

**CITY OF PEARL, MISSISSIPPI**

**Audited Financial Statements and  
Special Reports  
For the Year Ended September 30, 2012**

CITY OF PEARL

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**CITY OF PEARL**

**INDEPENDENT AUDITOR'S REPORT**

# Windham and Lacey, PLLC

*Certified Public Accountants*

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American Institute of CPAs  
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, 2012, 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 4.H. 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, 2012, 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, 2012, 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 8, 2013, on our consideration of City of Pearl, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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 8, 2013

## **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, 2012**

**Exhibit 1**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and investments	\$ 4,282,248	213,663	4,495,911
Property tax receivable	4,844,646		4,844,646
Fines receivable (net of allowance for uncollectibles of \$2,441,390)	250,713		250,713
Accounts receivable, net		693,826	693,826
Other receivables	471,915	14,527	486,442
Internal balances	301,591	(301,591)	
Sales tax receivable	1,363,501		1,363,501
Total current assets	<u>11,514,614</u>	<u>620,425</u>	<u>12,135,039</u>
<b>Noncurrent Assets:</b>			
Restricted cash		429,487	429,487
Home Grant receivable	474,000		474,000
Bond issue costs	711,588	153,373	864,961
Capital assets, net	62,413,122	16,341,183	78,754,305
Total noncurrent assets	<u>63,598,710</u>	<u>16,924,043</u>	<u>80,522,753</u>
 Total Assets	 <u>\$ 75,113,324</u>	 <u>17,544,468</u>	 <u>92,657,792</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Claims payable	\$ 447,788	4,251	452,039
Accrued interest payable	456,743	56,308	513,051
Deferred revenue	4,687,350		4,687,350
Unearned revenue	122,362		122,362
Other payables	36,290	18,257	54,547
Current portion of long-term debt	4,084,595	533,123	4,617,718
Total current liabilities	<u>9,835,128</u>	<u>611,939</u>	<u>10,447,067</u>
<b>Noncurrent Liabilities:</b>			
Long-term liabilities due in more than one year	34,482,979	7,199,919	41,682,898
Customer meter deposits payable		481,225	481,225
Escrowed seizure funds payable	1,778,006		1,778,006
Total noncurrent liabilities	<u>36,260,985</u>	<u>7,681,144</u>	<u>43,942,129</u>
 Total Liabilities	 <u>46,096,113</u>	 <u>8,293,083</u>	 <u>54,389,196</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	24,305,975	8,630,931	32,936,906
Restricted for:			
Debt service	267,645		267,645
Public safety	747,473		747,473
Public works	898,708		898,708
Capital improvements	1,115,209	28,891	1,144,100
Unrestricted	1,682,201	591,563	2,273,764
Total Net Assets	<u>\$ 29,017,211</u>	<u>9,251,385</u>	<u>38,268,596</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, 2012

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General government	\$ 3,073,091				(3,073,091)		(3,073,091)
Public safety	10,429,245	2,165,859	22,262	379,799	(7,861,325)		(7,861,325)
Public works	8,796,483	1,440,638		685,323	(6,670,522)		(6,670,522)
Health and welfare	463,985	225,033			(238,952)		(238,952)
Culture and recreation	1,736,511	1,533,672			(202,839)		(202,839)
Interest on long-term debt	1,528,460				(1,528,460)		(1,528,460)
Total Governmental Activities	<u>26,027,775</u>	<u>5,365,202</u>	<u>22,262</u>	<u>1,065,122</u>	<u>(19,575,189)</u>	<u>0</u>	<u>(19,575,189)</u>
Business-type Activities:							
Water/Sewer	6,424,083	5,274,110				(1,149,973)	(1,149,973)
Total Business-type Activities	<u>6,424,083</u>	<u>5,274,110</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,149,973)</u>	<u>(1,149,973)</u>
Total Primary Government	<u>\$ 32,451,858</u>	<u>10,639,312</u>	<u>22,262</u>	<u>1,065,122</u>	<u>(19,575,189)</u>	<u>(1,149,973)</u>	<u>(20,725,162)</u>
General Revenues							
Taxes:							
Property taxes					\$ 4,759,702		4,759,702
Road & bridge privilege taxes					954,392		954,392
Other revenue from developer					250,000		250,000
Sales tax					8,152,869		8,152,869
Franchise taxes					796,526		796,526
Grants and contributions not restricted to specific programs					570,508		570,508
Unrestricted investment income					19,032	3,697	22,729
Miscellaneous					543,529	9,025	552,554
Transfers					1,048,673	(1,048,673)	
Total General Revenues					<u>17,095,231</u>	<u>(1,035,951)</u>	<u>16,059,280</u>
Change in net assets					(2,479,958)	(2,185,924)	(4,665,882)
Net Assets - Beginning					<u>31,497,169</u>	<u>11,437,309</u>	<u>42,934,478</u>
Net Assets - Ending					<u>\$ 29,017,211</u>	<u>9,251,385</u>	<u>38,268,596</u>

