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Pearl Public School District
Audited Financial Statements
June 30, 2005

J E Fortenberry, III, PC
Certified Public Accountant

**Pearl Public School District
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Pearl Public School District

FINANCIAL AUDIT REPORT

J.E. FORTENBERRY, III, PC

Certified Public Accountant

**INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION
AND SUPPLEMENTARY INFORMATION**

October 14, 2005

Superintendent and School Board
Pearl Public School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pearl Public School District as of and for the year ended June 30, 2005, which collectively comprise the Pearl Public School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pearl Public School District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements, referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Pearl Public School District at June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 14, 2005 on my consideration of the Pearl Public School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of my 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 read in conjunction with this report in considering the results of my audit.

The Management's Discussion and Analysis on pages (7) through (13) and the Budgetary Comparison Schedule and corresponding notes on pages (41) through (42) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I 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, I did not audit the information and express no opinion on it.

AICPA & MSCPA

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pearl Public School District's basic financial statements. The 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. In addition, a Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds have been included for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



J.E. Fortenberry, III, PC

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PEARL PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Pearl Public School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$835,747, which represents a 5% increase from fiscal year 2004.
- General revenues account for \$21,741,443 in revenue, or 82% of all revenues. This amount was greater than the general revenues reported for the year 2004, which was \$20,747,595 in revenue, or 81% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,709,031 or 18% of total revenues, as compared with \$4,836,926, or 19%, in 2004.
- The District had \$25,614,727 in expenses; only \$4,709,031 of these expenses were offset by program specific charges for services, grants and contributions. This amount was an increase from expenses of \$22,829,332 in 2004. General revenues of \$21,741,443 were adequate to provide for these programs.
- Among major funds, the General Fund had \$20,657,457 in revenues and \$20,201,184 in expenditures. In 2004, the General Fund had \$19,908,376 in revenues and \$19,176,756 in expenditures. The General Fund's fund balance increased \$658,101 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$2,514,323. The major component of this increase was the construction in progress addition.
- Long-term debt decreased by \$254,709.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1)

government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest on long-term liabilities.

The government-wide financial statements can be found on pages 15 and 16 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmen-

tal funds and governmental activities. These reconciliations are on pages 20 and 24, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 18 and 22 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 25.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-39 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 41 and 42 of this report.

Additionally, a new schedule of instructional, administrative and other expenditures - Governmental Funds have been incorporated to this report right after the schedule of expenditures of federal awards. The schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 44 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$17,828,354 as of June 30, 2005.

By far the largest portion of the District's net assets (57%) reflects its investment in capital assets (e.g. land, buildings, building improvements, mobile equipment, furniture & equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The District's financial position is a product of several financial transactions including the net result of activities, the payment of debt, and the depreciation of capital assets.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 and 2004.

	2005	2004
	<u>Amount</u>	<u>Amount</u>
Assets		
Current assets	\$ 9,826,945	\$12,440,994
Capital assets, net	<u>27,682,667</u>	<u>25,168,344</u>
Total assets	<u>37,509,612</u>	<u>37,609,338</u>
Liabilities		
Current liabilities	1,867,837	2,548,601
Long-term debt outstanding	<u>17,813,421</u>	<u>18,068,130</u>
Total liabilities	<u>19,681,258</u>	<u>20,616,731</u>
Net assets:		
Invested in capital assets, net of related debt	10,079,645	7,313,344
Restricted	4,267,821	7,315,061
Unrestricted	<u>3,487,368</u>	<u>2,364,202</u>
Total net assets	<u>\$ 17,828,354</u>	<u>\$16,992,607</u>

