

**CITY OF PEARL, MISSISSIPPI**

**Audited Financial Statements and  
Special Reports  
For the Year Ended September 30, 2011**

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, 2011, 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, 2011, 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, 2011, 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 24, 2012, on our consideration of City of Pearl, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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



Windham and Lacey, PLLC  
May 24, 2012

## **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, 2011**

**Exhibit 1**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and investments	\$ 8,811,003	1,970,889	10,781,892
Property tax receivable	4,770,952		4,770,952
Fines receivable (net of allowance for uncollectibles of \$2,270,177)	303,563		303,563
Accounts receivable, net		797,089	797,089
Other receivables	382,040		382,040
Internal balances	(174,287)	174,287	
Other current assets		26,135	26,135
Sales tax receivable	1,273,712		1,273,712
Total current assets	<u>15,366,983</u>	<u>2,968,400</u>	<u>18,335,383</u>
<b>Noncurrent Assets:</b>			
Restricted cash		266,547	266,547
Home grant receivable	474,000		474,000
Bond issue costs	587,172	164,353	751,525
Capital assets, net	60,506,471	16,969,667	77,476,138
Total noncurrent assets	<u>61,567,643</u>	<u>17,400,567</u>	<u>78,968,210</u>
Total Assets	<u>\$ 76,934,626</u>	<u>20,368,967</u>	<u>97,303,593</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Claims payable	\$ 660,304	60,479	720,783
Accrued interest payable	372,986	57,770	430,756
Deferred revenue	4,584,723		4,584,723
Unearned revenue	265,001		265,001
Other payables		32,031	32,031
Current portion of long-term debt	3,437,596	541,373	3,978,969
Total current liabilities	<u>9,320,610</u>	<u>691,653</u>	<u>10,012,263</u>
<b>Noncurrent Liabilities:</b>			
Long-term liabilities due in more than one year	34,628,240	7,750,905	42,379,145
Customer meter deposits payable		489,100	489,100
Escrowed seizure funds payable	1,488,607		1,488,607
Total noncurrent liabilities	<u>36,116,847</u>	<u>8,240,005</u>	<u>44,356,852</u>
Total Liabilities	<u>45,437,457</u>	<u>8,931,658</u>	<u>54,369,115</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	22,764,200	8,708,535	31,472,735
Restricted for:			
Debt service	773,882		773,882
Public safety	1,622,690		1,622,690
Public works	957,056		957,056
Capital improvements	3,771,842	532,590	4,304,432
Unrestricted	1,607,499	2,196,184	3,803,683
Total Net Assets	<u>\$ 31,497,169</u>	<u>11,437,309</u>	<u>42,934,478</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, 2011

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	\$ 3,029,236				(3,029,236)		(3,029,236)
Public safety	10,018,712	1,200,996	1,018,431	325,789	(7,473,496)		(7,473,496)
Public works	8,153,091	1,392,754		299,603	(6,460,734)		(6,460,734)
Health and welfare	475,119	198,526			(276,593)		(276,593)
Culture and recreation	1,651,945	1,176,473			(475,472)		(475,472)
Interest on long-term debt	1,655,921				(1,655,921)		(1,655,921)
Total Governmental Activities	<u>24,984,024</u>	<u>3,968,749</u>	<u>1,018,431</u>	<u>625,392</u>	<u>(19,371,452)</u>	<u>0</u>	<u>(19,371,452)</u>
Business-type Activities:							
Water/Sewer	<u>6,183,048</u>	<u>5,644,974</u>				(538,074)	(538,074)
Total Business-type Activities	<u>6,183,048</u>	<u>5,644,974</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(538,074)</u>	<u>(538,074)</u>
Total Primary Government	\$ <u>31,167,072</u>	<u>9,613,723</u>	<u>1,018,431</u>	<u>625,392</u>	<u>(19,371,452)</u>	<u>(538,074)</u>	<u>(19,909,526)</u>
General Revenues							
Taxes:							
Property taxes					\$ 4,816,941		4,816,941
Road & bridge privilege taxes					947,685		947,685
Other revenue from developer					85,164		85,164
Sales tax					7,659,258		7,659,258
Franchise taxes					778,294		778,294
Grants and contributions not restricted to specific programs					378,313		378,313
Unrestricted investment income					51,666	14,315	65,981
Miscellaneous					481,048	13,822	494,870
Transfers					556,612	(556,612)	
Total General Revenues					<u>15,754,981</u>	<u>(528,475)</u>	<u>15,226,506</u>
Change in net assets					(3,616,471)	(1,066,549)	(4,683,020)
Net Assets - Beginning					<u>35,113,640</u>	<u>12,503,858</u>	<u>47,617,498</u>
Net Assets - Ending					\$ <u>31,497,169</u>	<u>11,437,309</u>	<u>42,934,478</u>

