

CITY OF VICKSBURG, MISSISSIPPI

Financial Report

Year Ended September 30, 2004

with

Independent Auditor's Reports

**CITY OF VICKSBURG, MISSISSIPPI
FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2004**

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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, 2004

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, 2004. 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 \$118,997,212 (reported as "net assets"). This compares to the previous year when assets exceeded liabilities by \$110,775,369. Of this amount, \$30,598,996 was reported as "unrestricted net assets", which may be used to meet the City's ongoing obligations to citizens and creditors. Governmental activities' net assets increased during the fiscal year by \$391,090 while business-type activities' net assets decreased by \$1,367,175, resulting in a total net assets decrease of \$976,085.

Fund Level - As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$20,049,655, with \$19,800,525 reported as unreserved fund balance. The remaining balance of \$249,130 was reserved for specific purposes. This compares to the prior year ending fund balance of \$25,708,963. The proprietary funds reported total net assets of \$24,653,479. This compares to the prior year ending fund balance of \$25,747,887.

Long-term Debt - During fiscal year 2004, the City retired \$7,437,262 of City debt and issued \$900,000 for a tax increment financing for a new development. The City also refunded the 1994 Water revenue bonds for \$1,890,000 with a refunding bond for \$1,620,000; making a net reduction in City debt of \$4,917,262. The City's total debt decreased to \$31,775,382.

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, 2004

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), 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, 2004

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, 2004

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, 2004

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, 2004

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, 2004, the City's combined assets (governmental and business-type activities) totaled \$158.2 million dollars compared to \$157.7 million for fiscal year ending September 30, 2003. Cash and cash equivalents dropped by \$12 million. The use of cash reduced the total liabilities from \$45.1 million to \$39.2 million dollars and capital assets were increased from \$118.0 million to \$121.5 million dollars. This comparison is very helpful in reflecting the City's ability to provide uninterrupted services to the public in the future.

The largest portion of the City's net assets, 74.3% or \$88.4 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. The City uses these capital assets 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.

The total net assets of the City equaled \$119.0 million dollars after deducting total liabilities of \$39.2 million dollars from total assets.

Restricted net assets are resources that are subject to externally imposed restrictions. The total amount of restricted net assets was \$44,388.

The remaining balance of unrestricted net assets, \$30.6 million dollars, or 25.7% 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
Table 1
Net Assets
September 30, 2004 and 2003
(In Millions of Dollars)

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Current and Other Assets	30.2	29.6	6.5	10.1	36.7	39.7
Capital Assets	<u>88.5</u>	<u>87.8</u>	<u>33.0</u>	<u>30.3</u>	<u>121.5</u>	<u>118.0</u>
Total Assets	118.7	117.4	39.5	40.4	158.2	157.7
 Liabilities						
Current and Other Liabilities	6.7	7.8	3.7	2.6	10.4	10.4
Long Term Liabilities	<u>17.7</u>	<u>22.6</u>	<u>11.1</u>	<u>12.1</u>	<u>28.8</u>	<u>34.7</u>
Total Liabilities	24.4	30.4	14.8	14.7	39.2	45.1
 Net Assets						
Invested in Capital Assets, Net of Related Debt	67.3	62.1	21.1	17.5	88.4	79.5
Restricted-Debt Service	.0	2.4	.0	.2	.0	2.6
Unrestricted	<u>27.0</u>	<u>22.5</u>	<u>3.6</u>	<u>8.0</u>	<u>30.6</u>	<u>30.5</u>
Total Net Assets	94.3	87.0	24.7	25.7	119.0	112.6

*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, 2004

Statement of Activities Analysis (Table 2):

The total expenses for the City were \$47.55 million and expenses exceeded the total revenues of \$46.57 million by \$.98 million. The business-type activities of the City accounted for \$1.37 million of this deficiency amount. The governmental activities revenues exceeded expenses by \$683,306 before transfers. The City transferred \$292,216 from the general fund to the sanitation fund for the year. Utility rates will be raised in three steps, the first of which went into effect in January 2003.

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

	<u>2004</u>	<u>2003</u>
• General government.....	\$5.89 million, 19%	\$5.61 million, 18%
• Public safety.....	\$14.23 million, 44%	\$13.98 million, 45%
• Public works.....	\$5.99 million, 19%	\$5.78 million, 19%
• Culture and recreation.....	\$3.09 million, 10%	\$3.07 million, 10%
• Health, welfare and sanitation...	\$1.38 million, 4%	\$1.10 million, 4%

Interest and fiscal charges totaled \$1.0 million, representing 4% of the total cost for 2004 and \$1.13 million, representing 4% of the total cost for 2003.

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 \$16.9 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 balance 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>2004</u>	<u>2003</u>
• Property taxes,.....	\$8.73 million, 31%	\$8.33 million, 33%
• Franchise taxes,.....	\$9.75 million, 36%	\$8.79 million, 35%
• Public service taxes total,.	\$6.69 million, 25%	\$6.47 million, 26%

The final 8% of revenues comes from the sale of assets, interest earnings and other miscellaneous sources, which totaled \$2.43 million for 2004 and for 2003 the same items respected 6% of revenues at \$1.86 million. See Table 3 titled "Government Wide Revenues" on page 10 of the MDA.

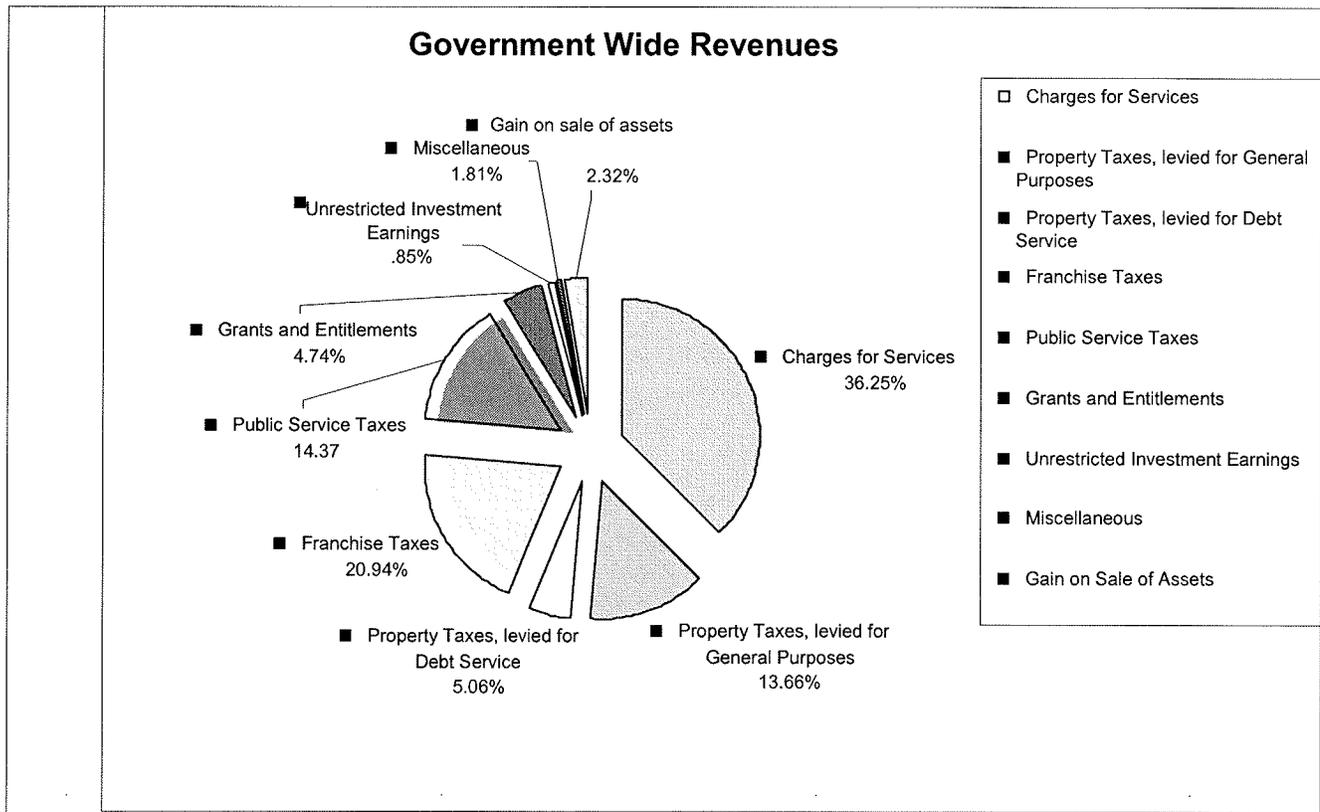
City of Vicksburg
Table 2
Changes in Net Assets
For the Years Ended September 30, 2004 and 2003
(In Millions of Dollars)

	Governmental Activities		Business Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues						
Charges for Services						
Governmental Activities	2.80	3.04			2.80	3.04
Water Utility			3.63	3.23	3.63	3.23
Gas Utility			5.77	5.65	5.77	5.65
Sewer Utility			3.03	3.24	3.03	3.24
Refuse, Sanitation Fund			1.28	1.26	1.28	1.26
Operating Grants and Contributions	1.81	1.45			1.81	1.45
Capital Grants and Contributions	.28	.45	.37	.10	.65	.55
Total Program Revenues	4.89	4.94	14.08	13.48	18.97	18.42
General Revenues:						
Property Taxes, levied for General Purposes	6.36	6.08			6.36	6.08
Property Taxes, levied for Debt Service	2.37	2.25			2.37	2.25
Franchise Taxes	9.75	8.79			9.75	8.79
Public Service Taxes	6.69	6.47			6.69	6.47
Grants and Entitlements not Restricted	.11	.03			.11	.03
Unrestricted Investment Earnings	.30	.34	.10	.04	.40	.38
Miscellaneous	.84	.18			.84	.18
Gain on Sale of Assets	1.08	1.27			1.08	1.27
Total General Revenues	27.50	25.41	.10	.04	27.60	25.45
Total Revenues	32.39	30.35	14.18	13.52	46.57	43.87
Functions/Programs Expenses						
General Government	5.89	5.61			5.89	5.61
Public Safety	14.23	13.98			14.23	13.98
Health, Welfare and Sanitation	1.38	1.10			1.38	1.10
Public Works	5.99	5.78			5.99	5.78
Education	.13	.10			.13	.10
Culture and Recreation	3.09	3.07			3.09	3.07
Interest and Fiscal Charges	1.00	1.13			1.00	1.13
Total Business Related Expenses			15.84	15.01	15.84	15.01
Total Expenses	31.71	30.77	15.84	15.01	47.55	45.78
Increase (Decrease) in Net Assets before Transfers	.68	(.42)	(1.66)	(1.49)	(.98)	(1.91)
Transfers	(.29)	(.31)	.29	.31		
Change in Net Assets	.39	(.73)	(1.37)	(1.18)	(.98)	(1.91)