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

City of Pearl  
Balance Sheet  
Governmental Funds  
September 30, 2012

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>		
<b>ASSETS</b>						
Cash and investments	\$ 204,351	2,432,445	296,035	231,428	1,073,248	4,237,507
Property tax receivable	1,983,121		2,851,006		10,519	4,844,646
Fines receivable (net of allowance for uncollectibles of \$2,441,390)	250,713					250,713
Sales tax receivable	1,363,501					1,363,501
Other receivables	35,801				100,967	136,768
Due from other funds		93,033	134,871	13,321	229,116	470,341
Total Assets	<u>\$ 3,837,487</u>	<u>2,525,478</u>	<u>3,281,912</u>	<u>244,749</u>	<u>1,413,850</u>	<u>11,303,476</u>
<b>LIABILITIES &amp; FUND BALANCES</b>						
Liabilities:						
Claims payable	\$ 328,923				118,865	447,788
Due to other taxing units	29,161					29,161
Due to other funds	168,749					168,749
Other liabilities	162,351		946			163,297
State and federal seized funds escrow		1,778,006				1,778,006
Deferred revenue	2,169,255		2,768,807			4,938,062
Total Liabilities	<u>2,858,439</u>	<u>1,778,006</u>	<u>2,769,753</u>	<u>0</u>	<u>118,865</u>	<u>7,525,063</u>
Fund Balances:						
Restricted:						
Public safety		747,472				747,472
Committed:						
Debt service			512,159			512,159
Public works					898,708	898,708
Public safety					375,265	375,265
Capital projects				244,749		244,749
Unassigned	979,048				21,012	1,000,060
Total Fund Balances	<u>979,048</u>	<u>747,472</u>	<u>512,159</u>	<u>244,749</u>	<u>1,294,985</u>	<u>3,778,413</u>
Total Liabilities and Fund Balances	<u>\$ 3,837,487</u>	<u>2,525,478</u>	<u>3,281,912</u>	<u>244,749</u>	<u>1,413,850</u>	

**City of Pearl  
Balance Sheet  
Governmental Funds  
September 30, 2012**

**(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, 2011	\$ 60,506,471	
Plus capital outlay expenditures made during the year	4,667,214	
Less depreciation expense recorded during the year	(2,725,926)	
Less assets disposed (net)	<u>(34,637)</u>	62,413,122
Receivable from developer		335,164
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.		250,713
Long-term note receivable is not available in the current period.		474,000
Bond issue costs is an asset that is not available to liquidate current period liabilities.		711,588
Deferred loss on debt extinguishment.		122,935
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.		44,741
Amounts charged to business-type activities by the internal service fund are due to governmental activities.		33,787
Accrued interest payable is not a current liability payable from current assets.		(456,743)
Liabilities not due and payable in the current period are not reported in the funds:		
Long-term liabilities		<u>(38,690,509)</u>
Net Assets of Governmental Activities		<u>\$ 29,017,211</u>

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, 2012

**Exhibit 4**

	<b>Major Governmental Funds</b>					<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Police Forfeiture/ Seizure Fund</b>	<b>Debt Service Fund</b>	<b>Capital Project Bond Fund</b>	<b>Other Governmental Funds</b>	
<b>REVENUES</b>						
Property taxes	\$ 1,923,835		2,528,867		307,000	4,759,702
Road & bridge privilege tax	954,392					954,392
Licenses and permits	224,607					224,607
Fines and forfeitures	1,729,657					1,729,657
Intergovernmental revenues	9,643,975	456,246	340,008	200,000	611,863	11,252,092
Charges for services	1,312,477				1,440,638	2,753,115
Interest income	2,420	10,935	2,051		3,528	18,934
Miscellaneous	608,204	31,608			4,223	644,035
Total Revenues	<u>16,399,567</u>	<u>498,789</u>	<u>2,870,926</u>	<u>200,000</u>	<u>2,367,252</u>	<u>22,336,534</u>
<b>EXPENDITURES</b>						
Current:						
General government	2,661,704		287,159			2,948,863
Public safety	9,256,477	1,246,641				10,503,118
Public works	2,750,326			6,390,923	1,932,080	11,073,329
Health and welfare	454,436					454,436
Culture and recreation	1,389,836					1,389,836
Debt service:						
Bond issue cost				193,903		193,903
Principal	363,182	212,091	2,603,403		285,677	3,464,353
Interest	50,468	11,714	1,287,468		7,746	1,357,396
Total Expenditures	<u>16,926,429</u>	<u>1,470,446</u>	<u>4,178,030</u>	<u>6,584,826</u>	<u>2,225,503</u>	<u>31,385,234</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(526,862)</u>	<u>(971,657)</u>	<u>(1,307,104)</u>	<u>(6,384,826)</u>	<u>141,749</u>	<u>(9,048,700)</u>

City of Pearl  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended September 30, 2012

(Exhibit 4 Continued)