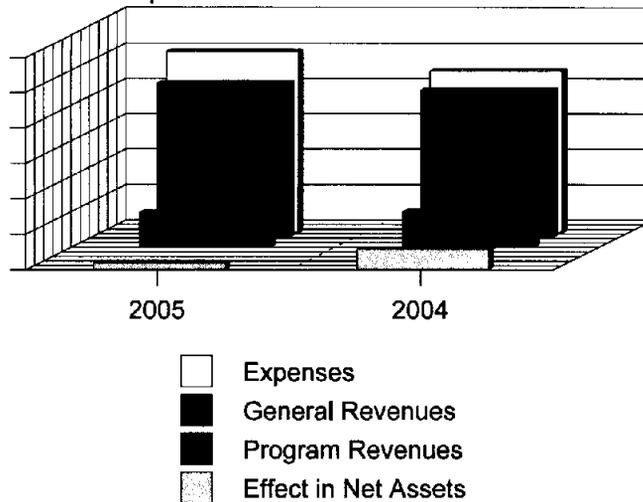
The following is a significant current year transactions that have had an impact on the Statement of Net Assets.

- The increase of \$2,514,323 in net capital assets, resulting mainly from construction in progress.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$26,450,454. The total cost of all programs and services was \$25,614,727. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

	2005	2004
	<u>Amount</u>	<u>Amount</u>
Revenues:		
Program revenues	\$ 4,709,031	\$ 4,836,926
General revenues	<u>21,741,443</u>	<u>20,747,595</u>
Total revenues	<u>26,450,474</u>	<u>25,584,521</u>
Expenses:		
Instruction	12,187,462	14,186,509
Support services	7,808,156	4,847,097
Non-instructional	4,864,119	2,965,696
Sixteenth section	2,489	7,667
Interest on long-term liabilities	<u>752,501</u>	<u>822,363</u>
Total expenses	<u>25,614,727</u>	<u>22,829,332</u>
Increase in net assets	<u>\$ 835,747</u>	<u>\$ 2,755,189</u>

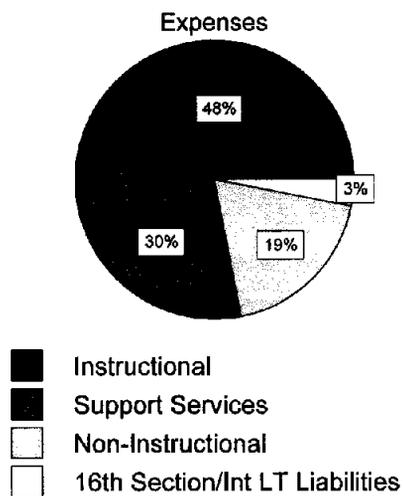
Comparative Chart of Statement of Activities



Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	Total <u>Expenses</u>	Net(Expense) <u>Revenue</u>
Instruction	\$ 12,187,462	\$ (9,919,484)
Support services	7,808,156	(6,815,572)
Non-instructional	4,864,119	(3,415,650)
Sixteenth section	2,489	(2,489)
Interest on long-term liabilities	<u>752,501</u>	<u>(752,501)</u>
Total expenses	\$ <u>25,614,727</u>	\$ <u>(20,905,696)</u>

Expenses as per Statement of Activities



- Net cost of governmental activities (\$25,614,727), was financed by general revenue, which is made up of primarily property taxes (\$8,127,123) and state revenue (\$12,905,419).
- Investment earnings accounted for \$154,419 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$8,273,850 , a decrease of \$1,938,315. \$8,261,901 or 99.86% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$11,949 or 0.14% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$658,101. The fund balance of Other Governmental Funds showed an increase. In addition to the General Fund, the Pearl Public School District has 2 other major funds. The fund balance of the Building Project (Local) Fund remained the same; the Building Fund 2003 G.O. Bonds showed a decrease of \$3,017,542.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

- Budget amounts for revenue were increased to account for changes of state allocations during the year.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$37,879,684, including construction in progress, school buildings, improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$2,835,493 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$10,197,017 and total depreciation expense for the year was \$675,234, resulting in total net assets of \$27,682,667.