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

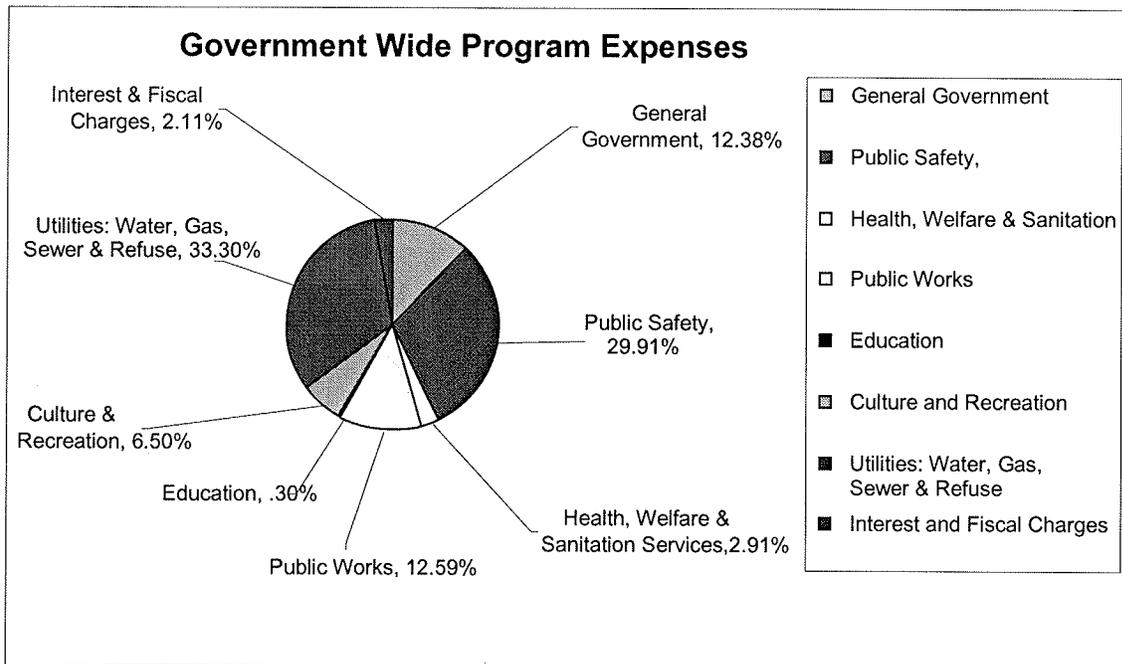
City of Vicksburg
Table 3
Government Wide Revenues
For the Years Ending September 30, 2004 and 2003

<u>Types of Government Wide Revenues</u>	<u>Revenues</u>		<u>Percent</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Charges for Services	16,887,223	16,424,319	36.25%	37.43%
Property Taxes, levied for General Purposes	6,362,474	6,083,167	13.66%	13.86%
Property Taxes, levied for Debt Service	2,359,360	2,245,815	5.06%	5.12%
Franchise Taxes	9,753,022	8,790,680	20.94%	20.04%
Public Service Taxes	6,694,621	6,473,702	14.37%	14.75%
Grants and Entitlements	2,207,957	2,027,474	4.74%	4.62%
Unrestricted Investment Earnings	396,573	377,501	0.85%	.86%
Miscellaneous	841,160	179,245	1.81%	.41%
Gain on Sale of Assets	1,080,298	1,273,962	2.32%	2.90%
Total Government Wide Revenues	<u>46,582,688</u>	<u>43,875,865</u>		



City of Vicksburg
Table 4
Government Wide Program Expenses
For the Year Ending September 30, 2004 and 2003

<u>Functions/Programs Expenses</u>	<u>Expenses</u>		<u>Percent</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General Government	5,888,783	5,613,921	12.38%	12.26%
Public Safety	14,226,333	13,977,220	29.91%	30.53%
Health, Welfare and Sanitation	1,383,582	1,099,929	2.91%	2.40%
Public Works	5,989,920	5,780,291	12.59%	12.63%
Education	134,840	95,013	0.30%	0.21%
Culture and Recreation	3,090,951	3,067,051	6.50%	6.70%
Utilities: Water, Gas, Sewer and Refuse	15,839,241	15,013,420	33.30%	32.80%
Interest and Fiscal Charges	1,005,123	1,132,343	2.11%	2.47%
Total Expenses	47,558,773	45,779,188		



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

For the Year Ended September 30, 2004

THE CITY'S FUNDS ANALYSIS

General Fund Budgeting Highlights (See page 63)

The difference between the original budget and the final amended budget was \$174,137. The final revenue budget for the fiscal year ending September 30, 2004 was \$24.89 million and the actual collections totaled \$25.78 million, which is \$894 thousand above the estimate. The major variance was in the sales and miscellaneous taxes, which amounted to \$447 thousand more collected than anticipated. The balance of the positive variance in revenues was in the charges for services category, which exceeded the estimate by \$374 thousand dollars. Minor negative variances are reported in property taxes, which equaled less than eight tenths of one percent (.008%) below estimated amounts. Intergovernmental revenue had the largest variance, in the amount of \$180 thousand dollars, and is due to projects being funded by grants and the projects have not progressed as fast as anticipated. The last negative variance of \$31 thousand in revenue is investment earnings for which the estimate was too high.

The final amended General Fund expense budget totaled \$29.6 million dollars. The total amount expended was \$26.0 million dollars, leaving an unexpended balance of \$3.6 million dollars for uncompleted projects.

There were no negative expenditure variances for fiscal year 2004 in any expense category.

The budget planned for a \$2,682,007 shortfall to be funded from available fund balance. During the year, however, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates, thus eliminating the need to draw upon fund balance.

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, 2004

Capital Assets-Continued

Fiscal year 2004 is the second 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 2004 statements contain restatements of the beginning balances to account for these corrections of \$1.5 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, 2004, governmental activities capital assets totaled **\$150,158,536** with accumulated depreciation of **\$61,677,757** leaving a net capital assets balance of **\$88,480,779**. Business-type activities capital assets for year ended September 30, 2004 totaled **\$58,863,361** with total accumulated depreciation of **\$25,831,984** leaving a net business-type capital assets balance of **\$33,031,377**.

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, 2004 and 2003**

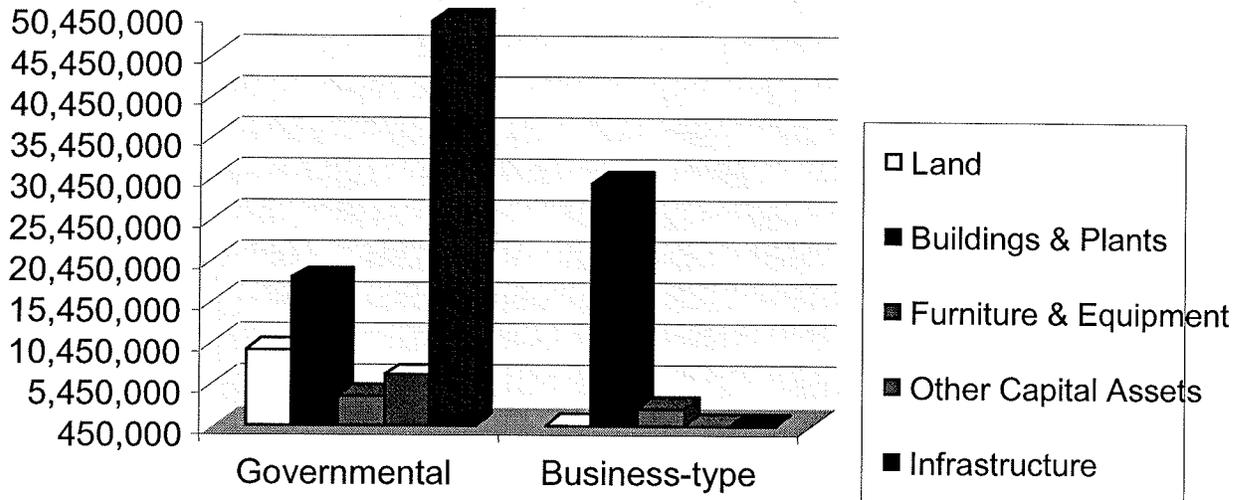
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	9,709,966	9,638,966	531,813	473,130	10,241,779	10,112,096
Buildings	18,371,248	17,883,388	28,843,480	27,831,732	47,214,728	45,715,120
Furniture and Equipment	3,954,670	4,950,635	2,085,377	1,686,490	6,040,047	6,637,125
Other Capital Assets (Includes Construction in Progress)	6,573,603	2,345,269	1,570,707	738,490	8,144,310	3,083,759
Infrastructure	49,871,292	52,472,299	0	0	49,871,292	52,472,299
Total Capital Assets	<u>88,480,779</u>	<u>87,290,557</u>	<u>33,031,377</u>	<u>30,729,842</u>	<u>121,512,156</u>	<u>118,020,399</u>

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

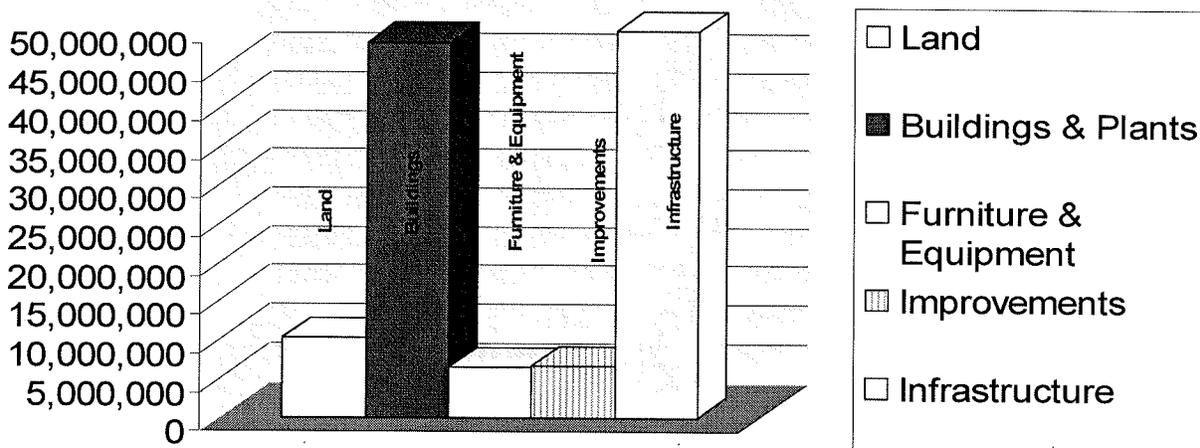
For the Year Ended September 30, 2004

Capital Assets-Continued

**Capital Assets
By Type of Activity**



City of Vicksburg Capital Assets



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

For the Year Ended September 30, 2004

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 \$40,367,000. At fiscal year ended, September 30, 2004, bonds issued by the City, subject to the fifteen percent (15%) debt limit, was \$18,117,079.

