

CITY OF VICKSBURG, MISSISSIPPI

Financial Report

Year Ended September 30, 2006

with

Independent Auditor's Reports

**CITY OF VICKSBURG, MISSISSIPPI
FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2006**

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I. REQUIRED SUPPLEMENTAL INFORMATION (PART A)

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

For the Year Ended September 30, 2006

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, 2006. 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 \$119,004,227 (reported as "net assets"). This compares to the previous year when assets exceeded liabilities by \$118,085,471. Of this amount, \$18,298,007 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 \$2,347,217 while business-type activities' net assets decreased by \$1,579,768, resulting in an overall net assets increase of \$767,449.

Fund Level - As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$11,234,728, with \$10,821,892 reported as unreserved fund balance. The remaining balance of \$412,836 was reserved for specific purposes. This compares to the prior year ending fund balance of \$9,751,932. The proprietary funds reported total net assets of \$22,623,591. This compares to the prior year net assets of \$24,203,359.

Long-term Debt - During fiscal year 2006, the City retired \$4,248,750 of City debt. The City's total debt decreased to \$23,021,949.

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) - Continued

For the Year Ended September 30, 2006

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 and 2 on pages 7 to 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) - Continued

For the Year Ended September 30, 2006

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) - Continued

For the Year Ended September 30, 2006

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 and City Bond and Interest 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) - Continued

For the Year Ended September 30, 2006

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) - Continued

For the Year Ended September 30, 2006

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information such as a 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, 2006, the City's combined assets (governmental and business-type activities) totaled \$148.5 million compared to \$151.8 million dollars for fiscal year ending September 30, 2005. Cash and cash equivalents increased by \$72 thousand. The use of cash reduced the total liabilities by \$4.3 million from \$33.7 million to \$29.4 million dollars and capital assets decreased by \$4.0 million to \$123.9 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 \$119 million dollars after deducting total liabilities of \$29.4 million dollars from total assets.

The largest portion of the City's net assets, 83.5% or \$123.9 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 \$305 thousand dollars to be used for debt retirement.

The remaining unrestricted net assets, \$18.3 million dollars, or 15.4 %, 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 total net assets of both governmental and business-type activities.

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

Table 1
Statement of Net Assets
September 30, 2006 and 2005
(In Millions of Dollars)

| | <u>Governmental</u> <u>Activities</u> | | <u>Business-type</u> <u>Activities</u> | | <u>Total</u> | |
|--|--|--------------|---|-------------|--------------|--------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Assets | | | | | | |
| Cash and Other Assets | 23.0 | 21.2 | 1.6 | 2.7 | 24.6 | 23.9 |
| Capital Assets | <u>90.2</u> | <u>93.4</u> | <u>33.7</u> | <u>34.5</u> | <u>123.9</u> | <u>127.9</u> |
| Total Assets | 113.2 | 114.6 | 35.3 | 37.2 | 148.5 | 151.8 |
| Liabilities | | | | | | |
| Current and Other Liabilities | 5.3 | 6.7 | 3.0 | 3.0 | 8.3 | 9.7 |
| Long Term Liabilities | <u>11.6</u> | <u>14.0</u> | <u>9.6</u> | <u>10.0</u> | <u>21.2</u> | <u>24.0</u> |
| Total Liabilities | 16.9 | 20.7 | 12.6 | 13.0 | 29.5 | 33.7 |
| Net Assets | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 77.2 | 76.6 | 23.2 | 23.6 | 100.4 | 100.2 |
| Restricted-Debt Service | .3 | 1.7 | - | - | .3 | 1.7 |
| Unrestricted | <u>18.9</u> | <u>15.6</u> | <u>(0.6)</u> | <u>0.6</u> | <u>18.3</u> | <u>16.2</u> |
| Total Net Assets | 96.4 | 93.9 | 22.6 | 24.2 | 119.0 | 118.1 |

*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) – Continued

For the Year Ended September 30, 2006

Statement of Activities Analysis (Table 2):

Revenues for fiscal year 2006 totaled \$56.54 million dollars and exceeded expenses which totaled \$55.77 million by \$770 thousand dollars. The business-type activity's expenses which totaled \$22.6 million exceeded revenues of \$21 million by \$1.6 million dollars. The Water system accounted for over half of the deficiency due to a large increase in contractual repairs, utility cost and an increase in depreciation cost. The governmental activities revenues exceeded expenses by \$2.3 million dollars. Utility rates have continued to be raised as necessary and a purchase gas adjustment mechanism is now 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>2006</u> | <u>2005</u> |
|------------------------------------|----------------------|----------------------|
| • General government..... | \$6.18 million, 19% | \$5.75 million, 17% |
| • Public safety..... | \$15.36 million, 46% | \$15.12 million, 45% |
| • Public works..... | \$6.35 million, 19% | \$6.31 million, 19% |
| • Health, welfare and sanitation.. | \$1.33 million, 4% | \$2.11 million, 6% |
| • Culture and recreation..... | \$3.24 million, 10% | \$3.33 million, 10% |

Interest and fiscal charges totaled \$.58 million, representing 2% of the total cost for 2006 and \$.78 million, representing 3% of the total cost for 2005.

The costs of some of the services provided by the City are directly paid by the recipient of those services. Revenues from charges for service totaled \$23.9 million and is \$6.4 million above charges for service for fiscal year 2005. 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>2006</u> | <u>2005</u> |
|-----------------------------------|----------------------|---------------------|
| • Property taxes,..... | \$8.57 million, 30% | \$9.13 million, 36% |
| • Franchise taxes,..... | \$10.75 million, 37% | \$8.95 million, 35% |
| • Public service taxes total..... | \$7.55 million, 27% | \$6.95 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 2006. For 2005 the same items respected 2% of revenues at \$.49 million. See Table 3 titled "Government Wide Revenues" on page 10 of the MDA.

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

Table 2
Statement of Activities
For the Years Ended September 30, 2006 and 2005
(In Millions of Dollars)

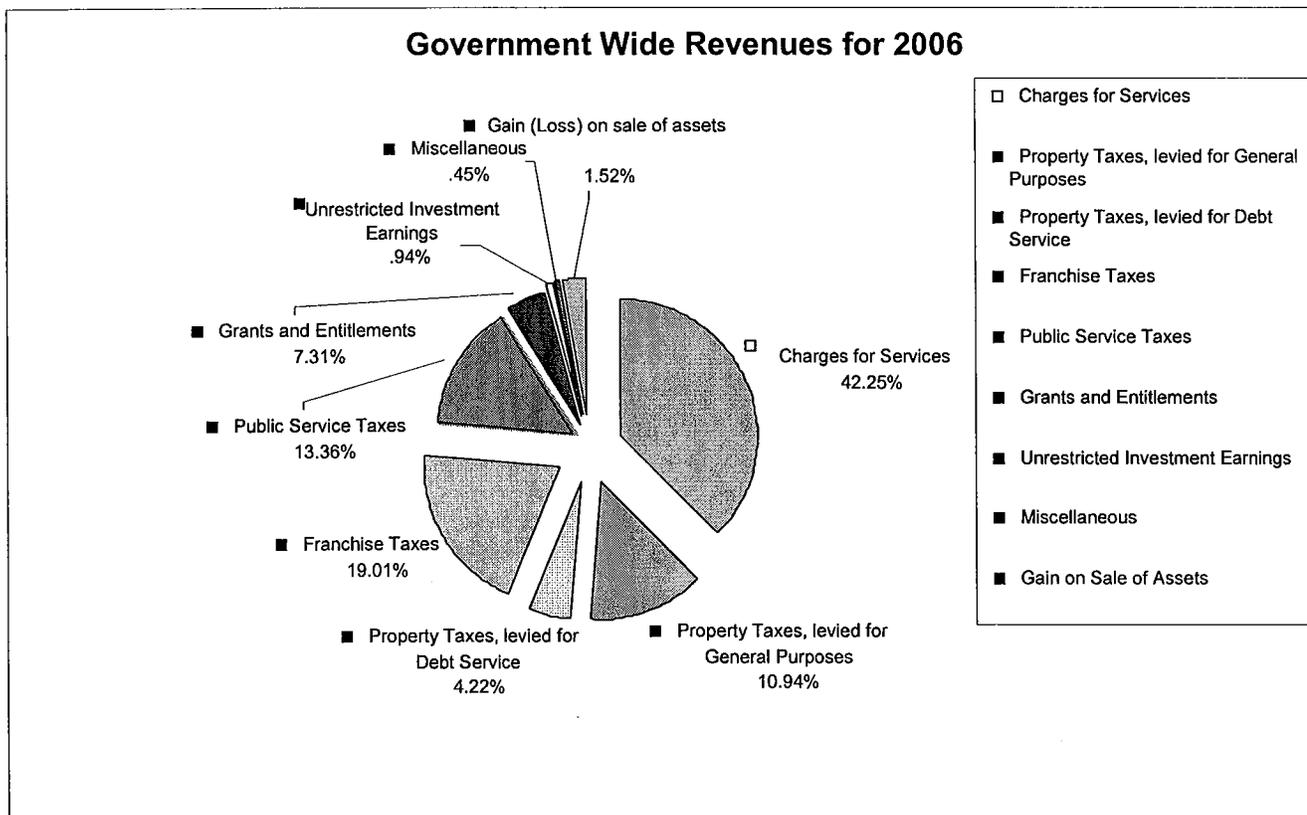
| | Governmental Activities | | Business Type Activities | | Totals | |
|---|-------------------------|---------------|--------------------------|---------------|--------------|---------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Revenues | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | | | | | | |
| Governmental Activities | 3.65 | 3.62 | | | 3.65 | 3.62 |
| Water Utility | | | 4.30 | 3.89 | 4.30 | 3.89 |
| Gas Utility | | | 11.20 | 5.46 | 11.20 | 5.46 |
| Sewer Utility | | | 3.24 | 3.18 | 3.24 | 3.18 |
| Refuse, Sanitation Fund | | | 1.50 | 1.31 | 1.50 | 1.31 |
| Transportation Fund | | | .01 | - | .01 | - |
| Operating Grants and Contributions | 2.30 | 2.95 | .23 | - | 2.53 | 2.95 |
| Capital Grants and Contributions | 1.07 | .47 | .39 | 1.48 | 1.46 | 1.95 |
| Total Program Revenues | 7.02 | 7.04 | 20.87 | 15.32 | 27.9 | 22.36 |
| General Revenues: | | | | | | |
| Property Taxes, levied for General Purposes | 6.18 | 6.66 | | | 6.18 | 6.66 |
| Property Taxes, levied for Debt Service | 2.39 | 2.47 | | | 2.39 | 2.47 |
| Franchise Taxes | 10.75 | 8.95 | | | 10.75 | 8.95 |
| Public Service Taxes | 7.55 | 6.95 | | | 7.55 | 6.95 |
| Grants and Entitlements not Restricted | .14 | .11 | | | .14 | .11 |
| Unrestricted Investment Earnings | .36 | .40 | .17 | .09 | .53 | .49 |
| Miscellaneous | .25 | .27 | | | .25 | .27 |
| Gain or (Loss) on Sale of Assets | .86 | (.29) | | | .86 | (.29) |
| Total General Revenues | 28.48 | 25.52 | .17 | .09 | 28.65 | 25.61 |
| Total Revenues | 35.50 | 32.56 | 21.04 | 15.41 | 56.54 | 47.97 |
| Functions/Programs Expenses: | | | | | | |
| General Government | 6.18 | 5.75 | | | 6.18 | 5.75 |
| Public Safety | 15.36 | 15.12 | | | 15.36 | 15.12 |
| Health, Welfare and Sanitation | 1.33 | 2.11 | | | 1.33 | 2.11 |
| Public Works | 6.35 | 6.31 | | | 6.35 | 6.31 |
| Education | .12 | .11 | | | .12 | .11 |
| Culture and Recreation | 3.24 | 3.33 | | | 3.24 | 3.33 |
| Interest and Fiscal Charges | .58 | .78 | | | .58 | .78 |
| Total Business Related Expenses | | | 22.61 | 18.06 | 22.61 | 18.06 |
| Total Expenses | 33.16 | 33.51 | 22.61 | 18.06 | 55.77 | 51.57 |
| Increase (Decrease) in Net Assets before Transfers | 2.34 | (.95) | (1.57) | (2.65) | .77 | (3.60) |
| Transfers | - | (2.20) | - | 2.20 | - | - |
| Change in Net Assets | 2.34 | (3.15) | (1.57) | (.45) | .77 | (3.60) |