Additional information of the District's capital assets can be found in Note 4 on page 34 of this report.

Debt Administration. At June 30, 2005, the District had \$17,813,421 in general obligation bonds and other long-term debt outstanding, of which \$871,148 is due within one year.

The District maintains an AA bond rating.

Additional information of the District's long-term debt can be found in Note 5 on page 35 of this report.

CURRENT ISSUES

The Pearl Public School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Pearl Public School District, PO Box 5750, Pearl, MS 39208.

FINANCIAL STATEMENTS

PEARL PUBLIC SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Assets:	
<i>Cash and cash equivalents</i>	\$ 8,688,025
<i>Cash with fiscal agents</i>	151,187
<i>Due from other governments</i>	562,212
<i>Other receivable</i>	16,752
<i>Inventories and prepaid items</i>	11,949
<i>Restricted Assets</i>	396,820
<i>Capital assets, net</i>	27,682,667
Total Assets	<u>37,509,612</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	395,871
<i>Due to other governments</i>	1,157,224
<i>Interest payable on long-term liabilities</i>	314,742
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	850,109
<i>Non-capital related liabilities</i>	21,039
Long-term liabilities (due beyond one year)	
<i>Capital related liabilities</i>	16,752,913
<i>Non-capital related liabilities</i>	189,360
Total Liabilities	<u>19,681,258</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	10,079,645
Restricted For:	
School-Based Activities	1,020,919
Debt Service	305,058
Capital Improvements	2,325,416
Forestry Improvements	34,809
Unemployment Benefits	178,319
Sixteenth Section	
Expendable	7,734
Nonexpendable	389,086
Unrestricted	3,487,368
Total Net Assets	<u>\$ 17,828,354</u>

The accompanying notes are an integral part of this statement.

PEARL PUBLIC SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental Activities:				
<i>Instruction</i>	\$ 12,187,462	\$ 881,117	\$ 1,386,861	\$ (9,919,484)
<i>Support services</i>	7,808,156	—	992,584	(6,815,572)
<i>Noninstructional services</i>	4,864,119	565,151	883,318	(3,415,650)
<i>Sixteenth section</i>	2,489	—	—	(2,489)
<i>Interest on long-term liabilities</i>	752,501	—	—	(752,501)
Total Primary Government	<u>\$ 25,614,727</u>	<u>\$ 1,446,268</u>	<u>\$ 3,262,763</u>	<u>(20,905,696)</u>
General Revenues:				
Taxes:				
<i>General purpose levies</i>				6,832,821
<i>Debt purpose levies</i>				1,294,302
<i>Unrestricted grants and contributions:</i>				
<i>State</i>				12,905,419
<i>Federal</i>				46,898
<i>Unrestricted investment earnings</i>				154,419
<i>Sixteenth section sources</i>				344,760
<i>Other</i>				162,824
Total general revenues				<u>21,741,443</u>
				835,747
Change in Net Assets				<u>835,747</u>
Net Assets - Beginning				16,992,607
Net Assets - Ending				<u>\$ 17,828,354</u>

The accompanying notes are an integral part of this statement.

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PEARL PUBLIC SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General Fund</u>	<u>Building Project Fund (Local Funds)</u>
ASSETS		
<i>Cash and cash equivalents</i>	\$ 4,476,390	\$ 1,500,000
<i>Cash with fiscal agents</i>	--	--
<i>Due from other governments</i>	298,602	--
<i>Other receivables, net</i>	7,596	--
<i>Due from other funds</i>	20,485	--
<i>Inventories and prepaid items</i>	--	--
Total Assets	<u>\$ 4,803,073</u>	<u>\$ 1,500,000</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ 201,193	\$ --
<i>Due to other funds</i>	1,002,138	--
Total Liabilities	<u>1,203,331</u>	<u>--</u>
Fund balances:		
Reserved for:		
<i>Inventory</i>	--	--
Unreserved, undesignated, reported in:		
<i>General fund</i>	3,599,742	--
<i>Special Revenue funds</i>	--	--
<i>Capital projects funds</i>	--	1,500,000
<i>Debt service funds</i>	--	--
<i>Permanent funds</i>	--	--
Total Fund Balances	<u>3,599,742</u>	<u>1,500,000</u>
Total Liabilities and Fund Balances	<u>\$ 4,803,073</u>	<u>\$ 1,500,000</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C