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, 2004, the twenty percent (20%) limit for the City of Vicksburg was \$53,822,000. The City's total outstanding bonds, subject to this overall debt limit, totaled \$24,592,379. The City of Vicksburg has the ability to issue an additional amount of \$29,229,621. This figure represents fifty four percent (54%) 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, 2004

General Long Term Obligations-Continued

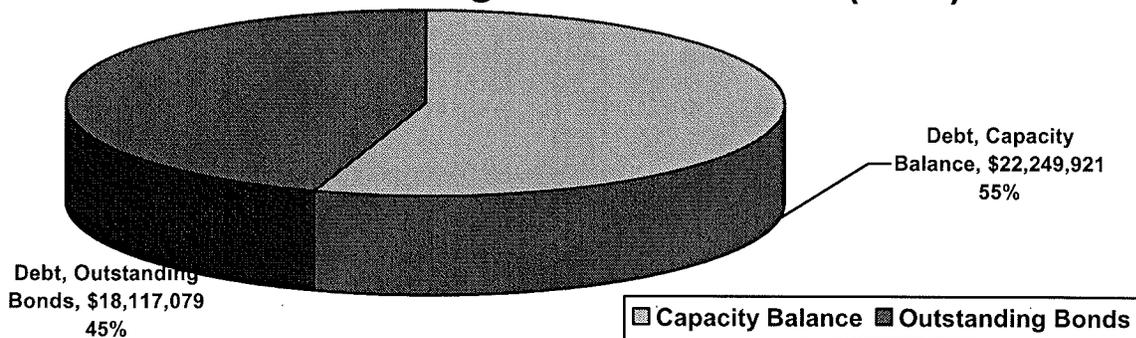
**Statutory Debt Limits
September 30, 2004**

	Twenty Percent (20%) <u>Debt Limit</u>	<u>Percent</u>	Fifteen Percent (15%) <u>Debt Limit</u>	<u>Percent</u>
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	29,229,621	54.31%	22,249,921	55.12%

**Statutory Debt Limits
September 30, 2003**

	Twenty Percent (20%) <u>Debt Limit</u>	<u>Percent</u>	Fifteen Percent (15%) <u>Debt Limit</u>	<u>Percent</u>
Total Statutory Debt Capacity	53,118,000		39,839,000	
Current Outstanding Debt, subject to limit	<u>27,150,000</u>	<u>51.11%</u>	<u>25,280,000</u>	<u>63.45%</u>
Balance of Bonding Capacity	25,968,000	48.89%	14,559,000	36.55%

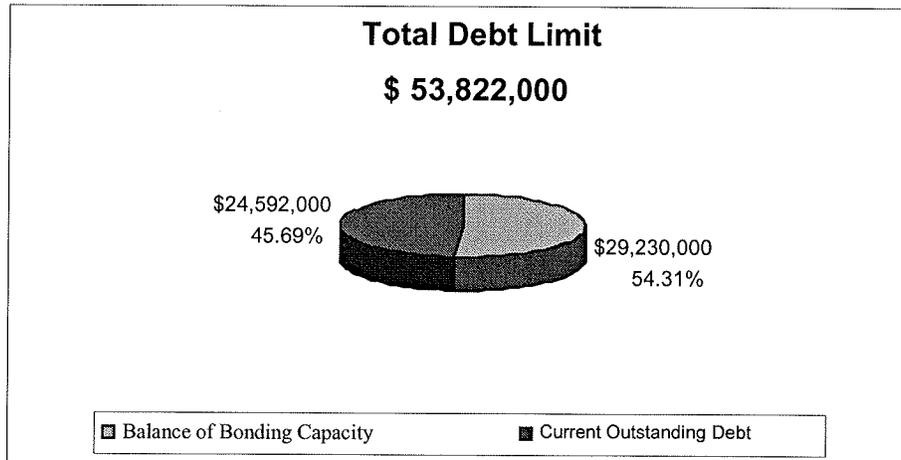
General Obligation Debt Limit (15%)



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

For the Year Ended September 30, 2004

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, outstanding \$960,000.
- The 1996 issue in the amount of \$10 million was used to construct the convention center, outstanding \$2,430,000.
- The 2001 issue for \$17.5 million is being used for downtown redevelopment, recreation facilities, street improvements, sidewalk and landscaping improvements, outstanding \$14.34 million.
- The 2003 issue for \$5.8 million will be used for water, gas and sewer improvements, outstanding \$5,515,000.
- The 1996 issue for \$1.5 million through the Mississippi Business Investment Act (MBIA) was used for the expansion of a local industry and secured by a non-revocable letter of credit. This bond was paid in full by the industry.
- The 2003 refunding issue for \$1.6 million was used to advance refund the 1994 Water Revenue Bond.

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

For the Year Ended September 30, 2004

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 issued \$900,000 in Tax Increment Financing (TIF) bonds for a new development in FY2004. This issue added to the balance of the previous issues, brings the total balance outstanding for TIF bonds to \$2,405,000.

State Loans

The City made three state loans in 1995, 1996 and 2003 for sewer improvements with a total outstanding balance of \$4.26 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, 2004 is \$520 thousand.

Future Long Term Obligation

The City refunded the 1994 Water Revenue bonds. The City applied the \$270,000 held in reserve for the revenue bonds to the \$1,890,000 outstanding balance and issued only \$1,620,000 in general obligation bonds with the same maturity. The new bonds replace Water Revenue bonds with interest rates that ranged from 5.0% to 7.125% with bonds with an interest rate that range from 1.25% to 2.80%. This refunding reduced the debt service payments over the next six years by \$504,000.

The City is in the process of adopting a Tax Increment Financing plan to develop an area adjacent to the Halls Ferry Road for a Home Depot store and a strip mall. The City will pledge to issue up to \$900 thousand to make necessary infrastructure improvements. All of the necessary prerequisites are in the processing of being finalized to authorize the City board to issue these bonds.

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

For the Year Ended September 30, 2004

General Long Term Obligations-Continued

The City is in the process of applying to the State of Mississippi 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 is anticipated in November 2007.

**City of Vicksburg
Long Term Obligations
September 30, 2004 and 2003**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General Obligations Bonds	17,732,379	21,466,962	6,860,000	5,800,000	24,592,379	27,266,962
Revenue Bonds	-	-	-	1,890,000	-	1,890,000
State Loans	-	-	4,778,003	5,125,682	4,778,003	5,125,682
Tax Increment Financing (TIF) Bonds	2,405,000	1,610,000	-	-	2,405,000	1,610,000
Other	-	800,000	-	-	-	800,000
Total Long Term Obligations	<u>20,137,379</u>	<u>23,876,962</u>	<u>11,638,003</u>	<u>12,815,682</u>	<u>31,775,382</u>	<u>36,692,644</u>

Revenue Section Highlights

Governmental Funds revenues for the governmental funds totaled \$30.5 million for the fiscal year 2004 as compared to \$28.8 million for 2003. The General Fund revenues totaled \$25.8 million dollars and the Bond and Interest Fund income for the year was \$2.9 million. The other funds of the Governmental Funds revenues totaled a combined \$1.8 million.

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

Three Major Revenue Groups	Millions	Percent
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%

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

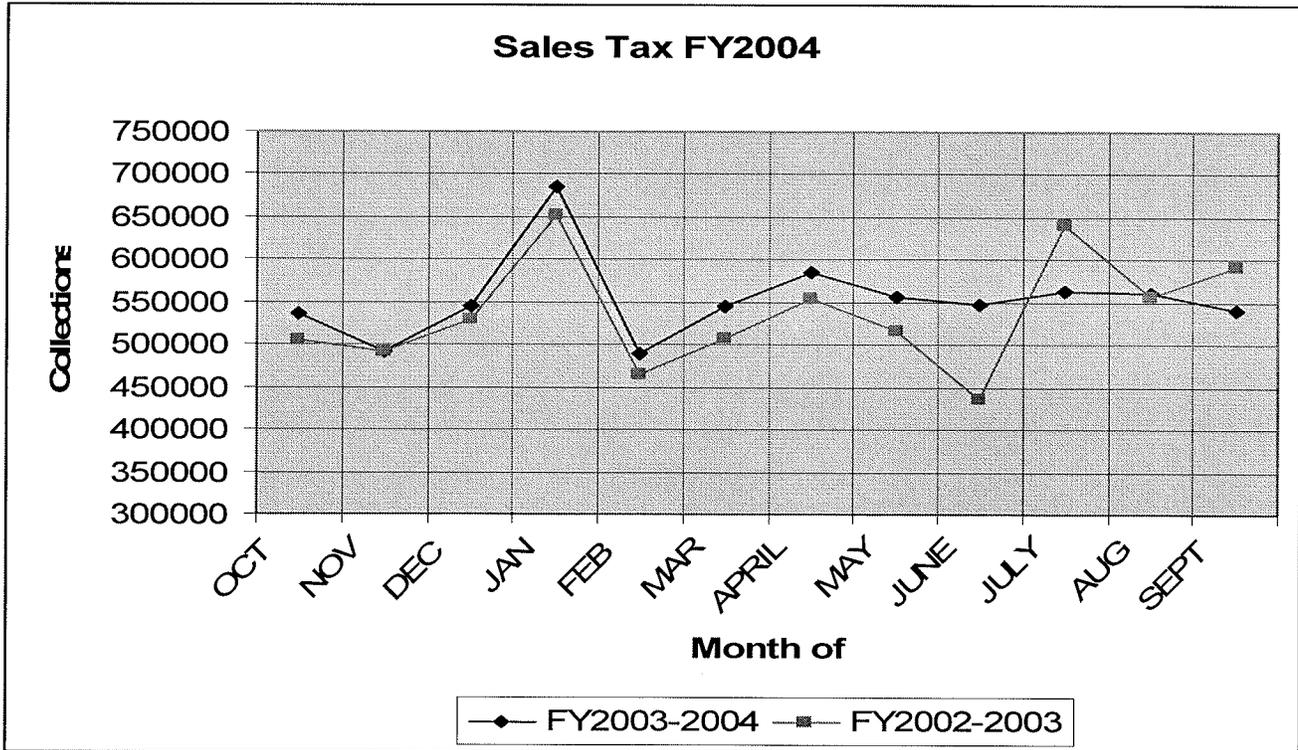
For the Year Ended September 30, 2004

Revenue Section Highlights-Continued

The largest components of the General Fund revenue are as follows for 2003:

Three Major Revenue Groups	Millions	Percent
Gaming taxes and use of City property by a casino	\$7.7	30%
Sales taxes 18.5% of the state 7% sales taxes on sales in City	\$6.4	25%
Property taxes: real estate, business, public utilities, auto	\$6.1	24%

The following chart shows the percentage change by month for the preceding twelve months sales tax collections for the year ending September 30, 2004:

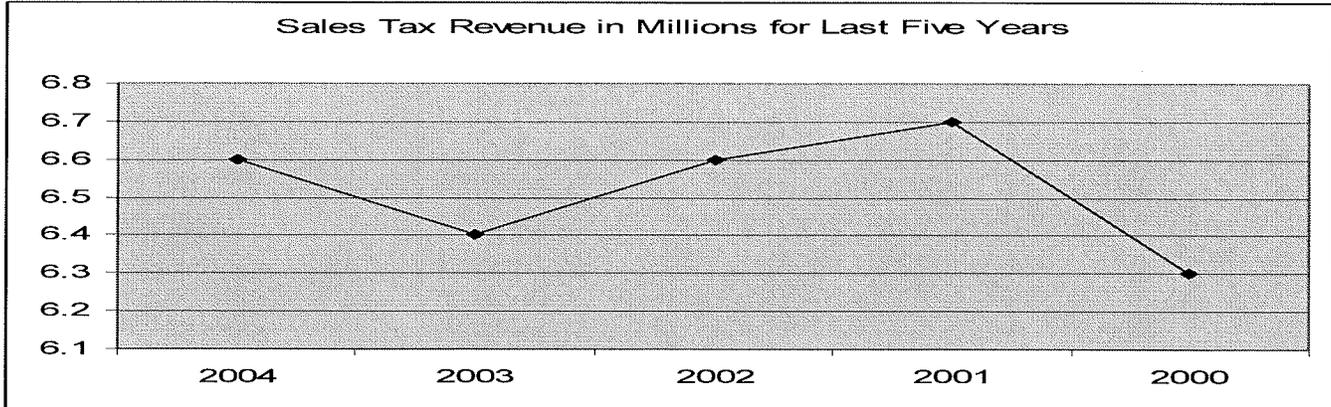


**City of Vicksburg, Mississippi
Management's Discussion and Analysis (MDA)**

For the Year Ended September 30, 2004

Revenue Section Highlights-Continued

Sales tax revenue for the past five years:



Current Related Financial Activities

Utility System Revenues

The City plans to implement annual rate increases in three installments. The first installment was in January 2003, the City implemented utility rate increases of fifteen percent (15%) for water and twelve percent (12%) for natural gas. The next rate increase is planned for Fiscal Year 2005.

The City is almost complete with its contract 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. In addition, the City is taking 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.

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 area of the City are complete. Private developers have purchased downtown properties and are renovating 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, 2004

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 have federal funding to build 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 for 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. You may also visit the City's website at www.vicksburg.org.

II. BASIC FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Vicksburg, Mississippi, as of and for the year ended September 30, 2004, 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.

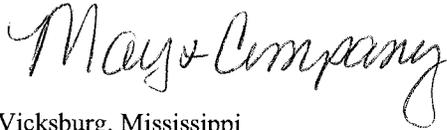
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2004, 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 March 15, 2005 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.

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 "Mays & Company". The signature is written in dark ink and is positioned above the typed name and date.

Vicksburg, Mississippi
March 15, 2005

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Vicksburg
Statement of Net Assets
September 30, 2004

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Cash and cash equivalents	\$ 16,912,884	\$ 5,823,623	\$ 22,736,507
Investments	1,631,420	-	1,631,420
Receivables	8,565,924	1,125,347	9,691,271
Internal balances	759,999	(759,999)	-
Due from other governmental agencies	2,186,257	181,474	2,367,731
Inventories	33,246	-	33,246
Other assets	130,409	58,510	188,919
Capital assets:			
Land, improvements and construction in progress, not being depreciated	9,709,966	531,813	10,241,779
Infrastructure and infrastructure in progress, net of depreciation	49,871,292	-	49,871,292
Buildings, net of depreciation	18,371,248	28,843,480	47,214,728
Equipment and furniture, net of depreciation	3,954,670	2,085,377	6,040,047
Other capital assets, net of depreciation	6,573,603	1,570,707	8,144,310
Total capital assets	<u>88,480,779</u>	<u>33,031,377</u>	<u>121,512,156</u>
Total assets	<u>\$ 118,700,918</u>	<u>\$ 39,460,332</u>	<u>\$ 158,161,250</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 1,720,512	\$ 2,649,965	\$ 4,370,477
Due to other governmental agencies	211,947	-	211,947
Other liabilities:			
Due within one year:			
Bonds, capital leases and contracts	4,456,081	1,006,106	5,462,187
Accrued interest	109,257	17,062	126,319
Claims and judgments	219,108	31,930	251,038
Due in more than one year:			
Bonds, capital leases and contracts	16,738,214	10,957,927	27,696,141
Compensated absences	902,066	143,863	1,045,929
Total liabilities	<u>24,357,185</u>	<u>14,806,853</u>	<u>39,164,038</u>
NET ASSETS			
Invested in capital assets, net of related debt	67,286,484	21,067,344	88,353,828
Restricted for:			
Debt service	44,388	-	44,388
Unrestricted	27,012,861	3,586,135	30,598,996
Total net assets	<u>\$ 94,343,733</u>	<u>\$ 24,653,479</u>	<u>\$ 118,997,212</u>

The accompanying notes are an integral part of this statement.

City of Vicksburg
Statement of Activities
For the Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
Primary Government					Governmental Activities	Business-type Activities	Total
Governmental Activities							
General Government	\$ 5,888,783	\$ -	\$ -	\$ 250,716	\$ (5,638,067)	\$ -	\$ (5,638,067)
Public Safety	14,226,333	2,102,753	365,463	31,305	(11,726,812)	-	(11,726,812)
Public Works	5,989,920	21,990	576,382	2,817	(5,388,731)	-	(5,388,731)
Health, Welfare and Sanitation	1,383,582	145,341	669,654	-	(568,587)	-	(568,587)
Culture and Recreation	3,090,951	532,636	202,986	-	(2,355,329)	-	(2,355,329)
Education	134,840	-	-	-	(134,840)	-	(134,840)
Interest on Long-term debt	1,005,123	-	-	-	(1,005,123)	-	(1,005,123)
Total Governmental Activities	<u>31,719,532</u>	<u>2,802,720</u>	<u>1,814,485</u>	<u>284,838</u>	<u>(26,817,489)</u>	<u>-</u>	<u>(26,817,489)</u>
Business-type Activities							
Water	4,052,993	3,626,890	-	372,279	-	(53,824)	(53,824)
Gas	7,132,132	5,771,390	-	-	-	(1,360,742)	(1,360,742)
Sewer	3,152,864	3,031,160	-	-	-	(121,704)	(121,704)
Refuse	1,501,252	1,282,784	-	-	-	(218,468)	(218,468)
Total Business-type Activities	<u>15,839,241</u>	<u>13,712,224</u>	<u>-</u>	<u>372,279</u>	<u>-</u>	<u>(1,754,738)</u>	<u>(1,754,738)</u>
Total Primary Government	<u>\$ 47,558,773</u>	<u>\$ 16,514,944</u>	<u>\$ 1,814,485</u>	<u>\$ 657,117</u>	<u>(26,817,489)</u>	<u>(1,754,738)</u>	<u>(28,572,227)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					6,362,474	-	6,362,474
Property taxes, levied for debt service					2,359,360	-	2,359,360
Franchise taxes					9,753,022	-	9,753,022
Public service taxes					6,694,621	-	6,694,621
Grants and contributions not restricted to specific programs					108,634	-	108,634
Unrestricted investment earnings					301,226	95,347	396,573
Miscellaneous					841,160	-	841,160
Gain on sale of assets					1,080,298	-	1,080,298
Transfers					(292,216)	292,216	-
Total General Revenues, Special Items, and Transfers					<u>27,208,579</u>	<u>387,563</u>	<u>27,596,142</u>
Change in Net Assets					391,090	(1,367,175)	(976,085)
Net assets:							
Net assets - beginning of year					85,027,484	25,747,887	110,775,371
Prior period adjustment					8,925,159	272,767	9,197,926
Net assets - ending					<u>\$ 94,343,733</u>	<u>\$ 24,653,479</u>	<u>\$ 118,997,212</u>