*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
Management's Discussion and Analysis (MDA) – Continued

Table 3
Government Wide Revenues
For the Years Ended September 30, 2006 and 2005

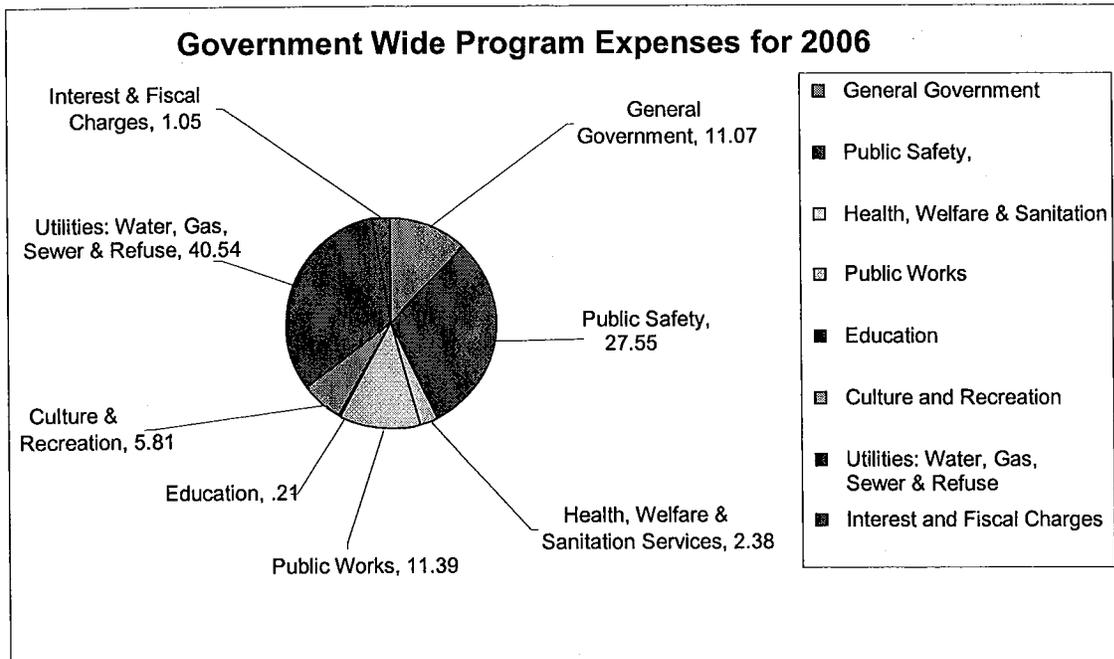
| <u>Types of Government Wide Revenues</u> | <u>Revenues</u> | | <u>Percent</u> | |
|---|--------------------------|--------------------------|-----------------------|-----------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Charges for Services | 23,886,150 | 17,473,361 | 42.25% | 36.43% |
| Property Taxes, levied for General Purposes | 6,185,948 | 6,656,792 | 10.94% | 13.88% |
| Property Taxes, levied for Debt Service | 2,388,407 | 2,469,190 | 4.22% | 5.15% |
| Franchise Taxes | 10,749,626 | 8,949,134 | 19.01% | 18.65% |
| Public Service Taxes | 7,553,517 | 6,951,381 | 13.36% | 14.49% |
| Grants and Entitlements | 4,132,605 | 5,004,771 | 7.31% | 10.43% |
| Unrestricted Investment Earnings | 532,131 | 481,192 | .94% | 1.00% |
| Miscellaneous | 252,978 | 272,680 | .45% | .57% |
| Gain or (Loss) on Sale of Assets | <u>858,880</u> | <u>(288,316)</u> | <u>1.52%</u> | <u>(.6)%</u> |
| Total Government Wide Revenues | <u>56,540,242</u> | <u>47,970,185</u> | <u>100.00%</u> | <u>100.00%</u> |



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

**Table 4
Government Wide Program Expenses
For the Year Ended September 30, 2006 and 2005**

| <u>Functions/Programs Expenses</u> | <u>Expenses</u> | | <u>Percent</u> | |
|---|--------------------------|--------------------------|-----------------------|-----------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| General Government | 6,175,576 | 5,755,534 | 11.07% | 11.16% |
| Public Safety | 15,364,062 | 15,126,203 | 27.55% | 29.32% |
| Health, Welfare and Sanitation | 1,329,046 | 2,111,184 | 2.38% | 4.09% |
| Public Works | 6,352,418 | 6,309,237 | 11.39% | 12.23% |
| Education | 115,243 | 111,501 | 0.21% | 0.22% |
| Culture and Recreation | 3,239,730 | 3,331,289 | 5.81% | 6.46% |
| Utilities: Water, Gas, Sewer and Refuse | 22,608,899 | 18,063,103 | 40.54% | 35.02% |
| Interest and Fiscal Charges | <u>587,819</u> | <u>776,546</u> | <u>1.05%</u> | <u>1.50%</u> |
| Total Expenses | <u>55,772,793</u> | <u>51,584,597</u> | <u>100.00%</u> | <u>100.00%</u> |



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

For the Year Ended September 30, 2006

THE CITY'S FUNDS ANALYSIS

General Fund Budgeting Highlights (See page 64)

Total revenue for the fiscal year totaled \$29.99 million, and exceeded the budgeted amount of \$27.6 million by \$2.4 million dollars. The Sales and Miscellaneous tax category had the largest budget variance. The estimated budget for Sales and Miscellaneous tax was exceeded by \$1.6 million 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 and budget estimated was exceeded by \$593 thousand dollars. Minor negative variances were reported in property taxes, which equaled (\$131,052) below estimated amounts and fees and fines, which equaled (\$207,261) below estimated amounts.

The final amended General Fund expense budget totaled \$29.2 million dollars. The total amount expended was \$28.5 million dollars, leaving an unexpended balance of \$746 thousand dollars for uncompleted projects. There were two categories with negative variances. The largest negative variance was in Culture and Recreation, this major variance of (\$331,403) occurred because the City did not adopt the budget for the Convention Center operating budget. The Convention Center budget will be adopted when all other City budgets are adopted. Health and Welfare expenditures had a negative variance in the amount of (\$9,591). In the future, budgets will be monitored more closely near the end of the fiscal year.

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 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) – Continued

For the Year Ended September 30, 2006

Capital Assets – Continued

Fiscal year 2006 is the fourth 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 2006 statements contain restatements of the beginning balances to account for these corrections of \$71,684 in net assets. Accumulated depreciation is recorded and is based on the date of acquisition and the estimated life span of the asset.

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, 2006, governmental activities capital assets totaled \$159,708,269 with accumulated depreciation of \$69,463,157 leaving a net capital assets balance of \$90,245,112. Business-type activities capital assets for year ended September 30, 2006 totaled \$64,213,226 with total accumulated depreciation of \$30,513,897 leaving a net business-type capital assets balance of \$33,699,329.

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.

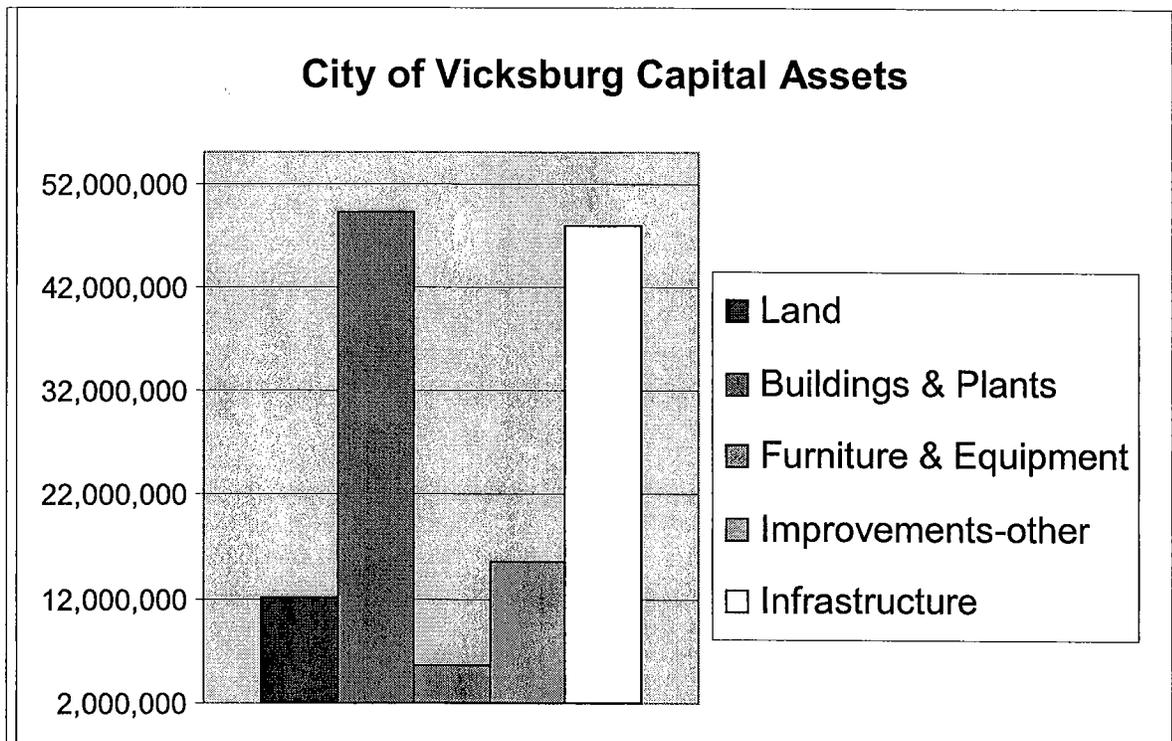
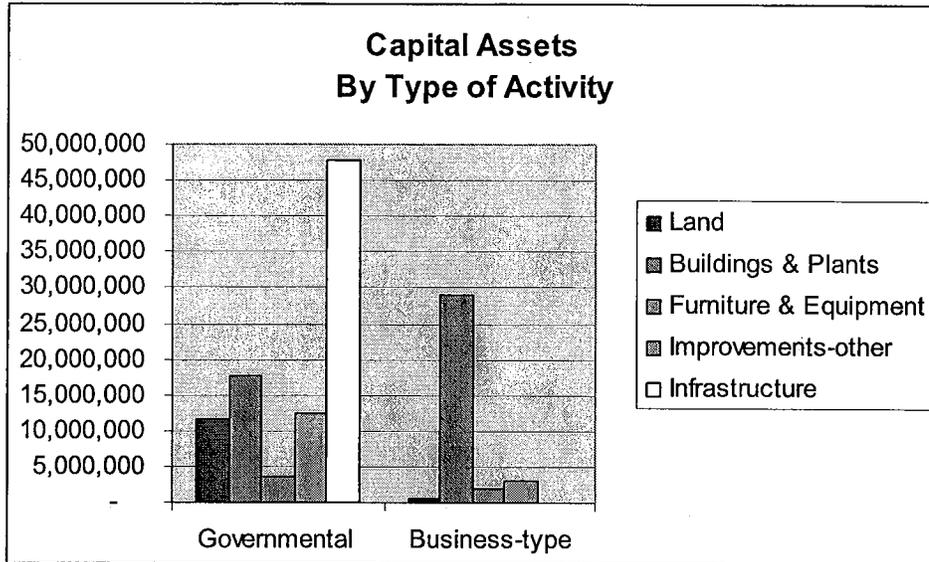
City of Vicksburg
Capital Assets, Net of Depreciation
September 30, 2006 and 2005

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|--|--------------------------------|----------------------------|---------------------------------|----------------------------|-----------------------------|-----------------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Land | \$11,747,620 | \$11,682,340 | \$531,813 | \$531,813 | \$12,279,433 | \$12,214,153 |
| Buildings | 17,344,119 | 17,567,625 | 30,428,090 | 28,998,618 | 47,772,209 | 46,566,243 |
| Furniture and Equipment | 3,264,590 | 3,658,045 | 1,825,954 | 1,932,838 | 5,090,544 | 5,590,883 |
| Other Capital Assets (Includes Construction in Progress) | 12,176,856 | 12,549,897 | 913,472 | 3,042,691 | 13,090,328 | 15,592,588 |
| Infrastructure | 45,711,927 | 47,926,597 | - | - | 45,711,927 | 47,926,597 |
| Total Capital Assets | <u>\$90,245,112</u> | <u>\$93,384,503</u> | <u>\$33,699,329</u> | <u>\$34,505,960</u> | <u>\$123,944,441</u> | <u>\$127,890,464</u> |

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

For the Year Ended September 30, 2006

Capital Assets – Continued



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

For the Year Ended September 30, 2006

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 greater flexibility in financing the future needs of the City. The City has a credit rating issued by Moody's Investors Service of "A2".