Building Fund 2003 G.O. Bonds	Other Governmental Funds	Total Governmental Funds
\$ 933,029	\$ 2,175,426	\$ 9,084,845
-	151,187	151,187
-	243,474	542,076
-	9,156	16,752
-	-	20,485
-	11,949	11,949
<u>\$ 933,029</u>	<u>\$ 2,591,192</u>	<u>\$ 9,827,294</u>
\$ 159,172	\$ 35,506	\$ 395,871
2,462	152,973	1,157,573
<u>161,634</u>	<u>188,479</u>	<u>1,553,444</u>
-	11,949	11,949
-	-	3,599,742
-	1,641,933	1,641,933
771,395	54,021	2,325,416
-	297,990	297,990
-	396,820	396,820
<u>771,395</u>	<u>2,402,713</u>	<u>8,273,850</u>
<u>\$ 933,029</u>	<u>\$ 2,591,192</u>	<u>\$ 9,827,294</u>

PEARL PUBLIC SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances - governmental funds balance sheet	\$ 8,273,850
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	27,682,667
Liabilities due in one year	(871,148)
Payables for bond principal which are not due in the current period are not reported in the funds.	(16,285,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(467,913)
Payables for bond interest which are not due in the current period are not reported in the funds.	(314,742)
Payables for compensated absences which are not due in the current period are not reported in the funds.	<u>(189,360)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 17,828,354</u>

The accompanying notes are an integral part of this statement.

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PEARL PUBLIC SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Building Project Fund (Local Funds)
Revenue:		
Local sources	\$ 7,833,009	\$ --
State sources	12,777,550	--
Federal sources	46,898	--
Sixteenth section sources	--	--
Total revenues	<u>20,657,457</u>	<u>--</u>
Expenditures:		
Instruction	13,004,209	--
Support services	7,011,765	--
Noninstructional services	185,210	--
Sixteenth section	--	--
Facilities acquisition and construction	--	--
Debt service:		
Principal	--	--
Interest	--	--
Total expenditures	<u>20,201,184</u>	<u>--</u>
Excess (deficiency) of revenues (over) expenditures	456,273	--
Other financing sources (uses):		
Proceeds of loans	532,500	--
Insurance loss recoveries	7,283	--
Sale of transportation equipment	514	--
Operating transfers in	254,461	--
Operating transfers out	(592,930)	--
Total other financing sources (uses)	<u>201,828</u>	<u>--</u>
Net change in fund balance	658,101	--
Fund Balances:		
July 1, 2004	2,941,641	1,500,000
Increase (decrease) in reserve for inventory	--	--
June 30, 2005	<u>\$ 3,599,742</u>	<u>\$ 1,500,000</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

Building Fund 2003 G.O. Bonds	Other Governmental Funds	Total Governmental Funds
\$ 39,788	\$ 1,945,745	\$ 9,818,542
--	678,068	13,455,618
--	2,777,373	2,824,271
--	344,760	344,760
<u>39,788</u>	<u>5,745,946</u>	<u>26,443,191</u>
--	1,794,652	14,798,861
3,401	763,951	7,779,117
--	1,343,593	1,528,803
--	2,489	2,489
3,053,929	211,826	3,265,755
--	787,209	787,209
--	759,569	759,569
<u>3,057,330</u>	<u>5,663,289</u>	<u>28,921,803</u>
(3,017,542)	82,657	(2,478,612)
--	--	532,500
--	--	7,283
--	--	514
--	438,469	692,930
--	(100,000)	(692,930)
<u>--</u>	<u>338,469</u>	<u>540,297</u>
(3,017,542)	421,126	(1,938,315)
3,788,937	1,983,625	10,214,203
--	(2,038)	(2,038)
<u>\$ 771,395</u>	<u>\$ 2,402,713</u>	<u>\$ 8,273,850</u>

