



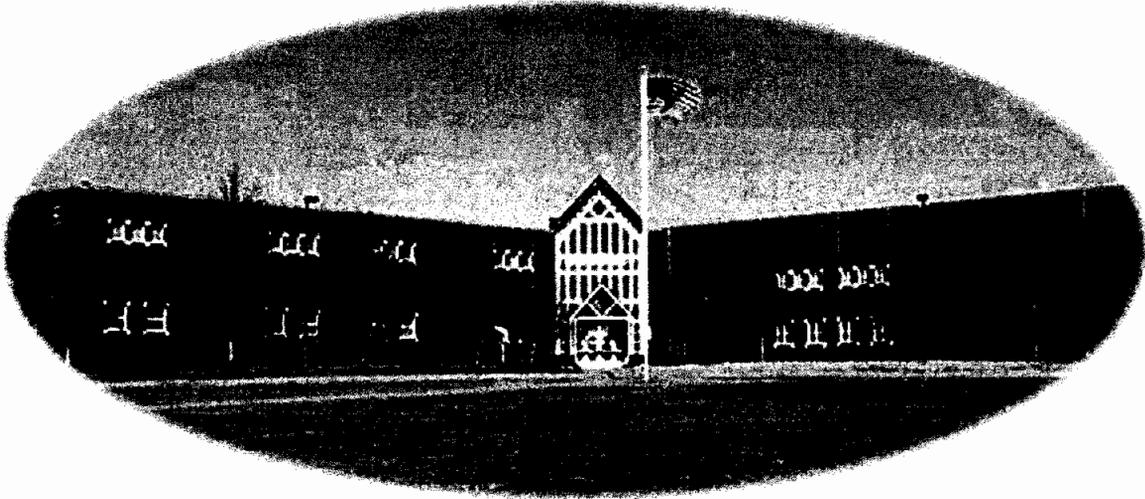
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Pearl Public School District
Audited Financial Statements
June 30, 2006

J E Fortenberry, III, PC
Certified Public Accountant

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Pearl Public School District
Some Schools in the District
06-30-06



Pearl Public High School



Northside Elementary School

**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**

Superintendent and School Board
Pearl Public School District

I have audited the accompanying 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, 2006, 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, 2006, 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 November 3, 2006 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 (9) through (16) and the Budgetary Comparison Schedule and corresponding notes on pages (43) through (46) 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.

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 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. In addition, a Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds have been included for purposes of additional analysis and is not a part of the financial statements. 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
November 3, 2006

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PEARL PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

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, 2006. 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.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,235,685, which represents a 7% increase from fiscal year 2005.
- General revenues account for \$23,754,933 in revenue, or 81% of all revenues. This amount was greater than the general revenues reported for the year 2005, which was \$21,741,443 in revenue, or 82% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,498,161 or 19% of total revenues, as compared with \$4,709,031, or 18%, in 2005.
- The District had \$28,017,409 in expenses; only \$5,498,161 of these expenses were offset by program specific charges for services, grants and contributions. This amount was an increase from expenses of \$25,614,727 in 2005. General revenues of \$23,754,933 were adequate to provide for these programs.
- Among major funds, the General Fund had \$22,866,159 in revenues and \$21,685,391 in expenditures. In 2005, the General Fund had \$20,657,457 in revenues and \$20,201,184 in expenditures. The General Fund's fund balance decreased \$124,967 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$1,350,518. The major component of this increase was the construction in progress addition and the completed construction added to the buildings.
- Long-term debt increased by \$2,399,048 a result of new capital leases obligations in the amount of \$3,900,000.

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 18 and 19 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 governmental funds and governmental activities. These reconciliations are on pages 22 and 26, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. 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 20 and 24 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 27.

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 29 - 41 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 43 - 46 of this report.

Additionally, a schedule of federal awards, required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 48 and 49 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 \$19,064,039 as of June 30, 2006.

By far the largest portion of the District's net assets (47%) 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, 2006 and 2005.