FUND FINANCIAL STATEMENTS

GOVERNMENT FUNDS

**City of Vicksburg
Balance Sheet
Governmental Funds
September 30, 2004**

	<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>
ASSETS					
Cash and cash equivalents	\$ 10,362,357	\$ 68,892	\$ 5,173,672	\$ 1,262,580	\$ 16,867,501
Investments	-	-	-	1,631,420	1,631,420
Taxes receivable, net	5,521,939	1,924,209	-	44,363	7,490,511
Due from other funds	1,186,590	1,013	200,000	133,295	1,520,898
Receivable from other governments	1,709,723	-	-	476,533	2,186,256
Other receivables	979,076	-	-	96,337	1,075,413
Inventories	23,474	-	-	-	23,474
Prepaid expenses	129,471	-	-	938	130,409
Total assets	<u>\$ 19,912,630</u>	<u>\$ 1,994,114</u>	<u>\$ 5,373,672</u>	<u>\$ 3,645,466</u>	<u>\$ 30,925,882</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 813,570	\$ 700	\$ 498,427	\$ 195,139	\$ 1,507,836
Due to other funds	-	-	-	753,709	753,709
Payable to other governments	211,947	-	-	-	211,947
Deferred revenue	5,807,313	1,907,990	-	501,017	8,216,320
Other payables	141,029	41,036	-	4,350	186,415
Total liabilities	<u>6,973,859</u>	<u>1,949,726</u>	<u>498,427</u>	<u>1,454,215</u>	<u>10,876,227</u>
Fund balances:					
Reserved for:					
Inventories	23,474	-	-	-	23,474
Encumbrances	51,797	-	-	-	51,797
Prepaid expenses	129,471	-	-	-	129,471
Debt service	-	44,388	-	-	44,388
Unreserved	12,734,029	-	4,875,245	-	17,609,274
Unreserved, reported in non-major:					
Special revenue funds	-	-	-	395,672	395,672
Capital projects funds	-	-	-	146,017	146,017
Debt service funds	-	-	-	(709)	(709)
Permanent funds	-	-	-	1,650,271	1,650,271
Total fund balances	<u>12,938,771</u>	<u>44,388</u>	<u>4,875,245</u>	<u>2,191,251</u>	<u>20,049,655</u>
Total liabilities and fund balances	<u>\$ 19,912,630</u>	<u>\$ 1,994,114</u>	<u>\$ 5,373,672</u>	<u>\$ 3,645,466</u>	<u>\$ 30,925,882</u>

The accompanying notes are an integral part of this statement.

City of Vicksburg
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2004

Total fund balance, governmental funds \$ 20,049,655

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 88,458,618

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. 8,216,321

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. 28,674

Some liabilities (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable) are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. (22,409,535)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 94,343,733

City of Vicksburg
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2004

	<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>
REVENUES					
Property taxes	\$ 6,146,055	\$ 2,080,173	\$ -	\$ 164,705	\$ 8,390,933
Sales and miscellaneous taxes	15,044,395	812,679	-	-	15,857,074
Fees and fines	648,053	-	-	-	648,053
Licenses and permits	1,141,071	-	-	-	1,141,071
Intergovernmental	593,282	-	-	629,968	1,223,250
Charges for services	2,005,792	-	-	97,462	2,103,254
Investment earnings	132,111	15,346	72,247	81,522	301,226
Miscellaneous	69,538	-	-	746,860	816,398
Rental income	-	-	-	1,141	1,141
Program income	-	-	-	8,423	8,423
Total revenues	<u>25,780,297</u>	<u>2,908,198</u>	<u>72,247</u>	<u>1,730,081</u>	<u>30,490,823</u>
EXPENDITURES					
Current:					
General government	4,897,030	-	-	70,870	4,967,900
Public safety	13,218,536	-	-	180,705	13,399,241
Public works	1,478,776	-	-	19,899	1,498,675
Health, welfare and sanitation	2,292,720	-	-	783,919	3,076,639
Culture and recreation	2,291,804	-	-	7,293	2,299,097
Community development	132,305	-	-	15,244	147,549
Debt service:					
Principal	337,853	4,520,000	-	105,000	4,962,853
Interest and other charges	39,159	830,468	-	93,831	963,458
Capital outlay	1,323,202	-	3,527,041	1,726,647	6,576,890
Total expenditures	<u>26,011,385</u>	<u>5,350,468</u>	<u>3,527,041</u>	<u>3,003,408</u>	<u>37,892,302</u>
Excess (deficiency) of revenues over expenditures	<u>(231,088)</u>	<u>(2,442,270)</u>	<u>(3,454,794)</u>	<u>(1,273,327)</u>	<u>(7,401,479)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt, net	-	-	-	900,000	900,000
Transfers in	-	-	-	123,462	123,462
Transfers out	(415,678)	-	-	-	(415,678)
Proceeds from sale of land	1,172,771	-	-	-	1,172,771
Total other financing sources and uses	<u>757,093</u>	<u>-</u>	<u>-</u>	<u>1,023,462</u>	<u>1,780,555</u>
Net change in fund balances	526,005	(2,442,270)	(3,454,794)	(249,865)	(5,620,924)
Fund balances - beginning	12,451,150	2,486,658	8,330,039	2,441,116	25,708,963
Prior Period Adjustment	(38,384)	-	-	-	(38,384)
Fund balances - beginning (Restated)	<u>12,412,766</u>	<u>2,486,658</u>	<u>8,330,039</u>	<u>2,441,116</u>	<u>25,670,579</u>
Fund balances - ending	<u>\$ 12,938,771</u>	<u>\$ 44,388</u>	<u>\$ 4,875,245</u>	<u>\$ 2,191,251</u>	<u>\$ 20,049,655</u>

The accompanying notes are an integral part of this statement.

City of Vicksburg
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
For the Year Ended September 30, 2004

Net change in fund balances - total governmental funds: \$ (5,620,924)

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 of exceeded depreciation of in the current period. 1,283,165

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. (92,474)

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	831,718
Amortization of bond premium	24,458

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. 4,062,853

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	(66,121)
Accrued compensated absences not reflected on Governmental funds	(3,203)
Accrued claims and judgments not reflected on Governmental funds	(28,382)
	(97,706)

Change in net assets of governmental activities \$ 391,090

PROPRIETARY FUNDS

City of Vicksburg
Statement of Net Assets
Proprietary Funds
September 30, 2004

	Business-Type Activities Enterprise Funds				Governmental Activities	
	Water Fund	Gas Fund	Sewer Fund	Other Enterprise Funds	Total	Internal Service Funds
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 2,107,011	\$ 1,997,651	\$ 1,670,861	\$ 48,100	\$ 5,823,623	\$ 45,383
Accounts receivable, net	334,501	314,484	329,951	146,411	1,125,347	-
Due from other funds	-	125,154	-	-	125,154	-
Receivables from other governments	181,474	-	-	-	181,474	-
Inventories	-	-	-	-	-	9,772
Prepaid expenses	13,002	32,506	13,002	-	58,510	-
Total current assets	<u>2,635,988</u>	<u>2,469,795</u>	<u>2,013,814</u>	<u>194,511</u>	<u>7,314,108</u>	<u>55,155</u>
Non-current assets:						
Capital assets:						
Land and improvements	102,980	133,300	295,533	-	531,813	-
Utility system	23,074,223	6,521,465	23,033,606	399,864	53,029,158	-
Construction in progress	811,048	-	359,795	-	1,170,843	-
Buildings	61,608	102,143	-	-	163,751	-
Equipment and furniture	1,699,870	1,011,329	1,256,597	-	3,967,796	165,156
Less accumulated depreciation	(10,525,148)	(5,266,652)	(10,040,184)	-	(25,831,984)	(142,995)
Total non-current assets	<u>15,224,581</u>	<u>2,501,585</u>	<u>14,905,347</u>	<u>399,864</u>	<u>33,031,377</u>	<u>22,161</u>
Total assets	<u>\$ 17,860,569</u>	<u>\$ 4,971,380</u>	<u>\$ 16,919,161</u>	<u>\$ 594,375</u>	<u>\$ 40,345,485</u>	<u>\$ 77,316</u>
LIABILITIES						
Current Liabilities:						
Accounts payable	\$ 868,487	\$ 524,265	\$ 77,094	\$ 119,647	\$ 1,589,493	\$ 26,261
Accrued interest payable	9,333	4,333	3,000	396	17,062	-
Due to other funds	881,028	-	2,888	1,237	885,153	7,190
Other accrued expenses	424,161	634,036	2,275	-	1,060,472	-
Capital lease obligation	-	-	-	78,056	78,056	-
Claims and judgments	8,621	13,730	9,579	-	31,930	2,235
Bonds, notes and loans payable	503,726	76,700	347,624	-	928,050	-
Total current liabilities	<u>2,695,356</u>	<u>1,253,064</u>	<u>442,460</u>	<u>199,336</u>	<u>4,590,216</u>	<u>35,686</u>
Non-current liabilities:						
Compensated absences	37,555	61,823	44,485	-	143,863	12,956
Capital lease obligation	-	-	-	247,974	247,974	-
Bonds, notes and loans payable	4,464,643	1,349,593	4,895,717	-	10,709,953	-
Total non-current liabilities	<u>4,502,198</u>	<u>1,411,416</u>	<u>4,940,202</u>	<u>247,974</u>	<u>11,101,790</u>	<u>12,956</u>
Total liabilities	<u>\$ 7,197,554</u>	<u>\$ 2,664,480</u>	<u>\$ 5,382,662</u>	<u>\$ 447,310</u>	<u>\$ 15,692,006</u>	<u>\$ 48,642</u>
NET ASSETS						
Invested in capital assets, net of related debt	10,256,212	1,075,292	9,662,006	73,834	21,067,344	-
Unrestricted	406,803	1,231,608	1,874,493	73,231	3,586,135	28,674
Total net assets	<u>\$ 10,663,015</u>	<u>\$ 2,306,900</u>	<u>\$ 11,536,499</u>	<u>\$ 147,065</u>	<u>\$ 24,653,479</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

