

**CITY OF VICKSBURG, MISSISSIPPI**

Financial Report

Year Ended September 30, 2005

with

Independent Auditor's Reports

**CITY OF VICKSBURG, MISSISSIPPI  
FINANCIAL REPORT  
YEAR ENDED SEPTEMBER 30, 2005**

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**I. REQUIRED SUPPLEMENTAL INFORMATION (PART A)**

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

**For the Year Ended September 30, 2005**

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, 2005. 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 \$118,085,471 (reported as "net assets"). This compares to the previous year when assets exceeded liabilities by \$118,997,210. Of this amount, \$16,199,535 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 decreased during the fiscal year by \$3,164,295 while business-type activities' net assets decreased by \$450,117, resulting in a total net assets decrease of \$3,614,412.

**Fund Level** - As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$9,600,626, with \$7,762,321 reported as unreserved fund balance. The remaining balance of \$1,838,305 was reserved for specific purposes. This compares to the prior year ending fund balance of \$20,049,655. The proprietary funds reported total net assets of \$24,203,361. This compares to the prior year ending fund balance of \$24,653,478.

**Long-term Debt** - During fiscal year 2005, the City retired \$5,063,057 of City debt. The City's total debt decreased to \$26,712,325.

**USING THIS ANNUAL FINANCIAL REPORT**

The City of Vicksburg's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information.

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

**For the Year Ended September 30, 2005**

**Government-Wide Financial Statements**

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

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

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

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

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

**The Statement of Activities** – The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. *Revenues* - uncollected fines and *Expenses* - earned but unused vacation leave).

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

**For the Year Ended September 30, 2005**

**Government-Wide Financial Statements – Continued**

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

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

**Top Section**

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

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

**For the Year Ended September 30, 2005**

**Government-Wide Financial Statements – Continued**

**Bottom Section**

This section contains the following:

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

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Information about the City's governmental funds begins on page 30. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's funds are divided into two categories: governmental funds and proprietary funds. These categories use different accounting approaches and should be interpreted differently.

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

The governmental fund statements provide a detailed view of the City's near-term financing requirements. Governmental funds include the General Fund, City Bond and Interest Debt Service Fund, and the 2001 Public Improvement Capital Projects Fund, which are presented separately as major funds. All other funds of the City are considered nonmajor funds and are combined into a single column on the governmental fund financial statements.

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

**For the Year Ended September 30, 2005**

**Fund Financial Statements – Continued**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it may be useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the City's near-term financing decisions.

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

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

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

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

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are a required part of the basic financial statements and can be found in the basic financial statements section of this report.

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

**For the Year Ended September 30, 2005**

**Other Information**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Statement of Net Assets Analysis (Table 1):**

For the year ended September 30, 2005, the City's combined assets (governmental and business-type activities) totaled \$151.8 million dollars compared to \$158.2 million for fiscal year ending September 30, 2004. Cash and cash equivalents dropped by \$16 million. The use of cash reduced the total liabilities by \$5.5 from \$39.2 million to \$33.7 million dollars and capital assets increased by \$6.4 million to \$127.9 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 \$118.1 million dollars after deducting total liabilities of \$33.7 million dollars from total assets.

The largest portion of the City's net assets, 84.9% or \$100.2 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 \$1.7 million dollars.

The remaining unrestricted net assets, \$16.2 million dollars, or 13.7% percent, may be used to meet the City's ongoing obligations to citizens and creditors; however, internally imposed designations of certain resources further limit the purposes for which those net assets may be used. As in the previous fiscal year, the City is able to report positive balances in all three categories of net assets for the City as a whole, as well as both governmental and business-type activities.

**City of Vicksburg, Mississippi**  
**Table 1**  
**Net Assets**  
**September 30, 2005 and 2004**  
**(In Millions of Dollars)**

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Assets</b>						
Cash and Other Assets	21.2	30.2	2.7	6.5	23.9	36.7
Capital Assets	<u>93.4</u>	<u>88.5</u>	<u>34.5</u>	<u>33.0</u>	<u>127.9</u>	<u>121.5</u>
<b>Total Assets</b>	<b>114.6</b>	<b>118.7</b>	<b>37.2</b>	<b>39.5</b>	<b>151.8</b>	<b>158.2</b>
 <b>Liabilities</b>						
Current and Other Liabilities	6.7	6.7	3.0	3.7	9.7	10.4
Long Term Liabilities	<u>14.0</u>	<u>17.7</u>	<u>10.0</u>	<u>11.1</u>	<u>24.0</u>	<u>28.8</u>
<b>Total Liabilities</b>	<b>20.7</b>	<b>24.4</b>	<b>13.0</b>	<b>14.8</b>	<b>33.7</b>	<b>39.2</b>
 <b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	76.6	67.3	23.6	21.1	100.2	88.4
Restricted-Debt Service	1.7	.0	.0	.0	1.7	.0
Unrestricted	<u>15.6</u>	<u>27.0</u>	<u>0.6</u>	<u>3.6</u>	<u>16.2</u>	<u>30.6</u>
<b>Total Net Assets</b>	<b>93.9</b>	<b>94.3</b>	<b>24.2</b>	<b>24.7</b>	<b>118.1</b>	<b>119.0</b>

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

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

**For the Year Ended September 30, 2005**

**Statement of Activities Analysis (Table 2):**

The total expenses for the City were \$51.6 million and expenses exceeded the total revenues of \$48.0 million by \$3.6 million. The business-type activities of the City accounted for \$.45 million of this deficiency amount. The governmental activities expenses exceeded revenues by \$.96 million before transfers. The City transferred \$2.2 million from the general fund to the water and gas funds for the year. Utility rates have been raised in three steps, the last of which went into effect in October 2006.

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

	<u>2005</u>	<u>2004</u>
• General government.....	\$5.75 million, 17%	\$5.89 million, 19%
• Public safety.....	\$15.12 million, 45%	\$14.23 million, 44%
• Public works.....	\$6.31 million, 19%	\$5.99 million, 19%
• Health, welfare and sanitation..	\$2.11 million, 6%	\$1.38 million, 4%
• Culture and recreation.....	\$3.33 million, 10%	\$3.09 million, 10%

Interest and fiscal charges totaled \$.78 million, representing 3% of the total cost for 2005 and \$1.0 million, representing 4% of the total cost for 2004.

The costs of some of the services provided by the City of Vicksburg are partially paid directly by the recipient of those services. Revenues from charges for service totaled \$17.47 million and 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 balances of the costs are paid for with taxes collected directly from the taxpayers of the City along with taxes and revenue from other governments. The general revenues of the City consist of the following:

	<u>2005</u>	<u>2004</u>
• Property taxes,.....	\$9.13 million, 36%	\$8.73 million, 31%
• Franchise taxes,.....	\$8.95 million, 35%	\$9.75 million, 36%
• Public service taxes total,	\$6.95 million, 27%	\$6.69 million, 25%

The final 2% of revenues comes from the sale of assets, interest earnings and other miscellaneous sources, which totaled \$.49 million for 2005. For 2004 the same items respected 8% of revenues at \$2.33 million. See Table 3 titled "Government Wide Revenues" on page 10 of the MDA.

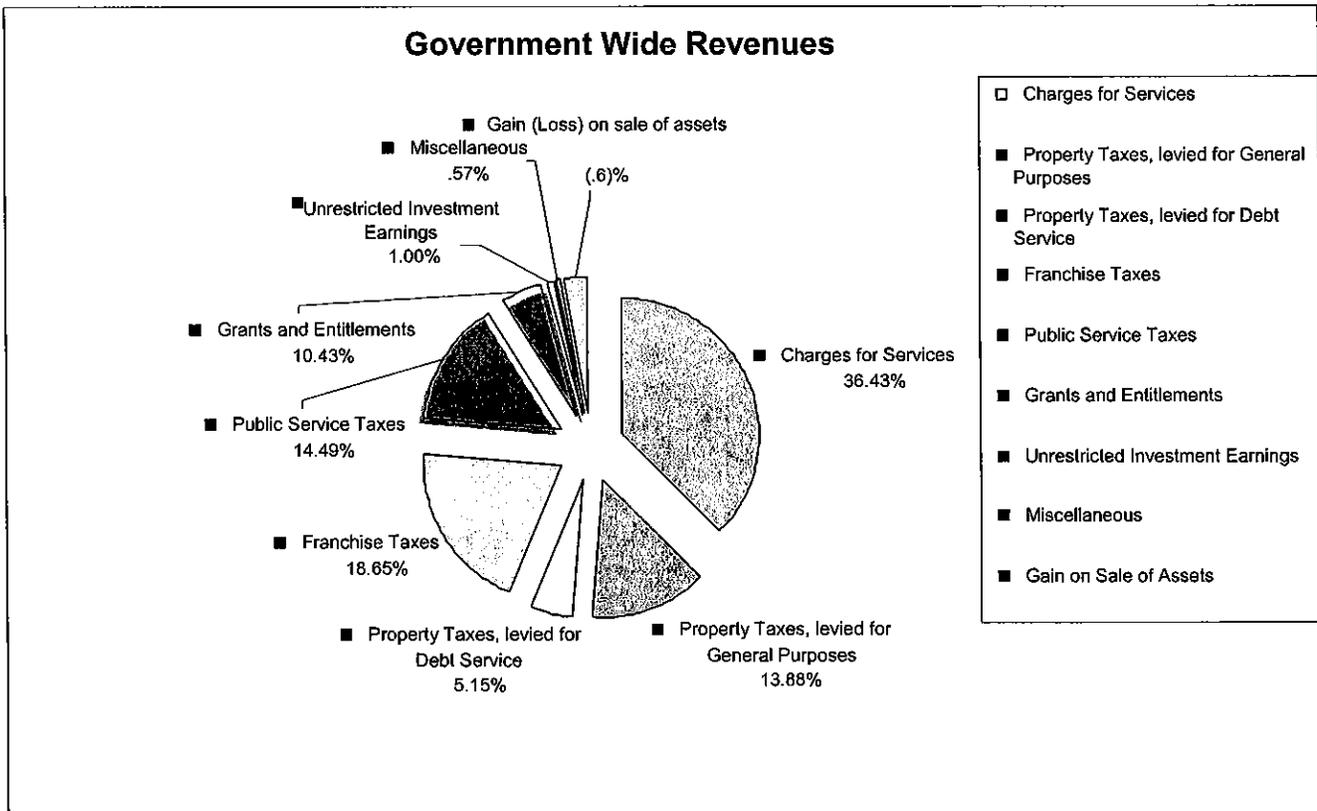
**City of Vicksburg, Mississippi**  
**Table 2**  
**Changes in Net Assets**  
**For the Years Ended September 30, 2005 and 2004**  
**(In Millions of Dollars)**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Totals</b>	
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services						
Governmental Activities	3.62	2.80			3.62	2.80
Water Utility			3.89	3.63	3.89	3.63
Gas Utility			5.46	5.77	5.46	5.77
Sewer Utility			3.18	3.03	3.18	3.03
Refuse, Sanitation Fund			1.31	1.28	1.31	1.28
Operating Grants and Contributions	2.95	1.81			2.95	1.81
Capital Grants and Contributions	.47	.28	1.48	.37	1.95	.65
<b>Total Program Revenues</b>	<b>7.04</b>	<b>4.89</b>	<b>15.32</b>	<b>14.08</b>	<b>22.36</b>	<b>18.97</b>
<b>General Revenues:</b>						
Property Taxes, levied for General Purposes	6.66	6.36			6.66	6.36
Property Taxes, levied for Debt Service	2.47	2.37			2.47	2.37
Franchise Taxes	8.95	9.75			8.95	9.75
Public Service Taxes	6.95	6.69			6.95	6.69
Grants and Entitlements not Restricted	.11	.11			.11	.11
Unrestricted Investment Earnings	.40	.30	.09	.10	.49	.40
Miscellaneous	.27	.84			.27	.84
Gain or (Loss) on Sale of Assets	(.29)	1.08			(.29)	1.08
<b>Total General Revenues</b>	<b>25.52</b>	<b>27.50</b>	<b>.09</b>	<b>.10</b>	<b>25.61</b>	<b>27.60</b>
<b>Total Revenues</b>	<b>32.56</b>	<b>32.39</b>	<b>15.41</b>	<b>14.18</b>	<b>47.97</b>	<b>46.57</b>
<b>Functions/Programs Expenses:</b>						
General Government	5.75	5.89			5.75	5.89
Public Safety	15.12	14.23			15.12	14.23
Health, Welfare and Sanitation	2.11	1.38			2.11	1.38
Public Works	6.31	5.99			6.31	5.99
Education	.11	.13			.11	.13
Culture and Recreation	3.33	3.09			3.33	3.09
Interest and Fiscal Charges	.78	1.00			.78	1.00
Total Business Related Expenses			18.06	15.84	18.06	15.84
<b>Total Expenses</b>	<b>33.51</b>	<b>31.71</b>	<b>18.06</b>	<b>15.84</b>	<b>51.57</b>	<b>47.55</b>
<b>Increase (Decrease) in Net Assets before Transfers</b>	<b>(.95)</b>	<b>.68</b>	<b>(2.65)</b>	<b>(1.66)</b>	<b>(3.60)</b>	<b>(.98)</b>
Transfers	(2.20)	(.29)	2.20	.29		
<b>Change in Net Assets</b>	<b>(3.15)</b>	<b>.39</b>	<b>(.45)</b>	<b>(1.37)</b>	<b>(3.60)</b>	<b>(.98)</b>

