>	<u>(394,628)</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>465,434</u></u>	<u><u>0</u></u>	<u><u>465,434</u></u>	<u><u>(54,908)</u></u>

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

**City of Pearl
Statement of Fiduciary Assets and Liabilities
September 30, 2010**

Exhibit 9

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 540
Total Assets	\$ <u>540</u>
LIABILITIES	
Due to school taxing district	\$ 496
Due to state	44
Total Liabilities	\$ <u>540</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, 2010

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 *capital project bond fund* is used to account for the issuance of the general obligation bonds and the acquisition and construction of infrastructure.

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.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

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.

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, 2010

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, 2010

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	\$ 30,379,214
Capital leases payable	845,167
Notes payable	6,859,353
Premium on Notes Payable	51,066
Compensated absences	293,813
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$ 38,428,613

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

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	\$ 3,742,789
Less book value of asset disposals	(26,585)
Depreciation expense	<u>(1,819,231)</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>\$ 1,896,973</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:

Debt proceeds:	
Bonds	9,996,000
Capital leases	397,445
Principal reductions:	
General obligation debt	<u>(3,021,289)</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>\$ 7,372,156</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.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

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.

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 \$18,520,409 and the bank balance was \$19,595,819. 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, 2010

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	\$ 1,361,360			1,361,360
Property taxes	1,899,005		2,740,132	4,639,137
Accounts		738,730		738,730
Fines	2,296,294			2,296,294
From developers			261,636	261,636
Other receivables	74,253	101,311		175,564
HOME grant receivable			474,000	474,000
	<u>5,630,912</u>	<u>840,041</u>	<u>3,475,768</u>	<u>9,946,721</u>
Gross receivables	5,630,912	840,041	3,475,768	9,946,721
Less: allowance for uncollectibles	<u>(2,088,560)</u>	<u>(57,827)</u>		<u>(2,146,387)</u>
Net total receivables	<u>\$ 3,542,352</u>	<u>782,214</u>	<u>3,475,768</u>	<u>7,800,334</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	\$	298,052
Property taxes receivable: General fund	1,828,127	
Debt service fund	2,337,095	
Garbage and rubbish fund	<u>301,226</u>	
Total deferred/unearned revenue for governmental funds	<u>\$ 4,466,448</u>	<u>298,052</u>

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

C. Capital Assets.

Capital asset activity for the year ended September 30, 2010, 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	1,984,344		5,366,182
Construction in progress	8,874,761	307,220	(6,697,804)	2,484,177
Total capital assets, not being depreciated	<u>12,256,599</u>	<u>2,291,564</u>	<u>(6,697,804)</u>	<u>7,850,359</u>
Capital assets, being depreciated:				
Buildings	11,568,198			11,568,198
Improvements other than buildings	23,110,023	358,408		23,468,431
Streets	16,358,884	6,697,804		23,056,688
Bridges	668,537			668,537
Machinery and equipment	12,784,791	1,092,817	(265,853)	13,611,755
Total capital assets being depreciated	<u>64,490,433</u>	<u>8,149,029</u>	<u>(265,853)</u>	<u>72,373,609</u>
Less: Accumulated depreciation for:				
Buildings	(2,121,246)	(231,364)		(2,352,610)
Improvements other than buildings	(4,419,707)	(197,095)		(4,616,802)
Streets	(5,913,185)	(683,268)		(6,596,453)
Bridges	(213,934)	(13,371)		(227,305)
Machinery and equipment	(8,810,545)	(694,133)	239,268	(9,265,410)
Total accumulated depreciation	<u>(21,478,617)</u>	<u>(1,819,231)</u>	<u>239,268</u>	<u>(23,058,580)</u>
Total capital assets, being depreciated, net	<u>43,011,816</u>	<u>6,329,798</u>	<u>(26,585)</u>	<u>49,315,029</u>
Governmental activities capital assets, net	<u>\$ 55,268,415</u>	<u>8,621,362</u>	<u>(6,724,389)</u>	<u>57,165,388</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 401,636			401,636
Construction in progress	596,014	1,768,107		2,364,121
Total capital assets, not being depreciated	<u>997,650</u>	<u>1,768,107</u>	<u>0</u>	<u>2,765,757</u>
Capital assets, being depreciated:				
Buildings	92,793			92,793
Water system	11,438,634			11,438,634
Sewer system	21,159,987			21,159,987
Machinery and equipment	1,965,242	16,087		1,981,329
Total capital assets, being depreciated	<u>34,656,656</u>	<u>16,087</u>	<u>0</u>	<u>34,672,743</u>
Less: Accumulated depreciation for:				
Buildings	(89,020)	(270)		(89,290)
Water system	(5,927,534)	(237,552)		(6,165,086)
Sewer system	(11,402,211)	(479,959)		(11,882,170)
Machinery and equipment	(1,909,176)	(63,028)		(1,972,204)
Total accumulated depreciation	<u>(19,327,941)</u>	<u>(780,809)</u>	<u>0</u>	<u>(20,108,750)</u>
Total capital assets, being depreciated, net	<u>15,328,715</u>	<u>(764,722)</u>	<u>0</u>	<u>14,563,993</u>
Business-type activities capital assets, net	<u>\$ 16,326,365</u>	<u>1,003,385</u>	<u>0</u>	<u>17,329,750</u>

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

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

Governmental activities:		
General government	\$	132,031
Public safety		529,362
Public works		794,072
Health and welfare		4,973
Culture and recreation		<u>358,793</u>
Total depreciation expense - governmental activities	\$	<u>1,819,231</u>
Business-type activities:		
Water and sewer	\$	<u>780,809</u>
Total depreciation expense - business-type activities	\$	<u>780,809</u>

D. Interfund Receivables, Payables and Transfers.

The composition of interfund balances as of September 30, 2010, is a follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Police Forfeiture/Seizure	General	\$ 93,033
Water Sewer	Other governmental funds	594,105
Internal Service	General	518,031
Internal Service	Other governmental funds	1,540
Internal Service	Water Sewer	6,352
General	Water Sewer	87,961
Other governmental funds	Water Sewer	<u>34,582</u>
Total		\$ <u>1,335,604</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	\$	948,890
Other Governmental		760,236
Water Sewer Fund		<u>459,321</u>
Total transfers out	\$	<u>2,168,447</u>
Transfer in:		
Debt Service Fund	\$	541,743
Other Governmental Funds		466,468
General Fund		<u>1,160,236</u>
Total transfers in	\$	<u>2,168,447</u>

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

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

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. The City is obligated for the following capital assets acquired through capital leases as of September 30, 2010:

	<u>Governmental Activities</u>	<u>Business Activities</u>
Asset:		
Machinery and equipment	\$ 1,613,291	73,446
Less: Accumulated depreciation	<u>(582,900)</u>	<u>(22,034)</u>
Total	<u>\$ 1,030,391</u>	<u>51,412</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2010 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business Activities</u>
2011	\$ 420,126	23,502
2012	353,622	19,229
2013	<u>102,688</u>	<u> </u>
Total minimum lease payments	876,436	42,731
Less: amount representing interest	<u>(31,269)</u>	<u>(1,109)</u>
Present value of minimum lease payments	<u>\$ 845,167</u>	<u>41,622</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%	\$ 25,983,390
Unamortized premium		51,066
Business-type activities	4.65% - 7.5%	3,901,611
Unamortized premium		<u>33,219</u>
Total		<u>\$ 29,969,286</u>

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

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

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 1,631,645	1,129,440	138,355	176,333
2012	1,683,739	1,055,542	146,261	170,799
2013	2,082,810	979,429	152,191	164,949
2014	2,114,904	890,819	160,097	158,861
2015	1,686,998	801,719	168,003	152,457
2016-2020	6,909,657	3,064,135	980,345	649,749
2021-2025	6,027,829	1,687,089	1,247,172	414,046
2026-2030	3,845,808	478,148	909,187	93,104
Total	\$ 25,983,390	10,086,321	3,901,611	1,980,298

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
2011	\$ 91,000	42,386
2012	96,000	37,849
2013	101,000	33,063
2014	106,000	28,028
2015	111,000	22,744
2016-2019	345,000	33,838
Total	\$ 850,000	197,908

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.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

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

Year Ending September 30	Governmental Activities	
	Principal	Interest
2011	\$ 546,658	187,387
2012	578,302	163,196
2013	587,771	136,516
2014	524,322	109,499
2015	530,963	64,851
2016-2020	747,902	95,033
2021-2023	29,906	2,474
Total	\$ 3,545,825	758,956

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 \$1,768,108. Loans currently outstanding are as follows:

Loan Type	Interest Rates	Amount
Governmental activities:		
Capital Improvement (CAP)	3.0% - 4.25%	\$ 339,353
Community Bank Loan	3.95%	55,000
Mississippi Development Bank-Trustmark	3.02% - 6.15%	6,325,000
Trustmark	3.83%	140,000
Total Governmental Activities		6,859,353
Business-type activities		
Capital Improvement (CAP)	3.0% - 4.25%	1,019,937
Mississippi Department of Health Drinking Water Systems Improvements Revolving Loan Fund (DWSIRLF)	3.0%	3,110,262
Mississippi Department of Environmental Quality Revolving Loan Fund	4.5%	129,684
Total Business-Type Activities		4,259,883
Total		\$ 11,119,235

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

Loan debt service requirements to maturity are as follows:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 537,371	370,718	237,160	73,102
2012	365,092	342,935	339,174	61,538
2013	367,506	324,881	347,892	52,820
2014	368,530	300,103	298,122	44,220
2015	367,820	278,085	276,018	37,726
2016-2020	2,138,033	1,058,676	1,297,597	103,585
2021-2025	2,715,000	393,635	766,175	5,919
2026-2030			581,455	
2031			116,290	
Total	\$ 6,859,353	3,069,033	4,259,883	378,910

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2010, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 17,586,964	9,750,000	(1,353,575)	25,983,389	1,631,645
Special assessment bonds	936,000		(86,000)	850,000	91,000
Tax increment financing bonds	3,890,825	246,000	(591,000)	3,545,825	546,658
Unamortized premiums	54,055		(2,989)	51,066	
Total bonds payable	22,467,844	9,996,000	(2,033,564)	30,430,280	2,269,303
Capital leases	918,681	397,444	(470,958)	845,167	398,961
Loans payable	7,379,109		(519,756)	6,859,353	537,371
Compensated absences	265,820	27,993		293,813	
Governmental activity long-term liabilities	\$ 31,031,454	10,421,437	(3,024,278)	38,428,613	3,205,635
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 4,069,037		(167,436)	3,901,601	138,355
Unamortized premiums	35,173		(1,954)	33,219	
Total bonds payable	4,104,210	0	(169,390)	3,934,820	138,355
Capital leases	65,607		(23,985)	41,622	22,633
Loans payable	2,722,430	1,768,108	(230,655)	4,259,883	237,159
Compensated absences	32,787	1,107		33,894	
Business-type activity long-term liabilities	\$ 6,925,034	1,769,215	(424,030)	8,270,219	398,147

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

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, 2010, the amount of outstanding debt was equal to 6.5% of the latest property assessments.

5. Other Information.

A. Self-funded Insurance.

Until May 1, 2010, the City had 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 provided health, dental and group term life coverage to City employees to the limits established by the plan document. The city purchased commercial insurance to cover all claims in excess of premium contributions. Claims expense and liabilities were reported when it was probable that a loss had occurred and the amount of that loss could be reasonably estimated.

The City had no year-end liability because the city terminated the self-funded plan on May 1, 2010, and contracted with a commercial insurance company to provide health, dental and group term life coverage.

See Note I – Postemployment Benefits, below, for additional information regarding the City’s health, dental and group term life insurance plan.

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, 2010

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, 2009 through September, 2010, the City paid \$1,681,533. For the twelve-month period beginning October 1, 2010, the City's annual financial responsibility will be \$1,957,029.

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, 2010, 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. Prior to July 1, 2010, PERS members were required to contribute 7.25% of their annual covered salary. The rate increased to 9% on July 1, 2010. The City of Pearl is required to contribute at an actuarially determined rate. The current rate for 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, 2010, 2009 and 2008 were \$886,796, \$841,032 and \$853,521, respectively, equal to the required contributions for each year.

CITY OF PEARL
Notes to the Financial Statements
September 30, 2010

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, 2010, 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. Commitments.

The City is committed to a payment of \$201,637 for the completion of the Eldorado Water Tank.

H. Subsequent Events.

Series 2010 General Obligation Refunding Bonds for \$4,455,000 were issued by the City on December 8, 2010. Principal is payable on November 1, 2011 and each November 1 thereafter until final maturity of November 1, 2018.

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 an 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, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Taxes	\$ 1,843,626	1,845,826	2,206,771	360,945
Licenses and permits	308,200	308,200	194,021	(114,179)
Fines and forfeitures	790,100	790,100	657,317	(132,783)
Intergovernmental revenues	9,171,990	9,336,908	9,388,822	51,914
Charges for services	1,161,100	1,161,100	1,353,935	192,835
Miscellaneous revenues	503,545	504,480	455,016	(49,464)
Total Revenues	<u>13,778,561</u>	<u>13,946,614</u>	<u>14,255,882</u>	<u>309,268</u>
EXPENDITURES				
General government	3,626,217	3,626,217	2,705,012	921,205
Public safety	7,621,428	7,621,428	7,497,996	123,432
Public works	2,236,623	2,236,623	2,104,003	132,620
Health and welfare	512,788	512,788	433,623	79,165
Culture and recreation	1,329,382	1,329,382	1,321,956	7,426
Total Expenditures	<u>15,326,438</u>	<u>15,326,438</u>	<u>14,062,590</u>	<u>1,263,848</u>
Excess of Revenues over (under) Expenditures	<u>(1,547,877)</u>	<u>(1,379,824)</u>	<u>193,292</u>	<u>1,573,116</u>
OTHER FINANCING SOURCES (USES)				
Transfers in			1,160,236	1,160,236
Transfers out			(948,890)	(948,890)
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>211,346</u>	<u>211,346</u>
Net Change in Fund Balance	(1,547,877)	(1,379,824)	404,638	1,784,462
Fund Balances - Beginning	<u>1,402,345</u>	<u>1,402,345</u>	<u>1,402,345</u>	<u>0</u>
Fund Balances - Ending	<u>\$ (145,532)</u>	<u>22,521</u>	<u>1,806,983</u>	<u>1,784,462</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, 2010

	<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	512,321	412,321
Interest income			53,206	53,206
Miscellaneous revenues			36,771	36,771
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>602,298</u>	<u>502,298</u>
EXPENDITURES				
Public safety	<u>459,046</u>	<u>907,846</u>	<u>709,298</u>	<u>198,548</u>
Total Expenditures	<u>459,046</u>	<u>907,846</u>	<u>709,298</u>	<u>198,548</u>
Excess of Revenues over (under) Expenditures	<u>(359,046)</u>	<u>(807,846)</u>	<u>(107,000)</u>	<u>700,846</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	(359,046)	(807,846)	(107,000)	700,846
Fund Balances - Beginning	<u>2,767,137</u>	<u>2,767,137</u>	<u>2,767,137</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 2,408,091</u>	<u>1,959,291</u>	<u>2,660,137</u>	<u>700,846</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, 2010

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>	
	General Fund	Police Forfeiture/ Seizure Fund
Net Changes in Fund Balance - Budget (Cash Basis)	\$ 404,638	(107,000)
Increase (decrease):		
Net adjustments for revenue and expense accruals	<u>6,211</u>	<u> </u>
Net Change in Fund Balance GAAP Basis	<u>\$ 410,849</u>	<u>(107,000)</u>

CITY OF PEARL

SUPPLEMENTAL INFORMATION

**City of Pearl
Schedule of Surety Bonds For Municipal Officials
For the Year Ended September 30, 2010**

<u>Position</u>	<u>Surety Agency</u>	<u>Bond Amount</u>
Mayor	Travelers Casualty & Surety	100,000
Aldermen	Travelers Casualty & Surety	\$ 100,000
City Clerk	Travelers Casualty & Surety	100,000
Chief of Police	Travelers Casualty & Surety	50,000
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
Other employees (blanket bond)	Travelers Casualty & Surety	\$25,000 - \$100,000

CITY OF PEARL, MISSISSIPPI
Schedule of Expenditures of Federal Awards
September 30, 2010

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Identification Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
Major Federal Awards:				
ARRA - U.S. Department of Transportation/ Mississippi Department of Transportation/ Federal Surface Transportation Program Pirate's Cove Road Overlay	20.205	ARRA	STP-7336-00(004)LPA/105689-70100	\$ 243,073
ARRA - U.S. Department of Transportation/ Mississippi Department of Transportation/ Federal Surface Transportation Program Old Brandon Road Signal Upgrade	20.205	ARRA	STP-7272-00(006)LPA/105688-70100	144,498
U.S. Environmental Protection Agency/ Mississippi State Department of Health Drinking Water State Revolving Loan Program	66.468		DWI-L610017-04 DWI-L610017-05	219,983 <u>796,558</u>
Total Expenditures of Major Federal Awards				<u>1,404,112</u>
Other Federal Awards:				
Office of National Drug Policy HIDTA Grant	07.UN	I8PGCP540Z	I8PGCP540Z	56,578
U.S. Forest Service/Mississippi Forestry Commission/Katrina Supplemental Grant	10.664	06 DG-1108-3128-020	06 DG-1108-3128-020	20,274
ARRA -U.S. Department of Justice/Edward Byrne Memorial Justice Assistance Grant	16.738	ARRA		89,594
U.S. Department of Transportation/Mississippi Department of Public Safety/402 Traffic Services Grant	20.600	NHTSA 402	10PT3191	104,198
U.S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	10.565	378K47	378K47	1,989
U.S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	10.565	379K47	379K47	5,643
U.S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	93.045	378K47	378K47	7,510
U.S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	93.045	379K47	379K47	<u>16,645</u>
Total Expenditures of Other Federal Awards				<u>302,431</u>
Total Expenditures of Federal Awards				<u>\$ 1,706,543</u>

CITY OF PEARL, MISSISSIPPI
Schedule of Expenditures of Federal Awards
September 30, 2010

(Continued)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Pearl and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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
BASIC 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, the major fund and the aggregate remaining fund information of City of Pearl, Mississippi, as of and for the year ended September 30, 2010 which collectively comprise City of Pearl, Mississippi'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 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.

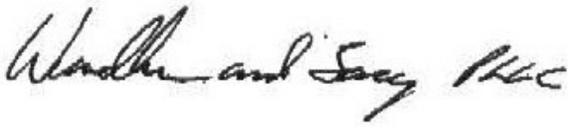
Our consideration of the internal controls over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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 described in the accompanying Schedule of Findings and Questioned Costs as 10-1 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, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Windham and Lacey, PLLC". The signature is written in a cursive, flowing style.

Windham and Lacey, PLLC
May 16, 2011

Windham and Lacey, PLLC

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of City of Pearl, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2010. City of Pearl, Mississippi's major federal program is 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 is the responsibility of City of Pearl, Mississippi's management. Our responsibility is to express an opinion on City of Pearl, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Pearl, Mississippi'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 City of Pearl, Mississippi's compliance with those requirements.

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

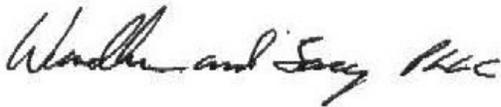
Internal Control Over Compliance

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

A deficiency in internal over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of the 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 management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Windham and Lacey, PLLC". The signature is written in a cursive, flowing style.

Windham and Lacey, PLLC
May 16, 2011

Windham and Lacey, PLLC

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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, 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 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
May 16, 2011

CITY OF PEARL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF PEARL

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

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? | None reported |
| 3. | Noncompliance material to the financial statements? | No |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit findings reported as required by Section ____.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | U.S. Department of Transportation/Federal Surface Transportation Program
CFDA # 20.205 | |
| | U.S. Environmental Protection Agency/Drinking Water State Revolving
Loan Program, CFDA # 66.468 | |

- | | | |
|-----|---|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

Significant Deficiency – Material Weakness

10 – 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.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.