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

City of Pearl  
 Balance Sheet  
 Governmental Funds  
 September 30, 2011

**Exhibit 3**

	<b>Major Governmental Funds</b>				<b>Other 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 Fund</b>		
<b>ASSETS</b>						
Cash and investments	\$ 145,001	3,018,503	1,096,546	3,132,294	1,358,651	8,750,995
Property tax receivable	1,953,047		2,496,218		321,687	4,770,952
Fines receivable (net of allowance for uncollectibles of \$2,270,177)	303,563					303,563
Sales tax receivable	1,273,712					1,273,712
Other receivables	109,387				186,552	295,939
Due from other funds	335,450	93,033			348,593	777,076
Total Assets	<u>\$ 4,120,160</u>	<u>3,111,536</u>	<u>3,592,764</u>	<u>3,132,294</u>	<u>2,215,483</u>	<u>16,172,237</u>
<b>LIABILITIES &amp; FUND BALANCES</b>						
Liabilities:						
Claims payable	\$ 549,346	240			110,718	660,304
Due to other taxing units	30,139					30,139
Due to other funds	956,306			77,509	595,448	1,629,263
Other liabilities	265,001		946			265,947
State and federal seized funds escrow		1,488,607				1,488,607
Deferred revenue	2,180,101		2,398,983		309,202	4,888,286
Total Liabilities	<u>3,980,893</u>	<u>1,488,847</u>	<u>2,399,929</u>	<u>77,509</u>	<u>1,015,368</u>	<u>8,962,546</u>
Fund Balances:						
Restricted:						
Public safety		1,622,689				1,622,689
Capital improvements					272,078	272,078
Committed:						
Debt service			1,192,835			1,192,835
Public works					957,056	957,056
Public safety					295,811	295,811
Capital projects				3,054,785		3,054,785
Unassigned	139,267				(324,830)	(185,563)
Total Fund Balances	<u>139,267</u>	<u>1,622,689</u>	<u>1,192,835</u>	<u>3,054,785</u>	<u>1,200,115</u>	<u>7,209,691</u>
Total Liabilities and Fund Balances	<u>\$ 4,120,160</u>	<u>3,111,536</u>	<u>3,592,764</u>	<u>3,132,294</u>	<u>2,215,483</u>	

**City of Pearl  
Balance Sheet  
Governmental Funds  
September 30, 2011**

**(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, 2010	\$ 57,165,389	
Plus capital outlay expenditures made during the year	5,686,380	
Less depreciation expense recorded during the year	(2,324,057)	
Less assets disposed (net)	<u>(21,241)</u>	60,506,471
Receivable from developer		85,164
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.		303,563
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.		587,172
Deferred loss on debt extinguishment		131,131
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.		737,908
Amounts charged to business-type activities by the internal service fund are due to governmental activities.		32,022
Accrued interest payable is not a current liability payable from current assets.		(372,986)
Liabilities not due and payable in the current period are not reported in the funds:		
Long-term liabilities		<u>(38,196,967)</u>
Net Assets of Governmental Activities		<u>\$ 31,497,169</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, 2011**

**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	\$ 2,002,882		2,507,486		306,574	4,816,942
Road & bridge privilege tax	947,685					947,685
Licenses and permits	197,737					197,737
Fines and forfeitures	1,097,157					1,097,157
Intergovernmental revenues	9,235,883	425,987	350,710		447,108	10,459,688
Charges for services	1,314,351				1,392,754	2,707,105
Interest income	8,026	25,776	10,168		7,404	51,374
Miscellaneous	328,738	44,480	262,582			635,800
Total Revenues	<u>15,132,459</u>	<u>496,243</u>	<u>3,130,946</u>	<u>0</u>	<u>2,153,840</u>	<u>20,913,488</u>
<b>EXPENDITURES</b>						
Current:						
General government	2,909,520					2,909,520
Public safety	10,489,238	1,798,094				12,287,332
Public works	2,879,152			4,293,890	2,359,525	9,532,567
Health and welfare	468,808					468,808
Culture and recreation	1,458,739					1,458,739
Debt service:						
Bond issue cost			127,444			127,444
Principal	246,887	91,998	2,422,687		411,087	3,172,659
Interest	31,202	4,904	1,736,418		42,535	1,815,059
Total Expenditures	<u>18,483,546</u>	<u>1,894,996</u>	<u>4,286,549</u>	<u>4,293,890</u>	<u>2,813,147</u>	<u>31,772,128</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,351,087)</u>	<u>(1,398,753)</u>	<u>(1,155,603)</u>	<u>(4,293,890)</u>	<u>(659,307)</u>	<u>(10,858,640)</u>

**City of Pearl**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2011**

**(Exhibit 4 Continued)**

	<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>Other Financing Sources (Uses)</b>						
Proceed of capital lease	585,443	361,305			104,750	1,051,498
Proceeds of refunding bonds			4,503,948			4,503,948
Payment of refunded bonds			(4,215,000)			(4,215,000)
Proceeds of loan	1,581,962					1,581,962
Transfers in	742,495		455,704		833,648	2,031,847
Transfers out	(1,232,740)			(242,495)		(1,475,235)
Total Other Financing Sources and Uses	<u>1,677,160</u>	<u>361,305</u>	<u>744,652</u>	<u>(242,495)</u>	<u>938,398</u>	<u>3,479,020</u>
Net Change in Fund Balances	(1,673,927)	(1,037,448)	(410,951)	(4,536,385)	279,091	(7,379,620)
Fund Balances - Beginning	<u>1,813,194</u>	<u>2,660,137</u>	<u>1,603,786</u>	<u>7,591,170</u>	<u>921,023</u>	<u>14,589,310</u>
Fund Balances - Ending	<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>