\$ 24,653,479

City of Vicksburg
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2004

	Business-Type Activities				Total	Governmental
	Enterprise Funds					Internal Service
	<u>Water Fund</u>	<u>Gas Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>		<u>Funds</u>
REVENUES						
Charges for services	\$ 3,626,891	\$ 5,771,390	\$ 3,031,160	\$ 1,282,784	\$ 13,712,225	\$ 534,687
Total operating revenues	<u>3,626,891</u>	<u>5,771,390</u>	<u>3,031,160</u>	<u>1,282,784</u>	<u>13,712,225</u>	<u>534,687</u>
OPERATING EXPENSES						
Personnel services	815,360	1,280,516	892,196	-	2,988,072	232,318
Contractual services	1,093,359	721,307	764,020	1,490,160	4,068,846	3,767
Utilities	517,187	32,724	155,444	-	705,355	7,292
Repairs and maintenance	261,401	223,269	281,558	-	766,228	270,572
Other supplies and expenses	408,389	4,388,272	109,992	-	4,906,653	14,196
Insurance claims and expenses	51,563	128,907	51,563	-	232,033	-
Depreciation	645,185	297,952	661,189	-	1,604,326	6,542
Total operating expenses	<u>3,792,444</u>	<u>7,072,947</u>	<u>2,915,962</u>	<u>1,490,160</u>	<u>15,271,513</u>	<u>534,687</u>
Operating income (loss)	<u>(165,553)</u>	<u>(1,301,557)</u>	<u>115,198</u>	<u>(207,376)</u>	<u>(1,559,288)</u>	<u>-</u>
NON-OPERATING REVENUES (EXPENSES)						
Interest and investment revenue	36,072	41,711	17,564	-	95,347	-
Interest expense	(260,549)	(59,185)	(236,903)	(11,092)	(567,729)	-
Total non-operating revenue (expenses)	<u>(224,477)</u>	<u>(17,474)</u>	<u>(219,339)</u>	<u>(11,092)</u>	<u>(472,382)</u>	<u>-</u>
Income (loss) before contributions and transfers	<u>(390,030)</u>	<u>(1,319,031)</u>	<u>(104,141)</u>	<u>(218,468)</u>	<u>(2,031,670)</u>	<u>-</u>
Capital contributions	372,279	-	-	-	372,279	-
Transfers in	-	-	-	292,216	292,216	-
Change in net assets	<u>(17,751)</u>	<u>(1,319,031)</u>	<u>(104,141)</u>	<u>73,748</u>	<u>(1,367,175)</u>	<u>-</u>
Total net assets - beginning	10,594,864	3,568,482	11,549,131	35,410	25,747,887	35,685
Prior Period Adjustment	85,902	57,449	91,509	37,907	272,767	(7,011)
Fund balances - beginning (Restated)	<u>10,680,766</u>	<u>3,625,931</u>	<u>11,640,640</u>	<u>73,317</u>	<u>26,020,654</u>	<u>28,674</u>
Total net assets - ending	<u>\$ 10,663,015</u>	<u>\$ 2,306,900</u>	<u>\$ 11,536,499</u>	<u>\$ 147,065</u>	<u>\$ 24,653,479</u>	<u>\$ 28,674</u>
Change in net assets, per above					(1,367,175)	
Change in Business-Type Activities in Net Assets per Government-Wide Financial Statements					<u>\$ (1,367,175)</u>	

The accompanying notes are an integral part of this statement.

City of Vicksburg
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2004

	Business-Type Activities-Enterprise Funds					Governmental
	Water Fund	Gas Fund	Sewer Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows From Operating Activities						
Receipts from customers and users	\$ 3,510,238	\$ 5,632,372	\$ 3,247,159	\$ 1,258,991	\$ 13,648,760	\$ 534,688
Receipts from interfund services provided	(172,472)	161,304	-	1,035	(10,133)	28,417
Payments to suppliers	(1,588,713)	(5,066,049)	(1,455,728)	(1,463,926)	(9,574,416)	(290,743)
Payments to employees	(808,868)	(1,280,360)	(894,017)	-	(2,983,245)	(231,321)
Payments for interfund services used	251,206	(130,241)	(55,011)	(1,473)	64,481	6,011
Net Cash Provided (Used) by Operating Activities	<u>1,191,391</u>	<u>(682,974)</u>	<u>842,403</u>	<u>(205,373)</u>	<u>1,145,447</u>	<u>47,052</u>
Cash Flows From NonCapital Financing Activities						
Advances from other funds	-	-	-	292,216	292,216	-
Net Cash Provided (Used) by NonCapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>292,216</u>	<u>292,216</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities						
Proceeds from capital debt	1,620,000	-	-	-	1,620,000	-
Capital contributions	372,279	-	-	-	372,279	-
Acquisition and construction of capital assets	(2,764,369)	(385,948)	(755,544)	-	(3,905,861)	(6,073)
Principal paid on capital debt	(2,391,298)	(73,707)	(332,674)	(73,834)	(2,871,513)	-
Interest paid on capital debt	(251,216)	(54,852)	(233,903)	(10,696)	(550,667)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,414,604)</u>	<u>(514,507)</u>	<u>(1,322,121)</u>	<u>(84,530)</u>	<u>(5,335,762)</u>	<u>(6,073)</u>
Cash Flows From Investing Activities						
Interest and dividends received	36,072	41,711	17,564	-	95,347	-
Net Cash Provided (Used) by Investing Activities	<u>36,072</u>	<u>41,711</u>	<u>17,564</u>	<u>-</u>	<u>95,347</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,187,141)	(1,155,770)	(462,154)	2,313	(3,802,752)	40,979
Cash and Cash Equivalents, Beginning of Year	<u>4,294,152</u>	<u>3,153,421</u>	<u>2,133,015</u>	<u>45,787</u>	<u>9,626,375</u>	<u>4,404</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,107,011</u>	<u>\$ 1,997,651</u>	<u>\$ 1,670,861</u>	<u>\$ 48,100</u>	<u>\$ 5,823,623</u>	<u>\$ 45,383</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities						
Operating Income (loss)	\$ (165,553)	\$ (1,301,557)	\$ 115,198	\$ (207,376)	\$ (1,559,288)	\$ -
Depreciation expense	645,185	297,952	661,189	-	1,604,326	6,542
(Increase) decrease in accounts receivable	(289,047)	(138,926)	215,999	(23,792)	(235,766)	-
(Increase) decrease in due from other funds	-	161,304	-	1,034	162,338	28,417
(Increase) decrease in inventories	-	-	-	-	-	6,579
(Increase) decrease in prepaid expenses	(446)	(1,117)	(446)	-	(2,009)	-
Increase (decrease) in customer deposits	16,647	60,436	1,400	-	78,483	-
Increase (decrease) in accounts payable	675,343	240,112	(145,667)	26,234	796,022	(1,496)
Increase (decrease) in other accrued expenses	6,493	156	(1,822)	-	4,827	999
Increase (decrease) in claims and judgments	1,694	536	673	-	2,903	1,047
Increase (decrease) in due to other funds	301,075	(1,870)	(4,121)	(1,473)	293,611	4,964
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,191,391</u>	<u>\$ (682,974)</u>	<u>\$ 842,403</u>	<u>\$ (205,373)</u>	<u>\$ 1,145,447</u>	<u>\$ 47,052</u>
Non-cash investing, capital, and financing activities:						
Capital assets and related lease payable transferred from General Government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 399,864</u>	<u>\$ 399,864</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

FIDUCIARY FUNDS

City of Vicksburg
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2004

	<u>Agency Fund</u>
ASSETS	
Receivables:	
Other receivables	\$ 10,486
Total receivables	<u>10,486</u>
Total assets	<u><u>\$ 10,486</u></u>
 LIABILITIES	
Accounts payable	\$ 10,486
Total liabilities	<u>10,486</u>
 NET ASSETS	
Held in trust for benefits and other purposes	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2004**

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.

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004

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 which 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 account that constitutes 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, 2004**

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.

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, 2004**

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, 2004

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, 2004**

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, 2004**

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, 2004**

NOTE 2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

At September 30, 2004, the carrying amount (recorded on the City's books) of the City's demand deposits was \$22,736,505, and the bank balance was \$23,447,351.

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.

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 \$1,631,420 (carrying value) of investments held in trust at two local trust departments for the perpetual care non-expendable trust. This amount consists of the following:

<u>Government Obligations</u>	<u>Cost</u>	<u>FMV</u>
Treasury and federal agencies	\$ 794,639	\$ 784,603
Equity mutual funds	345,858	366,434
Fixed income mutual funds	414,471	420,446
Preferred stock	90	73
Cash and equivalents	52,176	59,864
	<u>\$ 1,607,234</u>	<u>\$ 1,631,420</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.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

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, 2004 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Allowance</u>	<u>Total</u>
Governmental Activities				
General	\$ 5,152,854	\$ 5,521,939	\$ (4,173,778)	\$ 6,501,015
Debt Service	-	1,924,209	-	1,924,209
Other Governmental	<u>103,591</u>	<u>44,363</u>	<u>(7,254)</u>	<u>140,700</u>
Total governmental activities	<u>\$ 5,256,445</u>	<u>\$ 7,490,511</u>	<u>\$ (4,181,032)</u>	<u>\$ 8,565,924</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-type Activities				
Water	\$ 364,878	\$ -	\$ (30,377)	\$ 334,501
Gas	320,613	-	(6,129)	314,484
Sewer	329,951	-	-	329,951
Other proprietary	<u>151,025</u>	<u>-</u>	<u>(4,614)</u>	<u>146,411</u>
Total Business-type Activities	<u>\$ 1,166,467</u>	<u>\$ -</u>	<u>\$ (41,120)</u>	<u>\$ 1,125,347</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

NOTE 4. RECEIVABLES AND PAYABLES-CONTINUED

Payables at September 30, 2004 were as follows:

	<u>Vendor</u>	<u>Salaries & Benefits</u>	<u>Other</u>	<u>Total</u>
Governmental Activities				
General	\$ 595,292	\$ 265,224	\$ 94,083	\$ 954,599
Debt Service	700	-	41,036	41,736
Capital Projects	498,427	-	-	498,427
Other Governmental	195,139	-	4,350	199,489
Internal Service	<u>23,294</u>	<u>2,967</u>	<u>-</u>	<u>26,261</u>
Total governmental activities	<u>\$1,312,852</u>	<u>\$ 268,191</u>	<u>\$ 139,469</u>	<u>\$ 1,720,512</u>
Business-Type Activities				
Water	\$ 859,717	\$ 8,770	\$ 424,161	\$ 1,292,648
Gas	509,705	14,560	634,036	1,158,301
Sewer	67,565	9,529	2,275	79,369
Other proprietary	<u>119,647</u>	<u>-</u>	<u>-</u>	<u>119,647</u>
Total business-type activities	<u>\$1,556,634</u>	<u>\$ 32,859</u>	<u>\$1,060,472</u>	<u>\$ 2,649,965</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2004 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	\$ -	\$ -	\$ -	\$ -	\$ -
Other Governmental Funds	419,401	1,013	200,000	133,295	-
Internal Service Funds	7,190	-	-	-	-
Business-Type Activities:					
Major Enterprise Funds:					
Water	759,999	-	-	-	-
Gas	-	-	-	-	-
Sewer	-	-	-	-	-
Other Enterprise Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Due To	<u>\$ 1,186,590</u>	<u>\$ 1,013</u>	<u>\$ 200,000</u>	<u>\$ 133,295</u>	<u>\$ -</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS-CONTINUED

