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**City of Pearl**

**Audited Financial Statements and  
Special Reports  
For the Year Ended September 30, 2008**

**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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Pearl, MS 39208  
(601)939-8676

Members:  
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, 2008, 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.

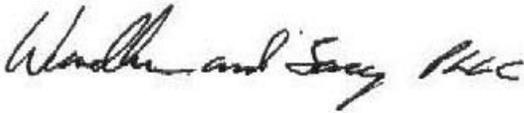
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the City of Pearl, Mississippi, as of September 30, 2008, and the respective changes in financial position and cash flows 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 April 24, 2009, 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.

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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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.

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

Windham and Lacey, PLLC  
April 24, 2009

## **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, 2008**

**Exhibit 1**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and investments	\$ 8,642,048	2,259,494	10,901,542
Property tax receivable	4,667,650		4,667,650
Fines receivable, net	209,448		209,448
Accounts receivable, net	247,066	677,799	924,865
Other receivables	47,116		47,116
Internal balances	(469,104)	469,104	
Other current assets		10,052	10,052
Sales tax receivable	1,365,345		1,365,345
Total current assets	<u>14,709,569</u>	<u>3,416,449</u>	<u>18,126,018</u>
<b>Noncurrent Assets:</b>			
Restricted cash		791,849	791,849
Home Grant receivable	474,000		474,000
Bond issue costs	400,280	197,625	597,905
Deferred loss on debt extinguishment	191,131	25,027	216,158
Capital assets, net	<u>56,746,092</u>	<u>16,230,376</u>	<u>72,976,468</u>
Total noncurrent assets	<u>57,811,503</u>	<u>17,244,877</u>	<u>75,056,380</u>
Total Assets	<u>\$ 72,521,072</u>	<u>20,661,326</u>	<u>93,182,398</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Claims payable	\$ 1,127,653	83,580	1,211,233
Accrued interest payable	542,655	181,693	724,348
Deferred revenue	4,529,383		4,529,383
Unearned revenue	258,282		258,282
Other payables	30,458	11,722	42,180
Current portion of long-term debt	<u>2,973,003</u>	<u>433,403</u>	<u>3,406,406</u>
Total current liabilities	<u>9,461,434</u>	<u>710,398</u>	<u>10,171,832</u>
<b>Noncurrent Liabilities:</b>			
Long-term liabilities due in more than one year	31,210,015	6,307,613	37,517,628
Customer meter deposits payable		461,495	461,495
Escrowed seizure funds payable	<u>175,675</u>		<u>175,675</u>
Total noncurrent liabilities	<u>31,385,690</u>	<u>6,769,108</u>	<u>38,154,798</u>
Total Liabilities	<u>40,847,124</u>	<u>7,479,506</u>	<u>48,326,630</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	22,827,429	9,516,095	32,343,524
Restricted for:			
Debt service	1,357,397		1,357,397
Public safety	3,155,724		3,155,724
Public works	475,616		475,616
Capital improvements	1,468,067	546,653	2,014,720
Unrestricted	<u>2,389,715</u>	<u>3,119,072</u>	<u>5,508,787</u>
Total Net Assets	<u>\$ 31,673,948</u>	<u>13,181,820</u>	<u>44,855,768</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, 2008

Exhibit 2

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Functions/Programs</b>							
<b>Primary Government:</b>							
Governmental Activities:							
General government	\$ 2,982,542				(2,982,542)		(2,982,542)
Public safety	7,108,939	1,854,685	143,934	254,485	(4,855,835)		(4,855,835)
Public works	8,294,303	1,346,488		1,601,171	(5,346,644)		(5,346,644)
Health and welfare	381,106	273,551			(107,555)		(107,555)
Culture and recreation	1,758,558	1,081,585	84,899		(592,074)		(592,074)
Interest on long-term debt	1,540,375				(1,540,375)		(1,540,375)
Total Governmental Activities	<u>22,065,823</u>	<u>4,556,309</u>	<u>228,833</u>	<u>1,855,656</u>	<u>(15,425,025)</u>	<u>0</u>	<u>(15,425,025)</u>
Business-type Activities:							
Water/Sewer	<u>5,403,817</u>	<u>5,762,975</u>				<u>359,158</u>	<u>359,158</u>
Total Business-type Activities	<u>5,403,817</u>	<u>5,762,975</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>359,158</u>	<u>359,158</u>
Total Primary Government	<u>\$ 27,469,640</u>	<u>10,319,284</u>	<u>228,833</u>	<u>1,855,656</u>	<u>(15,425,025)</u>	<u>359,158</u>	<u>(15,065,867)</u>
General Revenues							
Taxes:							
Property taxes					\$ 3,903,239	164	3,903,403
Road & bridge privilege taxes					755,226		755,226
Other taxes					16,355		16,355
Sales tax					7,683,835		7,683,835
Franchise taxes					868,416		868,416
Grants and contributions not restricted to specific programs					794,905		794,905
Unrestricted investment income					310,987	55,685	366,672
Unrestricted rental income							0
Miscellaneous					316,816	20,901	337,717
Transfers					63,040	(63,040)	0
Total General Revenues					<u>14,712,819</u>	<u>13,710</u>	<u>14,726,529</u>
Change in net assets					<u>(712,206)</u>	<u>372,868</u>	<u>(339,338)</u>
Net Assets - Beginning					<u>32,386,154</u>	<u>12,808,952</u>	<u>45,195,106</u>
Net Assets - Ending					<u>\$ 31,673,948</u>	<u>13,181,820</u>	<u>44,855,768</u>