PEARL PUBLIC SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$ (1,938,315)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	3,265,755
The depreciation of capital assets used in governmental activities is not reported in the funds.	(675,234)
The gain or loss on the sale of capital assets is not reported in the funds.	(75,684)
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(514)
Change in Inventory is a direct adjustment to the fund balance in the funds and not in the SOA	(2,038)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	765,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	19,478
(Increase) decrease in accrued interest from beginning of period to end of period	7,068
Proceeds of Long Term Liabilities are reported in the funds but not in the SOA	(532,500)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>2,731</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 835,747</u>

The accompanying notes are an integral part of this statement.

PEARL PUBLIC SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 286,683
<i>Due from other funds</i>	1,157,224
Total Assets	<u>\$ 1,443,907</u>
LIABILITIES	
Liabilities:	
<i>Accounts payable and accrued liabilities</i>	\$ 1,237,873
<i>Due to student clubs</i>	185,898
<i>Due to other funds</i>	20,136
Total Liabilities	<u>\$ 1,443,907</u>

The accompanying notes are an integral part of this statement.

Pearl Public School District

Notes to the Financial Statements
June 30, 2005

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school is a related organization of, but not a component unit of, the city of Pearl since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

B. Basis of Presentation.

The school district's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

Fund Financial Statements:

Fund financial statements of the school district 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/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Building Project Fund (Local Funds) - This fund is used to account for financial resources for the acquisition or construction of major capital facilities.

Building Fund 2003 Bonds - This fund is used to account for financial resources for the acquisition or construction of major capital facilities.

All other governmental funds not meeting the criteria established for major funds are

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

presented in the other governmental column of **Exhibit C**.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Funds - Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principle, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal Liabilities) and do not involve measurement of results of operations.

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

Improvements other than build-ings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 for details.

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

1. 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, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet 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 further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for inventory - An account that represents a portion of the fund balance which indicated that inventories do not represent available spendable resources even though they are a component of net current assets.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authorities of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the state of Mississippi.

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

(2) Cash and Cash Equivalents, Cash with Fiscal Agents.

Cash and Cash Equivalents.

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.

The carrying amount of the district's deposits with financial institutions reported in governmental funds and fiduciary funds was \$9,084,845, and \$286,683 respectively. The carrying amount of deposits reported in the government wide statements was: Cash and Cash Equivalents \$8,688,025 and Restricted Assets \$396,820. The Restricted Assets represents the cash balance of the 16th Section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that supports the district's programs. The bank balance was \$9,699,087.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district's deposits may not be returned to it. The district does not have a deposit policy for custodial credit risk. As of June 30, 2005, none of the district's bank balance of \$9,699,087 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$151,187.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 20,485	1,002,138 ₃₃

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

	<u>Due From</u>	<u>Due To</u>
Other major fund(s)		
Building Fund 2003 G. O. Bonds	0	2,462
Non-major Funds	0	152,973
Fiduciary Funds	<u>1,157,224</u>	<u>20,136</u>
Total Funds	<u>\$ 1,177,709</u>	<u>1,177,709</u>

The purpose of the Due From/To other funds balances was to provide funds for operating purposes. All balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 254,461	592,930
Non-major Funds	438,469	100,000
	0	0
Total Funds	<u>\$ 692,930</u>	<u>692,930</u>

The purpose of the transfers was to provide funds for general operating activities. All transfers were routine and consistent with the fund making the transfer.