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

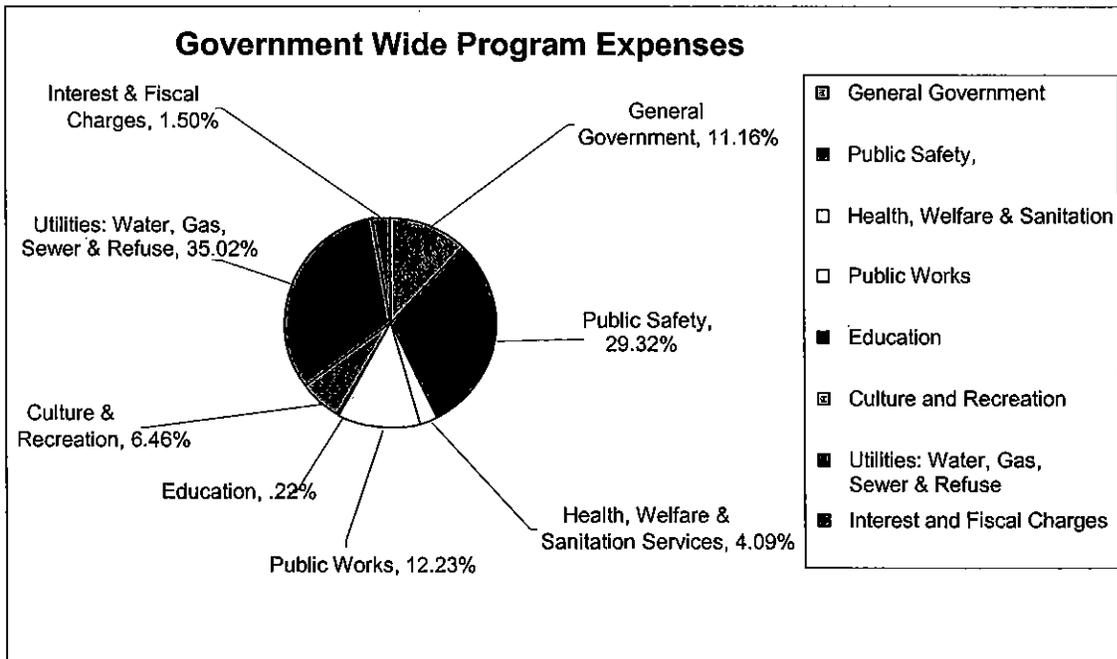
**City of Vicksburg, Mississippi**  
**Table 3**  
**Government Wide Revenues**  
**For the Years Ending September 30, 2005 and 2004**

<u>Types of Government Wide Revenues</u>	<u>Revenues</u>		<u>Percent</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Charges for Services	17,473,361	16,887,223	36.43%	36.25%
Property Taxes, levied for General Purposes	6,656,792	6,362,474	13.88%	13.66%
Property Taxes, levied for Debt Service	2,469,190	2,359,360	5.15%	5.06%
Franchise Taxes	8,949,134	9,753,022	18.65%	20.94%
Public Service Taxes	6,951,381	6,694,621	14.49%	14.37%
Grants and Entitlements	5,004,771	2,207,957	10.43%	4.74%
Unrestricted Investment Earnings	481,192	396,573	1.00%	.85%
Miscellaneous	272,680	841,160	.57%	1.81%
Gain or (Loss) on Sale of Assets	<u>(288,316)</u>	<u>1,080,298</u>	(.6)%	2.32%
<b>Total Government Wide Revenues</b>	<b><u>47,970,185</u></b>	<b><u>46,582,688</u></b>		



**City of Vicksburg, Mississippi**  
**Table 4**  
**Government Wide Program Expenses**  
**For the Year Ending September 30, 2005 and 2004**

	<u>Expenses</u>		<u>Percent</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b><u>Functions/Programs Expenses</u></b>				
General Government	5,755,534	5,888,783	11.16%	12.38%
Public Safety	15,126,203	14,226,333	29.32%	29.91%
Health, Welfare and Sanitation	2,111,184	1,383,582	4.09%	2.91%
Public Works	6,309,237	5,989,920	12.23%	12.59%
Education	111,501	134,840	0.22%	0.30%
Culture and Recreation	3,331,289	3,090,951	6.46%	6.50%
Utilities: Water, Gas, Sewer and Refuse	18,063,103	15,839,241	35.02%	33.30%
Interest and Fiscal Charges	<u>776,546</u>	<u>1,005,123</u>	1.50%	2.11%
<b>Total Expenses</b>	<b><u>51,584,597</u></b>	<b><u>47,558,773</u></b>		



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

**For the Year Ended September 30, 2005**

**THE CITY'S FUNDS ANALYSIS**

**General Fund Budgeting Highlights (See page 63)**

Total revenue for the fiscal year totaled \$26.9 million, and exceeded the budgeted amount of \$26 million by \$867,980. The charges for services category had major budget variance. The estimated budget for charges for services was exceeded by \$447 thousand. The City has made a concerted effort to adjust the charges to cover the cost and to improve the collection process. The balance of the positive variance in revenues was due to the increase in sales tax collections, which exceeded the estimate by \$363 thousand dollars. Minor negative variances are reported in property taxes, which equaled less than six tenths of one percent (.6%) below estimated amounts. Intergovernmental revenue had the largest variance in the amount of \$187 thousand dollars. This variance is due to projects being funded by grants and the projects have not progressed as fast as anticipated.

The final amended General Fund expense budget totaled \$30.8 million dollars. The total amount expended was \$29.5 million dollars, leaving an unexpended balance of \$1.26 million dollars for uncompleted projects. The two major variances occurred in Public Safety and in Public Works. The variance occurred in September 2005, in the area of personnel cost. Hurricane Katrina struck the Gulf Coast the week of August 28, 2005 and moved through Vicksburg later that week. The City was operating in a state of emergency, due to the wind damage to City infrastructure and clearing the City streets. Public Safety departments incurred a large amount of overtime and increased operation cost due to the assistance provided by the City of Vicksburg to the Gulf Coast communities and the influx of evacuees from the coast region to Vicksburg. The City was partially reimbursed by the Federal Emergency Management Agency and the Mississippi Emergency Management Agency in later fiscal years, but the City should have addressed the budget variances after the return to normal management.

**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)**

**For the Year Ended September 30, 2005**

**Capital Assets – Continued**

Fiscal year 2005 is the third 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 2005 statements contain restatements of the beginning balances to account for these corrections of \$2.7 million. 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, 2005, governmental activities capital assets totaled **\$158,745,398** with accumulated depreciation of **\$65,360,894** leaving a net capital assets balance of **\$93,384,504**. Business-type activities capital assets for year ended September 30, 2005 totaled **\$62,537,249** with total accumulated depreciation of **\$28,031,289** leaving a net business-type capital assets balance of **\$34,505,960**.

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.