<u>Due From</u>	<u>Due To</u>		
	<u>Business-Type Activities</u>		
	<u>Major Enterprise Fund</u>		<u>Total</u>
<u>Gas</u>	<u>Other</u>		
Governmental Activities:			
Major Governmental Funds:			
General	\$ -	\$ -	\$ -
Other Governmental Funds	-	-	753,709
Internal Service Funds	-	-	7,190
Business-Type Activities:			
Major Enterprise Funds:			
Water	121,029	-	881,028
Gas	-	-	-
Sewer	2,888	-	2,888
Other Enterprise Funds	<u>1,237</u>	<u>-</u>	<u>1,237</u>
 Total Due To	 <u>\$ 125,154</u>	 <u>\$ -</u>	 <u>\$ 1,646,052</u>

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

Interfund transfers for the year ended September 30, 2004 consisted of the following:

	<u>Transfer To</u>				
	<u>Governmental Activities</u>			<u>Business-Type Activities</u>	
	<u>Major Governmental Funds</u>		<u>Debt Service</u>	<u>Enterprise Fund</u>	
<u>General</u>	<u>Other</u>	<u>Other</u>		<u>Total</u>	
Governmental Activities:					
Major Governmental Funds:					
General	\$ -	\$ -	\$ 123,462	\$ 292,216	\$ 415,678
 Total Transfers to	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 123,462</u>	 <u>\$ 292,216</u>	 <u>\$ 415,678</u>

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004

NOTE 6. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended September 30, 2004, for the primary government is as follows:

	(Restated) Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Land	\$ 9,638,966	\$ 71,000	\$ -	\$ 9,709,966
Buildings	24,634,453	999,861	-	25,634,314
Furniture and equipment	13,541,108	955,927	(418,060)	14,078,975
Other capital assets	6,461,026	4,556,175	-	11,017,201
Infrastructure	<u>89,718,080</u>	<u>-</u>	<u>-</u>	<u>89,718,080</u>
Total capital assets	<u>\$ 143,993,633</u>	<u>\$ 6,582,963</u>	<u>\$ (418,060)</u>	<u>\$ 150,158,536</u>
Less accumulated depreciation for:				
Buildings	\$ 6,751,065	\$ 512,001	\$ -	\$ 7,263,066
Furniture and equipment	8,590,473	1,859,418	(325,586)	10,124,305
Improvements-other	4,115,757	327,841	-	4,443,598
Infrastructure	<u>37,245,781</u>	<u>2,601,007</u>	<u>-</u>	<u>39,846,788</u>
Total accumulated depreciation	<u>\$ 56,703,076</u>	<u>\$ 5,300,267</u>	<u>\$ (325,586)</u>	<u>\$ 61,677,757</u>
Net governmental activities capital assets	<u>\$ 87,290,557</u>	<u>\$ 1,282,696</u>	<u>\$ (92,474)</u>	<u>\$ 88,480,779</u>
Business-type activities:				
Land	\$ 473,130	\$ 58,683	\$ -	\$ 531,813
Construction in progress	338,625	832,217	-	1,170,842
Buildings	50,464,892	2,328,153	-	52,793,045
Furniture and equipment	3,280,988	686,808	-	3,967,796
Other capital assets	<u>399,865</u>	<u>-</u>	<u>-</u>	<u>399,865</u>
Total capital assets	<u>\$ 54,957,500</u>	<u>\$ 3,905,861</u>	<u>\$ -</u>	<u>\$ 58,863,361</u>
Less accumulated depreciation for:				
Buildings	\$ 22,633,160	\$ 1,316,405	\$ -	\$ 23,949,565
Furniture and equipment	<u>1,594,498</u>	<u>287,921</u>	<u>-</u>	<u>1,882,419</u>
Total accumulated depreciation	<u>\$ 24,227,658</u>	<u>\$ 1,604,326</u>	<u>\$ -</u>	<u>\$ 25,831,984</u>
Net business-type activities capital assets	<u>\$ 30,729,842</u>	<u>\$ 2,301,535</u>	<u>\$ -</u>	<u>\$ 33,031,377</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

NOTE 6. CAPITAL ASSETS-CONTINUED

Depreciation expense of \$6,904,593 for the year ended September 30, 2004, was charged to the following governmental functions:

Governmental activities:	
General government	\$ 896,516
Public safety	\$ 843,489
Public works	\$ 2,942,930
Health, welfare and sanitation	\$ 86,059
Culture and recreation	\$ 527,600
Education	\$ 3,673
Business-type activities:	
Water	\$ 645,185
Gas	\$ 297,952
Sewer	\$ 661,189

Active construction in progress is composed of the following:

	<u>Project Contract</u>	<u>Expended to 09/30/04</u>	<u>Committed</u>
Governmental Activities:			
2001 Public Improvement Fund			
Clay and Hope Street	\$ 783,457	\$ 28,800	\$ 754,657
Sidewalks	\$ 473,310	\$ 350,805	\$ 122,505
Art Park	\$ 2,612,025	\$ 293,196	\$ 2,318,829
Business - Type Activities:			
Water			
16" Water Line	\$ 204,680	\$ 177,569	\$ 27,111
6 Water Wells	\$ 1,546,135	\$ 136,036	\$ 1,410,099
Fire Protection Water Mains	\$ 1,340,392	\$ 251,018	\$ 1,089,374

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, 2004**

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.

Revenue Bonds

Water Revenue Bonds constitute special obligations of the city solely secured by a lien on and pledge of the net revenues of the water system. The Revenue Bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expense of the system and second to establish and maintain the Revenue Bond funds. Remaining revenues may then be used for any lawful purpose. The City retired this bond in fiscal year 2004 through advance refunding with the 2003 General Obligation Refunding Bond.

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, 2004:

	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>
Governmental Activities:			
General Obligation Bonds:			
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%
1996 General Obligation MBIA Bond	December 2010	\$ 1,500,000	2.0%
2001 General Obligation Bond	April 2011	\$ 17,500,000	3.625-4.0%

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

NOTE 7. LONG-TERM OBLIGATIONS-CONTINUED

	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>
Other:			
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%
Business-Type Activities:			
General Obligation Bonds:			
2003 Public Improvement	September 2018	\$ 5,800,000	3.0 - 4.25%
2003 Refunding Bond	October 2009	\$ 1,620,000	1.25 - 2.80%
Revenue Bonds:			
1994 Water System	October 2009	\$ 3,700,000	5.0-7.125%
Other:			
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>
Governmental Activities:					
General Obligation Bonds:					
Unredeemed Bond (Old compromise)	\$ 300	\$ -	\$ -	\$ 300	\$ -
1995 Public Improvement	1,870,000	-	910,000	960,000	960,000
1996 General Obligation Bond	3,555,000	-	1,125,000	2,430,000	1,185,000
1996 General Obligation MBIA Bond	800,000	-	800,000	-	-
2001 General Obligation Bond	16,041,662	-	1,699,583	14,342,079	1,779,583
Other:					
1991 Tax Increment Limited Obligation Bond	160,000	-	15,000	145,000	15,000
1995 Tax Increment Limited Obligation Bond	450,000	-	30,000	420,000	30,000
1999 Tax Increment Limited Obligation Bond	1,000,000	-	60,000	940,000	65,000
2003 Tax Increment Limited Obligation Bond	-	900,000	-	900,000	75,000

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

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>
Business-Type Activities:					
General Obligation Bonds:					
2003 Public					
Improvement	5,800,000	-	285,000	5,515,000	295,000
2003 Refunding Bond	-	1,620,000	275,000	1,345,000	270,000
Revenue Bonds:					
1994 Water System	1,890,000	-	1,890,000	-	-
Other:					
1995 State Revolving Fund Loan	1,413,310	-	91,722	1,321,588	95,936
1996 State Revolving Fund Loan	2,757,645	-	159,752	2,597,893	167,088
1996 Department of Economic and Community Development- Capital Improvements Revolving Loan	586,227	-	65,940	520,287	68,526
2003 State Water Pollution Control	<u>368,500</u>	<u>-</u>	<u>30,265</u>	<u>338,235</u>	<u>31,500</u>
Total	<u>\$ 36,692,644</u>	<u>\$ 2,520,000</u>	<u>\$ 7,437,262</u>	<u>\$ 31,775,382</u>	<u>\$ 5,037,633</u>

The debt service requirement on long-term obligations at September 30, 2004 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,				
2005	\$ 3,924,583	\$ 650,673	\$ 185,000	\$ 114,803
2006	3,109,583	475,163	195,000	106,365
2007	1,949,583	369,894	205,000	97,163
2008	2,039,583	290,694	215,000	87,448
2009	2,134,583	211,769	220,000	77,320
2010-2014	4,574,164	176,766	1,185,000	217,803
2015-2019	300	-	200,000	8,875
Total	<u>\$ 17,732,379</u>	<u>\$ 2,174,959</u>	<u>\$ 2,405,000</u>	<u>\$ 709,777</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,				
2005	\$ 565,000	\$ 228,447	\$ 363,050	\$ 201,952
2006	590,000	211,994	397,532	185,972
2007	605,000	194,554	395,721	169,283
2008	635,000	178,826	413,146	151,856
2009	560,000	161,276	431,345	133,658
2010-2014	1,985,000	595,863	2,103,985	383,013
2015-2019	<u>1,920,000</u>	<u>194,160</u>	<u>673,224</u>	<u>28,586</u>
Total	<u>\$ 6,860,000</u>	<u>\$ 1,765,120</u>	<u>\$ 4,778,003</u>	<u>\$ 1,254,320</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

NOTE 7. LONG-TERM OBLIGATIONS - CONTINUED

On December 1, 2003, the City issued \$1.62 million in General Obligation refunding bonds with interest rates ranging between 1.25% and 2.80%. The City issued the bonds to advance refund \$1.89 million of the outstanding series 1994 Water revenue bonds with interest rates ranging from 5.0% to 7.125%. The proceeds were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 1994 series bonds. As a result, that portion of the 1994 series bonds is considered defeased, and the City has removed the liability from its accounts. The outstanding principal of the defeased bonds is zero at September 30, 2004. The advance refunding reduced total debt service payments over the next six years by nearly \$504,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt of \$55,587).