Limits on Debt

The City 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 are not subject to the fifteen percent (15%) limit.)*

The City's current fifteen percent (15%) limit is \$41,145,157. At fiscal year ended, September 30, 2006, bonds issued by the City, subject to the fifteen percent (15%) debt limit, was \$10,697,913.

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, 2006, the twenty percent (20%) limit for the City was \$54,860,210. The City's total outstanding bonds, subject to this overall debt limit, totaled \$20,996,949. The City has the ability to issue an additional amount of \$33,863,261. This figure represents sixty two percent (62%) 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) – Continued**

For the Year Ended September 30, 2006

General Long Term Obligations – Continued

**Statutory Debt Limits
September 30, 2006**

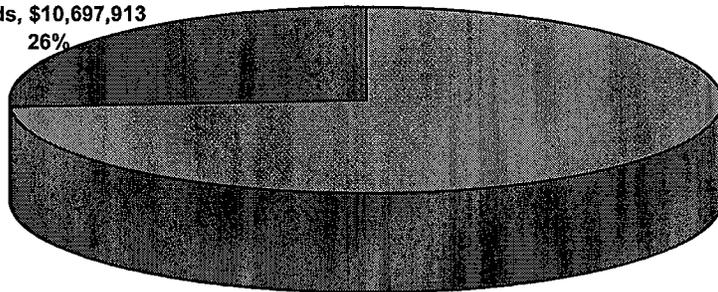
| | Twenty Percent (20%) | | Fifteen Percent (15%) | |
|--|-------------------------------------|-----------------------|--------------------------------------|-----------------------|
| | <u>Debt Limit</u> | <u>Percent</u> | <u>Debt Limit</u> | <u>Percent</u> |
| Total Statutory Debt Capacity | 54,860,210 | | 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% |

**Statutory Debt Limits
September 30, 2005**

| | Twenty Percent (20%) | | Fifteen Percent (15%) | |
|--|-------------------------------------|-----------------------|--------------------------------------|-----------------------|
| | <u>Debt Limit</u> | <u>Percent</u> | <u>Debt Limit</u> | <u>Percent</u> |
| Total Statutory Debt Capacity | 54,168,000 | | 40,626,000 | |
| Current Outstanding Debt, subject to limit | <u>24,492,379</u> | <u>45.22%</u> | <u>13,807,496</u> | <u>33.99%</u> |
| Balance of Bonding Capacity | 29,675,621 | 54.78% | 26,818,504 | 66.01% |

General Obligation Debt Limit (15%)

Debt, Outstanding
Bonds, \$10,697,913
26%



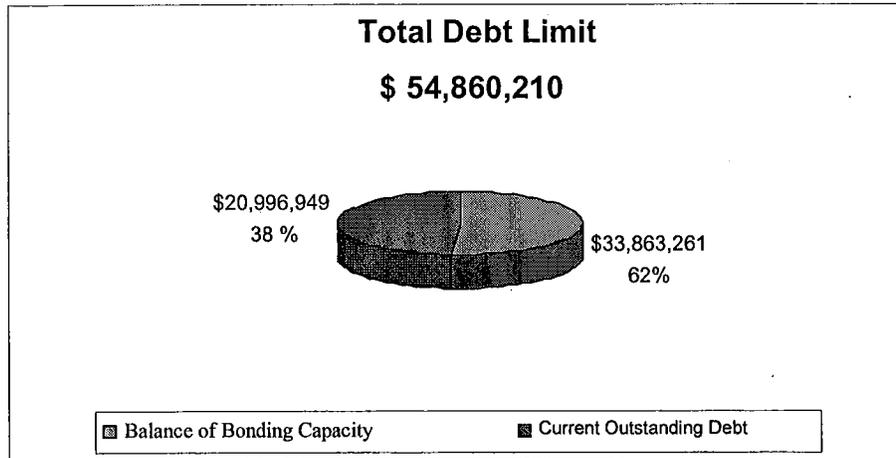
Debt, Capacity
Balance, \$30,447,244
74%

■ Capacity Balance ■ Outstanding Bonds

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

For the Year Ended September 30, 2006

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 1996 issue in the amount of \$10 million was used to construct the convention center; this bond was retired in total during the fiscal year ended September 30, 2006.
- The 2001 issue for \$17.5 million is being used for downtown redevelopment, recreation facilities, street improvements, sidewalk and landscaping improvements, outstanding balance is \$10.7 million.
- The 2003 issue for \$5.8 million will be used for water, gas and sewer improvements, outstanding balance is \$4.91 million.
- The 2003 refunding issue for \$1.6 million was used to advance refund the 1994 Water Revenue Bond and the outstanding balance is \$.795 million.

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

For the Year Ended September 30, 2006

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 \$2,025,000.

State Loans

The City made three state loans (SRF) in 1995, 1996 and 2003 for sewer improvements with a total outstanding balance of \$4.2 million. The 2003 SRF loan is approved for \$4.2 million and at September 30, 2006 only \$576,826 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 for lime sludge disposal equipment for the water treatment plant. The balance outstanding for September 30, 2006 is \$380 thousand.

Future Long Term Obligation

The City is in the process of assessing the current capital improvement's need and determining the amount of a future public improvement bond issue to complete construction of a recreation facility, started with the 2001 Public Improvement Bond; make street improvements; and make other public improvements.

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

For the Year Ended September 30, 2006

General Long Term Obligations – Continued

The City has been approved for a loan from the Water Pollution Control Revolving Loan Fund to provide sanitary sewer service to areas in south Vicksburg and to make sewer treatment plant improvements. Construction is currently in progress. Five hundred and seventy six thousand dollars (\$576,000) 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 are anticipated in spring of 2008.

City of Vicksburg
Long Term Obligations
September 30, 2006 and 2005

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|-------------------------------------|--------------------------------|----------------------------|---------------------------------|----------------------------|----------------------------|----------------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| General Obligations Bonds | \$10,698,213 | \$13,807,796 | \$5,705,000 | \$6,295,000 | \$16,403,213 | \$20,102,796 |
| Revenue Bonds | - | - | - | - | - | - |
| State Loans | - | - | 4,593,736 | 4,389,529 | 4,593,736 | 4,389,529 |
| Tax Increment Financing (TIF) Bonds | 2,025,000 | 2,220,000 | - | - | 2,025,000 | 2,220,000 |
| Other | - | - | - | - | - | - |
| Total Long Term Obligations | <u>\$12,723,213</u> | <u>\$16,027,796</u> | <u>\$10,298,736</u> | <u>\$10,684,529</u> | <u>\$23,021,949</u> | <u>\$26,712,325</u> |

Revenue Section Highlights

Governmental Fund revenues for the governmental funds totaled \$34.42 million for the fiscal year 2006 as compared to \$30.5 million for 2005. The General Fund revenues totaled \$29.99 million and the Bond and Interest Fund income for the year was \$2.2 million. The other funds of the Governmental Fund revenues totaled a combined \$2.23 million.

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

| Three Major Revenue Groups | Millions | Percent |
|--|-----------------|----------------|
| Gaming taxes | \$8.1 | 27% |
| Sales taxes: 18.5% of the state, 7% sales taxes on sales in City | \$7.5 | 25% |
| Property taxes: real estate, business, public utilities, auto | \$6.1 | 20% |

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

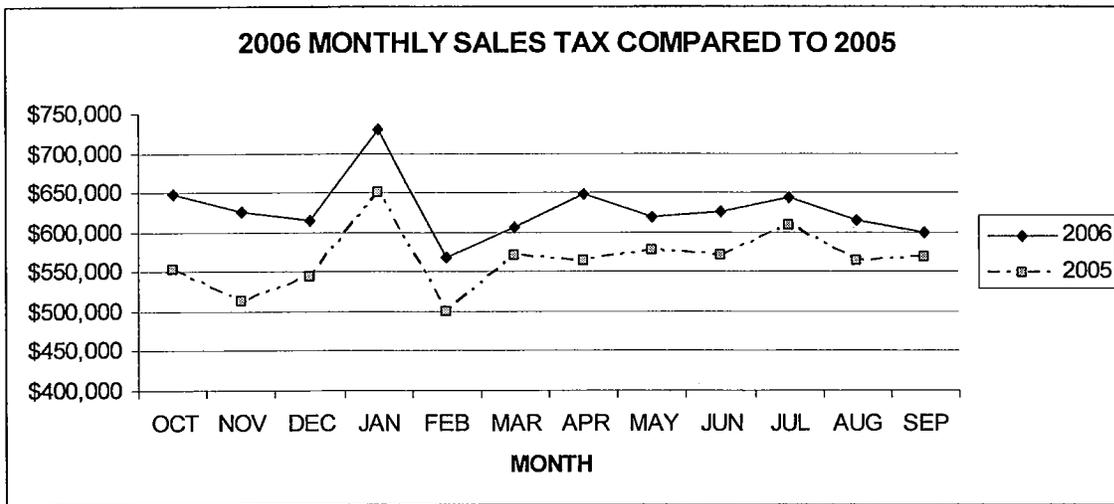
For the Year Ended September 30, 2006

Revenue Section Highlights – Continued

The largest components of the General Fund revenue are as follows for 2005:

| 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 ended September 30, 2006:

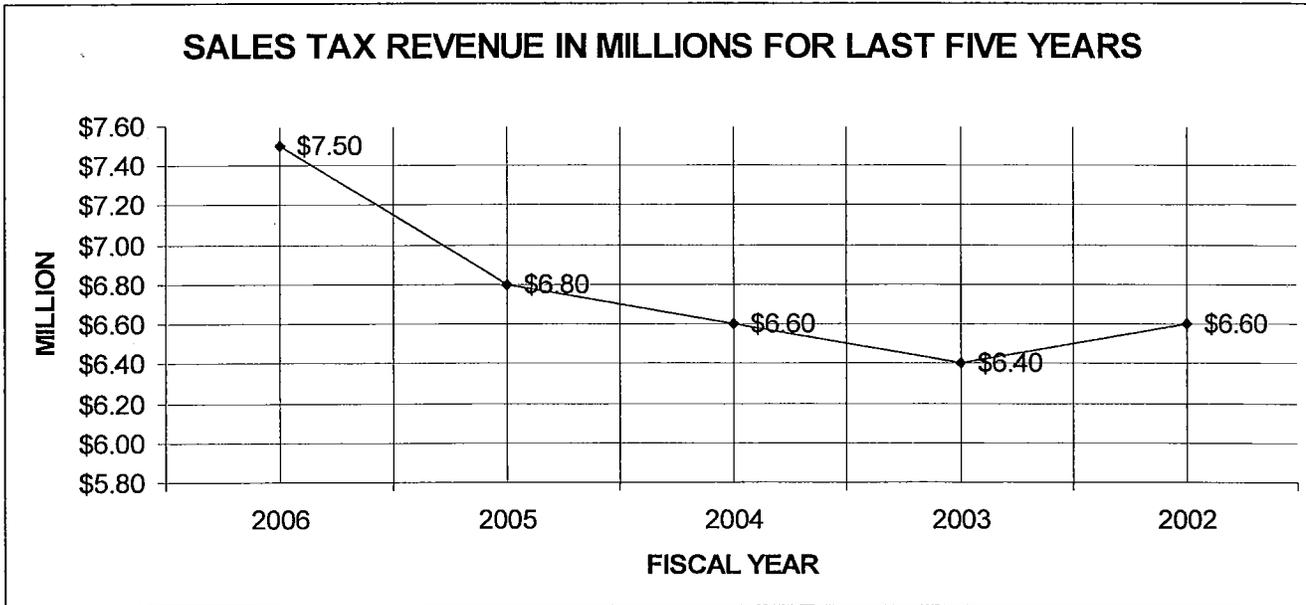


**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA) – Continued**

For the Year Ended September 30, 2006

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. In addition, the City has taken steps to stabilize the purchase price of natural gas by formulating an automatic purchased gas adjustment rate formula, to adjust gas rates according to the fluctuation of gas cost on a monthly basis. Also, the City has completed its project to replace all water and gas meters with new equipment that can be read with radios. This process involves the replacement of old inaccurate meters and the installation of radio reading devices. This will increase the accuracy of obtaining the correct usage for customers on a timely basis.