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, 2011**

**Exhibit 5**

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4) \$ (7,379,620)

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 (\$5,686,380) exceeded depreciation (\$2,324,057) and asset disposals (\$21,241) in the current period. 3,341,082

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. 95,830

The change in the amounts due from developers was not recognized as revenue in the fund in the current period. (177,418)

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 (\$7,137,418) was exceeded by debt repayment (\$7,387,659). 250,241

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 175,781  
 Change in compensated absences (29,752)  
 Bond issue costs recorded as expenditures 127,444

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 (59,787)  
 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. 40,617

Change in due from business-type activities to governmental activities for internal service fund costs. (3,840)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ (3,616,471)

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

**City of Pearl  
Statement of Net Assets  
Proprietary Funds  
September 30, 2011**

**Exhibit 6**

	<b>Business-type Activity Enterprise Funds</b>			<b>Internal Service Fund</b>
	<b>Water/Sewer</b>	<b>Water/Sewer Improvements</b>	<b>Total</b>	<b>Self-Insurance</b>
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 1,892,270	78,619	1,970,889	60,008
Accounts receivable, net	797,089		797,089	
Intergovernmental receivable				
Due from other funds	598,039		598,039	677,900
Other current assets	26,135		26,135	
Total current assets	<u>3,313,533</u>	<u>78,619</u>	<u>3,392,152</u>	<u>737,908</u>
Noncurrent assets:				
Bond issue cost	164,353		164,353	
Restricted cash and cash equivalents	266,547		266,547	
Capital assets, net	16,969,667		16,969,667	
Total noncurrent assets	<u>17,400,567</u>	<u>0</u>	<u>17,400,567</u>	<u>0</u>
Total Assets	<u>\$ 20,714,100</u>	<u>78,619</u>	<u>20,792,719</u>	<u>737,908</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Claims payable	\$ 60,479		60,479	
Accrued interest payable	57,770		57,770	
Due to other funds	331,070	92,682	423,752	
Other payables	32,031		32,031	
Current portion of long-term debt	541,373		541,373	
Total current liabilities	<u>1,022,723</u>	<u>92,682</u>	<u>1,115,405</u>	<u>0</u>
Noncurrent Liabilities:				
Long-term liabilities	7,750,905		7,750,905	
Customer meter deposits payable	489,100		489,100	
Total noncurrent liabilities	<u>8,240,005</u>	<u>0</u>	<u>8,240,005</u>	<u>0</u>
Total Liabilities	<u>\$ 9,262,728</u>	<u>92,682</u>	<u>9,355,410</u>	<u>0</u>
<b>NET ASSETS</b>				
Invested in capital assets net of related debt	\$ 8,708,535		8,708,535	
Restricted for capital improvements	546,653	(14,063)	532,590	
Unrestricted	2,196,184		2,196,184	737,908
Total Net Assets	<u>\$ 11,451,372</u>	<u>(14,063)</u>	<u>11,437,309</u>	<u>737,908</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, 2011**

**Exhibit 7**

	<b>Business-type Activity</b>			<b>Internal Service Fund</b>
	<b>Enterprise Funds</b>			
	<u>Water/Sewer</u>	<u>Water/Sewer Improvements</u>	<u>Total</u>	<u>Self-Insurance</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 5,644,974		5,644,974	183,934
City and employee contributions				1,946,627
Total Operating Revenues	<u>5,644,974</u>	<u>0</u>	<u>5,644,974</u>	<u>2,130,561</u>
<b>OPERATING EXPENSES</b>				
Personal services	1,367,459		1,367,459	
Contractual services	475,380		475,380	
Materials and supplies	181,959		181,959	
Maintenance	593,028		593,028	
Utilities	477,951		477,951	
West Rankin charges	1,936,520		1,936,520	
Depreciation expense	840,797		840,797	
Other operating expenses	27,418		27,418	
Medical claim payments and insurance				2,087,328
Total Operating Expenses	<u>5,900,512</u>	<u>0</u>	<u>5,900,512</u>	<u>2,087,328</u>
Operating Income (Loss)	<u>(255,538)</u>	<u>0</u>	<u>(255,538)</u>	<u>43,233</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Capital grants			0	
Interest income	13,631	684	14,315	292
Interest expense	(271,556)		(271,556)	
Transfers in (out)	(518,316)	(38,296)	(556,612)	
Other income	13,822		13,822	
Other expenses	(10,980)		(10,980)	(2,908)
Total Nonoperating Revenue (Expenses)	<u>(773,399)</u>	<u>(37,612)</u>	<u>(811,011)</u>	<u>(2,616)</u>
Change in Net Assets	(1,028,936)	(37,612)	(1,066,548)	40,617
Total Net Assets - Beginning	<u>12,480,308</u>	<u>23,549</u>	<u>12,503,857</u>	<u>697,291</u>
Total Net Assets - Ending	\$ <u><u>11,451,372</u></u>	<u><u>(14,063)</u></u>	<u><u>11,437,309</u></u>	<u><u>737,908</u></u>