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

**City of Pearl  
Balance Sheet  
Governmental Funds  
September 30, 2008**

**Exhibit 3**

	<u>General Fund</u>	<u>Police Forfeiture/ Seizure Fund</u>	<u>Debt Service Fund</u>	<u>Street Improvements Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and investments	\$ 1,061,971	3,471,229	1,574,157	508,109	1,671,558	8,287,024
Property tax receivable	1,911,959		2,440,662		315,029	4,667,649
Fines receivable	209,448					209,448
Sales tax receivable	1,365,346					1,365,346
Other receivables	47,122					47,122
Due from other funds	36,153	40,284	33,191		231,052	340,680
Total Assets	<u>\$ 4,631,999</u>	<u>3,511,513</u>	<u>4,048,010</u>	<u>508,109</u>	<u>2,217,639</u>	<u>14,917,269</u>
<b>LIABILITIES &amp; FUND BALANCES</b>						
Liabilities:						
Claims payable	\$ 570,835	254,707		89,079	95,635	1,010,256
Due to other taxing units	29,335					29,335
Due to other funds	201,979	223	25,000		582,583	809,785
Other liabilities	245,670		946		229,282	475,898
State and federal seized funds escrow		175,675				175,675
Deferred revenue	2,063,335		2,370,026		305,470	4,738,831
Total Liabilities	<u>3,111,154</u>	<u>430,605</u>	<u>2,395,972</u>	<u>89,079</u>	<u>1,212,970</u>	<u>7,239,780</u>
Fund Balances:						
Unreserved:						
General fund	1,520,845					1,520,845
Public works					475,616	475,616
Public safety		3,080,908			74,815	3,155,723
Debt service funds			1,652,038			1,652,038
Capital project funds				419,030	454,238	873,268
Total Fund Balances	<u>1,520,845</u>	<u>3,080,908</u>	<u>1,652,038</u>	<u>419,030</u>	<u>1,004,669</u>	<u>7,677,490</u>
Total Liabilities and Fund Balances	<u>\$ 4,631,999</u>	<u>3,511,513</u>	<u>4,048,010</u>	<u>508,109</u>	<u>2,217,639</u>	

**(Continued)**

**City of Pearl  
Balance Sheet  
Governmental Funds  
September 30, 2008**

**(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 (Note 1):

Capital assets net of depreciation as of Oct. 1, 2007	\$ 55,052,854	
Plus capital outlay expenditures made during the year	3,341,234	
Less depreciation expense recorded during the year	(1,647,996)	
Less net book value of capital assets sold during the year		56,746,092
Receivable from developer		248,012
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.		209,448
Amount from capital projects transferred to utility fund		120,799
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		400,280
Deferred loss on debt extinguishment		191,131
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.		332,370
Accrued interest payable is not a current liability payable from current assets		(542,655)
Liabilities not due and payable in the current period are not reported in the funds:		
Long-term liabilities (Note 2)		<u>(34,183,019)</u>
Net Assets of Governmental Activities		<u>\$ 31,673,948</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, 2008**

**Exhibit 4**

	<u>General Fund</u>	<u>Police Forfeiture/ Seizure Fund</u>	<u>Debt Service Fund</u>	<u>Street Improvements Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Property taxes	\$ 1,581,267		2,058,312	128	263,531	3,903,238
Road & bridge privilege tax	755,226					755,226
Licenses and permits	272,464					272,464
Fines and forfeitures	735,516					735,516
Intergovernmental revenues	8,915,338	1,093,787	535,446	1,520,511	129,277	12,194,359
Charges for services	1,345,804				1,346,455	2,692,259
Interest income	91,891	79,441	50,649		17,117	239,098
Miscellaneous	155,188	5,000	0	65,855	33,095	259,138
Total Revenues	<u>13,852,694</u>	<u>1,178,228</u>	<u>2,644,407</u>	<u>1,586,494</u>	<u>1,789,475</u>	<u>21,051,298</u>
<b>EXPENDITURES</b>						
Current:						
General government	2,824,611					2,824,611
Public safety	7,128,607	187,750			1,162,356	8,478,713
Public works	2,174,374				1,439,863	3,614,237
Health and welfare	464,032					464,032
Culture and recreation	1,422,055					1,422,055
Debt service:						
Principal	133,768		2,202,053		248,777	2,584,598
Interest	16,358		1,304,741		42,349	1,363,448
Capital projects				5,431,959		5,431,959
Total Expenditures	<u>14,163,805</u>	<u>187,750</u>	<u>3,506,794</u>	<u>5,431,959</u>	<u>2,893,345</u>	<u>26,183,653</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(311,111)</u>	<u>990,478</u>	<u>(862,387)</u>	<u>(3,845,465)</u>	<u>(1,103,870)</u>	<u>(5,132,355)</u>
<b>Other Financing Sources (Uses)</b>						
Proceeds of debt	229,303		6,364,468	106,800	997,742	7,698,313
Payment on refunded notes			(6,024,940)			(6,024,940)
Bond issue costs			(308,919)			(308,919)
Transfers in			896,444		271,655	1,168,099
Transfers out	(1,105,059)					(1,105,059)
Total Other Financing Sources and Uses	<u>(875,756)</u>	<u>0</u>	<u>927,053</u>	<u>106,800</u>	<u>1,269,397</u>	<u>1,427,494</u>
Net Change in Fund Balances	(1,186,868)	990,478	64,667	(3,738,665)	165,527	(3,704,861)
Fund Balances - Beginning	<u>2,707,712</u>	<u>2,090,430</u>	<u>1,587,372</u>	<u>4,157,695</u>	<u>839,142</u>	<u>11,382,351</u>