Capital Improvements

The City has completed most of the projects planned in the 2001 General Obligation Bond Issue. The City issued seventeen and a half million (\$17.5 million) in bonds for these projects. The last major project for these bond proceeds was the completion of the downtown "Art Park" and the recreation ball fields. Major repaving and landscaping of areas of the City are already complete. 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, 2006

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 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" 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



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, 2006, 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, 2006, 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 March 23, 2009 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 61 through 64, 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.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

110 MONUMENT PLACE • POST OFFICE BOX 821568 • VICKSBURG, MISSISSIPPI 39182-1568 • TELEPHONE (601) 636-4762 • FAX (601) 636-9476
email: infoline@maycpa.com • website: www.maycpa.com

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.

May + Company

March 23, 2009
Vicksburg, Mississippi

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

| | <u>Governmental</u> <u>Activities</u> | <u>Business-type</u> <u>Activities</u> | <u>Total</u> |
|---|--|---|-----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,878,410 | \$ 3,042,962 | \$ 6,921,372 |
| Investments | 1,834,624 | - | 1,834,624 |
| Receivables | 10,447,374 | 1,667,599 | 12,114,973 |
| Internal balances | 4,556,761 | (4,556,761) | - |
| Due from other governmental agencies | 2,099,958 | 398,652 | 2,498,610 |
| Inventories | 40,171 | - | 40,171 |
| Restricted cash | - | 935,609 | 935,609 |
| Other assets | 135,005 | 71,675 | 206,680 |
| Capital assets: | | | |
| Land, improvements and construction in progress, not being depreciated | 11,747,620 | 1,445,285 | 13,192,905 |
| Infrastructure and infrastructure in progress, net of depreciation | 45,711,927 | - | 45,711,927 |
| Buildings, net of depreciation | 17,344,120 | 30,428,091 | 47,772,211 |
| Equipment and furniture, net of depreciation | 3,264,590 | 1,825,954 | 5,090,544 |
| Other capital assets, net of depreciation | 12,176,856 | - | 12,176,856 |
| Total capital assets | <u>90,245,113</u> | <u>33,699,330</u> | <u>123,944,443</u> |
| Total assets | <u>\$ 113,237,416</u> | <u>\$ 35,259,066</u> | <u>\$ 148,496,482</u> |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | \$ 2,180,932 | \$ 1,876,152 | \$ 4,057,084 |
| Due to other governmental agencies | 367,188 | 69,458 | 436,646 |
| Other liabilities: | | | |
| Due within one year: | | | |
| Bonds, capital leases and contracts | 2,461,377 | 1,083,449 | 3,544,826 |
| Accrued interest | 75,271 | 14,587 | 89,858 |
| Claims and judgments | 174,252 | 40,650 | 214,902 |
| Due in more than one year: | | | |
| Bonds, capital leases and contracts | 10,614,490 | 9,383,914 | 19,998,404 |
| Compensated absences | 983,270 | 167,265 | 1,150,535 |
| Total liabilities | <u>\$ 16,856,780</u> | <u>\$ 12,635,475</u> | <u>\$ 29,492,255</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | \$ 77,169,246 | \$ 23,231,967 | \$ 100,401,213 |
| Restricted for: | | | |
| Debt service | 305,007 | - | 305,007 |
| Unrestricted | 18,906,383 | (608,376) | 18,298,007 |
| Total net assets | <u>\$ 96,380,636</u> | <u>\$ 22,623,591</u> | <u>\$ 119,004,227</u> |

The accompanying notes are an integral part of this statement.

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006

| Functions/Programs | Program Revenue | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-----------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | | Primary Government | | Total |
| | | | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | |
| Primary Government | | | | | | | |
| Governmental Activities | | | | | | | |
| General Government | \$ 6,175,576 | \$ - | \$ - | \$ 997,101 | \$ (5,178,475) | \$ - | \$ (5,178,475) |
| Public Safety | 15,364,062 | 2,942,671 | 707,524 | 72,504 | (11,641,363) | - | (11,641,363) |
| Public Works | 6,352,418 | 850 | 723,578 | - | (5,627,990) | - | (5,627,990) |
| Health, Welfare and Sanitation | 1,329,046 | 140,905 | 845,271 | - | (342,870) | - | (342,870) |
| Culture and Recreation | 3,239,730 | 568,692 | 30,311 | - | (2,640,727) | - | (2,640,727) |
| Education | 115,243 | - | - | - | (115,243) | - | (115,243) |
| Interest on Long-term debt | 587,819 | - | - | - | (587,819) | - | (587,819) |
| Total Governmental Activities | <u>33,163,894</u> | <u>3,653,118</u> | <u>2,306,684</u> | <u>1,069,605</u> | <u>(26,134,487)</u> | <u>-</u> | <u>(26,134,487)</u> |
| Business-type Activities | | | | | | | |
| Water | 5,169,966 | 4,312,234 | - | 11,965 | - | (845,767) | (845,767) |
| Gas | 11,516,669 | 11,173,396 | - | - | - | (343,273) | (343,273) |
| Sewer | 3,927,525 | 3,244,182 | - | - | - | (683,343) | (683,343) |
| Refuse | 1,772,064 | 1,498,387 | - | - | - | (273,677) | (273,677) |
| Transportation | 222,675 | 4,833 | 230,000 | 379,317 | - | 391,475 | 391,475 |
| Total Business-type Activities | <u>22,608,899</u> | <u>20,233,032</u> | <u>230,000</u> | <u>391,282</u> | <u>-</u> | <u>(1,754,585)</u> | <u>(1,754,585)</u> |
| Total Primary Government | <u>\$ 55,772,793</u> | <u>\$ 23,886,150</u> | <u>\$ 2,536,684</u> | <u>\$ 1,460,887</u> | <u>(26,134,487)</u> | <u>(1,754,585)</u> | <u>(27,889,072)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes | | | | | 6,185,948 | - | 6,185,948 |
| Property taxes, levied for debt service | | | | | 2,388,407 | - | 2,388,407 |
| Franchise and miscellaneous taxes | | | | | 10,749,626 | - | 10,749,626 |
| Public service taxes | | | | | 7,553,517 | - | 7,553,517 |
| Grants and contributions not restricted to specific programs | | | | | 135,034 | - | 135,034 |
| Unrestricted investment earnings | | | | | 357,314 | 174,817 | 532,131 |
| Miscellaneous | | | | | 252,978 | - | 252,978 |
| Gain (Loss) on sale of assets | | | | | 858,880 | - | 858,880 |
| Total general revenues, special items, and transfers | | | | | <u>28,481,704</u> | <u>174,817</u> | <u>28,656,521</u> |
| Change in net assets | | | | | <u>2,347,217</u> | <u>(1,579,768)</u> | <u>767,449</u> |
| Net assets: | | | | | | | |
| Net assets - beginning of year | | | | | 93,882,113 | 24,203,359 | 118,085,472 |
| Prior period adjustment | | | | | 151,306 | - | 151,306 |
| Net assets - ending | | | | | <u>\$ 96,380,636</u> | <u>\$ 22,623,591</u> | <u>\$ 119,004,227</u> |

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

**CITY OF VICKSBURG, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006**

| | <u>General Fund</u> | <u>City Bond and Interest</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|----------------------|-----------------------------------|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,313,218 | \$ 207,302 | \$ 1,291,003 | \$ 3,811,523 |
| Investments | - | - | 1,834,624 | 1,834,624 |
| Taxes receivable, net | 6,133,193 | 2,130,351 | - | 8,263,544 |
| Due from other funds | 4,703,056 | 101,005 | 133,295 | 4,937,356 |
| Receivable from other governments | 1,833,019 | - | 266,939 | 2,099,958 |
| Other receivables | 2,171,457 | - | 12,374 | 2,183,831 |
| Inventories | 25,996 | - | - | 25,996 |
| Prepaid expenses | 131,270 | - | - | 131,270 |
| Total assets | <u>\$ 17,311,209</u> | <u>\$ 2,438,658</u> | <u>\$ 3,538,235</u> | <u>\$ 23,288,102</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 759,982 | \$ 2,263 | \$ 184,108 | \$ 946,353 |
| Due to other funds | 128 | - | 414,801 | 414,929 |
| Payable to other governments | 367,188 | - | - | 367,188 |
| Deferred revenue | 7,042,425 | 2,130,351 | 7,255 | 9,180,031 |
| Other accrued expenses | 808,140 | - | - | 808,140 |
| Other payables | 331,346 | 1,037 | 4,350 | 336,733 |
| Total liabilities | <u>9,309,209</u> | <u>2,133,651</u> | <u>610,514</u> | <u>12,053,374</u> |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Inventories | 25,996 | - | - | 25,996 |
| Prepaid expenses | 131,270 | - | - | 131,270 |
| Debt service | - | 305,007 | (49,435) | 255,572 |
| Unreserved | 7,844,734 | - | - | 7,844,734 |
| Unreserved, reported in non-major: | | | | |
| Special revenue funds | - | - | 734,402 | 734,402 |
| Capital projects funds | - | - | 320,609 | 320,609 |
| Permanent funds | - | - | 1,922,145 | 1,922,145 |
| Total fund balances | <u>8,002,000</u> | <u>305,007</u> | <u>2,927,721</u> | <u>11,234,728</u> |
| Total liabilities and fund balances | <u>\$ 17,311,209</u> | <u>\$ 2,438,658</u> | <u>\$ 3,538,235</u> | <u>\$ 23,288,102</u> |