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

**City of Pearl**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2011**

**Exhibit 8**

	<b>Business-type Activity Enterprise Funds</b>			<b>Internal Service Fund</b>
	<b>Water/Sewer</b>	<b>Water/Sewer Improvements</b>	<b>Total</b>	<b>Self-Insurance</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 5,515,418		5,515,418	
Receipts from internal services provided				2,130,561
Receipts from (payments to) other funds	293,314		293,314	(155,483)
Payments to suppliers	(5,068,040)		(5,068,040)	
Payments for insurance claims				(2,087,328)
Net Cash Provided (Used) by Operating Activities	<u>740,692</u>	<u>0</u>	<u>740,692</u>	<u>(112,250)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Other revenues	13,882		13,882	
Transfers (in) out	(556,612)		(556,612)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(542,730)</u>	<u>0</u>	<u>(542,730)</u>	<u>0</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition and construction of capital assets	(16,553)	(388,698)	(405,251)	
Issuance of long-term debt		388,698	388,698	
Principal paid on long-term debt	(441,548)		(441,548)	
Interest expense paid	(270,746)		(270,746)	
Net Cash Provided (Used) by Capital Financing Activities	<u>(728,847)</u>	<u>0</u>	<u>(728,847)</u>	<u>0</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	<u>13,631</u>	<u>685</u>	<u>14,316</u>	<u>292</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(517,254)	685	(516,569)	(111,958)
Cash and Cash Equivalents - Beginning of Year	<u>2,676,071</u>	<u>77,934</u>	<u>2,754,005</u>	<u>171,966</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,158,817</u>	<u>78,619</u>	<u>2,237,436</u>	<u>60,008</u>

**City of Pearl  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended September 30, 2011**

**(Exhibit 8 Continued)**

	<b>Business-type Activity Enterprise Funds</b>			<b>Internal Service Fund</b>
	<b>Water/Sewer</b>	<b>Water/Sewer Improvements</b>	<b>Total</b>	<b>Self-Insurance</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (255,537)	0	(255,537)	43,233
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation	840,797		840,797	
Amortization			0	
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(116,186)		(116,186)	
(Increase) decrease in other current assets	(13,371)		(13,371)	
(Increase) decrease in due from other funds	(3,934)		(3,934)	(151,977)
Increase (decrease) in claims payable	9,417		9,417	(598)
Increase (decrease) in due to other funds	294,858		294,858	
Increase (decrease) in other payables	(15,569)		(15,569)	
Increase (decrease) in compensated absences	(2,747)		(2,747)	
Other, net	2,964		2,964	(2,908)
Total adjustments	996,229	0	996,229	(155,483)
Net Cash Provided (Used) by Operating Activities	\$ 740,692	0	740,692	(112,250)
 Other Non-cash Financing and Investing Activities:				
Proceeds of capital lease	\$ 128,530			

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

**City of Pearl  
Statement of Fiduciary Assets and Liabilities  
September 30, 2011**

**Exhibit 9**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 1,056
Total Assets	<u>\$ 1,056</u>
<b>LIABILITIES</b>	
Due to school taxing district	\$ 1,056
Total Liabilities	<u>\$ 1,056</u>

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

**CITY OF PEARL**

**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies.**

**A. Financial Reporting Entity.**

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

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

There are no other potential component units.

**B. Government-wide and Fund Financial Statements.**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

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

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

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major Proprietary Funds:

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

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

Additionally the City reports the following fund types:

#### PROPRIETARY FUND TYPES

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

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

#### FIDUCIARY FUND TYPE

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

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

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

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

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

**D. Assets, Liabilities and Net Assets or Equity.**

*1. Deposits.*

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

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

*2. Receivables and Payables.*

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

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

*3. Restricted Assets.*

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

*4. Capital Assets.*

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

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

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:

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

5. *Compensated Absences.*

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

6. *Long-term Liabilities.*

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

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

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

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 \$1,894,767 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 \$5,500,487 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  
September 30, 2011

**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 \$11,049,494 and the bank balance was \$12,514,645. 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  
September 30, 2011

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	\$ 1,273,712		1,273,712
Property taxes	4,770,953		4,770,953
Accounts		856,223	856,223
Fines	2,573,740		2,573,740
From developers	85,164		85,164
Grant	258,592		258,592
Other receivables	38,283	26,135	64,418
HOME grant receivable	474,000		474,000
Gross receivables	9,474,444	882,358	10,356,802
Less: allowance for uncollectibles	(2,270,177)	(59,134)	(2,329,311)
Net total receivables	\$ 7,204,267	823,224	8,027,491

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

	Unavailable	Unearned
Unearned cash court bonds	\$	265,001
Property taxes receivable: General Fund	1,953,047	
Debt service fund	2,496,218	
Garbage and rubbish fund	321,687	
Total deferred/unearned revenue for governmental funds	\$ 4,770,952	265,001