	<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 Bond Fund</u>		
<b>Other Financing Sources (Uses)</b>						
Proceed of capital lease	721,034	96,440			73,376	890,850
Proceeds of bonds				3,000,000		3,000,000
Transfers in	1,630,412		797,755	574,790	1,112,534	4,115,491
Transfers out	(984,803)		(171,327)		(1,232,788)	(2,388,918)
Total Other Financing Sources and Uses	<u>1,366,643</u>	<u>96,440</u>	<u>626,428</u>	<u>3,574,790</u>	<u>(46,878)</u>	<u>5,617,423</u>
Net Change in Fund Balances	839,781	(875,217)	(680,676)	(2,810,036)	94,871	(3,431,277)
Fund Balances - Beginning	<u>139,267</u>	<u>1,622,689</u>	<u>1,192,835</u>	<u>3,054,785</u>	<u>1,200,114</u>	<u>7,209,690</u>
Fund Balances - Ending	<u>\$ 979,048</u>	<u>747,472</u>	<u>512,159</u>	<u>244,749</u>	<u>1,294,985</u>	<u>3,778,413</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, 2012**

**Exhibit 5**

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4) \$ (3,431,277)

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 (\$4,667,216) exceeded depreciation (\$2,725,926) and asset disposals (\$34,637). 1,906,653

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. (52,850)

The change in the amounts due from developers was not recognized as revenue in the fund in the current period. 250,000

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 (\$3,955,115) exceeded debt repayment (\$3,464,353). (490,762)

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 (83,757)
- Change in compensated absences (13,927)
- Increase in bond issue costs 193,903

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 (69,487)
- Amortization of loss on debt extinguishment (8,196)
- Amortization of premium on notes payable 11,147

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. (693,167)

Change in due from business-type activities to governmental activities for internal service fund costs. 1,762

Change in Net Assets of Governmental Activities (Exhibit 2) \$ (2,479,958)

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

City of Pearl  
Statement of Net Assets  
Proprietary Funds  
September 30, 2012

Exhibit 6

	Business-type Activity Enterprise Funds		Total	Internal Service Fund
	Water/Sewer	Water/Sewer Improvements		Self-Insurance
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 184,772	28,891	213,663	44,741
Accounts receivable, net	693,826		693,826	
Due from other funds	62,395		62,395	
Other current assets	14,529		14,529	
Total current assets	<u>955,522</u>	<u>28,891</u>	<u>984,413</u>	<u>44,741</u>
Noncurrent assets:				
Bond issue cost	153,373		153,373	
Restricted cash and cash equivalents	429,487		429,487	
Capital assets, net	16,341,182	0	16,341,182	
Total noncurrent assets	<u>16,924,042</u>	<u>0</u>	<u>16,924,042</u>	<u>0</u>
Total Assets	<u>\$ 17,879,564</u>	<u>28,891</u>	<u>17,908,455</u>	<u>44,741</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Claims payable	\$ 4,251		4,251	
Accrued interest payable	56,308		56,308	
Due to other funds	363,987		363,987	
Other payables	18,257		18,257	
Current portion of long-term debt	533,123		533,123	
Total current liabilities	<u>975,926</u>	<u>0</u>	<u>975,926</u>	<u>0</u>
Noncurrent Liabilities:				
Long-term liabilities	7,199,919		7,199,919	
Customer meter deposits payable	481,225		481,225	
Total noncurrent liabilities	<u>7,681,144</u>	<u>0</u>	<u>7,681,144</u>	<u>0</u>
Total Liabilities	<u>8,657,070</u>	<u>0</u>	<u>8,657,070</u>	<u>0</u>
<b>NET ASSETS</b>				
Invested in capital assets net of related debt	8,630,931		8,630,931	
Restricted for capital improvements		28,891	28,891	
Unrestricted	591,563		591,563	44,741
Total Net Assets	<u>\$ 9,222,494</u>	<u>28,891</u>	<u>9,251,385</u>	<u>44,741</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, 2012**

**Exhibit 7**

	<b>Business-type Activity Enterprise Funds</b>		<b>Total</b>	<b>Internal Service Fund</b>
	<b>Water/Sewer</b>	<b>Water/Sewer Improvements</b>		<b>Self-Insurance</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 5,274,110		5,274,110	45,999
City and employee contributions				2,124,360
Total Operating Revenues	<u>5,274,110</u>	<u>0</u>	<u>5,274,110</u>	<u>2,170,359</u>
<b>OPERATING EXPENSES</b>				
Personal services	1,412,035		1,412,035	
Contractual services	386,647		386,647	
Materials and supplies	196,411		196,411	
Maintenance	838,272		838,272	
Utilities	411,820		411,820	
West Rankin charges	1,972,762		1,972,762	
Depreciation expense	887,608		887,608	
Other operating expenses	28,084		28,084	
Medical claim payments and insurance				2,185,724
Total Operating Expenses	<u>6,133,639</u>	<u>0</u>	<u>6,133,639</u>	<u>2,185,724</u>
Operating Income (Loss)	<u>(859,529)</u>	<u>0</u>	<u>(859,529)</u>	<u>(15,365)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Capital grants			0	
Interest income	3,425	272	3,697	98
Interest expense	(279,465)		(279,465)	
Transfers in (out)	(1,091,354)	42,682	(1,048,672)	(677,900)
Other expense	(10,980)		(10,980)	
Other income	9,025		9,025	
Total Nonoperating Revenue (Expenses)	<u>(1,369,349)</u>	<u>42,954</u>	<u>(1,326,395)</u>	<u>(677,802)</u>
Change in Net Assets	(2,228,878)	42,954	(2,185,924)	(693,167)
Total Net Assets - Beginning	<u>11,451,372</u>	<u>(14,063)</u>	<u>11,437,309</u>	<u>737,908</u>
Total Net Assets - Ending	\$ <u>9,222,494</u>	<u>28,891</u>	<u>9,251,385</u>	<u>44,741</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, 2012**