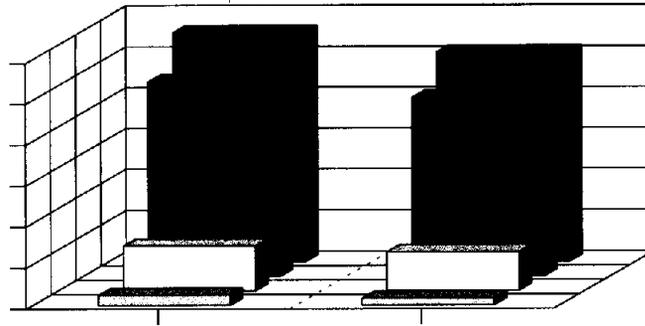
	2006	2005	Percentage Change
Assets			
Current assets	\$ 12,632,796	9,826,945	29%
Capital assets, net	29,033,185	27,682,667	5%
Total assets	41,665,981	37,509,612	11%
Liabilities			
Current liabilities	2,389,473	1,867,837	28%
Long-term liabilities	20,212,469	17,813,421	13%
Total liabilities	22,601,942	19,681,258	15%
Net Assets:			
Invested in capital assets, net of related debt	9,010,548	10,079,645	-11%
Restricted	6,774,866	4,261,341	59%
Unrestricted	3,278,625	3,487,368	-6%
Total Net Assets	\$ 19,064,039	17,828,354	7%

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

- The increase of \$1,350,518 in net capital assets, resulting mainly from the construction in progress addition and the completed construction added to the buildings.
- The addition of capital leases obligations \$3,900,000.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$29,253,094. The total cost of all programs and services was \$28,017,409. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and 2005.

Comparative Chart of Statement of Activities



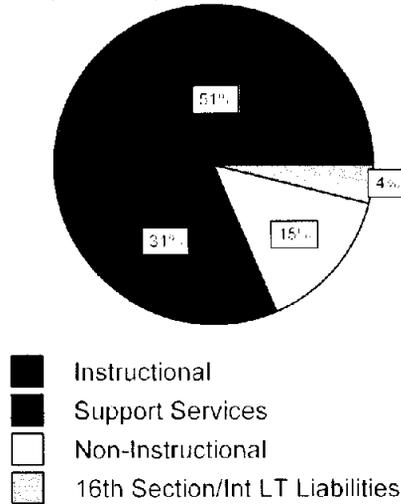
- Expenses
- General Revenues
- Program Revenues
- Increase/Decrease in Net Assets

	2006	2005	Percentage Change
Revenues			
Program Revenues			
Charges for services	\$ 1,547,851	1,446,268	7%
Operating Grants and Contributions	3,836,639	3,262,763	18%
Capital Grants And Contributions	113,671	-	100%
Total Program Revenues	5,498,161	4,709,031	17%
General Revenues			
Property Taxes	8,636,546	8,127,123	6%
Unrestricted Grants and Contributions	14,322,661	12,952,317	11%
Unrestricted Investment Earnings	157,338	154,419	2%
Sixteenth Section Sources	309,019	344,760	-10%
Other	329,369	162,824	102%
Total General Revenues	23,754,933	21,741,443	9%
Total revenues	29,253,094	26,450,474	11%
Expenses			
Instruction	14,247,724	12,187,462	17%
Support services	8,572,508	7,808,156	10%
Non-instructional	4,156,193	4,864,119	-15%
Sixteenth section	22,646	2,489	810%
Interest on long-term liabilities	1,018,338	752,501	35%
Total expenses	28,017,409	25,614,727	9%
Increase (Decrease) in net assets	1,235,685	835,747	48%
Net Assets, July 1	17,828,354	16,992,607	5%
Prior Period Adjustment			
Net Assets, June 30	\$ 19,064,039	17,828,354	7%

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.

	2006	2005	2006	2005
	Expenses	Expenses	Net (Expense) Revenue	Net (Expense) Revenue
Instruction	\$ 14,247,724	12,187,462	(10,782,195)	(9,919,484)
Support Services	8,572,508	7,808,156	(8,103,156)	(6,815,572)
Non-Instructional	4,156,193	4,864,119	(2,592,913)	(3,415,650)
Sixteenth Section	22,646	2,489	(22,646)	(2,489)
Interest on Long-Term Liabilities	1,018,338	752,501	(1,018,338)	(752,501)
	\$ 28,017,409	25,614,727	(22,519,248)	(20,905,696)

Expenses as per Statement of Activities



- Net cost of governmental activities (\$22,519,248), was financed by general revenue, which is made up of primarily property taxes (\$8,636,546) and state revenue (\$14,280,249).
- Investment earnings accounted for \$157,338 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 \$10,681,184, an increase of \$2,396,403. \$10,658,304 or 99.79% 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 \$22,880 or 0.21% 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 decrease in fund balance in the General Fund for the fiscal year was \$124,967. The fund balance of Other Governmental Funds showed a decrease. In addition to the General Fund, the Pearl Public School District has three (3) other major funds. The fund balance of the Building Improvement Fund increased \$1,300,000; the 2006 Lease Purchase Fund showed an increase of \$3,057,202.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Historical data, tentative allocations of state and federal funds, legislative mandates, and anticipated needs are used to determine original budget amounts.