Fund Balances - Ending	\$	<u>1,520,845</u>	<u>3,080,908</u>	<u>1,652,039</u>	<u>419,030</u>	<u>1,004,669</u>	<u>7,677,490</u>
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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, 2008**

**Exhibit 5**

Net Change in Fund Balances -- Total Governmental Funds (Exhibit 4) \$ (3,704,861)

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays (\$3,341,234) exceeded depreciation (\$1,647,996) in the current period. 1,693,238

Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting. (14,766)

Amounts due from developers was not recognized as revenue in the fund in the current period. 248,012

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 (\$7,784,440) were exceeded by debt repayment (\$8,609,538). 825,098

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 (212,080)  
 Change in compensated absences 13,115

Bond issue cost is reported as an expenditure in governmental funds but is an asset in the Statement of Net Assets. 308,919

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 (27,919)  
 Amortization of loss on debt extinguishment (10,060)  
 Amortization of premium on notes payable 2,739  
 Other 6,033

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. 160,327

Change in Net Assets of Governmental Activities (Exhibit 2) \$ (712,205)

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

**City of Pearl  
Statement of Net Assets  
Proprietary Funds  
September 30, 2008**

**Exhibit 6**

	<b>Business-type Activity Enterprise Fund <u>Water/Sewer</u></b>	<b>Internal Service Fund <u>Self-Insurance</u></b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,259,494	355,024
Accounts receivable, net	677,799	
Due from other funds	575,131	
Other current assets	10,052	
Total current assets	<u>3,522,476</u>	<u>355,024</u>
Noncurrent assets:		
Bond issue cost	197,625	
Deferred loss on debt extinguishment	25,027	
Restricted cash and cash equivalents	791,849	
Capital assets, net	16,230,376	
Total noncurrent assets	<u>17,244,877</u>	<u>0</u>
Total Assets	<u>\$ 20,767,353</u>	<u>355,024</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Claims payable	\$ 83,580	112,322
Accrued interest payable	181,693	
Due to other funds	106,027	
Other payables	11,722	
Current portion of long-term debt	433,403	
Total current liabilities	<u>816,425</u>	<u>112,322</u>
Noncurrent Liabilities:		
Long-term liabilities	6,307,613	
Customer meter deposits payable	461,495	
Total noncurrent liabilities	<u>6,769,108</u>	<u>0</u>
Total Liabilities	<u>7,585,533</u>	<u>112,322</u>
<b>NET ASSETS</b>		
Invested in capital assets net of related debt	9,516,095	
Restricted for capital improvements	546,653	
Unrestricted	3,119,072	242,702
Total Net Assets	<u>\$ 13,181,820</u>	<u>242,702</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, 2008**

**Exhibit 7**

	<b>Business-type Activity Enterprise Fund <u>Water/Sewer</u></b>	<b>Internal Service Fund <u>Self-Insurance</u></b>
<b>OPERATING REVENUES</b>		
Charges for services	\$ 5,762,975	28,413
City and employee contributions		2,145,069
Total Operating Revenues	<u>5,762,975</u>	<u>2,173,482</u>
<b>OPERATING EXPENSES</b>		
Personal services	1,370,516	
Contractual services	208,788	
Materials and supplies	151,536	
Maintenance	949,149	
Utilities	381,317	
West Rankin charges	1,245,530	
Depreciation expense	760,316	
Other operating expenses	24,934	
Administrative fees		63,887
Specific and aggregate reinsurance		402,067
Medical claim payments		1,516,784
Total Operating Expenses	<u>5,092,087</u>	<u>1,982,738</u>
Operating Income (Loss)	<u>670,889</u>	<u>190,744</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Property tax	164	
Interest income	55,685	6,033
Interest expense	(296,950)	
Transfers in (out)	(63,040)	
Other income	20,901	
Other expenses	(14,780)	
Total Nonoperating Revenue (Expenses)	<u>(298,020)</u>	<u>6,033</u>
Change in Net Assets	<u>372,869</u>	<u>196,777</u>
Total Net Assets - Beginning	<u>12,808,952</u>	<u>45,925</u>
Total Net Assets - Ending	<u>\$ 13,181,821</u>	<u>242,702</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, 2008**