CITY OF VICKSBURG, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
NET ASSETS
SEPTEMBER 30, 2006

| | | |
|--|----|--------------------------|
| Total fund balance, governmental funds | \$ | 11,234,728 |
| 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. | | 90,227,831 |
| 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. | | 9,180,030 |
| 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. | | 28,674 |
| 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>(14,290,627)</u> |
| Net Assets of Governmental Activities in the Statement of Net Assets | \$ | <u><u>96,380,636</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, 2006

| | <u>General Fund</u> | <u>City Bond and Interest</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|-------------------------------|---------------------------------|---------------------------------|
| REVENUES | | | | |
| Property taxes | \$ 6,185,948 | \$ 2,186,002 | \$ 202,405 | \$ 8,574,355 |
| Sales and miscellaneous taxes | 17,316,462 | - | - | 17,316,462 |
| Fees and fines | 692,739 | - | - | 692,739 |
| Licenses and permits | 1,524,330 | - | - | 1,524,330 |
| Intergovernmental | 1,358,551 | - | 1,529,942 | 2,888,493 |
| Charges for services | 2,634,054 | - | 77,839 | 2,711,893 |
| Investment earnings | 187,608 | 15,277 | 154,430 | 357,315 |
| Miscellaneous | 88,932 | - | 266,667 | 355,599 |
| Program income | - | - | 3,581 | 3,581 |
| Total revenues | <u>29,988,624</u> | <u>2,201,279</u> | <u>2,234,864</u> | <u>34,424,767</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 5,409,061 | - | 607,395 | 6,016,456 |
| Public safety | 14,379,328 | - | 254,863 | 14,634,191 |
| Public works | 1,750,579 | - | 7,994 | 1,758,573 |
| Health, welfare and sanitation | 2,251,291 | - | 597,548 | 2,848,839 |
| Culture and recreation | 2,694,623 | - | 22,435 | 2,717,058 |
| Community development | 111,788 | - | 17,314 | 129,102 |
| Debt service: | | | | |
| Principal | 335,770 | 3,095,000 | 195,000 | 3,625,770 |
| Interest and other charges | 17,557 | 482,044 | 114,193 | 613,794 |
| Capital outlay | 1,497,342 | - | 555,101 | 2,052,443 |
| Total expenditures | <u>28,447,339</u> | <u>3,577,044</u> | <u>2,371,843</u> | <u>34,396,226</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,541,285</u> | <u>(1,375,765)</u> | <u>(136,979)</u> | <u>28,541</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | 89,715 | 89,715 |
| Transfers out | (89,715) | - | - | (89,715) |
| Proceeds from sale of land | 1,454,255 | - | - | 1,454,255 |
| Total other financing sources and uses | <u>1,364,540</u> | <u>-</u> | <u>89,715</u> | <u>1,454,255</u> |
| Net change in fund balances | <u>2,905,825</u> | <u>(1,375,765)</u> | <u>(47,264)</u> | <u>1,482,796</u> |
| Fund balances - beginning | 5,016,553 | 1,680,772 | 2,903,301 | 9,600,626 |
| Prior period adjustment | 79,622 | - | 71,684 | 151,306 |
| Fund balances - beginning restated | <u>5,096,175</u> | <u>1,680,772</u> | <u>2,974,985</u> | <u>9,751,932</u> |
| Fund balances - ending | <u>\$ 8,002,000</u> | <u>\$ 305,007</u> | <u>\$ 2,927,721</u> | <u>\$ 11,234,728</u> |

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, 2006

Net change in fund balances - total governmental funds: \$ 1,482,796

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. (2,533,841)

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. (595,375)

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 248,988

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 repayments exceeded proceeds. 3,676,930

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 6,761
Accrued compensated absences not reflected on Governmental funds (91,078)
Accrued claims and judgments not reflected on Governmental funds 152,036

Change in net assets of governmental activities \$ 2,347,217

PROPRIETARY FUNDS

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006

Business-Type Activities
Enterprise Funds

Governmental
Activities

| | Business-Type Activities | | | | Total | Governmental |
|---|---------------------------------|---------------------|---------------------------------|---|----------------------|---|
| | Water Fund | Gas Fund | Sewer Fund (Restated) | Other Enterprise Funds | | Internal Service Funds |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 1,377,045 | \$ 1,871,431 | \$ 635,235 | \$ 94,860 | \$ 3,978,571 | \$ 66,888 |
| Accounts receivable, net | 517,312 | 590,466 | 764,485 | 169,160 | 2,041,423 | - |
| Due from other funds | - | 414,030 | 422,272 | - | 836,302 | 34,334 |
| Receivables from other governments | - | - | - | 24,827 | 24,827 | - |
| Inventories | - | - | - | - | - | 14,175 |
| Prepaid expenses | 25,213 | 24,301 | 19,510 | 2,650 | 71,674 | 3,734 |
| Total current assets | <u>1,919,570</u> | <u>2,900,228</u> | <u>1,841,502</u> | <u>291,497</u> | <u>6,952,797</u> | <u>119,131</u> |
| Non-current assets: | | | | | | |
| Capital assets: | | | | | | |
| Land and improvements | 102,980 | 133,300 | 295,533 | - | 531,813 | - |
| Utility system | 26,603,338 | 7,457,636 | 23,232,483 | 399,864 | 57,693,321 | - |
| Construction in progress | 98,255 | - | 815,217 | - | 913,472 | - |
| Buildings | 61,608 | 102,823 | - | - | 164,431 | - |
| Equipment and furniture | 1,867,557 | 1,069,681 | 1,579,344 | 393,608 | 4,910,190 | 135,816 |
| Less accumulated depreciation | <u>(12,747,654)</u> | <u>(6,052,965)</u> | <u>(11,528,237)</u> | <u>(185,041)</u> | <u>(30,513,897)</u> | <u>(118,534)</u> |
| Total non-current assets | <u>15,986,084</u> | <u>2,710,475</u> | <u>14,394,340</u> | <u>608,431</u> | <u>33,699,330</u> | <u>17,282</u> |
| Total assets | <u>\$ 17,905,654</u> | <u>\$ 5,610,703</u> | <u>\$ 16,235,842</u> | <u>\$ 899,928</u> | <u>\$ 40,652,127</u> | <u>\$ 136,413</u> |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ 194,617 | \$ 241,055 | \$ 51,855 | \$ 133,828 | \$ 621,355 | \$ 75,377 |
| Salaries payable | 39,734 | 63,831 | 35,739 | 10,629 | 149,933 | 14,329 |
| Accrued interest payable | 8,169 | 3,793 | 2,624 | - | 14,586 | - |
| Due to other funds | 1,920,239 | 2,337,123 | 576,665 | 559,036 | 5,393,063 | - |
| Payable to other governments | - | - | - | 69,458 | 69,458 | - |
| Other accrued expenses | 487,948 | 612,161 | 4,755 | - | 1,104,864 | - |
| Capital lease obligation | - | - | - | 82,728 | 82,728 | - |
| Claims and judgments | 11,898 | 15,864 | 12,889 | - | 40,651 | 2,313 |
| Bonds, notes and loans payable | 538,055 | 83,200 | 379,466 | - | 1,000,721 | - |
| Total current liabilities | <u>3,200,660</u> | <u>3,357,027</u> | <u>1,063,993</u> | <u>855,679</u> | <u>8,477,359</u> | <u>92,019</u> |
| Non-current liabilities: | | | | | | |
| Compensated absences | 36,519 | 79,243 | 47,971 | 3,530 | 167,263 | 15,719 |
| Capital lease obligation | - | - | - | 85,898 | 85,898 | - |
| Bonds, notes and loans payable | 3,399,730 | 1,186,628 | 4,711,658 | - | 9,298,016 | - |
| Total non-current liabilities | <u>3,436,249</u> | <u>1,265,871</u> | <u>4,759,629</u> | <u>89,428</u> | <u>9,551,177</u> | <u>15,719</u> |
| Total liabilities | <u>\$ 6,636,909</u> | <u>\$ 4,622,898</u> | <u>\$ 5,823,622</u> | <u>\$ 945,107</u> | <u>\$ 18,028,536</u> | <u>\$ 107,738</u> |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 12,048,299 | 1,440,647 | 9,303,216 | 439,805 | 23,231,967 | 17,282 |
| Unrestricted | <u>(779,554)</u> | <u>(452,842)</u> | <u>1,109,004</u> | <u>(484,984)</u> | <u>(608,376)</u> | <u>11,393</u> |
| Total net assets | <u>\$ 11,268,745</u> | <u>\$ 987,805</u> | <u>\$ 10,412,220</u> | <u>\$ (45,179)</u> | <u>\$ 22,623,591</u> | <u>\$ 28,675</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

\$ 22,623,591

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2006

| | Business-Type Activities Enterprise Funds | | | | Total | Governmental Activities |
|---|--|-------------------|----------------------|---------------------------|-----------------------|----------------------------|
| | Water Fund | Gas Fund | Sewer Fund | Other Enterprise Funds | | Internal Service Funds |
| REVENUES | | | | | | |
| Charges for services | \$ 4,312,234 | \$ 11,173,396 | \$ 3,244,182 | \$ 1,503,220 | \$ 20,233,032 | \$ 738,203 |
| Total operating revenues | <u>4,312,234</u> | <u>11,173,396</u> | <u>3,244,182</u> | <u>1,503,220</u> | <u>20,233,032</u> | <u>738,203</u> |
| OPERATING EXPENSES | | | | | | |
| Personnel services | 936,751 | 1,452,724 | 1,038,207 | 75,409 | 3,503,091 | 285,166 |
| Contractual services | 1,138,291 | 624,569 | 1,205,837 | 1,685,751 | 4,654,448 | 3,356 |
| Utilities | 761,520 | 31,736 | 232,184 | 2,244 | 1,027,684 | 11,959 |
| Repairs and maintenance | 375,652 | 205,161 | 291,313 | 5,246 | 877,372 | 409,188 |
| Other supplies and expenses | 540,657 | 8,669,935 | 203,280 | 104,346 | 9,518,218 | 16,117 |
| Insurance claims and expenses | 52,668 | 67,039 | 20,108 | 11,060 | 150,875 | 5,364 |
| Depreciation | 1,214,761 | 414,671 | 748,109 | 105,068 | 2,482,609 | 10,174 |
| Total operating expenses | <u>5,020,300</u> | <u>11,465,835</u> | <u>3,739,038</u> | <u>1,989,124</u> | <u>22,214,297</u> | <u>741,324</u> |
| Operating income (loss) | <u>(708,066)</u> | <u>(292,439)</u> | <u>(494,856)</u> | <u>(485,904)</u> | <u>(1,981,265)</u> | <u>(3,121)</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | | | | |
| Interest and investment revenue | 58,162 | 66,539 | 45,147 | 4,969 | 174,817 | 3,121 |
| Operating grants and contributions | - | - | - | 230,000 | 230,000 | - |
| Interest expense | (149,666) | (50,834) | (188,487) | (5,615) | (394,602) | - |
| Total non-operating revenue (expenses) | <u>(91,504)</u> | <u>15,705</u> | <u>(143,340)</u> | <u>229,354</u> | <u>10,215</u> | <u>3,121</u> |
| Income (loss) before contributions and transfers | <u>(799,570)</u> | <u>(276,734)</u> | <u>(638,196)</u> | <u>(256,550)</u> | <u>(1,971,050)</u> | <u>-</u> |
| Capital contributions | 11,965 | - | - | 379,317 | 391,282 | - |
| Change in net assets | <u>(787,605)</u> | <u>(276,734)</u> | <u>(638,196)</u> | <u>122,767</u> | <u>(1,579,768)</u> | <u>-</u> |
| Total net assets - beginning | 12,056,350 | 1,264,539 | 11,050,416 | (167,946) | 24,203,359 | 28,675 |
| Total net assets - ending | <u>\$ 11,268,745</u> | <u>\$ 987,805</u> | <u>\$ 10,412,220</u> | <u>\$ (45,179)</u> | <u>\$ 22,623,591</u> | <u>\$ 28,675</u> |
| Change in net assets, per above | | | | | <u>(1,579,768)</u> | |
| Change in Business-Type Activities in Net Assets per Government-Wide Financial Statements | | | | | <u>\$ (1,579,768)</u> | |