The District's original budget was prepared with the district's goals and long range commitments in mind, using historical data, tentative allocations or estimates of state and federal funds, legislative mandates, staffing studies, and current and anticipated needs. Over the course of the year, the District revised the annual operating budget as changes occurred.

- Immaterial increases/decreases are noted in 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.

At the time the original budget was prepared only estimates were available for federal funding. Typically original budgets are prepared using prior year allocation as estimates. Once federal awards were known, budgets were amended to the actual grant award amount.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$39,876,823, including construction in progress, school buildings, improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$1,997,139 from the

previous year. Total accumulated depreciation as of June 30, 2006 was \$10,843,638 and total depreciation expense for the year was \$724,608, resulting in total net capital assets of \$29,033,185.

	Capital Assets, Net of Depreciation		Percentage
	2006	2005	Change
Land	\$ 134,110	134,110	0%
Construction In Progress	5,677,723	9,190,922	-38%
Buildings	21,769,867	17,115,020	27%
Improvements other than buildings	406,625	435,645	-7%
Mobile equipment	729,415	680,503	7%
Furniture and equipment	315,445	126,467	149%
	\$ 29,033,185	27,682,667	5%

Additional information of the District's capital assets can be found in Note 5 on page 37 of this report.

Debt Administration. At June 30, 2006, the District had \$14,985,000 in general obligation bonds and \$5,227,469 in other long-term debt outstanding, of which \$837,687 is due within one year.

			Percentage
	2006	2005	Change
General Obligation Bonds Payable	\$ 14,985,000	15,660,000	-4%
Limited obligation bonds payable	1,300,000	1,430,000	-9%
Obligation under capital leases	3,737,637	513,022	629%
Compensated absences payable	189,832	210,399	-10%
	\$ 20,212,469	17,813,421	13%

The District maintains an AA bond rating.

Additional information of the District's long-term debt can be found in Note 6 on page 38 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, 2006

	Governmental Activities
ASSETS	
Assets:	
Cash and cash equivalents	\$ 11,093,140
Cash with fiscal agents	180
Due from other governments	937,972
Other receivable	6,083
Inventories and prepaid items	22,880
Restricted Assets	572,541
Capital assets, not being depreciated	
Land	134,110
Construction in progress	5,677,723
Capital assets, net of accumulated depreciation	
Buildings	21,769,867
Improvements other than buildings	406,625
Mobile equipment	729,415
Furniture and equipment	315,445
Total Assets	<u>41,665,981</u>
Liabilities	
Accounts payable and accrued liabilities	505,270
Due to other governments	1,446,342
Interest payable on long-term liabilities	437,861
Long-term liabilities (due within one year):	
Capital related liabilities	1,245,956
Non-capital related liabilities	7,687
Long-term liabilities (due beyond one year)	
Capital related liabilities	18,776,681
Non-capital related liabilities	182,145
Total Liabilities	<u>22,601,942</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	9,010,548
Restricted For:	
School-Based Activities	1,013,794
Debt Service	204,112
Capital Improvements	4,936,849
Forestry Improvements	35,509
Unemployment Benefits	179,767
Sixteenth Section	
Expendable	15,749
Nonexpendable	389,086
Unrestricted	3,278,625
Total Net Assets	<u>\$ 19,064,039</u>

The accompanying notes are an integral part of this statement.