**Exhibit 8**

	<b>Business-type Activity Enterprise Funds</b>		<b>Total</b>	<b>Internal Service Fund</b>
	<b>Water/Sewer</b>	<b>Water/Sewer Improvements</b>		<b>Self-Insurance</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 5,388,979		5,388,979	
Receipts from internal services provided				2,170,359
Payments to suppliers	(5,315,881)		(5,315,881)	
Payments for insurance claims				(2,185,724)
Net Cash Provided (Used) by Operating Activities	<u>73,098</u>	<u>0</u>	<u>79,098</u>	<u>(15,365)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Other revenues	9,025		9,025	
Transfers in (out)/change in interfund payables	(545,602)	(50,000)	(595,602)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(536,577)</u>	<u>(50,000)</u>	<u>(586,577)</u>	<u>0</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	(279,827)		(279,827)	
Principal paid on long-term debt	(521,795)		(521,795)	
Interest expense paid	(282,882)		(282,882)	
Net Cash Provided (Used) by Capital Financing Activities	<u>(1,084,504)</u>	<u>0</u>	<u>(1,084,504)</u>	<u>0</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	<u>3,425</u>	<u>272</u>	<u>3,697</u>	<u>98</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,544,558)	(49,728)	(1,594,286)	(15,267)
Cash and Cash Equivalents - Beginning of Year	<u>2,158,817</u>	<u>78,619</u>	<u>2,237,436</u>	<u>60,008</u>
Cash and Cash Equivalents - End of Year	<u>\$ 614,259</u>	<u>28,891</u>	<u>643,150</u>	<u>44,741</u>

**City of Pearl**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2012**

**(Exhibit 8 Continued)**

	<b>Business-type Activity Enterprise Funds</b>		<b>Total</b>	<b>Internal Service Fund</b>
	<u>Water/Sewer</u>	<u>Water/Sewer Improvements</u>		<u>Self-Insurance</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (859,529)	0	(859,529)	(15,365)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation	887,608		887,608	
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	103,263		103,263	
(Increase) decrease in other current assets	11,606		11,606	
Increase (decrease) in claims payable	(56,228)		(56,228)	
Increase (decrease) in other payables	(13,774)		(13,774)	
Other, net	152		152	
Total adjustments	<u>932,627</u>	<u>0</u>	<u>932,627</u>	<u>0</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 73,098</u>	<u>0</u>	<u>73,098</u>	<u>(15,365)</u>
 Other Non-cash Financing and Investing Activities:				
Proceeds of Capital Lease	\$ 37,134			

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

**City of Pearl  
Statement of Fiduciary Assets and Liabilities  
September 30, 2012**

**Exhibit 9**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 1,305
Total Assets	\$ <u>1,305</u>
<b>LIABILITIES</b>	
Due to school taxing district	\$ 1,305
Total Liabilities	\$ <u>1,305</u>

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

**CITY OF PEARL**

**NOTES TO FINANCIAL STATEMENTS**

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

**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  
For the Year Ended September 30, 2012

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  
For the Year Ended September 30, 2012

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  
For the Year Ended September 30, 2012

Governmental accounting and financial reporting standards allow governments meeting certain criteria to retroactively report major general infrastructure assets by September 30, 2007. The City met those criteria and retroactively reported major general infrastructure assets. 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  
For the Year Ended September 30, 2012

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:

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City classifies governmental fund balances as follows:

**Non-spendable** - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The City has no fund balance reported in this category.

**Restricted** - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The City has \$747,472 reported as restricted fund balances.

**Committed** - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The City has \$2,030,882 reported as committed fund balances.

**Assigned** - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by management other than the highest decision making authority of the City. The City has no fund balance reported in this category.

**Unassigned** - Includes positive fund balance with the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly, unassigned amounts of unrestricted fund balance when expenditures are made.

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

**2. Stewardship, Compliance and Accountability.**

Budgets

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

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

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

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

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 Aldermen, 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.

**3. Detailed Notes on All Funds.**

**A. Deposits.**

At year-end, the City's carrying amount of deposits was \$4,926,703 and the bank balance was \$7,133,862. 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.

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

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.