CITY OF VICKSBURG, MISSISSIPPI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2006

| | Business-Type Activities-Enterprise Funds | | | | | Governmental |
|---|---|---------------------|-------------------|------------------------------|------------------------------|------------------------------|
| | Water Fund | Gas Fund | Sewer Fund | Other Enterprise Funds | Total Enterprise Funds | Internal Service Funds |
| Cash Flows From Operating Activities | | | | | | |
| Receipts from customers and users | \$ 4,238,334 | \$ 10,832,991 | \$ 2,815,130 | \$ 1,449,839 | \$ 19,336,294 | \$ 738,203 |
| Receipts from interfund services provided | 1,185,888 | 177,365 | (156,057) | 47,195 | 1,254,391 | (1,481) |
| Payments to suppliers | (2,995,574) | (9,355,348) | (1,850,342) | (1,715,461) | (15,916,725) | (396,336) |
| Payments to employees | (931,254) | (1,433,595) | (1,041,178) | (61,250) | (3,467,277) | (279,907) |
| Payments for interfund services used | 338,935 | 1,705,960 | 518,149 | 238,824 | 2,801,868 | (42,910) |
| Net Cash Provided (Used) by Operating Activities | <u>1,836,329</u> | <u>1,927,373</u> | <u>285,702</u> | <u>(40,853)</u> | <u>4,008,551</u> | <u>17,569</u> |
| Cash Flows From Capital and Related Financing Activities | | | | | | |
| Proceeds from capital debt | - | - | 502,324 | - | 502,324 | - |
| Capital contributions | 11,965 | - | - | 379,317 | 391,282 | - |
| Acquisition and construction of capital assets | (261,387) | (54,758) | (688,727) | (393,609) | (1,398,481) | - |
| Principal paid on capital debt and leases | (525,788) | (80,172) | (338,205) | (79,349) | (1,023,514) | - |
| Interest paid on capital debt | (150,244) | (51,103) | (188,671) | (5,615) | (395,633) | - |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(925,454)</u> | <u>(186,033)</u> | <u>(713,279)</u> | <u>(99,256)</u> | <u>(1,924,022)</u> | <u>-</u> |
| Cash Flows From Investing Activities | | | | | | |
| Operating contributions | - | - | - | 230,000 | 230,000 | - |
| Interest and dividends received | 58,162 | 66,539 | 45,147 | 4,969 | 174,817 | 3,121 |
| Net Cash Provided (Used) by Investing Activities | <u>58,162</u> | <u>66,539</u> | <u>45,147</u> | <u>234,969</u> | <u>404,817</u> | <u>3,121</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 969,037 | 1,807,879 | (382,430) | 94,860 | 2,489,346 | 20,690 |
| Cash and Cash Equivalents, Beginning of Year (Restated) | <u>408,008</u> | <u>63,552</u> | <u>1,017,665</u> | <u>-</u> | <u>1,489,225</u> | <u>46,198</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 1,377,045</u> | <u>\$ 1,871,431</u> | <u>\$ 635,235</u> | <u>\$ 94,860</u> | <u>\$ 3,978,571</u> | <u>\$ 66,888</u> |
| Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities | | | | | | |
| Operating Income (loss) | \$ (708,066) | \$ (292,439) | \$ (494,856) | \$ (485,904) | \$ (1,981,265) | \$ (3,121) |
| Depreciation expense | 1,214,761 | 414,671 | 748,109 | 105,068 | 2,482,609 | 10,174 |
| (Increase) decrease in accounts receivable | (64,963) | (270,478) | (353,486) | (1,082) | (690,009) | - |
| (Increase) decrease in receivables from other governments | 1,178,483 | - | - | 44,631 | 1,223,114 | - |
| (Increase) decrease in due from other funds | 7,405 | 177,365 | (156,057) | 2,564 | 31,277 | (1,481) |
| (Increase) decrease in inventories | - | - | - | - | - | 1,920 |
| (Increase) decrease in prepaid expenses | (9,097) | (3,225) | (9,979) | 945 | (21,356) | (2,082) |
| Increase (decrease) in accounts payable | (215,890) | 169,212 | 14,610 | 28,882 | (3,186) | 44,446 |
| Increase (decrease) in salaries payable | 5,486 | 7,738 | (2,336) | 10,629 | 21,517 | 3,298 |
| Increase (decrease) in other accrued expenses | 36,596 | (59,861) | 2,075 | - | (21,190) | - |
| Increase (decrease) in claims and judgments | (826) | (5,342) | (306) | - | (6,474) | (986) |
| Increase (decrease) in compensated absences | 11 | 11,391 | (635) | 3,530 | 14,297 | 1,961 |
| Increase (decrease) in due to other funds | 392,429 | 1,778,341 | 538,563 | 249,884 | 2,959,217 | (36,560) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 1,836,329</u> | <u>\$ 1,927,373</u> | <u>\$ 285,702</u> | <u>\$ (40,853)</u> | <u>\$ 4,008,551</u> | <u>\$ 17,569</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, 2006**

| | <u>Agency Fund</u> |
|---|--------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 1,144 |
| Total assets | <u>\$ 1,144</u> |
| LIABILITIES | |
| Accounts payable | \$ 1,144 |
| Total liabilities | <u>1,144</u> |
| NET ASSETS | |
| Held in trust for benefits and other purposes | <u>\$ -</u> |

The accompanying notes are an integral part of this statement.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006**

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 generally accepted accounting principles (GAAP). In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The more significant accounting policies of the City are described 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, 2006**

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 separate accounting entities. Each fund is accounted for by providing a separate set of self balancing accounts that constitute its assets, liabilities, fund equity, revenues, and 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 (including capital outlay) 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, 2006**

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 expense 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.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

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 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).

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

F. Interfund Receivables, Payables, and Transfers – Continued

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 governmental-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.

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:

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Capital Assets – Continued

| <u>Description</u> | <u>Estimated Lives</u> |
|-----------------------------------|------------------------|
| Building | 40 years |
| Improvements other than buildings | 20 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 do 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.

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.

Continued

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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. Propriety 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.

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.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

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, 2006, 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, 2006, the carrying amount (recorded on the City's books) of the City's demand deposits was \$6,921,372, and the bank balance was \$8,876,181.

The City also has \$1,834,624 (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 | \$ 749,639 | \$ 729,197 |
| Equity mutual funds | 429,673 | 494,570 |
| Fixed income mutual funds | 562,142 | 565,144 |
| Preferred stock | 90 | 85 |
| Cash and equivalents | 45,628 | 45,628 |
| | <u>\$ 1,787,172</u> | <u>\$ 1,834,624</u> |

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, 2006, 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 | \$ 565,144 | - | - | - |
| US Government agencies | \$ 44,578 | 684,619 | - | - |

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

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS - CONTINUED

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, 2006, 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.

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 | 7.95 |
| Police and fire disability relief fund | <u>5.14</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.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

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

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.

NOTE 4. RECEIVABLES AND PAYABLES

Receivables at September 30, 2006 were as follows:

| | <u>Accounts</u> | <u>Taxes</u> | <u>Allowance</u> | <u>Total</u> |
|---|---------------------|---------------------|-----------------------|----------------------|
| Governmental activities | | | | |
| General | \$ 4,647,687 | \$ 6,133,193 | \$ (2,476,231) | \$ 8,304,650 |
| Debt service | - | 2,130,351 | - | 2,130,351 |
| Other governmental | <u>19,628</u> | <u>-</u> | <u>(7,254)</u> | <u>12,374</u> |
| Total governmental activities | <u>\$ 4,667,315</u> | <u>\$ 8,263,544</u> | <u>\$ (2,483,485)</u> | <u>\$ 10,447,374</u> |
| Amounts not scheduled for collection during the subsequent year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Business-type activities | | | | |
| Water | \$ 541,087 | \$ - | \$ (23,775) | \$ 517,312 |
| Gas | 621,148 | - | (30,683) | 590,466 |
| Sewer | 427,848 | - | (37,188) | 390,660 |
| Other proprietary | <u>198,438</u> | <u>-</u> | <u>(29,277)</u> | <u>169,160</u> |
| Total business-type activities | <u>\$ 1,788,521</u> | <u>\$ -</u> | <u>\$ (120,923)</u> | <u>\$ 1,667,599</u> |

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006

NOTE 4. RECEIVABLES AND PAYABLES – CONTINUED

Payables at September 30, 2006 were as follows:

| | <u>Vendor</u> | <u>Salaries & Benefits</u> | <u>Other</u> | <u>Total</u> |
|------------------------------------|-----------------------|------------------------------------|------------------------|-------------------------|
| Governmental activities | | | | |
| General | \$ 759,982 | \$ 808,140 | \$ 331,346 | \$ 1,899,468 |
| Debt service | 2,263 | - | 1,036 | 3,299 |
| Capital projects | - | - | - | - |
| Other governmental | 184,108 | - | 4,350 | 188,458 |
| Internal service | <u>25,762</u> | <u>14,329</u> | <u>49,616</u> | <u>89,707</u> |
| Total governmental activities | <u>\$ 972,115</u> | <u>\$ 822,469</u> | <u>\$ 386,347</u> | <u>\$ 2,180,932</u> |
| Business-type activities | | | | |
| Water | \$ 194,617 | \$ 39,734 | \$ 487,948 | \$ 722,300 |
| Gas | 241,055 | 63,831 | 612,161 | 917,047 |
| Sewer | 51,855 | 35,739 | 4,755 | 92,349 |
| Other proprietary | <u>133,828</u> | <u>10,629</u> | <u>-</u> | <u>144,457</u> |
| Total business-type activities | <u>\$ 621,355</u> | <u>\$ 149,934</u> | <u>\$1,104,864</u> | <u>\$ 1,876,152</u> |

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at September 30, 2006 consisted of the following:

| <u>Due From</u> | <u>Due To Governmental Activities 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 | 280,493 | 1,013 | 133,295 | - |
| Business-type activities: | | | | |
| Major enterprise funds: | | | | |
| Water | 1,412,392 | 55,995 | - | 8,664 |
| Gas | 1,906,883 | 25,998 | - | 11,578 |
| Sewer | 544,702 | 17,999 | - | 13,964 |
| Other enterprise funds | <u>558,586</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Due To | <u>\$ 4,703,056</u> | <u>\$ 101,005</u> | <u>\$ 133,295</u> | <u>\$ 34,334</u> |

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

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

| <u>Due From</u> | <u>Due To</u> | | |
|---------------------------|---------------------------------|-------------------|---------------------|
| | <u>Business-Type Activities</u> | | |
| | Major Enterprise Fund | | |
| | <u>Gas</u> | <u>Sewer</u> | <u>Total</u> |
| Governmental activities: | | | |
| Major governmental funds: | | | |
| General | - | - | \$ 128 |
| Other governmental funds | - | - | 414,801 |
| Business-type activities: | | | |
| Major enterprise funds: | | | |
| Water | 413,580 | 29,608 | 1,920,239 |
| Gas | - | 392,664 | 2,337,123 |
| Sewer | - | - | 576,665 |
| Other enterprise funds | 450 | - | 559,036 |
| Total Due To | \$ 414,030 | \$ 422,272 | \$ 5,807,992 |

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.