PEARL PUBLIC SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental Activities:					Governmental Activities
Instruction	\$ 14,247,724	\$ 968,637	\$ 2,496,892	\$ --	\$ (10,782,195)
Support services	8,572,508	--	355,681	113,671	(8,103,156)
Noninstructional services	4,156,193	579,214	984,066	--	(2,592,913)
Sixteenth section	22,646	--	--	--	(22,646)
Interest on long-term liabilities	1,018,338	--	--	--	(1,018,338)
Total Primary Government	<u>\$ 28,017,409</u>	<u>\$ 1,547,851</u>	<u>\$ 3,836,639</u>	<u>\$ 113,671</u>	<u>(22,519,248)</u>
General Revenues:					
Taxes:					
General purpose levies					7,263,419
Debt purpose levies					1,373,127
Unrestricted grants and contributions:					
State					14,280,249
Federal					42,412
Unrestricted investment earnings					157,338
Sixteenth section sources					309,019
Other					329,369
Total general revenues					<u>23,754,933</u>
Change in Net Assets					1,235,685
Net Assets - Beginning					17,828,354
Net Assets - Ending					<u>\$ 19,064,039</u>

The accompanying notes are an integral part of this statement.

PEARL PUBLIC SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Displaced Students Fund
ASSETS		
<i>Cash and cash equivalents</i>	\$ 4,136,277	\$ --
<i>Cash with fiscal agents</i>	--	--
<i>Due from other governments</i>	378,910	254,962
<i>Other receivables, net</i>	5,251	--
<i>Due from other funds</i>	348,924	--
<i>Inventories and prepaid items</i>	--	--
Total Assets	\$ 4,869,362	\$ 254,962
 LIABILITIES AND FUND BALANCES		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ 240,866	\$ --
<i>Due to other funds</i>	1,153,721	254,961
Total Liabilities	1,394,587	254,961
 Fund balances:		
Reserved for:		
<i>Inventory</i>	--	--
<i>Unemployment</i>	--	--
<i>Forestry</i>	--	--
<i>Capital project funds</i>	--	--
<i>Permanent funds</i>	--	--
Unreserved, undesignated, reported in:		
<i>General fund</i>	3,474,775	--
<i>Special Revenue funds</i>	--	1
<i>Capital projects funds</i>	--	--
<i>Debt service funds</i>	--	--
<i>Permanent funds</i>	--	--
Total Fund Balances	3,474,775	1
Total Liabilities and Fund Balances	\$ 4,869,362	\$ 254,962

Building Improvement Funds	2006 Lease Purchase	Other Governmental Funds	Total Governmental Funds
\$ 1,300,000	\$ 3,317,324	\$ 2,912,080	\$ 11,665,681
-	-	180	180
-	-	304,104	937,976
-	-	832	6,083
-	-	-	348,924
-	-	22,880	22,880
<u>\$ 1,300,000</u>	<u>\$ 3,317,324</u>	<u>\$ 3,240,076</u>	<u>\$ 12,981,724</u>
\$ -	\$ 109,752	\$ 154,652	\$ 505,270
-	150,370	236,218	1,795,270
<u>-</u>	<u>260,122</u>	<u>390,870</u>	<u>2,300,540</u>
-	-	22,880	22,880
-	-	179,767	179,767
-	-	35,509	35,509
-	690,988	-	690,988
-	-	389,086	389,086
-	-	-	3,474,775
-	-	1,299,337	1,299,338
1,300,000	2,366,214	579,647	4,245,861
-	-	327,231	327,231
-	-	15,749	15,749
<u>1,300,000</u>	<u>3,057,202</u>	<u>2,849,206</u>	<u>10,681,184</u>
<u>\$ 1,300,000</u>	<u>\$ 3,317,324</u>	<u>\$ 3,240,076</u>	<u>\$ 12,981,724</u>

PEARL PUBLIC SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental funds balance sheet	\$ 10,681,184
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.	29,033,185
Liabilities due in one year are recognized in the SOA but not in the funds	(1,253,643)
Payables for bond principal which are not due in the current period are not reported in the funds.	(15,420,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(3,356,681)
Payables for bond interest which are not due in the current period are not reported in the funds.	(437,861)
Payables for compensated absences are not due in the current period are not reported in the funds.	(182,145)
Net assets of governmental activities - statement of net assets	<u>\$ 19,064,039</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, 2006