**Exhibit 8**

	<b>Business-type Activity Enterprise Fund <u>Water/Sewer</u></b>	<b>Internal Service Fund <u>Self-Insurance</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 5,823,280	
Receipts from internal services provided		2,173,482
Receipts from (payments to) other funds		49,140
Payments to suppliers	(4,488,088)	(63,887)
Payments for insurance claims		(1,884,084)
Net Cash Provided (Used) by Operating Activities	<u>1,335,192</u>	<u>274,651</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Other revenues	20,901	
Cash received from property taxes	164	
Transfers out	(63,040)	
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(41,975)</u>	<u>0</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(71,372)	
Principal paid on long-term debt	(317,326)	
Interest expense paid	(121,131)	
Net Cash Provided (Used) by Capital Financing Activities	<u>(509,829)</u>	<u>0</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	<u>55,685</u>	<u>6,033</u>
Net Increase (Decrease) in Cash and Cash Equivalents	839,073	280,684
Cash and Cash Equivalents - Beginning of Year	<u>2,212,270</u>	<u>74,340</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,051,343</u>	<u>355,024</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ <u>670,889</u>	<u>190,744</u>
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:		
Depreciation	760,316	
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	63,153	
(Increase) decrease in other current assets	25,674	
(Increase) decrease in due from other funds	(68,744)	49,140
Increase (decrease) in claims payable	(123,345)	34,767
Increase (decrease) in customer deposits	9,092	
Increase (decrease) in compensated absences	(320)	
Increase (decrease) in other current liabilities	(1,523)	
Other, net		
Total adjustments	<u>664,303</u>	<u>83,907</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,335,192</u>	<u>274,651</u>

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

**City of Pearl  
Statement of Fiduciary Assets and Liabilities  
September 30, 2008**

**Exhibit 9**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ <u>23,801</u>
Total Assets	\$ <u><u>23,801</u></u>
<b>LIABILITIES</b>	
Due to school taxing district	\$ <u>23,801</u>
Total Liabilities	\$ <u><u>23,801</u></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, 2008

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 *street improvements capital projects fund* accounts for major construction projects and the funds generated to pay for those projects which are usually proceeds from debt or grants.

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

The City reports the following major Proprietary Funds:

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

Additionally the City reports the following fund types:

#### PROPRIETARY FUND TYPES

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

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

#### FIDUCIARY FUND TYPE

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

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

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

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

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, 2008

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

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

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

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

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

5. *Compensated Absences.*

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

6. *Long-term Liabilities.*

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

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

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

7. *Equity Classifications.*

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

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

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

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

Bonds payable	\$ 24,405,468
Capital leases payable	1,360,699
Notes payable	8,095,453
Premium on notes payable	57,044
Compensated absences	<u>264,355</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 34,183,019</u>

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide Statement of Activities.**

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

Capital outlay	\$ 3,341,234
Depreciation expense	<u>(1,647,996)</u>
 Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	 \$ <u><u>1,693,238</u></u>

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

Debt proceeds:	
Issuance of bonds payable	\$ 6,568,595
Issuance of capital lease	1,215,845
Principal repayments:	
General obligation debt	<u>(8,609,538)</u>
 Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	 \$ <u><u>(825,098)</u></u>

**3. Stewardship, Compliance and Accountability.**

Budgets

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

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

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

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

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

Property Tax Revenues

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

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

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

**4. Detailed Notes on All Funds.**

**A. Deposits.**

At year-end, the City's carrying amount of deposits was \$11,717,192 and the bank balance was \$13,350,699. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

**B. Receivables.**

Receivables as of year-end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer Fund</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:				
Sales tax	\$ 1,365,345			1,365,345
Property taxes	1,911,959		2,755,691	4,667,650
Accounts		745,707		745,707
Fines	1,624,570			1,624,570
From developers			248,012	248,012
Other receivables	47,116			47,116
HOME grant receivable			474,000	474,000
	<u>4,948,990</u>	<u>745,707</u>	<u>3,477,703</u>	<u>9,172,400</u>
Gross receivables				
Less: allowance for uncollectibles	<u>(1,415,122)</u>	<u>(67,908)</u>		<u>(1,483,030)</u>
Net total receivables	<u>\$ 3,533,868</u>	<u>677,799</u>	<u>3,477,703</u>	<u>7,689,370</u>

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

	<u>Unavailable</u>	<u>Unearned</u>
Unearned cash court bonds	\$	258,282
Property taxes receivable: General fund	1,853,887	
Debt service fund	2,370,026	
Garbage and rubbish fund	<u>305,470</u>	
Total deferred/unearned revenue for governmental funds	<u>\$ 4,529,383</u>	<u>258,282</u>