Interfund transfers for the year ended September 30, 2006 consisted of the following:

| | <u>Transfer To</u> | |
|---------------------------|--------------------------------|------------------|
| | <u>Governmental Activities</u> | |
| | <u>Other</u> | <u>Total</u> |
| Governmental Activities: | | |
| Major Governmental Funds: | | |
| General | \$ 89,715 | \$ 89,715 |
| Total Transfers to | \$ 89,715 | \$ 89,715 |

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

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006

NOTE 6. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended September 30, 2006, for the primary government is as follows:

| | (Restated) Beginning Balance | Additions | Retirements/ Transfers | Ending Balance |
|--|------------------------------------|----------------------------|----------------------------|------------------------------|
| Governmental activities: | | | | |
| Land | \$ 11,682,340 | \$ 313,042 | \$ 247,762 | \$ 11,747,620 |
| Buildings | 24,427,647 | 506,382 | 360,145 | 24,573,884 |
| Furniture and equipment | 14,881,302 | 629,930 | 481,663 | 15,029,569 |
| Other capital assets | 12,791,912 | 4,805,962 | - | 17,597,874 |
| Infrastructure | 90,363,530 | 395,792 | - | 90,759,322 |
| Construction in progress | <u>4,526,982</u> | <u>-</u> | <u>4,526,982</u> | <u>-</u> |
| Total capital assets | <u>\$ 158,673,713</u> | <u>\$ 6,651,108</u> | <u>\$ 5,616,552</u> | <u>\$ 159,708,270</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | \$ 6,860,022 | \$ 607,875 | \$ 238,132 | \$ 7,229,765 |
| Furniture and equipment | 11,223,257 | 841,093 | 299,371 | 11,764,979 |
| Other capital assets | 4,840,682 | 589,942 | 9,606 | 5,421,018 |
| Infrastructure | <u>42,436,933</u> | <u>2,557,548</u> | <u>(52,914)</u> | <u>45,047,395</u> |
| Total accumulated depreciation | <u>\$ 65,360,894</u> | <u>\$ 4,596,458</u> | <u>\$ 494,195</u> | <u>\$ 69,463,157</u> |
| Net governmental activities capital assets | <u>\$ 93,312,819</u> | <u>\$ 2,054,650</u> | <u>\$ 5,122,357</u> | <u>\$ 90,245,112</u> |
| Business-type activities: | | | | |
| Land | \$ 531,813 | \$ - | \$ - | \$ 531,813 |
| Construction in progress | 3,320,186 | 211,638 | 2,618,352 | 913,472 |
| Buildings | 54,927,560 | 2,930,192 | - | 57,857,752 |
| Furniture and equipment | 4,035,186 | 875,004 | - | 4,910,190 |
| Other capital assets | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total capital assets | <u>\$ 62,814,745</u> | <u>\$ 4,016,834</u> | <u>\$ 2,618,352</u> | <u>\$ 64,213,226</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | \$ 25,928,942 | \$ 1,500,719 | \$ - | \$ 27,429,661 |
| Furniture and equipment | <u>2,102,347</u> | <u>981,889</u> | <u>-</u> | <u>3,084,236</u> |
| Total accumulated depreciation | <u>\$ 28,031,289</u> | <u>\$ 2,482,608</u> | <u>\$ -</u> | <u>\$ 30,513,897</u> |
| Net business-type activities capital assets | <u>\$ 34,783,456</u> | <u>\$ 1,534,226</u> | <u>\$ 2,618,352</u> | <u>\$ 33,699,329</u> |

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 6. CAPITAL ASSETS – CONTINUED

Depreciation expense of \$ 7,079,066 for the year ended September 30, 2006, was charged to the following governmental functions:

| | |
|--------------------------------|--------------|
| Governmental activities: | |
| General government | \$ 205,627 |
| Public safety | \$ 761,118 |
| Public works | \$ 2,869,172 |
| Health, welfare and sanitation | \$ 130,510 |
| Culture and recreation | \$ 629,233 |
| Education | \$ 798 |
| Business-type activities: | |
| Water | \$ 1,214,761 |
| Gas | \$ 414,671 |
| Sewer | \$ 748,109 |
| Sanitation | \$ 79,973 |
| Transportation | \$ 25,095 |

Active construction in progress is composed of the following:

| | <u>Project Contract</u> | <u>Expended to 09/30/06</u> | <u>Committed</u> |
|----------------------------------|-----------------------------|---------------------------------|------------------|
| Business-type activities: | | | |
| Sewer | | | |
| Phase # South Sewer Improvements | \$ 3,476,941 | \$ 36,900 | \$ 3,440,041 |
| Bazinsky Lift Station Rehab | \$ 355,424 | \$ 10,738 | \$ 344,686 |

Construction projects included in governmental activities are substantially funded with general obligation bond proceeds and grants. Business-type activities include construction funded with the proceeds of bonds and user charges.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

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, 2006:

| | <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% |
| 1996 General Obligation Bond | April 2006 | \$ 10,000,000 | 4.5-6.0% |
| 2001 General Obligation Bond | April 2011 | \$ 17,500,000 | 3.625-4.0% |

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED

| | <u>Maturity Date</u> | <u>Original Amount</u> | <u>Interest Rate</u> |
|--|--------------------------|----------------------------|--------------------------|
| <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 | \$ - |
| 1996 General Obligation Bond | 1,245,000 | - | 1,245,000 | - | - |
| 2001 General Obligation Bond | 12,562,496 | - | 1,864,583 | 10,697,913 | 1,949,583 |
| <u>Other:</u> | | | | | |
| 1991 Tax Increment Limited Obligation Bond | 130,000 | - | 20,000 | 110,000 | 20,000 |
| 1995 Tax Increment Limited Obligation Bond | 390,000 | - | 35,000 | 355,000 | 35,000 |
| 1999 Tax Increment Limited Obligation Bond | 875,000 | - | 65,000 | 810,000 | 70,000 |
| 2003 Tax Increment Limited Obligation Bond | 825,000 | - | 75,000 | 750,000 | 80,000 |

Continued

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006

NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED

| <u>Description of Debt</u> | (Restated) Beginning Balance | Issued | Retired | Ending Balance | Due Within One Year |
|--|------------------------------------|--------------------------|----------------------------|-----------------------------|----------------------------|
| <u>Business-Type Activities:</u> | | | | | |
| <u>General Obligation Bonds:</u> | | | | | |
| 2003 Public Improvement | 5,220,000 | - | 310,000 | 4,910,000 | 320,000 |
| 2003 Refunding Bond | 1,075,000 | | 280,000 | 795,000 | 285,000 |
| <u>Other:</u> | | | | | |
| 1995 State Revolving Fund Loan | 1,217,462 | - | 92,153 | 1,125,309 | 104,953 |
| 1996 State Revolving Fund Loan | 2,416,539 | - | 160,498 | 2,256,041 | 182,793 |
| 1996 Department of Economic and Community Development- Capital Improvements Revolving Loan | 451,476 | - | 71,364 | 380,112 | 73,855 |
| 2003 State Revolving Fund Loan | 74,502 | 502,324 | - | 576,826 | - |
| 2003 State Water Pollution Control | <u>285,600</u> | <u>-</u> | <u>30,152</u> | <u>255,448</u> | <u>34,120</u> |
| Total | <u>\$ 26,768,375</u> | <u>\$ 502,324</u> | <u>\$ 4,248,750</u> | <u>\$ 23,021,949</u> | <u>\$ 3,155,304</u> |

The debt service requirement on long-term obligations at September 30, 2006 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, | | | | |
| 2007 | 1,949,583 | 369,894 | 205,000 | 97,038 |
| 2008 | 2,039,583 | 290,694 | 215,000 | 87,413 |
| 2009 | 2,134,583 | 211,769 | 220,000 | 77,320 |
| 2010 | 2,234,583 | 131,719 | 240,000 | 66,838 |
| 2011 | 2,339,581 | 45,047 | 250,000 | 55,131 |
| 2012-2016 | - | - | 895,000 | 104,710 |
| 2017-2021 | 300 | - | - | - |
| Total | <u>\$ 10,698,213</u> | <u>\$ 1,049,123</u> | <u>\$ 2,025,000</u> | <u>\$ 488,450</u> |

| | <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, | | | | |
| 2007 | 605,000 | 194,554 | 395,721 | 169,283 |
| 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 | 575,284 | 94,808 |
| 2012-2016 | 2,160,000 | 451,693 | 1,874,591 | 202,135 |
| 2017-2021 | 1,000,000 | 60,400 | - | - |
| Total | <u>\$ 5,705,000</u> | <u>1,324,679</u> | <u>\$ 4,593,736</u> | <u>\$ 866,394</u> |

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED

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, 2006, are as follows:

| | Governmental Activities | Business-Type Activities |
|-------------------|----------------------------|-----------------------------|
| Beginning balance | \$ 890,231 | \$ 152,966 |
| Additions | 809,889 | 139,169 |
| Reduction | 716,850 | 124,870 |
| Ending balance | <u>\$ 983,270</u> | <u>\$ 167,265</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, 2006 were as follows:

| Year ending September 30, | Governmental Activities | Business-Type Activities |
|---|----------------------------|-----------------------------|
| 2007 | \$ 312,630 | \$ 86,516 |
| 2008 | 46,585 | 87,246 |
| 2009 | - | - |
| 2010 | - | - |
| 2011 | - | - |
| Total minimum lease payments | <u>359,215</u> | <u>173,762</u> |
| Less: amount representing interest | <u>6,562</u> | <u>5,136</u> |
| Present value of minimum lease payments | \$ 352,653 | \$ 168,626 |
| Current principal portion due in one year | <u>\$ 306,794</u> | <u>\$ 82,728</u> |

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

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED

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

The cost of the assets acquired through capital leases was \$2,136,427 with accumulated depreciation of \$1,394,816. 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, 2006, 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>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> |
| <u>2005</u> | | |
| Balance, beginning of year | \$ 219,108 | \$ 31,929 |
| Claims incurred | 1,855,547 | 266,618 |
| Claims payments | <u>1,747,383</u> | <u>251,422</u> |
| Balance, end of year | <u>\$ 327,272</u> | <u>\$ 47,125</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.

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006

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, 2006, 2005 and 2004 were \$1,982,749, \$1,730,337 and \$1,608,144 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 on the government wide financial statements were necessary to reflect an underaccrual of sales tax receivable from the state in the previous fiscal year in the amount of \$79,622. In addition, the capital projects fund's net assets was charged \$149,758 for an understatement of an accrual on a construction project that was obligated in the previous fiscal year as well as \$221,442 of capital outlay expensed in the prior year was reversed due to the fact that an enterprise fund will benefit from its usage in future years. The \$221,442 of fixed assets was recorded on an enterprise fund with its related debt of \$56,049. The entire balance was financed through debt proceeds or sewer resources, therefore there was no impact on the net assets of the enterprise fund.

A net deficit of \$49,435 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 \$441,500 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.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

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 \$10,94 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

In July 2004 the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postretirement Benefits Other than Pensions. 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 government employers. The provisions of this Statement are effective for the City for periods beginning after December 15, 2006. The City has not yet determined the effect this Statement will have on its financial statements. However, management anticipates that the City's liability for postemployment benefits will not be substantial.

III. REQUIRED SUPPLEMENTAL INFORMATION (PART B)

BUDGET COMPARISON SCHEDULES

**CITY OF VICKSBURG, MISSISSIPPI
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2006**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts, Budgetary Basis</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|-------------------------|---------------------|--|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Property taxes | \$ 6,317,000 | \$ 6,317,000 | \$ 6,185,948 | \$ (131,052) |
| Sales and miscellaneous taxes | 14,958,300 | 15,698,300 | 17,316,462 | 1,618,162 |
| Fees and fines | 900,000 | 900,000 | 692,739 | (207,261) |
| Licenses and permits | 1,200,100 | 1,200,100 | 1,524,330 | 324,230 |
| Intergovernmental | 1,117,060 | 1,257,060 | 1,358,551 | 101,491 |
| Charges for services | 2,040,500 | 2,040,500 | 2,634,054 | 593,554 |
| Investment earnings | 122,090 | 122,090 | 187,608 | 65,518 |
| Miscellaneous | 46,500 | 46,500 | 88,932 | 42,432 |
| Total revenues | <u>26,701,550</u> | <u>27,581,550</u> | <u>29,988,624</u> | <u>2,407,074</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 5,266,250 | 5,529,160 | 5,409,061 | 120,099 |
| Public safety | 14,119,210 | 14,384,690 | 14,379,328 | 5,362 |
| Public works | 1,658,690 | 1,790,190 | 1,750,579 | 39,611 |
| Health, welfare and sanitation | 2,186,960 | 2,241,700 | 2,251,291 | (9,591) |
| Culture and recreation | 2,246,580 | 2,363,220 | 2,694,623 | (331,403) |
| Community development | 139,420 | 139,420 | 111,788 | 27,632 |
| Debt Service: | | | | |
| Principal and interest | 391,350 | 379,350 | 353,327 | 26,023 |
| Capital outlay | 2,066,740 | 2,366,240 | 1,497,342 | 868,898 |
| Total expenditures | <u>28,075,200</u> | <u>29,193,970</u> | <u>28,447,339</u> | <u>746,631</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,373,650)</u> | <u>(1,612,420)</u> | <u>1,541,285</u> | <u>3,153,705</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from capital leases | 270,000 | 270,000 | - | 270,000 |
| Transfers in (out) | (163,300) | (93,300) | (89,715) | 3,585 |
| Proceeds from sale capital assets | 1,140,000 | 1,370,000 | 1,454,255 | 84,255 |
| Total other financing sources and uses | <u>1,246,700</u> | <u>1,546,700</u> | <u>1,364,540</u> | <u>357,840</u> |
| Net change in fund balances | <u>(126,950)</u> | <u>(65,720)</u> | <u>2,905,825</u> | <u>2,971,545</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>\$ 4,969,225</u> | <u>\$ 5,030,455</u> | <u>\$ 8,002,000</u> | <u>\$ 2,971,545</u> |