	General Fund	Displaced Students Fund
Revenue:		
Local sources	\$ 8,522,322	\$ --
State sources	14,271,584	--
Federal sources	72,253	418,087
Sixteenth section sources	--	--
Total revenues	<u>22,866,159</u>	<u>418,087</u>
Expenditures:		
Instruction	12,930,777	418,086
Support services	7,588,001	--
Noninstructional services	295,858	--
Sixteenth section	--	--
Facilities acquisition and construction	19,869	--
Debt service:		
Principal	850,886	--
Interest	--	--
Total expenditures	<u>21,685,391</u>	<u>418,086</u>
Excess (deficiency) of revenues (over) expenditures	1,180,768	1
Other financing sources (uses):		
Proceeds of loans	--	--
Insurance loss recoveries	42,765	--
Sale of other property	--	--
Operating transfers in	749,200	--
Operating transfers out	(2,097,700)	--
Total other financing sources (uses)	<u>(1,305,735)</u>	<u>--</u>
Net change in fund balance	(124,967)	1
Fund Balances:		
July 1, 2005	3,599,742	--
Increase (decrease) in reserve for inventory	--	--
June 30, 2006	<u>\$ 3,474,775</u>	<u>\$ 1</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

Building Improvement Funds	2006 Lease Purchase	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 39,234	\$ 2,065,293	\$ 10,626,849
-	-	662,979	14,934,563
-	-	2,848,068	3,338,408
-	-	309,019	309,019
<u>-</u>	<u>39,234</u>	<u>5,885,359</u>	<u>29,208,839</u>
-	39,000	2,257,307	15,645,170
-	277,688	732,351	8,598,040
-	-	1,632,461	1,928,319
-	-	22,646	22,646
-	565,344	1,581,132	2,166,345
-	-	629,499	1,480,385
-	-	915,786	915,786
<u>-</u>	<u>882,032</u>	<u>7,771,182</u>	<u>30,756,691</u>
-	(842,798)	(1,885,823)	(1,547,852)
-	3,900,000	-	3,900,000
-	-	-	42,765
-	-	1,490	1,490
1,300,000	-	448,500	2,497,700
-	-	(400,000)	(2,497,700)
<u>1,300,000</u>	<u>3,900,000</u>	<u>49,990</u>	<u>3,944,255</u>
1,300,000	3,057,202	(1,835,833)	2,396,403
-	-	4,674,108	8,273,850
-	-	10,931	10,931
<u>\$ 1,300,000</u>	<u>\$ 3,057,202</u>	<u>\$ 2,849,206</u>	<u>\$ 10,681,184</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, 2006*

Net change in fund balances - total governmental funds	\$ 2,396,403
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,079,674
The depreciation of capital assets used in governmental activities is not reported in the funds.	(724,608)
The gain or loss on the sale of capital assets is not reported in the funds.	(4,548)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	805,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	675,385
(Increase) decrease in accrued interest from beginning of period to end of period	(123,119)
Change in inventory is adjustment to FB in funds but affects non-instructional EX in SOA.	10,931
Long term debt proceeds not recognized in SOA	(3,900,000)
Compensated absences reported as amount earned in SOA but as amount paid in the funds.	<u>20,567</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 1,235,685</u>

The accompanying notes are an integral part of this statement.

PEARL PUBLIC SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 190,078
<i>Due from other funds</i>	1,446,346
Total Assets	\$ 1,636,424
LIABILITIES	
Liabilities:	
<i>Accounts payable and accrued liabilities</i>	\$ 1,513,116
<i>Due to student clubs</i>	97,002
<i>Other payables</i>	26,306
Total Liabilities	\$ 1,636,424

The accompanying notes are an integral part of this statement.

Pearl Public School District

Notes to the Financial Statements
June 30, 2006

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

(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 district 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 the Financial Statements
For the year ended June 30, 2006

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. 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 as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. 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.

Displaced Students Fund - This fund is used to account for the monies received from grants related to the educational needs of individuals and educational institutions affected by hurricanes in the Gulf of Mexico in the year 2005.

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

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

2006 Lease Purchase - This fund is used to account for the financial resources of the lease purchase.

All other governmental funds not meeting the criteria established for major funds are 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 broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and 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.

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

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 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. Investments are reported at fair value.

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 acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

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

Pearl Public School District

Notes to the Financial Statements For the year ended June 30, 2006

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
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 5 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. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 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 4 for details for interfund transactions, including receivables and payables at year-end.

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

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.
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.

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvements purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest land.

Restricted for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

Restricted for capital projects - An account that represents that portion of fund

Pearl Public School District

Notes to the Financial Statements For the year ended June 30, 2006

balance in the Capital Projects Fund which was legally restricted and not available for spending for any other purpose than for what it is restricted.

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).

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 the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

(2) Changes in Accounting Standards.

As required, the Pearl Public School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents and Cash with Fiscal Agents.

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' 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 \$11,665,681, and \$190,078 respectively. The carrying amount of deposits reported in the government wide statements was: Cash and Cash Equivalents \$11,093,140 and Restricted Assets \$572,541. The Restricted Assets represents the cash balance of the 16th Section Principal funds (Permanent Funds) and the MAEP Retirement Fund which is legally restricted and may not be used for purposes that supports the district's programs. The bank balance was \$12,199,236.76.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$12,199,236.76 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 \$180.

(4) 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>
Governmental funds:		
General fund	\$ 348,924	1,153,721

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

	<u>Due From</u>	<u>Due To</u>
Displaced Students Fund	0	254,961
2006 Lease Purchase	0	150,370
Other governmental fund(s)	0	236,218
Fiduciary Funds	<u>1,446,346</u>	<u>0</u>
Total Funds	<u>\$ 1,795,270</u>	<u>1,795,270</u>

The purpose of the Due From/To other funds balances was to provide funds for operating activities. 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>
Governmental funds:		
General fund	\$ 749,200	2,097,700
Building Improvement Funds	1,300,000	0
Other governmental fund(s)	448,500	400,000
	<u>0</u>	<u>0</u>
Total Funds	<u>\$ 2,497,700</u>	<u>2,497,700</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.

(5) Capital Assets

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

	<u>Balance 7-1-2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Balance 6-30-2006</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 134,110				134,110
Construction in progress	<u>9,190,922</u>	<u>1,631,947</u>		<u>(2,572,573)</u>	<u>5,677,723</u>
Total non-depreciable capital assets	<u>9,325,032</u>	<u>1,631,947</u>	<u>0</u>	<u>(2,572,573)</u>	<u>5,811,833</u>
<u>Depreciable capital assets:</u>					
Buildings	24,857,096			2,572,573	30,002,242
Improvements other than buildings	866,494				866,494
Mobile equipment	2,086,489	172,728	41,357		2,217,860
Furniture and equipment	<u>744,573</u>	<u>274,999</u>	<u>41,178</u>		<u>978,394</u>
Total depreciable capital assets	<u>28,554,652</u>	<u>447,727</u>	<u>82,535</u>	<u>2,572,573</u>	<u>34,064,990</u>
<u>Less accumulated depreciation for:</u>					
Buildings	7,742,076	490,299			8,232,375

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

	Balance 7-1-2005	Additions	Retirements	Completed Construction	Balance 6-30-2006
Non-depreciable capital assets:					
Land	\$ 134,110				134,110
Construction in progress	9,190,922	1,631,947		(2,572,573)	5,677,723
Total non-depreciable capital assets	9,325,032	1,631,947	0	(2,572,573)	5,811,833
Improvements other than buildings	430,849	29,020			459,869
Mobile equipment	1,405,986	119,680	37,221		1,488,445
Furniture and equipment	618,106	85,609	40,766		662,949
Total accumulated depreciation	10,197,017	724,608	77,987	0	10,843,638
Total depreciable capital assets, net	18,357,635	(276,881)	4,548	2,572,573	23,221,352
Governmental activities capital assets, net	\$ 27,682,667	1,355,066	4,548	0	29,033,185

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$507,226
Support Services	144,922
Non-instructional	72,460
Total Depreciation Expense	\$724,608

Commitments under construction contracts at June 30, 2006, are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Pearl Lower Elementary School	\$ 4,636	0
Northside Elementary School	686,352	0
Total	\$ 690,988	0

(6) Long-term liabilities.

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

	Balance 7-1-2005	Additions	Reductions	Adjustments	Balance 6-30-2006	Amounts due within one year
A. General obligation bonds payable	\$ 15,660,000		675,000		14,985,000	725,000

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

	Balance 7-1-2005	Additions	Reductions	Adjustments	Balance 6-30-2006	Amounts due within one year
B. Limited obligation bonds payable	1,430,000		130,000		1,300,000	140,000
C. Obligations under capital leases	513,022	3,900,000	675,385		3,737,637	380,956
D. Compensated absences	210,399		20,567		189,832	7,687
Total	\$ 17,813,421	3,900,000	1,500,952	0	20,212,469	1,253,643

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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation bonds, Series 1998	varies	03-01-98	03-01-18	\$7,000,000	\$ 4,990,000
General Obligation bonds, Series 2003	varies	03-01-03	03-01-19	10,950,000	9,995,000
Total				\$17,950,000	\$14,985,000

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

Year Ending June 30.	Principal	Interest	Total
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	477,778	1,407,778
2011	1,015,000	441,916	1,456,916
2012-2016	6,390,000	1,695,231	8,085,231
2017-2021	4,295,000	358,518	4,653,518
Total	\$ 14,985,000	5,016,035	20,001,035

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, 2006 the amount of outstanding bonded indebtedness was equal to 9.51% of property assessments as of October 1, 2005. This debt will be retired from the Bond Retirement Funds.

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

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>
Limited Obligation Bonds	Varies	04-01-98	08-01-2013	\$ <u>3,000,000</u>	<u>1,300,000</u>
Total				\$ <u>3,000,000</u>	<u>1,300,000</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>
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	165,000	30,145	195,145
2012 - 2016	<u>540,000</u>	<u>46,568</u>	<u>586,568</u>
Total	\$ <u>1,300,000</u>	<u>260,253</u>	<u>1,560,253</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:

Pearl Public School District

Notes to the Financial Statements
For the year ended June 30, 2006

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 380,956	20,727	401,683
2008	395,623	18,845	414,468
2009	410,856	16,884	427,740
2010	426,675	14,841	441,516
2011	443,105	12,714	455,819
2012 - 2016	<u>1,680,422</u>	<u>28,409</u>	<u>1,708,831</u>
Total	<u>\$ 3,737,637</u>	<u>112,420</u>	<u>3,850,057</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.

(7) 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 rate for fiscal year ending June 30, 2006 was 10.75% 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, 2006, 2005 and 2004 were \$1,521,602, \$1,414,877, \$1,220,426, respectively, which equaled the required contributions for each year.

(8) Other Commitments.

Commitments under construction contracts are described in Note 4.

(9) 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 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
2007	\$ 320,092
2008	320,092
2009	320,092
2010	320,092
2011	315,202
2012-2016	1,545,900
2017-2021	1,545,900
2022-2026	1,545,900
2027-2031	1,372,296
Thereafter	<u>3,056,552</u>
Total	<u>\$ 10,662,118</u>

(10) 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.

REQUIRED SUPPLEMENTARY INFORMATION

PEARL PUBLIC SCHOOL DISTRICT

Budgetary Comparison Schedule

Exhibit 1

General Fund

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 8,331,659	8,331,659	8,522,322	-	190,663
State sources	13,928,004	13,940,849	14,271,584	12,845	330,735
Federal sources	5,000	5,000	72,253	-	67,253
Total Revenues	<u>22,264,663</u>	<u>22,277,508</u>	<u>22,866,159</u>	<u>12,845</u>	<u>588,651</u>
Expenditures:					
Instruction	14,009,773	13,966,943	12,930,777	42,830	1,036,166
Support services	7,655,068	7,882,629	7,588,001	(227,561)	294,628
Noninstructional	394,885	416,863	295,858	(21,978)	121,005
Facilities acquisition and construction	-	-	19,869	-	(19,869)
Debt service:					
Principal	100,000	100,000	850,886	-	(750,886)
Interest	-	-	-	-	-
Total Expenditures	<u>22,159,726</u>	<u>22,366,435</u>	<u>21,685,391</u>	<u>(206,709)</u>	<u>681,044</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>104,937</u>	<u>(88,927)</u>	<u>1,180,768</u>	<u>193,864</u>	<u>1,269,695</u>
Other Financing Sources (Uses):					
Proceeds of Loans	-	-	-	-	-
Insurance Loss Recoveries	-	-	42,765	-	42,765
Sale of transportation equipment	-	-	-	-	-
Operating transfers in	712,000	778,500	749,200	66,500	(29,300)
Operating transfers out	(827,000)	(2,197,000)	(2,097,700)	(1,370,000)	99,300
Total Other Financing Sources (Uses)	<u>(115,000)</u>	<u>(1,418,500)</u>	<u>(1,305,735)</u>	<u>(1,303,500)</u>	<u>112,765</u>
Net Change in Fund Balances	<u>(10,063)</u>	<u>(1,507,427)</u>	<u>(124,967)</u>	<u>(1,497,364)</u>	<u>1,382,460</u>
Fund Balances:					
July 1, 2005			3,599,742	-	3,599,742
June 30, 2006	<u>\$ (10,063)</u>	<u>\$ (1,507,427)</u>	<u>3,474,775</u>	<u>(1,497,364)</u>	<u>4,982,202</u>

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

PEARL PUBLIC SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Displaced Funds
 For the Year Ended June 30, 2006

Exhibit 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$	420,000	418,087	420,000	-1,913
Total Revenues		420,000	418,087	420,000	-1,913
Expenditures:					
Instruction		420,000	418,086	(420,000)	1,914
Debt service:					
Total Expenditures		420,000	418,086	(420,000)	1,914
 Excess (Deficiency) of Revenues Over Expenditures		-	1	-	1
 Other Financing Sources (Uses):					
Total Other Financing Sources (Uses)				-	-
 Net Change in Fund Balances		-	1	-	1
 Fund Balances:					
July 1, 2005			-	-	-
June 30, 2006	\$		1	-	1

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, 2006

Budgetary Comparison Schedules

(1) **Basis of Presentation.**

The Budgetary Comparison Schedules present 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 October 15. A budgetary comparison is presented for the general fund and each major 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, 2006

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE/		
Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$80,867
Child Nutrition Cluster:		
School Breakfast Program	10.553	138,672
National School Lunch Program	10.555	727,602
Total child nutrition cluster		<u>866,274</u>
Total passed-through the MDE		<u>947,141</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		<u>947,141</u>
U. S. DEPARTMENT OF DEFENSE		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	62,892
Total Other Federal Assistance		<u>62,892</u>
FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	39,361
Total Federal Communication Commission		<u>39,361</u>
U. S. DEPARTMENT OF EDUCATION/		
Passed through the Mississippi Department of Rehabilitation Services:		
Rehabilitation Services - vocational rehabilitation grants to states	84.126	585
Total passed-through the MDRS		<u>585</u>
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	744,932
Vocation Education - Basic Grant to States	84.048	33,788
Safe and Drug Free Schools and Communities - State Grants	84.186	22,554
State Grants for Innovative Programs	84.298	12,900
Education Technology - State Grants	84.318	31,873
Comprehensive School Reform Demonstration	84.332	236,249
English Language Acquisition Grants	84.365	20,058
Hurricane Education Recovery	84.938	447,757
		<u>1,550,696</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	606,667
Special Education - Preschool Grants	84.173	59,056
Total special education cluster		<u>665,723</u>
Total passed-through the MDE		<u>2,217,004</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>2,217,004</u>
TOTAL FOR ALL FEDERAL AWARDS		<u>\$3,265,813</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 Public School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other Instructional	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 17,096,172	13,312,604	960,525	1,337,852	1,485,191
Other	13,660,519	2,332,566	172,002	22,213	11,133,738
Total	\$ 30,756,691	15,645,170	1,132,527	1,360,065	12,618,929

Total number of students * 3,557

Cost per student \$ 8,647 4,398 318 382 3,548

Instruction and other Student Instructional Expenditures - 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, 2100 & 2200 functional codes)
 General Administration - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - Business (2500s)
 School Administration - includes expenditures for the following functions: Support Services - School Administration (2400s)
 Other - includes all expenditure functions not included in Instruction or Administration categories

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**

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, 2006, and have issued my report thereon dated November 3, 2006. 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 reportable 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
November 3, 2006

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**

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, 2006. 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, 2006.

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

AICPA & MSCPA

the internal control that might be material weaknesses. A material weakness is a reportable 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
November 3, 2006

Certified Public Accountant

J.E. FORTENBERRY, III, PC
Certified Public Accountant
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS

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, 2006, which collectively comprise Pearl Public School District's basic financial statements and have issued my report thereon dated November 3, 2006. 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 \$38,906.81 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
November 3, 2006

Certified Public Accountant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Pearl Public School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

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. | Katrina Displaced Students Grant
CFDA # 84.938 | |
| 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

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