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

**C. Capital Assets.**

Capital asset activity for the year ended September 30, 2011, 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	\$ 5,366,183	213,184		5,579,367
Construction in progress	<u>2,484,177</u>	<u>1,879,887</u>	<u>(265,975)</u>	<u>4,098,089</u>
Total capital assets, not being depreciated	<u>7,850,360</u>	<u>2,093,071</u>	<u>(265,975)</u>	<u>9,677,456</u>
Capital assets, being depreciated:				
Buildings	11,568,198	301,668		11,869,866
Improvements other than buildings	23,468,431	410,650		23,879,081
Streets	23,056,688			23,056,688
Bridges	668,537			668,537
Machinery and equipment	<u>13,611,755</u>	<u>3,146,966</u>	<u>(212,407)</u>	<u>16,546,314</u>
Total capital assets being depreciated	<u>72,373,609</u>	<u>3,859,284</u>	<u>(212,407)</u>	<u>76,020,486</u>
Less: Accumulated depreciation for:				
Buildings	(2,352,610)	(236,478)		(2,589,088)
Improvements other than buildings	(4,616,802)	(215,631)		(4,832,433)
Streets	(6,596,453)	(800,479)		(7,396,932)
Bridges	(227,305)	(13,371)		(240,676)
Machinery and equipment	<u>(9,265,410)</u>	<u>(1,058,098)</u>	<u>191,166</u>	<u>(10,132,342)</u>
Total accumulated depreciation	<u>(23,058,580)</u>	<u>(2,324,057)</u>	<u>191,166</u>	<u>(25,191,471)</u>
Total capital assets, being depreciated, net	<u>49,315,029</u>	<u>1,535,227</u>	<u>(21,241)</u>	<u>50,829,015</u>
Governmental activities capital assets, net	<u>\$ 57,165,389</u>	<u>3,628,298</u>	<u>(287,216)</u>	<u>60,506,471</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 401,636			401,636
Construction in progress	<u>2,364,121</u>	<u>335,630</u>	<u>(2,699,751)</u>	<u>401,636</u>
Total capital assets, not being depreciated	<u>2,765,757</u>	<u>335,630</u>	<u>(2,699,751)</u>	<u>401,636</u>
Capital assets, being depreciated:				
Buildings	92,793			92,793
Water system	11,438,634	2,699,751		14,138,385
Sewer system	21,159,987			21,159,987
Machinery and equipment	<u>1,981,329</u>	<u>145,083</u>		<u>2,126,412</u>
Total capital assets, being depreciated	<u>34,672,743</u>	<u>2,844,834</u>	<u>0</u>	<u>37,517,577</u>
Less: Accumulated depreciation for:				
Buildings	(89,290)	(270)		(89,560)
Water system	(6,165,086)	(288,906)		(6,453,992)
Sewer system	(11,882,170)	(479,850)		(12,362,020)
Machinery and equipment	<u>(1,972,204)</u>	<u>(71,771)</u>		<u>(2,043,975)</u>
Total accumulated depreciation	<u>(20,108,750)</u>	<u>(840,797)</u>	<u>0</u>	<u>(20,949,547)</u>
Total capital assets, being depreciated, net	<u>14,563,993</u>	<u>2,004,037</u>	<u>0</u>	<u>16,568,030</u>
Business-type activities capital assets, net	<u>\$ 17,329,750</u>	<u>2,339,667</u>	<u>(2,699,751)</u>	<u>16,969,666</u>

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

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

Governmental activities:		
General government		\$ 138,226
Public safety		872,182
Public works		925,071
Health and welfare		4,862
Culture and recreation		<u>383,716</u>
Total depreciation expense - governmental activities		<u>\$ 2,324,057</u>
Business-type activities:		
Water and sewer		<u>\$ 840,797</u>
Total depreciation expense - business-type activities		<u>\$ 840,797</u>

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

The composition of interfund balances as of September 30, 2011, is a follows:

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Police Forfeiture/Seizure	General	\$ 93,033
Water Sewer	Other Governmental Funds	592,890
Water Sewer	General	5,149
Internal Service	Water Sewer	17,218
Internal Service	Other Governmental Funds	2,558
Internal Service	General	658,124
General	Capital Project	77,509
Other Governmental Funds	General	200,000
General	Water Sewer	257,941
Other Governmental Funds	Water Sewer Improvements	92,682
Other Governmental Funds	Water Sewer	<u>55,911</u>
Total		<u>\$ 2,053,015</u>

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

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Interfund Transfers:

Transfer out:		
General Fund	\$	1,232,740
Other Governmental		242,495
Water Sewer Fund		<u>556,612</u>
Total Transfers Out	\$	<u><u>2,031,847</u></u>
Transfer In:		
Debt Service Fund	\$	455,704
Other Governmental Funds		833,648
General Fund		<u>742,495</u>
Total Transfers In	\$	<u><u>2,031,847</u></u>

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

**E. Leases.**

Operating Leases

The City has no material operating leases.