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

**C. Capital Assets.**

Capital asset activity for the year ended September 30, 2008, is as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 3,381,838			3,381,838
Construction in progress	<u>7,217,302</u>	<u>1,731,248</u>		<u>8,948,550</u>
Total capital assets, not being depreciated	<u>10,599,140</u>	<u>1,731,248</u>	<u>0</u>	<u>12,330,388</u>
Capital assets, being depreciated:				
Buildings	11,568,198			11,568,198
Improvements other than buildings	22,971,780	138,243		23,110,023
Streets	16,358,884			16,358,884
Bridges	668,537			668,537
Machinery and equipment	<u>11,017,540</u>	<u>1,471,743</u>		<u>12,489,283</u>
Total capital assets being depreciated	<u>62,584,939</u>	<u>1,609,986</u>	<u>0</u>	<u>64,194,925</u>
Less: Accumulated depreciation for:				
Buildings	(1,658,518)	(231,364)		(1,889,882)
Improvements other than buildings	(4,004,593)	(183,773)		(4,188,366)
Streets	(4,781,073)	(566,056)		(5,347,129)
Bridges	(187,192)	(13,371)		(200,563)
Machinery and equipment	<u>(7,499,849)</u>	<u>(653,432)</u>		<u>(8,153,281)</u>
Total accumulated depreciation	<u>(18,131,225)</u>	<u>(1,647,996)</u>	<u>0</u>	<u>(19,779,221)</u>
Total capital assets, being depreciated, net	<u>44,453,714</u>	<u>(38,010)</u>	<u>0</u>	<u>44,415,704</u>
Governmental activities capital assets, net	<u>\$ 55,052,854</u>	<u>1,693,238</u>	<u>0</u>	<u>56,746,092</u>

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 401,636			401,636
Total capital assets, not being depreciated	<u>401,636</u>	<u>0</u>	<u>0</u>	<u>401,636</u>
Capital assets, being depreciated:				
Buildings	92,793			92,793
Water system	11,438,634			11,438,634
Sewer system	20,986,962			20,986,962
Machinery and equipment	1,794,376	71,370		1,865,746
Total capital assets, being depreciated	<u>34,312,765</u>	<u>71,370</u>	<u>0</u>	<u>34,384,135</u>
Less: Accumulated depreciation for:				
Buildings	(88,480)	(270)		(88,750)
Water system	(5,450,265)	(238,658)		(5,688,923)
Sewer system	(10,443,113)	(480,108)		(10,923,221)
Machinery and equipment	(1,813,222)	(41,279)		(1,854,501)
Total accumulated depreciation	<u>(17,795,080)</u>	<u>(760,315)</u>	<u>0</u>	<u>(18,555,395)</u>
Total capital assets, being depreciated, net	<u>16,517,685</u>	<u>(688,945)</u>	<u>0</u>	<u>15,828,740</u>
Business-type activities capital assets, net	<u>\$ 16,919,321</u>	<u>(688,945)</u>	<u>0</u>	<u>16,230,376</u>

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

Governmental activities:	
General government	\$ 138,212
Public safety	468,436
Public works	683,071
Health and welfare	5,130
Culture and recreation	<u>353,147</u>
Total depreciation expense - governmental activities	<u>\$ 1,647,996</u>
Business-type activities:	
Water and sewer	<u>\$ 760,315</u>
Total depreciation expense - business-type activities	<u>\$ 760,315</u>

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

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

The composition of interfund balances as of September 30, 2008, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Sewer	Debt Service	\$ 25,000
Water Sewer	General	3,478
Police Forfeiture/Seizure	General	40,284
Debt Service	General	33,191
General	Police Forfeiture/Seizure	223
Other governmental funds	Water Sewer	106,026
Other governmental funds	General	125,026
General	Other governmental funds	35,930
Water Sewer	Other governmental funds	<u>546,653</u>
Total		<u>\$ 915,811</u>

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

Interfund transfers:

Transfer out:		
General Fund		\$ 1,105,059
Water Sewer Fund		<u>63,040</u>
Total transfers out		<u>\$ 1,168,099</u>
Transfer in:		
Debt Service Fund		\$ 896,444
Other Governmental Funds		<u>271,655</u>
Total transfers in		<u>\$ 1,168,099</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 type and business-type funds. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2008, are as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2009	\$ 481,366
2010	412,953
2011	281,312
2012	214,780
2013	<u>53,698</u>
Total minimum lease payments	1,444,109
Less: amount representing interest	<u>(83,411)</u>
Present value of minimum lease payments	<u>\$ 1,360,698</u>

**F. Long-term Debt.**

General Obligation Bonds

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

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

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Governmental activities	2.3% - 5.7%	18,847,468
Unamortized Premium		\$ 57,044
Business-type activities	6.0 - 7.5%	4,290,533
Unamortized Premium		<u>37,127</u>
		<u>\$ 23,232,172</u>

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,260,504	975,294	221,496	301,710
2010	1,353,575	750,609	167,426	182,488
2011	1,431,645	690,690	138,355	176,333
2012	1,433,739	625,792	146,261	170,799
2013	1,687,810	560,929	152,191	164,949
2014-2018	5,992,553	1,891,417	887,450	726,887
2019-2023	3,477,462	955,294	1,132,535	515,277
2024-2028	<u>2,210,180</u>	<u>345,825</u>	<u>1,444,819</u>	<u>226,053</u>
Total	<u>\$ 18,847,468</u>	<u>6,795,850</u>	<u>4,290,533</u>	<u>2,464,496</u>