(4) Capital Assets

The following is a summary of changes in capital assets for governmental activities:

	<u>Balance</u>				<u>Balance</u>
	<u>7-1-2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>6-30-2005</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 134,110				134,110
Construction in progress	6,132,993	3,057,929			9,190,922
Total non-depreciable capital assets	<u>6,267,103</u>	<u>3,057,929</u>	0	0	<u>9,325,032</u>
<u>Depreciable capital assets:</u>					
Buildings	25,221,711		364,615	0	24,857,096
Improvements other than buildings	866,494	0			866,494
Mobile equipment	1,971,721	143,850	29,082	0	2,086,489
Furniture and equipment	717,162	63,976	36,565	0	744,573
Total depreciable capital assets	<u>28,777,088</u>	<u>207,826</u>	<u>430,262</u>	0	<u>28,554,652</u>
<u>Less accumulated depreciation for:</u>					
Buildings	7,543,468	490,299	291,691	0	7,742,076
Improvements other than buildings	401,829	29,020		0	430,849
34 Mobile equipment	1,324,303	107,857	26,174	0	1,405,986

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

	Balance 7-1-2004	Additions	Retirements	Adjustments	Balance 6-30-2005
<u>Non-depreciable capital assets:</u>					
Land	\$ 134,110				134,110
Construction in progress	6,132,993	3,057,929			9,190,922
Total non-depreciable capital assets	6,267,103	3,057,929	0	0	9,325,032
Furniture and equipment	606,247	48,058	36,199	0	618,106
Total accumulated depreciation	9,875,847	675,234	354,064	0	10,197,017
Total depreciable capital assets, net	18,901,241	(467,408)	76,198	0	18,357,635
Governmental activities capital assets, net	\$ 25,168,344	2,590,521	76,198	0	27,682,667

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	472,664
Support Services	135,047
Non-instructional	67,523
Total Depreciation Expense	\$675,234

Commitments under construction contracts at June 30, 2005, are summarized as follows:

	Remaining Commitment	Required Future Financing
Pearl Lower Elementary School	\$ 1,615,444	0
Total	\$ 1,615,444	0

(5) Long-term liabilities.

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 7-1-2004	Additions	Reductions	Adjustments	Balance 6-30-2005	Amounts due within one year
A. General obligation bonds payable	16,300,000		640,000		15,660,000	675,000
B. Limited obligation bonds payable	1,555,000		125,000		1,430,000	130,000
C. Obligations under capital leases	0	532,500	19,478		513,022	45,109
D. Compensated absences	213,130		2,731		210,399	21,039
Total	\$ 18,068,130	532,500	787,209	0	17,813,421	871,148

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

A. General Obligation Bonds Payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General Obligation bonds, Series 1998	varies	03-01-98	03-01-18	\$7,000,000	\$ 5,285,000
General Obligation bonds, Series 2003	varies	03-01-03	03-01-19	<u>10,950,000</u>	<u>10,375,000</u>
Total				<u>\$17,950,000</u>	<u>\$15,660,000</u>

The following is a schedule by years of the total payments due on this debt:

<u>Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 675,000	759,706	1,434,706
2007	725,000	723,006	1,448,006
2008	775,000	683,656	1,458,656
2009	855,000	635,930	1,490,930
2010	930,000	477,708	1,407,708
2011-2015	5,960,000	0	5,960,000
2016-2020	<u>5,740,000</u>	<u>0</u>	<u>5,740,000</u>
Total	<u>\$ 15,660,000</u>	<u>3,280,006</u>	<u>18,940,006</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 10% of property assessments as of October 1, 2004. This debt will be retired from the Bond Retirement Funds.

B. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
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Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

Limited Obligation Bonds	Varies	04-01-98	08-01-2013	\$ <u>3,000,000</u>	<u>1,430,000</u>
Total				\$ <u>3,000,000</u>	<u>1,430,000</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	\$ 130,000	60,030	190,030
2007	140,000	54,700	194,700
2008	145,000	48,960	193,960
2009	150,000	43,015	193,015
2010	160,000	36,865	196,865
2011 - 2015	<u>705,000</u>	<u>76,713</u>	<u>781,713</u>
Total	\$ <u>1,430,000</u>	<u>320,283</u>	<u>1,750,283</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Debt Retirement Fund.

C. Obligations under capital leases.

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of computer products.

The various options available to the lessee for this lease are as follows:

1. The lease contains a bargain purchase option.

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	\$ 45,109	20,727	65,836
2007	46,991	18,845	65,836

Pearl Public School District

Notes to Financial Statements
For the Year Ended June 30, 2005

2008	48,952	16,884	65,836
2009	50,995	14,841	65,836
2010	53,122	12,714	65,836
2011 - 2015	<u>267,853</u>	<u>28,409</u>	<u>296,262</u>
Total	<u>\$ 513,022</u>	<u>112,420</u>	<u>625,442</u>

This debt will be retired from the District Maintenance Fund.

D. Compensated absences payable.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(6) Defined Benefit Pension Plan.

Plan Description. The school district 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 report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 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 school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$1,414,877, \$1,220,426, and \$1,212,480, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

Commitments under construction contracts are described in Note 4.

(8) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the

Pearl Public School District

Notes to the Financial Statements

For the Year Ended June 30, 2005

school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2006	\$ 306,021
2007	299,612
2008	297,989
2009	293,189
2010	293,189
2011-2015	1,452,945
2016-2020	1,387,835
2021-2025	1,339,085
2026-2030	1,339,085
Thereafter	3,089,235
Total	<u>\$ 10,098,185</u>

(9) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Subsequent Events.

Pearl Public School District agreed to enter into a Capital Lease Program through the state of Mississippi whereby the District will borrow up to \$3.9 million at a fixed interest rate over 10 years. The funds can be used for construction projects, renovations, improvements and acquisition of equipment for the district. The annual payments on the loan will approximately be \$480,000.

REQUIRED SUPPLEMENTARY INFORMATION

PEARL PUBLIC SCHOOL DISTRICT

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2005

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 8,180,958	8,195,972	7,833,009	(347,949)	(362,963)
Intermediate sources	0	25	0	0	(25)
State sources	12,391,176	12,692,612	12,777,550	386,374	84,938
Federal sources	0	0	46,898	46,898	46,898
Total Revenues	20,572,134	20,888,609	20,657,457	85,323	(231,152)
Expenditures:					
Instruction	13,189,881	13,278,564	13,004,209	(185,672)	(274,355)
Support services	7,572,054	7,646,032	7,011,765	(560,289)	(634,267)
Noninstructional	477,900	410,926	185,210	(292,690)	(225,716)
Debt service:	20,000	20,000	0		
Principal	400,000	400,000	0	(400,000)	(400,000)
Interest				0	0
Total Expenditures	21,659,835	21,755,522	20,201,184	-1,438,651	(1,534,338)
Excess (Deficiency) of Revenues Over Expenditures	(1,087,701)	(866,913)	456,273	1,523,974	1,303,186
Other Financing Sources (Uses):					
Proceeds of Loans			532,500	532,500	532,500
Insurance Loss Recoveries			7,283	7,283	7,283
Sale of transportation equipment	0	0	514	514	514
Operating transfers in	793,500	669,675	254,461	(539,039)	(415,214)
Operating transfers out	(753,500)	(788,200)	(592,930)	160,570	195,270
Total Other Financing Sources (Uses)	40,000	(118,525)	201,828	161,828	320,353
Net Change in Fund Balances	(1,047,701)	(985,438)	658,101	1,685,802	1,623,539
Fund Balances:					
July 1, 2004	2,857,449	2,872,712	2,941,641	84,192	68,929
June 30, 2005	\$ 1,809,748	1,887,274	3,599,742	1,769,994	1,692,468

The notes to the required supplementary information are an integral part of this statement.