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of various equipment in both the governmental activities and business-type activities. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The City is obligated for the following capital assets acquired through capital leases as of September 30, 2011:

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

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2011 are as follows:

<u>Year Ending September 30</u>	<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Activities</u>
2012	\$ 655,306	62,087
2013	404,397	44,994
2014	301,683	44,994
2015	108,404	
2016	<u>108,404</u>	
Total minimum lease payments	1,578,194	152,075
Less: Amount representing interest	<u>(80,490)</u>	<u>(6,693)</u>
Present value of minimum lease payments	<u><u>\$ 1,497,704</u></u>	<u><u>145,382</u></u>

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

**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%	\$ 24,871,744
Unamortized premium		88,867
Business-type activities	4.65% - 7.5%	3,763,246
Unamortized premium		<u>31,265</u>
<b>Total</b>		<b>\$ <u>28,755,122</u></b>

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>
2012	\$ 1,788,740	847,509	146,261	170,799
2013	2,182,809	778,491	152,191	164,949
2014	2,209,904	712,384	160,097	158,861
2015	1,751,997	654,917	168,003	152,457
2016	1,557,115	606,768	177,885	145,757
2017-2021	6,842,215	2,356,775	1,027,781	607,609
2022-2026	5,609,585	1,229,123	1,310,420	356,610
2027-2030	<u>2,929,379</u>	<u>257,084</u>	<u>620,608</u>	<u>46,924</u>
<b>Total</b>	<b>\$ <u>24,871,744</u></b>	<b><u>7,443,051</u></b>	<b><u>3,763,246</u></b>	<b><u>1,803,966</u></b>

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.

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

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>
2012	\$ 96,000	29,460
2013	101,000	33,063
2014	106,000	28,028
2015	111,000	22,744
2016	118,000	17,211
2017-2019	<u>227,000</u>	<u>16,627</u>
Total	\$ <u>759,000</u>	<u>147,133</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>
2012	\$ 423,302	87,716
2013	587,771	116,671
2014	524,322	89,654
2015	530,963	64,851
2016	207,697	39,127
2017-2021	549,737	57,126
2022-2023	<u>20,752</u>	<u>1,253</u>
Total	\$ <u>2,844,544</u>	<u>456,398</u>

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

Loans Payable

The City has received several loans from the State of Mississippi and banks to finance various projects including infrastructure, fire stations and water/sewer improvements. These loans are made under various programs, some of which have federal participation. New loans made during the current year total \$1,917,593. 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%	\$ 1,761,542
Mississippi Development Bank - Trustmark	3.02% - 6.15%	6,050,000
Total governmental activities		<u>7,811,542</u>
Business-type activities		
Capital Improvement (CAP)	3.0% - 4.25%	867,290
Mississippi Department of Health Drinking Water Systems Improvements Revolving Loan Fund (DWSIRLF)	3.0%	3,347,492
Mississippi Department of Environmental Quality Revolving Loan Fund	4.5%	106,457
Total business-type activities		<u>4,321,239</u>
Total		<u>\$ 12,132,781</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>
2012	\$ 511,574	373,024	336,466	111,568
2013	523,002	348,220	347,419	100,616
2014	520,985	322,322	301,044	89,737
2015	526,998	297,227	280,146	80,920
2016	541,487	272,759	262,235	72,627
2017-2021	2,957,496	967,117	1,333,368	243,054
2022-2026	2,230,000	256,411	802,632	86,208
2027-2031			657,929	19,996
Total	<u>\$ 7,811,542</u>	<u>2,837,080</u>	<u>4,321,239</u>	<u>804,726</u>

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2011, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 25,983,389	4,455,000	(5,566,645)	24,871,744	1,788,740
Special assessment bonds	850,000		(91,000)	759,000	96,000
Tax increment financing bonds	3,545,825		(701,281)	2,844,544	423,302
Unamortized refunding charges	(139,327)		8,196	(131,131)	
Unamortized premiums	51,066	48,948	(11,147)	88,867	
	<u>30,290,953</u>	<u>4,503,948</u>	<u>(6,361,877)</u>	<u>28,433,024</u>	<u>2,308,042</u>
Total bonds payable					
Capital leases	845,167	1,051,498	(398,960)	1,497,705	617,980
Loans payable	6,859,353	1,581,962	(629,773)	7,811,542	511,574
Compensated absences	293,813	29,752		323,565	
	<u>38,289,286</u>	<u>7,167,160</u>	<u>(7,390,610)</u>	<u>38,065,836</u>	<u>3,437,596</u>
Governmental activity long-term liabilities					
<b>Business-type Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 3,901,601		(138,355)	3,763,246	146,261
Unamortized premiums	33,219		(1,954)	31,265	
	<u>3,934,820</u>	<u>0</u>	<u>(140,309)</u>	<u>3,794,511</u>	<u>146,261</u>
Total bonds payable					
Capital leases	41,622	128,530	(24,770)	145,382	58,646
Loans payable	4,259,883	335,631	(274,275)	4,321,239	336,466
Compensated absences	33,894		(2,747)	31,147	
	<u>8,270,219</u>	<u>464,161</u>	<u>(442,101)</u>	<u>8,292,279</u>	<u>541,373</u>
Business-type activity long-term liabilities					

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, 2011, the amount of outstanding debt was equal to 8.7% of the latest property assessments.

Current Year Defeasance of Debt - In fiscal year 2011 the city issued bonds to refund portions of four earlier issues. Three of the bonds refunded had a call provision to allow the county to pay off the outstanding balances. One of the issues had call provisions that allowed partial refunding for \$1,775,000, leaving a balance due of \$950,000. The proceeds were transferred to a trust account to pay the debt when the call provisions were exercised. \$4,215,000 of outstanding principal and \$161,564 of interest was paid to retire the four issues. The refunding of the issues resulted in a savings of \$138,393 and an economic gain of \$116,870.

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

<u>Refunding Issue</u>				<u>Issue Amount</u>	
<u>Date</u>	<u>Description</u>				
December 8, 2010	City of Pearl, Mississippi General Obligation Refunding Bonds, Series 2010	\$ 4,455,000			
					<u>Non-Refunded Balance at Sept. 30, 2011</u>
<u>Refunded Issue</u>			<u>Amount Refunded</u>		
<u>Dated</u>	<u>Description</u>	<u>Original Issue</u>			
June 15, 1998	General Obligation Bonds Series 1998	\$ 1,200,000	595,000		
April 1, 2002	General Obligation Refunding Bonds Series 2002	\$ 3,105,000	815,000		
June 1, 2002	General Obligation Bonds Series 2002	\$ 2,000,000	1,030,000		
April 1, 2003	General Obligation Bonds Series 2003- Partial Refunding	\$ 4,000,000	1,775,000		950,000

**4. Other Information.**

**A. Self-funded Insurance.**

Until May 1, 2010, the City had established an Employee Welfare Benefit Fund (an Internal Service Fund) to account for and finance its employee health and dental insurance plan. Under this plan the Employee Welfare Benefit Fund provided health, dental and group term life coverage to City employees to the limits established by the plan document. The city purchased commercial insurance to cover all claims in excess of premium contributions. Claims expense and liabilities were reported when it was probable that a loss had occurred and the amount of that loss could be reasonably estimated.

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

See Note H - Postemployment Benefits, below, for additional information regarding the City's health, dental and group term life insurance plan.

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

**B. Contingencies.**

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

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

**C. Jointly Governed 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, 2010 through September, 2011, the City paid \$1,936,520. For the twelve-month period beginning October 1, 2011, the City's annual financial responsibility will be \$1,974,190.

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, 2011, 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.

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

**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 12% of covered payroll. 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, 2011, 2010 and 2009 were \$1,035,044, \$886,796 and \$841,032, 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, 2011, the principal amount payable was \$3,685,000, which is the original issue amount.

Taxable Urban Renewal Revenue Bonds

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

These bond issues are:

<u>Title</u>	<u>Issue Date</u>	<u>Maturity</u>	<u>Issue Amount</u>	<u>Current Balance</u>
Taxable Urban Renewal Bond Childre Road Urban Renewal Project, Series 2004 C	12/30/2004	11/01/2024	\$ 10,000,000	\$ 10,000,000
Variable Rate Demand Revenue Bond, Series 2004A (Childre Road Urban Renewal Project)	12/30/2004	11/01/2019	\$ 43,000,000	\$ 23,500,000
Taxable Urban Renewal Revenue Bond, Series 2004 B-1, B-2 and B-3	12/30/2004	11/01/2024	\$ 22,000,000	\$ 18,245,000

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2011

**G. Commitments.**

At year-end, the balance to finish the construction of the senior citizens building was \$1,590,583. The total contract cost of construction was \$2,204,800. The City paid \$614,217 during the year ended September 30, 2011. The project is funded with bond proceeds and a Community Development Block Grant.

**H. Other Postemployment Benefits**

As described in Note 4.A., the City has established an Employee Welfare Benefit Fund to account for and finance its employee health and dental insurance plan. Under this plan the Employee Welfare Benefit Fund provides health, dental and group term life coverage to City employees to the limits established by the plan document. Since retirees may obtain health insurance under this plan by participating in a group with active employees and consequently receive an insurance premium rate differential, the City has a postemployment healthcare benefit reportable under GASB 45 as a single employer defined benefit healthcare plan. Effective October 1, 2008 the City implemented GASB Statement 45 prospectively, which requires reporting on an accrual basis the liability associated with other postemployment benefits. The City does not issue a publicly available financial report for the plan. However, the City has not recorded a liability for other postemployment benefits nor has the City reported the note disclosures which are required by accounting principles generally accepted in the United States of America.

**CITY OF PEARL**

**REQUIRED SUPPLEMENTARY INFORMATION**

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

Budgetary Comparison Schedules

**City of Pearl  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2011**

	<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	\$ 1,828,127	2,002,882	2,002,882	
Licenses and permits	251,000	197,737	197,737	
Fines and forfeitures	792,000	1,097,157	1,097,157	
Intergovernmental revenues	9,601,340	10,153,969	10,153,969	
Charges for services	1,437,400	1,314,351	1,314,351	
Miscellaneous revenues	1,210,700	336,764	336,764	
Total Revenues	<u>15,120,567</u>	<u>15,102,860</u>	<u>15,102,860</u>	<u>0</u>
<b>EXPENDITURES</b>				
General government	3,980,737	2,909,520	2,909,520	
Public safety	8,549,882	10,216,522	10,216,522	
Public works	2,939,453	2,930,744	2,930,744	
Health and welfare	570,422	468,808	468,808	
Culture and recreation	1,560,280	1,394,105	1,394,105	
Total Expenditures	<u>17,600,774</u>	<u>17,919,699</u>	<u>17,919,699</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(2,480,207)</u>	<u>(2,816,839)</u>	<u>(2,816,839)</u>	<u>0</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of note		1,581,962	1,581,962	
Transfers in		742,495	742,495	
Transfers out		(1,232,740)	(1,232,740)	
Total Other Financing Sources and Uses	<u>0</u>	<u>1,091,717</u>	<u>1,091,717</u>	<u>0</u>
Net Change in Fund Balance	(2,480,207)	(1,725,122)	(1,725,122)	0
Fund Balances - Beginning	<u>1,813,196</u>	<u>1,813,196</u>	<u>1,813,196</u>	<u>0</u>
Fund Balances - Ending	<u>\$ (667,011)</u>	<u>88,074</u>	<u>88,074</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**