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

Special Assessment Bonds

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

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 82,000	39,542
2010	86,000	46,674
2011	91,000	42,386
2012	96,000	37,849
2013	101,000	33,063
2014-2018	<u>562,000</u>	<u>84,610</u>
Total	<u>\$ 1,018,000</u>	<u>284,124</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>
2009	\$ 649,175	228,078
2010	591,126	199,286
2011	527,377	173,220
2012	558,638	149,412
2013	566,911	123,927
2014-2018	1,599,043	217,880
2019-2023	<u>47,730</u>	<u>6,027</u>
Total	<u>\$ 4,540,000</u>	<u>1,097,830</u>

CITY OF PEARL  
Notes to the Financial Statements  
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Loans Payable

The City has received several loans from the State of Mississippi 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 \$0. 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%	\$ 489,094
Community Bank Loan	3.95%	165,000
Mississippi Development Bank - Trustmark		7,255,000
Mississippi Department of Health Drinking Water Systems Improvements Revolving Loan Fund (DWSIRLF)	3.0%	<u>186,359</u>
Total Governmental Activities		<u>8,095,453</u>
Business-type Activities		
Capital Improvement (CAP)	3.0% - 4.25%	1,324,831
Mississippi Department of Health Drinking Water Systems Improvements Revolving Loan Fund (DWSIRLF)	3.0%	888,668
Mississippi Department of Environmental Quality Revolving Loan Fund	4.5%	173,123
Total Business-Type Activities		<u>2,386,622</u>
		<u>\$ 10,482,075</u>

CITY OF PEARL  
Notes to the Financial Statements  
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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>
2009	\$ 539,304	420,628	221,908	88,352
2010	529,074	397,318	230,655	79,605
2011	546,689	370,718	237,160	73,102
2012	374,410	342,935	222,883	61,538
2013	376,824	324,881	231,601	52,819
2014-2018	1,998,028	1,283,129	771,437	161,044
2019-2023	2,504,535	681,047	470,978	30,405
2024-2028	<u>1,226,590</u>	<u>66,323</u>		
Total	\$ <u>8,095,454</u>	<u>3,886,979</u>	<u>2,386,622</u>	<u>546,865</u>

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2008, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 13,492,000	6,364,468	(1,009,000)	18,847,468	1,260,504
Special assessment bonds	1,095,000		(77,000)	1,018,000	82,000
Tax increment financing bonds	5,024,000	118,000	(602,000)	4,540,000	649,175
Unamortized premiums	<u>82,680</u>	<u>57,044</u>	<u>(82,680)</u>	<u>57,044</u>	
Total bonds payable	19,693,680	6,539,512	(1,770,680)	24,462,512	1,991,679
Capital leases	467,564	1,215,845	(322,711)	1,360,698	266,584
Loans payable	14,694,280		(6,598,827)	8,095,453	539,304
Compensated absences	<u>277,470</u>		<u>(13,115)</u>	<u>264,355</u>	
Governmental activity long-term liabilities	\$ <u>35,132,994</u>	<u>7,755,357</u>	<u>(8,705,333)</u>	<u>34,183,018</u>	<u>2,797,567</u>
<b>Business-type Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 215,000	4,160,533	(85,000)	4,290,533	221,496
Unamortized premiums		<u>37,127</u>		<u>37,127</u>	
Total bonds payable	215,000	4,197,660	(85,000)	4,327,660	221,496
Loans payable	6,574,947		(4,188,326)	2,386,621	221,907
Compensated absences	<u>27,055</u>		<u>(320)</u>	<u>26,735</u>	
Business-type activity long-term liabilities	\$ <u>6,817,002</u>	<u>4,197,660</u>	<u>(4,273,646)</u>	<u>6,741,016</u>	<u>443,403</u>

CITY OF PEARL  
Notes to the Financial Statements  
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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, 2008, the amount of outstanding debt was equal to 10.6% of the latest property assessments.

**5. Other Information.**

**A. Self-funded Insurance.**

The City has established an Employee Welfare Benefit Fund (an Internal Service Fund) to account for and finance its employee health and dental insurance plan. Under this plan the Employee Welfare Benefit Fund provides health, dental and group term life coverage to City employees to the limits established by the plan document. The fund provides coverage up to \$45,000 for each employee to a maximum aggregate coverage for all employees of \$1,787,275 for 2008. The City purchases commercial insurance for claims in excess of this coverage.