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2006**

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, 2006, 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, 2006**

OFFICIAL'S ADMINISTRATION OCTOBER 1, 2005 TO SEPTEMBER 30, 2006

| 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. Beaman, 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, 2006**

| 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 | | | |
| 2005 HUD Housing Counseling | 14.169 | MCH0305 | \$ 8,520 |
| CDBG2001 Canal Widening | 14.228 | 1118-01-374-ED-01 | 333,900 |
| CDBG2003 1120 | 14.219 | 1120-03-374-ED-01 | 101,568 |
| 2005 HOME Investment Partnership Program (HOME) | 14.239 | M05-5G-280-178 | 198,780 |
| 2005 American Dream Downpayment Initiative (ADDI) | 14.239 | M05-5G-280-AD-178 | 160,000 |
| CDBG 2000 Housing Revolving Loan Program (HRL) | 14.239 | 99-020-HRL | 12,500 |
| Total U.S. Department of Housing and Urban Development | | | <u>\$ 815,268</u> |
| U.S. Department of Justice: | | | |
| Direct Programs: | | | |
| COPS in School | 16.710 | 2002SHWX0150 | \$ 88,527 |
| County Justice Assistance Grant Program (JAG) | 16.738 | 2005-DJ-BX-0252 | 72,504 |
| Bulletproof Vests Partnership Program | 16.607 | FY2005 | 6,250 |
| Bulletproof Vests Partnership Program | 16.607 | FY2004 | 100 |
| | | | <u>167,381</u> |
| Pass through programs from the MS Division of Public Safety | | | |
| Planning: | | | |
| FY04 Enforcing Underage Drinking Laws | 16.579 | 04-AH-FX-0029 | 5,358 |
| FY05 Victim Witness | 16.579 | 05-NW2349 | 28,497 |
| | | | <u>33,855</u> |
| Total U.S. Department of Justice | | | <u>\$ 201,236</u> |
| U.S. Department of Treasury | | | |
| Bureau of Alcohol, Tobacco & Firearms | | | |
| Gang Resistant Education and Training (G.R.E.A.T.) | 21.053 | 2004-JV-FX-0084 | \$ 21,110 |
| Total U.S. Department of Treasury | | | <u>\$ 21,110</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-MS | \$ 189,523 |
| Hazard Mitigation Grant Program (Mudslide Program) | 97.039 | HMGP-1550-006 | 199,279 |
| Hazard Mitigation Grant Program (Flood Buy-out Program) | 97.029 | HMGP 1436-0003 | 33,384 |
| Emergency Housing-Unmet Needs | 97.029 | 5-299-EM-01 | 2,159 |
| | | | <u>424,345</u> |
| Pass through program from Department of Public Safety | | | |
| FY2004 Law Enforcement Terrorism Prevention Grant | 97.004 | 04LE374 | 52,190 |
| FY2005 State Domestic Preparedness Equipment | 97.004 | 05HS374 | 110 |
| FY2004 Homeland Security Grant Program Addendum | 97.004 | 04HS374 | 24,235 |
| FY2005 Terrorism Prevention Grant (Law Enforcement) | 97.004 | 05LE374 | 19,705 |
| | | | <u>96,240</u> |
| Total U.S. Department of Homeland Security | | | <u>\$ 520,585</u> |
| U.S. Department of Health and Human Services | | | |
| 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 | 229Q651 | \$ 205,611 |
| Total U.S. Department of Human Services | | | <u>\$ 205,611</u> |
| Department of Transportation | | | |
| Direct Programs: | | | |
| Federal Transit Administration/Public Transportation | 20.500 | MS-03-0024-00 | \$ 277,834 |
| Pass through program from MS Department of Transportation: | | | |
| Section 5311 Public Transportation Rural Transit Assistance | 20.509 | | 2,073 |
| Section 5311 Public Transportation Rural Transit Assistance | 20.509 | 501604 | 99,411 |
| Highway Planning & Construction | 20.205 | 46-9685-00-003-10/STP-9658-00(003) | 555,201 |
| | | | <u>656,685</u> |
| Total Department of Transportation | | | <u>\$ 934,519</u> |

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006**

| Federal Grantor/Pass-through Grantor or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|--|-------------------------|
| Department of Defense Corp Impact-Section 529 Water Wells Project | 12.unknown | | \$ 5,264 |
| Total Department of Defence | | | \$ 5,264 |
| U. S. Department of Agriculture Direct Programs: | | | |
| National Resource Conservation Pass through program from MS Forestry Commission: | 10.902 | NRCS Grant | \$ 248,300 |
| Tree Enhancement Tree Planning | 10.677 | FY2005 | 9,450 |
| Total U.S. Department of Argiculture | | | \$ 257,750 |
| National Endowment for Arts Pass through MS Arts Commission: | | | |
| Senior Moments Cook Book | 45.025 | 06-24-CD/PG | \$ 935 |
| MS Symphony Flashback Cadillac | 45.025 | 06-326-CD/MG2 | 1,000 |
| Total National Endowment for Arts | | | \$ 1,935 |
| Department of Environmental Quality Pass through MS Department of Enironmental Quality: | | | |
| Water Polution Control Revolving Loan Fund | 66.458 | SRF-C280733-03 | \$ 502,325 |
| Solid Waste Assistance Grant/Enforcement Officer | 66.808 | SWC124 | 3,218 |
| Total Department of Environmental Quality | | | \$ 505,543 |
| Total expenditures of federal awards | | | \$ 3,468,821 |

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006

NOTE A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Vicksburg and is presented on the modified accrual basis of accounting for governmental activities and accrual basis for enterprise type activities. 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, 2006**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

V. INTERNAL CONTROL AND COMPLIANCE



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY 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, 2006, which collectively comprise the City of Vicksburg, Mississippi's basic financial statements and have issued our report thereon dated March 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Vicksburg, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Vicksburg, Mississippi's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-1 through 06-17.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we consider item 06-1, 06-2, 06-4, 06-7, 06-8, 06-12, and 06-16 to be a material weakness.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

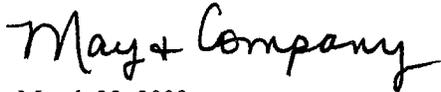
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Vicksburg, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and 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 06-18 and 06-19.

We also noted certain other matters that we reported to management of City of Vicksburg, Mississippi in a separate letter dated March 23, 2009.

This report is intended solely for the information and use of the 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.

A handwritten signature in black ink that reads "May + Company". The signature is written in a cursive, flowing style.

March 23, 2009
Vicksburg, Mississippi



REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER 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, 2006. City of Vicksburg, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Vicksburg, Mississippi's management. Our responsibility is to express an opinion on City of Vicksburg, Mississippi's compliance based on our audit.

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

In our opinion, 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, 2006.

Internal Control Over Compliance

The management of City of Vicksburg, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Vicksburg, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

Page Two

This report is intended solely for the information and use of the 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.

May + Company

March 23, 2009
Vicksburg, Mississippi

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2006**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Vicksburg, Mississippi.
2. Seventeen reportable conditions disclosed during the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters required by *Government Auditing Standards*. Seven conditions are reported as a material weakness.
3. Two instances of noncompliance material to the financial statements of the City of Vicksburg, Mississippi, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Vicksburg, Mississippi expresses an unqualified opinion on all major federal programs.
6. There were no audit findings required to be reported in accordance with Section 510(a) of OMB A-133.
7. The programs tested as major programs included: U.S Department Housing and Urban Development CFDA 14.228 and CFDA 14.239, U.S. Department of Transportation CFDA 20.205 and Department of Environmental Quality CFDA 66.458.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Vicksburg, Mississippi did not qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

FINDINGS RELATED TO FINANCIAL STATEMENTS AUDIT:

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.

Criteria: Internal controls should be in place that would provide reasonable assurance that the enterprise funds' balances are reconciled to the general ledger monthly and that the City personnel monitor the ledgers and reports to ensure cut off and deposit policies are properly followed for all customers. Also procedures should be in place to determine that an adequate provision has been made for uncollectible accounts.

Effect: Because the enterprise funds' accounts receivable ledgers are not timely reconciled to the general ledger, the City is unable to have a true understanding of the revenue and related assets of these funds.

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.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

FINDINGS RELATED TO FINANCIAL STATEMENTS AUDIT: – CONTINUED

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.

Criteria: Internal controls should be in place that would reconcile the cash receipt activity in the general ledger to the bank statements in a timely manner.

Effect: Because the cash receipts system is not reconciled to the bank statements, the City officials are unable to prepare reasonable cash forecasts for cash management purposes and ensure all assets are protected. Additionally, errors are not timely identified and investigated.

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 receipts 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.

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.

Criteria: The Enterprise Fund and GASB 34 detailed fixed asset records should be timely reconciled and mirror the data recorded in the financial records.

Effect: The GASB 34 fixed asset subsidiary ledger differs from the financial records and such differences may distort recording of depreciation expense and dispositions.

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.

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.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

FINDINGS RELATED TO FINANCIAL STATEMENTS AUDIT: – CONTINUED

06-4 Reconciliations of Cash Accounts – Continued

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. 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.

06-5 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.

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.

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.

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.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

FINDINGS RELATED TO FINANCIAL STATEMENTS AUDIT: – CONTINUED

06-7 Voided Transactions - Continued

Criteria: The 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.

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.

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.

06-9 Allocation of Costs

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 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.

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.

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.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

FINDINGS RELATED TO FINANCIAL STATEMENTS AUDIT: – CONTINUED

06-10 Ambulance Billing - Continued

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.

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.

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.

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.

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.

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.

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

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.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

FINDINGS RELATED TO FINANCIAL STATEMENTS AUDIT: – CONTINUED

06-14 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.

06-15 Capital Project Completion Details

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.

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.

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.

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 OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
YEAR ENDED SEPTEMBER 30, 2006**

FINDINGS RELATED TO FINANCIAL STATEMENTS AUDIT: – CONTINUED

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.

Criteria: Where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through users charges, adequate rates should be set to fulfill this purpose.

Effect: Negative earnings were reported in four of the five business type funds.

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.

COMPLIANCE AND OTHER MATTERS

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.

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.

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.

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.

C. MAJOR FEDERAL AWARDS PROGRAMS FINDINGS AND QUESTIONED COSTS

REPORTABLE CONDITIONS:

None



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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, 2006, and have issued our report thereon dated March 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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.

Investments: - The perpetual care trust fund, which is managed by the trust department of two local banks, had investments other than ones approved by state statute. State of Mississippi statute dictates the types of investments allowed for excess operating funds.

Response: - The City's legal department will review state statute and recommend to the City's board its compliance or noncompliance.

Budget Variances and Deficit Fund Balance: - The governing authorities of the City should revise the budget for expenses over budgeted amount. In addition, the budget needs to be amended when anticipated revenues are less than the amount anticipated and a deficit is anticipated in a fund.

Response: - The City has raised rates to cover expected costs of operating various Enterprise funds.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

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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.

May + Company

March 23, 2009
Vicksburg, Mississippi