	<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	\$ 100,000	425,987	425,987	
Interest income		25,776	25,776	
Miscellaneous revenues		44,480	44,480	
Total Revenues	<u>100,000</u>	<u>496,243</u>	<u>496,243</u>	<u>0</u>
<b>EXPENDITURES</b>				
Public safety	<u>678,086</u>	<u>1,894,996</u>	<u>1,894,996</u>	
Total Expenditures	<u>678,086</u>	<u>1,894,996</u>	<u>1,894,996</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(578,086)</u>	<u>(1,398,753)</u>	<u>(1,398,753)</u>	<u>0</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other financing sources		<u>361,305</u>	<u>361,305</u>	
Total Other Financing Sources and Uses	<u>0</u>	<u>361,305</u>	<u>361,305</u>	<u>0</u>
Net Change in Fund Balance	(578,086)	(1,037,448)	(1,037,448)	0
Fund Balances - Beginning	<u>2,660,137</u>	<u>2,660,137</u>	<u>2,660,137</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 2,082,051</u>	<u>1,622,689</u>	<u>1,622,689</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, 2011

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>Police Forfeiture/ Seizure Fund</u>
Net Changes in Fund Balance - Budget (Cash Basis)	\$ (1,725,122)	(1,037,448)
Increase (decrease):		
Net adjustments for revenue and expense accruals	<u>51,195</u>	<u>                    </u>
Net Change in Fund Balance GAAP Basis	<u>\$ (1,673,927)</u>	<u>(1,037,448)</u>

**CITY OF PEARL**

**SUPPLEMENTAL INFORMATION**

**City of Pearl  
Schedule of Surety Bonds For Municipal Officials  
For the Year Ended September 30, 2011**

<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, 2011**

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
<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	\$ 281,038
U.S. Environmental Protection Agency/ Mississippi State Department of Health Drinking Water State Revolving Loan Program	66.468		DWI-L610017-04 DWI-L610017-05	79,040 <u>101,143</u>
<b>Total Expenditures of Major Federal Awards</b>				<b>\$ <u>461,221</u></b>
<b>Other Federal Awards:</b>				
Office of National Drug Policy HIDTA Grant	07.UNK	I8PGCP540Z	I8PGCP540Z	55,924
ARRA-U.S. Department of Justice/Edward Byrne Memorial Justice Assistance Grant	16.738	ARRA		20,235
ARRA - U.S. Department of Transportation/ Mississippi Department of Transportation/ Federal Surface Transportation Program Old Brandon Road Signal Upgrade	20.205	ARRA	STP-7272- 00(006)LPA/105688-70100	1,399
U.S. Department of Transportation/ Mississippi Department of Public Safety/ 402 Traffic Services Grant	20.600	NHTSA 402	11PT3191	100,842
U.S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	10.565	378L47	378L47	2,180
U.S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	10.565	379L47	379L47	5,265
U.S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	93.045	378L47	378L47	8,743

**City of Pearl**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2011**

**(Continued)**

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
U.S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	93.045	379L47	379L47	17,127
U.S. Department of Homeland Security/ Mississippi Department of Public Safety/ Homeland Security Grant	97.067		09LE293A	<u>31,529</u>
<b>Total Expenditures of Other Federal Awards</b>				<u>243,244</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 704,465</u>

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, 2011 which collectively comprise City of Pearl, Mississippi's basic financial statements and have issued our report thereon dated May 24, 2012. 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.

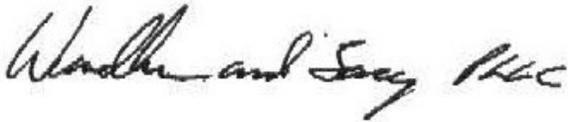
Our consideration of the internal controls over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses 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 11-1 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 24, 2012

# 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, 2011. 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, 2011.

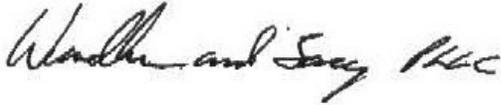
### Internal Control Over Compliance

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 24, 2012

# 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, 2011, and have issued our report thereon dated May 24, 2012. 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 24, 2012

**CITY OF PEARL**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF PEARL

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2011

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/  
Community Development Block Grant, CFDA #20.205

U.S. Environmental Protection Agency/Drinking Water State  
Revolving Loan Program, CFDA #66.468

CITY OF PEARL

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2011

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

Section 2: Financial Statement Findings

Significant Deficiency - Material Weakness

11 - 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.