All funds of the City participate in the plan and make payments to the Employee Welfare Benefit Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for claims. At September 30, 2008, the reserve in the fund was \$242,702. The claims liability at September 30, 2008, is based on GASB Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in fiscal year 2008 were:

Claims Liability at October 1, 2007	\$	77,555
Current Year Claims		1,551,551
Claim Payments		<u>(1,516,784)</u>
Claims Liability at September 30, 2008	\$	<u>112,322</u>

**B. Contingencies.**

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

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

**C. Jointly Governed Organization.**

West Rankin Utility Authority

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

CITY OF PEARL  
Notes to the Financial Statements  
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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, 2007 through September, 2008, the City paid \$1,245,530. For the twelve-month period beginning October 1, 2008, the City's annual financial responsibility will be \$1,358,760.

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, 2008, the City did not expend any funds related to this Commission.

**D. Note Receivable.**

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

**E. Pension Plan.**

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

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary and the City of Pearl is required to contribute at an actuarially determined rate. The current rate of 11.3% of annual covered payroll increased to 11.85% on July 1, 2008. 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, 2008, 2007 and 2006 were \$853,521, \$812,150, and \$732,543 respectively, equal to the required contributions for each year.

CITY OF PEARL  
Notes to the Financial Statements  
September 30, 2008

**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, 2008, 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	\$ 32,600,000
Taxable Urban Renewal Revenue Bond, Series 2004 B-1, B-2 and B-3	12/30/2004	11/01/2024	\$ 22,000,000	\$ 21,440,000

**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, 2008**

	<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	\$ 1,628,730	1,628,730	2,336,493	707,763
Licenses and permits	207,100	207,100	272,464	65,364
Fines and forfeitures	640,350	640,350	735,516	95,166
Intergovernmental revenues	9,835,679	9,229,102	8,916,776	(312,326)
Charges for services	1,212,140	1,212,140	1,345,804	133,664
Miscellaneous revenues	140,050	140,050	247,079	107,029
Total Revenues	<u>13,664,049</u>	<u>13,057,472</u>	<u>13,854,132</u>	<u>796,660</u>
<b>EXPENDITURES</b>				
General government	3,762,273	3,029,548	2,849,611	179,937
Public safety	7,471,842	7,481,242	7,173,262	307,980
Public works	2,408,666	2,544,423	2,222,525	321,898
Health and welfare	537,837	555,337	466,329	89,008
Culture and recreation	1,451,897	1,517,397	1,477,079	40,318
Total Expenditures	<u>15,632,515</u>	<u>15,127,947</u>	<u>14,188,806</u>	<u>939,141</u>
Excess of Revenues over (under) Expenditures	<u>(1,968,466)</u>	<u>(2,070,475)</u>	<u>(334,674)</u>	<u>1,735,801</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term debt issued			229,303	229,303
Transfers in				
Transfers out		(1,155,225)	(1,105,059)	50,166
Other				
Federal assistance				
Total Other Financing Sources and Uses	<u>0</u>	<u>(1,155,225)</u>	<u>(875,756)</u>	<u>279,469</u>
Net Change in Fund Balance	(1,968,466)	(3,225,700)	(1,210,430)	2,015,270
Fund Balances - Beginning	<u>2,707,712</u>	<u>2,707,712</u>	<u>2,707,712</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 739,246</u>	<u>(517,988)</u>	<u>1,497,282</u>	<u>2,015,270</u>

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

**City of Pearl  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Police Forfeiture/Seizure Fund  
 For the Year Ended September 30, 2008**

	<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	100,000	1,093,787	993,787
Interest income			79,441	79,441
Miscellaneous revenues			5,000	5,000
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>1,178,228</u>	<u>1,078,228</u>
<b>EXPENDITURES</b>				
Public safety	<u>903,858</u>	<u>913,858</u>	<u>187,749</u>	<u>726,109</u>
Total Expenditures	<u>903,858</u>	<u>913,858</u>	<u>187,749</u>	<u>726,109</u>
Excess of Revenues over (under) Expenditures	<u>(803,858)</u>	<u>(813,858)</u>	<u>990,479</u>	<u>1,804,337</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other financing uses				
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	(803,858)	(813,858)	990,479	1,804,337
Fund Balances - Beginning	<u>2,090,429</u>	<u>2,090,429</u>	<u>2,090,429</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,286,571</u>	<u>1,276,571</u>	<u>3,080,908</u>	<u>1,804,337</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)  
 Debt Service Fund  
 For the Year Ended September 30, 2008**

	<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	\$ 1,991,670	1,991,670	2,058,312	66,642
Intergovernmental	513,309	513,309	535,446	22,137
Miscellaneous	1,000	1,000	50,649	49,649
Total Revenues	<u>2,505,979</u>	<u>2,505,979</u>	<u>2,644,407</u>	<u>138,428</u>
<b>EXPENDITURES</b>				
Debt service	3,784,948	3,787,548	3,506,794	280,754
Capital projects				
Public safety				
Total Expenditures	<u>3,784,948</u>	<u>3,787,548</u>	<u>3,506,794</u>	<u>280,754</u>
Excess of Revenues over (under) Expenditures	<u>(1,278,969)</u>	<u>(1,281,569)</u>	<u>(862,387)</u>	<u>419,182</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of debt			6,364,468	6,364,468
Payment on refunded notes			(6,024,940)	(6,024,940)
Bond issue costs			(308,919)	(308,919)
Transfers in (out)	830,225	830,225	896,444	66,219
Total Other Financing Sources and Uses	<u>830,225</u>	<u>830,225</u>	<u>927,053</u>	<u>96,828</u>
Net Change in Fund Balance	(448,744)	(451,344)	64,667	516,011
Fund Balance - Beginning	<u>1,587,372</u>	<u>1,587,372</u>	<u>1,587,372</u>	
Fund Balance - Ending	<u>\$ 1,138,628</u>	<u>1,136,028</u>	<u>1,652,039</u>	<u>516,011</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, 2008