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, 2004, are as follows:

	Governmental Activities	Business-Type Activities
Beginning Balance	\$ 897,866	\$ 139,036
Additions	621,900	101,935
Reduction	(617,700)	(97,108)
Ending Balance	<u>\$ 902,066</u>	<u>\$ 143,863</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, 2004 were as follows:

Year ending September 30,	Governmental Activities	Business-Type Activities
2005	\$ 375,027	\$ 86,516
2006	375,026	86,516
2007	312,631	86,516
2008	46,585	86,236
2009	-	-
Total minimum lease payments	1,109,269	345,784
Less: amount representing interest	52,353	19,754
Present value of minimum lease payments	<u>\$ 1,056,916</u>	<u>\$ 326,030</u>
Current principal portion due in one year	<u>\$ 346,498</u>	<u>\$ 78,056</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, 2004**

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 \$805,142. 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, 2004, 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>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>(233,898)</u>
Balance, end of year	<u>\$ 219,108</u>	<u>\$ 31,930</u>
<u>2003</u>		
Balance, beginning of year	\$ 296,030	\$ 45,302
Claims incurred	1,236,791	303,807
Claims payments	<u>(1,343,142)</u>	<u>(320,082)</u>
Balance, end of year	<u>\$ 189,679</u>	<u>\$ 29,027</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, 2004

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 9.75% of annual covered payroll. 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, 2004, 2003 and 2002 were \$1,608,144, \$1,535,537 and \$1,439,266 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 as well as recording property taxes on levy date. In addition, an adjustment was made to record accrued payroll at fiscal year end and unbilled enterprise revenue.

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.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

NOTE 10. CONTINGENCIES - CONTINUED

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
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts,</u>	<u>Variance with Final</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>Budget - Positive (Negative)</u>
REVENUES				
Property taxes	\$ 6,074,000	\$ 6,199,000	\$ 6,146,055	\$ (52,945)
Sales and miscellaneous taxes	14,467,500	14,597,500	15,044,395	446,895
Fees and fines	550,000	550,000	648,053	98,053
Licenses and permits	966,500	966,500	1,141,071	174,571
Intergovernmental	773,200	773,200	593,282	(179,918)
Charges for services	1,631,500	1,631,500	2,005,792	374,292
Investment earnings	163,300	163,300	132,111	(31,189)
Miscellaneous	5,500	5,500	69,538	64,038
Total revenues	<u>24,631,500</u>	<u>24,886,500</u>	<u>25,780,297</u>	<u>893,797</u>
EXPENDITURES				
Current:				
General government	6,144,230	6,144,960	4,897,030	1,247,930
Public safety	13,341,590	13,575,390	13,218,536	356,854
Public works	1,432,050	1,508,850	1,478,776	30,074
Health, welfare and sanitation	2,393,220	2,411,975	2,292,720	119,255
Culture and recreation	2,709,130	2,741,130	2,291,804	449,326
Community development	93,720	145,875	132,305	13,570
Debt Service:				
Principal and interest	374,670	377,012	377,012	-
Capital outlay	2,682,060	2,694,615	1,323,202	1,371,413
Total expenditures	<u>29,170,670</u>	<u>29,599,807</u>	<u>26,011,385</u>	<u>3,588,422</u>
Excess (deficiency) of revenues over expenditures	<u>(4,539,170)</u>	<u>(4,713,307)</u>	<u>(231,088)</u>	<u>4,482,219</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	-	-	-	-
Transfers in	-	-	-	-
Transfers in/(out)	811,300	811,300	(415,678)	(1,226,978)
Proceeds from sale capital assets	1,220,000	1,220,000	1,172,771	(47,229)
Total other financing sources and uses	<u>2,031,300</u>	<u>2,031,300</u>	<u>757,093</u>	<u>(1,274,207)</u>
Net change in fund balances	(2,507,870)	(2,682,007)	526,005	3,208,012
Fund balances - beginning (Restated)	12,412,766	12,412,766	12,412,766	-
Fund balances - ending	<u>\$ 9,904,896</u>	<u>\$ 9,730,759</u>	<u>\$ 12,938,771</u>	<u>\$ 3,208,012</u>

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2004**

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, 2004, GAAP basis budgets were adopted for the all 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 in its official journal these changes.

IV. OTHER ADDITIONAL INFORMATION

**CITY OF VICKSBURG, MISSISSIPPI
 SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
 YEAR ENDED SEPTEMBER 30, 2004**

OFFICIAL'S ADMINISTRATION OCTOBER 1, 2003 TO SEPTEMBER 30, 2004

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Laurence E. Leyens	Mayor and Treasurer	Great River Insurance	\$ 100,000
Gertrude A. Young	Alderwoman, President of Board	State Farm Fire & Casualty	\$ 75,000
Sidney H. Beaman, Jr.	Alderman	Western Surety Company	\$ 75,000
Thomas Moffet	Police Chief	Western Surety Company	\$ 50,000
Edna Hadad	Deputy Clerk	Western Surety Company	\$ 50,000
Suzan Ebeling	Court Clerk	Brierfield Insurance Company	\$ 10,000
Public Employees Bond (Blanket Bond)		St. Paul Insurance Company	\$ 250,000
Walter W. Osborne, Jr.	City Clerk	Western Surety Company	\$ 50,000
Janice Carter	Municipal Court Clerk	Western Surety Company	\$ 10,000

CITY OF VICKSBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Federal Grantor/Pass-through Grantor or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Pass through programs from the MS Authority Development			
2004 CDBG	14.219	1121-04-374-PF-01	\$ 84,661
CDBG 1999 Home Investment Partnership Program	14.239	M99-SG-28-01-0178	85,400
Economic Development Project	14.228	01-374-ed-if01	<u>2,817</u>
Total U.S. Department of Housing and Urban Development			<u>172,878</u>
U.S. Department of Justice:			
Direct Programs:			
Office of Community Policing Services:			
COPS in School	16.710		74,175
Bullet Proof Vests	16.607		3,660
Local Law Enforcement Block Grant	16.592		31,305
Pass through programs from the MS Division of Public Safety			
Planning:			
Enforcing Underage Drinking Laws	16.579	1-UA-2341	3,622
Victim Witness	16.579	1NW2347	28,331
Selected Traffic Enforcement Program	16.579	21N2341	<u>10,000</u>
			41,953
Juvenile Accountability Incentive Block Grant	16.523	OJB2341	<u>46,414</u>
			<u>88,367</u>
Total U.S. Department of Justice			<u>197,507</u>
U.S. Department of Treasury			
Bureau of Alcohol, Tobacco & Firearms			
Gang Resistant Education and Training	21.053		<u>7,965</u>
Total U.S. Department of Treasury			<u>7,965</u>
U.S. Department of Homeland Security			
Pass through program from Mississippi Emergency Management Agency:			
FY2003 State Homeland Security Grant	97.067	3SUP-27	89,083
Emergency Housing- Flood Mitigation/Unmet Needs	97.029	1265-001	24,809
Hazard Mitigation Grant Program	97.039	HMGP 1436-003	<u>299,400</u>
Total U.S. Department of Homeland Security			<u>413,292</u>
U.S. Department of Health and Human Services			
Administration for Children and Families			
CCDF Matching Children & Development Fund Grant for Good Shepherd Community Center	93.575	229Q641	<u>202,007</u>
Total for U.S. Department of Health and Human Services			<u>202,007</u>
Department of Transportation			
Pass through programs from MS Department of Transportation			
Highway Planning & Construction	20.205	STP-9654-00-(002)	<u>250,716</u>
Total Department of Transportation			<u>250,716</u>
Department of Defense			
Corp Impact - Section 529 Water Wells Project	12.unknown		<u>251,314</u>
Total Department of Defense			<u>251,314</u>
Total expenditures of federal awards			<u>\$ 1,495,679</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF VICKSBURG
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

NOTE A - Basis of Presentation

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

**CITY OF VICKSBURG, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2004**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

V. INTERNAL CONTROL AND COMPLIANCE



May & Company

A Limited Liability Partnership

WE BRING EXCELLENCE AND INNOVATION TO THE EQUATION

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, 2004, which collectively comprise the City of Vicksburg, Mississippi's basic financial statements and have issued our report thereon dated March 15, 2005. 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, summarize 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 04-1 through 04-04.

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

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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email: infoline@maycpa.com • website: www.maycpa.com

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

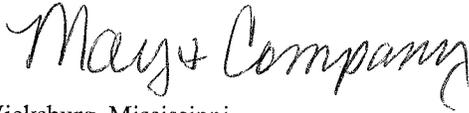
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Compliance and Other Matters

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 04-05 and 04-06.

We also noted certain other matters that we reported to management of City of Vicksburg, Mississippi in a separate letter dated March 15, 2005.

This report is intended solely for the information and use of the management, state auditors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mays & Company".

Vicksburg, Mississippi
March 15, 2005



May & Company

A Limited Liability Partnership

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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, 2004. 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, 2004.

Internal Control Over Compliance

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

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

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

Page Two

This report is intended solely for the information and use of the management, state auditors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

Vicksburg, Mississippi
March 15, 2005

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2004**

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 are reported in this Schedule.
7. The programs tested as major programs included: U.S Department of Health and Human Services Administration for Children and Families CFDA 93.575, 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 \$500,000.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS:

04-1 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.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

REPORTABLE CONDITIONS: - CONTINUED

04-2 Cash receipts system

Condition: The City's cash receipts system was not in agreement with bank deposits per the bank statement. Also 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.

04-3 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.

04-4 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.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2004**

REPORTABLE CONDITIONS: - CONTINUED

04-4 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 04-02, 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

04-5 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.

04-6 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, 2004, and have issued our report thereon dated March 15, 2005. 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.

Convention Center Transactions - At present, checks for payment of invoices are being signed by a convention center employee on a bank account titled in the name of the City.

Response: - The City's management will review compliance with state laws in the area of cash management, budgeting and purchasing and implement any changes needed to ensure compliance.

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

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

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

May & Company

Vicksburg, Mississippi

March 15, 2005

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS