

CITY OF VICKSBURG, MISSISSIPPI

Financial Report

Year Ended September 30, 2007

with

Independent Auditor's Reports

**CITY OF VICKSBURG, MISSISSIPPI
FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2007**

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I. REQUIRED SUPPLEMENTAL INFORMATION (PART A)

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

The following discussion and analysis of the City of Vicksburg's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2007. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements, which immediately follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

Government-wide - The assets of the City exceeded its liabilities at the close of the fiscal year by \$129,228,928 (reported as "net assets"). This compares to the previous year when assets exceeded liabilities by \$119,004,227. Of this amount, \$25,008,107 was reported as "unrestricted net assets", which may be used to meet the City's ongoing obligations to citizens and creditors. Governmental activities' net assets increased during the fiscal year by \$2,183,828 and business-type activities' net assets increased by \$8,040,873, resulting in an overall net assets increase of \$10,224,701.

Fund Level - As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$29,252,996, with \$8,524,730 reported as unreserved fund balance. The portion of balance which is reserved for specific purposes totaled \$802,350. This compares to the prior year ending fund balance of \$9,600,626. The proprietary funds reported total net assets of \$30,664,466. This compares to the prior year net assets of \$22,623,591.

Long-term Debt – During fiscal year 2007, the City retired \$3,155,536 of City debt. The City's total debt increased to \$40,226,549 since the city issued \$16.9 million in bonds during 2007.

USING THIS ANNUAL FINANCIAL REPORT

The City of Vicksburg'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.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements consist of the Statement of Net Assets and the Statement of Activities. Both of these statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. See Tables 1 & 2 on pages 7 and 9.

The Statement of Net Assets and the Statement of Activities report two types of activities:

Governmental Activities – The governmental activities reflect the City's basic services including general government services (executive, judicial), public safety (fire, law enforcement, emergency medical services), public works (street maintenance), sanitation, health and welfare (mosquito control, human services), and culture and recreation (parks and recreation and convention center). These services are financed primarily with taxes and intergovernmental revenues.

Business-type Activities – The cost of providing goods or services to the general public, which is financed or recovered primarily through user charges, is reported here. The City Water, Gas, Sewer, and Sanitation Funds are in this category of activities.

The Statement of Net Assets – The Statement of Net Assets presents information on all of the City's nonfiduciary assets and liabilities, with the differences between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether its financial position is improving or deteriorating.

The Statement of Activities – The Statement of Activities presents information showing how the government'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. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. *Revenues* - uncollected fines and *Expenses* - earned but unused vacation leave).

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 20072007

Government-Wide Financial Statements – Continued

This statement combines the expenses for all departments of the City into a few basic categories, which tells the reader how much a particular service provided by the City costs, and shows how that service is paid for. The change in net assets of the City may indicate whether the City will be able to continue to provide the same level of services in the future.

This Statement of Activities condenses expense and funding information by combining the expenses of all City departments into a few general categories of service for both the primary governmental activities and the business-type activities. The following explanation is given for those not familiar with reading the Statement of Activities. The Statement of Activities (see page 28) is divided into two sections, Top and Bottom as described below:

Top Section

- Column one lists the name of the combined generalized function or program of the City.
- Column two lists the expenses.
- Column three lists revenue from receipt of dollars charged for the service (if any).
- Column four lists (if any) State or Federal grant revenue specific to that program to be used towards its operational expenses.
- Column five lists (if any) State or Federal grant revenue specific to that program to be used towards its capital expenses.
- Column six and seven, respectively for type either governmental or business, lists the dollar amount, either net expense or net revenue, that is derived from the difference between program revenues and its related expenses. The amount listed, shown in parenthesis “()”, indicates the dollar amount of the expenses that are not covered by fees, charges, grants or contributions and that must be paid from basic taxes.
- Column eight totals the respective row, which totals out the activities of the primary government.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

Government-Wide Financial Statements – Continued

Bottom Section

This section contains the following:

- General revenues dollars, under the same two categories of governmental or business-type activities, that are received from taxes, non restricted grants and contributions and unrestricted investment earnings or other miscellaneous revenues, such as gain on sale of asset.
- The change in net assets, derived from the difference of the total of activities (top section) less revenues (bottom section).
- Net assets, beginning year balance.
- Net assets, ending.

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. Information about the City's governmental funds begins on page 30. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's funds are divided into two categories: governmental funds and proprietary funds. These categories use different accounting approaches and should be interpreted differently.

Governmental Funds – Most of the City's general activities are reported in governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. This approach focuses on near-term inflows and outflows of spendable resources, along with the balance of spendable resources available at year-end.

The governmental fund statements provide a detailed view of the City's near-term financing requirements. Governmental funds include the General Fund, City Bond and Interest Debt Service Fund, which are presented separately as major funds. All other funds of the City are considered nonmajor funds and are combined into a single column on the governmental fund financial statements.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

Fund Financial Statements – Continued

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it may be 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, the reader may gain a better understanding of the long-term impact of the City's near-term financing decisions.

Proprietary Funds – The City maintains two types of proprietary funds: enterprise and internal service.

- *Enterprise funds* charge fees for services to outside customers such as the water, gas, sewer and refuse collection. They are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting and are used to report the same functions presented as business-type activities in the government-wide financial statements.
- *Internal service* funds provide vehicle maintenance services to other City departments on a cost reimbursement basis. Because these services primarily benefit governmental rather than business-type functions, they have been included in governmental activities on the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the city's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The fiduciary fund statement can be found on pages 39-40 of this report.

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 are a required part of the basic financial statements and can be found in the basic financial statements section of this report.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as budgetary comparison schedule for the general fund. Required supplementary information can be found on pages 62-64 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets Analysis (Table 1):

For the year ended September 30, 2007, the City's combined assets (governmental and business-type activities) totaled \$176.8 million dollars compared to \$148.5 million for fiscal year ending September 30, 2006. Cash and cash equivalents increased by \$20.4 million. Total liabilities increased by \$18.2 million from \$29.4 million to \$47.6 million dollars and capital assets increased by \$7.9 million to \$131.8 million dollars. This comparison is very helpful in reflecting the City's ability to provide uninterrupted services to the public in the future.

The total net assets of the City equaled \$129.2 million dollars after deducting total liabilities of \$47.6 million dollars from total assets.

The largest portion of the City's net assets, 74.5% or \$131.8 million dollars, consist of its investment in capital assets such as land, buildings, furniture and equipment, improvements-other and infrastructure, less any debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. The City's investment in capital assets is reported net of related debt, thus it should be noted that the resources needed to repay this debt, must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The largest change in net assets is the portion invested in governmental activities capital assets, net of related debt.

Restricted net assets are resources that are subject to externally imposed restrictions. The total amount of restricted net assets was \$683 thousand dollars to be used for debt retirement.

The remaining unrestricted net assets, \$25 million dollars, or 19.3 percent, may be used to meet the City's ongoing obligations to citizens and creditors; however, internally imposed designations of certain resources further limit the purposes for which those net assets may be used. As in the previous fiscal year, the City is able to report positive balances in all three categories of net assets for the City as a whole, as well as both governmental and business-type activities.

City of Vicksburg, Mississippi
Table 1
Net Assets
September 30, 2007 and 2006
(In Millions of Dollars)

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Cash and Other Assets	41.3	23	3.7	1.6	45.0	24.6
Capital Assets	<u>88.7</u>	<u>90.2</u>	<u>43.1</u>	<u>33.7</u>	<u>131.8</u>	<u>123.9</u>
Total Assets	130.0	113.2	46.8	35.3	176.8	148.5
Liabilities						
Current and Other Liabilities	6.5	5.3	4.3	3.0	10.8	8.3
Long Term Liabilities	<u>25.0</u>	<u>11.5</u>	<u>11.8</u>	<u>9.6</u>	<u>36.8</u>	<u>21.1</u>
Total Liabilities	31.5	16.8	16.1	12.6	47.6	29.4
Net Assets						
Invested in Capital Assets, Net of Related Debt	73.2	77.2	30.3	23.2	103.5	100.4
Restricted-Debt Service	.7	.3	.0	.0	.7	.3
Unrestricted	<u>24.7</u>	<u>18.9</u>	<u>.3</u>	<u>(0.6)</u>	<u>25.0</u>	<u>18.3</u>
Total Net Assets	98.6	96.4	30.6	22.6	129.2	119

*Note: This table consists of information from the Statement of Net Assets expressed in millions to assist in reading the preceding Analysis of the Net Assets.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

Statement of Activities Analysis (Table 2):

Revenues for fiscal year 2007 totaled \$56.62 million and exceeded expenses which totaled \$53.39 million by \$3.23 million dollars. The business-type activity's revenue which totaled \$21.66 million exceeded expenses of \$19.48 million by \$2.47 million. The Gas system rates were increased to cover prior year deficiencies, caused by volatile natural gas prices. The governmental activities revenues exceeded expenses by \$765 thousand. Utility rates have continued to be raised as necessary and a purchase gas adjustment mechanism was in place to adjust the price of natural gas on a monthly basis.

The *major* governmental programs of service provided by the City, its cost and percentage of general cost activities are as follows:

	<u>2007</u>	<u>2006</u>
• General government.....	\$6.71 million, 20%	\$6.18 million, 19%
• Public safety.....	\$15.25 million, 45%	\$15.36 million, 46%
• Public works.....	\$6.30 million, 18%	\$6.35 million, 19%
• Health, welfare and sanitation..	\$1.57 million, 5%	\$1.33 million, 4%
• Culture and recreation.....	\$3.44 million, 10%	\$3.24 million, 10%

Interest and fiscal charges totaled \$.52 million and with \$.12 million for Education represents the final 2% of the total cost for 2007 compared to \$.60 million, which was also 2% of the total cost for 2006.

The costs of some of the services provided by the City of Vicksburg are paid directly by the recipient of those services. Revenues from charges for service totaled \$25.6 million and is \$1.7 million above charges for service for fiscal year 2006. Charges for services are primarily in the business-type activities. This group includes the water, gas, sewer utilities, and the sanitation services. Police fines and charges for emergency medical services (ambulance) make up a large portion of the program revenues for the governmental activities. The balance of the costs are paid for with taxes collected directly from the taxpayers of the City along with taxes and revenues from other governments. The general revenues of the City consist of the following:

	<u>2007</u>	<u>2006</u>
• Property taxes,.....	\$9.17 million, 30%	\$8.57 million, 30%
• Franchise taxes,.....	\$9.28 million, 37%	\$10.75 million, 37%
• Public service taxes total,	\$7.50 million, 27%	\$7.55 million, 27%

The final 6% of revenues came from the sale of assets, interest earnings and other miscellaneous sources, which totaled \$1.7 million for 2007. For 2006 the same items respected 6% of revenues at \$1.7 million. See Table 3 titled "Government Wide Revenues" on page 10 of the MDA.

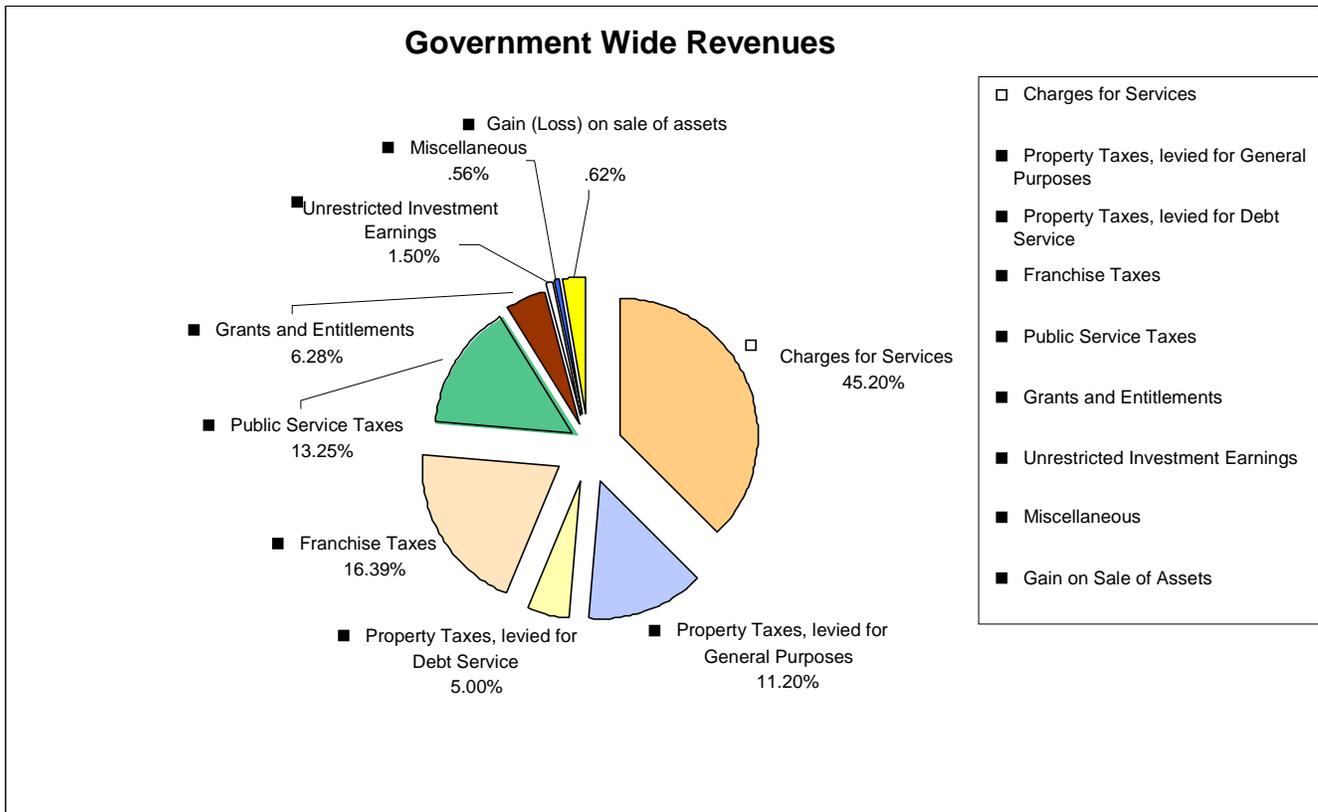
City of Vicksburg, Mississippi
Table 2
Changes in Net Assets
For the Years Ended September 30, 2007 and 2006
(In Millions of Dollars)

	Governmental Activities		Business Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues						
Program Revenues:						
Charges for Services						
Governmental Activities	4.27	3.65			4.27	3.65
Water Utility			5.05	4.30	5.05	4.30
Gas Utility			10.90	11.20	10.90	11.20
Sewer Utility			3.60	3.24	3.60	3.24
Refuse, Sanitation Fund			1.75	1.50	1.75	1.50
Transportation Fund			.03	.01	.03	.01
Operating Grants and Contributions	1.50	2.30	.33	.23	1.83	2.54
Capital Grants and Contributions	1.25	1.07	.00	.39	1.25	1.46
Total Program Revenues	7.02	7.02	21.66	20.87	28.68	27.9
General Revenues:						
Property Taxes, levied for General Purposes	6.34	6.18			6.34	6.18
Property Taxes, levied for Debt Service	2.83	2.39			2.83	2.39
Franchise Taxes	9.28	10.75			9.28	10.75
Public Service Taxes	7.50	7.55			7.50	7.55
Grants and Entitlements not Restricted	.47	.14			.47	.14
Unrestricted Investment Earnings	.56	.36	.29	.17	.85	.53
Miscellaneous	.32	.25			.32	.25
Gain or (Loss) on Sale of Assets	.35	.86			.35	.86
Total General Revenues	27.65	28.48	.29	.17	27.94	28.65
Total Revenues	34.67	35.50	21.95	21.04	56.62	56.55
Functions/Programs Expenses:						
General Government	6.71	6.18			6.71	6.18
Public Safety	15.25	15.36			15.25	15.36
Health, Welfare and Sanitation	1.57	1.33			1.57	1.33
Public Works	6.30	6.35			6.30	6.35
Education	.12	.12			.12	.12
Culture and Recreation	3.44	3.24			3.44	3.24
Interest and Fiscal Charges	.52	.58			.52	.58
Total Business Related Expenses			19.48	22.61	19.48	22.61
Total Expenses	33.91	33.16	19.48	22.61	53.39	55.77
Increase (Decrease) in Net Assets before Transfers	.76	2.34	2.47	(1.57)	3.23	.78
Transfers	.00	.00	.00	.00	.00	.00
Change in Net Assets	.76	2.34	2.47	(1.57)	3.23	.78

*Note: This table consists of information from the Statement of Activities expressed in millions to assist in reading Analysis of the Activities.

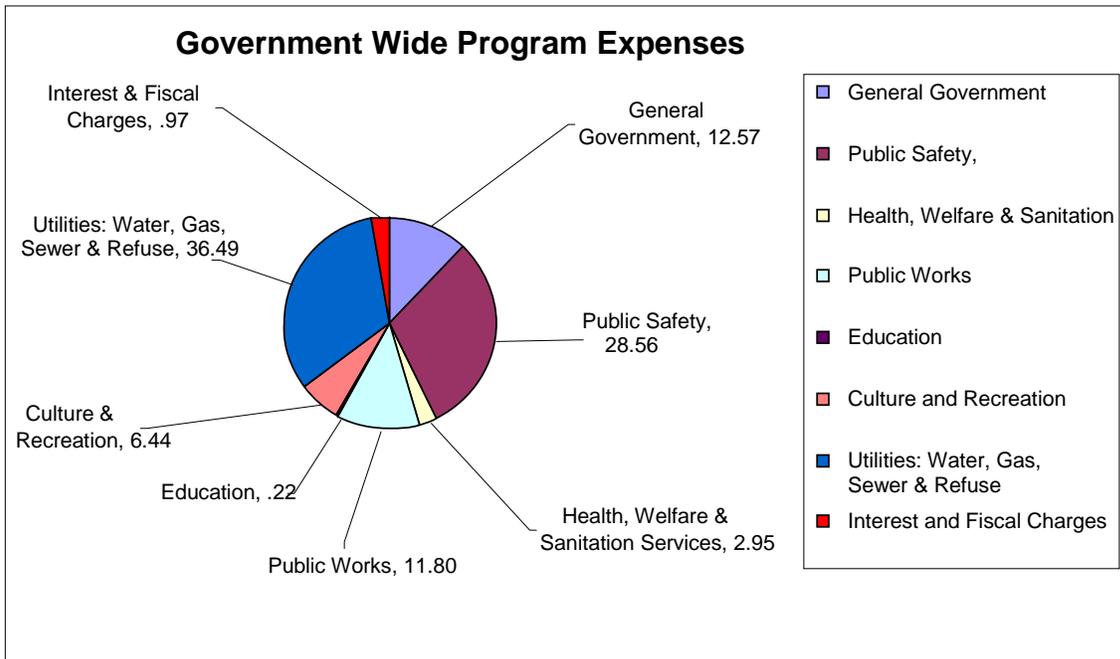
City of Vicksburg, Mississippi
Table 3
Government Wide Revenues
For the Years Ending September 30, 2007 and 2006

<u>Types of Government Wide Revenues</u>	<u>Revenues</u>		<u>Percent</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Charges for Services	25,591,209	23,886,150	45.20%	42.25%
Property Taxes, levied for General Purposes	6,341,902	6,185,948	11.20%	10.94%
Property Taxes, levied for Debt Service	2,832,031	2,388,407	5.00%	4.22%
Franchise Taxes	9,277,911	10,749,626	16.39%	19.01%
Public Service Taxes	7,501,048	7,553,517	13.25%	13.36%
Grants and Entitlements	3,553,598	4,132,605	6.28%	7.31%
Unrestricted Investment Earnings	851,804	532,131	1.50%	.94%
Miscellaneous	317,973	252,978	.56%	.45%
Gain or (Loss) on Sale of Assets	<u>350,375</u>	<u>858,880</u>	<u>.62%</u>	<u>1.52%</u>
Total Government Wide Revenues	<u>56,617,851</u>	<u>56,540,242</u>		



City of Vicksburg, Mississippi
Table 4
Government Wide Program Expenses
For the Year Ending September 30, 2007 and 2006

<u>Functions/Programs Expenses</u>	<u>Expenses</u>		<u>Percent</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Government	6,708,332	6,175,576	12.57	11.07
Public Safety	15,249,699	15,364,062	28.56	27.55
Public Works	6,300,841	6,352,418	11.80	2.38
Health, Welfare and Sanitation	1,574,247	1,329,046	2.95	11.39
Culture and Recreation	3,436,284	3,239,730	6.44	5.81
Education	117,739	115,243	.22	.21
Utilities: Water, Gas, Sewer and Refuse	19,482,618	22,608,899	36.49	40.54
Interest and Fiscal Charges	<u>520,178</u>	<u>587,819</u>	.97	1.05
Total Expenses	<u>53,389,938</u>	<u>55,772,793</u>		



**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

THE CITY'S FUNDS ANALYSIS

General Fund Budgeting Highlights (See page 63)

Total revenue for the fiscal year totaled \$28.72 million, and exceeded the budgeted amount of \$28.34 million by \$380,000. The Charges for Services category had the largest budget variance. The estimated budget for Charges for Services was exceeded by \$716 thousand dollars. The City has made a concerted effort to adjust the charges to cover the cost and to improve the collection process for the Charges for Service category. Minor negative variances are reported in property taxes, which equaled (\$115,000) below estimated amounts. Fees and Fines revenue was below budget by (\$363,000).

The final amended General Fund expense budget totaled \$20.9 million dollars. The total amount expended was \$29.5 million dollars, leaving an unexpended balance of \$1.4 million dollars for uncompleted projects. Culture and Recreation exceeded its estimated expenses by (\$105,710) occurred because the City combines the budget of the Convention Center's operating budget. The Convention Center expenses will be monitored on a monthly basis to avoid this in the future.

Capital Assets and General Long-Term Obligations

Capital Assets

General capital assets include land, improvements to land, buildings, vehicles, machinery and equipment, infrastructure, and all other tangible assets that are used in operations and that have initial useful lives greater than one year and exceed the capitalization threshold. The City has capitalized all purchased general capital assets. The capital assets stated for fiscal year 2007 has a major change for the business activity funds by converting the depreciation calculation to comply with the State of Mississippi Office of Auditor's specification for the calculation of depreciation as stipulated in their *Municipal Audit and Accounting Guide*. The state procedure includes the reserve of salvage values which reduces the accumulated depreciation. Over time the business activity fund fixed assets items were added to the ledger without a consistent number of years for the estimated life. Where the state system stipulates a consistency life for depreciation by the class of the asset. The total difference in the net assets for the capital assets of the business activity funds total approximately \$8 million dollars.

The most significant changes in reporting standards for capital assets under Governmental Accounting Standards Board, Statement No. 34 (GASB34) is in the recording of infrastructure such as roads, bridges, sidewalks and other non-building improvements such as ball-fields, playgrounds, etc.

The City completed the process of complying with GASB34 in the 2003 fiscal year. Separate fixed asset inventory records are maintained for each item of capital asset.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

Capital Assets – Continued

Fiscal year 2007 is the fifth year that the City has complied with the GASB34 requirements concerning the statement and depreciation of its capital assets. The City continues to improve the accuracy of its data concerning its capital assets. The Mississippi, Office of State Auditor promulgates the rules for accounting for municipal fixed assets.

Easements and donated or dedicated right of way (those placed into the government's maintenance through contributions from private development) are not capitalized in this financial presentation. The City has an ongoing project to research and record all easements.

For the year ended September 30, 2007, governmental activities capital assets totaled **\$162,149,384** with accumulated depreciation of **\$73,443,035** leaving a net capital assets balance of **\$88,706,349**. Business-type activities capital assets for year ended September 30, 2007 totaled **\$70,614,361** with total accumulated depreciation of **\$27,484,341** leaving a net business-type capital assets balance of **\$43,130,020**.

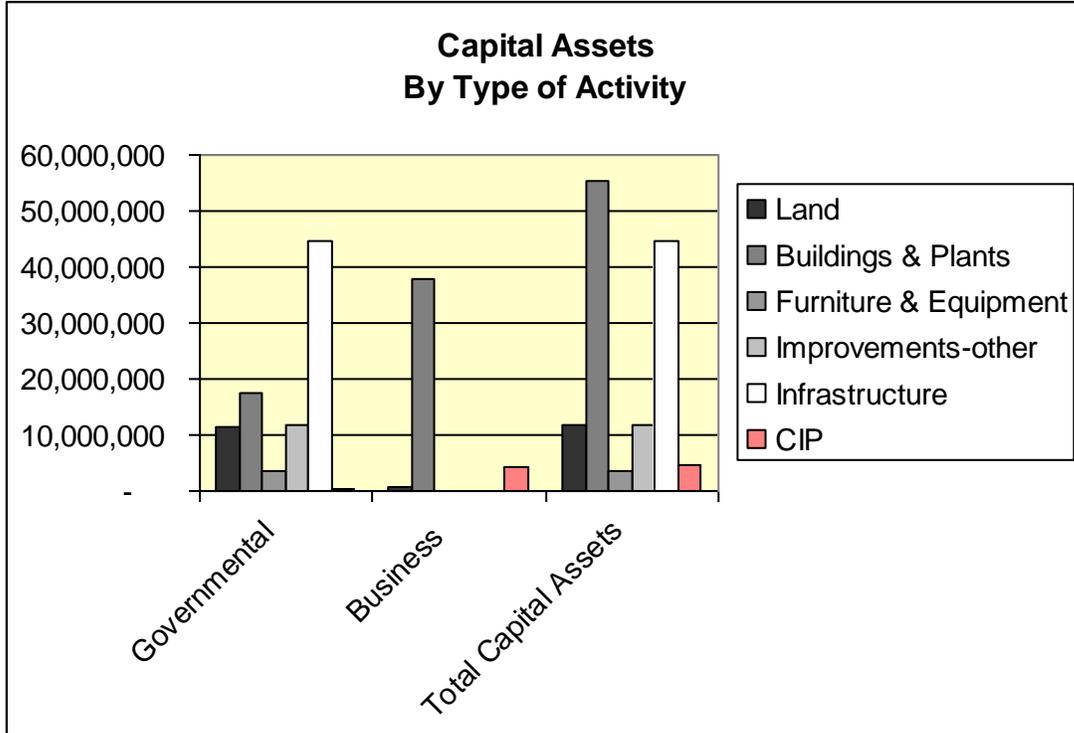
See Note 6 of the "Notes to Financial Statements", for a breakdown of the individual categories with its beginning balance, additions, retirements, and ending balance.

**City of Vicksburg
Capital Assets, Net of Depreciation
September 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	11,349,046	11,747,620	594,661	531,813	11,943,707	12,279,433
Buildings	17,357,318	17,344,119	38,018,941	30,428,090	55,376,259	47,772,209
Furniture and Equipment	3,406,133	3,264,133	174,610	1,825,954	3,580,743	5,090,544
Other Capital Assets (Includes Construction in Progress)	12,030,073	12,176,856	4,341,808	913,472	16,371,881	13,090,328
Infrastructure	44,563,779	45,711,927	-	-	44,563,779	45,711,927
Total Capital Assets	<u>88,706,349</u>	<u>90,245,112</u>	<u>43,130,020</u>	<u>33,699,329</u>	<u>131,836,369</u>	<u>123,944,441</u>

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)
For the Year Ended September 30, 2007**

Capital Assets Net of Depreciation – Continued



**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

General Long Term Obligations

A General Obligation (GO) bond is a bond that is backed by the full faith and credit of the City; and although not required, usually means that a tax levy will be assessed to repay the debt.

Most GO bonds issued by the City are repaid within ten years. This timely repayment helps to hold down interest cost on debt and enhances the City's credit rating. The quick repayment also gives the City great flexibility in financing the future needs of the City. The City of Vicksburg has a credit rating issued by Moody's Investors Service of "A2".

Limits on Debt

The City of Vicksburg is subject to a general statutory debt limitation under which the City may not incur general obligation bonded indebtedness in an amount, which shall exceed fifteen percent (15%) of the assessed value of the City's taxable property. *(Bonds issued for utility system improvements if revenues of the system are exclusively dedicated for repayment, are not subject to the fifteen percent (15%) limit.)*

The City's current fifteen percent (15%) limit is \$42,713,782. At fiscal year ended, September 30, 2007, bonds issued by the City, subject to the fifteen percent (15%) debt limit, was \$30,748,630.

State law imposes an overall debt limit on municipalities of twenty percent (20%) of the assessed value of the taxable property within the City. At September 30, 2007, the twenty percent (20%) limit for the City of Vicksburg was \$56,951,709. The City's total outstanding debt, subject to this overall debt limit, totaled \$38,406,549. The City of Vicksburg has the ability to issue an additional amount of \$18,545,160. This figure represents thirty three percent (33%) of the City's total bonding capacity.

See Note 7 of the "Notes to Financial Statements", for more detailed information about our long-term liabilities.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

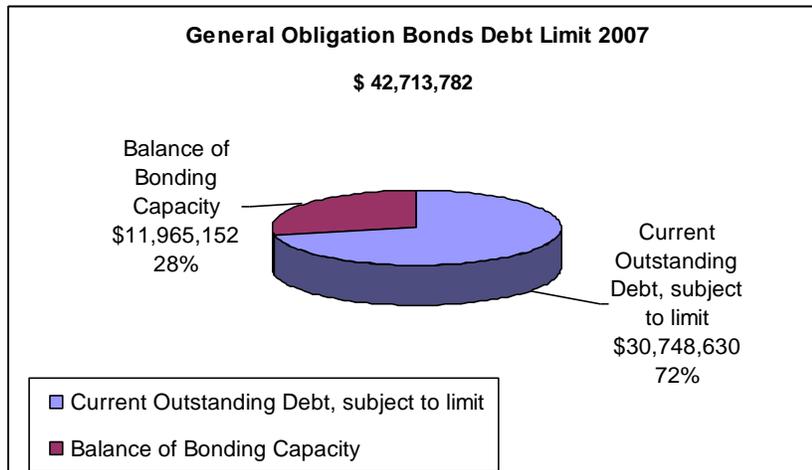
General Long Term Obligations – Continued

**Statutory Debt Limits
September 30, 2007**

	Twenty Percent (20%)		Fifteen Percent (15%)	
	<u>Debt Limit</u>	<u>Percent</u>	<u>Debt Limit</u>	<u>Percent</u>
Total Statutory Debt Capacity	56,951,709		42,713,782	
Current Outstanding Debt, subject to limit	<u>38,406,549</u>	<u>67.44%</u>	<u>30,748,630</u>	<u>72.00%</u>
Balance of Bonding Capacity	18,545,160	32.56%	11,965,152	28.00%

**Statutory Debt Limits
September 30, 2006**

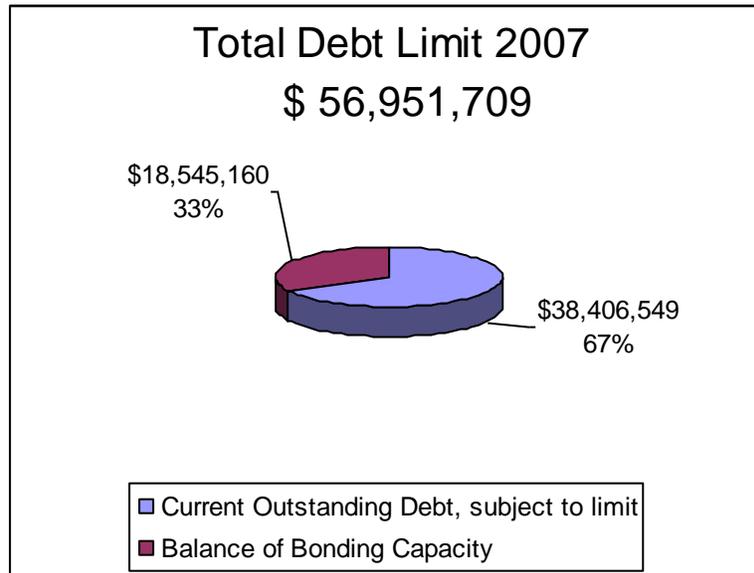
	Twenty Percent (20%)		Fifteen Percent (15%)	
	<u>Debt Limit</u>	<u>Percent</u>	<u>Debt Limit</u>	<u>Percent</u>
Total Statutory Debt Capacity	54,860,210		41,145,157	
Current Outstanding Debt, subject to limit	<u>20,996,949</u>	<u>38.27%</u>	<u>10,697,913</u>	<u>26.00%</u>
Balance of Bonding Capacity	33,863,261	61.73%	30,447,244	74.00%



**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

General Long Term Obligations – Continued



Bonds

Listed below are the outstanding GO bonds of the City with the original amount, purpose and the amount of outstanding debt.

- The 2001 issue for \$17.5 million has been used for downtown redevelopment, recreation facilities, street improvements, sidewalk and landscaping improvements, outstanding \$8.75 million.
- The 2003 issue for \$5.8 million was used for water, gas and sewer improvements, the outstanding amount is \$4.59 million.
- The 2003 refunding issue for \$1.6 million was used to advance refund the 1994 Water Revenue Bond and the outstanding balance is \$.51 million.
- The 2007 Public Improvement Bonds dated September 1, 2007 was issued for \$16.9 million for street and recreation improvements and the full amount was outstanding as of 09/30/2007.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

General Long Term Obligations – Continued

TIF

Tax Increment Financing Bonds are used by the City to encourage development by providing the necessary infrastructure for a development project. The increased taxes are pledged by the City to repay the debt. The City does not pledge the full faith and credit of the City to repay the TIF bonds. The City is not obligated to repay the debt if the tax increment is insufficient to make the annual payments.

The City has issued \$2,925,000 in Tax Increment Financing (TIF) bonds for new developments since 1991. The total balance outstanding for TIF bonds is \$1,820,000.

State Loans

The City made three state loans (SRF) in 1995, 1996 and 2003 for sewer improvements with a total outstanding balance of \$7,381,894. One of the 2003 SRF loans was acquired for \$4.2 million and at September 30, 2007 \$4,036,962 dollars of that loan had been drawn down and construction is in progress. In 1996, the City made a loan from the State Department of Economic and Community Development to be used for lime sludge disposal equipment for the water treatment plant. The balance outstanding at September 30, 2007 is \$306 thousand.

Future Long Term Obligation

The City has no immediate plans to issue any bonds.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

General Long Term Obligations – Continued

The City has been approved for a loan from the Water Pollution Control Revolving Loan Fund “SRF” to provide sanitary sewer service to areas in south Vicksburg and to make sewer treatment plant improvements. Construction is currently in progress. Four million thirty seven thousand (\$4.037 million) has been drawn down. The loan amount will be \$4.2 million at 1.75 % interest, which will not accrue until all of the projects are completed. The projected completion date and the repayment start date is anticipated to be in spring of 2008.

**City of Vicksburg
Long Term Obligations
September 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Obligations Bonds	25,648,330	13,807,796	5,100,000	6,295,000	30,748,330	20,102,796
Revenue Bonds	-	-	-	-	-	-
State Loans	-	-	7,657,919	4,389,529	7,657,919	4,389,529
Tax Increment Financing (TIF) Bonds	1,820,000	2,220,000	-	-	1,820,000	2,220,000
Other	-	-	-	-	-	-
Total Long Term Obligations	<u>27,468,330</u>	<u>16,027,796</u>	<u>12,757,919</u>	<u>10,684,529</u>	<u>40,226,249</u>	<u>26,712,325</u>

Revenue Section Highlights

Governmental Funds revenues for the governmental funds totaled \$33.98 million for the fiscal year 2007 as compared to \$34.42 million for 2006. The General Fund revenues totaled \$28.72 million dollars and the Bond and Interest Fund income for the year was \$2.7million. The other funds of the Governmental Funds revenues totaled a combined \$2.58 million.

The largest components of the General Fund revenue are as follows for 2007:

Three Major Revenue Groups	Millions	Percent
Gaming taxes	\$6.9	24%
Sales taxes: 18.5% of the state, 7% sales taxes on sales in City	\$7.5	26%
Property taxes: real estate, business, public utilities, auto	\$6.3	22%

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

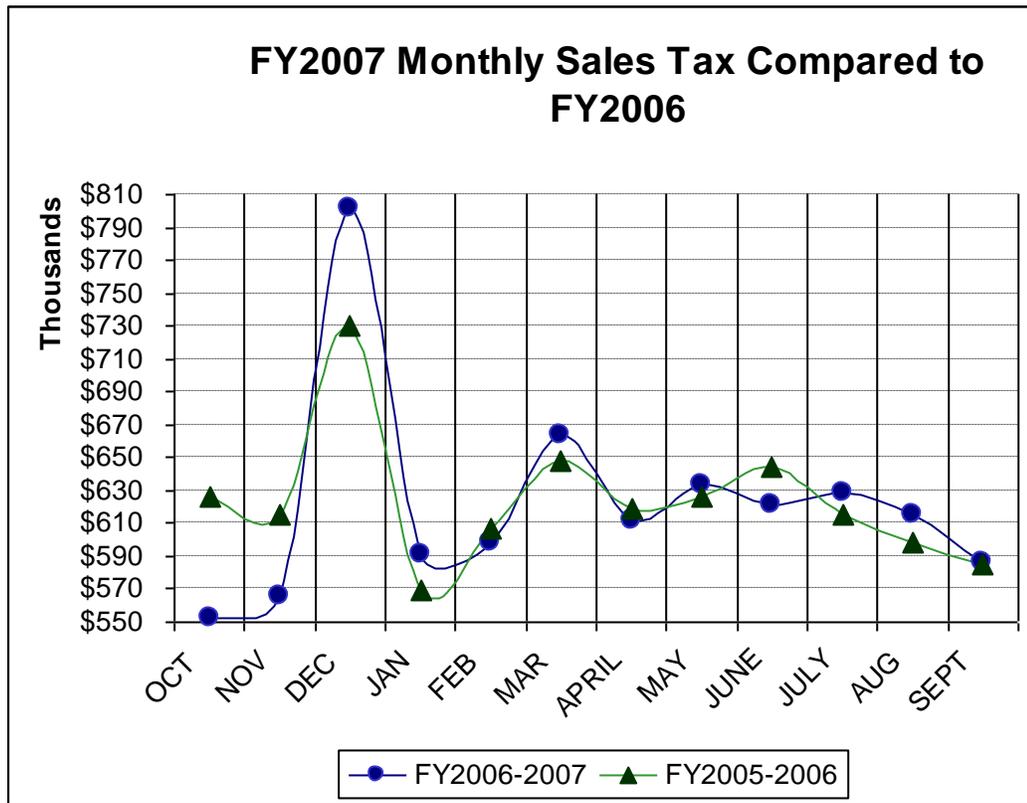
For the Year Ended September 30, 2007

Revenue Section Highlights – Continued

The largest components of the General Fund revenue are as follows for 2006:

Three Major Revenue Groups	Millions	Percent
Gaming Taxes	\$6.8	25%
Sales taxes: 18.5% of the state, 7% sales taxes on sales in City	\$6.8	25%
Property taxes: real estate, business, public utilities, auto	\$6.0	22%

The following chart shows the percentage change by month for the preceding twelve months sales tax collections for the year ending September 30, 2007:

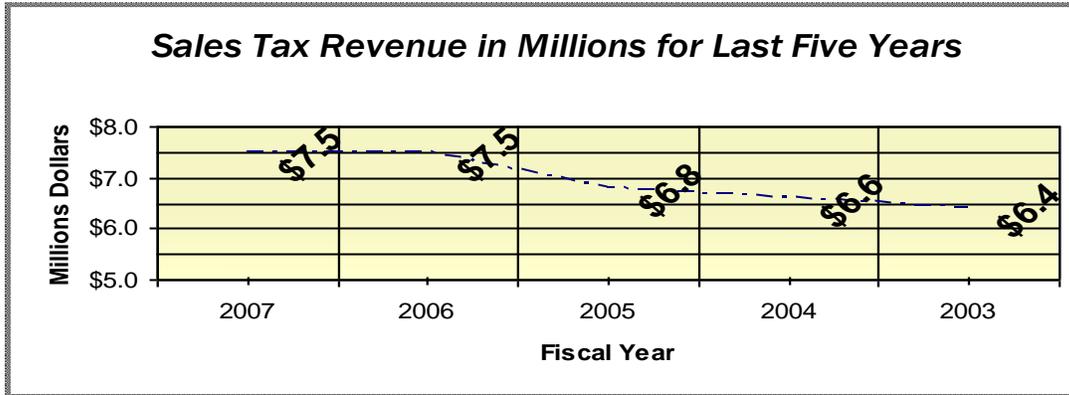


**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

Revenue Section Highlights – Continued

Sales tax revenue for the past five years:



Current Related Financial Activities

Utility System Revenues

The City is continuing to evaluate its utility system revenues and making adjustments when necessary. The effects of the adjustments are reflected in this fiscal year. In fiscal year 2006 the total operating income for the proprietary funds was a loss of (\$1.98) million, for fiscal year 2007 total operating income totaled \$2.21 million. In addition, the City's steps to stabilize the effect of the volatile cost of natural gas, by formulating an automatic purchased gas adjustment rate on a monthly basis gave the gas proprietary fund an operating profit of \$2.3 million compared to a loss of \$292 thousand for 2006.

Capital Improvements

The city issued \$16.9 million in public improvement bond in September of 2007, \$4.9 million of this bond issue is to be used for a recreation ball park. Seven (\$7) million is to be used for street paving and the remaining \$5 million is going to be used for bridge and other street improvements along with landscaping the Washington Street entrance to the City. Private developers are continuing to purchase downtown properties and renovate them with the intent of having retail at the street level and residential units on the upper levels.

**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2007

Current Related Financial Activities – Continued

Annual congressional funding is continuing to flow to the United States Army Corps of Engineering for the design and construction of an interpretive center on property donated by the City. The total funds expended so far has been approximately \$5 million. The center will include the dry docked motor vessel "Mississippi", which was acquired by the City from the federal surplus property agency and then returned to the Corps for placement in the center. The "Mississippi" has been refurbished and will be the main feature of the center.

CONTACT INFORMATION

Financial reports of the City of Vicksburg are for use by residents as well as groups and entities, such as investors and creditors, to assess the financial condition of the City.

The citizens of Vicksburg should be able to use the reports to tell them how their taxes and fees for services have been used and to determine if their taxes or fees for services will increase. The citizens should also be able to assess the City's ability to continue the services which the citizens desire and if the City is making proper financial decisions to insure that the infrastructure of the City is being maintained.

Investors and creditors have a need for proper financial reports to evaluate the financial condition of the City. Investors need assurances of a sound financial condition when making decisions to provide the financing needs of the City or to invest directly in the City. Citizens benefit by the City having the most favorable credit rating.

For more information regarding this report and the City of Vicksburg's financial condition, contact the City Clerk's office located at 1401 Walnut Street, Vicksburg, MS. Phone: 601-634-4553 or E-mail: Waltero@vicksburg.org. You may also visit the City's website at www.vicksburg.org.

II. BASIC FINANCIAL STATEMENTS

THE HALFORD FIRM, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

Members
American Institute of
Certified Public Accountants

Mississippi Society of
Certified Public Accountants

Louisiana Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Vicksburg, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Vicksburg, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vicksburg, Mississippi, as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2010 on our consideration of the City of Vicksburg, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 22 and 56 through 57, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Vicksburg, Mississippi's basic financial statements. The Schedule of Surety Bonds for Municipal Officials is presented for purposes of additional analysis and is not a required part of the 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 of the City of Vicksburg, Mississippi. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The Schedule of Surety Bonds for Municipal Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

The Halford Firm, PLLC

June 8, 2010
Vicksburg, Mississippi

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 23,483,880	\$ 3,631,371	\$ 27,115,251
Investments	1,967,655	-	1,967,655
Receivables	10,236,905	2,661,291	12,898,196
Internal balances	3,201,999	(3,201,999)	-
Due from other governmental agencies	2,192,513	-	2,192,513
Inventories	46,443	-	46,443
Restricted cash	-	600,877	600,877
Other assets	207,050	-	207,050
Capital assets:			
Land, improvements and construction in progress, not being depreciated	11,614,018	4,936,469	16,550,487
Infrastructure and infrastructure in progress, net of depreciation	44,563,779	-	44,563,779
Buildings, net of depreciation	17,357,319	38,018,942	32,972,087
Equipment and furniture, net of depreciation	3,406,133	174,610	(1,499,425)
Other capital assets, net of depreciation	11,765,101	-	11,765,101
Total capital assets	<u>88,706,350</u>	<u>43,130,021</u>	<u>104,352,029</u>
Total assets	<u>\$ 130,042,795</u>	<u>\$ 46,821,561</u>	<u>\$ 149,380,014</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 2,406,906	\$ 3,026,785	\$ 5,433,691
Due to other governmental agencies	52,738	69,458	122,196
Other liabilities:			
Due within one year:			
Bonds, capital leases and contracts	3,755,727	1,223,126	4,978,853
Accrued interest	127,278	13,786	141,064
Claims and judgments	133,558	33,000	166,558
Due in more than one year:			
Bonds, capital leases and contracts	24,103,808	11,620,694	35,724,502
Compensated absences	898,286	170,247	1,068,533
Total liabilities	<u>\$ 31,478,301</u>	<u>\$ 16,157,096</u>	<u>\$ 47,635,397</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 60,846,815	\$ 30,372,097	\$ 91,218,912
Restricted for:			
Debt service	683,331	-	683,331
Unrestricted	37,034,348	292,368	37,326,716
Total net assets	<u>\$ 98,564,494</u>	<u>\$ 30,664,465</u>	<u>\$ 129,228,959</u>

The accompanying notes are an integral part of this statement.

**CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007**

<u>Functions/Programs</u>	<u>Program Revenue</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and</u>		<u>Primary Government</u>		
			<u>Contributions</u>	<u>Capital Grants and</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary Government							
Governmental Activities							
General Government	\$ 6,708,332	\$ -	\$ -	\$ 999,230	\$ (5,709,102)	\$ -	\$ (5,709,102)
Public Safety	15,249,699	3,388,843	211,633	21,045	(11,628,178)	-	(11,628,178)
Public Works	6,300,841	-	737,291	234,332	(5,329,218)	-	(5,329,218)
Health, Welfare and Sanitation	1,574,247	133,270	517,250	-	(923,727)	-	(923,727)
Culture and Recreation	3,436,284	746,900	31,027	-	(2,658,357)	-	(2,658,357)
Education	117,739	-	-	-	(117,739)	-	(117,739)
Interest on Long-term debt	520,178	-	-	-	(520,178)	-	(520,178)
Total Governmental Activities	<u>33,907,320</u>	<u>4,269,013</u>	<u>1,497,201</u>	<u>1,254,607</u>	<u>(26,886,499)</u>	<u>-</u>	<u>(26,886,499)</u>
Business-type Activities							
Water	5,150,205	5,054,930	-	-	-	(95,275)	(95,275)
Gas	8,633,467	10,902,138	-	-	-	2,268,671	2,268,671
Sewer	3,520,563	3,592,320	-	-	-	71,757	71,757
Refuse	1,642,044	1,746,757	-	-	-	104,713	104,713
Transportation	536,339	26,051	329,704	-	-	(180,584)	(180,584)
Total Business-type Activities	<u>19,482,618</u>	<u>21,322,196</u>	<u>329,704</u>	<u>-</u>	<u>-</u>	<u>2,169,282</u>	<u>2,169,282</u>
Total Primary Government	<u>\$ 53,389,938</u>	<u>\$ 25,591,209</u>	<u>\$ 1,826,905</u>	<u>\$ 1,254,607</u>	<u>(26,886,499)</u>	<u>2,169,282</u>	<u>(24,717,217)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					6,341,902	-	6,341,902
Property taxes, levied for debt service					2,832,031	-	2,832,031
Franchise and miscellaneous taxes					9,277,911	-	9,277,911
Public service taxes					7,501,048	-	7,501,048
Grants and contributions not restricted to specific programs					472,086	-	472,086
Unrestricted investment earnings					558,610	293,194	851,804
Miscellaneous					317,973	-	317,973
Gain (Loss) on sale of assets					350,375	-	350,375
Total general revenues, special items, and transfers					<u>27,651,936</u>	<u>293,194</u>	<u>27,945,130</u>
Change in net assets					765,437	2,462,476	3,227,913
Net assets:							
Net assets - beginning of year					96,380,636	22,623,591	119,004,227
Prior period adjustment					1,418,421	5,578,398	6,996,819
Net assets - ending					<u>\$ 98,564,494</u>	<u>\$ 30,664,465</u>	<u>\$ 129,228,959</u>

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

**CITY OF VICKSBURG, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

	<u>General Fund</u>	<u>City Bond and Interest</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 3,689,492	\$ 569,479	\$ 16,671,739	\$ 1,424,200	\$ 22,354,910
Investments	-	-	-	1,967,655	1,967,655
Taxes receivable, net	6,134,231	2,146,498	-	-	8,280,729
Due from other funds	3,439,668	101,005	-	133,295	3,673,968
Receivable from other governments	2,075,676	-	-	116,837	2,192,513
Other receivables	1,940,473	-	-	15,703	1,956,176
Inventories	26,553	-	-	-	26,553
Prepaid expenses	207,050	-	-	-	207,050
Total assets	<u>\$ 17,513,143</u>	<u>\$ 2,816,982</u>	<u>\$ 16,671,739</u>	<u>\$ 3,657,690</u>	<u>\$ 40,659,554</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 853,876	\$ 2,263	\$ 7,200	\$ 137,663	\$ 1,001,002
Due to other funds	74,608	-	-	361,629	436,237
Payable to other governments	52,738	-	-	-	52,738
Deferred revenue	7,452,499	2,130,351	-	7,255	9,590,105
Other accrued expenses	229,775	-	-	-	229,775
Other payables	91,314	1,037	-	4,350	96,701
Total liabilities	<u>8,754,810</u>	<u>2,133,651</u>	<u>7,200</u>	<u>510,897</u>	<u>11,406,558</u>
 Fund balances:					
Reserved for:					
Inventories	26,553	-	-	-	26,553
Prepaid expenses	207,050	-	-	-	207,050
Debt service	-	683,331	-	(114,584)	568,747
Unreserved	8,524,730	-	-	-	8,524,730
Unreserved, reported in non-major:					
Special revenue funds	-	-	-	810,970	810,970
Capital projects funds	-	-	16,664,539	315,843	16,980,382
Permanent funds	-	-	-	2,134,564	2,134,564
Total fund balances	<u>8,758,333</u>	<u>683,331</u>	<u>16,664,539</u>	<u>3,146,793</u>	<u>29,252,996</u>
Total liabilities and fund balances	<u>\$ 17,513,143</u>	<u>\$ 2,816,982</u>	<u>\$ 16,671,739</u>	<u>\$ 3,657,690</u>	<u>\$ 40,659,554</u>

The accompanying notes are an integral part of this statement.

CITY OF VICKSBURG, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
NET ASSETS
SEPTEMBER 30, 2007

Total fund balance, governmental funds	\$	29,252,996
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		88,573,851
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		9,590,104
The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		147,621
Some liabilities (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable) are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		<u>(29,000,078)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	\$	<u><u>98,564,494</u></u>

The accompanying notes are an integral part of this statement.

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2007

	<u>General Fund</u>	<u>City Bond and Interest</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 6,341,902	\$ 2,630,021	\$ 202,010	\$ 9,173,933
Sales and miscellaneous taxes	16,133,809	-	-	16,133,809
Fees and fines	536,818	-	-	536,818
Licenses and permits	1,319,421	-	-	1,319,421
Intergovernmental	751,465	-	1,719,097	2,470,562
Charges for services	3,253,938	-	72,717	3,326,655
Investment earnings	238,877	55,460	205,189	558,611
Miscellaneous	141,184	-	318,599	459,783
Program income	-	-	1,841	1,841
Total revenues	<u>28,717,414</u>	<u>2,685,481</u>	<u>2,519,453</u>	<u>33,981,433</u>
EXPENDITURES				
Current:				
General government	5,503,127	-	921,327	6,552,304
Public safety	14,512,181	-	68,268	14,580,449
Public works	1,786,919	-	4,377	1,791,296
Health, welfare and sanitation	2,339,561	-	913,857	3,253,418
Culture and recreation	2,805,730	-	-	2,805,730
Community development	119,015	-	-	119,015
Debt service:				
Principal	322,558	1,935,000	205,000	2,462,558
Interest and other charges	10,444	372,157	120,672	503,273
Capital outlay	2,138,844	-	66,333	2,371,873
Total expenditures	<u>29,538,379</u>	<u>2,307,157</u>	<u>2,299,834</u>	<u>34,439,916</u>
Excess (deficiency) of revenues over expenditures	<u>(820,965)</u>	<u>378,324</u>	<u>219,619</u>	<u>(458,483)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	475,938	-	(278)	475,660
Transfers out	(475,391)	-	(269)	(475,660)
Proceeds from sale of bonds	-	-	-	16,900,000
Proceeds from capital leases	360,808	-	-	360,808
Proceeds from sale of land	1,215,665	-	-	1,215,665
Total other financing sources and uses	<u>1,577,020</u>	<u>-</u>	<u>(547)</u>	<u>18,476,473</u>
Net change in fund balances	<u>756,055</u>	<u>378,324</u>	<u>219,072</u>	<u>18,017,990</u>
Fund balances - beginning	8,002,278	305,007	2,927,721	11,235,006
Fund balances - ending	<u>\$ 8,758,333</u>	<u>\$ 683,331</u>	<u>\$ 3,146,793</u>	<u>\$ 29,252,996</u>

The accompanying notes are an integral part of this statement.

CITY OF VICKSBURG, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2007

Net change in fund balances - total governmental funds: \$ 18,017,990

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which depreciation exceeded capital outlay in the current period. (2,086,617)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (865,290)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned:

Change in deferred revenues 410,074

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. (14,784,937)

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected on Governmental funds (52,007)
Accrued compensated absences not reflected on Governmental funds 85,744
Accrued claims and judgments not reflected on Governmental funds 40,480

Change in net assets of governmental activities \$ 765,437

PROPRIETARY FUNDS

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2007

	Business-Type Activities Enterprise Funds				Total	Governmental Activities
	<u>Water Fund</u>	<u>Gas Fund</u>	<u>Sewer Fund</u> (Restated)	<u>Other Enterprise Funds</u>		<u>Internal Service Funds</u>
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,147,266	\$ 1,782,918	\$ 1,280,029	\$ 22,035	\$ 4,232,248	\$ 1,128,970
Accounts receivable, net	729,824	766,206	846,586	318,675	2,661,291	-
Due from other funds	-	940,040	29,609	-	969,649	128
Receivables from other governments	-	-	-	-	-	-
Inventories	-	-	-	-	-	19,890
Prepaid expenses	-	-	-	-	-	-
Total current assets	<u>1,877,090</u>	<u>3,489,164</u>	<u>2,156,224</u>	<u>340,710</u>	<u>7,863,188</u>	<u>1,148,988</u>
Non-current assets:						
Capital assets:						
Land and improvements	102,980	196,148	295,533	-	594,661	81,969
Utility system	27,300,492	7,982,699	24,292,773	399,864	59,975,828	-
Construction in progress	24,721	58,520	4,258,567	-	4,341,808	-
Buildings	61,608	385,680	-	-	447,288	122,118
Equipment and furniture	1,947,955	1,074,043	1,771,673	461,107	5,254,778	234,814
Less accumulated depreciation	(12,774,475)	(5,189,485)	(9,287,867)	(232,512)	(27,484,339)	(306,402)
Total non-current assets	<u>16,663,281</u>	<u>4,507,605</u>	<u>21,330,679</u>	<u>628,459</u>	<u>43,130,024</u>	<u>132,499</u>
Total assets	<u>\$ 18,540,371</u>	<u>\$ 7,996,769</u>	<u>\$ 23,486,903</u>	<u>\$ 969,169</u>	<u>\$ 50,993,212</u>	<u>\$ 1,281,487</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 331,140	\$ 567,892	\$ 831,231	\$ 125,036	\$ 1,855,299	\$ 1,075,691
Salaries payable	12,016	17,037	12,377	-	41,430	3,736
Accrued interest payable	7,758	3,566	2,462	-	13,786	-
Due to other funds	1,869,792	385,641	1,175,037	741,175	4,171,645	35,861
Payable to other governments	-	-	-	69,458	69,458	-
Other accrued expenses	507,389	614,542	8,130	-	1,130,061	-
Capital lease obligation	-	-	-	85,898	85,898	-
Claims and judgments	8,100	12,600	9,300	3,000	33,000	2,100
Bonds, notes and loans payable	564,272	87,100	485,856	-	1,137,228	-
Total current liabilities	<u>3,300,467</u>	<u>1,688,378</u>	<u>2,524,393</u>	<u>1,024,567</u>	<u>8,537,805</u>	<u>1,117,388</u>
Non-current liabilities:						
Compensated absences	38,559	87,364	49,274	(4,950)	170,247	16,478
Capital lease obligation	-	-	-	-	-	-
Bonds, notes and loans payable	2,834,375	1,099,970	7,686,349	-	11,620,694	-
Total non-current liabilities	<u>2,872,934</u>	<u>1,187,334</u>	<u>7,735,623</u>	<u>(4,950)</u>	<u>11,790,941</u>	<u>16,478</u>
Total liabilities	<u>\$ 6,173,401</u>	<u>\$ 2,875,712</u>	<u>\$ 10,260,016</u>	<u>\$ 1,019,617</u>	<u>\$ 20,328,746</u>	<u>\$ 1,133,866</u>
NET ASSETS						
Invested in capital assets, net of related debt	13,264,629	3,320,535	13,158,474	628,459	30,372,097	132,498
Unrestricted	(897,659)	1,800,522	68,413	(678,908)	292,368	15,123
Total net assets	<u>\$ 12,366,970</u>	<u>\$ 5,121,057</u>	<u>\$ 13,226,887</u>	<u>\$ (50,449)</u>	<u>\$ 30,664,465</u>	<u>\$ 147,621</u>

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the Business Activities of the Statement of Net Assets.

Total net assets per Government-Wide financial statements

\$ 30,664,465

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2007

	Business-Type Activities Enterprise Funds				Total	Governmental Activities
	Water Fund	Gas Fund	Sewer Fund	Other Enterprise Funds		Internal Service Funds
REVENUES						
Charges for services	\$ 5,054,930	\$ 10,902,138	\$ 3,592,320	\$ 1,772,808	\$ 21,322,196	\$ 731,163
Total operating revenues	<u>5,054,930</u>	<u>10,902,138</u>	<u>3,592,320</u>	<u>1,772,808</u>	<u>21,322,196</u>	<u>731,163</u>
OPERATING EXPENSES						
Personnel services	988,439	1,500,879	1,036,349	250,549	3,776,216	305,216
Contractual services	1,316,212	740,278	1,032,743	1,643,650	4,732,883	3,002
Utilities	636,260	41,901	205,716	3,549	887,426	12,181
Repairs and maintenance	407,054	228,321	372,360	40,436	1,048,171	393,148
Other supplies and expenses	574,520	5,618,106	176,828	100,399	6,469,853	11,863
Insurance claims and expenses	57,078	70,476	18,429	47,669	193,652	5,617
Depreciation	1,037,257	386,955	491,144	88,343	2,003,699	7,271
Total operating expenses	<u>5,016,820</u>	<u>8,586,916</u>	<u>3,333,569</u>	<u>2,174,595</u>	<u>19,111,900</u>	<u>738,298</u>
Operating income (loss)	<u>38,110</u>	<u>2,315,222</u>	<u>258,751</u>	<u>(401,787)</u>	<u>2,210,296</u>	<u>(7,135)</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest and investment revenue	121,037	109,443	59,911	2,803	293,194	5,616
Operating grants and contributions	-	-	-	329,704	329,704	-
Interest expense	(133,385)	(46,551)	(186,994)	(3,788)	(370,718)	-
Total non-operating revenue (expenses)	<u>(12,348)</u>	<u>62,892</u>	<u>(127,083)</u>	<u>328,719</u>	<u>252,180</u>	<u>5,616</u>
Income (loss) before contributions and transfers	<u>25,762</u>	<u>2,378,114</u>	<u>131,668</u>	<u>(73,068)</u>	<u>2,462,476</u>	<u>(1,519)</u>
Capital contributions	-	-	-	-	-	-
Change in net assets	<u>25,762</u>	<u>2,378,114</u>	<u>131,668</u>	<u>(73,068)</u>	<u>2,462,476</u>	<u>(1,519)</u>
Total net assets - beginning	11,268,745	987,805	10,412,220	(45,179)	22,623,591	28,675
Prior Period Adjustment	1,072,463	1,755,138	2,682,999	67,798	5,578,398	120,465
Fund balances - beginning (Restated)	<u>12,341,208</u>	<u>2,742,943</u>	<u>13,095,219</u>	<u>22,619</u>	<u>28,201,989</u>	<u>149,140</u>
Total net assets - ending	<u>\$ 12,366,970</u>	<u>\$ 5,121,057</u>	<u>\$ 13,226,887</u>	<u>\$ (50,449)</u>	<u>\$ 30,664,465</u>	<u>\$ 147,621</u>
Change in net assets, per above					<u>2,462,476</u>	
Change in Business-Type Activities in Net Assets per Government-Wide Financial Statements					<u>\$ 2,462,476</u>	

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2007

	<u>Business-Type Activities-Enterprise Funds</u>				<u>Governmental Activities</u>	
	<u>Water Fund</u>	<u>Gas Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Internal Service Funds</u>
Cash Flows From Operating Activities						
Receipts from customers and users	\$ 4,820,479	\$ 10,662,978	\$ 3,477,257	\$ 1,600,393	\$ 20,561,107	\$ 731,163
Receipts from interfund services provided	23,082	(375,200)	543,474	94,285	285,641	34,203
Payments to suppliers	(2,730,931)	(6,211,668)	(952,431)	(1,771,274)	(11,666,304)	578,002
Payments to employees	(1,014,117)	(1,539,552)	(1,058,408)	(269,658)	(3,881,735)	(315,050)
Payments for interfund services used	(104,797)	(2,176,032)	395,936	137,470	(1,747,423)	30,031
Net Cash Provided (Used) by Operating Activities	<u>993,716</u>	<u>360,526</u>	<u>2,405,828</u>	<u>(208,784)</u>	<u>3,551,286</u>	<u>1,058,349</u>
Cash Flows From Capital and Related Financing Activities						
Proceeds from capital debt	-	-	502,324	-	502,324	-
Capital contributions	-	-	-	-	-	-
Acquisition and construction of capital assets	(671,598)	(428,945)	(4,437,377)	(110,032)	(5,647,952)	(1,885)
Principal paid on capital debt and leases	(539,138)	(82,758)	2,522,707	(82,728)	1,818,083	-
Interest paid on capital debt	(133,796)	(46,779)	(187,154)	(3,788)	(371,517)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,344,532)</u>	<u>(558,482)</u>	<u>(1,599,500)</u>	<u>(196,548)</u>	<u>(3,699,062)</u>	<u>(1,885)</u>
Cash Flows From Investing Activities						
Operating contributions	-	-	-	329,704	329,704	-
Interest and dividends received	121,037	109,443	59,911	2,803	293,194	5,616
Net Cash Provided (Used) by Investing Activities	<u>121,037</u>	<u>109,443</u>	<u>59,911</u>	<u>332,507</u>	<u>622,898</u>	<u>5,616</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(229,779)	(88,513)	866,239	(72,825)	475,122	1,062,080
Cash and Cash Equivalents, Beginning of Year (Restated)	<u>1,377,045</u>	<u>1,871,431</u>	<u>413,790</u>	<u>94,860</u>	<u>3,757,126</u>	<u>66,889</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,147,266</u>	<u>\$ 1,782,918</u>	<u>\$ 1,280,029</u>	<u>\$ 22,035</u>	<u>\$ 4,232,248</u>	<u>\$ 1,128,969</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities						
Operating Income (loss)	\$ 38,110	\$ 2,315,222	\$ 258,751	\$ (401,787)	\$ 2,210,296	\$ (7,135)
Depreciation expense	1,037,257	386,955	491,144	88,343	2,003,699	7,271
(Increase) decrease in accounts receivable	(212,513)	(175,742)	(82,101)	(149,513)	(619,869)	-
(Increase) decrease in receivables from other governments	-	-	-	94,285	94,285	-
(Increase) decrease in due from other funds	23,082	(375,200)	543,474	-	191,356	34,203
(Increase) decrease in inventories	-	-	-	-	-	(5,715)
(Increase) decrease in prepaid expenses	25,217	24,301	19,510	2,649	71,677	3,734
Increase (decrease) in accounts payable	136,524	326,836	779,369	(8,791)	1,233,938	1,000,177
Increase (decrease) in salaries payable	(27,718)	(46,794)	(23,362)	(10,629)	(108,503)	(10,593)
Increase (decrease) in other accrued expenses	19,436	2,383	3,375	-	25,194	-
Increase (decrease) in claims and judgments	(3,798)	(3,264)	(3,589)	3,000	(7,651)	(213)
Increase (decrease) in compensated absences	2,040	8,121	1,303	(8,480)	2,984	759
Increase (decrease) in due to other funds	(43,921)	(2,102,292)	417,954	182,139	(1,546,120)	35,861
Net Cash Provided (Used) by Operating Activities	<u>\$ 993,716</u>	<u>\$ 360,526</u>	<u>\$ 2,405,828</u>	<u>\$ (208,784)</u>	<u>\$ 3,551,286</u>	<u>\$ 1,058,349</u>

The accompanying notes are an integral part of this statement.

FIDUCIARY FUNDS

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2007

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 49,987
Other receivables	5,896
Total assets	\$ 55,883
 LIABILITIES	
Accounts payable	\$ 55,883
Total liabilities	55,883
 NET ASSETS	
Held in trust for benefits and other purposes	\$ -

The accompanying notes are an integral part of this statement.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Vicksburg was incorporated in 1825 and operates under a Mayor-Aldermen form of government. As authorized by its charter, the City provides various services, including public safety (police and fire), highways and streets, sanitation, health and social services, culture, recreation, public improvements, planning and zoning, and general administrative services. In addition, the City owns and operates a water and sewer system.

The City's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City is discussed below.

A. Reporting Entity

The City's combined financial statements include the accounts of all City operations. In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The criteria for including organizations as component units within the City's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Vicksburg has no component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes; intergovernmental revenues; and other nonexchange revenues from business-type activities, generally financed in whole or in part with fees charged to external customers.

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-wide Financial Statements – Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services that report fees, fines, and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions, which finance annual operating activities including restricted investment income; and (3) capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

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

The government-wide statements report both the governmental and business like activities using the economic resources measurement focus and the accrual basis of accounting generally including the reclassifications or elimination of internal activity (between or within funds). Reimbursements are reported as reductions in expenses. Revenues are reported when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

In the fund financial statements, governmental funds and agency funds report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough after to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when the related fund liability is incurred, except for general obligation bond principal and interest and compensated absences which are reported as expenditures in the year due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

The City's proprietary funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses of the City's utility type funds consist of charges for services and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Allocation of Indirect Expenses

The City allocates indirect expenses primarily comprised of central government services to operating functions and programs benefiting from those services. Central services include overall City management, accounting, financial reporting, payroll, procurement contracting and oversight, personnel services, and other central administrative services. Allocations are charged to programs based on use of central services determined by various allocation methodologies. As a matter of policy, certain functions that use significant central services are not charged for the use of these services. These functions or programs include police, fire, and certain divisions within public services and parks.

D. Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds:

General Fund – reports as the primary fund of the City and is always classified as a major fund. This fund is used to account for all financial resources not reported in other funds.

City Bond and Interest Fund – accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. The City annually levies ad valorem taxes restricted for the retirement of general obligation bonds and interest.

Proprietary Funds

The City reports the following major proprietary funds:

Water Fund – accounts for the operations of the water distribution system of the City.

Gas Fund – accounts for the operating activities of the City's gas utilities services.

Sewer Fund – accounts for the operating activities of the City's sewer utilities services.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Fund Types and Major Funds – Continued

Other Fund Types

The City also reports the following fund types:

Special Revenue Funds – accounts for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds – accounts for the accumulation of resources for, and the payment of, general long term debt principal, interest and related costs.

Capital Projects Funds – accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the Enterprise Funds).

Internal Service Funds – accounts for the financing of goods or services provided by one department to other departments within the City on a cost-reimbursement basis. These include garage services. The City’s internal service fund is presented in the proprietary funds financial statements. Because the principal users of the internal services are the City’s governmental activities, the financial statements of the internal service fund are consolidated into the governmental activities column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (police, fire, public works, etc.).

Agency Fund – accounts for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations.

E. Cash and Cash Equivalents

The City’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

State statutes permit the City to invest funds in excess of sums required for immediate expenditure or current obligation in certificates of deposit and other time deposits with financial institutions and debt instruments of the U.S. government and its agencies.

The City pools its cash resources of its various funds in order to maximize investment opportunities. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements and is considered to be cash equivalents. Investment income is allocated based on each fund’s average daily balance in the pooled cash account.

F. Interfund Receivables, Payables, and Transfers

Generally, outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds. Activity

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

F. Interfund Receivables, Payables, and Transfers – Continued

between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Transfers and payments within the reporting entity are substantially for the purpose of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

H. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

I. Capital Assets

The accounting treatment over fixed assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

Fixed assets are accounted for as capital assets. Capital assets with useful lives of more than one year are stated at historical cost or estimated cost if historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to September 30, 2003. The City maintains a threshold level of \$500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Infrastructure assets include roads, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Prior to September 30, 2003, neither their historical cost nor related depreciation had been reported in the financial statements.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Capital Assets – Continued

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Building	40 years
Improvements other than buildings	60 years
Roads	20 years
Bridges – concrete	50 years
Bridges – timber	30 years
Computer equipment	3 years
Furniture and fixtures	7 years
Vehicles	5 years
Equipment	10 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

The cost of normal maintenance and repair that does not add to the value of capital assets or materially extend their respective lives are not capitalized. Interest expenditures are not capitalized on capital assets.

J. Compensated Absences

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Compensated absences are reported as accrued in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable.

K. Long-term Obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Long-term Obligations – continued

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Principal and interest payments are treated as period costs when paid.

L. Post Employment Health Care and Life Insurance Benefits

The City does not incur costs associated with post employment benefits for retired employees. The City allows all vested employees to continue in the group plan after retirement; however the retired employees pay 100% of the premiums.

M. Fund Equity

Government-wide Statements

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

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

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statement.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the City, which are either unusual in nature or infrequent in occurrence.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

O. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

P. Budgets and Budgetary Accounting

The City’s Accountant submits to the Mayor and Aldermen a proposed operating budget for the fiscal year commencing October 1. The operating budget includes expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted by adoption of a resolution that is recorded in the minutes of the City Board. Revisions that alter the total expenditures of any fund must be approved by the City Board. The budgets presented in this report are amended. Formal budgetary integration is employed as a management control device during the year for all funds. Budgets for all funds are adopted as a basis consistent with generally accepted accounting principles (GAAP). All budgetary appropriations lapse at the end of each fiscal year.

NOTE 2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The collateral for public entities’ deposits in financial institutions are now 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 City’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 these 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. At September 30, 2007, all of the City’s bank deposits were covered under the collateral pool administered by the State Treasurer, with the exception of the amounts held in the Perpetual Care trust accounts at an in-state bank.

At September 30, 2007, the carrying amount (recorded on the City’s books) of the City’s demand deposits was \$27,115,249, and the bank balance was \$28,206,536.

The City also has \$1,967,655 (carrying value) of investments held in trust at two local trust departments for the perpetual care non-expendable trust. Fair market value is based on quoted market prices. This amount consists of the following:

<u>Government Obligations</u>	<u>Cost</u>	<u>FMV</u>
Treasury and federal agencies	\$ 804,638	\$ 798,338
Equity mutual funds	447,962	560,093
Fixed income mutual funds	562,342	556,547
Preferred stock	90	82
Cash and equivalents	<u>52,595</u>	<u>52,595</u>
	<u>\$ 1,867,627</u>	<u>\$ 1,967,655</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS – CONTINUED

Interest Risk: The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of September 30, 2007, the maturities of investments subject to interest risk are as follows:

Investment Maturities at fair value (in years)

Investment Type	Less <u>than 1</u>	<u>1-5</u>	<u>6-10</u>	More <u>than 10</u>
Mutual Funds	\$ 560,093	-	-	-
US Government agencies	\$ 579,538	218,800	-	-

Custodial Credit Risk: All investments are not exposed to custodial credit risk as they are entirely uninsured and unregistered but in custodial accounts at two local banks in the name of the City.

Credit Risk: The City has no investment policy that would further restrict its investment choices other than those set by State of Mississippi statute. Following is a list of investments which are stated in state statute and are limited to the investment of funds in excess of sums required for immediate expenditure or current obligations:

- Certificates of deposit with municipal depositories approved annually by the State Treasurer
- Bonds or direct obligations of the:
 - United States of America
 - State of Mississippi
 - County or Municipality of Mississippi
 - School Districts

State statute allows the investment of funds received from the sale of bond, notes or certificates of indebtedness which are not immediately required for disbursement for the purpose issued, in direct obligations issued by or guaranteed in full by the United States of America, or in certificates of deposit with approved municipal depositories.

As of September 30, 2007, investments subject to credit risk were rated AAA by Standards & Poor or Moody's, in the absence of a Standard & Poor rating.

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied in September on the assessed (appraised) value of all real and business personal property located in the city and are payable by the following February 1. An enforceable lien on property is attached as of January 1. However, taxpayers are permitted to pay ad valorem taxes in installments by paying one-half by February 1, one-quarter by May 1, and one-quarter by July 1. Installments bear interest at the rate of 12% per annum. City property tax revenues are recognized when levied. Major tax payments are received in February through May. An allowance is established for delinquent taxes to the extent that their collectibility is doubtful. The City has an interlocal agreement with the County to collect all city and school taxes.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE – CONTINUED

For the current year, the City levied taxes in the amount of 35.88 mills for the following purposes:

General	22.79
City debt service	9.59
Police and fire disability relief fund	<u>3.50</u>
Total mills	<u><u>35.88</u></u>

An additional millage rate of 5.05 was levied for the business promotion area.

General Accounts Receivables and Uncollectible Accounts

Significant receivables include amounts for fines and forfeitures from the court system and charges for ambulance transportation. The court system receivables are due when the City has an enforceable legal claim against the organization or individual. Revenues and receivables for court fines and forfeitures are reported net of any amounts the City, based on historical trends, estimates will be uncollectible based on noncompliance with partial payment agreements. The other significant receivable is for charges incurred due to utilization of ambulance services. These receivables are due at the time of service. Revenues and receivables are reported net of contractual allowances due to agreements between the City and various insurance companies and an allowance for uncollectible amounts based on historical trends for nonpayments related primarily to self-pay accounts.

Enterprise Receivables and Uncollectible Accounts

Significant receivables include amounts due from customers primarily for utility services. These receivables are due prior to the next billing cycle, which is every month. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts and revenues net of uncollectibles. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days, depending upon the fund.

Receivables from Other Governments and Deferred Revenue

Other government receivables are primarily comprised of amounts due from federal and state governments for miscellaneous taxes and grants. Revenue is recorded as earned when eligibility requirements are met for grants. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Deferred revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Continued

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

NOTE 4. RECEIVABLES AND PAYABLES

Receivables at September 30, 2007 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Allowance</u>	<u>Total</u>
Governmental activities				
General	\$ 4,709,490	\$ 6,134,231	\$ (2,769,017)	\$ 8,074,704
Debt service	-	2,146,498	-	2,146,498
Other governmental	<u>22,957</u>	<u>-</u>	<u>(7,254)</u>	<u>15,703</u>
Total governmental activities	<u>\$ 4,732,447</u>	<u>\$ 8,280,729</u>	<u>\$ (2,776,271)</u>	<u>\$ 10,236,905</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-type activities				
Water	\$ 755,064	\$ -	\$ (25,240)	\$ 729,824
Gas	799,270	-	(33,064)	766,206
Sewer	883,774	-	(37,188)	846,586
Other proprietary	<u>347,952</u>	<u>-</u>	<u>(29,277)</u>	<u>318,675</u>
Total business-type activities	<u>\$ 2,786,060</u>	<u>\$ -</u>	<u>\$ (124,769)</u>	<u>\$ 2,661,291</u>

Payables at September 30, 2007 were as follows:

	<u>Vendor</u>	<u>Salaries & Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental activities				
General	\$1,210,308	\$ 229,775	\$ 91,314	\$ 1,531,397
Debt service	2,263	-	1,036	3,299
Capital projects	6,480	-	-	6,480
Other governmental	500,012	-	4,350	504,362
Internal service	<u>489,609</u>	<u>3,736</u>	<u>585,947</u>	<u>1,079,292</u>
Total governmental activities	<u>\$2,208,672</u>	<u>\$ 233,511</u>	<u>\$ 682,647</u>	<u>\$ 3,124,830</u>
Business-type activities				
Water	\$ 331,140	\$ 12,016	\$ 507,384	\$ 850,541
Gas	567,892	17,037	614,544	1,199,472
Sewer	831,231	12,377	8,130	851,734
Other proprietary	<u>125,036</u>	<u>-</u>	<u>-</u>	<u>125,036</u>
Total business-type activities	<u>\$1,855,299</u>	<u>\$ 41,430</u>	<u>\$1,130,058</u>	<u>\$ 3,026,783</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at September 30, 2007 consisted of the following:

<u>Due From</u>	<u>Due To</u>			
	<u>Governmental Activities</u>			
	<u>Major Governmental Funds</u>			<u>Internal Service</u>
<u>General</u>	<u>Debt Service</u>	<u>Other</u>		
Governmental activities:				
Major governmental funds:				
General	\$ -	\$ -	\$ -	\$ 128
Other governmental funds	263,213	1,013	133,295	-
Business-type activities:				
Major enterprise funds:				
Water	1,189,534	55,995	-	-
Gas	353,117	25,998	-	-
Sewer	818,628	17,999	-	-
Other enterprise funds	<u>740,726</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Due To	<u>\$ 3,365,218</u>	<u>\$ 101,005</u>	<u>\$ 133,295</u>	<u>\$ 128</u>

<u>Due From</u>	<u>Due To</u>			
	<u>Business-Type Activities</u>			
	<u>Major Enterprise Fund</u>			<u>Total</u>
<u>Gas</u>	<u>Sewer</u>	<u>Other</u>		
Governmental activities:				
Major governmental funds:				
General	-	-	-	\$ 128
Other governmental funds	-	-	-	397,521
Business-type activities:				
Major enterprise funds:				
Water	601,180	23,083	-	1,869,792
Gas	-	-	6,526	385,641
Sewer	338,410	-	-	1,175,037
Other enterprise funds	<u>450</u>	<u>-</u>	<u>-</u>	<u>741,176</u>
Total Due To	<u>\$ 940,040</u>	<u>\$ 23,083</u>	<u>\$ 6,526</u>	<u>\$ 4,569,295</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS – CONTINUED

Interfund transfers for the year ended September 30, 2007 consisted of the following:

	<u>Transfer To</u>	
	<u>Governmental Activities</u>	
	<u>Other</u>	<u>Total</u>
Governmental Activities:		
Major Governmental Funds:		
General	\$ 475,660	\$ 475,660
 Total Transfers to	 \$ 475,660	 \$ 475,660

The General fund transfers funds to the special revenue funds to meet matching requirements.