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>	<u>Debt Service Fund</u>
Net Changes in Fund Balance - Budget (Cash Basis)	\$ (1,210,430)	990,479	64,667
Increase (Decrease):			
Net adjustments for revenue and expense accruals	<u>23,562</u>	<u>                    </u>	<u>                    </u>
Net Change in Fund Balance GAAP Basis	<u>\$ (1,186,868)</u>	<u>990,479</u>	<u>64,667</u>

**CITY OF PEARL**

**SUPPLEMENTAL INFORMATION**

**City of Pearl  
Schedule of Expenditures of Federal Awards  
September 30, 2008**

<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 Commerce/Grants for Public Works and Economic Development	11.300	EDA 04-01-05717	EDA 04-01-05717	\$ <u>1,000,000</u>
<b>Total Expenditures of Major Federal Awards</b>				<u>1,000,000</u>
<b>Other Federal Awards:</b>				
Office of National Drug Policy HIDTA Grant	None	15PGCP566Z	15PGCP566Z	11,418
U. S Forest Service/Mississippi Forestry Commission/Katrina Supplemental Grant	10.664	06 DG-1108-3128-020	06 DG-1108-3128-020	50,030
U. S. Department of Transportation/MS Department of Public Safety/402 Traffic Services Grant	20.600	NHTSA 402 FY 06	07SC3191 & 08SC3191	124,876
U. S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	10.565	378I47	378I47	2,532
U. S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	10.565	379I47	379I47	5,833
U. S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	93.045	378I47	378I47	8,698
U. S. Department of Agriculture/Central Mississippi Planning and Development District/Nutrition Program for the Elderly	93.045	379I47	379I47	16,559
U. S Department of Homeland Security/ Mississippi Department of Public Safety/ State Domestic Preparedness Equipment Support Program	97.067	05HS293 06HS293	05HS293 06HS293	<u>16,270</u> <u>11,869</u>
<b>Total Expenditures of Other Federal Awards</b>				<u>248,085</u>
<b>Total Expenditures of Federal Awards</b>				\$ <u><u>1,248,085</u></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 COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### Compliance

We have audited the compliance of City of Pearl, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. City of Pearl, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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, 2008.

### Internal Control Over Compliance

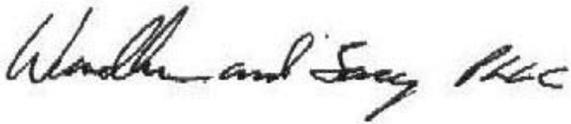
The management of City of Pearl, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Pearl, Mississippi's 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in a City's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies 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 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.

A handwritten signature in cursive script that reads "Windham and Lacey, PLLC".

Windham and Lacey, PLLC  
April 24, 2009

# Windham and Lacey, PLLC

*Certified Public Accountants*

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Pearl, Mississippi, as of and for the year ended September 30, 2008, which collectively comprise City of Pearl, Mississippi's basic financial statements and have issued our report thereon dated April 24, 2009. 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.

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

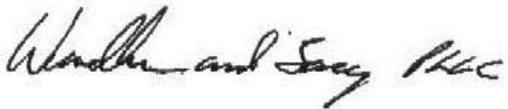
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

Compliance and Other Matters

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

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

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  
April 24, 2009

# Windham and Lacey, PLLC

*Certified Public Accountants*

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

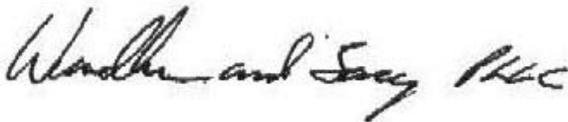
Honorable Mayor and  
Members of the Board of Aldermen  
City of Pearl, Mississippi

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, 2008, and have issued our report thereon dated April 24, 2009. 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  
April 24, 2009

**CITY OF PEARL**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

CITY OF PEARL

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Section 1: Summary of Auditor's Results

***Financial Statements:***

- |    |  |             |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements:                           | Unqualified |
| 2. | Internal control over financial reporting:   |             |
| a. | Material weaknesses identified?  | No          |
| b. | Significant deficiencies identified that are not considered to be material weaknesses? | No          |
| 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?   | No          |
| 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 program identified as a major program:   |             |
|     | U.S. Department of Commerce/Grants for Public Works and Economic Development, CFDA #11.300   |             |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$300,000   |
| 9.  | Auditee qualified as a low-risk auditee?   | Yes         |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____,315(b) of OMB Circular A-133? | No          |

CITY OF PEARL

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

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.