Pearl Public School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

Budgetary Comparison Schedules

(1) **Basis of Presentation.**

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) **Budget amendments and revisions.**

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the general fund special revenue fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

Pearl Public School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE/		
Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$92,446
Child Nutrition Cluster:		
School Breakfast Program	10.553	123,332
National School Lunch Program	10.555	658,399
Total child nutrition cluster		<u>781,731</u>
Total passed-through the MDE		<u>874,177</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		<u>874,177</u>
U. S. DEPARTMENT OF DEFENSE		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	63,663
Total Other Federal Assistance		<u>63,663</u>
U. S. DEPARTMENT OF EDUCATION/		
Passed through the Mississippi Department of Rehabilitation Services:		
Rehabilitation Services - vocational rehabilitation grants to states	84.126	731
Total passed-through the MDRS		<u>731</u>
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	697,306
Vocation Education - Basic Grant to States	84.048	123,034
Safe and Drug Free Schools and Communities - State Grants	84.186	20,655
Education for homeless children and youth	84.196	14,896
Innovative Education Program Strategies	84.298	14,735
Education Technology State Grants	84.318	195,732
		<u>1,066,358</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	749,411
Special Education - Preschool Grants	84.173	23,037
Total special education cluster		<u>772,448</u>
Total passed-through the MDE		<u>1,838,806</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>1,839,537</u>
TOTAL FOR ALL FEDERAL AWARDS		<u>\$2,777,377</u>

Notes to Schedule

1. This schedule was prepared using the same basis of accounting and significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

Pearl School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2005

Exhibit 6

Expenditures	Total	Instruction	Administrative	Other
Salaries and fringe benefits	\$ 18,985,008	13,051,077	2,309,210	3,624,721
Other	9,936,795	1,959,610	178,370	7,798,815
Total	\$ 28,921,803	15,010,687	2,487,580	11,423,536
Total number of students *	3,579			
Cost per student	\$ 8,081	4,194	695	3,192

Instruction - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000 functional codes)

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); and Support Services - Business (2500s)

Other - includes all expenditure functions not included in Instruction or Administrative

* includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year includes 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

INTERNAL CONTROL AND COMPLIANCE REPORTS

J.E. FORTENBERRY, III, PC
Certified Public Accountant

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

October 14, 2005
Superintendent and School Board
Pearl Public School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pearl Public School District as of and for the year ended June 30, 2005, and have issued my report thereon dated October 14, 2005. I conducted my 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 my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



J. E. Fortenberry, III, PC

Certified Public Accountant

J.E. FORTENBERRY, III, PC
Certified Public Accountant

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

October 14, 2005
Superintendent and School Board
Pearl Public School District

Compliance

I have audited the compliance of the Pearl Public School District 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 June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the 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 the school district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my 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 I 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 the school district's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

In my opinion, Pearl Public School District 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 June 30, 2005.

Internal Control Over Compliance

The management of the Pearl Public School District 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 my audit, I considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



J.E. Fortenberry, III, PC

Certified Public Accountant

J.E. FORTENBERRY, III, PC
Certified Public Accountant

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

October 14, 2005
Superintendent and School Board
Pearl Public School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pearl Public School District as of and for the year ended June 30, 2005, which collectively comprise Pearl Public School District's basic financial statements and have issued my report thereon dated October 14, 2005. I conducted my 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.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$46,220.72 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



J.E. Fortenberry, III, PC

Certified Public Accountant

AICPA, MSCPA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Pearl Public School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Cluster: Child Nutrition
CFDA # 10.553
CFDA # 10.555 | |
| b. | Title I - grants to local educational agencies
CFDA # 84.010 | |
| c. | Special Education Cluster
CFDA # 84.027
CFDA # 84.173 | |
| 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 finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? No

Section 2: Financial Statement Findings

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

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