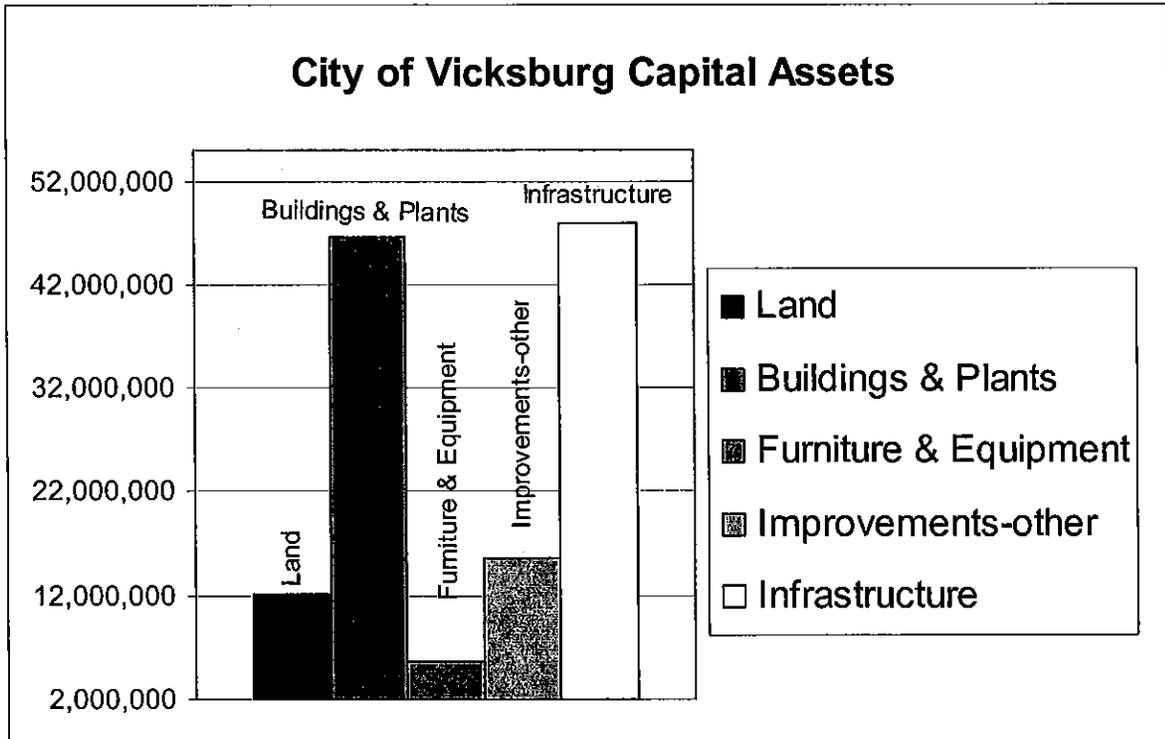
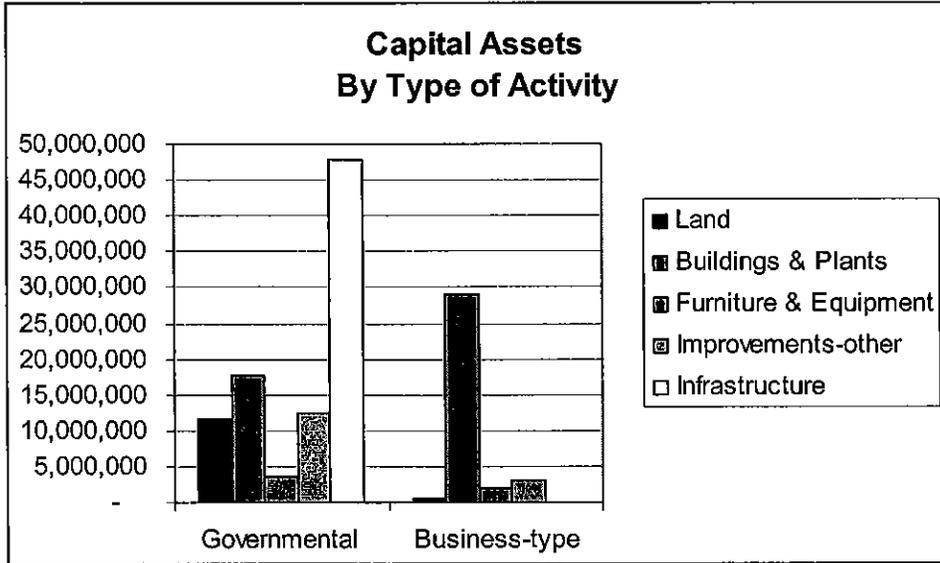
**City of Vicksburg  
Capital Assets, Net of Depreciation  
September 30, 2005 and 2004**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	11,682,340	10,059,913	531,813	531,813	12,214,153	10,591,726
Buildings	17,567,625	18,545,867	28,998,618	29,243,344	46,566,243	47,789,211
Furniture and Equipment	3,658,045	4,560,755	1,932,838	2,085,378	5,590,883	6,646,133
Other Capital Assets (Includes Construction in Progress)	12,549,897	8,217,182	3,042,691	1,170,842	15,592,588	9,388,024
Infrastructure	47,926,597	49,799,735	-	-	47,926,597	49,799,735
<b>Total Capital Assets</b>	<b><u>93,384,503</u></b>	<b><u>91,183,452</u></b>	<b><u>34,505,960</u></b>	<b><u>33,031,377</u></b>	<b><u>127,890,464</u></b>	<b><u>124,214,829</u></b>

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

**For the Year Ended September 30, 2005**

**Capital Assets – Continued**



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

**For the Year Ended September 30, 2005**

**General Long Term Obligations**

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

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

**Limits on Debt**

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

The City's current fifteen percent (15%) limit is \$40,626,000. At fiscal year ended, September 30, 2005, bonds issued by the City, subject to the fifteen percent (15%) debt limit, was \$13,807,496.

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, 2005, the twenty percent (20%) limit for the City of Vicksburg was \$54,168,000. The City's total outstanding bonds, subject to this overall debt limit, totaled \$24,492,379. The City of Vicksburg has the ability to issue an additional amount of \$29,675,621. This figure represents fifty five percent (55%) of the City's total bonding capacity.

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

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

**For the Year Ended September 30, 2005**

**General Long Term Obligations – Continued**

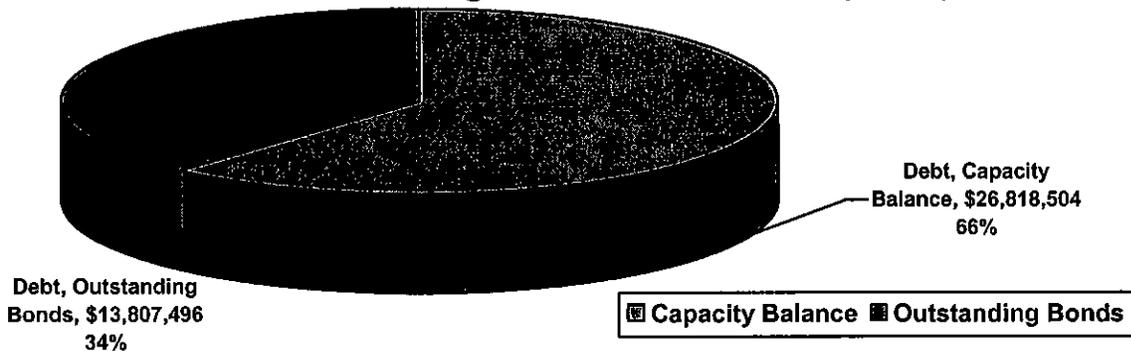
**Statutory Debt Limits  
September 30, 2005**

	<b>Twenty Percent (20%)</b>		<b>Fifteen Percent (15%)</b>	
	<b><u>Debt Limit</u></b>	<b><u>Percent</u></b>	<b><u>Debt Limit</u></b>	<b><u>Percent</u></b>
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	<u>29,675,621</u>	<u>54.78%</u>	<u>26,818,504</u>	<u>66.01%</u>

**Statutory Debt Limits  
September 30, 2004**

	<b>Twenty Percent (20%)</b>		<b>Fifteen Percent (15%)</b>	
	<b><u>Debt Limit</u></b>	<b><u>Percent</u></b>	<b><u>Debt Limit</u></b>	<b><u>Percent</u></b>
Total Statutory Debt Capacity	53,822,000		40,367,000	
Current Outstanding Debt, subject to limit	<u>24,592,379</u>	<u>45.69%</u>	<u>18,117,079</u>	<u>44.88%</u>
Balance of Bonding Capacity	<u>29,229,621</u>	<u>54.31%</u>	<u>22,249,921</u>	<u>55.12%</u>

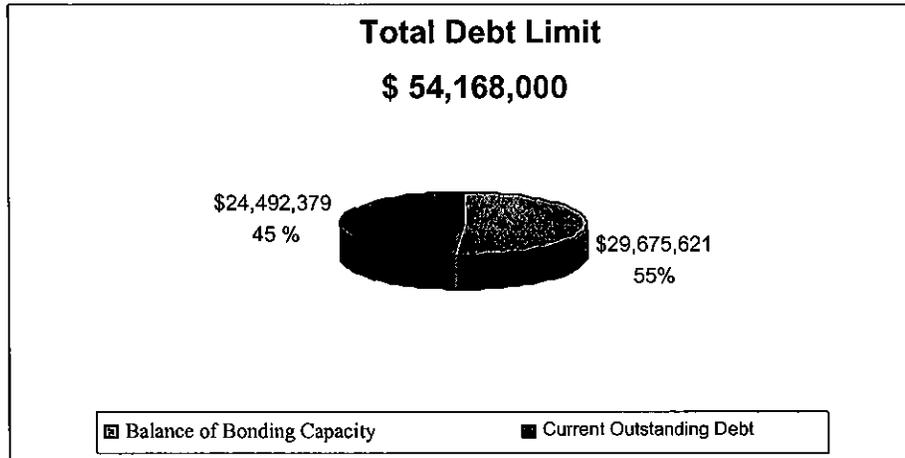
**General Obligation Debt Limit (15%)**



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

**For the Year Ended September 30, 2005**

**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 1995 issue for \$7.7 million was used for sanitary sewer improvements; this bond was retired in total during the Fiscal Year ending September 30, 2005.
- The 1996 issue in the amount of \$10 million was used to construct the convention center, outstanding \$1.2 million.
- The 2001 issue for \$17.5 million is being used for downtown redevelopment, recreation facilities, street improvements, sidewalk and landscaping improvements, outstanding \$12.56 million.
- The 2003 issue for \$5.8 million will be used for water, gas and sewer improvements, outstanding \$5.22 million.
- The 2003 refunding issue for \$1.6 million was used to advance refund the 1994 Water Revenue Bond and the outstanding balance is \$1.1 million.

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

**For the Year Ended September 30, 2005**

**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 \$2,220,000.

**State Loans**

The City made three state loans in 1995, 1996 and 2003 for sewer improvements with a total outstanding balance of \$3.9 million. 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, 2005 is \$452 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)**

**For the Year Ended September 30, 2005**

**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. The City is acquiring the necessary easements for the projects and will award the bid for the construction. 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, 2005 and 2004**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General Obligations Bonds	13,807,796	17,732,379	6,295,000	6,860,000	20,102,796	24,592,379
Revenue Bonds	-	-	-	-	-	-
State Loans	-	-	4,389,529	4,778,003	4,389,529	4,778,003
Tax Increment Financing (TIF) Bonds	2,220,000	2,405,000	-	-	2,220,000	2,405,000
Other	-	-	-	-	-	-
<b>Total Long Term Obligations</b>	<b><u>16,027,796</u></b>	<b><u>20,137,379</u></b>	<b><u>10,684,529</u></b>	<b><u>11,638,003</u></b>	<b><u>26,712,325</u></b>	<b><u>31,775,382</u></b>

**Revenue Section Highlights**

Governmental Funds revenues for the governmental funds totaled \$32.2 million for the fiscal year 2005 as compared to \$30.5 million for 2004. The General Fund revenues totaled \$26.9 million dollars and the Bond and Interest Fund income for the year was \$2.2million. The other funds of the Governmental Funds revenues totaled a combined \$3.1 million.

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

<b>Three Major Revenue Groups</b>	<b>Millions</b>	<b>Percent</b>
Gaming taxes and use of City property by a casino	\$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%

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

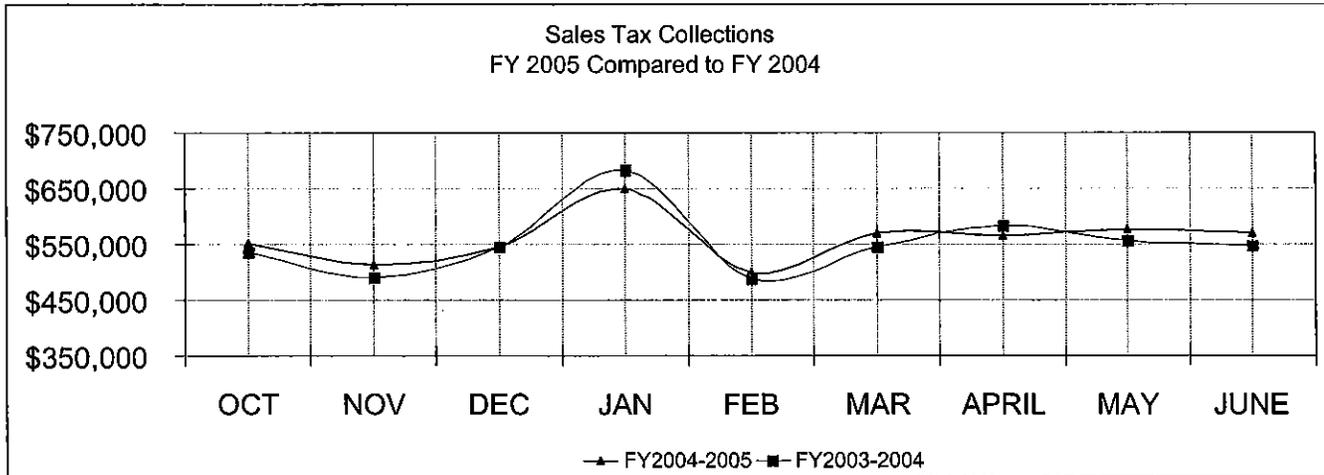
**For the Year Ended September 30, 2005**

**Revenue Section Highlights – Continued**

The largest components of the General Fund revenue are as follows for 2004:

<b>Three Major Revenue Groups</b>	<b>Millions</b>	<b>Percent</b>
Gaming taxes and use of City property by a casino	\$7.9	26%
Sales taxes: 18.5% of the state, 7% sales taxes on sales in City	\$6.6	21%
Property taxes: real estate, business, public utilities, auto	\$6.1	20%

The following chart shows the percentage change by month for the preceding twelve months sales tax collections for the year ending September 30, 2005:

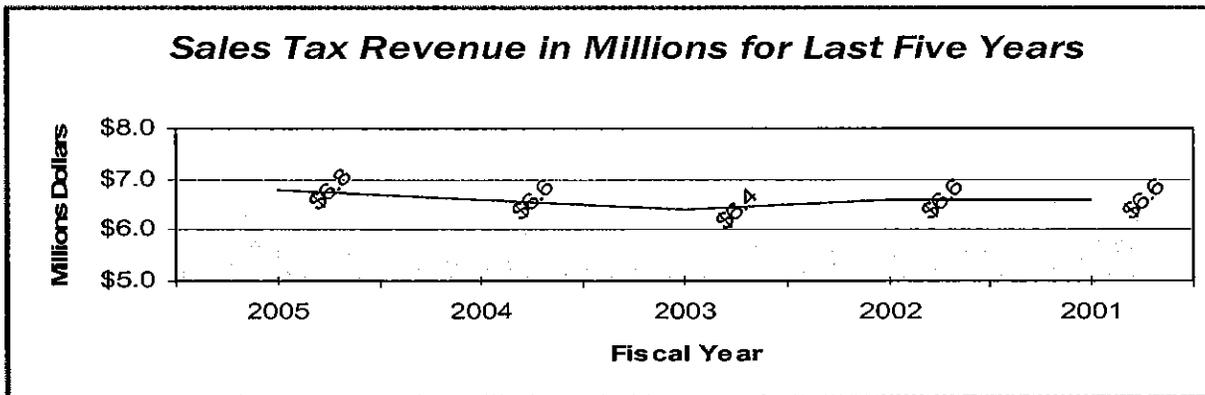


**City of Vicksburg, Mississippi  
Management's Discussion and Analysis (MDA)**

**For the Year Ended September 30, 2005**

**Revenue Section Highlights – Continued**

Sales tax revenue for the past five years:



**Current Related Financial Activities**

**Utility System Revenues**

The City is implementing annual rate increases in three installments. The last of these installments was implemented in October 2006. 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. 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. These two items in this contract will greatly improve the accuracy of monthly usage, thus improving revenues.

**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) dollars in bonds. The last major project for these bond proceeds is the completion of the downtown "Art Park" and the recreation ball fields. Major repaving and landscaping of areas of the City are 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, 2005**

**Current Related Financial Activities – Continued**

The Downtown Revitalization Project was the largest project involving the downtown area in over thirty (30) years. This project included major changes in a four block stretch of street and sidewalk along Washington Street, the main thoroughfare traveling north south along the west end of Vicksburg and located within the Downtown Business District.

The Corps of Engineering has started the design 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. The Mississippi will be the main feature of this 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](mailto:Waltero@vicksburg.org). You may also visit the City's website at [www.vicksburg.org](http://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, 2005; 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, 2005, and the respective changes in financial position and cash flows, where applicable, 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 May 15, 2007 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](mailto:infoline@maycpa.com) • website: [www.maycpa.com](http://www.maycpa.com)

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 Bond 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 them.

A handwritten signature in cursive script that reads "May + Company".

May 15, 2007  
Vicksburg, Mississippi

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CITY OF VICKSBURG, MISSISSIPPI  
STATEMENT OF NET ASSETS  
YEAR ENDED SEPTEMBER 30, 2005**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,138,486	\$ 1,710,670	\$ 6,849,156
Investments	1,708,406	-	1,708,406
Receivables	9,709,835	1,351,415	11,061,250
Internal balances	1,566,268	(1,566,268)	-
Due from other governmental agencies	2,849,708	1,178,483	4,028,191
Inventories	41,533	-	41,533
Other assets	133,665	50,319	183,984
Capital assets:			
Land, improvements and construction in progress, not being depreciated	16,281,006	3,574,503	19,855,509
Infrastructure and infrastructure in progress, net of depreciation	47,926,597	-	47,926,597
Buildings, net of depreciation	17,567,625	28,998,618	46,566,243
Equipment and furniture, net of depreciation	3,658,045	1,932,839	5,590,884
Other capital assets, net of depreciation	7,951,230	-	7,951,230
Total capital assets	<u>93,384,503</u>	<u>34,505,960</u>	<u>127,890,463</u>
Total assets	<u>\$ 114,532,404</u>	<u>\$ 37,230,579</u>	<u>\$ 151,762,983</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 2,378,721	\$ 1,879,006	\$ 4,257,727
Due to other governmental agencies	219,239	-	219,239
Other liabilities:			
Due within one year:			
Bonds, capital leases and contracts	3,662,349	1,067,842	4,730,191
Accrued interest	82,034	15,618	97,652
Claims and judgments	327,272	47,125	374,397
Due in more than one year:			
Bonds, capital leases and contracts	13,090,448	9,864,661	22,955,109
Compensated absences	890,231	152,966	1,043,197
Total liabilities	<u>20,650,294</u>	<u>13,027,218</u>	<u>33,677,512</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	76,631,707	23,573,457	100,205,164
Restricted for:			
Debt service	1,680,772	-	1,680,772
Unrestricted	15,569,631	629,904	16,199,535
Total net assets	<u>\$ 93,882,110</u>	<u>\$ 24,203,361</u>	<u>\$ 118,085,471</u>

The accompanying notes are an integral part of this statement.

CITY OF VICKSBURG, MISSISSIPPI  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2005

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
Governmental Activities							
General Government	\$ 5,755,534	\$ -	\$ -	\$ 275,814	\$ (5,479,720)	\$ -	\$ (5,479,720)
Public Safety	15,126,203	2,762,389	1,197,418	12,407	(11,153,989)	-	(11,153,989)
Public Works	6,309,237	20,200	618,396	182,050	(5,488,591)	-	(5,488,591)
Health, Welfare and Sanitation	2,111,184	120,847	1,114,983	-	(875,354)	-	(875,354)
Culture and Recreation	3,331,289	721,574	9,754	-	(2,599,961)	-	(2,599,961)
Education	111,501	-	-	-	(111,501)	-	(111,501)
Interest on Long-term debt	776,546	-	-	-	(776,546)	-	(776,546)
Total Governmental Activities	<u>33,521,494</u>	<u>3,625,010</u>	<u>2,940,551</u>	<u>470,271</u>	<u>(26,485,662)</u>	<u>-</u>	<u>(26,485,662)</u>
Business-type Activities							
Water	4,515,557	3,894,488	-	1,482,424	-	861,355	861,355
Gas	8,237,230	5,460,516	-	-	-	(2,776,714)	(2,776,714)
Sewer	3,682,346	3,180,388	-	-	-	(501,958)	(501,958)
Refuse	1,627,970	1,312,959	-	-	-	(315,011)	(315,011)
Total Business-type Activities	<u>18,063,103</u>	<u>13,848,351</u>	<u>-</u>	<u>1,482,424</u>	<u>-</u>	<u>(2,732,328)</u>	<u>(2,732,328)</u>
Total Primary Government	<u>\$ 51,584,597</u>	<u>\$ 17,473,361</u>	<u>\$ 2,940,551</u>	<u>\$ 1,952,695</u>	<u>(26,485,662)</u>	<u>(2,732,328)</u>	<u>(29,217,990)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes, levied for general purposes					6,656,792	-	6,656,792
Property taxes, levied for debt service					2,469,190	-	2,469,190
Franchise taxes					8,949,134	-	8,949,134
Public service taxes					6,951,381	-	6,951,381
Grants and contributions not restricted to specific programs					111,525	-	111,525
Unrestricted investment earnings					398,981	82,211	481,192
Miscellaneous					272,680	-	272,680
Gain (Loss) on sale of assets					(288,316)	-	(288,316)
Transfers					(2,200,000)	2,200,000	-
Total general revenues, special items, and transfers					<u>23,321,367</u>	<u>2,282,211</u>	<u>25,603,578</u>
Change in net assets					(3,164,295)	(450,117)	(3,614,412)
<b>Net assets:</b>							
Net assets - beginning of year					94,343,732	24,653,478	118,997,210
Prior period adjustment					2,702,673	-	2,702,673
Net assets - ending					<u>\$ 93,882,110</u>	<u>\$ 24,203,361</u>	<u>\$ 118,085,471</u>

**FUND FINANCIAL STATEMENTS**

**GOVERNMENTAL FUNDS**

**CITY OF VICKSBURG, MISSISSIPPI  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2005**

	<u>General Fund</u>	<u>City Bond and Interest</u>	<u>2001 Public Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,171,945	\$ 62,396	\$ 552,759	\$ 1,305,189	\$ 5,092,289
Investments	-	-	-	1,708,406	1,708,406
Taxes receivable, net	6,090,051	2,148,759	-	-	8,238,810
Due from other funds	2,639,645	1,601,004	50,000	178,390	4,469,039
Receivable from other governments	2,130,876	-	-	718,832	2,849,708
Other receivables	1,463,772	-	-	7,254	1,471,026
Inventories	25,439	-	-	-	25,439
Prepaid expenses	130,818	-	-	1,195	132,013
Total assets	<u>\$ 15,652,546</u>	<u>\$ 3,812,159</u>	<u>\$ 602,759</u>	<u>\$ 3,919,266</u>	<u>\$ 23,986,730</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 1,101,510	\$ -	\$ 150,485	\$ 112,861	\$ 1,364,856
Due to other funds	1,555,291	-	-	1,343,775	2,899,066
Payable to other governments	219,239	-	-	-	219,239
Deferred revenue	6,793,437	2,130,351	-	7,253	8,931,041
Other accrued expenses	842,790	-	-	-	842,790
Other payables	123,726	1,036	-	4,350	129,112
Total liabilities	<u>10,635,993</u>	<u>2,131,387</u>	<u>150,485</u>	<u>1,468,239</u>	<u>14,386,104</u>
Fund balances:					
Reserved for:					
Inventories	27,424	-	-	-	27,424
Prepaid expenses	130,818	-	-	-	130,818
Debt service	-	1,680,772	-	(709)	1,680,063
Unreserved	4,858,311	-	452,274	-	5,310,585
Unreserved, reported in non-major:					
Special revenue funds	-	-	-	764,425	764,425
Capital projects funds	-	-	-	(39,874)	(39,874)
Debt service funds	-	-	-	(45,261)	(45,261)
Permanent funds	-	-	-	1,772,446	1,772,446
Total fund balances	<u>5,016,553</u>	<u>1,680,772</u>	<u>452,274</u>	<u>2,451,027</u>	<u>9,600,626</u>
Total liabilities and fund balances	<u>\$ 15,652,546</u>	<u>\$ 3,812,159</u>	<u>\$ 602,759</u>	<u>\$ 3,919,266</u>	<u>\$ 23,986,730</u>

**CITY OF VICKSBURG, MISSISSIPPI  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF  
NET ASSETS  
SEPTEMBER 30, 2005**

Total fund balance, governmental funds	\$	9,600,626
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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.		93,357,048
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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.		8,931,041
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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
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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>(18,035,279)</u>
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Net Assets of Governmental Activities in the Statement of Net Assets	\$	<u><u>93,882,110</u></u>
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**CITY OF VICKSBURG, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2005**

	<u>General Fund</u>	<u>City Bond and Interest</u>	<u>2001 Public Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Property taxes	\$ 6,036,313	\$ 2,137,539	\$ -	\$ 153,654	\$ 8,327,506
Sales and miscellaneous taxes	15,256,052	-	-	45,747	15,301,799
Fees and fines	655,260	-	-	-	655,260
Licenses and permits	1,193,289	-	-	-	1,193,289
Intergovernmental	874,387	-	126,000	2,434,083	3,434,470
Charges for services	2,527,511	-	-	76,419	2,603,930
Investment earnings	239,469	16,001	45,643	97,867	398,980
Miscellaneous	108,149	-	-	126,276	234,425
Program income	-	-	-	3,848	3,848
Total revenues	<u>26,890,430</u>	<u>2,153,540</u>	<u>171,643</u>	<u>2,937,894</u>	<u>32,153,507</u>
<b>EXPENDITURES</b>					
Current:					
General government	5,487,947	-	-	35,257	5,523,204
Public safety	14,156,510	-	-	189,801	14,346,311
Public works	1,718,840	-	-	22,713	1,741,553
Health, welfare and sanitation	2,288,019	-	-	1,370,426	3,658,445
Culture and recreation	2,764,890	-	-	26,596	2,791,486
Community development	109,136	-	-	16,255	125,391
Debt service:					
Principal	346,498	3,910,000	-	185,000	4,441,498
Interest and other charges	29,207	657,155	-	117,407	803,769
Capital outlay	2,639,104	-	4,594,615	1,029,499	8,263,218
Total expenditures	<u>29,540,151</u>	<u>4,567,155</u>	<u>4,594,615</u>	<u>2,992,954</u>	<u>41,694,875</u>
Excess (deficiency) of revenues over expenditures	<u>(2,649,721)</u>	<u>(2,413,615)</u>	<u>(4,422,972)</u>	<u>(55,060)</u>	<u>(9,541,368)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	4,050,000	-	314,836	4,364,836
Transfers out	(6,564,836)	-	-	-	(6,564,836)
Proceeds from sale of land	1,292,340	-	-	-	1,292,340
Total other financing sources and uses	<u>(5,272,496)</u>	<u>4,050,000</u>	<u>-</u>	<u>314,836</u>	<u>(907,660)</u>
Net change in fund balances	<u>(7,922,217)</u>	<u>1,636,385</u>	<u>(4,422,972)</u>	<u>259,776</u>	<u>(10,449,028)</u>
Fund balances - beginning	12,938,770	44,387	4,875,246	2,191,251	20,049,654
Fund balances - ending	<u>\$ 5,016,553</u>	<u>\$ 1,680,772</u>	<u>\$ 452,274</u>	<u>\$ 2,451,027</u>	<u>\$ 9,600,626</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, 2005**

Net change in fund balances - total governmental funds: \$ (10,449,028)

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 capital outlay exceeded depreciation in the current period. 3,776,412

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. (1,580,656)

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 714,722

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. 4,441,498

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 27,221  
Accrued compensated absences not reflected on Governmental funds 12,637  
Accrued claims and judgments not reflected on Governmental funds (107,101)

Change in net assets of governmental activities \$ (3,164,295)

**PROPRIETARY FUNDS**

**CITY OF VICKSBURG, MISSISSIPPI  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2005**

	Business-Type Activities Enterprise Funds				Governmental Activities	
	Water Fund	Gas Fund	Sewer Fund	Other Enterprise Funds	Total	Internal Service Funds
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 408,008	\$ 63,552	\$ 1,239,110	\$ -	\$ 1,710,670	\$ 46,198
Accounts receivable, net	452,349	319,988	410,999	168,079	1,351,415	-
Due from other funds	7,405	591,395	266,214	2,564	867,578	32,856
Receivables from other governments	1,178,483	-	-	-	1,178,483	-
Inventories	-	-	-	-	-	16,094
Prepaid expenses	16,120	21,076	9,531	3,592	50,319	1,652
Total current assets	<u>2,062,365</u>	<u>996,011</u>	<u>1,925,854</u>	<u>174,235</u>	<u>5,158,465</u>	<u>96,800</u>
Non-current assets:						
Capital assets:						
Land and improvements	102,980	133,300	295,533	-	531,813	-
Utility system	23,896,021	7,427,638	23,039,606	399,863	54,763,128	-
Construction in progress	2,682,071	-	360,620	-	3,042,691	-
Buildings	61,608	102,823	-	-	164,431	-
Equipment and furniture	1,729,669	1,044,920	1,260,597	-	4,035,186	136,515
Less accumulated depreciation	(11,532,895)	(5,638,293)	(10,780,128)	(79,973)	(28,031,289)	(109,060)
Total non-current assets	<u>16,939,454</u>	<u>3,070,388</u>	<u>14,176,228</u>	<u>319,890</u>	<u>34,505,960</u>	<u>27,455</u>
Total assets	<u>\$ 19,001,819</u>	<u>\$ 4,066,399</u>	<u>\$ 16,102,082</u>	<u>\$ 494,125</u>	<u>\$ 39,664,425</u>	<u>\$ 124,255</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	\$ 410,507	\$ 71,843	\$ 37,242	\$ 104,944	\$ 624,536	\$ 30,933
Salaries payable	34,248	56,093	38,075	-	128,416	11,031
Accrued interest payable	8,745	4,062	2,811	-	15,618	-
Due to other funds	1,527,810	558,782	38,102	309,152	2,433,846	36,560
Other accrued expenses	451,352	672,022	2,680	-	1,126,054	-
Capital lease obligation	-	-	-	80,358	80,358	-
Claims and judgments	12,724	21,206	13,195	-	47,125	3,299
Bonds, notes and loans payable	524,741	80,600	382,143	-	987,484	-
Total current liabilities	<u>2,970,127</u>	<u>1,464,608</u>	<u>514,248</u>	<u>494,454</u>	<u>5,443,437</u>	<u>81,823</u>
Non-current liabilities:						
Compensated absences	36,508	67,852	48,606	-	152,966	13,758
Capital lease obligation	-	-	-	167,617	167,617	-
Bonds, notes and loans payable	3,938,832	1,269,400	4,488,812	-	9,697,044	-
Total non-current liabilities	<u>3,975,340</u>	<u>1,337,252</u>	<u>4,537,418</u>	<u>167,617</u>	<u>10,017,627</u>	<u>13,758</u>
Total liabilities	<u>\$ 6,945,467</u>	<u>\$ 2,801,860</u>	<u>\$ 5,051,666</u>	<u>\$ 662,071</u>	<u>\$ 15,461,064</u>	<u>\$ 95,581</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	12,475,881	1,720,388	9,305,273	71,915	23,573,457	27,455
Unrestricted	(419,529)	(455,849)	1,745,143	(239,861)	629,904	1,219
Total net assets	<u>\$ 12,056,352</u>	<u>\$ 1,264,539</u>	<u>\$ 11,050,416</u>	<u>\$ (167,946)</u>	<u>\$ 24,203,361</u>	<u>\$ 28,674</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

\$ 24,203,361

**CITY OF VICKSBURG, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2005**

	Business-Type Activities Enterprise Funds				Total	Governmental Activities
	Water Fund	Gas Fund	Sewer Fund	Other Enterprise Funds		Internal Service Funds
<b>REVENUES</b>						
Charges for services	\$ 3,894,488	\$ 5,460,516	\$ 3,180,388	\$ 1,312,959	\$ 13,848,351	\$ 666,345
Total operating revenues	<u>3,894,488</u>	<u>5,460,516</u>	<u>3,180,388</u>	<u>1,312,959</u>	<u>13,848,351</u>	<u>666,345</u>
<b>OPERATING EXPENSES</b>						
Personnel services	915,933	1,455,364	1,031,091	-	3,402,388	278,830
Contractual services	862,276	568,081	828,247	1,503,976	3,762,580	4,200
Utilities	551,963	42,038	180,949	-	774,950	5,469
Repairs and maintenance	404,674	273,834	363,045	964	1,042,517	346,160
Other supplies and expenses	546,011	5,386,218	282,604	19,925	6,234,758	15,080
Insurance claims and expenses	67,664	88,467	22,902	15,068	194,101	6,933
Depreciation	1,007,746	371,642	739,943	79,973	2,199,304	9,673
Total operating expenses	<u>4,356,267</u>	<u>8,185,644</u>	<u>3,448,781</u>	<u>1,619,906</u>	<u>17,610,598</u>	<u>666,345</u>
Operating income (loss)	<u>(461,779)</u>	<u>(2,725,128)</u>	<u>(268,393)</u>	<u>(306,947)</u>	<u>(3,762,247)</u>	<u>-</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>						
Interest and investment revenue	31,982	34,353	15,876	-	82,211	-
Interest expense	(159,290)	(51,586)	(233,565)	(8,064)	(452,505)	-
Total non-operating revenue (expenses)	<u>(127,308)</u>	<u>(17,233)</u>	<u>(217,689)</u>	<u>(8,064)</u>	<u>(370,294)</u>	<u>-</u>
Income (loss) before contributions and transfers	<u>(589,087)</u>	<u>(2,742,361)</u>	<u>(486,082)</u>	<u>(315,011)</u>	<u>(4,132,541)</u>	<u>-</u>
Capital contributions	1,482,424	-	-	-	1,482,424	-
Transfers in	500,000	1,700,000	-	-	2,200,000	-
Change in net assets	<u>1,393,337</u>	<u>(1,042,361)</u>	<u>(486,082)</u>	<u>(315,011)</u>	<u>(450,117)</u>	<u>-</u>
Total net assets - beginning	10,663,015	2,306,900	11,536,498	147,065	24,653,478	28,674
Total net assets - ending	<u>\$ 12,056,352</u>	<u>\$ 1,264,539</u>	<u>\$ 11,050,416</u>	<u>\$ (167,946)</u>	<u>\$ 24,203,361</u>	<u>\$ 28,674</u>
Change in net assets, per above					<u>(450,117)</u>	
Change in Business-Type Activities in Net Assets per Government-Wide Financial Statements					<u>\$ (450,117)</u>	

**CITY OF VICKSBURG, MISSISSIPPI  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED SEPTEMBER 30, 2005**

	<b>Business-Type Activities-Enterprise Funds</b>					<b>Governmental Activities</b>
	<b>Water Fund</b>	<b>Gas Fund</b>	<b>Sewer Fund</b>	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
<b>Cash Flows From Operating Activities</b>						
Receipts from customers and users	\$ 3,765,636	\$ 5,420,575	\$ 3,075,604	\$ 1,271,352	\$ 13,533,167	\$ 666,346
Receipts from interfund services provided	(1,004,414)	(466,241)	(266,214)	(2,564)	(1,739,433)	(32,856)
Payments to suppliers	(2,787,827)	(6,638,740)	(1,667,085)	(1,523,217)	(12,616,869)	(374,213)
Payments to employees	(882,732)	(1,393,242)	(988,895)	-	(3,264,869)	(266,997)
Payments for interfund services used	583,221	477,791	15,928	292,847	1,369,787	23,501
Net Cash Provided (Used) by Operating Activities	<u>(326,116)</u>	<u>(2,599,857)</u>	<u>169,338</u>	<u>38,418</u>	<u>(2,718,217)</u>	<u>15,781</u>
<b>Cash Flows From NonCapital Financing Activities</b>						
Advances from other funds	500,000	1,700,000	-	-	2,200,000	-
Net Cash Provided (Used) by NonCapital Financing Activities	<u>500,000</u>	<u>1,700,000</u>	<u>-</u>	<u>-</u>	<u>2,200,000</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities</b>						
Capital contributions	1,482,424	-	-	-	1,482,424	-
Acquisition and construction of capital assets	(2,722,620)	(940,444)	(10,825)	-	(3,673,889)	(14,967)
Principal paid on capital debt	(504,796)	(76,293)	(372,386)	(78,055)	(1,031,530)	-
Interest paid on capital debt	(159,876)	(51,858)	(233,753)	(8,460)	(453,947)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,904,868)</u>	<u>(1,068,595)</u>	<u>(616,964)</u>	<u>(86,515)</u>	<u>(3,676,942)</u>	<u>(14,967)</u>
<b>Cash Flows From Investing Activities</b>						
Interest and dividends received	31,982	34,353	15,876	-	82,211	-
Net Cash Provided (Used) by Investing Activities	<u>31,982</u>	<u>34,353</u>	<u>15,876</u>	<u>-</u>	<u>82,211</u>	<u>-</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,699,002)	(1,934,099)	(431,750)	(48,097)	(4,112,948)	814
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,107,010</u>	<u>1,997,651</u>	<u>1,670,860</u>	<u>48,097</u>	<u>5,823,618</u>	<u>45,384</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 408,008</u>	<u>\$ 63,552</u>	<u>\$ 1,239,110</u>	<u>\$ -</u>	<u>\$ 1,710,670</u>	<u>\$ 46,198</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>						
Operating Income (loss)	\$ (461,779)	\$ (2,725,128)	\$ (268,393)	\$ (306,947)	\$ (3,762,247)	\$ -
Depreciation expense	1,007,746	371,642	739,943	79,973	2,199,304	9,673
(Increase) decrease in accounts receivable	(117,848)	(5,504)	(81,048)	(21,667)	(226,067)	-
(Increase) decrease in receivables from other governments	(997,009)	-	-	-	(997,009)	-
(Increase) decrease in due from other funds	(7,405)	(466,241)	(266,214)	(2,564)	(742,424)	(32,856)
(Increase) decrease in inventories	-	-	-	-	-	(6,323)
(Increase) decrease in prepaid expenses	(3,118)	11,430	3,471	(3,590)	8,193	(1,652)
Increase (decrease) in customer deposits	-	-	-	-	-	-
Increase (decrease) in accounts payable	(457,980)	(452,422)	(39,852)	(14,702)	(964,956)	4,672
Increase (decrease) in salaries payable	34,248	56,093	38,075	-	128,416	11,031
Increase (decrease) in other accrued expenses	27,191	37,986	405	-	65,582	-
Increase (decrease) in claims and judgments	4,103	7,476	3,616	-	15,195	1,064
Increase (decrease) in compensated absences	(1,047)	6,029	4,121	-	9,103	802
Increase (decrease) in due to other funds	646,782	558,782	35,214	307,915	1,548,693	29,370
Net Cash Provided (Used) by Operating Activities	<u>\$ (326,116)</u>	<u>\$ (2,599,857)</u>	<u>\$ 169,338</u>	<u>\$ 38,418</u>	<u>\$ (2,718,217)</u>	<u>\$ 15,781</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, 2005**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Receivables:	
Other receivables	\$ 11,901
Total receivables	<u>11,901</u>
Total assets	<u><u>\$ 11,901</u></u>
 <b>LIABILITIES</b>	
Accounts payable	\$ 11,901
Total liabilities	<u>11,901</u>
 <b>NET ASSETS</b>	
Held in trust for benefits and other purposes	<u><u>\$ -</u></u>

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2005**

**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.

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.

Continued

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**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, 2005**

**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.

**2001 Public Improvements Fund** – accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds) through the issuance of the 2001 Public Improvements Bond.

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**D. Fund Types and Major Funds – Continued**

*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.

*Other Fund Types*

The City also reports the following fund types:

**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. These are proprietary funds reported with governmental activities in the government-wide statements.

**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).

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**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.

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**I. Capital Assets – Continued**

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

<u>Description</u>	<u>Estimated Lives</u>
Building	40 years
Improvements other than buildings	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.

**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 reports 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.

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**L. 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.

**M. 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.

**N. 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.

**O. 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, 2005**

**NOTE 2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

At September 30, 2005, the carrying amount (recorded on the City’s books) of the City’s demand deposits was \$6,849,156, and the bank balance was \$7,634,070.

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, 2005, 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.

In accordance with the GASB Statement No. 3, deposits are classified into Category 1 custodial risk. Items in this category are insured or registered, or are securities held by the City or by its agent in the City’s name.

The City also has \$1,708,406 (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	\$ 794,639	\$ 734,961
Equity mutual funds	337,949	414,358
Fixed income mutual funds	517,642	517,653
Preferred stock	90	78
Cash and equivalents	<u>41,356</u>	<u>41,356</u>
	<u>\$ 1,691,676</u>	<u>\$ 1,708,406</u>

These investments are category 1 items.

**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>
	<u>35.88</u>

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

Continued

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

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

*General Accounts Receivables and Uncollectible Accounts*

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

*Enterprise Receivables and Uncollectible Accounts*

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

*Receivables from Other Governments and Deferred Revenue*

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

**NOTE 4. RECEIVABLES AND PAYABLES**

Receivables at September 30, 2005 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Allowance</u>	<u>Total</u>
Governmental activities				
General	\$ 3,517,380	\$ 6,090,051	\$ (2,053,609)	\$ 7,553,823
Debt service	-	2,148,759	-	2,148,759
Other governmental	<u>14,508</u>	<u>-</u>	<u>(7,254)</u>	<u>7,254</u>
Total governmental activities	<u>\$ 3,531,888</u>	<u>\$ 8,238,810</u>	<u>\$ (2,060,863)</u>	<u>\$ 9,709,835</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-type activities				
Water	\$ 484,168	\$ -	\$ (31,819)	\$ 452,349
Gas	336,796	-	(16,808)	319,988
Sewer	410,999	-	-	410,999
Other proprietary	<u>172,692</u>	<u>-</u>	<u>(4,614)</u>	<u>168,079</u>
Total business-type activities	<u>\$ 1,404,656</u>	<u>\$ -</u>	<u>\$ (53,241)</u>	<u>\$ 1,351,415</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 4. RECEIVABLES AND PAYABLES – CONTINUED**

Payables at September 30, 2005 were as follows:

	<u>Vendor</u>	<u>Salaries &amp; Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental activities				
General	\$1,101,510	\$ 842,790	\$ 123,726	\$ 2,068,026
Debt service	-	-	1,036	1,036
Capital projects	150,485	-	-	150,485
Other governmental	112,861	-	4,350	117,211
Internal service	<u>22,709</u>	<u>11,031</u>	<u>8,224</u>	<u>41,964</u>
 Total governmental activities	 <u>\$1,387,564</u>	 <u>\$ 853,822</u>	 <u>\$ 137,336</u>	 <u>\$ 2,378,721</u>
 Business-type activities				
Water	\$ 410,507	\$ 34,248	\$ 451,352	\$ 896,107
Gas	71,843	56,093	672,022	799,958
Sewer	37,242	38,075	2,680	77,997
Other proprietary	<u>104,945</u>	<u>-</u>	<u>-</u>	<u>104,945</u>
 Total business-type activities	 <u>\$ 624,537</u>	 <u>\$ 128,415</u>	 <u>\$1,126,054</u>	 <u>\$ 1,879,006</u>

**NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund balances at September 30, 2005 consisted of the following:

<u>Due From</u>	<u>Due To</u>				
	<u>Governmental Activities</u>				
	<u>Major Governmental Funds</u>				
	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other</u>	<u>Internal Service</u>
Governmental activities:					
Major governmental funds:					
General	\$ -	\$ 1,500,000	\$ -	\$ 45,095	\$ -
Other governmental funds	905,098	1,013	50,000	133,295	-
Internal service funds	36,560	-	-	-	-
Business-type activities:					
Major enterprise funds:					
Water	891,849	55,995	-	-	8,515
Gas	500,000	25,998	-	-	11,491
Sewer	-	17,999	-	-	12,850
Other enterprise funds	<u>306,137</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total Due To	 <u>\$ 2,639,645</u>	 <u>\$ 1,601,004</u>	 <u>\$ 50,000</u>	 <u>\$ 178,390</u>	 <u>\$ 32,856</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

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

<u>Due From</u>	<u>Due To</u>				<u>Total</u>
	<u>Business-Type Activities</u>				
	<u>Water</u>	<u>Gas</u>	<u>Sewer</u>	<u>Other</u>	
Governmental activities:					
Major governmental funds:					
General	\$ -	\$ 10,196	\$ -	\$ -	\$ 1,555,291
Other governmental funds	-	-	254,371	-	1,343,776
Internal service funds	-	-	-	-	36,560
Business-type activities:					
Major enterprise funds:					
Water	-	570,930	520	-	1,527,810
Gas	7,405	-	11,324	2,564	558,782
Sewer	-	7,254	-	-	38,102
Other enterprise funds	-	3,014	-	-	309,152
<b>Total Due To</b>	<b>\$ 7,405</b>	<b>\$ 591,395</b>	<b>\$ 266,214</b>	<b>\$ 2,564</b>	<b>\$ 5,369,473</b>

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, 2005 consisted of the following:

	<u>Transfer To</u>				
	<u>Governmental Activities</u>			<u>Business-Type Activities</u>	
	<u>General</u>	<u>Major Governmental Funds Debt Service</u>	<u>Other</u>	<u>Major Enterprise Funds Water</u>	<u>Major Enterprise Funds Gas</u>
Governmental Activities:					
Major Governmental Funds:					
General	\$ -	\$ 4,050,000	\$ 314,836	\$ 500,000	\$ 1,700,000
<b>Total Transfers to</b>	<b>\$ -</b>	<b>\$ 4,050,000</b>	<b>\$ 314,836</b>	<b>\$ 500,000</b>	<b>\$ 1,700,000</b>

Continued

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 6. CAPITAL ASSETS**

Capital assets and depreciation activity as of and for the year ended September 30, 2005, for the primary government is as follows:

	(Restated) Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental activities:</b>				
Land	\$ 10,059,913	\$ 1,702,221	\$ 79,794	\$ 11,682,340
Buildings	25,808,933	248,348	1,629,634	24,427,647
Furniture and equipment	14,685,060	764,113	567,871	14,881,302
Other capital assets	11,987,979	927,359	123,425	12,791,912
Infrastructure	89,646,523	717,007	-	90,363,530
Construction in progress	<u>672,801</u>	<u>3,925,865</u>	<u>-</u>	<u>4,598,666</u>
<b>Total capital assets</b>	<b><u>\$ 152,861,209</u></b>	<b><u>\$ 8,284,913</u></b>	<b><u>\$ 2,400,724</u></b>	<b><u>\$ 158,745,398</u></b>
Less accumulated depreciation for:				
Buildings	\$ 7,263,066	\$ 150,029	\$ 553,073	\$ 6,860,022
Furniture and equipment	10,124,305	1,307,874	208,922	11,223,257
Improvements-other	4,443,598	448,431	51,347	4,840,682
Infrastructure	<u>39,846,788</u>	<u>2,590,145</u>	<u>-</u>	<u>42,436,933</u>
<b>Total accumulated depreciation</b>	<b><u>\$ 61,677,757</u></b>	<b><u>\$ 4,496,479</u></b>	<b><u>\$ 813,342</u></b>	<b><u>\$ 65,360,894</u></b>
<b>Net governmental activities capital assets</b>	<b><u>\$ 91,183,452</u></b>	<b><u>\$ 3,788,434</u></b>	<b><u>\$ 1,580,655</u></b>	<b><u>\$ 93,384,504</u></b>
<b>Business-type activities:</b>				
Land	\$ 531,813	\$ -	\$ -	\$ 531,813
Construction in progress	1,170,842	1,871,849	-	3,042,691
Buildings	53,192,909	1,734,651	-	54,927,560
Furniture and equipment	3,967,797	67,389	-	4,035,186
Other capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total capital assets</b>	<b><u>\$ 58,863,361</u></b>	<b><u>\$ 3,673,889</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 62,537,249</u></b>
Less accumulated depreciation for:				
Buildings	\$ 23,949,565	\$ 1,979,377	\$ -	\$ 25,928,942
Furniture and equipment	<u>1,882,419</u>	<u>219,928</u>	<u>-</u>	<u>2,102,347</u>
<b>Total accumulated depreciation</b>	<b><u>\$ 25,831,984</u></b>	<b><u>\$ 2,199,305</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 28,031,289</u></b>
<b>Net business-type activities capital assets</b>	<b><u>\$ 33,031,377</u></b>	<b><u>\$ 1,474,584</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 34,505,960</u></b>

Continued

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 6. CAPITAL ASSETS – CONTINUED**

Depreciation expense of \$ 6,695,783 for the year ended September 30, 2005, was charged to the following governmental functions:

Governmental activities:	
General government	\$ 234,678
Public safety	\$ 768,936
Public works	\$ 2,855,167
Health, welfare and sanitation	\$ 128,130
Culture and recreation	\$ 507,876
Education	\$ 1,692
Business-type activities:	
Water	\$ 1,007,746
Gas	\$ 371,642
Sewer	\$ 739,943
Sanitation	\$ 79,973

Active construction in progress is composed of the following:

	<u>Project Contract</u>	<u>Expended to 09/30/05</u>	<u>Committed</u>
Governmental activities:			
General			
Clay and Hope Street	\$ 1,160,937	\$ 945,838	\$ 215,099
Airport improvements	\$ 679,885	\$ 617,863	\$ 62,022
Art park	\$ 3,359,057	\$ 2,850,832	\$ 508,225
Fire training center	\$ 199,117	\$ 184,133	\$ 14,984
Business-type activities:			
Water			
16" water line	\$ 209,015	\$ 208,148	\$ 867
6 water wells	\$ 1,813,833	\$ 1,733,704	\$ 80,129
Fire protection water mains	\$ 1,172,935	\$ 1,120,569	\$ 52,366
Sewer			
Service to South Vicksburg area	\$ 4,376,622	\$ 502,728	\$ 3,873,894

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, 2005**

**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.

The following is a summary of the City's long-term debt transactions for the year ended September 30, 2005:

	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>
<b><u>Governmental Activities:</u></b>			
<b><u>General Obligation Bonds:</u></b>			
Unredeemed Bond (Old compromise)	N/A	\$ -	0%
1995 Public Improvement	June 2005	\$ 7,700,000	4.7-5.0%
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, 2005**

**NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED**

	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>
<b>Other:</b>			
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 2004	\$ 1,150,000	4.5 - 6.25%
2003 Tax Increment Limited Obligation Bond	December 2013	\$ 900,000	3.25 – 3.60%
<b><u>Business-Type Activities:</u></b>			
<b>General Obligation Bonds:</b>			
2003 Public Improvement	September 2018	\$ 5,800,000	3.0 – 4.25%
2003 Refunding Bond	October 2009	\$ 1,620,000	1.25 - 2.80%
<b>Other:</b>			
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 Water Pollution Control	May 2013	\$ 368,500	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>
<b><u>Governmental Activities:</u></b>					
<b>General Obligation Bonds:</b>					
Unredeemed Bond (Old compromise)	\$ 300	\$ -	\$ -	\$ 300	\$ -
1995 Public Improvement	960,000	-	960,000	-	-
1996 General Obligation Bond	2,430,000	-	1,185,000	1,245,000	1,245,000
2001 General Obligation Bond	14,342,079	-	1,779,583	12,562,496	1,864,583
<b>Other:</b>					
1991 Tax Increment Limited Obligation Bond	145,000	-	15,000	130,000	20,000
1995 Tax Increment Limited Obligation Bond	420,000	-	30,000	390,000	35,000
1999 Tax Increment Limited Obligation Bond	940,000	-	65,000	875,000	65,000
2003 Tax Increment Limited Obligation Bond	900,000	-	75,000	825,000	75,000

Continued

**CITY OF VICKSBURG, MISSISSIPPI**  
**NOTES TO FINANCIAL STATEMENTS – CONTINUED**  
**YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 7. LONG-TERM OBLIGATIONS – CONTINUED**

<u>Description of Debt</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Business-Type Activities:</u>					
<u>General Obligation Bonds:</u>					
2003 Public					
Improvement	5,515,000	-	295,000	5,220,000	310,000
2003 Refunding Bond	1,345,000		270,000	1,075,000	280,000
<u>Other:</u>					
1995 State Revolving Fund Loan	1,321,588	-	104,126	1,217,462	100,343
1996 State Revolving Fund Loan	2,597,893	-	181,354	2,416,539	174,764
1996 Department of Economic and Community Development- Capital Improvements Revolving Loan	520,287	-	68,811	451,476	71,141
2003 State Water Pollution Control	338,235	-	34,183	304,052	51,236
<b>Total</b>	<u>\$ 31,775,382</u>	<u>\$ -</u>	<u>\$ 5,063,057</u>	<u>\$ 26,712,325</u>	<u>\$ 4,292,067</u>

The debt service requirement on long-term obligations at September 30, 2005 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,				
2006	3,109,583	475,163	195,000	106,130
2007	1,949,583	369,894	205,000	97,938
2008	2,039,583	290,694	215,000	87,413
2009	2,134,583	211,769	220,000	77,320
2010	2,234,583	176,766	240,000	66,838
2011-2015	2,339,581	-	1,145,000	159,841
2016-2020	300	-	-	-
<b>Total</b>	<u>\$ 13,807,796</u>	<u>\$ 1,524,286</u>	<u>\$ 2,220,000</u>	<u>\$ 595,480</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,				
2006	590,000	211,994	397,484	185,972
2007	605,000	194,554	395,722	169,283
2008	635,000	178,826	413,146	151,856
2009	560,000	161,276	431,345	133,658
2010	365,000	144,896	450,348	114,654
2011-2015	2,070,000	526,396	2,041,896	290,223
2016-2020	1,470,000	118,730	259,588	6,721
<b>Total</b>	<u>\$ 6,295,000</u>	<u>\$ 1,536,672</u>	<u>\$ 4,389,529</u>	<u>\$ 1,052,367</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**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, 2005, are as follows:

	Governmental Activities	Business-Type Activities
Beginning balance	\$ 902,066	\$ 143,863
Additions	698,236	126,941
Reduction	710,071	117,838
Ending balance	<u>\$ 890,231</u>	<u>\$ 152,966</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, 2005 were as follows:

Year ending September 30,	Governmental Activities	Business-Type Activities
2006	\$ 375,028	\$ 86,516
2007	312,630	86,516
2008	46,585	86,236
2009	-	-
2010	-	-
Total minimum lease payments	<u>734,243</u>	<u>259,268</u>
Less: amount representing interest	<u>23,824</u>	<u>11,294</u>
Present value of minimum lease payments	<u>\$ 710,419</u>	<u>\$ 247,974</u>
Current principal portion due in one year	<u>\$ 357,766</u>	<u>\$ 80,358</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, 2005**

**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 \$1,077,935. 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, 2005, 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. An excess coverage insurance policy covers individual claims of \$60,000 with an aggregate limit of \$115,000. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Changes in the balances of claims liabilities during the past year are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</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>
<u>2004</u>		
Balance, beginning of year	\$ 189,679	\$ 29,027
Claims incurred	1,515,883	236,801
Claims payments	<u>(1,486,454)</u>	<u>(233,899)</u>
Balance, end of year	<u>\$ 219,108</u>	<u>\$ 31,929</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, 2005**

**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 10.75% of annual covered payroll and was increased from the previous 9.75% rate as of July 1, 2005. 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, 2005, 2004 and 2003 were \$1,730,337, \$1,608,144 and \$1,535,537 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.

*Reserve for encumbrances* - This reserve was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the City but not completed as of the close of the fiscal year.

*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 record additional fixed assets that the City had determined to be owned by them subsequent to adopting GASB 34 reporting practices.

A net deficit of \$167,946 exists in the sanitation fund resulting from the cost of outside providers of garbage pickup increasing without an increase by the City to the users of those services. In fiscal year 2005-2006, an increase was assessed to the users and it is expected that this additional revenue will provide positive net assets.

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO FINANCIAL STATEMENTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**NOTE 10. CONTINGENCIES**

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.

**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.

**III. REQUIRED SUPPLEMENTAL INFORMATION (PART B)**

**BUDGET COMPARISON SCHEDULES**

**CITY OF VICKSBURG, MISSISSIPPI  
BUDGET AND ACTUAL (WITH VARIANCES)  
GENERAL FUND  
YEAR ENDED SEPTEMBER 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 6,074,000	\$ 6,074,000	\$ 6,036,313	\$ (37,687)
Sales and miscellaneous taxes	14,732,500	14,892,500	15,256,052	363,552
Fees and fines	750,000	750,000	655,260	(94,740)
Licenses and permits	996,500	996,500	1,193,289	196,789
Intergovernmental	610,800	1,061,360	874,387	(186,973)
Charges for services	1,940,500	2,080,500	2,527,511	447,011
Investment earnings	162,090	162,090	239,469	77,379
Miscellaneous	5,500	5,500	108,149	102,649
Total revenues	<u>25,271,890</u>	<u>26,022,450</u>	<u>26,890,430</u>	<u>867,980</u>
<b>EXPENDITURES</b>				
Current:				
General government	5,839,410	5,571,050	5,487,947	83,103
Public safety	13,969,750	14,051,060	14,156,510	(105,450)
Public works	1,676,010	1,694,310	1,718,840	(24,530)
Health, welfare and sanitation	2,379,510	2,385,720	2,288,019	97,701
Culture and recreation	2,754,930	2,799,690	2,764,890	34,800
Community development	105,150	106,460	109,136	(2,676)
Debt Service:				
Principal and interest	372,220	372,220	375,705	(3,485)
Capital outlay	3,135,460	3,816,060	2,639,104	1,176,956
Total expenditures	<u>30,232,440</u>	<u>30,796,570</u>	<u>29,540,151</u>	<u>1,256,419</u>
Excess (deficiency) of revenues over expenditures	<u>(4,960,550)</u>	<u>(4,774,120)</u>	<u>(2,649,721)</u>	<u>2,124,399</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital leases	443,000	443,000	-	443,000
Transfers in (out)	(2,025,780)	(6,925,780)	(6,564,836)	360,944
Proceeds from sale capital assets	1,210,000	1,210,000	1,292,340	82,340
Total other financing sources and uses	<u>(372,780)</u>	<u>(5,272,780)</u>	<u>(5,272,496)</u>	<u>886,284</u>
Net change in fund balances	(5,333,330)	(10,046,900)	(7,922,217)	2,124,683
Fund balances - beginning (Restated)	12,938,770	12,938,770	12,938,770	-
Fund balances - ending	<u>\$ 7,605,440</u>	<u>\$ 2,891,870</u>	<u>\$ 5,016,553</u>	<u>\$ 2,124,683</u>

**CITY OF VICKSBURG, MISSISSIPPI  
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION  
YEAR ENDED SEPTEMBER 30, 2005**

**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, 2005, 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, 2005**

**OFFICIAL'S ADMINISTRATION OCTOBER 1, 2004 TO SEPTEMBER 30, 2005**

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Laurence E. Leyens	Mayor and Treasurer	Great River Insurance (expired 7/05)	\$ 100,000
		Western Surety Company (7/05 through 2009)	\$ 150,000
Michael A Mayfield, Sr.	Alderwoman	Western Surety Company	\$ 150,000
Sidney H. Beauman, Jr.	Alderman	Western Surety Company (expired 7/05)	\$ 75,000
		Western Surety Company (7/05 through 2009)	\$ 150,000
Thomas Moffet	Police Chief	Western Surety Company	\$ 50,000
Edna Hadad	Deputy City Clerk	Western Surety Company (expired 3/05)	\$ 50,000
		Western Surety Company (3/05 through 2006)	\$ 150,000
Public Employees Bond (Blanket Bond)		St. Paul Insurance Company	\$ 250,000
Walter W. Osborne, Jr.	City Clerk	Western Surety Company (expired 7/05)	\$ 50,000
		Western Surety Company (7/05 through 2006)	\$ 150,000
Janice Carter	Municipal Court Clerk	Western Surety Company	\$ 50,000
Tasha Wynn	Deputy City Clerk	Western Surety Company	\$ 50,000
Richard O'Bannon	Deputy Chief	Western Surety Company	\$ 50,000

**CITY OF VICKSBURG, MISSISSIPPI**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2005**

Federal Grantor/Pass-through Grantor or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Housing and Urban Development:</b>			
Pass through programs from the MS Authority Development			
2004 CDBG	14.219	1121-04-374-PF-01	\$ 165,339
2003 CDBG	14.219	1120-03-374-ED-01	<u>520,932</u>
			686,271
1999 CDBG Home Investment Partnership Program	14.239	M99-SG-28-01-0178	<u>42,700</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>728,971</u>
<b>U.S. Department of Justice:</b>			
Direct Programs:			
Office of Community Policing Services:			
COPS in School	16.710	2002SHWX0150	80,698
Local Law Enforcement Block Grant	16.592	2004-LB-BX-0347	<u>12,407</u>
			93,105
Pass through programs from the MS Division of Public Safety			
Planning:			
Enforcing Underage Drinking Laws	16.579	3-UA-2341	6,374
Victim Witness	16.579	3NW2348	7,401
Selected Traffic Enforcement Program	16.579	05N2341	<u>28,764</u>
			42,539
Juvenile Accountability Incentive Block Grant	16.523	1JB2341	<u>9,343</u>
			<u>51,882</u>
<b>Total U.S. Department of Justice</b>			<u>144,987</u>
<b>U.S. Department of Treasury</b>			
Bureau of Alcohol, Tobacco & Firearms			
Gang Resistant Education and Training	21.053	2004-JV-FX-0084	<u>15,039</u>
<b>Total U.S. Department of Treasury</b>			<u>15,039</u>
<b>U.S. Department of Homeland Security</b>			
Pass through program from Mississippi Emergency Management Agency:			
Hazard Mitigation Grant Program	97.039	1436-003	<u>1,120,726</u>
FY2003 State Homeland Security Supplemental Grant	97.067	3SSG-1065	47,381
FY 2003 State Homeland Security Additional Funding Grant	97.067	1DPG-190	26,457
FY2003 State Homeland Security Grant Program	97.067	3SUP-27	<u>7,483</u>
			<u>81,321</u>
Pass through program from Department of Public Safety:			
FY2005 State Domestic Preparedness Equipment	97.067	05HS374	<u>27,838</u>
FY2004 Law Enforcement Terrorism Prevention Grant	97.004	04LE374	35,310
FY2004 Homeland Security Grant Program	97.004	04HS374	<u>31,584</u>
			66,894
<b>Total U.S. Department of Homeland Security</b>			<u>1,296,779</u>
<b>U.S. Department of Health and Human Services</b>			
Administration for Children and Families			
CCDF Matching Children & Development Fund Grant for Good Shepherd Community Center	93.575	229Q651	<u>199,626</u>
<b>Total for U.S. Department of Health and Human Services</b>			<u>199,626</u>
<b>Department of Transportation</b>			
Pass through programs from MS Department of Transportation			
Highway Planning & Construction	20.205	STP-9654(2)	14,497
Highway Planning & Construction	20.205	STP-9658-00-(02)	13,401
Highway Planning & Construction	20.205	STP-0440-0(004)	18,427
Highway Planning & Construction	20.205	STP-9658-00-(03)	<u>229,489</u>
<b>Total Department of Transportation</b>			<u>275,814</u>
<b>Department of Defense</b>			
Corp Impact - Section 529 Water Wells Project	12.unknown		<u>1,317,085</u>
<b>Total Department of Defense</b>			<u>1,317,085</u>
<b>U.S. Department of Agriculture</b>			
National Resource Conservation			
	10.902		<u>249,284</u>
<b>National Park Service</b>			
Pass through programs from MS Department of Wildlife, Fisheries and Parks			
FY03 Land and Water Conservation	15.916	28-00592	<u>126,000</u>
<b>Total expenditures of federal awards</b>			<u>\$ 4,353,585</u>

See accompanying notes to schedule of expenditures of federal awards.

**CITY OF VICKSBURG, MISSISSIPPI**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2005**

**NOTE A - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Vicksburg and is presented on the modified accrual basis of accounting 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, 2005**

**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, 2005, which collectively comprise the City of Vicksburg, Mississippi's basic financial statements and have issued our report thereon dated May 15, 2007. 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 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 05-01 through 05-04.

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 05-01, 05-02, and 05-04 to be a material weakness.

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 05-05 and 05-06.

We also noted certain other matters that we reported to management of City of Vicksburg, Mississippi in a separate letter dated May 15, 2007.

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*

May 15, 2007  
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, 2005. 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, 2005.

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.

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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's Company*

May 15, 2007  
Vicksburg, Mississippi

**CITY OF VICKSBURG, MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2005**

**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. Four 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*. Three 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 14.219, U. S Department of Homeland Security CFDA 97.039, and Department of Defense CFDA 12.unknown.
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**

**REPORTABLE CONDITIONS:**

**05-1 Enterprise Fund Reconciliations**

*Condition:* The City failed to reconcile the enterprise fund's petty cash, accounts receivable, and deposits in a timely manner.

*Criteria:* Internal controls should be in place that would provide reasonable assurance that the enterprise funds' balances are reconciled to the general ledger monthly.

*Effect:* Because the enterprise fund accounts receivable ledger is not reconciled to the general ledger, the City is unable to have a true understanding of the revenue and related assets of this fund.

*Recommendation:* Monthly reconciliation of the enterprise fund's accounts receivable ledger to the general ledger should be performed to determine the true amount of revenue.

**CITY OF VICKSBURG, MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**REPORTABLE CONDITIONS: – CONTINUED**

**05-2 Cash receipts system**

*Condition:* The City's cash receipts system was not in agreement with bank deposits per the bank statement. In addition, some deposits made by City departments were not entered in the cash receipts system.

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

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

*Recommendation:* We recommend that cash receipts be deposited daily. 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 periodically 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.

**05-3 Segregation of duties in Payroll Functions**

*Condition:* Our review of the City's payroll system disclosed that the person responsible for preparing the payroll also performs other payroll and personnel duties.

*Criteria:* Internal controls should be in place that would segregate payroll duties and strengthen internal controls.

*Effect:* This lack of segregation of duties in the payroll function increases the risk that an error or irregularity could occur and go undetected.

*Recommendation:* We recommend that an employee in the Personnel department independent of the payroll processing function maintain the payroll master file, including making changes to it for pay rate changes. An edit report should be printed on a weekly basis detailing any changes made to the payroll master file. This report should be forwarded directly to the head of the Personnel department from the EDP department. The personnel department can then compare the report against the payroll status change form to determine whether changes were authorized and properly made.

**05-4 Reconciliations of Cash Accounts**

*Condition:* Bank statements in some instances were accumulated for several months before they were reconciled to the appropriate general ledger controls.

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

*Effect:* Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis.

**CITY OF VICKSBURG, MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
YEAR ENDED SEPTEMBER 30, 2005**

**REPORTABLE CONDITIONS: – CONTINUED**

**05-4 Reconciliations of Cash Accounts – Continued**

*Recommendation:* We recommend that all 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 but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. As mentioned in 05-2, 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.

**COMPLIANCE AND OTHER MATTERS**

**05-5 Convention Center Transactions**

*Condition:* At present, the City does not require the Convention Center to report detailed financial information on a regular basis to aid in the interim and year end financial statement process. In addition, 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 City 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.

**05-6 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.

*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. FEDERAL AWARD 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, 2005, and have issued our report thereon dated May 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

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

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

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

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

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

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

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended for the information of the City of Vicksburg, Mississippi's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

May 15, 2007  
Vicksburg, Mississippi

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