NOTE 6. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended September 30, 2007, for the primary government is as follows:

	<u>(Restated) Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 11,778,156	\$ 373,382	\$ 802,492	\$ 11,349,046
Buildings	24,696,002	331,632	5,556	25,022,078
Furniture and equipment	15,051,065	1,230,335	618,753	15,662,647
Other capital assets	17,624,279	200,079	-	17,824,358
Infrastructure	92,077,717	-	-	92,077,717
Construction in progress	-	213,539	-	213,539
Total capital assets	<u>\$ 161,227,219</u>	<u>\$ 2,348,967</u>	<u>\$ 1,426,801</u>	<u>\$ 162,149,385</u>
Less accumulated depreciation for:				
Buildings	\$ 7,229,765	\$ 435,994	\$ 1,000	\$ 7,664,759
Furniture and equipment	11,892,067	923,420	558,973	12,256,514
Other capital assets	5,405,304	602,520	-	6,007,824
Infrastructure	<u>45,010,111</u>	<u>2,503,827</u>	<u>-</u>	<u>47,513,938</u>
Total accumulated depreciation	<u>\$ 69,537,247</u>	<u>\$ 4,465,761</u>	<u>\$ 559,973</u>	<u>\$ 73,443,035</u>
Net governmental activities capital assets	<u>\$ 91,689,972</u>	<u>\$ (2,116,794)</u>	<u>\$ 866,828</u>	<u>\$ 88,706,350</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 6. CAPITAL ASSETS – CONTINUED

Business-type activities:

Land	\$ 594,661	\$ -	\$ -	\$ 594,661
Construction in progress	876,317	3,625,128	159,637	4,341,808
Buildings	58,371,953	2,051,162	-	60,423,115
Furniture and equipment	4,938,099	372,114	55,435	5,254,778
Other capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets	<u>\$ 64,781,030</u>	<u>\$ 6,048,404</u>	<u>\$ 215,072</u>	<u>\$ 70,614,362</u>
Less accumulated depreciation for:				
Buildings	\$ 21,375,524	\$ 1,028,650	\$ -	\$ 22,404,174
Furniture and equipment	<u>4,154,720</u>	<u>975,051</u>	<u>49,604</u>	<u>5,080,167</u>
Total accumulated depreciation	<u>\$ 25,530,244</u>	<u>\$ 2,003,701</u>	<u>\$ 49,604</u>	<u>\$ 27,484,341</u>
Net business-type activities capital assets	<u>\$ 39,250,786</u>	<u>\$ 4,044,703</u>	<u>\$ 165,468</u>	<u>\$ 43,130,021</u>

Depreciation expense of \$6,469,460 for the year ended September 30, 2007, was charged to the following governmental functions:

Governmental activities:

General government	\$ 192,888
Public safety	\$ 761,257
Public works	\$ 2,777,702
Health, welfare and sanitation	\$ 95,472
Culture and recreation	\$ 637,768
Education	\$ 674

Business-type activities:

Water	\$ 1,037,257
Gas	\$ 386,955
Sewer	\$ 491,144
Sanitation	\$ 15,995
Transportation	\$ 72,348

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 7. LONG-TERM OBLIGATIONS

Bonds and Notes Payable

General Obligation Bonds

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

Other

State Revolving Fund Loan (SRFL)

SRFLs are also special obligations of the city solely secured by a special pledge of the City’s sales tax revenues.

Tax Increment Financing (TIF) Bonds

TIF bonds are commonly issued to encourage economic development in a defined area. Resources for payment of interest and principal on the bonds result from the tax increases in the defined area. These bonds usually carry a higher interest rate due to the risk of economic downturn or limited tax revenue growth in the defined TIF area.

Restricted Assets

Certain proceeds of the City’s Proprietary Fund bonds, as well as certain resources set aside for their payment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

The following is a summary of the City’s long-term debt transactions for the year ended September 30, 2007:

	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>
<u>Governmental Activities:</u>			
<u>General Obligation Bonds:</u>			
Unredeemed Bond (Old compromise)	N/A	\$ -	0%
2001 General Obligation Bond	April 2011	\$ 17,500,000	3.625-4.0%
2007 General Obligation Bond	September 2017	\$ 16,900,000	4.00-4.5%

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED

Maturity	Original Date	Original Amount	Rate
<u>Other:</u>			
1991 Tax Increment Limited Obligation Bond	April 2011	\$ 275,000	7.5-11.0%
1995 Tax Increment Limited Obligation Bond	March 2015	\$ 600,000	6.2-8.0%
1999 Tax Increment Limited Obligation Bond	December 2014	\$ 1,150,000	4.5 - 6.25%
2003 Tax Increment Limited Obligation Bond	December 2013	\$ 900,000	3.25 – 3.60%
<u>Business-Type Activities:</u>			
<u>General Obligation Bonds:</u>			
2003 Public Improvement	September 2018	\$ 5,800,000	3.0 – 4.25%
2003 Refunding Bond	October 2009	\$ 1,620,000	1.25 - 2.80%
<u>Other:</u>			
1995 State Revolving Fund Loan	August 2015	\$ 1,994,959	4.5%
1996 State Revolving Fund Loan	September 2016	\$ 3,667,095	4.5%
1996 Department of Economic and Community Development – Capital Improvements Revolving Loan	July 2011	\$ 1,000,000	3.75%
2003 State Revolving Fund Loan	November 2027	\$ 4,163,589	1.75%
2003 State Water Pollution Control	May 2013	\$ 350,000	4.0%

<u>Description of Debt</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
<u>General Obligation Bonds:</u>					
Unredeemed Bond (Old compromise)	\$ 300	\$ -	\$ -	\$ 300	\$ -
2001 General Obligation Bond	10,697,913	-	1,949,583	8,748,330	2,039,583
2007 General Obligation Bond	-	16,900,000	-	16,900,000	1,390,000
<u>Other:</u>					
1991 Tax Increment Limited Obligation Bond	110,000	-	20,000	90,000	20,000
1995 Tax Increment Limited Obligation Bond	355,000	-	35,000	320,000	35,000
1999 Tax Increment Limited Obligation Bond	810,000	-	70,000	740,000	75,000
2003 Tax Increment Limited Obligation Bond	750,000	-	80,000	670,000	85,000

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED

(Restated)

<u>Description of Debt</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Business-Type Activities:</u>					
General Obligation Bonds:					
2003 Public					
Improvement	4,910,000	-	320,000	4,590,000	335,000
2003 Refunding Bond	795,000		285,000	510,000	300,000
Other:					
1995 State Revolving Fund Loan	1,125,309	-	104,953	1,020,356	109,774
1996 State Revolving Fund Loan	2,256,041	-	182,793	2,073,248	191,190
1996 Department of Economic and Community Development - Capital Improvements Revolving Loan	380,112	-	74,087	306,025	76,672
2003 State Revolving Fund Loan	576,826	3,460,136	-	4,036,962	89,082
2003 State Water Pollution Control	255,448	-	34,120	221,328	35,510
Total	<u>\$ 23,021,949</u>	<u>\$ 20,360,136</u>	<u>\$ 3,155,536</u>	<u>\$ 40,226,549</u>	<u>\$ 4,781,811</u>

The debt service requirement on long-term obligations at September 30, 2007 is as follows:

	<u>Governmental Activities</u>			
	<u>General Obligation Bonds</u>		<u>Other</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ending September 30,				
2008	3,429,583	1,001,300	215,000	87,413
2009	3,584,583	859,825	220,000	77,320
2010	3,749,583	714,525	240,000	66,838
2011	3,914,581	559,678	250,000	55,131
2012	1,645,000	443,756	235,000	42,890
2013-2017	9,325,000	1,172,356	660,000	61,820
2018-2022	300	-	-	-
Total	<u>\$ 25,648,630</u>	<u>\$ 4,751,440</u>	<u>\$ 1,820,000</u>	<u>\$ 391,412</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED

	<u>Business-Type Activities</u>			
	<u>General Obligation Bonds</u>		<u>Other</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Year ending September 30,				
2008	635,000	178,826	502,228	151,856
2009	560,000	161,276	611,862	133,658
2010	365,000	144,896	634,050	114,654
2011	380,000	133,034	575,052	94,808
2012	395,000	120,209	401,858	75,878
2013-2017	2,255,000	342,319	4,932,872	126,257
2018-2022	<u>510,000</u>	<u>20,400</u>	-	-
Total	<u>\$ 5,100,000</u>	<u>1,100,960</u>	<u>\$ 7,657,922</u>	<u>\$ 697,111</u>

The payments on the General Obligation Bonds are made by the City's Bond and Interest Fund with ad valorem taxes. The Tax Increment Limited Obligation Bonds payments are made with incremental taxes received from outside sources in the other governmental funds.

Compensated Absences

The annual changes to compensated absences included in general long-term debt as of September 30, 2007, are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Beginning balance	\$ 983,270	\$ 167,265
Additions	927,433	162,244
Reduction	1,012,417	159,262
Ending balance	<u>\$ 898,286</u>	<u>\$ 170,247</u>

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund. In the past, 100% has been paid by the General Fund.

Capital Leases

Lease arrangements for heavy equipment are considered capital leases for financial accounting purposes.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2007 were as follows:

Year ending September 30,	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2008	\$ 129,407	\$ 87,246
2009	82,822	-
2010	82,822	-
2011	82,822	-
2012	<u>62,117</u>	<u>-</u>
Total minimum lease payments	439,990	87,246
Less: amount representing interest	<u>49,086</u>	<u>1,348</u>
Present value of minimum lease payments	<u>\$ 390,904</u>	<u>\$ 85,898</u>
Current principal portion due in one year	<u>\$ 111,144</u>	<u>\$ 85,898</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED

The General Fund makes payments on these capital leases by utilizing general revenue sources.

Range of interest rates is from 2.91% to 3.595%.

The cost of the assets acquired through capital leases was \$2,497,235 with accumulated depreciation of \$1,460,995. Amortization (or depreciation) of assets under capital leases is included in depreciation expense.

Claims and Judgments

The City established a limited risk management program for health insurance in prior years. Premiums are paid into the general fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums are used to reduce the amount of claim expenditures reported in the general fund. As of September 30, 2007, such interfund premiums did not exceed reimbursable expenditures.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The City has excess stop loss agreements that cover losses in excess of specific and aggregate retention levels. Liabilities include an amount for claims that have been incurred but not reported (IBNRs) which were determined based on subsequent year settlement of claims incurred during year under audit by the insurance carrier. Changes in the balances of claims liabilities during the past year are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>2007</u>		
Balance, beginning of year	\$ 174,252	\$ 40,650
Claims incurred	1,834,635	454,875
Claims payments	<u>1,875,329</u>	<u>462,525</u>
Balance, end of year	<u>\$ 133,558</u>	<u>\$ 33,000</u>
<u>2006</u>		
Balance, beginning of year	\$ 327,272	\$ 47,125
Claims incurred	1,664,450	451,272
Claims payments	<u>1,817,470</u>	<u>457,747</u>
Balance, end of year	<u>\$ 174,252</u>	<u>\$ 40,650</u>

The claims and judgment liability related to IBNR will generally be liquidated by charging the individual funds based on management's assessment of the relative risk that should be consumed by individual funds. Currently, the General Fund bears approximately 100% of the claims costs and this percentage approximates the percentage in prior years.

Continued

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

NOTE 8. DEFINED BENEFIT PENSION PLAN AND OTHER EMPLOYEE BENEFITS

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

Funding Policy: PERS members are required to contribute 7.25% of their annual covered salary and the City of Vicksburg is required to contribute at an actuarially determined rate. The current rate is 11.3% of annual covered payroll and was increased from the previous 10.75% rate as of July 1, 2006. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Vicksburg's contributions to PERS for the years ending September 30, 2007, 2006 and 2005 were \$1,971,103, \$1,982,749 and \$1,730,337 respectively, equal to the required contributions for each year.

NOTE 9. FUND EQUITY

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not available for future expenditures. Specific reservations of the fund balance accounts are summarized below.

Reserves for inventories and prepaid items - These reserves were created to represent the portion of the fund balance that is not available for expenditures because the City expects to use these resources within the next budgetary period.

Reserve for debt service - This reserve was created to segregate a portion of the fund balance account for debt service, including both principal payments and interest payments. The reservation was established to satisfy legal restrictions imposed by various bond agreements.

Prior period adjustments were necessary in the fund and government wide financial statements to reflect the City's adoption of guidelines promulgated by the Mississippi State Auditor relating to accounting for and depreciation of property, plant, and equipment. The requisite changes resulted in a net increase in net assets of \$1,418,421 in the governmental funds and \$5,578,398 in the enterprise funds.

A net deficit of \$114,584 exists in an other governmental-debt service fund resulting from debt payments being in excess of real estate tax assessments for TIF bonds. It is anticipated by the City that future real estate assessments will cover the shortage in the current year in addition to the future debt payments. In addition, a net deficit of \$560,710 exists in the sanitation fund resulting from the cost of outside providers of garbage pickup charging more than the assessments charged by the City on its customers. The City is evaluating rate increases to its customers to cover the shortage.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

NOTE 10. CONTINGENCIES AND COMMITMENTS

Litigation

The City is a defendant in a number of lawsuits, most of which involve small claims and for which the City feels they are adequately covered by insurance. The City, after consultation with legal counsel, does not believe that the ultimate disposition of the above legal proceedings will have a material adverse effect on the financial position of the City.

Grants

In the normal course of operations, the City receives federal and state grants for specific purposes that are subject to review and additional audits by federal and state agencies. Such audits could result in a request for reimbursement by federal or state agencies for expenditures disallowed under the terms and conditions of the grants. In the opinion of City management, such disallowances, if any, will be immaterial.

Commitments

The City has entered into a long term contract with a management company for the convention center. The contract is through September 2011 for a monthly management fee of \$1,094 per month.

NOTE 11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions, injuries to employees (workers' compensation), employees health; and natural disasters for which the City carries commercial insurance. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded coverage for the current year or the three prior years.

NOTE 12. FUTURE EFFECTIVE ACCOUNTING PRONOUNCEMENTS

GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pension*. This statement establishes standards for the measurement, recognition, and display of other postretirement benefits expenses/expenditures and related liabilities (assets), note disclosures and required supplementary information in the financial reports of state and local governmental employers. The statement requires the net Other Post-Employment Benefits (OPEB) obligation, or the shortfall of annual Other Post-Employment Benefits (OPEB) contributions to annual costs, be reported as a financial statement liability. The provisions of this statement are effective for the City for the fiscal year ending September 30, 2008. Although management has not determined the effect this statement will have on its financial statements, its impact is expected to be substantial.

GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments use to ascertain whether certain transactions should be regarded as sales on a collateralized borrowing. The provisions of this statement are effective for the fiscal year ending September 30, 2008. Management anticipates this statement will not have a significant impact on the City's financial statements.

GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides guidance on calculations and reporting of costs and obligations associated with pollution cleanup efforts and is effective for the year ending September 30, 2008. This statement is not expected to apply to the City.

III. REQUIRED SUPPLEMENTAL INFORMATION (PART B)

BUDGET COMPARISON SCHEDULES

**CITY OF VICKSBURG, MISSISSIPPI
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Budget - Positive (Negative)</u>
REVENUES				
Property taxes	\$ 6,457,000	\$ 6,457,000	\$ 6,341,902	\$ (115,098)
Sales and miscellaneous taxes	16,258,300	16,258,300	16,133,809	(124,491)
Fees and fines	900,000	900,000	536,818	(363,182)
Licenses and permits	1,199,350	1,199,350	1,319,421	120,071
Intergovernmental	507,500	726,266	751,465	25,199
Charges for services	2,537,110	2,537,110	3,253,938	716,828
Investment earnings	122,090	122,090	238,877	116,787
Miscellaneous	138,375	138,375	141,184	2,809
Total revenues	<u>28,119,725</u>	<u>28,338,491</u>	<u>28,717,414</u>	<u>378,923</u>
EXPENDITURES				
Current:				
General government	5,400,120	5,752,120	5,503,127	248,993
Public safety	14,593,430	14,773,230	14,512,181	261,049
Public works	1,863,790	1,894,740	1,786,919	107,821
Health, welfare and sanitation	2,271,460	2,463,896	2,339,561	124,335
Culture and recreation	2,584,210	2,700,020	2,805,730	(105,710)
Community development	122,990	122,990	119,015	3,975
Debt Service:				
Principal and interest	371,080	352,660	333,002	19,658
Capital outlay	2,058,430	2,877,131	2,138,844	738,287
Total expenditures	<u>29,265,510</u>	<u>30,936,787</u>	<u>29,538,379</u>	<u>1,398,408</u>
Excess (deficiency) of revenues over expenditures	<u>(1,145,785)</u>	<u>(2,598,296)</u>	<u>(820,965)</u>	<u>1,777,331</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	510,000	614,020	360,808	(253,212)
Transfers in	538,200	538,200	475,938	(62,262)
Transfers in (out)	(963,700)	(778,700)	(475,391)	303,309
Proceeds from sale capital assets	1,140,000	1,140,000	1,215,665	75,665
Total other financing sources and uses	<u>1,224,500</u>	<u>1,513,520</u>	<u>1,577,020</u>	<u>63,500</u>
Net change in fund balances	<u>78,715</u>	<u>(1,084,776)</u>	<u>756,055</u>	<u>1,840,831</u>
Fund balances - beginning	5,016,553	5,016,553	5,016,553	-
Prior period adjustment	79,622	79,622	79,622	-
Fund balances - beginning restated	5,096,175	5,096,175	5,096,175	-
Fund balances - ending	<u>\$ 5,174,890</u>	<u>\$ 4,011,399</u>	<u>\$ 5,852,230</u>	<u>\$ 1,840,831</u>

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2007**

BUDGETS

General Budget Policies. Preliminary budgets for the ensuing year are prepared by the City Accountant prior to October 1 of each year. The availability of the proposed budgets for public inspection and the date of the public hearing on the proposed budgets are then advertised in the official journal. In August, the City holds a public hearing on the proposed budgets in order to receive comments from the residents of the City. Changes are made to the proposed budgets based on the public hearing and the desire of the City as a whole. The budgets are then adopted during the City's regular September meeting, and the adopted budget is then published in the official journal.

The City Accountant presents necessary budget amendments to the Mayor and Aldermen during the year when, in his judgment, actual operations are differing materially from those anticipated in the original budget. During a regular meeting, the Mayor and Aldermen review the proposed amendments, make changes, as it deems necessary, and formally adopt the amendments. The adoption of the amendments is included in Mayor and Aldermen minutes published in the official journal.

The City exercises budgetary control at the functional level. Within functions, the City Accountant has the discretion to make changes, as he deems necessary for proper control. Unexpended appropriations lapse at year-end and must be reappropriated in the next year's budget to be expended. The City does use encumbrance accounting in its accounting system. Formal budgetary integration is employed as a management control devise.

For the year ended September 30, 2007, GAAP basis budgets were adopted for all the funds.

Encumbrances. Encumbrance accounting is recognized within the accounting records for budgetary control purposes. Authorization for the eventual expenditure will be included in the following year's budget appropriations.

Budget Basis of Accounting. All governmental funds' budgets are prepared on the GAAP basis of accounting, which is different from state law. Budgeted amounts are as originally adopted or as amended by the Board. Legally, the Board must adopt a balanced budget; that is, total budgeted revenues and other financing sources including fund balance must equal or exceed total budgeted expenditures and other financing uses. State statutes require the Board to amend its budgets when expenditures within a department are expected to exceed budgeted expenditures or estimates of revenues are less than anticipated. The City publishes these changes in its official journal.

IV. OTHER ADDITIONAL INFORMATION

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
YEAR ENDED SEPTEMBER 30, 2007**

OFFICIAL'S ADMINISTRATION OCTOBER 1, 2006 TO SEPTEMBER 30, 2007

Name	Position	Company	Bond
Laurence E. Leyens	Mayor and Treasurer	Western Surety Company	\$ 150,000
Michael A Mayfield, Sr.	Alderman	Western Surety Company	\$ 150,000
Sidney H. Beauman, Jr.	Alderman	Western Surety Company	\$ 150,000
Thomas Moffet	Police Chief	Western Surety Company	\$ 50,000
Edna Hadad	Deputy City Clerk	Western Surety Company	\$ 150,000
Public Employees Bond (Blanket Bond)		St. Paul Insurance Company	\$ 250,000
Walter W. Osborne, Jr.	City Clerk	Western Surety Company (expired 7/19/06)	\$ 50,000
		Western Surety Company (7/19/06 to 7/19/07)	\$ 150,000
Janice Carter	Municipal Court Clerk	Western Surety Company 2/25/06 to 2/25/07	\$ 50,000
Tasha Wynn	Deputy City Clerk	Western Surety Company (expired 10/7/05)	\$ 50,000
		Western Surety Company (10/8/05 to 10/8/06)	\$ 150,000
Richard O'Bannon	Deputy Chief	Western Surety Company	\$ 50,000

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2007**

Federal Grantor/Pass-through Grantor or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Pass through programs from the MS Authority Development			
HUD Housing Counseling/MS Home Corporation	14.169	FY2007	\$ 8,695
CDBG Canal Widening	14.228	1118-01-374-ED-IF-01	234,332
Yazoo Canal Widening	14.228	1119-02-374-ED-01	850,000
HOME Investment Partnership Program (HOME)	14.239	M05-5G-280-178	31,220
HOME Administration	14.239	M05-SG-280-178	20,000
American Dream Down payment Initiative (ADDI)	14.239	M05-280-AD-178	80,000
HOME Supplemental Funds	14.239	M00-SG-280-178	10,000
HOME Additional Funds	14.239	M03-SG-280-178	<u>161,300</u>
Total U.S. Department of Housing and Urban Development			<u>1,395,547</u>
U.S. Department of Justice:			
Direct Programs:			
COPS in School	16.710	2002SHWX0150	3,979
County Justice Assistance Grant Program (JAG)	16.738	2006-DJ-BX-0081	21,045
Gang Resistant Education and Training (G.R.E.A.T.)	16.737	2006-JV-FX-0006	14,402
Bulletproof Vests Partnership Program	16.607	FY2005	12
Bulletproof Vests Partnership Program	16.607	FY2006	<u>3,037</u>
			<u>42,475</u>
Pass through programs from the MS Division of Public Safety Planning:			
Enforcing Underage Drinking Laws	16.579	04-AH-FX-0029	1,590
Enforcing Underage Drinking Laws	16.579	07-UA-234-1	1,149
Victim Witness	16.579	05-NW2342	<u>7,015</u>
			<u>9,754</u>
Total U.S. Department of Justice			<u>52,229</u>
U.S. Department of Homeland Security			
Pass through program from Mississippi Emergency Management Agency:			
Disaster Grants/Hurricane Katrina Relief Fund	97.036	FEMA-1604-DR-845	8,072
Hazard Mitigation Grant Program (Flood Buy-out Program)	97.029	HMGP 1436-0003	<u>9,807</u>
			<u>17,879</u>

CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2007

Federal Grantor/Pass-through Grantor or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Pass through program from Department of Public Safety			
Law Enforcement Terrorism Prevention Grant	97.067	04LE374	15,981
State Domestic Preparedness Equipment	97.067	06HS374	31,358
Homeland Security Grant Program Addendum	97.067	04HS374	5,271
Homeland Security - Citizen Corp.	97.067	04CC013	500
			<u>53,110</u>
Total U.S. Department of Homeland Security			<u>70,989</u>
U.S. Department of Health and Human Services			
Pass through program from MS Department of Health:			
Disaster Relief - Mosquito Control	93.069	40000EPO	41,070
Pass through program from MS Department of Human Services:			
Administration for Children and Families:			
CCDF Matching Children & Development Fund Grant, Office of Children and Youth, for Good Shepherd Community Center	93.575	229Q661	184,821
			<u>225,891</u>
Total U.S. Department of Human Services			<u>225,891</u>
Department of Transportation			
Direct Programs:			
Federal Transit Administration/Public Transportation	20.500	MS-03-0024-00	32,729
Pass through program from MS Department of Transportation:			
Section 5311 Public Transportation Rural Transit Assistance	20.509	501709	263,793
Emergency Relief - Road and Debris Removal	20.205	ER-0440-00(009)	44,604
Highway Planning & Construction	20.205	STP-9658-00(003)	93,062
			<u>401,459</u>
Total Department of Transportation			<u>434,188</u>
Department of Environmental Quality			
Pass through MS Department of Environmental Quality:			
Water Pollution Control Revolving Loan Fund	66.458	SRF-C280733-03	3,460,136
Total Department of Environmental Quality			<u>3,460,136</u>
Total Expenditures of Federal Awards			<u>\$ 5,638,980</u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2007**

NOTE A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Vicksburg and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**CITY OF VICKSBURG, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2007**

06-1 Enterprise Fund Reconciliations and Allowance for Doubtful Accounts

Condition: The City failed to reconcile the enterprise fund's petty cash, accounts receivable, and deposits in a timely manner. The City had to make an entry at year end to adjust the general ledger to agree to the subsidiary ledger. Also, the aging reports reviewed indicate some customers with past due balances continue to receive service. Additionally, no procedures exist for periodic review and determination of the appropriate allowance for doubtful accounts to be recorded so as to state the net customer accounts receivables at realizable value in accordance with generally accepted accounting principles.

Recommendation: The Enterprise Funds' reports and ledgers should be regularly reviewed and monitored by appropriate personnel and officials. A monthly reconciliation of the enterprise funds' subsidiary ledgers to the general ledger should be timely performed to validate the accuracy of the financial data recorded.

Current Status: Corrected

06-2 Cash Receipts System

Condition: The City's cash receipts were not always in agreement with bank deposits per the bank statement and the differences were not timely investigated and corrected. In addition, some deposits made by the City departments were not entered at all or were not entered timely into the cash receipts system. Some receipts were recorded to miscellaneous income rather than the proper general ledger account. Additionally, errors detected by the City personnel may be corrected during the import function. When a correction is executed in this manner the audit trail feature is lost.

Recommendation: We recommend that cash receipts be deposited daily, bank accounts be timely reconciled and that the cash receipts software be utilized for all billing functions of the City. At present, some deposits are lagging receipt dates by several days. As a result, not only is there risk or loss from burglary, misplacement, or misappropriation, but the cash is not available for expenditures or investment. We recommend that deposits be made on a daily basis both to improve cash flow and to reduce the risk of loss. For this operation to be effective as a control, the cash receipts listings should be compared with details in the bank statements received by the City, by an employee who has no access to cash. Errors noted in this reconciliation, whether in amount or classification, should be researched and corrections timely reflected on the City's books. With these procedures in practice, the City's cash flow information would then be available on a real-time basis for management review and budgeting purposes.

Current Status: Corrected

06-3 Fixed Asset Recordkeeping and Reconciliation

Condition: The Enterprise Fund and GASB 34 fixed asset subsidiary ledger is not updated and reconciled monthly. Additionally, some data captured in the GASB 34 fixed asset subsidiary ledger is inconsistent with the financial records with respect to acquisition date, amount and description.

Recommendation: The fixed assets subsidiary ledger should be reconciled to the financial records monthly. Only items requiring capitalization in accordance with GASB 34 should be posted to the capital outlay accounts. The annual activity since the adoption of GASB 34 should be reviewed to ensure proper recording of additions and dispositions. Any errors identified should be corrected so that the fixed asset subsidiary agrees with the general ledger and/or GASB 34 financial statements.

Current Status: Corrected

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

06-4 Reconciliations of Cash and Investment Accounts

Condition: Bank statements were not timely reconciled to the appropriate general ledger accounts and approved in the minutes and material errors were detected once the reconciliations were prepared. Additionally, investment accounts held by the trustee are only reconciled annually. Cash activity at the Convention Center is posted annually in conjunction with the audit to the City's general ledger.

Recommendation: We recommend that all cash activity be timely posted to the general ledger and that bank accounts be reconciled each month prior to preparation of the monthly financial statements. The benefit of monthly reconciliations is that errors do not accumulate and can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. As mentioned in 06-2, these steps can be performed at the same date, if possible. In addition, the reconciliation should be performed by someone other than the preparer of the deposits and the person preparing the checks. This will reduce the risk that misappropriation of cash assets could be concealed.

Current Status: Not corrected

06-5 Perpetual Care

Condition: The perpetual care certificates used by the City are not prenumbered.

Recommendation: We recommend that the City issue prenumbered certificates and that the sequence be regularly monitored and controlled. Additionally, the City should consider retaining a portion of the proceeds received in the general fund to cover the cost of the land.

Current Status: Not corrected

06-6 Payment of Liabilities

Condition: The City routinely determines the amount owed for payroll liabilities or payable to other fiduciary entities based on the general ledger balance and not calculations of actual amounts due and related supporting documentation.

Recommendation: The City should calculate the amount due based on valid data and supporting documentation rather than relying on the general ledger balance which may contain posting errors or other unrelated transactions. Any differences between the calculated liability and the general ledger should be timely investigated and corrected.

Current Status: Not corrected

06-7 Voided Transactions

Condition: For internal purposes, the City uses an original check to generate an item on the docket for approval by the City officials when executing electronic payments. The original check should be defaced and properly voided to prohibit it from being improperly negotiated. We noted instances where such checks were not properly defaced or could not be located.

Recommendation: The City should adhere to its policy on voiding checks and appropriate City personnel should routinely monitor such compliance.

Current Status: Not corrected

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

06-8 Monitoring of Federal and State Grants

Condition: The City receives numerous grants during the year. Many of the grants are managed by personnel dedicated to grant monitoring, while others are managed by personnel with multiple duties that may lack sufficient training or time to monitor compliance.

Recommendation: The City should consider assigning the monitoring function of all grants to personnel trained in monitoring federal and state grants. Additionally, the excess funds received should be promptly returned and subsequent receipts on this grant should be reviewed to ensure only allowable funds were requested and received.

Current Status: Not corrected

06-9 Allocation of Costs

Condition: The allocation of health insurance is not handled consistently nor is the allocation being timely recorded in the general ledger.

Recommendation: The methodology to allocate costs should be reviewed and amended to ensure that the proper amount is allocated to each department and the allocations should be posted timely each month so that accurate financial statements are prepared.

Current Status: Not corrected

06-10 Ambulance Billing

Condition: The City does not receive a subsidiary ledger of ambulance billing and collection efforts turned over to a third party collection agent. Without a subsidiary ledger the City is unable to properly reconcile the ambulance receivables to the general ledger.

Recommendation: The City, in their contracts, should require that all third party collection agents provide sufficient documentation each month so that a proper reconciliation can be completed and that the City can monitor collection efforts.

Current Status: Corrected

06-11 Billings to Other Governments

Condition: The City participates in TIF programs and is responsible for billing the County government for their portion of the bond payments. The City was three years in arrears in their billing.

Recommendation: The City should establish a system to ensure that the County is timely billed for all amounts when due.

Current Status: Not corrected

**CITY OF VICKSBURG, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

06-12 Due To and Due From Accounts

Condition: The due to and due from accounts were not properly reconciled throughout the year and were out of balance at year end. Additionally, a periodic review of the activity posted to these accounts was not always performed to ensure that the transactions were short term in nature with the intention of repayment and not a transfer between funds.

Recommendation: Appropriate City personnel should approve transactions between funds to ensure proper recording and the due to and due from accounts should be reviewed monthly to ensure they are in balance. Any differences identified should be timely investigated and corrected.

Current Status: Corrected

06-13 Grant Matching

Condition: Several grants the City expended during the fiscal year under audit required a match of the City resources. It was noted that not all matches were properly reflected in the respective special revenue fund utilized by the City to keep track of the expenditures associated with the grant revenue.

Recommendation: Grants, whether handled by the planning department or outside agencies, should be monitored by assigned City personnel to determine compliance with the grant. As part of this review process, all matching requirements, whether in the form of cash or in-kind services, need to be properly recorded on the respective fund's trial balance.

Current Status: Corrected

06-14 Inactive Bank Accounts

Condition: The City maintains bank accounts that have not had any activity in several years.

Recommendation: We recommend that the City appraise the need for the existing bank accounts and close any that are no longer deemed necessary. Once bank accounts are closed, they should be timely removed from the monthly reconciliation sheet submitted to the board for review.

Current Status: Not corrected

06-15 Capital Project Completion Details

Condition: Projects that have been completed for several years still remain on the City's records with balances.

Recommendation: We recommend that each bond issuance with unspent funds be reviewed to determine what the remaining funds could be used for (i.e. future bond payments, similar type expenditures or refund to bond holders) in a timely manner upon completion of the project.

Current Status: Corrected

06-16 Financial Record Maintenance Procedures

Condition: The City's procedures do not include account review and reconciliations in a number of significant account balances and transaction classes. In addition, the City personnel were unable to locate supporting documentation for several transactions.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

06-16 Financial Record Maintenance Procedures – continued

Recommendation: Adequate personnel resources need to be devoted to performing the necessary procedures. The City should assign the responsibility for performing periodic account review and reconciliations of significant asset and liability accounts to appropriately trained employees. The procedures should include standards for documentation of work performed as well as documentation that the work has been reviewed by supervisory personnel. Supporting documents should be properly labeled and filed in a system that is easily retrievable for later reference.

Current Status: Corrected

06-17 Utility Rates

Condition: Current year rates assessed upon customers did not cover the cost of operating the various utility services. In turn, the general fund had to loan the utility funds cash to operate.

Recommendation: Management should evaluate the rates charged to users and propose rate increases when the cost of operating this service is not being subsidized by the user charges.

Current Status: Corrected

06-18 Convention Center Transactions

Condition: Checks for payment of invoices are being signed by a convention center employee on a bank account titled in the name of the City.

Recommendation: Since these funds are the City's money, the City's management should review compliance with state laws in the area of cash management, budgeting and purchasing and implement any changes needed to ensure compliance. All convention center transactions should be timely recorded in the City's general ledger.

Current Status: Not corrected

06-19 Annual Audits

Condition: The City did not complete its annual audit in compliance with state law deadlines or the reporting deadlines mentioned in OMB Circular A-133 due to significant turnover of accounting and administrative staff.

Recommendation: The City should strive to meet all reporting deadlines of financial transactions.

Current Status: Not corrected

V. INTERNAL CONTROL AND COMPLIANCE

THE HALFORD FIRM, PLLC

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Vicksburg, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the City of Vicksburg, Mississippi's basic financial statements and have issued our report thereon dated June 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questions Costs listed as 07-01 through 07-07 to be significant deficiencies in the internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 07-04, 07-07 and 07-08 to be material weaknesses.

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 07-08 and 07-09.

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, state auditors, 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.

The Halford Firm, PLLC

June 8, 2010

THE HALFORD FIRM, PLLC

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROLOVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

Compliance

We have audited the compliance of City of Vicksburg, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Vicksburg, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of noncompliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination on control deficiencies, that adversely affects the City's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 07-10 to be a significant deficiency.

A material weakness is a significant, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 07-10 to be a material weakness.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

The report is intended solely for the information and use of, management, state auditors, 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.

The Halford Firm, PLLC

June 8, 2010

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2007**

SECTION 1: SUMMARY OF AUDITORS' RESULTS

General Purpose Financial Statements

- | | | |
|----|----------------------------------------------------------------------------------------|-------------|
| 1. | Type of auditors' report issued on the general purpose financial statements. | Unqualified |
| 2. | Material noncompliance related to the financial statements? | Yes |
| 3. | Internal control over financial reporting: | |
| 1. | Material weaknesses identified? | Yes |
| 2. | Significant deficiencies identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | | |
|----|------------------------------------------------------------------------------------------------------------------|-------------|
| 4. | Type of auditors' report issued on compliance with major federal programs. | Unqualified |
| 5. | Internal control over major programs: | |
| 1. | Material weaknesses identified? | Yes |
| 2. | Significant deficiencies that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section 510(a) of OMB Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |
| a. | CFDA #14.228 U.S. Department of Housing and Urban Development
Community Development Block Grant | |
| b. | CFDA #14.239 U.S. Department of Housing and Urban Development
HOME Investment Partnership Program | |
| c. | CFDA #66.458 U.S. Environmental Protection Agency Capitalization
Grants for Clean Water State Revolving Funds | |
| 8. | Dollar threshold used to distinguish between type A and B programs | \$300,000 |
| 9. | The City of Vicksburg qualified as a low-risk auditee? | No |

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2007**

SECTION 2: FINDINGS RELATED TO FINANCIAL STATEMENTS AUDIT

07-01 Reconciliations of Cash and Investment Accounts

Condition: Bank statements were not timely reconciled to the appropriate general ledger accounts and approved in the minutes and material errors were detected once the reconciliations were prepared. Additionally, investment accounts held by the trustee are only reconciled annually. Cash activity at the Convention Center is posted annually in conjunction with the audit to the City's general ledger.

Criteria: Monthly bank account reconciliations are the primary internal control procedure relating to the City's cash accounts.

Effect: Not timely recording cash activity and reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis and management may base decisions on erroneous data.

Recommendation: We recommend that all cash activity be timely posted to the general ledger and that bank accounts be reconciled each month prior to preparation of the monthly financial statements. The benefit of monthly reconciliations is that errors do not accumulate and can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. In addition, the reconciliation should be performed by someone other than the preparer of the deposits and the person preparing the checks. This will reduce the risk that misappropriation of cash assets could be concealed.

City's Corrective Action: The recommendation will be implemented.

07-02 Perpetual Care

Condition: The perpetual care certificates used by the City are not prenumbered.

Criteria: Proper internal controls incorporate the usage of prenumbered documents to ensure completeness of recorded activity.

Effect: A system to track the completeness of the certificates issued in the current period does not exist and results in the possibility that certificates were issued and not properly captured in the City's records.

Recommendation: We recommend that the City issue prenumbered certificates and that the sequence be regularly monitored and controlled. Additionally, the City should consider retaining a portion of the proceeds received in the general fund to cover the cost of the land.

City's Corrective Action: The City will set up the procedures to implement the recommendation.

Condition: The City routinely determines the amount owed for payroll liabilities or payable to other fiduciary entities based on the general ledger balance and not calculations of actual amounts due and related supporting documentation.

Criteria: The amount paid should be reflective of the actual amount due.

Effect: The City may be paying incorrect amounts that subject them to penalties and/or interest or overpaying liabilities which impact available cash.

Recommendation: The City should calculate the amount due based on valid data and supporting documentation rather than relying on the general ledger balance which may contain posting errors or other unrelated transactions. Any differences between the calculated liability and the general ledger should be timely investigated and corrected.

City's Corrective Action: The City has implemented a system of attaching valid data and supporting documentation, as well as using this information as a basis of payment.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

07-03 Voided Transactions

Condition: For internal purposes, the City uses an original check to generate an item on the docket for approval by the City officials when executing electronic payments. The original check should be defaced and properly voided to prohibit it from being improperly negotiated. We noted instances where such checks were not properly defaced or could not be located.

Criteria: To reduce the risk of improper use of the City funds, voided checks should be immediately and properly defaced and maintained in a manner for easy retrieval if subsequent review is necessary.

Effect: The City is exposed to possible loss of funds if the voided check is inadvertently or fraudulently negotiated.

Recommendation: The City should adhere to its policy on voiding checks and appropriate City personnel should routinely monitor such compliance.

City's Corrective Action: The City currently adheres to its policy on voiding checks. The Accounting Director monitors for compliance.

07-04 Monitoring of Federal and State Grants

Condition: The City receives numerous grants during the year. Many of the grants are managed by personnel dedicated to grant monitoring, while others are managed by personnel with multiple duties that may lack sufficient training or time to monitor compliance.

Criteria: The controls over monitoring should be sufficient to ensure grants are properly handled and monitored.

Effect: Adequate oversight over some grant activity may not exist and in one instance the City did not detect a request for funds in excess of the amount allowable under the grant agreement.

Recommendation: The City should consider assigning the monitoring function of all grants to personnel trained in monitoring federal and state grants. Additionally, the excess funds received should be promptly returned and subsequent receipts on this grant should be reviewed to ensure only allowable funds were requested and received.

City's Corrective Action: The recommendation will be implemented.

07-05 Allocation of Cost

Condition: The allocation of health insurance costs is not handled consistently nor is the allocation being timely recorded in the general ledger.

Criteria: The monthly accounting records and financial statements should reflect proper costs for each City department.

Effect: Because the allocation is not always based on the number of employees receiving health benefits or the allocation is not posted timely, the monthly financial statements do not present accurate information and management may make incorrect decisions and potential budget violations may not be timely identified.

Recommendation: The methodology to allocate costs should be reviewed and amended to ensure that the proper amount is allocated to each department and the allocations should be posted timely each month so that accurate financial statements are prepared.

City's Corrective Action: The cost allocation methods used will be reviewed for accuracy and recorded on a monthly basis.

CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

07-05 Allocation of Cost - continued

Condition: The City does not receive a subsidiary ledger of ambulance billing and collection efforts turned over to a third party collection agent. Without a subsidiary ledger the City is unable to properly reconcile the ambulance receivables to the general ledger.

Criteria: The City should obtain supporting documentation for all amounts recorded in their financial records.

Effect: The City is unable to determine the actual amount of past due accounts and their status once turned over to the collection agent.

Recommendation: The City, in their contracts, should require that all third party collection agents provide sufficient documentation each month so that a proper reconciliation can be completed and that the City can monitor collection efforts.

City's Corrective Action: The recommendation will be implemented.

07-06 Billings to Other Governments

Condition: The City participates in TIF programs and is responsible for billing the County government for their portion of the bond payments. The City was three years in arrears in their billing.

Criteria: The City officials have a fiscal responsibility to timely bill other governments when money is due.

Effect: The City's cash flow was impacted by their untimely billing and collection of funds from the County related to the TIF financing.

Recommendation: The City should establish a system to ensure that the County is timely billed for all amounts when due.

City's Corrective Action: This recommendation has been implemented.

Condition: The due to and due from accounts were not properly reconciled throughout the year and were out of balance at year end. Additionally, a periodic review of the activity posted to these accounts was not always performed to ensure that the transactions were short term in nature with the intention of repayment and not a transfer between funds.

Criteria: Only transactions expected to be timely repaid should be recorded as a due to or due from within the general ledger. The due to and due from accounts are self balancing and should always net to zero.

Effect: City personnel had to expend additional time reconciling the accounts, investigating differences and recording correcting entries.

Recommendation: Appropriate City personnel should approve transactions between funds to ensure proper recording and the due to and due from accounts should be reviewed monthly to ensure they are in balance. Any differences identified should be timely investigated and corrected.

City's Corrective Action: This recommendation has been implemented.

Condition: Several grants the City expended during the fiscal year under audit required a match of the City resources. It was noted that not all matches were properly reflected in the respective special revenue fund utilized by the City to keep track of the expenditures associated with the grant revenue.

Criteria: Transactions from all sources should be recorded in the fund that the City sets up to account for the expenditures.

Continued

CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2007

07-06 Billings to Other Governments - continued

Effect: Noncompliance with the terms accepted in grants could result in returning funds to the grantor.

Recommendation: Grants, whether handled by the planning department or outside agencies, should be monitored by assigned City personnel to determine compliance with the grant. As part of this review process, all matching requirements whether in the form of cash or in-kind services need to be properly recorded on the respective fund's trial balance.

City's Corrective Action: This recommendation has been implemented.

07-07 Inactive Bank Accounts

Condition: The City maintains bank accounts that have not had any activity in several years.

Criteria: Inactive bank accounts can be susceptible to misuse by someone seeking to misappropriate cash.

Effect: Due to the low volume of activity, some banks do not send statements monthly therefore the bank account could be overlooked during the reconciliation process.

Recommendation: We recommend that the City appraise the need for the existing bank accounts and close any that are no longer deemed necessary. Once bank accounts are closed, they should be timely removed from the monthly reconciliation sheet submitted to the board for review.

City's Corrective Action: The City will review and close any unnecessary bank accounts.

Condition: Projects that have been completed for several years still remain on the City's records with balances.

Criteria: Remaining funds from bond issues should be reviewed for the allowability of usage after each project is complete.

Effect: Bond proceeds could be spent on ineligible costs.

Recommendation: We recommend that each bond issuance with unspent funds be reviewed to determine what the remaining funds could be used for (i.e. future bond payments, similar type expenditures or refund to bond holders) in a timely manner upon completion of the project.

City's Corrective Action: The City will assign appropriate personnel to review each bond issue with unexpended funds and take necessary actions to close out the funds. The assigned personnel will monitor any new capital projects and close out upon completion of the projects.

Condition: The City's procedures do not include account review and reconciliations in a number of significant account balances and transaction classes. In addition, the City personnel were unable to locate supporting documentation for several transactions.

Criteria: Appropriate accounting procedures should exist to check the accuracy and internal integrity of information in the accounting system in order to provide the City with the ability to prepare accurate and timely financial reports.

Effect: Significant errors can occur in the accounting process and not be detected in a timely manner. Our audit revealed that material adjustments were required in cash, accounts receivable, enterprise accounts and fixed assets that were not detected by the City employees in the course of performing their accounting duties. Such errors, if uncorrected, can result in the financial statement being materially misstated. In addition, the City should review with appropriate City personnel the record retention policy in order to maintain accessibility of supporting documents for financial transactions.

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

07-07 Inactive Bank Accounts – continued

Recommendation: Adequate personnel resources need to be devoted to performing the necessary procedures. The City should assign the responsibility for performing periodic account review and reconciliations of significant asset and liability accounts to appropriately trained employees. The procedures should include standards for documentation of work performed as well as documentation that the work has been reviewed by supervisory personnel. Supporting documents should be properly labeled and filed in a system that is easily retrievable for later reference.

City's Corrective Action: The City has hired the appropriately trained personnel to implement the recommendation.

COMPLIANCE AND OTHER MATTERS

07-08 Convention Center Transactions

Condition: Checks for payment of invoices are being signed by a convention center employee on a bank account titled in the name of the City.

Criteria: All aspects of this area should be under the internal control structure of the City in order to increase the reliability and accuracy of the information and to ensure that all users are working from the same information in order to make wise, informed decisions in their respective responsibilities.

Effect: It became evident during the year-end audit that insufficient control had been exercised over certain accounting policies of this department during the year.

Recommendation: Since these funds are the City's money, the City's management should review compliance with state laws in the area of cash management, budgeting and purchasing and implement any changes needed to ensure compliance. All convention center transactions should be timely recorded in the City's general ledger.

City's Corrective Action: The recommendation will be implemented.

07-09 Annual Audits

Condition: The City did not complete its annual audit in compliance with state law deadlines or the reporting deadlines mentioned in OMB Circular A-133 due to significant turnover of accounting and administrative staff.

Criteria: OMB Circular A-133 states that the reporting package, which includes the audit reports, must be submitted no later than nine months after the end of the audit period.

Effect: Since many government funding agencies review financial statements in determination of grant funding, revenues could be lost or delayed.

Recommendation: The City should strive to meet all reporting deadlines of financial information.

City's Corrective Action: The City has modified job duties and is installing new software and or modifying existing software and setting up procedures to track transactions which effect the new Governmental Accounting Standards Board's recommended statement requirements. The City will close out the books at the end of the fiscal year on a timely basis, which will allow the auditors to complete the audit in a timely manner.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2007**

SECTION 3: MAJOR FEDERAL AWARDS PROGRAMS FINDINGS AND QUESTIONED COSTS

REPORTABLE CONDITIONS:

None

07-10 Federal Schedule of Expenditures

Federal Program and Specific Federal Award Identification

Applicable to All Federal Financial Assistance Awards

Condition: The City provided a Schedule of Expenditures of Federal Awards that contained several material errors and omissions.

Criteria: Pursuant to the requirements of Office of Management and Budget (OMB) Circular A-133 Part II Subpart C regarding auditee responsibilities, the auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. The auditee is also required by OMB to present required information in the Schedule of Expenditures of Federal Awards.

Cause of Condition: Many of the errors and omissions were the result of too many people from different departments managing the federal grant program. Also, the City does not have an effective mechanism for identifying and tracking federal and federal pass-through funds.

Effect: A significant amount of time had to be expended to properly complete the Schedule of Expenditures of Federal Awards for inclusion in the audit report and to determine the federal funds subject to compliance testing in accordance with OMB Circular A-133.

Questioned Costs: None

Recommendation: The Planning Department should oversee all federal and state grants and be charged with report preparation, compliance monitoring and communication to the Mayor and Alderman. The Mayor and Alderman should require coordination and communication between the Engineering, Accounting, City Clerk, Transportation and Planning Departments to ensure all federal grants are properly identified and administered. Additionally, the quarterly Merlin Report which identifies all State and Federal pass-through funds should be reviewed by the Planning Department to assist in identifying grant monies.

Corrective Action: The recommendation will be implemented.

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

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

We have audited the financial statements of the City of Vicksburg, Mississippi as of and for the year ended September 30, 2007, and have issued our report thereon dated June 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our engagement and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations are as follows:

Budgetary Basis: - The City is in violation of Section 21-35-23 of the Mississippi Code of 1972, which prescribes the accounting basis for adopting municipal budgets. The City adopts its budgets on the GAAP basis, which is not an approved method. The GAAP basis is in accordance with generally accepted accounting principles, while state law prescribed a modified cash basis for budgets. This is a prior year finding.

Response: - As in previous years, the City has adopted the GAAP basis budget to correlate with the method of accounting used in its financial reporting process.

Annual Audit: - The City is in violation of Section 21-35-31 of the Mississippi Code of 1972, which prescribes the annual audit requirements. The City did not meet the deadline of having their books audited prior to the close of the next succeeding fiscal year.

Response: - Due to the resignation of the Accounting Director, the City has realigned the department to provide continuity of procedures in the future should change of personnel take place.

The instances of noncompliance of the prior year have been corrected by management unless it is specifically stated otherwise in the findings and recommendations noted above.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken. This report is intended for the information of the City of Vicksburg, Mississippi's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

The Halford Firm, PLLC

June 8, 2010

Vicksburg, Mississippi

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