**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:

	Governmental Activities	Business-type Activities	Total
Receivables:			
Sales tax	\$ 1,363,501		1,363,501
Property taxes	4,844,646		4,844,646
Accounts		751,797	751,797
Fines	2,692,103		2,692,103
From developers	335,164		335,164
Grant	100,967		100,967
Other receivables	35,784	14,527	50,311
HOME grant receivable	474,000		474,000
	<u>9,846,165</u>	<u>766,324</u>	<u>10,612,489</u>
Gross receivables	9,846,165	766,324	10,612,489
Less: allowance for uncollectibles	<u>(2,441,390)</u>	<u>(57,971)</u>	<u>(2,499,361)</u>
Net total receivables	<u>\$ 7,404,775</u>	<u>708,353</u>	<u>8,113,128</u>

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

**C. Capital Assets.**

Capital asset activity for the year ended September 30, 2012, 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	\$ 5,579,367			5,579,367
Construction in progress	4,098,089	2,785,092	(1,280,116)	5,603,065
Total capital assets, not being depreciated	<u>9,677,456</u>	<u>2,785,092</u>	<u>(1,280,116)</u>	<u>11,182,432</u>
Capital assets, being depreciated:				
Buildings	11,869,866	1,364,681		13,234,547
Improvements other than buildings	23,879,081	280,109		24,159,190
Streets	23,056,688			23,056,688
Bridges	668,537			668,537
Machinery and equipment	16,546,314	1,517,448	(196,764)	17,866,998
Total capital assets being depreciated	<u>76,020,486</u>	<u>3,162,238</u>	<u>(196,764)</u>	<u>78,985,960</u>
Less: Accumulated depreciation for:				
Buildings	(2,589,088)	(258,651)		(2,847,739)
Improvements other than buildings	(4,832,433)	(234,772)		(5,067,205)
Streets	(7,396,932)	(800,479)		(8,197,411)
Bridges	(240,676)	(13,371)		(254,047)
Machinery and equipment	(10,132,342)	(1,418,653)	162,127	(11,388,868)
Total accumulated depreciation	<u>(25,191,471)</u>	<u>(2,725,926)</u>	<u>162,127</u>	<u>(27,755,270)</u>
Total capital assets, being depreciated, net	<u>50,829,015</u>	<u>436,312</u>	<u>(34,637)</u>	<u>51,230,690</u>
Governmental activities capital assets, net	<u>\$ 60,506,471</u>	<u>3,221,404</u>	<u>(1,314,753)</u>	<u>62,413,122</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 401,636			401,636
Construction in progress	0			0
Total capital assets, not being depreciated	<u>401,636</u>	<u>0</u>	<u>0</u>	<u>401,636</u>
Capital assets, being depreciated:				
Buildings	92,793			92,793
Water system	14,138,385			14,138,385
Sewer system	21,159,987	279,827		21,439,814
Machinery and equipment	2,126,412	37,134	(144,611)	2,018,935
Total capital assets, being depreciated	<u>37,517,577</u>	<u>316,961</u>	<u>(144,611)</u>	<u>37,689,927</u>
Less: Accumulated depreciation for:				
Buildings	(89,560)	(270)		(89,830)
Water system	(6,453,992)	(335,139)		(6,789,131)
Sewer system	(12,362,020)	(485,233)		(12,847,253)
Machinery and equipment	(2,043,975)	(66,966)	86,774	(2,024,167)
Total accumulated depreciation	<u>(20,949,547)</u>	<u>(887,608)</u>	<u>86,774</u>	<u>(21,750,381)</u>
Total capital assets, being depreciated, net	<u>16,568,030</u>	<u>(570,647)</u>	<u>(57,837)</u>	<u>15,939,546</u>
Business-type activities capital assets, net	<u>\$ 16,969,666</u>	<u>(570,647)</u>	<u>(57,837)</u>	<u>16,341,183</u>

Capital assets, related accumulated depreciation, and lease obligation were transferred from business activities to governmental activities.

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

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

Governmental activities:		
General government		\$ 142,619
Public safety		1,212,442
Public works		952,834
Health and welfare		4,751
Culture and recreation		<u>413,280</u>
Total depreciation expense - governmental activities		<u>\$ 2,725,926</u>
Business-type activities:		
Water and sewer		<u>\$ 887,608</u>
Total depreciation expense - business-type activities		<u>\$ 887,608</u>

**D. Interfund Receivables, Payables and Transfers.**

The composition of interfund balances as of September 30, 2012, is as follows:

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
Police Forfeiture/Seizure	General	\$ 93,033
Water Sewer	General	62,395
Capital Project Bond Fund	General	13,321
Debt Service	Water Sewer	134,871
Other Governmental Funds	Water Sewer	<u>229,116</u>
Total		<u>\$ 532,736</u>

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

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

Interfund Transfers:

Transfers out:	
General Fund	\$ 984,803
Debt Service	171,327
Other Governmental Funds	1,232,788
Water Sewer Fund	1,158,575
Internal Service Fund	<u>677,898</u>
Total transfers out	<u>\$ 4,225,391</u>
Transfers in:	
Debt Service Fund	\$ 797,755
Water Sewer Fund	109,900
Capital Project Bond Fund	574,790
Other Governmental Funds	1,112,534
General Fund	<u>1,630,412</u>
Total transfers in	<u>\$ 4,225,391</u>

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

**E. Leases.**

Operating Leases

In January, 2012, the City entered into an operating lease for golf carts requiring annual payments of \$39,499 which includes personal property tax on the equipment. The term of the lease is 48 months with the first payment made February 8, 2012.

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, 2012:

	Governmental Activities	Business-type Activities
Asset:		
Machinery and equipment	\$ 3,269,917	101,399
Less: Accumulated depreciation	<u>(1,365,558)</u>	<u>(22,993)</u>
Total	<u>\$ 1,904,359</u>	<u>78,406</u>

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012 are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2013	\$ 622,850	35,348
2014	520,136	35,348
2015	304,359	12,852
2016	164,244	
2017	55,841	
2018-2022	<u>279,205</u>	
Total minimum lease payments	1,946,635	83,548
Less: Amount representing interest	<u>(132,692)</u>	<u>(3,045)</u>
Present value of minimum lease payments	<u>\$ 1,813,943</u>	<u>80,503</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%	\$ 26,083,005
Unamortized premium		77,720
Business-type activities	4.65% - 7.5%	3,616,985
Unamortized premium		<u>29,311</u>
Total		<u>\$ 29,807,021</u>

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,302,809	915,126	152,191	164,949
2014	2,329,904	800,674	160,097	158,861
2015	1,871,997	740,807	168,003	152,457
2016	1,682,115	690,208	177,885	145,757
2017	1,669,209	642,118	185,791	138,622
2018-2022	7,440,832	2,489,965	1,079,170	562,915
2023-2027	5,869,357	1,266,573	1,375,645	293,713
2028-2032	<u>2,916,782</u>	<u>233,171</u>	<u>318,203</u>	<u>15,893</u>
Total	<u>\$ 26,083,005</u>	<u>7,778,642</u>	<u>3,616,985</u>	<u>1,633,167</u>

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

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:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 101,000	33,063
2014	106,000	28,028
2015	111,000	22,744
2016	118,000	17,211
2017	121,000	11,329
2018	<u>106,000</u>	<u>5,298</u>
Total	\$ <u>663,000</u>	<u>117,673</u>

Tax Increment Financing Bonds

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

Tax increment financing bond debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 587,771	116,671
2014	524,322	89,654
2015	530,963	64,851
2016	207,697	39,127
2017	224,531	28,980
2018-2022	335,160	28,976
2023	<u>10,436</u>	<u>423</u>
Total	\$ <u>2,420,880</u>	<u>368,682</u>

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

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. Loans currently outstanding are as follows:

<u>Loan Type</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities:		
Capital improvement (CAP)	3.0% - 4.25%	\$ 1,539,467
Mississippi Development Bank - Trustmark	3.02% - 6.15%	<u>5,755,000</u>
Total Governmental Activities		<u>7,294,467</u>
Business-type Activities:		
Capital improvement (CAP)	3.0% - 4.25%	723,544
Mississippi Department of Health Drinking Water Systems Improvements Revolving Loan Fund (DWSIRLF)	3.0%	3,177,746
Mississippi Department of Environmental Quality Revolving Loan Fund	4.5%	<u>82,162</u>
Total Business-type Activities		<u>3,983,452</u>
		<u>\$ 11,277,919</u>

Loan debt service requirements to maturity are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 512,909	346,418	347,419	100,612
2014	520,985	322,322	285,173	89,733
2015	529,297	297,227	280,146	80,916
2016	541,487	272,759	262,235	72,623
2017	565,230	248,202	267,632	64,842
2018-2022	2,904,559	827,208	1,294,087	205,297
2023-2027	1,720,000	146,798	740,970	67,088
2028-2032	<u>                    </u>	<u>                    </u>	<u>505,790</u>	<u>12,002</u>
Total	<u>\$ 7,294,467</u>	<u>2,460,934</u>	<u>3,983,452</u>	<u>693,113</u>

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2012, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 24,871,744	3,000,000	(1,788,739)	26,083,005	2,302,810
Special assessment bonds	759,000		(96,000)	663,000	101,000
Tax increment financing bonds	2,844,544		(423,664)	2,420,880	587,771
Unamortized refunding charges	(131,131)		8,196	(122,935)	
Unamortized premiums	88,867		(11,147)	77,720	
<b>Total bonds payable</b>	<b>28,433,024</b>	<b>3,000,000</b>	<b>(2,311,354)</b>	<b>29,121,670</b>	<b>2,991,581</b>
Capital leases	1,497,705	955,115	(638,877)	1,813,943	580,106
Loans payable	7,811,542		(517,073)	7,294,469	512,909
Compensated absences	323,565	13,927		337,492	
<b>Governmental activity long-term liabilities</b>	<b>\$ 38,065,836</b>	<b>3,969,042</b>	<b>(3,467,304)</b>	<b>38,567,574</b>	<b>4,084,596</b>
<b>Business-type Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 3,763,246		(146,261)	3,616,985	152,191
Unamortized premiums	31,265		(1,954)	29,311	
<b>Total bonds payable</b>	<b>3,794,511</b>	<b>0</b>	<b>(148,215)</b>	<b>3,646,296</b>	<b>152,191</b>
Capital leases	145,382	37,134	(102,013)	80,503	33,563
Loans payable	4,321,239		(337,786)	3,983,453	347,369
Compensated absences	31,147		(8,357)	22,790	
<b>Business-type activity long-term liabilities</b>	<b>\$ 8,292,279</b>	<b>37,134</b>	<b>(596,371)</b>	<b>7,733,042</b>	<b>533,123</b>

Capital assets, related accumulated depreciation, and lease obligation were transferred from business activities to governmental activities.

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, 2012, the amount of outstanding debt was equal to 9.65% of the latest property assessments.

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

**4. Other Information.**

**A. Risk Financing**

The City minimizes its risk of loss for workers compensation, employee health, and property and liability through the purchase of commercial insurance.

**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.

A pledge agreement dated December 1, 2004 was executed between the City and the Trustee in connection with the issuance by the City of Taxable Urban Renewal Revenue Bonds Series 2004A, 2004B and 2004C. Those bonds are described in Note F. The City, in the agreement, has agreed to pay on an annual basis, any revenue deficit up to \$800,000 per year on the combination of amounts owed to Bloomfield Equities, LLC from specific revenues generated from the property so that the amount of \$800,000 per year will be available from the various revenue sources for debt service on the Series 2004A and Series 2004B. In addition, the Rankin County Board of Supervisors entered into an agreement with the City of Pearl to pledge to the City \$320,000 per year for partial payment of the City's obligations described herein. In 2012, the City paid Bloomfield Equities, LLC \$610,863 under this agreement. In 2012, the Rankin County Board of Supervisors paid the City \$320,000.

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 Organizations.**

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.

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, 2011 through September, 2012, the City paid \$1,974,190. For the twelve-month period beginning October 1, 2012, the City's annual financial responsibility will be \$2,474,310.

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

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, 2012, 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 9% of their annual covered salary. The City of Pearl is required to contribute at an actuarially determined rate of 14.26% of covered payroll beginning July 1, 2012. 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, 2012, 2011 and 2010 were \$1,171,177, \$1,035,044, and \$886,796, respectively, equal to the required contributions for each year.

**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, 2012, the principal amount payable was \$3,685,000, which is the original issue amount. The bonds are in default. On November 14, 2011, the trustee was directed by the District Court of Minnesota to sell the property and disburse the proceeds in full settlement of the outstanding debt.

CITY OF PEARL  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

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	\$ 21,935,000
Taxable Urban Renewal Revenue Bond, Series 2004 B-1, B-2 and B-3 Refunded in 2012	12/30/2004	11/1/2024	\$ 22,000,000	\$ 18,250,000

**G. Commitments.**

In 2012, the City entered into a contract for construction of an access road, site development and rail spur related to the Scotts Miracle Grow-Gulf Line Road Project. The total contract cost of construction was \$392,336. At year-end, the commitment due on the construction contract was \$297,307.

A pledge agreement dated December 1, 2004 was executed between the City and the Trustee in connection with the issuance by the City of Taxable Urban Renewal Revenue Bonds Series 2004A, 2004B and 2004C as described in Note F. The City, in the agreement, has agreed to pay Bloomfield Equities, LLC \$150,000 per year during the last ten (10) years of the initial term of the agreement, such payments commencing on January 1, 2015, with such amounts to be used for debt service on the Series 2004A and 2004B bonds.

**H. Other Postemployment Benefits.**

The City, through a commercial insurance carrier, 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  
Notes to the Financial Statements  
For the Year Ended September 30, 2012

**I. Subsequent Events.**

The City has evaluated events and transactions for potential recognition or disclosure through May 8, 2013, which is the date the financial statements were available to be issued.

As of May 8, 2013, the City issued the following debt obligations:

A lease/purchase agreement with Hancock Bank for the acquisition of vehicles with interest of 1.59% issued March 6, 2013, in the amount of \$123,586, to be financed with General Fund revenues.

A negotiable note with Community Bank maturing on March 19, 2018, with interest of 1.238% issued March 19, 2013, in the amount of \$505,000, to be financed with ad valorem taxes.

**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, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Taxes	\$ 1,876,538	1,923,835	1,923,835	
Licenses and permits	275,000	224,608	224,608	
Fines and forfeitures	1,350,000	1,729,657	1,729,657	
Intergovernmental revenues	10,215,000	10,575,790	10,575,790	
Charges for services	1,437,500	1,312,477	1,312,477	
Miscellaneous revenues	1,693,039	610,626	610,626	
Total Revenues	<u>16,847,077</u>	<u>16,376,993</u>	<u>16,376,993</u>	<u>0</u>
<b>EXPENDITURES</b>				
General government	3,958,336	2,661,704	2,661,704	
Public safety	9,536,605	9,054,023	9,054,023	
Public works	3,088,351	2,734,023	2,734,023	
Health and welfare	554,545	454,436	454,436	
Culture and recreation	1,622,827	1,301,210	1,301,210	
Total Expenditures	<u>18,760,664</u>	<u>16,205,396</u>	<u>16,205,396</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(1,913,587)</u>	<u>171,597</u>	<u>171,597</u>	<u>0</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of note				
Transfers in		1,630,412	1,630,412	
Transfers out		(984,803)	(984,803)	
Total Other Financing Sources and Uses	<u>0</u>	<u>645,609</u>	<u>645,609</u>	<u>0</u>
Net Change in Fund Balance	(1,913,587)	817,206	817,206	0
Fund Balances - Beginning	<u>139,267</u>	<u>139,267</u>	<u>139,267</u>	<u>0</u>
Fund Balances - Ending	<u>\$ (1,774,320)</u>	<u>956,473</u>	<u>956,473</u>	<u>0</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, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Intergovernmental revenues	\$ 150,000	456,246	456,246	
Interest income		10,935	10,935	
Miscellaneous revenues		31,608	31,608	
Total Revenues	<u>150,000</u>	<u>498,789</u>	<u>498,789</u>	<u>0</u>
<b>EXPENDITURES</b>				
Public safety	<u>797,498</u>	<u>1,374,006</u>	<u>1,374,006</u>	
Total Expenditures	<u>797,498</u>	<u>1,374,006</u>	<u>1,374,006</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(647,498)</u>	<u>(875,217)</u>	<u>(875,217)</u>	<u>0</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other financing sources				
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	(647,498)	(875,217)	(875,217)	0
Fund Balances - Beginning	<u>1,622,689</u>	<u>1,622,689</u>	<u>1,622,689</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 975,191</u>	<u>747,472</u>	<u>747,472</u>	<u>0</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, 2012

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:

	Governmental Fund Types	
	General Fund	Police Forfeiture/ Seizure Fund
Net Changes in Fund Balance - Budget (Cash Basis)	\$ 817,206	(875,217)
Increase (decrease):		
Net adjustments for revenue and expense accruals	22,575	
Net Change in Fund Balance GAAP Basis	\$ 839,781	(875,217)

**CITY OF PEARL**

**SUPPLEMENTAL INFORMATION**

**City of Pearl**  
**Schedule of Surety Bonds For Municipal Officials**  
**For the Year Ended September 30, 2012**

<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**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2012**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Identification Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
<b>Major Federal Awards:</b>				
U. S. Department of Housing and Urban Development/Mississippi Development Authority/Community Development Block Grant/Senior Citizens Building	14.228	CDBG 2010	1127-10-293-PF-01	\$ 316,462
U. S. Department of Housing and Urban Development/Mississippi Development Authority/Community Development Block Grant/Scotts Miracle Grow	14.228	CDBG 2010	1127-10-293-ED-01	<u>164,090</u>
<b>Total Expenditures of Major Federal Awards</b>				<u>480,552</u>
<b>Other Federal Awards:</b>				
Office of National Drug Policy HIDTA Grant	07.UNK	G11GC0003A		33,446
U. S. Department of Transportation/ Mississippi Department of Public Safety/ 402 Traffic Services Grant	20.600	NHTSA-402	12PT3191	51,378
U. S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	10.565	378M47	378M47	1,858
U. S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	10.565	379M47	379M47	3,999
U. S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	93.045	378M47	378M47	7,684
U. S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	93.045	379M47	379M47	13,306
U. S. Department of Energy/Mississippi Development Authority, Energy Division/ Energy Efficiency and Conservation Block Grant - ARRA	81.128	ARRA-EECBG 2009	DE-EE0000763	60,400
U. S. Department of Homeland Security/ Mississippi Department of Public Safety/ Homeland Security Grant	97.067		09LE293	<u>17,487</u>
<b>Total Expenditures of Other Federal Awards</b>				<u>189,558</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 670,110</u>

**City of Pearl**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2012**

**(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*

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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, each major fund and the aggregate remaining fund information of City of Pearl, Mississippi, as of and for the year ended September 30, 2012 which collectively comprise City of Pearl, Mississippi's basic financial statements and have issued our report thereon dated May 8, 2013. 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.

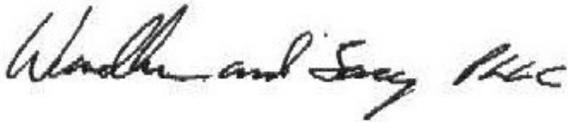
Our consideration of the internal controls over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses 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 12-1 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 8, 2013

# Windham and Lacey, PLLC

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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, 2012. 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, 2012.

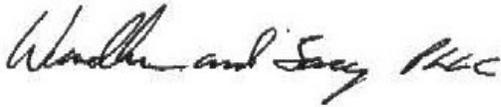
### Internal Control Over Compliance

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 control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 8, 2013

# Windham and Lacey, PLLC

*Certified Public Accountants*

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

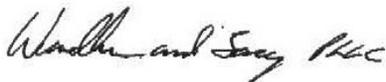
Honorable Mayor and  
Members of the Board of Aldermen  
City of Pearl, Mississippi

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, 2012, and have issued our report thereon dated May 8, 2013. 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 8, 2013

**CITY OF PEARL**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF PEARL  
 Schedule of Findings and Questioned Costs  
 For the Year Ended September 30, 2012

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   |
|    | Capital Project Fund  | Unqualified   |
|    | Aggregate remaining fund information  | Unqualified   |
| 2. | Internal control over financial reporting:  |               |
|    | a. Material weakness 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 Housing and Urban Development/<br>Community Development Block Grant, CFDA #14.228 |               |

CITY OF PEARL  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2012

- |     |   |           |
|-----|---|-----------|
| 8.  | The dollar threshold used to distinguish between type A and type B programs:  | \$300,000 |
| 9.  | Auditee qualified as a low-risk auditee?  | Yes       |
| 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

12 - 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.